

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 We rely on our reputation, brands and product quality for the continued success and growth of our business

The brand recognition and product quality of our house brands 'Smart Paints', 'Durra Paints', 'Toplus', 'Hunter', 'Aquatint' 'Flexitint', 'King-Bond', 'Goldliner' and 'Bond7', which we have built up over the past 10 years, have contributed to the growth and success of our business. For the Financial Years Under Review, our 'Smart Paints' brand was the largest contributor to our Group's revenue. We believe that our reputation and the quality of our products is critical to our continued ability to secure new wholesalers, dealers and authorised distributors as well as to retain existing wholesalers, dealers and authorised distributors to distribute our products to retail end-users.

Any complaints by our wholesalers, dealers and authorised distributors in relation to amongst others, our failure to meet their expectations with respect to our products and services, delivery schedule, customer support or other matters could negatively affect our relationships with them. This may, in turn, affect our reputation in the market if we are unable to sufficiently address the complaints brought against us by our wholesalers, dealers and authorised distributors. For FYE 2021, FYE 2022 and FYE 2023, we received complaints from our wholesalers, dealers and authorised distributors which resulted in product replacements and product returns amounting to approximately RM0.18 million, RM0.19 million and RM0.19 million, or approximately 0.23%, 0.24% and 0.21% of our Group's total revenue, respectively. There is no record for the value of product replacements and product returns available for FYE 2020, as our internal recording system for customer complaints was implemented in FYE 2021.

Further, any actual or perceived position represented by our Group on social, environmental, or other sensitive issues, and any perceived lack of transparency about those matters, could harm our reputation with our customers. There is no assurance that any negative publicity will not have an adverse impact on our Group's financial performance.

Any such occurrence of events which negatively impact our reputation, brands and/or product quality may deter retail end-users and business end-users from purchasing our products as well as discourage our wholesalers, dealers and authorised distributors from conducting business with us. Further, there can be no assurance that any negative perception or publicity on our reputation, brands and product quality would not have a material adverse impact on our business and financial performance.

9.1.2 We are dependent on our wholesalers, dealers and authorised distributors to distribute and sell our products to retail end-users

Our products are primarily distributed to our network of wholesalers, dealers and authorised distributors for onward sale to retail end-users. This is evidenced by the revenue contribution from our wholesalers, dealers and authorised distributors which accounted for 95.06%, 96.84%, 98.53% and 91.87% of our total revenue for the Financial Years Under Review, respectively. As at the LPD, our Group has a total of 9 wholesalers and 937 dealers across Malaysia, and 14 authorised distributors overseas.

9. RISK FACTORS (Cont'd)

Hence, our Group is dependent on our wholesalers, dealers and authorised distributors to represent us at the point of sales with retail end-users. Our wholesalers, dealers and authorised distributors provide services such as attending to enquiries relating to our products as well as providing recommendations and advices based on their knowledge of our products. Our wholesalers, dealers and authorised distributors are not liable for any refunds, compensations or damages claimed by the retail end-users of our Group's products. In the event our wholesalers, dealers and authorised distributors receive complaints from the retail end-users of our Group's products, they will forward the complaints to our Group for our investigation to determine the required action to resolve or address the complaints. The quality of services rendered by them is important to ensure adequate product information is provided to the retail end-users. Nevertheless, there can be no assurance that all of them will be able to continuously provide quality services to retail end-users as their actions within the course of their business operations are typically not within the control of our Group. Should they fail to uphold their quality of services, it may reflect in negative perception towards our brand, thus resulting negatively on the demand for our products which may adversely affect our Group's financial performance as well as our future growth.

In addition, there is no assurance that our existing wholesalers, dealers and authorised distributors will continue to purchase our products in the future or that the demand from them will continue to increase or be sustained at current levels in the future. Any loss of these parties and our inability to replace them with new wholesalers, dealers and authorised distributors or with additional orders from existing wholesalers, dealers and authorised distributors in a timely manner, as well as continued decline in orders from existing wholesalers, dealers and authorised distributors, could result in a loss of revenue and will have an adverse impact on our Group's financial performance.

Further, as our direct access to retail end-users is minimal (i.e. through our corporate website, digital and media advertising), we rely on them for feedback on latest market developments, shifting consumption patterns and customer preferences. Hence, the feedback we receive are essential to us for our future growth and success, and if we do not receive timely and/or accurate customer feedback from them and are unable to respond to this feedback in a timely manner, we may lose our competitiveness and market share within the industry.

9.1.3 We are dependent on our management team

The success of our Group is attributed to the experience, industry knowledge and network, and skills of our Managing Director, Goh Chye Hin, who has 41 years of experience in the paints and coatings industry. Over the years, he has played a pivotal role in our daily business operations as well as formulating and implementing strategies to drive the growth and expansion of our Group.

Further, our continuous success is also dependent on the abilities, skills, experience and efforts of our Non-Independent Executive Director and key senior management namely, Kee Hui Lang (our Non-Independent Executive Director), Lim Kok Beng (our Non-Independent Executive Director/ Chief Operating Officer), Jiu Chieh Yin (our Chief Financial Officer), Tan Kim Peng (our General Manager), Khoo Khiow Jin (our Sales and Marketing Manager), and Nurul Farhah binti Abdullah (our Senior Lead Chemist), who have respectively accumulated years of experience within their field of expertise. The profiles of our Managing Director, Non-independent Executive Directors and key senior management are as set out in Sections 5.1.2, 5.2.2 and 5.4.3 of this Prospectus.

9. RISK FACTORS (Cont'd)

As such, the loss of any of our management team simultaneously or within a short time, without suitable and timely replacement, may adversely affect the execution and implementation of our business strategies, results of operations as well as the future growth of our business.

9.1.4 Our business activities are exposed to risks relating to workplace health and safety hazards as well as environmental safety breach that may subject our Group to penalties

(a) Workplace health and safety hazards

Our business operation is bound by laws and regulations relating to workplace health and safety measurements enacted or issued by government bodies.

As our Group uses chemicals (e.g. binder, pigment, additives, solvent, extender and colour paste) in our manufacturing activities, mishandling of chemicals or improper safety practices may be hazardous or detrimental to our worker's health. For example, chemicals that are flammable and toxic require more attention when handling which include ensuring that the chemicals are kept away from heat as well as wearing masks and gloves to avoid direct contact with skin and inhalation which may give rise to allergic reactions or breathing difficulties. Improper handling of such chemicals may result in accidents, which may in turn be detrimental to our employees' health. Further, we are also obliged to ensure that our workplace health and safety measurements within our manufacturing facilities are in compliance with the Occupational Safety and Health Act 1994. In the Financial Years Under Review and up to the LPD, there have not been any material accidents at our Group's premises and save for the notices issued by DOSH as disclosed in Section 7.21 of this Prospectus, our Group has not been issued any notices, penalties, or compounds by DOSH in relation to any breaches of workplace health and safety laws and regulations.

(b) Environmental safety breaches

Our business involves the handling, manufacturing and use of chemicals that may be harmful to the environment. As such, we are subject to stringent environmental laws such as the EQA and its subsidiary legislations including the EQSWR and EQIER. Pursuant to the EQA, no person shall, save for at prescribed premises, place, deposit or dispose of any scheduled wastes on land or into Malaysian waters nor transit any scheduled wastes without prior written approval of the DG Environment. Any person who contravenes the same shall be guilty of an offence and shall on conviction be punished with imprisonment for a term not exceeding 5 years and shall also be liable to a fine not exceeding RM500,000.00. In addition, we are required to record, store, label, treat and dispose scheduled waste generated from our manufacturing activities in accordance with the EQSWR. Any omission or neglect to comply with, or any act done or attempted to be done contrary to the EQSWR may be compounded with a sum of money not exceeding RM2,000.00. As such, we have engaged scheduled waste collectors licensed by the DG Environment to collect and treat the production waste generated from our business activities in accordance with the EQA and EQSWR. In the event the engaged licensed scheduled waste collectors fail to maintain their license, we will be required to engage new licensed scheduled waste collectors, and there is no assurance that we will be able to engage new service providers in a timely manner or at a fee that is commercially favourable to our Group.

9. RISK FACTORS (Cont'd)

Further, as our manufacturing activities produce industrial and mixed effluents, we are also required under the EQIER to conduct investigation, clean up and monitor the environmental contamination in the event of spillage, accidental discharge or leakage of industrial effluent or mixed effluent from our manufacturing activities. Failure in complying with the conditions of the abovementioned regulations may result in fines and/or imprisonment. This will negatively affect our business operations and financial performance.

On 29 March 2022, we received 5 compounds issued by the DOE for contravening the regulations under the EQIER and EQSWR. Please refer to Section 7.21 of this Prospectus for further details on the compounds issued by DOE. The breaches of the regulations have since been rectified, and there is no material impact to our business operations and financial performance. However, in the event of any contamination, accident or non-compliance with environmental laws, which may be beyond our control, we may be subject to penalties and incur significant costs to rectify the damages caused.

In accordance with the EQA, our Group is required to have at least 1 competent person certified by the DG Environment in our factory to ensure compliance in relation to the waste management for scheduled waste. Currently, our Group has 2 competent persons certified by the DG Environment, to ensure compliance in relation to the waste management for scheduled waste. The simultaneous loss of these qualified competent persons simultaneously and failure to replace them in a timely manner to meet the minimum requirement of having at least 1 competent person in our factory may subject our Group to fines and/or imprisonment which could negatively affect our business operations and financial performance. As such, in case of resignation and to mitigate the risk of not having a competent person at any one point of time, our Group currently has 2 employees certified as scheduled waste management competent persons.

Although our Group has put in place standard operating procedures and preventive action plans to ensure our workplace and environmental health and safety measurements are in compliance with the relevant workplace and environmental health and safety laws and regulations, there can be no assurance that any unanticipated accidents or non-compliance will not occur in the future, and such incidences may lead to negative publicity and/or liabilities and legal proceedings filed against our Group which will have an adverse impact on our reputation and financial performance.

Additionally, our operations may also be affected if there are changes in the workplace and environmental health and safety laws, regulations and industry code of practice, and the compliance with new laws, regulations and code of practice may impose a significant cost to our Group. Any failure to comply with the relevant laws and regulations may result in penalties and closure of our factories to remedy our operational procedures. This may, in turn, disrupt our business operations and affect our ability to meet the agreed upon delivery schedule to our wholesalers, dealers and authorised distributors. Should this occur, it may materially and adversely affect our Group's business operations and financial performance.

9. RISK FACTORS (Cont'd)

9.1.5 Our investments in product development may not yield returns and may not positively contribute to our business operations and financial performance

As the demand for decorative paints and protective coatings changes over time according to market trends, we are exposed to challenges in maintaining and growing our market share within the industry. Market trends are largely dictated by customer preferences and advancement in decorative paints and protective coatings formulations. Our continued success will depend partly on our ability to anticipate and develop decorative paints and protective coatings that meets consumers' demand and to market our products accordingly to our targeted consumer group.

Hence, our Group recognises the importance of continuously enhancing our decorative paints and protective coatings formulation with ongoing product development activities. Further details on our product development activities are as set out in Section 7.15 of this Prospectus. As such, we actively engage with our wholesalers, dealers and authorised distributors as well as our raw materials suppliers to keep abreast on industry updates and to gain feedback in order to help us in adapting and improving our expertise and capabilities to meet current market demands in a timely manner. In the event that we are unable to expand and/or enhance our range of product offerings to meet retail end-users' requirements and changing market demand in a timely manner, or at all, we may be unable to continue growing our revenue, and/or to retain our wholesalers, dealers and authorised distributors or attract new wholesalers, dealers and authorised distributors to market our products, as our products may be deemed unattractive.

Despite the commitments and efforts placed in product development, there is no assurance that our product development activities will yield favourable results and lead to the development of decorative paints and protective coatings which suit the requirements and demand of retail end-users and business end-users. In such circumstances, expenses incurred for our product development activities may not be recouped and may lead to an adverse effect on our earnings and financial performance.

9.1.6 We may not be able to successfully implement our business strategies and future plans

We plan to grow our Group's business by expanding our business operations and manufacturing capacity, through our business strategies and future plans as follows:

- (i) construction of Perak Plant;
- (ii) purchase and commissioning of an industrial tinting system and automated paint production system in our Perak Plant; and
- (iii) purchase of 250 sets of Smart Colour POS Tinting Machine to be distributed to our wholesalers and dealers to continue driving our sales.

Please refer to Section 7.22 of this Prospectus for further details of our business strategies and future plans.

The execution of our business strategies is subject to additional expenditures including operational expenditures, capital expenditures and other working capital requirements. Such additional expenditures will increase our Group's operating cost including overhead costs, which may adversely affect our profitability if we are unable to gain sufficient revenue by securing more sales following the implementation of our business strategies.

9. RISK FACTORS (Cont'd)

In addition, should we fail to generate adequate revenue to sustain the operations of our Johor Factory 1 and the new Perak Plant upon completion of the Perak Plant, our gross profit as well as net profit may decrease, hence adversely affecting our financial performance.

Our Group's current and projected annual expected operational cost are as follows:

	Annual current RM'000	Annual projected⁽¹⁾ RM'000
Total operational cost	35,858	39,006

Note:

(1) *The total annual projected operational cost includes the projected operational cost for the full 12 months of operations of our Perak Plant.*

Furthermore, the implementation of our business strategies may be influenced by factors beyond our control, such as changes in general market conditions, economic conditions as well as political environment in Malaysia and other countries in which we export our products to, which may affect the commercial viability of our business strategies. The implementation of our business strategies could also be adversely affected by a variety of other factors such as more efficient manufacturing processes adopted by our competitors or attractive pricing offered by our competitors, which may affect the attractiveness of our offerings.

Hence, there can be no assurance that the effort and expenditures spent on the implementation of our business strategies will yield expected results in growing our business in terms of financial performance and market presence. We are also not able to guarantee that we will be successful in executing our business strategies, nor can we assure that we will be able to anticipate all the business, operational and industry risks arising from our business strategies. Such failure may lead to adverse effect on our business operations and financial performance.

9.1.7 Our business is exposed to unexpected interruptions or delays caused by equipment failures, power outages, water supply disruptions, natural disasters, force majeure events and outbreak of infectious diseases, which may be beyond our control and may lead to interruptions to our operations

Our business relies on a diverse range of machinery and equipment to carry out the manufacturing of decorative paints, protective coatings, colourants as well as binding and coating chemicals. These machinery and equipment may, on occasion, be out of service due to unanticipated failures or damages sustained during operations. In addition, as our manufacturing activities are dependent on continuous supply of electricity and water, any major disruptions to the supply of electricity and water may result in interruptions in our operations.

Our business operations may also be affected by the occurrence of natural disasters (e.g. floods or storms), as well as catastrophic damages (e.g. fires), which may lead to interruptions to the operations at our factories and/or damages to all or part of our machinery and equipment. In addition, any occurrence of force majeure events such as floods, storms, wars, strikes and riots may prohibit us from performing our operations. The occurrence of these unexpected events may affect our ability to meet the agreed upon delivery schedule to our wholesalers, dealers and authorised distributors. This could adversely affect our relationships with the wholesalers, dealers and authorised distributors and our reputation in the market as well as our financial performance.

9. RISK FACTORS (Cont'd)

In the Financial Years Under Review, we have not experienced any incident of unanticipated machinery and equipment failures, natural disasters, catastrophic damages and force majeure as well as material disruptions to the supply of electricity and water, which had led to major interruptions in our operations. However, there can be no assurance that such incidences will not happen in the future. In the event that these incidences occur, it may result in interruptions to our operations and thus adversely affect our business operations and financial performance.

Further, the outbreak of pandemics of infectious diseases or other health epidemics (e.g. COVID-19) may also create economic uncertainties globally, which may adversely affect business activities. The outbreak of pandemics may also result in the imposition of various lockdown measures to curb the spread of the virus, leading to disruptions and/or temporary suspension of business activities. While our financial performance was not adversely affected, our operations were temporarily disrupted during the COVID-19 pandemic in which further details are as set out in Section 7.5 of this Prospectus. Should there be a future outbreak of infectious disease similar to the COVID-19 pandemic, there is no assurance that our business operations and financial performance will not be adversely and materially affected.

In the event that we have to halt our operations due to the abovementioned incidences, we will still be required to incur operating expenses such as labour costs and utility costs. Our Group's financial performance may be adversely affected should the interruptions occur for a prolonged period of time.

9.1.8 We are exposed to the risk of fluctuations in foreign exchange rate

We are exposed to foreign exchange transaction risk which arises from our revenue and purchases exposure to USD and SGD. The revenue generated from our export sales are denominated in USD and SGD, and it collectively contributed 7.97%, 5.38%, 6.13% and 2.81% to our Group's total revenue for the Financial Years Under Review, respectively, while the remaining 92.03%, 94.62%, 93.87% and 97.19% are contributed from local sales. Our supplies which are sourced from overseas are denominated in USD, RMB and SGD, and it collectively contributed 24.51%, 20.92%, 27.76% and 27.16% to our Group's total purchases for the Financial Years Under Review, respectively, while the remaining 75.49%, 79.08%, 72.24% and 72.84% are contributed from local purchases.

Our sales and purchases in the respective currencies for the Financial Years Under Reviews are as follows:

	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales denominated in:								
RM	65,891	92.03	75,474	94.62	74,359	93.87	88,535	97.19
USD	4,279	5.97	2,574	3.23	2,584	3.26	2,547	2.80
SGD	1,429	2.00	1,718	2.15	2,275	2.87	9	0.01
Total	71,599	100.00	79,766	100.00	79,218	100.00	91,091	100.00
Purchases denominated in:								
RM	34,615	75.49	37,081	79.08	32,610	72.24	37,214	72.84
USD	10,922	23.82	9,618	20.51	12,172	26.97	12,253	23.98
RMB	-	-	-	-	-	-	1,322	2.59
SGD	314	0.69	193	0.41	358	0.79	300	0.59
Total	45,851	100.00	46,892	100.00	45,140	100.00	51,089	100.00

9. RISK FACTORS (Cont'd)

We currently do not have a formal policy with respect to our foreign exchange transactions and have not undertaken any hedging activities as the majority of our revenue and expenses are transacted in RM. Although the majority of our revenue and purchases are denominated in RM, we may still be exposed to foreign currency fluctuations as a portion of our revenue and purchases are denominated in foreign currencies. Given that our purchases in foreign currencies contributed 24.51%, 20.92%, 27.76% and 27.16%, respectively to our Group's total purchases in the Financial Years Under Review, a depreciation of the RM against foreign currencies will lead to higher costs of purchases for our Group. Should we fail to pass on the increase in costs to our customers in a timely manner, or at all, our financial performance may be adversely affected.

For illustrative purposes, if the exchange rate between RM against the USD and SGD increased or decreased by 15.00%, this would result in our Group's revenue in the FYE 2023 to decrease or increase by approximately RM0.38 million. For the Financial Years Under Review, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Net realised foreign exchange gain	-	128	-	-
Net unrealised foreign exchange gain	-	23	83	23
Net realised foreign exchange loss	(40)	-	(118)	(54)
Net unrealised foreign exchange loss	(22)	-	-	-
Net gain/ (loss)	(62)	151	(35)	(31)

9.1.9 We are exposed to credit risks and default payment by customers

We generally grant our customers, who are mainly wholesalers, dealers and authorised distributors, a credit period between 30 to 150 days. However, there is no assurance that we may not experience delays in the collection of payments from our wholesalers, dealers and authorised distributors, or in the worst case scenario not being able to collect payments from them. In the event of not receiving payment within the credit period or default in payment by our customers, our operating cash flows or financial results of operations may be adversely affected. Further, it may also lead to impairment losses on trade receivables or writing-off of trade receivables as bad debts, which may adversely affect our financial performance.

Our bad debts written off for the Financial Years Under Review were as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Bad debts written off	24	27	259	-

The higher bad debts written off in FYE 2022 is mainly in respect of a customer who has shut down its business operations, and thus the amount was not collectable.

9. RISK FACTORS (Cont'd)**9.1.10 We may not be able to secure funding, especially on terms favourable to us, to meet our capital requirement**

Our ability to obtain external financing are subject to various uncertainties, including our future results of operations, financial condition and cash flows, the performance of the Malaysian economy and the markets for our products, the cost of financing and the condition of financial markets, and the continuing willingness of banks to provide new loans. There is no assurance that any required financing, either on a short-term or long-term basis, will be made available to us on terms favourable to us or at all.

The following table sets out the maturity profile of our borrowings:

	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000
Bank borrowings				
Within the next 12 months	10,269	694	3,613	4,247
After the next 12 months	6,944	6,451	11,923	37,151

If adequate funding is not available when needed, or is available only on unfavourable terms, meeting our capital needs or otherwise taking advantage of business opportunities or responding to competitive pressures may become challenging, which could have a material and adverse effect on our business, financial condition and results of operations.

9.1.11 Our financial performance may be affected by adverse changes in interest rates

Our outstanding borrowings as at 31 December 2023 amounted to approximately RM41.40 million, comprising mainly trade facilities such as bankers' acceptance, bank overdrafts, hire purchase financing and term loans. This translates to a gearing level of approximately 0.60 times.

In view that the interests charged on our bank borrowings are dependent on prevailing interest rates, any significant increase in interest rates will significantly increase our interest expenses and hence, will have an adverse impact on our financial performance. In addition, the agreements for credit facilities contain covenants which may limit our future operating and financing flexibility such as restrictions in future borrowings, creation of new securities and disposal of its capital assets. A breach of such covenants may result in the termination and/or enforcement of securities granted for the relevant credit facility.

There can be no assurance that our financial performance would remain favourable in the event of any adverse change in interest rates.

9.1.12 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities. As at the LPD, the insurance policies maintained by our Group include fire insurance, burglary insurance, public liability insurance as well as group personal accident insurance.

9. RISK FACTORS (Cont'd)

However, we are unable to guarantee that the insurance coverage will be adequate in all circumstances to cover the losses, damages or liabilities which we may incur, in the event that any of the abovementioned incidences take place or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. To the extent that any such risks are uninsured, not covered under our insurance policies, or where the insurance protection is not sufficient to cover such risks, we would have to bear such losses and consequently our business and financial performance may be adversely affected. For the Financial Years Under Review, our Group did not encounter any events that resulted in any insurance claims.

9.2 RISKS AFFECTING THE INDUSTRY IN WHICH WE OPERATE**9.2.1 We are dependent on the construction and manufacturing industries in Malaysia for our continued success and growth**

The performance of our business is dependent on the construction (i.e. new building and infrastructure construction, as well as renovation of existing buildings and infrastructure) and manufacturing industries as we primarily provide decorative paints and protective coatings for household and industrial applications. Thus, our growth is likely to move in tandem with the performance of the construction and manufacturing industries.

As such, a decline in the construction and manufacturing industries may lead to a slowdown in the demand for our decorative paints and protective coatings. Further, as the construction and manufacturing industries generally move in tandem with economic conditions, a growing economy will give rise to property and infrastructure development, and demand for manufactured goods and thereafter create spill-over effects to the construction and manufacturing industries. Hence, a decline in the economic condition may lead to a decline in the construction and manufacturing industries, which will in turn adversely affect the demand for our decorative paints and protective coatings.

In the Financial Years Under Review, our Group did not experience any decline in our revenue arising from the decline in the construction and manufacturing industries or economic condition. However, in the event of decline in the construction and manufacturing industries or the economy in Malaysia as well as the countries in which we exported our products in the future, there is no assurance our financial performance will not be adversely and materially impacted.

9.2.2 We may be exposed to fluctuations in raw materials prices and shortages of raw materials

Our Group's purchases primarily comprise raw materials and packing materials. The raw materials used in our manufacturing activities comprise binders, pigment, additives, solvent, extender and colour paste, which collectively contributed 63.17%, 66.77%, 73.05% and 69.57% of our Group's purchases in the Financial Years Under Review, respectively. Further details on our Group's purchases are as set out in Section 7.11 of this Prospectus.

9. RISK FACTORS (Cont'd)

The prices of certain raw materials such as binder, pigment, solvent and additives are subject to price fluctuations as a result of, amongst others, fluctuations in energy costs, global demand and supply conditions, as well as global and regional economic conditions (e.g. uncertainties arising from the United States-China trade war or sanctions on Russia). As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers.

While we encountered increase in raw materials prices in the FYE 2022, we were able to pass on the increase in cost by increasing the prices of our products. Nevertheless, there is no assurance that we will be able to pass on the increase in cost to our customers in a timely manner, or at all, if such incidences occur in the future in which it may have a material adverse effect on our future financial performance.

In addition, the nature of our operations requires us to obtain sufficient quantities of raw materials in a timely manner and at acceptable prices in order to continue our operations and meet the demands of our customers. Save for the global supply chain disruption during the COVID-19 pandemic, we have not encountered any shortages of raw materials in the Financial Years Under Review and there is no assurance that such incidences will not occur in the future. Any sudden shortages of raw materials may affect our business operations and that there is no assurance that we will be able to obtain raw materials from new suppliers in a timely manner or at reasonably acceptable prices. In the event that we are required to pay higher prices to new suppliers for these raw materials and that we are unable to pass on the increase in cost to our customers in a timely manner, it may adversely affect our financial condition and results of operations.

9.2.3 We are exposed to the risk of competition from local and foreign industry players

According to the IMR Report, the paints and coatings industry in Malaysia is competitive due to the fragmented nature of industry players comprising local and foreign companies. Local industry players are home-grown companies that have their own manufacturing facilities in Malaysia, and their products are primarily distributed and marketed in Malaysia. Some of the local industry players may also market and distribute their products in other regional countries. Foreign industry players consist of multinational companies who have manufacturing facilities in Malaysia to manufacture and sell their products locally and/or regionally. Paints and coatings industry players generally compete in terms of amongst others, branding, range of products, pricing, quality of products, delivery timing and manufacturing capacities.

Failure to remain competitive may adversely impact our Group's ability to sustain the sales volume to existing wholesalers, dealers and authorised distributors at current or increased levels in the future as well as to attract new wholesalers, dealers and authorised distributors to market our products. As such, this may adversely affect our Group's financial performance.

9.2.4 We face risks arising from political, economic, social and/or legal environment in the market in which we serve

Our Group operates in Malaysia. Notwithstanding that, we derive 19.03%, 17.37%, 18.53% and 14.47% of our total revenue in the Financial Years Under Review, respectively, from export sales. Hence, our business, prospects, financial condition and results of operations may be affected by any adverse development or uncertainties in the political, social and/or legal conditions in Malaysia as well as the countries where our products are exported.

9. RISK FACTORS (Cont'd)

Any adverse development in the political, economic, social and legal environment in Malaysia as well as in countries where our products are exported could materially or adversely affect our operations and financial performance. Such developments include, but not limited to, changes in political leadership, terrorism, riots, expropriation, nationalisation, fiscal and monetary policies of the Government such as inflation, deflation, methods of taxation, tax policies (including sales and services tax, excise, duties and tariffs) and currency exchange controls, unemployment trends, deterioration of international bilateral relationships and other matters that influence consumer confidence and spending. Our Group could also be affected by new laws, regulations and guidelines that are introduced to govern manufacturing activities whether in general or specific to the decorative paints and protective coatings industry.

Further, increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. Unfavourable developments in the socio-political environment in Malaysia as well as in the country where our products are exported could materially and adversely affect our business, financial performance, financial conditions and prospects.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES**9.3.1 The offering of our Shares may not result in an active liquid market for our Shares**

Prior to our Listing, there has been no public market for our Shares. Hence our Listing does not guarantee that it will develop an active market for the trading of our Shares, or if developed, such market can be sustained.

The IPO Price has been determined after taking into consideration a number of factors, including but not limited to, our Group's financial performance, operating history and condition, the prospects of our Group and the industry in which our Group operates, and the prevailing market conditions.

Further, as we are seeking listing on the ACE Market, investment in our Shares may be of higher investment risk as compared to companies listed on the Main Market of Bursa Securities and there is no assurance that there will be a liquid market for our Shares traded on the ACE Market. Please refer to the cautionary statement disclosed on the cover page of this Prospectus.

As such, the price at which our Shares will trade on the ACE Market is dependent on market forces beyond our control.

There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

9.3.2 The trading price and trading volume of our Shares may be volatile

The trading price and volume of our Shares may fluctuate due to various factors which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

9. RISK FACTORS (Cont'd)

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.3.3 We may not be able to declare dividends to our shareholders

Our Group's ability to pay dividends to our shareholders is dependent on, amongst others, our future financial performance, cash flow positions, capital requirements as well as the implementation of our business plans. Our ability to pay dividends to our shareholders may be affected should these factors deteriorate and as such, there can be no assurance that we will be able to pay dividends to our shareholders. In addition, dividends are not guaranteed and our Board, at its discretion, may decide not to pay dividends at any time and for any reasons. If we do not pay our shareholders dividends, or if the dividends paid are lower compared to levels anticipated by our investors, the market price of our Shares may be negatively affected, reducing the value of any investment in our Shares.

9.3.4 Our Listing may be delayed or aborted

Our Listing may be delayed or aborted should any of the following events occur:

- (i) we are unable to meet the public shareholding spread requirements under the Listing Requirements, where at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders, with each holding not less than 100 Shares at the point of our Listing;
- (ii) our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligation therein; and
- (iii) revocation of approvals from relevant authorities for our Listing.

Should any of the events occur, investors will not receive any Shares, and all monies paid in respect of the Application will be returned in full without interest within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply.

If our Listing is aborted and our Shares have been allotted to the investors, the return of monies to investors could only be achieved by way of cancellation of share capital as provided under Section 116 or Section 117 of the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9. RISK FACTORS (Cont'd)

9.4 OTHER RISK

9.4.1 Significant influence by our Promoters

Upon Listing, our Promoters will collectively hold an aggregate 192,344,400 Shares, representing 52.01% of our enlarged issued Shares of 369,850,420 after our IPO. As a result, our Promoters will likely influence the outcome of certain matters which require the vote of our shareholders, unless they and persons connected with them are abstained from voting, either by law, relevant guidelines or regulations. As such, there exists a risk of non-alignment of interests by our Promoters with those of our other shareholders.

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10. RELATED PARTY TRANSACTIONS

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

(a) Material related party transactions entered into by our Group

Save for the Acquisitions as set out in Section 6.1.2 of this Prospectus and as disclosed below, there are no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during the Financial Years Under Review and up to the LPD:

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
1.	Smart Paint Manufacturing and UT Holdings	Goh Chye Hin and Kee Hui Lang are our Group's promoters, directors and substantial shareholders.	Purchase of trading products by Smart Paint Manufacturing from UT Holdings ^{(8) (30)}	2,195	4.50 ⁽¹⁾	1,391	2.62 ⁽¹⁾	53	0.10 ⁽¹⁾	-	-	-	-
			Payment of management fees by UT Holdings to Smart Paint Manufacturing ^{(9) (30)}	36	7.00 ⁽²⁾	12	2.68 ⁽²⁾	1	0.13 ⁽²⁾	-	-	-	-
			Purchase of trademark by Smart Paint Manufacturing from UT Holdings ^{(10) (30)}	-	-	-	-	200	0.33 ⁽³⁾	-	-	-	-
		Goh Chye Hin and Kee Hui Lang are also the directors and shareholders of UT Holdings.											
		Goh Sim Yee and Goh Ji Syuan are the children of Goh Chye Hin and Kee Hui Lang. They are also shareholders of UT Holdings.											

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
2.	Smart Paint (Selangor) and UT Holdings	<p>Goh Chye Hin and Kee Hui Lang are our Group's promoters, directors and substantial shareholders.</p> <p>Goh Chye Hin and Kee Hui Lang are also the directors and shareholders of UT Holdings.</p> <p>Goh Sim Yee and Goh Ji Syuan are the children of Goh Chye Hin and Kee Hui Lang. They are also shareholders of UT Holdings.</p>	Purchase of trading products by Smart Paint (Selangor) from UT Holdings ⁽³⁰⁾	865	1.77 ⁽¹⁾	623	1.17 ⁽¹⁾	475	0.85 ⁽¹⁾	-	-	-	-
3.	Smart Paint Manufacturing and UA Paints & Hardware Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder.	Sales of manufacturing and trading products by Smart Paint Manufacturing to UA Paints & Hardware Sdn Bhd ⁽³¹⁾	261	0.36 ⁽⁴⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
		Goh Bee Guat and Ho Chye Thuan are Goh Chye Hin's sister and brother-in-law. They are also shareholders and directors of UA Paints & Hardware Sdn Bhd.	Purchase of paints by Smart Paint Manufacturing from UA Paints & Hardware Sdn Bhd ^{(11) (30)}	1	# ⁽¹⁾	17	0.03 ⁽¹⁾	4	0.01 ⁽¹⁾	-	-	-	-
			Transportation costs charged to Smart Paint Manufacturing by UA Paints & Hardware Sdn Bhd ^{(12) (30)}	8	0.08 ⁽⁵⁾	-	-	-	-	-	-	-	-
4.	Smart Paints (M) and UA Paints & Hardware Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Bee Guat and Ho Chye Thuan are Goh Chye Hin's sister and brother-in-law. They are also shareholders and directors of UA Paints & Hardware Sdn Bhd.	Sales of manufacturing and trading products by Smart Paints (M) to UA Paints & Hardware Sdn Bhd ⁽³¹⁾	2,776	3.88 ⁽⁴⁾	3,597	4.51 ⁽⁴⁾	2,848	3.60 ⁽⁴⁾	2,957	3.25 ⁽⁴⁾	889	N/A ⁽²⁹⁾

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
5.	Smart Paint Manufacturing and Major Harvest Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. They are also the directors and shareholders of Major Harvest Sdn Bhd.	Sales of manufacturing and trading products by Smart Paint Manufacturing to Major Harvest Sdn Bhd ⁽³¹⁾	172	0.24 ⁽⁴⁾	-	-	25	0.03 ⁽⁴⁾	-	-	-	-
			Purchase of trading products and maintenance parts by Smart Paint Manufacturing from Major Harvest Sdn Bhd ⁽³¹⁾	1,510	3.09 ⁽¹⁾	212	0.40 ⁽¹⁾	130	0.23 ⁽¹⁾	145	0.24 ⁽¹⁾	26	N/A ⁽²⁹⁾
			Disposal of second-hand lorry by Smart Paint Manufacturing to Major Harvest Sdn Bhd ^{(13) (30)}	-	-	-	-	30	0.05 ⁽³⁾	-	-	-	-
6.	Smart Paints (M) and Major Harvest Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder.	Sales of manufacturing and trading products by Smart Paints (M) to Major Harvest Sdn Bhd ⁽³¹⁾	1,901	2.66 ⁽⁴⁾	2,082	2.61 ⁽⁴⁾	2,165	2.73 ⁽⁴⁾	1,767	1.94 ⁽⁴⁾	509	N/A ⁽²⁹⁾

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
		Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. They are also the directors and shareholders of Major Harvest Sdn Bhd.	Purchase of maintenance parts by Smart Paints (M) from Major Harvest Sdn Bhd ⁽³¹⁾	5	0.01 ⁽¹⁾	1	# ⁽¹⁾	12	0.02 ⁽¹⁾	9	0.01 ⁽¹⁾	#	N/A ⁽²⁹⁾
			Transportation costs charged to Smart Paints (M) by Major Harvest Sdn Bhd ^{(14) (30)}	-	-	-	-	12	0.15 ⁽⁵⁾	2	0.02 ⁽⁵⁾	-	-
7.	Smart Paint (Selangor) and Major Harvest Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. They are also the directors and shareholders of Major Harvest Sdn Bhd.	Sales of manufacturing and trading products by Smart Paint (Selangor) to Major Harvest Sdn Bhd ⁽³¹⁾	28	0.04 ⁽⁴⁾	#	# ⁽⁴⁾	-	-	-	-	-	-
			Purchase of trading products by Smart Paint (Selangor) from Major Harvest Sdn Bhd ⁽³¹⁾	66	0.14 ⁽¹⁾	20	0.04 ⁽¹⁾	17	0.03 ⁽¹⁾	188	0.31 ⁽¹⁾	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
8.	Smart Paint Manufacturing and QC Printing Sdn Bhd	Kee Hui Lang is our Group's promoter, director and substantial shareholder. Kee Hui Lang was the director and shareholder of QC Printing Sdn Bhd. ⁽¹⁷⁾	Sales of depositing colourant by Smart Paint Manufacturing to QC Printing Sdn Bhd ^{(15) (30)}	-	-	36	0.05 ⁽⁴⁾	-	-	-	-	-	-
			Purchase of colour card by Smart Paint Manufacturing from QC Printing Sdn Bhd ^{(16) (30)}	473	4.71 ⁽⁵⁾	6	0.07 ⁽⁵⁾	-	-	-	-	-	-
			Purchase of packing materials by Smart Paint Manufacturing from QC Printing Sdn Bhd ⁽³¹⁾	146	0.30 ⁽¹⁾	114	0.21 ⁽¹⁾	-	-	-	-	-	-
			Purchase of printed marketing materials by Smart Paint Manufacturing from QC Printing Sdn Bhd ⁽³¹⁾	9	0.09 ⁽⁵⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
9.	Smart Paints (M) and QC Printing Sdn Bhd	Kee Hui Lang is our Group's promoter, director and substantial shareholder. Kee Hui Lang was the director and shareholder of QC Printing Sdn Bhd. ⁽¹⁷⁾	Sales of manufacturing products by Smart Paints (M) to QC Printing Sdn Bhd ⁽³¹⁾	16	0.02 ⁽⁴⁾	2	# ⁽⁴⁾	-	-	-	-	-	-
			Purchase of colour card by Smart Paints (M) from QC Printing Sdn Bhd ^{(16) (31)}	-	-	361	4.35 ⁽⁵⁾	-	-	-	-	-	-
			Purchase of packing materials by Smart Paints (M) from QC Printing Sdn Bhd ⁽³¹⁾	-	-	2	# ⁽¹⁾	-	-	-	-	-	-
			Purchase of printed marketing materials by Smart Paints (M) from QC Printing Sdn Bhd ⁽³¹⁾	4	0.04 ⁽⁵⁾	1	0.01 ⁽⁵⁾	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
10.	Smart Paint Manufacturing and KTC Hardware & Trading Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Hin is a shareholder of KTC Hardware & Trading Sdn Bhd. He was also a director of KTC Hardware & Trading Sdn Bhd. ⁽¹⁸⁾	Sales of manufacturing and trading products by Smart Paint Manufacturing to KTC Hardware & Trading Sdn Bhd ⁽³⁰⁾	35	0.05 ⁽⁴⁾	-	-	-	-	-	-	-	-
11.	Smart Paints (M) and KTC Hardware & Trading Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Hin is a shareholder of KTC Hardware & Trading Sdn Bhd. He was also a director of KTC Hardware & Trading Sdn Bhd. ⁽¹⁸⁾	Sales of manufacturing and trading products by Smart Paints (M) to KTC Hardware & Trading Sdn Bhd ⁽³¹⁾	176	0.25 ⁽⁴⁾	183	0.23 ⁽⁴⁾	189	0.24 ⁽⁴⁾	179	0.20 ⁽⁴⁾	61	N/A ⁽²⁹⁾

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
12.	Smart Paint Manufacturing and BIY Home Store (Kota Tinggi) Sdn Bhd	<p>Kee Hui Lang is our Group's promoter, director and substantial shareholder.</p> <p>Kee Hui Lang is a shareholder of BIY Home Store (Kota Tinggi) Sdn Bhd. She was also a director of BIY Home Store (Kota Tinggi) Sdn Bhd.⁽¹⁹⁾</p>	Sale of manufacturing and trading products by Smart Paint Manufacturing to BIY Home Store (Kota Tinggi) Sdn Bhd ⁽³⁰⁾	22	0.03 ⁽⁴⁾	-	-	-	-	-	-	-	-
			Purchase of disinfectant spray guns by Smart Paint Manufacturing from BIY Home Store (Kota Tinggi) Sdn Bhd ⁽³⁰⁾	1	# ⁽¹⁾	-	-	-	-	-	-	-	-
13.	Smart Paints (M) and BIY Home Store (Kota Tinggi) Sdn Bhd	<p>Kee Hui Lang is our Group's promoter, director and substantial shareholder.</p> <p>Kee Hui Lang is a shareholder of BIY Home Store (Kota Tinggi) Sdn Bhd. She was also a director of BIY</p>	Sales of manufacturing and trading products by Smart Paints (M) to BIY Home Store (Kota Tinggi) Sdn Bhd ⁽³¹⁾	303	0.42 ⁽⁴⁾	353	0.44 ⁽⁴⁾	514	0.65 ⁽⁴⁾	448	0.49 ⁽⁴⁾	345	N/A ⁽²⁹⁾
			Purchase of disinfectant spray guns by Smart Paints (M) from BIY Home Store (Kota Tinggi) Sdn Bhd ⁽³⁰⁾	#	# ⁽¹⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
		Home Store (Kota Tinggi) Sdn Bhd. ⁽¹⁹⁾											
14.	Smart Paint (Selangor) and BIY Home Store (Kota Tinggi) Sdn Bhd	<p>Kee Hui Lang is our Group's promoter, director and substantial shareholder.</p> <p>Kee Hui Lang is a shareholder of BIY Home Store (Kota Tinggi) Sdn Bhd. She was also a director of BIY Home Store (Kota Tinggi) Sdn Bhd.⁽¹⁹⁾</p>	<p>Sales of trading products by Smart Paint (Selangor) to BIY Home Store (Kota Tinggi) Sdn Bhd⁽³¹⁾</p> <p>Purchase of face mask by Smart Paint (Selangor) from BIY Home Store (Kota Tinggi) Sdn Bhd⁽³⁰⁾</p>	12	0.02 ⁽⁴⁾	2	# ⁽⁴⁾	-	-	-	-	-	-
15.	Smart Paint Manufacturing and Jing Thye Trading	<p>Goh Chye Hin is our Group's promoter, director and substantial shareholder.</p> <p>Goh Chye Wah is the brother of Goh Chye Hin and also the sole proprietor of Jing Thye Trading.</p>	<p>Sales of manufacturing and trading products by Smart Paint Manufacturing to Jing Thye Trading⁽³⁰⁾</p>	16	0.02 ⁽⁴⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
16.	Smart Paints (M) and Jing Thye Trading	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Wah is the brother of Goh Chye Hin and also the sole proprietor of Jing Thye Trading.	Sales of manufacturing and trading products by Smart Paints (M) to Jing Thye Trading ⁽³¹⁾	134	0.19 ⁽⁴⁾	125	0.16 ⁽⁴⁾	172	0.22 ⁽⁴⁾	308	0.34 ⁽⁴⁾	135	N/A ⁽²⁹⁾
17.	Smart Paint Manufacturing and PT Farmitec Indo Pratama (formerly known as PT Smart Paint Indonesia) (" Smart Paint Indonesia ")	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Hin was a shareholder of Smart Paint Indonesia. ⁽²⁰⁾	Purchase of production machineries by Smart Paint Manufacturing from Smart Paint Indonesia ^{(21) (30)}	230	0.55 ⁽³⁾	-	-	-	-	-	-	-	-
18.	Smart Paint (Selangor) and Mr.Mark Tools (M) Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder.	Printer leasing charges charged from Smart Paint (Selangor) to Mr.Mark Tools (M) Sdn Bhd ^{(22) (30)}	3	0.58 ⁽²⁾	4	0.89 ⁽²⁾	4	0.53 ⁽²⁾	2	1.17 ⁽²⁾	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
		Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. Goh Chye Hin and Goh Chye Leng are the directors and shareholders of Mr.Mark Tools (M) Sdn Bhd. Cho Chooi Peng is also a shareholder of Mr.Mark Tools (M) Sdn Bhd.	Purchase of trading products by Smart Paint (Selangor) from Mr.Mark Tools (M) Sdn Bhd ⁽³⁰⁾	2	# ⁽¹⁾	-	-	-	-	-	-	-	-
		Major Harvest Sdn Bhd is also the shareholder of Mr.Mark Tools (M) Sdn Bhd. Goh Chye Leng and Cho Chooi Peng are the directors and shareholders of Major Harvest Sdn Bhd.	Interest charged on the advances from Mr.Mark Tools (M) Sdn Bhd to Smart Paint (Selangor) ⁽²³⁾ ⁽³⁰⁾	1	0.17 ⁽⁷⁾	-	-	-	-	-	-	-	-
		Lim Kok Beng is our Group's director and our Company's minority											

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
		shareholder. He was also a director and shareholder of Mr.Mark Tools (M) Sdn Bhd. ⁽²⁴⁾											
19.	Smart Paint Manufacturing and Ztree Sdn Bhd	Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Hin was the shareholder of Ztree Sdn Bhd. ⁽²⁵⁾	Sales of manufacturing and trading products by Smart Paint Manufacturing to Ztree Sdn Bhd ⁽³¹⁾	985	1.38 ⁽⁴⁾	1,212	1.52 ⁽⁴⁾	1,222	1.54 ⁽⁴⁾	-	-	-	-
20.	Smart Paint Manufacturing and Goh Chye Hin	Goh Chye Hin is our Group's promoter, director and substantial shareholder.	Payment of sinking funds and maintenance fees by Smart Paint Manufacturing for the upkeep of the units owned by Goh Chye Hin ⁽²⁶⁾ ⁽³⁰⁾	10	0.31 ⁽⁶⁾	6	0.16 ⁽⁶⁾	6	0.14 ⁽⁶⁾	-	-	-	-
21.	Smart Paint Manufacturing and Kee Hui Lang	Kee Hui Lang is our Group's promoter, director and substantial shareholder.	Rental of premise by Kee Hui Lang to Smart Paint Manufacturing ⁽²⁷⁾ ⁽³⁰⁾	42	1.31 ⁽⁶⁾	42	1.15 ⁽⁶⁾	21	0.49 ⁽⁶⁾	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
22.	Smart Paints (M) and 1 Living Depot Sdn Bhd	<p>Goh Chye Hin is our Group's promoter, director and substantial shareholder.</p> <p>Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. Cho Chooi Peng and Goh Chye Leng are the directors and shareholders of 1 Living Depot Sdn Bhd.</p> <p>Major Harvest Sdn Bhd is also the shareholder of 1 Living Depot Sdn Bhd. Goh Chye Leng and Cho Chooi Peng are the directors and shareholders of Major Harvest Sdn Bhd.</p>	Purchase of maintenance parts by Smart Paints (M) from 1 Living Depot Sdn Bhd ⁽³⁰⁾	1	# ⁽¹⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
23.	Smart Paint Manufacturing and 1 Living Depot Sdn Bhd	<p>Goh Chye Hin is our Group's promoter, director and substantial shareholder.</p> <p>Goh Chye Leng and Cho Chooi Peng are Goh Chye Hin's brother and sister-in-law. Cho Chooi Peng and Goh Chye Leng are the directors and shareholders of 1 Living Depot Sdn Bhd.</p> <p>Major Harvest Sdn Bhd is also the shareholder of 1 Living Depot Sdn Bhd. Goh Chye Leng and Cho Chooi Peng are the directors and shareholders of Major Harvest Sdn Bhd.</p>	Purchase of maintenance parts by Smart Paint Manufacturing from 1 Living Depot Sdn Bhd ⁽³¹⁾	13	0.03 ⁽¹⁾	4	0.01 ⁽¹⁾	11	0.02 ⁽¹⁾	37	0.06 ⁽¹⁾	10	N/A ⁽²⁹⁾

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
24.	Smart Paint Manufacturing and PT Smartindo Global Asia	<p>Smart Asia was a shareholder of PT Smartindo Global Asia. ⁽²⁸⁾</p> <p>Goh Chye Hin is our Group's promoter, director and substantial shareholder.</p> <p>Goh Chye Hin was also the indirect shareholder of PT Smartindo Global Asia through Smart Asia.</p>	<p>Sales of manufacturing and trading products by Smart Paint Manufacturing to PT Smartindo Global Asia⁽³⁰⁾</p>	116	0.16 ⁽⁴⁾	-	-	-	-	-	-	-	-

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10. RELATED PARTY TRANSACTIONS (cont'd)

Notes:

The amount is negligible.

(1) *Calculated based on our Group's total cost of sales for each of the respective financial years/ period.*

(2) *Calculated based on our Group's total other income for each of the respective financial years/period.*

(3) *Calculated based on our Group's total net assets for each of the respective financial years/period.*

(4) *Calculated based on our Group's total revenue for each of the respective financial years/period.*

(5) *Calculated based on our Group's total selling and distribution expenses for each of the respective financial years/period.*

(6) *Calculated based on our Group's total administrative expenses for each of the respective financial years/period.*

(7) *Calculated based on our Group's total finance costs for each of the respective financial years/period.*

(8) *The transactions between Smart Paint Manufacturing and UT Holdings were not conducted at an arms' length basis as the products were purchased at a price lower than those purchased by other customers of UT Holdings. Smart Paint Manufacturing has ceased all purchase transactions with UT Holdings since 30 December 2022.*

(9) *Smart Paint Manufacturing entered into an agreement with UT Holdings on 30 July 2018 to provide UT Holdings with financial management and warehouse and logistic services for a monthly management fee during the following period:*

(a) *from January 2018 to January 2019, a monthly fee based on 2% of UT Holdings' monthly total sales value;*

(b) *from February 2019 to December 2019, a monthly fee of RM6,000.00;*

(c) *from January 2020 to December 2020, a monthly fee of RM3,000.00;*

(d) *from January 2021 to December 2021, a monthly fee of RM1,000.00; and*

(e) *from January 2022 onwards, a monthly fee of RM100.00.*

Smart Paint Manufacturing does not provide these services to any other third parties and the management fees charged was not conducted at an arms' length basis as the fees charged were on an agreed pricing that is below the market value for services of similar nature. Smart Paint Manufacturing has ceased to provide these services to UT Holdings since 1 January 2023. Moving forward, Smart Paint Manufacturing will not be providing any such services to UT Holdings.

(10) *Smart Paint Manufacturing entered into a Deed of Assignment of Trademark on 22 February 2022 with UT Holdings to acquire the trademark "Goldliner" and the goodwill of the business of UT Holdings associated with "Goldliner" for a consideration of RM200,000.00. The transfer of ownership of the trademark(s) were completed on 12 April 2022. The transaction was not conducted at an arms' length basis as it was an agreed pricing based on approximately 10% of the revenue of UT Holdings in respect of the sale of Goldliner products in FYE 2020.*

10. RELATED PARTY TRANSACTIONS (cont'd)

- (11) *Due to the shortage of products and in order to fulfil Smart Paint Manufacturing's other customer's urgent requests in Penang, Smart Paint Manufacturing procured its own products from UA Paints & Hardware Sdn Bhd as UA Paints & Hardware Sdn Bhd has a store in Penang. As at the LPD, the Group has ceased this arrangement.*
- (12) *UA Paints & Hardware Sdn Bhd provided product transportation services to Smart Paint Manufacturing for the transport of products from Penang to Langkawi, Kedah. Smart Paint Manufacturing has ceased procuring transportation services from UA Paints & Hardware Sdn Bhd since FYE 2020.*
- (13) *Smart Paint Manufacturing has disposed a second-hand lorry to Major Harvest Sdn Bhd in November 2022 with a cash consideration of RM30,000.00. This was a one-off transaction.*
- (14) *Major Harvest Sdn Bhd procures third party shipping services for both itself and Smart Paints (M) in order to meet the minimum volume requirements set by the third party shipping service provider. The expenses associated with the transport of Smart Paints (M) products are subsequently reimbursed to Major Harvest Sdn Bhd by Smart Paints (M). As at the LPD, Smart Paints (M) has ceased the aforementioned arrangement.*
- (15) *Smart Paint Manufacturing sold depositing colourant (colourant used for colour cards) to QC Printing Sdn Bhd. This was a one-off transaction and our Group had only sold the aforementioned colourants to QC Printing Sdn Bhd.*
- (16) *Smart Paint Manufacturing and Smart Paints (M) only purchases colour cards from QC Printing Sdn Bhd. The transactions were not conducted at an arms' length basis as our Group is unable to procure comparative information to ascertain whether the aforementioned transactions were carried out based on normal commercial terms and at market rate.*
- (17) *Kee Hui Lang has resigned as director of QC Printing Sdn Bhd on 8 December 2021 and disposed of her entire shareholdings in QC Printing Sdn Bhd to non-related parties, Ng Euddy (130,000 shares) and Ng Teck Yong (100,000 shares), on 22 December 2021. Thereafter, QC Printing Sdn Bhd has ceased to be our related party.*
- (18) *Goh Chye Hin has resigned as a director of KTC Hardware & Trading Sdn Bhd on 11 April 2023. Goh Chye Hin currently holds 46.20% shares in KTC Hardware & Trading Sdn Bhd.*
- (19) *Kee Hui Lang has resigned as a director of BIY Home Store (Kota Tinggi) Sdn Bhd on 30 April 2023. Kee Hui Lang currently holds 20.00% shares in BIY Home Store (Kota Tinggi) Sdn Bhd.*
- (20) *Goh Chye Hin disposed of his entire shareholdings in Smart Paint Indonesia to a non-related party, Santos Loy (122,500 shares), who is also a minority shareholder of our Company (holding 2,000,000 Shares or 0.54% after IPO), on 8 January 2022. Thereafter, Smart Paint Indonesia ceased to be our related party.*
- (21) *Smart Paint Manufacturing had purchased second-hand machineries from Smart Paint Indonesia in March 2020. This was a one-off transaction and was not conducted at an arms' length basis as it was purchased at an agreed pricing of RM230,497.40.*

10. RELATED PARTY TRANSACTIONS (cont'd)

- (22) *Smart Paint (Selangor) entered into a Multifunction Equipment Rental Agreement with Toshiba Tec Malaysia Sdn Bhd on 15 August 2018 for the rental of 3 printers for a monthly fee of RM675.00. One of the printers is utilised solely by Mr.Mark Tools (M) Sdn Bhd and hence, the cost incurred for such printer is billed by Smart Paint (Selangor) to Mr.Mark Tools (M) Sdn Bhd. Smart Paint (Selangor) will be excluding Mr.Mark Tools (M) Sdn Bhd from this printer leasing arrangement upon the expiry of the agreement (i.e. 15 August 2023). Smart Paint (Selangor) had written to Toshiba Tec Malaysia Sdn Bhd for the termination of the Multifunction Equipment Rental Agreement on 22 May 2023, effective upon expiry of the agreement.*
- (23) *Smart Paint (Selangor) (as the borrower) entered into loan agreement with Mr.Mark Tools (M) Sdn Bhd (as the lender) on 3 November 2015 for a loan amount of RM700,000.00 with an interest of 3% per annum. The loan was fully settled on 26 November 2020. This transaction was not conducted at an arms' length basis as the interest rate charged was lower than the lending rate offered by the banks at that point in time. Moving forward, our Group will not be procuring loans from our related parties.*
- (24) *Lim Kok Beng resigned as director of Mr.Mark Tools (M) Sdn Bhd on 27 July 2020 and disposed of his entire shareholdings in Mr.Mark Tools (M) Sdn Bhd to Goh Chye Hin's sister-in-law, Cho Chooi Peng (932,339 shares) on 30 November 2020.*
- (25) *Goh Chye Hin disposed of his entire shareholdings in Ztree Sdn Bhd to non-related party, Chang Peng Chye (74,999 shares) and Chang's Peng Chye's trustee, Nurul Rashiqa Nafira Binti Imran (1 share) on 27 October 2022. Thereafter, Ztree Sdn Bhd ceased to be our related party.*
- (26) *Goh Chye Hin provided short-term accommodations to the management team of our Group for their stays in Ipoh, as and when required, on a rent-free basis and Smart Paint Manufacturing only pays for the sinking funds and maintenance fees incurred for the upkeep of the units. The accommodation provided consist of 2 units at the Casa Kayangan @ Meru apartment with the postal address of B-21-7 and B-21-8, Blok B, Pusat Perniagaan Meru Impian, Persiaran Meru Raya 2, Bandar Meru Raya, 30020 Ipoh, Perak. This transaction was not conducted at an arms' length basis as the accommodation was provided rent-free. As at the LPD, our Group has ceased this arrangement.*
- (27) *Smart Paint Manufacturing entered into a lease agreement with Kee Hui Lang for the rental of the premise bearing the postal address No. 7, Jalan Ponderosa 1/10, Taman Ponderosa, 81100 Johor Bahru, Johor as its workers' accommodation for the period commencing 1 August 2019 to 30 July 2024. The lease agreement was terminated on 30 June 2022.*
- (28) *Smart Asia disposed of its entire shareholdings in PT Smartindo Global Asia to non-related parties, Santos Loy (1,225 shares) who is also a minority shareholder of our Company (holding 2,000,000 Shares or 0.54% after IPO) and Bryan Loy (25 shares) on 8 January 2022. Thereafter, PT Smartindo Global Asia ceased to be our related party.*
- (29) *Not applicable as we did not prepare any financial statements from 1 January 2024 up to the LPD.*
- (30) *The transaction has ceased as at the LPD or will cease after our Listing.*
- (31) *The transaction is on-going as at the LPD and may continue after our Listing. Our Group will ensure that the transaction will be carried out at arms' length basis and not detrimental to our minority shareholders.*

10. RELATED PARTY TRANSACTIONS (cont'd)

Save for the transactions in Notes 8, 9, 10, 16, 21, 23 and 26, our Board is of the view that all other related party transactions were conducted on an arm's length basis and competitive commercial terms not more favourable to the related parties and were not detrimental to our minority shareholders and our Group. This was determined based on the following:

- (a) sales of our Group's products are at similar rates or prices charged to third parties;
- (b) the purchase of trading products from UT Holdings by Smart Paint (Selangor) was based on comparable purchase costs from external suppliers;
- (c) the re-purchase of paints by Smart Paint Manufacturing from UA Paints & Hardware Sdn Bhd are at similar rates or prices offered to third parties by UA Paints & Hardware Sdn Bhd;
- (d) the procurement of transportation services from UA Paints & Hardware Sdn Bhd by Smart Paint Manufacturing was based on comparable service costs from external providers;
- (e) the purchase of trading products and maintenance parts from Major Harvest Sdn Bhd by Smart Paint Manufacturing, Smart Paints (M) and Smart Paint (Selangor) was based on comparable purchase costs from external suppliers;
- (f) the disposal of lorry to Major Harvest Sdn Bhd was based on the value of the lorry on the second-hand market;
- (g) the transportation costs reimbursed to Major Harvest Sdn Bhd was proportionate to the expenses associated with the transport of Smart Paints (M) products;
- (h) the purchase of disinfectant spray guns by Smart Paint Manufacturing and Smart Paints (M) from BIY Home Store (Kota Tinggi) Sdn Bhd was based on comparable purchase costs from external suppliers;
- (i) the purchase of face mask by Smart Paint (Selangor) from BIY Home Store (Kota Tinggi) Sdn Bhd was based on comparable purchase costs from external suppliers;
- (j) the purchase of trading products by Smart Paint (Selangor) from Mr.Mark Tools (M) Sdn Bhd was based on comparable purchase costs from external suppliers;
- (k) the amount billed back to Mr.Mark Tools (M) Sdn Bhd by Smart Paint (Selangor) for the printing charges is proportionate to the fee for rental of 1 printer from Toshiba Tec Malaysia Sdn Bhd;
- (l) rental expenses paid to Kee Hui Lang was based on the prevailing market rental rates;
- (m) the purchase of packing materials and printed marketing materials by Smart Paint Manufacturing and Smart Paints (M) from QC Printing Sdn Bhd were based on comparable purchase costs from external suppliers;
- (n) the purchase of trading products by Smart Paint Manufacturing and Smart Paints (M) from 1 Living Depot Sdn Bhd was based on comparable purchase costs from external suppliers;

10. RELATED PARTY TRANSACTIONS (cont'd)

- (o) the markup in price for the sale of depositing colourant (colourants for colour cards) to QC Printing Sdn Bhd is at a similar rate imposed on the colourant products (for paints) sold to third parties; and

Following our Listing, the Audit and Risk Management Committee of our Group will review the terms of any related party transactions and ensure that any related party transactions (including any recurrent related party transactions) are carried out on terms not more favourable to the related party than those generally available to the third parties dealing at arm's length basis with our Group and are not detrimental to our minority shareholders.

In the event that there are any proposed related party transactions that involve the interest, direct or indirect, of our Directors, the interested Director(s) shall disclose his interest to our Board, of the nature and extent of his interest including all matters in relation to the proposed related party transaction that he is aware or should reasonably be aware of, which is not in our best interest. The interested Director(s) shall also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such proposed related party transaction.

In the event that there is any proposed related party transaction that requires the prior approval of our Company's shareholders, the Directors, substantial shareholders and / or persons connected with them, which have any interest, direct or indirect, in the transaction, will abstain from voting in respect of his direct and / or indirect shareholdings. Such interested Directors and / or substantial shareholders will also undertake to ensure that the person connected with them will abstain from voting on the resolution approving the proposed related party transaction at a general meeting.

If the related party transactions are deemed as recurrent related party transactions, our Company may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such recurrent related party transactions during the validity period of the mandate. Related party transactions can be deemed as recurrent, if they are entered into at least once every three years, in the ordinary course of business and are of a revenue or trading nature necessary for the day-to-day operations of our Group.

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10. RELATED PARTY TRANSACTIONS (cont'd)

(b) Summary of material related party transactions entered into by our Group

Below is a summary of the material related party transactions listed in Section 10.1 (a) of this Prospectus aggregated on the basis that such transactions have been entered into by our Group with the same related party:

No.	Transacting Parties	Nature of Transaction	Transactions Value									
			FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
1.	UT Holdings	Purchase of trading products	3,060	6.27 ⁽¹⁾	2,014	3.79 ⁽¹⁾	528	0.95 ⁽¹⁾	-	-	-	-
		Receipt of management fees	36	7.00 ⁽²⁾	12	2.68 ⁽²⁾	1	0.13 ⁽²⁾	-	-	-	-
		Purchase of trademark	-	-	-	-	200	0.33 ⁽³⁾	-	-	-	-
2.	UA Paints & Hardware Sdn Bhd	Sales of manufacturing and trading products	3,037	4.24 ⁽⁴⁾	3,597	4.51 ⁽⁴⁾	2,848	3.60 ⁽⁴⁾	2,957	3.25 ⁽⁴⁾	889	N/A ⁽⁸⁾
		Purchase of paints	1	# ⁽¹⁾	17	0.03 ⁽¹⁾	4	0.01 ⁽¹⁾	-	-	-	-
		Transportation costs	8	0.08 ⁽⁵⁾	-	-	-	-	-	-	-	-
3.	Major Harvest Sdn Bhd	Sales of manufacturing and trading products	2,101	2.94 ⁽⁴⁾	2,082	2.61 ⁽⁴⁾	2,190	2.76 ⁽⁴⁾	1,767	1.94 ⁽⁴⁾	509	N/A ⁽⁸⁾
		Purchase of trading products and maintenance parts	1,581	3.24 ⁽¹⁾	233	0.44 ⁽¹⁾	159	0.28 ⁽¹⁾	342	0.56 ⁽¹⁾	26	N/A ⁽⁸⁾
		Disposal of second-hand lorry	-	-	-	-	30	0.05 ⁽³⁾	-	-	-	-
		Transportation costs	-	-	-	-	12	0.15 ⁽⁵⁾	2	0.02 ⁽⁵⁾	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Transaction	Transactions Value									
			FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
4.	QC Printing Sdn Bhd	Sales of depositing colourant	-	-	36	0.05 ⁽⁴⁾	-	-	-	-	-	-
		Sales of manufacturing products	16	0.02 ⁽⁴⁾	2	# ⁽⁴⁾	-	-	-	-	-	-
		Purchase of colour card	473	4.71 ⁽⁵⁾	367	4.42 ⁽⁵⁾	-	-	-	-	-	-
		Purchase of packing materials	146	0.30 ⁽¹⁾	116	0.21 ⁽¹⁾	-	-	-	-	-	-
		Purchase of printed marketing materials	13	0.13 ⁽⁵⁾	1	0.01 ⁽⁵⁾	-	-	-	-	-	-
5.	KTC Hardware & Trading Sdn Bhd	Sales of manufacturing and trading products	211	0.30 ⁽⁴⁾	183	0.23 ⁽⁴⁾	189	0.24 ⁽⁴⁾	179	0.20 ⁽⁴⁾	61	N/A ⁽⁸⁾
6.	BIY Home Store (Kota Tinggi) Sdn Bhd	Sale of manufacturing and trading products	337	0.47 ⁽⁴⁾	355	0.44 ⁽⁴⁾	514	0.65 ⁽⁴⁾	448	0.49 ⁽⁴⁾	345	N/A ⁽⁸⁾
		Purchase of disinfectant spray guns and face masks	4	0.01 ⁽¹⁾	-	-	-	-	-	-	-	-
7.	Jing Thye Trading	Sales of manufacturing and trading products	150	0.21 ⁽⁴⁾	125	0.16 ⁽⁴⁾	172	0.22 ⁽⁴⁾	308	0.34 ⁽⁴⁾	135	N/A ⁽⁸⁾
8.	Smart Paint Indonesia	Purchase of production machineries	230	0.55 ⁽³⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

No.	Transacting Parties	Nature of Transaction	Transactions Value									
			FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 up to the LPD	
			RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
9.	Mr.Mark Tools (M) Sdn Bhd	Printer leasing charges charged	3	0.58 ⁽²⁾	4	0.89 ⁽²⁾	4	0.53 ⁽²⁾	2	1.17 ⁽²⁾	-	-
		Purchase of trading products	2	# ⁽¹⁾	-	-	-	-	-	-	-	-
		Interest charged on advances	1	0.17 ⁽⁷⁾	-	-	-	-	-	-	-	-
10.	Ztree Sdn Bhd	Sales of manufacturing and trading products	985	1.38 ⁽⁴⁾	1,212	1.52 ⁽⁴⁾	1,222	1.54 ⁽⁴⁾	-	-	-	-
11.	Goh Chye Hin	Payment of sinking funds and maintenance fees for the upkeep of the units owned by Goh Chye Hin	10	0.31 ⁽⁶⁾	6	0.16 ⁽⁶⁾	6	0.14 ⁽⁶⁾	-	-	-	-
12.	Kee Hui Lang	Rental of premise from Kee Hui Lang	42	1.31 ⁽⁶⁾	42	1.15 ⁽⁶⁾	21	0.49 ⁽⁶⁾	-	-	-	-
13.	1 Living Depot Sdn Bhd	Purchase of maintenance parts	14	0.03 ⁽¹⁾	4	0.01 ⁽¹⁾	11	0.02 ⁽¹⁾	37	0.06 ⁽¹⁾	10	N/A ⁽⁸⁾
14.	PT Smartindo Global Asia	Sales of manufacturing and trading products	116	0.16 ⁽⁴⁾	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (cont'd)

Notes:

- # *The amount is negligible.*
- (1) *Calculated based on our Group's total cost of sales for each of the respective financial years/ period.*
- (2) *Calculated based on our Group's total other income for each of the respective financial years/period.*
- (3) *Calculated based on our Group's total net assets for each of the respective financial years/period.*
- (4) *Calculated based on our Group's total revenue for each of the respective financial years/period.*
- (5) *Calculated based on our Group's total selling and distribution expenses for each of the respective financial years/period.*
- (6) *Calculated based on our Group's total administrative expenses for each of the respective financial years/period.*
- (7) *Calculated based on our Group's total finance costs for each of the respective financial years/period.*
- (8) *Not applicable as we did not prepare any financial statements from 1 January 2024 up to the LPD.*

(c) Transactions which are unusual in their nature or conditions

Save for as disclosed above in note (10) of Section 10.1(a) of this Prospectus, there were no transactions that were unusual in their nature or conditions, involving goods, services, tangible, or intangible assets, to which our Group was a party for the Financial Years Under Review and up to the LPD.

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10. RELATED PARTY TRANSACTIONS (cont'd)

(d) Outstanding loans and/or financial assistance made to or for the benefit of the related parties

The following table sets out the loans (including guarantees of any kind) and/or financial assistance made by us to or for the benefit of related parties for the FYE Under Review and up to the LPD:

No.	Transacting Parties	Nature of Relationship	Nature of Transaction	Transactions Value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 January 2024 to the LPD	
				RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
1.	Smart Asia and PT Smartindo Global Asia	Smart Asia was a shareholder of PT Smartindo Global Asia. ⁽¹⁾ Goh Chye Hin is our Group's promoter, director and substantial shareholder. Goh Chye Hin was also the indirect shareholder of PT Smartindo Global Asia through Smart Asia.	Advances from Smart Asia to PT Smartindo Global Asia ⁽²⁾	126	0.30 ⁽³⁾	-	-	-	-	-	-	-	-

Notes:

(1) Smart Asia disposed of its entire shareholdings in PT Smartindo Global Asia to his business partner (non-related parties), Santos Loy (1,225 shares) who is also a minority shareholder of our Company (holding 2,000,000 Shares or 0.54% after IPO) and Bryan Loy (25 shares) on 8 January 2022. Thereafter, PT Smartindo Global Asia ceased to be our related party.

10. RELATED PARTY TRANSACTIONS *(cont'd)*

- (2) *The advances provided to PT Smartindo Global Asia was not conducted at an arms' length basis as the advances were provided interest-free. As at the LPD, the aforementioned advances have been fully settled. Moving forward, our Group will no longer provide any advances to our related parties.*
- (3) *Calculated based on our Group's total net assets for each of the respective financial years/period.*

Moving forward, we have put in place internal controls and compliance procedures in relation to advances, loans or financial assistance to be provided to related parties. As such, no further advances, loans or financial assistance will be provided to related parties by our Group unless such advances, loans or financial assistance are permitted under applicable laws, rules and regulations (including the Listing Requirements) and brought to our Audit and Risk Management Committee and our Board for deliberation and approval.

(e) Guarantees

(i) Personal Guarantees

As at the LPD, (aa) the Promoters, namely Goh Chye Hin and Kee Hui Lang, (bb) the director of Smart Paint (Selangor), Chu Teck and (cc) the director of Smart Paint Manufacturing and Smart Paints (M), Goh Bee Sim, have jointly and severally provided personal guarantees (as the case may be) in favour of 4 financial institutions, namely Public Bank Berhad ("**PBB**"), CIMB Bank Berhad and OCBC Al-Amin Bank Berhad and BMW Credit (Malaysia) Sdn Bhd for the benefit of our Group ("**Personal Guarantees**").

(ii) Other Guarantees / Securities

As at the LPD, the Promoters and their related company, UT Holdings have provided the following guarantees and securities in favour of the respective financial institutions for the benefit of our Group ("**Other Guarantees / Securities**"):

- (aa) Kee Hui Lang has executed a memorandum of charge over fixed deposit in favour of CIMB Bank Berhad as security for the banking facilities undertaken by Smart Paint Manufacturing.
- (bb) UT Holdings have also pledged 3 of its properties ("**UT's Properties**") as securities for the banking facilities taken up by Smart Paint Manufacturing to CIMB Bank Berhad.

(All institutions above are collectively referred to as the "**Financiers**").

The details of the facilities as at the LPD is set out below:

10. RELATED PARTY TRANSACTIONS (cont'd)

Financiers	Type of facilities	Purpose	Outstanding balance as at the LPD (RM'000)	Facility limit and amount guaranteed (RM'000)	Personal Guarantees and Other Guarantees / Securities
CIMB Bank Berhad	Term Loan 1	To part finance purchase of Johor Factory 2	2,576	2,706	<ul style="list-style-type: none"> Joint and several guarantee by Goh Chye Hin and Goh Bee Sim. Charge on UT's Properties. Memorandum of charge over Kee Hui Lang's fixed deposit.
	Term Loan 2	For working capital requirements	425	510	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
	Term Loan 3	To part finance the construction cost of the Perak Plant	20,461	22,560	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
	Overdraft 1	To part finance purchase of Johor Factory 2	Nil	1,200	<ul style="list-style-type: none"> Joint and several guarantee by Goh Chye Hin and Goh Bee Sim. Charge on UT's Properties. Memorandum of Charge over Kee Hui Lang's fixed deposit.
	Overdraft 2	For working capital requirements	Nil	800	<ul style="list-style-type: none"> Joint and several guarantee by Goh Chye Hin and Kee Hui Lang. Charge on UT's Properties. Memorandum of Charge over Kee Hui Lang's fixed deposit.

10. RELATED PARTY TRANSACTIONS (cont'd)

Financiers	Type of facilities	Purpose	Outstanding balance as at the LPD (RM'000)	Facility limit and amount guaranteed (RM'000)	Personal Guarantees and Other Guarantees / Securities
	Trade Line 1	To facilitate trade transactions	2,758	8,000	<ul style="list-style-type: none"> • Joint and several guarantee by Goh Chye Hin, Kee Hui Lang and Goh Bee Sim. • Charge on UT's Properties. • Memorandum of charge over Kee Hui Lang's fixed deposit.
	Trade Line 2	To part finance the purchase and importation of machinery/ equipment	7,206	11,000	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
PBB	Term Loan	To part finance the purchase of Johor Factory 3	6,163	6,480	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
	1 Hire purchase facility	Motor Vehicle	41	200	Personal guarantee by Chu Teck
OCBC Al-Amin Bank Berhad	Term Loan	To part finance the purchase of Johor Factory 1	2,430	2,859	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
	Overdraft	Working Capital	Nil	5,000	Joint and several guarantee by Goh Chye Hin and Kee Hui Lang
BMW Credit (Malaysia) Sdn Bhd	Hire Purchase facility	Motor Vehicle	203	300	Personal guarantee by Kee Hui Lang

10. RELATED PARTY TRANSACTIONS (cont'd)

In conjunction with the Listing, we have applied to the Financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company acceptable to the Financiers. Until such release and/or discharge are obtained from the respective Financiers, our Directors will continue to guarantee the banking and hire purchase facilities extended to our Group.

As at the LPD, conditional consent for the discharge of all the following guarantees and securities have been obtained from the Financiers.

- (i) the Personal Guarantees; and
- (ii) the memorandum of charge executed by Kee Hui Lang over a fixed deposit in favour of CIMB Bank Berhad as security for the banking facilities undertaken by Smart Paint Manufacturing.

The above-mentioned consents are subject to, amongst others, the following conditions:

- (i) the success of our Listing;
- (ii) the family of Goh Chye Hin shall remain as the key management and controlling shareholders in Smart Asia with direct / indirect shareholding of more than 50.00% throughout the financing tenure; and
- (iii) replacement of the personal guarantees with corporate guarantees from Smart Asia.

In addition, unconditional consent has also been obtained from CIMB Bank Berhad for the discharge of the securities (i.e., the pledged UT's Properties) provided by UT Holdings.

10. RELATED PARTY TRANSACTIONS (*cont'd*)

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Our Audit and Risk Management Committee is responsible for the review of all related party transactions to ensure that there is no conflict of interest. Our Audit and Risk Management Committee shall deliberate and determine if the related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

- (i) At least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or
- (ii) In the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(b) Other related party transactions

- (i) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;
- (ii) The rationale for our Group to enter into the related party transaction and the nature of alternative transactions, if any; and
- (iii) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from deliberating and voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from deliberating and voting in respect of his direct and/or indirect shareholdings.

10. RELATED PARTY TRANSACTIONS (cont'd)

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

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11. CONFLICT OF INTERESTS**11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND OUR SUPPLIERS**

As at the LPD, save for as disclosed below, none of our Directors and substantial shareholders have any interest, direct or indirect, in any entities which are carrying on a similar or related trade as that of our Group or which are the customers and/or suppliers of our Group:

No.	Businesses / Corporations	Principal activity	Nature of interest
1.	KTC Hardware & Trading Sdn Bhd	Trading of hardware	<p>Goh Chye Hin is our Group's promoter, Managing Director and substantial shareholder.</p> <p>Goh Chye Hin is the shareholder of 46.20% equity interest in KTC Hardware & Trading Sdn Bhd. He resigned as a director of KTC Hardware & Trading Sdn Bhd on 11 April 2023.</p> <p>KTC Hardware & Trading Sdn Bhd is a customer of our Group.</p>
2.	BIY Home Store (Kota Tinggi) Sdn Bhd	Retail in hardware, tools, paints and household items.	<p>Kee Hui Lang is our Group's promoter, Non-Independent Executive Director and substantial shareholder.</p> <p>Kee Hui Lang is the shareholder of 20.00% equity interest in BIY Home Store (Kota Tinggi) Sdn Bhd. She resigned as a director of BIY Home Store (Kota Tinggi) Sdn Bhd on 30 April 2023.</p> <p>BIY Home Store (Kota Tinggi) Sdn Bhd is a customer of our Group and a past supplier of our Group.</p>

Our Board is of the view that any potential conflict of interests situation which may arise through the direct or indirect interests of our Directors and / or substantial shareholders is mitigated due to the following:

(a) KTC Hardware & Trading Sdn Bhd

- (i) Goh Chye Hin does not hold any executive roles in KTC Hardware & Trading Sdn Bhd and is not involved in the day-to-day operations of KTC Hardware & Trading Sdn Bhd. KTC Hardware & Trading Sdn Bhd has their own independent and standalone management team to undertake their day-to-day management and operations;
- (ii) KTC Hardware & Trading Sdn Bhd operates hardware stores whereby they sell different types of hardware (including paints and paint accessories of different brands, including from our Group). On the other hand, our Group does not operate any hardware stores nor any retail shops selling paints and/or its accessories to end-customers;
- (iii) The sale of manufacturing and trading products to KTC Hardware & Trading Sdn Bhd only contributed to 0.30%, 0.23%, 0.24% and 0.20% of the revenue of our Group for the Financial Years Under Review, respectively; and

11. CONFLICT OF INTERESTS (*Cont'd*)

- (iv) The transactions between our Group and KTC Hardware & Trading Sdn Bhd were carried out on an arms' length basis and on normal commercial terms which were not more favourable to KTC Hardware & Trading Sdn Bhd than those generally available to third parties.

(b) BIY Home Store (Kota Tinggi) Sdn Bhd

- (i) Kee Hui Lang does not hold any executive roles in BIY Home Store (Kota Tinggi) Sdn Bhd and is not involved in the day-to-day operations of BIY Home Store (Kota Tinggi) Sdn Bhd. BIY Home Store (Kota Tinggi) Sdn Bhd has their own independent and standalone management team to undertake their day-to-day management and operations;
- (ii) BIY Home Store (Kota Tinggi) Sdn Bhd operates hardware stores whereby they sell different types of hardware (including paints and paint accessories of different brands, including from our Group). On the other hand, our Group does not operate any hardware stores nor any retail shops selling paints and/or its accessories to end-customers;
- (iii) The sale of manufacturing and trading products to BIY Home Store (Kota Tinggi) Sdn Bhd only contributed to 0.47%, 0.44%, 0.65% and 0.49% of the revenue of our Group for the Financial Years Under Review, respectively;
- (iv) The purchase of disinfectant spray guns and face masks from BIY Home Store (Kota Tinggi) Sdn Bhd only represented 0.01% of the cost of sales of our Group for the FYE 2020. Following FYE 2020, our Group has ceased to obtain such products from BIY Home Store (Kota Tinggi) Sdn Bhd; and
- (v) The transactions between our Group and BIY Home Store (Kota Tinggi) Sdn Bhd were carried out on an arms' length basis and on normal commercial terms which were not more favourable to BIY Home Store (Kota Tinggi) Sdn Bhd than those generally available to third parties.

During the Financial Years Under Review, save for as disclosed below, none of our Directors and substantial shareholders have any past interest, direct or indirect, in any entities which are the customers and/or suppliers of our Group:

Customers of our Group:

(a) Ztree Sdn Bhd

- (i) Goh Chye Hin was the shareholder of 50.00% equity interest in Ztree Sdn Bhd and our Group sold manufacturing and trading products to Ztree Sdn Bhd with sales amounting to 1.38%, 1.52% and 1.54% of the revenue of our Group from FYE 2020 to FYE 2022, respectively. The sales transactions between our Group and Ztree Sdn Bhd were carried out on an arms' length basis and on normal commercial terms which were not more favourable to Ztree Sdn Bhd than those generally available to third parties; and
- (ii) Goh Chye Hin disposed of all his shares in Ztree Sdn Bhd to non-related parties, Chang Peng Chye (74,999 shares) and Chang's Peng Chye's trustee, Nurul Rashika Nafira Binti Imran (1 share) on 27 October 2022. As at the LPD, Goh Chye Hin has no interest in Ztree Sdn Bhd.

11. CONFLICT OF INTERESTS (Cont'd)

(b) PT Smartindo Global Asia

- (i) Goh Chye Hin was the indirect shareholder of PT Smartindo Global Asia through Smart Asia and our Group sold manufacturing and trading products to PT Smartindo Global Asia with sales amounting to 0.16% of the revenue of our Group for the FYE 2020. The sales transactions between our Group and PT Smartindo Global Asia were carried out on an arms' length basis and on normal commercial terms which were not more favourable to PT Smartindo Global Asia than those generally available to third parties; and
- (ii) Smart Asia disposed of its entire shareholdings in PT Smartindo Global Asia to non-related parties, Santos Loy (1,225 shares) who is also a minority shareholder of our Company (holding 2,000,000 Shares or 0.54% after our IPO) and Bryan Loy (25 shares) on 8 January 2022. As at the LPD, Smart Asia and Goh Chye Hin ceased to have any interest in PT Smartindo Global Asia.

Suppliers of our Group

(a) UT Holdings

- (i) Goh Chye Hin and Kee Hui Lang are the directors and shareholders of 54.53% and 23.25% direct equity interest in UT Holdings, respectively. Goh Chye Hin and Kee Hui Lang also holds 22.22% indirect equity interest (through their children Goh Ji Syuan and Goh Sim Yee) in UT Holdings. UT Holdings was previously involved in the sale and distribution of paints, coating material and hardware but has since ceased such activities in January 2023. UT Holdings is now principally a property investment company; and
- (ii) UT Holdings supplied trading products to our Group amounting to 6.27%, 3.79% and 0.95% of the total cost of sales of our Group from FYE 2020 to FYE 2022, respectively. Our Group has ceased all transactions with UT Holdings since FYE 2022.

(b) Mr.Mark Tools (M) Sdn Bhd

- (i) Goh Chye Hin is a director and shareholder of 50.75% equity interest in Mr.Mark Tools (M) Sdn Bhd. Lim Kok Beng was a past director and shareholder of 9.42% equity interest in Mr.Mark Tools (M) Sdn Bhd. Lim Kok Beng has since resigned as director of Mr.Mark Tools (M) Sdn Bhd on 27 July 2020 and disposed on his entire shareholdings in Mr.Mark Tools (M) Sdn Bhd on 30 November 2020; and
- (ii) Mr.Mark Tools (M) Sdn Bhd supplied trading products to our Group amounting to less than 0.01% of the total cost of sales of our Group for the FYE 2020. The transactions between our Group and Mr.Mark Tools (M) Sdn Bhd were carried out on an arms' length basis and on normal commercial terms which were not more favourable to Mr.Mark Tools (M) Sdn Bhd than those generally available to third parties. Our Group has ceased all purchase transactions with Mr.Mark Tools (M) Sdn Bhd since FYE 2020.

11. CONFLICT OF INTERESTS (Cont'd)

11.2 MONITORING AND OVERSIGHT OF CONFLICT OF INTERESTS

It is our Director's fiduciary duty to avoid conflict, and they are required to attend courses which provide them guidelines on their fiduciary duties. In order to mitigate any possible conflict of interests situation in the future, our Directors will declare to our Nomination Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interests situation with our Group's business. If our Directors are involved in similar business as our Group or business of our customers and our suppliers, our Nomination Committee shall inform our Audit and Risk Management Committee of such involvement. When a determination has been made that there is a conflict of interests of a Director, our Nomination Committee will:

- (a) Immediately inform our Board of the conflict of interests situation after deliberating with the Audit and Risk Management Committee;
- (b) Make recommendations to our Board to direct the conflicted Director to:
 - (i) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interests (in the case where the conflicted Director is an Executive Director); and
 - (ii) Abstain from all Board deliberation and voting in the matter that has given rise to conflict of interests.

In relation to (b) above, the conflicted Director shall abstain from any Board discussion relating to the recommendation of our Nomination Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of the Board, be present at the Board meeting for the purposes of answering any questions.

11.3 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

(a) Declaration by Mercury Securities

Mercury Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interests in its capacity as the Principal Adviser, Sponsor, Underwriter and Placement Agent for our Listing.

(b) Declaration by Rosli Dahlan Saravana Partnership

Rosli Dahlan Saravana Partnership has given their written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interests in its capacity as the Solicitors for our Listing.

(c) Declaration by Baker Tilly Monteiro Heng PLT

Baker Tilly Monteiro Heng PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interests in its capacity as the External Auditors and Reporting Accountants for our Listing.

(d) Declaration by SMITH ZANDER

SMITH ZANDER has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interests in its capacity as the IMR for our Listing.

12. FINANCIAL INFORMATION

12.1 HISTORICAL COMBINED FINANCIAL INFORMATION

We were incorporated in Malaysia on 13 May 2019 under the Act and Smart Paint Manufacturing, Smart Paints (M), Smart Paints (Sabah), Smart Paint (Selangor) and Color Breeze are our subsidiaries. As such, the combined financial statements of our Group comprise:

- (a) the combined statements of financial position for the Financial Years Under Review;
- (b) the combined statements of comprehensive income for the Financial Years Under Review;
- (c) the combined statements of changes in equity for the Financial Years Under Review; and
- (d) the combined statements of cash flows for the Financial Years Under Review.

The following historical combined financial information for the Financial Years Under Review have been extracted from the Accountants' Report as set out in Section 13 of this Prospectus. Our historical combined financial statements have been prepared in accordance with MFRS and IFRS. All intra-group balances, transactions, income and expenses have been eliminated in full upon combination.

You should read the historical combined financial information of our Group presented in this Section in conjunction with:

- (a) the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 12.3 of this Prospectus; and
- (b) our Group's audited combined financial statements and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

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12. FINANCIAL INFORMATION (Cont'd)**12.1.1 Historical audited combined statements of comprehensive income**

The following table sets out a summary of the audited combined statements of comprehensive income of our Group:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Revenue	71,599	79,766	79,218	91,091
Cost of sales	(48,812)	(53,048)	(55,683)	(61,107)
GP	22,787	26,718	23,535	29,984
Other income	514	448	749	171
Selling and distribution expenses	(10,045)	(8,300)	(8,032)	(10,013)
Administrative expenses	(3,196)	(3,658)	(4,243)	(6,371)
Other operating expenses	(85)	(752)	(285)	(108)
Operating profit	9,975	14,456	11,724	13,663
Finance income	*	*	-	*
Finance costs	(574)	(525)	(520)	(1,347)
PBT	9,401	13,931	11,204	12,316
Income tax expense	(1,959)	(3,241)	(2,590)	(3,511)
PAT/ Total comprehensive income for the financial year	7,442	10,690	8,614	8,805
Profit/(loss) attributable to:				
Owners of our Group	7,489	10,680	8,665	8,876
Non-controlling interest	(47)	10	(51)	(71)
	7,442	10,690	8,614	8,805
Total comprehensive income/(loss) attributable to:				
Owners of our Group	7,489	10,680	8,665	8,876
Non-controlling interest	(47)	10	(51)	(71)
	7,442	10,690	8,614	8,805

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
Other selected financial data:				
EBITDA (RM'000) ⁽¹⁾	12,141	16,952	14,216	15,849
GP margin (%) ⁽²⁾	31.83	33.50	29.71	32.92
PBT margin (%) ⁽³⁾	13.13	17.46	14.14	13.52
PAT margin (%) ⁽⁴⁾	10.39	13.40	10.87	9.67
Basic/Diluted EPS (sen) ⁽⁵⁾				
- After the Acquisitions but before IPO ⁽⁶⁾	2.71	3.86	3.14	3.21
- After IPO ⁽⁷⁾	2.02	2.89	2.34	2.40

Notes:

* Negligible

12. FINANCIAL INFORMATION (Cont'd)

(1) *Computed as follows:*

	<i>Audited</i>			
	<i>FYE 2020</i>	<i>FYE 2021</i>	<i>FYE 2022</i>	<i>FYE 2023</i>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<i>PBT</i>	9,401	13,931	11,204	12,316
<i>Add:</i>				
<i>Finance costs</i>	574	525	520	1,347
<i>Depreciation</i>	2,166	2,496	2,482	2,166
<i>Amortisation</i>	-	-	10	20
<i>Less:</i>				
<i>Finance income</i>	(*)	(*)	-	(*)
EBITDA	12,141	16,952	14,216	15,849

- (2) *GP margin is computed based on the GP over revenue of our Group.*
- (3) *PBT margin is computed based on the PBT over revenue of our Group.*
- (4) *PAT margin is computed based on the PAT over revenue of our Group.*
- (5) *Our Company does not have any outstanding convertible securities at the end of the respective financial years.*
- (6) *Calculated based on PAT attributable to the owners of our Group divided by our enlarged 276,350,420 Shares in issuance after Acquisitions but before our IPO.*
- (7) *Calculated based on PAT attributable to the owners of our Group divided by our enlarged 369,850,420 Shares in issuance after our IPO.*

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12. FINANCIAL INFORMATION (Cont'd)**12.1.2 Historical combined statements of financial position**

The table below sets out the summary of the audited combined statements of financial position of our Group as at the end of the respective Financial Years Under Review:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	28,994	27,954	43,549	73,027
Intangible asset	-	-	190	170
Other investment	385	-	-	-
Deferred tax assets	95	219	136	140
Total non-current assets	29,474	28,173	43,875	73,337
Current assets				
Inventories	20,978	25,239	23,744	25,249
Current tax assets	142	604	699	365
Trade and other receivables	24,727	19,136	26,264	30,206
Contract assets	292	48	27	1,209
Cash and short-term deposits	5,185	4,217	5,056	5,922
Total current assets	51,324	49,244	55,790	62,951
TOTAL ASSETS	80,798	77,417	99,665	136,288
EQUITY AND LIABILITIES				
Equity attributable to owners of the Group				
Invested equity	51,875	51,875	51,800	51,800
Reorganisation reserve	(25,783)	(25,783)	(25,783)	(25,783)
Retained earnings	15,484	25,514	33,828	42,704
	41,576	51,606	59,845	68,721
Non-controlling interest	(63)	(53)	121	50
TOTAL EQUITY	41,513	51,553	59,966	68,771
Non-current liabilities				
Loans and borrowings	7,444	6,610	12,013	37,177
Deferred income	-	-	143	143
Deferred tax liabilities	285	330	410	458
Total non-current liabilities	7,729	6,940	12,566	37,778
Current liabilities				
Loans and borrowings	10,759	1,035	3,736	4,314
Current tax liabilities	308	598	317	402
Trade and other payables	16,390	14,997	21,365	23,056
Contract liabilities	4,099	2,294	1,715	1,967
Total current liabilities	31,556	18,924	27,133	29,739
TOTAL LIABILITIES	39,285	25,864	39,699	67,517
TOTAL EQUITY AND LIABILITIES	80,798	77,417	99,665	136,288

12. FINANCIAL INFORMATION (Cont'd)**12.1.3 Historical combined statements of cash flows**

The table below sets out the summary of the audited combined statements of cash flows of our Group as at the end of the respective Financial Years Under Review:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before tax	9,401	13,931	11,204	12,316
Adjustments for:				
Depreciation of property, plant and equipment	2,166	2,496	2,482	2,166
Property, plant and equipment written off	3	178	-	-
Gain on disposal of property, plant and equipment	(57)	(40)	(55)	(112)
Gain on lease modification	(2)	-	(6)	(9)
Amortisation of intangible asset	-	-	10	20
Loss on disposal of other investment	-	355	-	-
Inventories written down	-	253	125	-
Reversal of inventories written down	-	-	(83)	(137)
Reversal of impairment loss on trade receivables	-	(34)	(334)	(4)
Impairment loss on trade receivables	48	175	14	106
Bad debts recovery	-	-	-	(5)
Bad debts written off	24	27	259	-
Finance costs	574	525	520	1,347
Finance income	(*)	(*)	-	(*)
Net unrealised foreign exchange loss/(gain)	22	(23)	(83)	(23)
Operating profit before changes in working capital	12,179	17,843	14,053	15,665
<u>Changes in working capital:</u>				
Inventories	(6,118)	(4,514)	1,453	(1,368)
Trade and other receivables	(1,462)	5,493	(7,466)	(5,371)
Contract assets	(244)	244	21	(1,182)
Trade and other payables	3,397	(1,241)	206	(905)
Contract liabilities	(1,678)	(1,805)	(579)	252
Net cash generated from operations	6,074	16,020	7,688	7,091
Income tax paid	(1,801)	(3,491)	(2,803)	(3,048)
Income tax refund	13	-	-	-
Interest received	*	*	-	*
Interest paid	(256)	(211)	(59)	(210)
Net cash from operating activities	4,030	12,318	4,826	3,833
Cash flows from investing activities				
Purchase of property, plant and equipment	(5,316)	(1,634)	(5,419)	(1,432)
Proceeds from disposal of property, plant and equipment	57	40	173	143
Purchase of intangible asset	-	-	(200)	-
Proceeds from disposal of other investment	-	30	-	-
Proceeds from government grants related to assets	-	-	143	-
Acquisition of combining entity, net of cash acquired	(200)	-	(75)	-
Change in pledged deposits	-	-	-	(144)
Net cash used in investing activities	(5,459)	(1,564)	(5,378)	(1,433)

12. FINANCIAL INFORMATION (Cont'd)

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Proceeds from issuance of combining entity's shares	-	-	225	-
Drawdown of term loans	1,000	-	-	-
Repayment of term loans	(103)	(570)	(668)	(802)
Payment of lease liabilities	(214)	(490)	(364)	(93)
Repayment of hire purchase	(173)	(219)	(123)	(124)
Proceeds from bankers' acceptance	2,607	463	4,858	8,290
Repayment of bankers' acceptance	(2,825)	(463)	(2,156)	(7,812)
Net changes in amount owing by a related party	(276)	-	431	-
Dividends paid	-	(650)	(351)	-
Interest paid	(318)	(314)	(461)	(1,137)
Net cash (used in)/from financing activities	(302)	(2,243)	1,391	(1,678)
Net (decrease)/increase in cash and cash equivalents	(1,731)	8,511	839	722
Cash and cash equivalents at the beginning of the financial year	(2,563)	(4,294)	4,217	5,056
Cash and cash equivalents at the end of the financial year	(4,294)	4,217	5,056	5,778

Cash and cash equivalents comprise of the following:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Short-term deposits	-	-	-	144
Less: Pledged deposits	-	-	-	(144)
Cash and bank balances	5,185	4,217	5,056	5,778
Bank overdrafts	(9,479)	-	-	-
	(4,294)	4,217	5,056	5,778

Note:

* *Negligible*

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12. FINANCIAL INFORMATION (Cont'd)**12.2 CAPITALISATION AND INDEBTEDNESS**

The table below summarises our Group's capitalisation and indebtedness:

- (a) Based on the latest unaudited combined financial information as at 5 March 2024; and
 (b) After adjusting for the effects of IPO and utilisation of proceeds.

The pro forma combined financial information below does not represent our actual capitalisation and indebtedness as at 5 March 2024 and is provided for illustrative purposes only.

	Unaudited	I	II
	As at 5 March 2024	After the IPO	After I and after utilisation of proceeds
	RM'000	RM'000	RM'000
Indebtedness			
Current			
Secured and guaranteed:			
Term loans	878	878	878
Hire purchase payables	196	196	196
Bankers' acceptance	2,869	2,869	2,869
Bank overdrafts	2,524	2,524	2,524
	6,467	6,467	6,467
Unsecured and unguaranteed:			
Lease liabilities	52	52	52
	52	52	52
Non-current			
Secured and guaranteed:			
Term loans	38,411	38,411	15,205
Hire purchase payables	65	65	65
	38,476	38,476	15,270
Unsecured and unguaranteed:			
Lease liabilities	24	24	24
	24	24	24
Total indebtedness	45,019	45,019	21,813
Capitalisation			
Share capital	55,270	92,670	91,633
Total capitalisation	55,270	92,670	91,633
Total capitalisation and indebtedness	100,289	137,689	113,446
Gearing ratio (times) ⁽¹⁾	0.81	0.49	0.24

Note:

- (1) Computed based on total indebtedness over total capitalisation.

12. FINANCIAL INFORMATION (Cont'd)

12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our Group's financial performance and results of operations for the Financial Years Under Review should be read in conjunction with the historical combined financial statements and the accompanying notes, assumptions and bases set out in the Accountants' Report and related notes included as set out in Section 13 of this Prospectus.

The discussion and analysis contain data derived from our historical combined financial statements as well as forward-looking statements reflecting our current views with respect to future events and our financial performance. Our actual results may differ significantly from those anticipated in the forward-looking statements as a result of a number of factors, including but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 9 of this Prospectus.

12.3.1 Overview of our operations

(a) Principal activities

We are an investment holding company. Through our subsidiaries, we are principally involved in the following business segments:

Manufacturing Segment	Sale and Trading Segment
(i) development, manufacturing, distribution and sale of decorative paints and protective coatings for household and industrial applications;	Sale and trading of painting tools and accessories, aerosol spray paints and other related products which mainly include raw materials such as binder, pigments and additives.
(ii) development, manufacturing, distribution and sale of related products which includes colourant and binding and coating chemicals; and	
(iii) provision of ODM services of decorative paints, protective coatings as well as binding and coating chemicals for third party brand owners.	

Please refer to Section 7.2 of this Prospectus for further information on our business activities.

(b) Revenue

Our Group recognises revenue based on the following:

(i) Sales and trading of goods

Our Group is mainly involved in the manufacturing segment, and the sale and trading segment. Revenue from the sale of goods is recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

Our revenue is recognised based on the price specified in the contract.

12. FINANCIAL INFORMATION (Cont'd)

(ii) Rendering of services

Our Group is providing maintenance services for the Smart Colour POS Tinting Machine as well as painting services for construction and renovation projects. Revenue from the services provided is recognised over time as the services are rendered because the customer receives and uses the benefits simultaneously.

Our Group recognises a contract asset for any excess of revenue recognised to date over the billings-to-date. Any amount previously recognised as a contract asset is reclassified to trade receivables when an invoice is issued or when billing is due based on the passage of time. If the milestone billing exceeds the revenue recognised to date and any deposits or advances received from customers, then our Group recognises a contract liability for the difference.

(c) Cost of sales

The main components of the cost of sales incurred by our Group are as follows:

(i) Direct material

Our direct material comprises mainly cost of purchase of raw materials such as binder, pigment, additives, solvent, extender and colour paste, and packaging materials mainly for manufacturing products.

(ii) Cost of inventories

Our cost of inventories comprises mainly finished goods manufactured by our Group which consist mainly manufacturing products, and trading products purchased from third parties which consist of mainly aerosol spray paints and painting tools and accessories.

(iii) Direct labour

Our direct labour comprises mainly staff salaries, allowances, overtime costs, bonuses, statutory contributions and other staff related expenses for our production team which includes staffs from manufacturing operations, procurement, logistics and warehouse, sales and marketing*, and product development as disclosed in Section 7.23 of this Prospectus.

Note:

* 4 out of 38 staffs from the sales and marketing department are included in the direct labour for FYE 2023 (FYE 2020, FYE 2021 and FYE 2022: 4).

(iv) Production overheads

Our production overheads comprise mainly depreciation of property, plant and equipment, carriage inwards, rental of factory, factory utilities, and upkeep of machineries and equipment.

(d) Other income

Other income mainly includes government subsidy, reversal of impairment loss on trade receivables, gain on disposal of property, plant and equipment, net realised and/or unrealised foreign exchange gain, management fee and rental income.

12. FINANCIAL INFORMATION (Cont'd)

(e) Selling and distribution expenses

Selling and distribution expenses comprise mainly sales and marketing staff cost, transportation and logistics expenses, and marketing expenses.

(f) Administrative expenses

Administrative expenses comprise mainly staff costs, directors' remuneration, depreciation of property, plant and equipment, general expenses, professional fee, upkeep and maintenance, and insurance.

(g) Other operating expenses

Other operating expenses comprise mainly bad debts written off, impairment loss on trade receivables, and property, plant and equipment written off.

(h) Finance costs

Finance costs comprise interest expense on term loans, lease liabilities, hire purchases, bankers' acceptance and bank overdrafts.

(i) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during the Financial Years Under Review. In addition, our audited combined financial statements for the Financial Years Under Review were not subject to any audit qualifications.

12.3.2 Significant changes on the financial position

There were no significant changes that have occurred, which may have a material effect on the financial position and result of our Group subsequent to FYE 2023 and up to the LPD.

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12. FINANCIAL INFORMATION (Cont'd)**12.3.3 Review of results of operations****(a) Revenue**

Our revenue is mainly contributed from the sale of our products and services from our manufacturing segment which comprises decorative paints, protective coating, colourant, ODM services as well as binding and coating chemicals which is approximately 77.91%, 84.01%, 88.48% and 89.33% of our Group's revenue for the Financial Years Under Review.

(i) Revenue by business segments and product category

The table below sets out our revenue by business segments and product category for the Financial Years Under Review:

Revenue	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing Segment^{(1)(2):}								
Decorative paints	45,791	63.95	53,583	67.18	54,041	68.22	60,256	66.15
Protective coating	3,218	4.49	3,941	4.94	5,963	7.53	7,360	8.08
Colourant	4,307	6.02	5,561	6.97	5,430	6.85	4,319	4.74
ODM services ⁽³⁾	1,703	2.38	3,119	3.91	3,538	4.47	7,788	8.55
Binding and coating chemicals	764	1.07	803	1.01	1,114	1.41	1,652	1.81
	55,783	77.91	67,007	84.01	70,086	88.48	81,375	89.33
Sale and Trading Segment:								
OEM ⁽⁴⁾	4,226	5.90	4,428	5.55	4,899	6.18	3,723	4.09
Non-OEM ⁽⁵⁾	4,537	6.34	3,263	4.09	3,082	3.89	2,980	3.27
	8,763	12.24	7,691	9.64	7,981	10.07	6,703	7.36
Others:								
Disinfecting products ⁽⁶⁾	5,942	8.30	4,959	6.22	802	1.01	68	0.08
Smart Colour POS Tinting Machines								
- Maintenance services	102	0.14	42	0.05	81	0.10	235	0.26
- Sales of machines	178	0.25	51	0.06	189	0.24	1,223	1.34
Painting services ⁽⁷⁾	831	1.16	16	0.02	79	0.10	1,487	1.63
	7,053	9.85	5,068	6.35	1,151	1.45	3,013	3.31
Total	71,599	100.00	79,766	100.00	79,218	100.00	91,091	100.00

Notes:

(1) The breakdown in term of quantity sold is as follows:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	Litres '000	Litres '000	Litres '000	Litres '000
Manufacturing Segment:				
Decorative paints	7,481	7,616	6,580	7,396
Protective coating	302	332	399	362
Colourant	102	127	127	103
ODM services	86	114	116	704
Binding and coating chemicals	128	114	108	89
Total	8,099	8,303	7,330	8,654

12. FINANCIAL INFORMATION (Cont'd)

(2) The breakdown in term of average selling price per litre is as follows:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM per Litre	RM per Litre	RM per Litre	RM per Litre
Manufacturing Segment:				
Decorative paints	6.12	7.04	8.21	8.15
Protective coating	10.66	11.87	14.94	20.33
Colourant	42.23	43.79	42.76	41.93
ODM services	19.80	27.36	30.50	11.06
Binding and coating chemicals	5.97	7.04	10.31	18.56
Total	6.89	8.07	9.56	9.40

(3) We are engaged by our ODM customers to manufacture decorative paints, protective coatings as well as binding and coating chemicals under their brand names.

(4) Our Group engaged OEM in PRC, Vietnam and Hong Kong to manufacture our aerosol spray paints and painting tools and accessories in which the products are manufactured according to our specification. We then sell these OEM products under our house brand 'Bond7' and 'Goldliner' for aerosol spray paints and painting tools and accessories, respectively.

The trademark for 'Goldliner' was owned by UT Holdings until FYE 2021, before we acquired the trademark from UT Holdings in FYE 2022.

(5) Non-OEM comprises of revenue generated from trading products which we purchase from our suppliers. This includes mainly raw materials (such as binder, pigment and additives), third party branded aerosol spray paints under the brand of 'Anchor', third party branded painting tools and accessories under the brand of 'Golben', and face masks. We have ceased the sale of face masks in June 2022.

(6) We utilised our manufacturing line to manufacture surface disinfectants during the COVID-19 pandemic as there was demand for disinfecting products. We also source hand sanitisers from a third party manufacturer in Malaysia in which the products are manufactured and packed under our house brand 'Smart Cares Sihat+'. We sell the surface disinfectants and hand sanitisers under our house brand 'Smart Cares Sihat+'. However, we have ceased the manufacturing of surface disinfectants in April 2022.

(7) We provide painting services for construction and renovation projects, whereby we are engaged by our customers to supply products and concurrently provide painting services using the products we supply as part of our value-added services provided to our customers. Under these engagements, we outsource the painting services to painting sub-contractors.

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12. FINANCIAL INFORMATION (Cont'd)**(ii) Revenue by geographical locations**

The table below sets out our revenue by geographical locations of our customers for the Financial Years Under Review:

Revenue	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	57,976	80.97	65,907	82.63	64,539	81.47	77,914	85.53
Singapore	4,901	6.84	6,911	8.66	7,845	9.90	8,921	9.79
Brunei	3,577	5.00	3,121	3.91	2,753	3.48	2,715	2.98
Cambodia	3,743	5.23	1,819	2.28	2,178	2.75	(50) ⁽¹⁾	(0.05)
Others ⁽²⁾	1,402	1.96	2,008	2.52	1,903	2.40	1,591	1.75
Total	71,599	100.00	79,766	100.00	79,218	100.00	91,091	100.00

Notes:

(1) The revenue from our Cambodia customers is negative in FYE 2023 as our Group has received products (i.e. colourant) return from one of our authorised distributors in Cambodia, namely Kung Huy Construction Material Supply Co. Ltd. for the colourants sold to them in FYE 2022. Kung Huy Construction Material Supply Co. Ltd. was not able to pay us the amount owing in relation to the sales of colourants and we have agreed for the return of the unsold colourants to offset the amount payable to us as part of our strategy to recover the amount owing notwithstanding that there is no return policy stated in our invoices to the customer. The total value of products returned from Kung Huy Construction Material Supply Co. Ltd. is approximately RM0.10 million. For information purposes, the unsold colourants were returned in good condition and can be resold to our other customers.

(2) Others comprise of Indonesia, PRC and Vietnam.

(iii) Commentaries on revenueComparison between FYE 2021 and FYE 2020

Our total revenue increased by approximately RM8.17 million or 11.41% to RM79.77 million in FYE 2021 (FYE 2020: RM71.60 million), mainly contributed by the increase in sales of our manufacturing segment by RM11.23 million due to the increase in average selling price per litre for all products in our manufacturing segment by approximately 17.13% to RM8.07 per litre (FYE 2020: RM6.89 per litre) to offset the increase in raw materials cost caused by the global supply chain disruption.

In terms of quantity, total litres sold by our manufacturing segment increased by 0.20 million litres or 2.47% to 8.30 million litres in FYE 2021 (FYE 2020: 8.10 million litres), mainly contributed by the increase in additional litres sold for decorative paints of approximately 0.14 million litres or 1.87% to 7.62 million litres in FYE 2021 (FYE 2020: 7.48 million litres).

The increase was partially offset by the following:

(aa) decrease in the sales of non-OEM products of RM1.28 million mainly due to the decrease in selling price and volume of face masks sold as a result of higher supply of face masks in the market. In addition, there was a decrease in sales of third party brand aerosol spray paints namely Anchor as we focus more on selling our OEM aerosol spray paints (i.e. Bond7) due to the decline in GP margin for Anchor brand aerosol spray paints as a result of increase in purchase price from our supplier; and

12. FINANCIAL INFORMATION (Cont'd)

- (bb) decrease in sales of disinfecting products of RM0.98 million mainly due to the lower demand as a result of higher supply of disinfecting products in the market.

For FYE 2021, the Malaysia market was the primary contributor to our revenue, which accounted for approximately RM65.91 million (FYE 2020: RM57.98 million) or 82.63% of our revenue (FYE 2020: 80.97%).

Comparison between FYE 2022 and FYE 2021

Our total revenue decreased by approximately RM0.55 million or 0.69% to RM79.22 million in FYE 2022 (FYE 2021: RM79.77 million), mainly contributed by the decrease in sales of disinfecting products of RM4.16 million as we have decided to cease the production of disinfecting products in April 2022 following a slowdown in demand for disinfecting products in the market. The decrease was offset by the increase in sales of our manufacturing segment by RM3.08 million mainly attributed to the increase in average selling price per litre for all products in our manufacturing segment by approximately 18.46% to RM9.56 per litre (FYE 2021: RM8.07 per litre) to offset the increase in raw materials cost caused by the global supply chain disruption.

In terms of quantity, total litres sold by our manufacturing segment decreased by 0.97 million litres or 11.69% to 7.33 million litres in FYE 2022 (FYE 2021: 8.30 million litres), mainly contributed by the slowdown in demand from our customers for our decorative paints which resulted in the decrease in quantity sold of approximately 1.04 million litres or 13.65% to 6.58 million litres in FYE 2022 (FYE 2021: 7.62 million litres). The slowdown in demand is mainly due to construction and renovation activities being disrupted by the SOPs that were implemented during the COVID-19 pandemic. Notwithstanding the drop in total litres sold, our total revenue for manufacturing segment increased by RM3.08 million as a result of the increase in average selling price for all products in our manufacturing segment.

For FYE 2022, the Malaysia market continued to be the primary contributor to our revenue, which accounted for approximately RM64.54 million (FYE 2021: RM65.91 million) or 81.47% of our revenue (FYE 2021: 82.63%).

Comparison between FYE 2023 and FYE 2022

Our total revenue increased by approximately RM11.87 million or 14.98% to RM91.09 million in FYE 2023 (FYE 2022: RM79.22 million), mainly contributed by the increase in sales of our manufacturing segment by RM11.29 million mainly due to the following:

- (aa) increase in sales of decorative paints of RM6.22 million mainly due to the increase in volume of our decorative paints sold following the promotional campaign for Smart Rewards Programme during the last quarter of FYE 2023 to boost the sales of our decorative paints; and
- (bb) increase in sales generated from ODM services of RM4.25 million mainly due to higher demand from our ODM customers to manufacture decorative paints, protective coatings as well as binding and coating chemicals under their brand names.

In terms of quantity, total litres sold by our manufacturing segment increased by 1.32 million litres or 18.01% to 8.65 million litres in FYE 2023 (FYE 2022: 7.33 million litres), mainly contributed by the increase in additional litres sold for decorative paints of approximately 0.82 million litres or 12.46% to 7.40 million litres in FYE 2023 (FYE 2022: 6.58 million litres).

12. FINANCIAL INFORMATION (Cont'd)

For FYE 2023, the Malaysia market continued to be the primary contributor to our revenue, which accounted for approximately RM77.91 million (FYE 2022: RM64.54 million) or 85.53% of our revenue (FYE 2022: 81.47%).

(b) Cost of sales, GP and GP margin**(i) Cost of sales by cost components**

The table below sets out our cost of sales by cost components for the Financial Years Under Review:

Cost of sales	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Direct material	33,974	69.60	36,642	69.07	39,593	71.10	44,198	72.33
Cost of inventories	6,406	13.12	6,942	13.09	7,565	13.59	6,826	11.17
Direct labour	4,797	9.83	5,101	9.62	4,630	8.31	6,332	10.36
Production overhead	3,635	7.45	4,363	8.22	3,895	7.00	3,751	6.14
Total	48,812	100.00	53,048	100.00	55,683	100.00	61,107	100.00

(ii) Cost of sales by business segments and product category

The table below sets out our cost of sales by business segments and product category for the Financial Years Under Review:

Cost of sales	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing Segment:								
Decorative paints	32,552	66.69	36,485	68.78	39,400	70.76	40,128	65.67
Protective coating	2,377	4.87	2,814	5.30	4,550	8.17	4,854	7.94
Colourant	2,179	4.46	3,048	5.75	2,833	5.09	2,311	3.78
ODM services	1,008	2.06	1,755	3.31	1,905	3.42	5,228	8.56
Binding and coating chemicals	473	0.97	590	1.11	710	1.27	785	1.29
	38,589	79.05	44,692	84.25	49,398	88.71	53,306	87.24
Sale and Trading Segment:								
OEM	2,982	6.11	2,847	5.37	2,730	4.90	2,486	4.07
Non-OEM	3,431	7.03	3,052	5.75	2,755	4.95	2,667	4.36
	6,413	13.14	5,899	11.12	5,485	9.85	5,153	8.43
Others:								
Disinfecting products	2,744	5.62	2,239	4.22	426	0.77	35	0.06
Smart Colour POS Tinting Machines								
- Maintenance services	114	0.24	167	0.31	168	0.30	269	0.44
- Sales of machines	133	0.27	35	0.07	127	0.23	857	1.40
Painting services	819	1.68	16	0.03	79	0.14	1,487	2.43
	3,810	7.81	2,457	4.63	800	1.44	2,648	4.33
Total	48,812	100.00	53,048	100.00	55,683	100.00	61,107	100.00

12. FINANCIAL INFORMATION (Cont'd)**(iii) GP and GP margin by business segments and product category**

The table below sets out our GP and GP margin by business segments and product category for the Financial Years Under Review:

GP

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing Segment:								
Decorative paints	13,239	58.10	17,098	63.99	14,641	62.21	20,128	67.13
Protective coating	841	3.69	1,127	4.22	1,413	6.00	2,506	8.36
Colourant	2,128	9.34	2,513	9.40	2,597	11.03	2,008	6.7
ODM services	695	3.05	1,364	5.11	1,633	6.94	2,560	8.54
Binding and coating chemicals	291	1.28	213	0.80	404	1.72	867	2.89
	17,194	75.46	22,315	83.52	20,688	87.90	28,069	93.62
Sale and Trading Segment:								
OEM	1,244	5.46	1,581	5.92	2,169	9.22	1,237	4.12
Non-OEM	1,106	4.85	211	0.79	327	1.39	313	1.04
	2,350	10.31	1,792	6.71	2,496	10.61	1,550	5.16
Others:								
Disinfecting products	3,198	14.03	2,720	10.18	376	1.60	33	0.11
Smart Colour POS Tinting Machines								
- Maintenance services	(12)	(0.05)	(125)	(0.47)	(87)	(0.37)	(34)	(0.11)
- Sales of machines	45	0.20	16	0.06	62	0.26	366	1.22
Painting services	12	0.05	-	-	-	-	-	-
	3,243	14.23	2,611	9.77	351	1.49	365	1.22
Total	22,787	100.00	26,718	100.00	23,535	100.00	29,984	100.00

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12. FINANCIAL INFORMATION (Cont'd)GP margin

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	%	%	%	%
Manufacturing Segment:				
Decorative paints	28.91	31.91	27.09	33.40
Protective coating	26.13	28.60	23.70	34.05
Colourant	49.41	45.19	47.83	46.49
ODM services	40.81	43.73	46.16	32.87
Binding and coating chemicals	38.09	26.53	36.27	52.48
	30.82	33.30	29.52	34.49
Sale and Trading Segment:				
OEM	29.44	35.70	44.27	33.23
Non-OEM	24.38	6.47	10.61	10.50
	26.82	23.30	31.27	23.12
Others:				
Disinfecting products	53.82	54.85	46.88	48.53
Smart Colour POS Tinting Machines				
- Maintenance services ⁽¹⁾	(11.76)	(297.62)	(107.41)	(14.47)
- Sales of machines	25.28	31.37	32.80	29.93
Painting services ⁽²⁾	1.44	-	-	-
	45.98	51.52	30.50	12.11
Overall	31.83	33.50	29.71	32.92

Notes:

- (1) The GP margin for the maintenance service charges for Smart Colour POS Tinting Machines is negative due to waiver of annual maintenance fee for the service provided by our Group to upkeep the Smart Colour POS Tinting Machines. The waiver is given to our wholesalers and dealers who are able to achieve their annual sales target set by our Group.
- (2) We outsource the painting services to painting sub-contractors. However, for FYE 2021, FYE 2022 and FYE 2023, the GP margin is nil because we provide the painting services at cost as part of our value-added services to our customers.

(iv) Commentaries on cost of sales, GP and GP margin

The main components of the costs of sales incurred by our Group in the Financial Years Under Review are as follows:

Comparison between FYE 2021 and FYE 2020

Our cost of sales increased by RM4.24 million or 8.69% to RM53.05 million in FYE 2021 (FYE 2020: RM48.81 million), which was in tandem with the increase in revenue growth of 11.41%.

12. FINANCIAL INFORMATION (Cont'd)

In terms of our cost of sales by cost components, all of our cost components have increased in FYE 2021 compared to FYE 2020 as follows:

- (aa) Direct material cost increased by approximately RM2.67 million or 7.86% to RM36.64 million for FYE 2021 (FYE 2020: RM33.97 million), mainly due to the increase in raw materials cost, namely binder, pigment and additive caused by the global supply chain disruption;
- (bb) Cost of inventories increased by approximately RM0.53 million or 8.27% to RM6.94 million for FYE 2021 (FYE 2020: RM6.41 million), which was in tandem with the increase in our revenue for our manufacturing segment;
- (cc) Direct labour increased by approximately RM0.30 million or 6.25% to RM5.10 million for FYE 2021 (FYE 2020: RM4.80 million), mainly due to the expansion of our production team by increasing headcount by 13 workers to 124 workers as at FYE 2021 (FYE 2020: 111 workers); and
- (dd) Production overhead increased by approximately RM0.72 million or 19.78% to RM4.36 million for FYE 2021 (FYE 2020: RM3.64 million), mainly due to the increase in rental of Johor Factory 3, rental of sales office in Penang and waste disposal charges.

Our GP increased by approximately RM3.93 million or 17.24% to RM26.72 million for FYE 2021 (FYE 2020: RM22.79 million), which was in tandem with our revenue growth of 11.41%. Decorative paints and disinfecting products, collectively contributed to 72.13% and 74.17% of our GP for FYE 2020 and FYE 2021, respectively.

We recorded an increase in GP margin of 1.67% to 33.50% for FYE 2021 (FYE 2020: 31.83%) mainly attributable to the increase in GP margin for decorative paints to 31.91% for FYE 2021 (FYE 2020: 28.91%) due to the increase in average selling price for all products in the manufacturing segment. The increase was partially offset by the decrease in GP margin for non-OEM to 6.47% for FYE 2021 (FYE 2020: 24.38%) due to increase in our purchase price of third party brand aerosol spray paints namely Anchor and decrease in selling price of face masks as a result of higher supply of face masks in the market.

Comparison between FYE 2022 and FYE 2021

Our cost of sales increased by RM2.63 million or 4.96% to RM55.68 million in FYE 2022 (FYE 2021: RM53.05 million).

In terms of our cost of sales by cost components, the following cost components have increased in FYE 2022 compared to FYE 2021:

- (aa) Direct material cost increased by approximately RM2.95 million or 8.05% to RM39.59 million for FYE 2022 (FYE 2021: RM36.64 million), mainly due to the increase in raw materials cost, namely binder, pigment and additive caused by the global supply chain disruption; and
- (bb) Cost of inventories increased by approximately RM0.63 million or 9.08% to RM7.57 million for FYE 2022 (FYE 2021: RM6.94 million), which was in tandem with the increase in our revenue for manufacturing segment.

12. FINANCIAL INFORMATION (Cont'd)

The abovementioned were being offset by the following:

- (aa) Direct labour decreased by approximately RM0.47 million or 9.22% to RM4.63 million for FYE 2022 (FYE 2021: RM5.10 million) as a result of a reduction in headcount of workers by 18 workers to 106 workers in FYE 2022 (FYE 2021: 124 workers) due to resignation and end of contract of workers. We did not hire any replacement as the number of workers then was sufficient to meet the production output; and
- (bb) Production overhead decreased by approximately RM0.46 million or 10.55% to RM3.90 million for FYE 2022 (FYE 2021: RM4.36 million), mainly due to the following:
- decrease in rental paid for Johor Factory 3 as a result of acquisition of Johor Factory 3 by our Group which was completed in July 2022;
 - decrease in rental of sales office in Penang as the tenancy agreement ended in September 2022, hence the payment of the rental was only for the 9 months period as compared to the full year impact of rental expenses in FYE 2021. The closure of sales office in Penang was mainly due to the disruptions caused by COVID-19 pandemic, which affected our sales in Penang. In view of the rental and staff costs to be incurred monthly, our Group has decided to close the sales office in Penang in September 2022; and
 - decrease in upkeep of factory, machineries and equipment mainly due to the decrease in production output in FYE 2022 for decorative paints and protective coatings.

Our GP decreased by approximately RM3.18 million or 11.90% to RM23.54 million for FYE 2022 (FYE 2021: RM26.72 million), which was in tandem with the increase in cost of sales in FYE 2022.

We recorded a decrease in GP margin of 3.79% to 29.71% for FYE 2022 (FYE 2021: 33.50%) mainly attributable to the decrease in GP margin for decorative paints and protective coatings to 27.09% (FYE 2021: 31.91%) and 23.70% (FYE 2021: 28.60%), respectively, mainly due to the increase in raw materials cost namely binder, pigment and additive caused by the global supply chain disruption.

The abovementioned was partially offset by the increase in GP margin for sale and trading of OEM to 44.27% for FYE 2022 (FYE 2021: 35.70%) mainly due to decrease in purchase cost of painting tools and accessories as we acquired the trademark for 'Goldliner' from UT Holdings in FYE 2022.

Comparison between FYE 2023 and FYE 2022

Our cost of sales increased by RM5.43 million or 9.75% to RM61.11 million in FYE 2023 (FYE 2022: RM55.68 million), which was in tandem with the increase in revenue growth of 14.98%.

12. FINANCIAL INFORMATION (Cont'd)

In terms of our cost of sales by cost components, the following cost components have increased in FYE 2023 compared to FYE 2022:

- (aa) Direct material cost increased by approximately RM4.61 million or 11.64% to RM44.20 million for FYE 2023 (FYE 2022: RM39.59 million), mainly due to the additional raw materials purchased namely binder, pigment and additive which is in tandem with the increase in total litres sold by our manufacturing segment; and
- (bb) Direct labour increased by approximately RM1.70 million or 36.72% to RM6.33 million for FYE 2023 (FYE 2022: RM4.63 million) mainly due to the increase in cost paid to painting sub-contractors for the painting services that our Group outsourced.

The abovementioned were being offset by the following:

- (aa) Cost of inventories decreased by approximately RM0.74 million or 9.78% to RM6.83 million for FYE 2023 (FYE 2022: RM7.57 million) mainly due to the decrease in purchase cost of raw materials, mainly for binder, pigment and additive; and
- (bb) Production overhead decreased by approximately RM0.15 million or 3.85% to RM3.75 million for FYE 2023 (FYE 2022: RM3.90 million), mainly due to no rental paid for Johor Factory 3 in FYE 2023 as the acquisition of Johor Factory 3 by our Group had been completed in July 2022.

Our GP increased by approximately RM6.44 million or 27.36% to RM29.98 million for FYE 2023 (FYE 2022: RM23.54 million), which was in tandem with our revenue growth of 14.98%. Decorative paints and ODM services, collectively contributed to 69.15% and 75.67% of our GP for FYE 2022 and FYE 2023, respectively.

We recorded an increase in GP margin of 3.21% to 32.92% for FYE 2023 (FYE 2022: 29.71%) mainly attributable to the increase in GP margin for decorative paints to 33.40% for FYE 2023 (FYE 2022: 27.09%) due to the decrease in purchase cost of raw materials mainly for binder, pigment and additive.

The abovementioned was partially offset by the decrease in GP margin for ODM services to 32.87% for FYE 2023 (FYE 2022: 46.16%) due to the decrease in average selling price for ODM services as a result of lower margin ODM products namely the general emulsion under decorative paints requested by our ODM customers in FYE 2023.

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12. FINANCIAL INFORMATION (Cont'd)**(c) Other income**

The table below sets out our other income for the Financial Years Under Review:

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on disposal of property, plant and equipment	57	11.09	40	8.93	55	7.34	112	65.50
Management fee ⁽¹⁾	36	7.01	12	2.68	1	0.14	-	-
Net realised foreign exchange gain	-	-	128	28.57	-	-	-	-
Net unrealised foreign exchange gain	-	-	23	5.13	83	11.08	23	13.45
Bad debt recovery	-	-	-	-	-	-	5	2.92
Reversal of impairment loss on trade receivables	-	-	34	7.59	334	44.59	4	2.34
Gain on lease modification	2	0.39	-	-	6	0.80	9	5.26
Rental income	3	0.58	3	0.67	4	0.53	2	1.17
Government subsidy ⁽²⁾	389	75.68	206	45.98	230	30.71	-	-
Miscellaneous	27	5.25	2	0.45	36	4.81	16	9.36
Total	514	100.00	448	100.00	749	100.00	171	100.00

Notes:

- (1) Management fee is in relation to amount charged to UT Holdings mainly for the financial management, warehouse and logistic services provided to them. However, we have discontinued such services for FYE 2023.
- (2) The government subsidy from the Malaysian Government is mainly pertaining to the wage subsidy which is in relation to the Wage Subsidy Programme introduced in FYE 2020 as part of the Malaysian Government's COVID-19 economic stimulus package. We have stopped claiming the wage subsidy in September 2021. The wage subsidy in FYE 2022 was in relation to part of the claims made in FYE 2021 which was subsequently received in FYE 2022.

(i) Commentaries on other incomeComparison between FYE 2021 and FYE 2020

Our other income decreased by approximately RM0.06 million or 11.76% to RM0.45 million in FYE 2021 (FYE 2020: RM0.51 million). The decrease was mainly due to the decrease in government subsidy from the Malaysian Government of RM0.18 million as a result of lower grants and subsidies received from the Wage Subsidy Programme. The decrease was offset by the increase in net realised foreign exchange gain by RM0.13 million in FYE 2021 mainly due to the strengthening of USD against RM in FYE 2021.

12. FINANCIAL INFORMATION (Cont'd)Comparison between FYE 2022 and FYE 2021

Our other income increased by approximately RM0.30 million or 66.67% to RM0.75 million in FYE 2022 (FYE 2021: RM0.45 million). The increase was mainly due to the increase in reversal of impairment loss on trade receivables of RM0.30 million as a result of the decrease in provision on impairment loss provided for long outstanding debtors.

Comparison between FYE 2023 and FYE 2022

Our other income decreased by approximately RM0.58 million or 77.33% to RM0.17 million in FYE 2023 (FYE 2022: RM0.75 million). The decrease was mainly due to the following:

- (aa) the reversal of impairment loss on trade receivables of RM0.33 million in FYE 2022 as compared to approximately RM0.01 million in FYE 2023; and
- (bb) absence of government subsidy from the Malaysian Government in FYE 2023 as compared to RM0.23 million in FYE 2022 as such subsidy is a temporary financial assistance programme introduced by the Malaysian Government to assist small and medium enterprise as a result of COVID-19 pandemic.

(d) Selling and distribution expenses

The table below sets out a breakdown of our selling and distribution expenses for the Financial Years Under Review:

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales and marketing staff cost ⁽¹⁾	3,288	32.73	3,300	39.76	3,449	42.94	3,264	32.60
Transportation and logistics expenses	3,812	37.95	3,236	38.99	3,327	41.42	3,337	33.33
Marketing expenses ⁽²⁾	2,464	24.53	1,379	16.61	705	8.78	2,560	25.56
Travelling and entertainment expenses	329	3.28	206	2.48	380	4.73	718	7.17
Upkeep of motor vehicles	152	1.51	179	2.16	171	2.13	134	1.34
Total	10,045	100.00	8,300	100.00	8,032	100.00	10,013	100.00

Notes:

- (1) Sales and marketing staff cost mainly consist of salary, bonus, allowances, sales commission and annual incentive paid to our sale and marketing staffs.
- (2) Marketing expenses mainly consist of Smart Rewards Programme and printing of colour cards, posters and sales kits.

12. FINANCIAL INFORMATION (Cont'd)

(i) Commentaries on selling and distribution expenses

Comparison between FYE 2021 and FYE 2020

Our selling and distribution expenses decreased by approximately RM1.75 million or 17.41% to RM8.30 million in FYE 2021 (FYE 2020: RM10.05 million). The decrease was mainly attributable to the decrease in marketing expenses of RM1.08 million mainly due the decrease in printing of colour cards which was substituted with e-catalogue and reduction in promotional campaign for Smart Rewards Programme during the outbreak of COVID-19 pandemic.

Comparison between FYE 2022 and FYE 2021

Our selling and distribution expenses decreased by approximately RM0.27 million or 3.25% to RM8.03 million in FYE 2022 (FYE 2021: RM8.30 million). The decrease was mainly attributable to the further decrease in marketing expenses of RM0.67 million mainly due the reduction in promotional campaign for Smart Rewards Programme during the outbreak of COVID-19 pandemic and decrease in printing of colour cards which was substituted with e-catalogue.

Comparison between FYE 2023 and FYE 2022

Our selling and distribution expenses increased by approximately RM1.98 million or 24.66% to RM10.01 million in FYE 2023 (FYE 2022: RM8.03 million). The increase was mainly attributable to the increase in marketing expenses of RM1.85 million mainly due the increase in promotional campaign for Smart Rewards Programme to boost our sales post COVID-19 pandemic.

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12. FINANCIAL INFORMATION (Cont'd)**(e) Administrative expenses**

The table below sets out a breakdown of our administrative expenses for the Financial Years Under Review:

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	975	30.51	1,050	28.71	1,416	33.37	1,433	22.49
Directors' remuneration	710	22.21	709	19.38	722	17.02	880	13.81
Depreciation of property, plant and equipment	433	13.55	517	14.13	553	13.03	539	8.46
General expenses ⁽¹⁾	395	12.36	578	15.80	517	12.19	738	11.59
Professional fee ⁽²⁾	172	5.38	284	7.77	336	7.92	2,200	34.53
Upkeep and maintenance	129	4.04	139	3.80	219	5.16	169	2.65
Insurance ⁽³⁾	163	5.10	149	4.07	180	4.24	258	4.05
Net realised foreign exchange loss	40	1.25	-	-	118	2.78	54	0.85
Net unrealised foreign exchange loss	22	0.69	-	-	-	-	-	-
Rental expense	100	3.13	149	4.07	115	2.71	54	0.85
Bank charges	41	1.28	64	1.75	63	1.49	37	0.58
Travelling expenses	16	0.50	19	0.52	4	0.09	9	0.14
Total	3,196	100.00	3,658	100.00	4,243	100.00	6,371	100.00

Notes:

- (1) General expenses mainly consist of printing and stationery, meal refreshment (for FYE 2020 and FYE 2021) and quit rent and assessment.
- (2) Professional fee mainly consists of auditor remuneration, legal fee, secretary fee, consultant fee and related expenses incurred for the Listing.
- (3) Insurance mainly consists of fire and burglary insurances on our buildings and inventories.

(i) Commentaries on administrative expensesComparison between FYE 2021 and FYE 2020

Our administrative expenses increased by approximately RM0.46 million or 14.38% to RM3.66 million in FYE 2021 (FYE 2020: RM3.20 million). The increase was mainly due to the following:

- (aa) increase in general expenses by RM0.18 million mainly due to the increase in meal refreshment as our Group provided lunch to all the staffs during the COVID-19 pandemic; and
- (bb) increase in professional fee by RM0.11 million mainly due to fees paid in relation to internal control assessment, risk management and corporate governance advisory services.

12. FINANCIAL INFORMATION (Cont'd)Comparison between FYE 2022 and FYE 2021

Our administrative expenses increased by approximately RM0.58 million or 15.85% to RM4.24 million in FYE 2022 (FYE 2021: RM3.66 million). The increase was mainly due to the following:

- (aa) increase in staff costs by RM0.37 million mainly due to the increase in senior management staffs; and
- (bb) increase in net realised foreign exchange loss by RM0.12 million mainly due to the weakening of USD against RM in FYE 2022.

Comparison between FYE 2023 and FYE 2022

Our administrative expenses increased by approximately RM2.13 million or 50.24% to RM6.37 million in FYE 2023 (FYE 2022: RM4.24 million). The increase was mainly attributable to the increase in professional fee by RM1.86 million mainly due to expenses incurred in relation to our Listing in FYE 2023.

(f) Other operating expenses

The table below sets out a breakdown of our other operating expenses for the Financial Years Under Review:

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bad debts written off	24	28.24	27	3.59	259	90.88	-	-
Impairment loss on trade receivables	48	56.47	175	23.27	14	4.91	106	98.15
Loss on disposal of other investment	-	-	355	47.21	-	-	-	-
Property, plant and equipment written off	3	3.53	178	23.67	-	-	-	-
Penalties and fines	10	11.76	17	2.26	12	4.21	2	1.85
Total	85	100.00	752	100.00	285	100.00	108	100.00

(i) Commentaries on other operating expensesComparison between FYE 2021 and FYE 2020

Our other operating expenses increased by approximately RM0.66 million or 733.33% to RM0.75 million in FYE 2021 (FYE 2020: RM0.09 million). The increase was mainly due to the following:

- (aa) loss on disposal of investment of RM0.36 million following the disposal by our Group of its 50% equity interest in PT Smartindo Global Asia comprising 1,225 ordinary shares and 25 ordinary shares to Santos Loy, who was then the other shareholder of PT Smartindo Global Asia and the existing shareholder our Group (holding 0.54% equity interest after our IPO) and Bryan Loy (son of Santos Loy), respectively for a total cash consideration of RM0.03 million, on 23 December 2021; and
- (bb) increase in property, plant and equipment written off by RM0.18 million mainly pertaining to the Smart Colour POS Tinting Machine.

12. FINANCIAL INFORMATION (Cont'd)Comparison between FYE 2022 and FYE 2021

Our other operating expenses decreased by approximately RM0.46 million or 61.33% to RM0.29 million in FYE 2022 (FYE 2021: RM0.75 million). The decrease was mainly due to the following:

- (aa) absence of property, plant and equipment written off in FYE 2022 as compared to RM0.18 million in FYE 2021; and
- (bb) absence of the one-off loss on disposal of investment in PT Smartindo Global Asia of RM0.36 million in FYE 2021.

The abovementioned were partially offset by the increase in bad debts written off by RM 0.23 million mainly in respect of a customer who has shut down its business operations, and thus the amount was not collectable.

Comparison between FYE 2023 and FYE 2022

Our other operating expenses decreased by approximately RM0.18 million or 62.07% to RM0.11 million in FYE 2023 (FYE 2022: RM0.29 million). The decrease was mainly due to the absence of bad debts written off in FYE 2023.

The abovementioned were partially offset by the increase in impairment loss on trade receivables by RM0.10 million as a result of the increase in general provision on impairment loss provided for long outstanding debtors.

(g) Finance costs

The table below sets out our finance costs for the Financial Years Under Review:

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expense on:								
- Term loans	229	39.90	258	49.14	355	68.27	959	71.19
- Lease liabilities	17	2.96	27	5.14	12	2.31	7	0.52
- Hire purchases	13	2.26	19	3.62	12	2.31	7	0.52
- Bankers' acceptance	58	10.11	10	1.91	82	15.77	157	11.66
- Bank overdrafts	256	44.60	211	40.19	59	11.34	210	15.59
- Bank guarantee	-	-	-	-	-	-	7	0.52
- Advances from a related party	1	0.17	-	-	-	-	-	-
Total	574	100.00	525	100.00	520	100.00	1,347	100.00

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12. FINANCIAL INFORMATION (Cont'd)**(i) Commentaries on finance costs**Comparison between FYE 2021 and FYE 2020

Our finance costs decreased by approximately RM0.04 million or 7.02% to RM0.53 million in FYE 2021 (FYE 2020: RM0.57 million). The decrease was mainly due to the following:

- (aa) decrease in bankers' acceptance interest of approximately RM0.05 million due to lower utilisation of bankers' acceptance facilities; and
- (bb) decrease in bank overdrafts interest of approximately RM0.05 million as a result of lower utilisation of bank overdrafts facilities due to increase in internally generated funds from our business operation during FYE 2021.

Comparison between FYE 2022 and FYE 2021

Our finance costs decreased by approximately RM0.01 million or 1.89% to RM0.52 million in FYE 2022 (FYE 2021: RM0.53 million). The decrease was mainly due to decrease in bank overdrafts' interest of approximately RM0.15 million as a result of lower utilisation of bank overdraft facilities due to further increase in internally generated funds from our business operation during the FYE 2022. In addition, we had also increased our utilisation of bankers' acceptance during FYE 2022 in view of the lower interest charges.

The decrease in finance costs was partially offset with the increase in term loan interest of approximately RM0.10 million. The increase was mainly attributable to drawdown of new term loan to finance the acquisition of Johor Factory 3.

Comparison between FYE 2023 and FYE 2022

Our finance costs increased by approximately RM0.83 million or 159.62% to RM1.35 million in FYE 2023 (FYE 2022: RM0.52 million). The increase was mainly due to the following:

- (aa) increase in term loan interest in FYE 2023 by approximately RM0.60 million mainly due to the drawdown of new term loan to finance the acquisition of Johor Factory 3, construction of Perak Plant and purchase and commissioning of automated paint production system in Perak Plant; and
- (bb) increase in bank overdrafts interest by RM0.15 million mainly due to higher utilisation of bank overdraft facilities in FYE 2023 for short-term working capital purposes.

(h) PBT, PBT margin, PAT and PAT margin

Our PBT, PBT margin, PAT and PAT margin for the Financial Years Under Review are set out below:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
PBT (RM'000)	9,401	13,931	11,204	12,316
PBT margin (%)	13.13	17.46	14.14	13.52
PAT (RM'000)	7,442	10,690	8,614	8,805
PAT margin (%)	10.39	13.40	10.87	9.67

12. FINANCIAL INFORMATION (Cont'd)**(i) Commentaries on PBT, PBT margin, PAT and PAT margin**Comparison between FYE 2021 and FYE 2020

We recorded an increase of PBT by approximately RM4.53 million or 48.19% to RM13.93 million in FYE 2021 (FYE 2020: RM9.40 million), mainly contributed by our revenue and GP growth as explained in Section 12.3.3(a)(iii) and Section 12.3.3(b)(iv) of this Prospectus, respectively. Thus, our PBT margin improved to 17.46% for FYE 2021 (FYE 2020: 13.13%), which resulted from the improved GP margin.

Correspondingly, our PAT increased by approximately RM3.25 million or 43.68% to RM10.69 million in FYE 2021 (FYE 2020: RM7.44 million), and our PAT margin improved to 13.40% for FYE 2021 (FYE 2020: 10.39%), which the increase was in line with the higher GP and PBT in FYE 2021.

Comparison between FYE 2022 and FYE 2021

We recorded a decrease of PBT by approximately RM2.73 million or 19.60% to RM11.20 million in FYE 2022 (FYE 2021: RM13.93 million), and our PBT margin decreased to 14.14% for FYE 2022 (FYE 2021: 17.46%). This was in tandem with the decrease in revenue and higher cost of sales in FYE 2022.

As a result, our PAT decreased by approximately RM2.08 million or 19.46% to RM8.61 million in FYE 2022 (FYE 2021: RM10.69 million) and our PAT margin also decreased to 10.87% for FYE 2022 (FYE 2021: 13.40%).

Comparison between FYE 2023 and FYE 2022

We recorded an increase of PBT by approximately RM1.12 million or 10.00% to RM12.32 million in FYE 2023 (FYE 2022: RM11.20 million), mainly contributed by our revenue and GP growth as explained in Section 12.3.3(a)(iii) and Section 12.3.3(b)(iv) of this Prospectus, respectively. However, our PBT margin has dropped to 13.52% for FYE 2023 (FYE 2022: 14.14%) as our Group has incurred higher selling and distribution expenses as well as administrative expenses as explained in Section 12.3.3(d)(i) and Section 12.3.3(e)(i) of this Prospectus, respectively.

Correspondingly, our PAT increased by approximately RM0.20 million or 2.32% to RM8.81 million in FYE 2023 (FYE 2022: RM8.61 million), and our PAT margin has dropped to 9.67% for FYE 2023 (FYE 2022: 10.87%).

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12. FINANCIAL INFORMATION (Cont'd)

(i) Taxation

Our taxation and effective tax rate for the Financial Years Under Review are set out below:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
Current income tax charge	1,980	3,320	2,427	3,553
Adjustment in respect of prior year	(26)	*	-	(86)
	1,954	3,320	2,427	3,467
Deferred tax:				
Origination/(Reversal) of temporary differences	39	(147)	168	8
Adjustment in respect of prior year	(34)	68	(5)	36
	5	(79)	163	44
Income tax expense (RM'000)	1,959	3,241	2,590	3,511
Effective tax rate (%)	20.84	23.26	23.12	28.51
Statutory tax rate (%)	24.00	24.00	24.00	24.00

Note:

* *Negligible*

(i) Commentaries on taxation and effective tax rate

Comparison between FYE 2021 and FYE 2020

Our income tax expense increased by RM1.28 million or 65.31% to RM3.24 million in FYE 2021 (FYE 2020: RM1.96 million) due to higher PBT recorded for FYE 2021.

Our effective tax rate of 20.84% for FYE 2020 was lower than the statutory tax rate, mainly due to the following:

- (aa) income not subject to tax of approximately RM0.28 million mainly due to government subsidy from the Malaysian Government is not subject to tax;
- (bb) utilisation of reinvestment allowance of RM0.11 million to offset against the chargeable income; and
- (cc) over provision of deferred tax expense of approximately RM0.03 million in respect of prior years during FYE 2020.

Our effective tax rate of 23.26% for FYE 2021 was lower than the statutory tax rate, mainly due to the following:

- (aa) double deduction on cost incurred for advertising goods with Malaysian brand name of approximately RM0.13 million; and
- (bb) utilisation of reinvestment allowance of RM0.13 million to offset against the chargeable income.

12. FINANCIAL INFORMATION (Cont'd)

Comparison between FYE 2022 and FYE 2021

Our income tax expenses decreased by RM0.65 million or 20.06% to RM2.59 million in FYE 2022 (FYE 2021: RM3.24 million), mainly due to the lower taxable income for FYE 2022.

Our effective tax rate of 23.12% for FYE 2022 was lower than the statutory tax rate, mainly due to the following:

- (aa) double deduction on cost incurred for advertising goods with Malaysian brand name of approximately RM0.19 million;
- (bb) utilisation of reinvestment allowance of RM0.11 million to offset against the chargeable income; and
- (cc) over provision of deferred tax expense of approximately RM0.01 million in respect of prior financial years during FYE 2022.

Comparison between FYE 2023 and FYE 2022

Our income tax expense increased by RM0.92 million or 35.52% to RM3.51 million in FYE 2023 (FYE 2022: RM2.59 million) due to higher PBT recorded for FYE 2023.

Our effective tax rate of 28.51% for FYE 2023 was higher than the statutory tax rate, mainly due to the following:

- (aa) expenses incurred which were not deductible for tax purposes mainly in relation to our Listing expenses; and
- (bb) no reinvestment allowance was utilised to offset against the chargeable income in FYE 2023 as compared to RM0.11 million in FYE 2022.

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12. FINANCIAL INFORMATION (Cont'd)**(j) Review of financial position****(i) Assets**

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	28,994	27,954	43,549	73,027
Intangible asset	-	-	190	170
Other investment	385	-	-	-
Deferred tax assets	95	219	136	140
Total non-current assets	29,474	28,173	43,875	73,337
Current assets				
Inventories	20,978	25,239	23,744	25,249
Current tax assets	142	604	699	365
Trade and other receivables	24,727	19,136	26,264	30,206
Contract assets	292	48	27	1,209
Cash and short-term deposits	5,185	4,217	5,056	5,922
Total current assets	51,324	49,244	55,790	62,951
TOTAL ASSETS	80,798	77,417	99,665	136,288

Comparison between FYE 2021 and FYE 2020

Total assets decreased by RM3.38 million or 4.18% to RM77.42 million in FYE 2021 (FYE 2020: RM80.80 million) mainly due to the decrease in total non-current assets and total current assets by RM1.30 million and RM2.08 million, respectively.

The decrease in total non-current assets was mainly attributable by the following:

(aa) decrease in property, plant and equipment by RM1.04 million or 3.59% to RM27.95 million in FYE 2021 (FYE 2020: RM28.99 million) mainly due to the following:

- depreciation charges amounting to RM2.50 million in FYE 2021; and
- increase in property, plant and equipment written off by RM0.18 million mainly pertaining to the Smart Colour POS Tinting Machines.

The abovementioned were being offset by the additions of property, plant and equipment amounting to RM1.63 million in FYE 2021 which mainly due to the purchase of Smart Colour POS Tinting Machines of RM0.16 million, mixing machineries of RM0.71 million and lorries of RM0.27 million.

(bb) decrease in other investment by RM0.39 million or 100% to nil in FYE 2021 (FYE 2020: RM0.39 million) due to the disposal of investment in PT Smartindo Global Asia.

12. FINANCIAL INFORMATION (Cont'd)

The decrease in total current assets was mainly attributable by the decrease in trade and other receivables by RM5.59 million or 22.60% to RM19.14 million in FYE 2021 (FYE 2020: RM24.73 million) due to higher collections from customers resulting in the lower trade receivable turnover days of 95 days recorded in FYE 2021 (FYE 2020: 115 days).

The above decrease in current assets was partially offset by the increase in inventories by RM4.26 million or 20.31% to RM25.24 million in FYE 2021 (FYE 2020: RM20.98 million) as a result of higher increase in annual production output for decorative paints and protective coatings as compared to the increase in total litres sold for decorative paints and protective coatings. In addition, the increase in inventories is also contributed by the increase in price of raw materials in view of the global supply chain disruption during the COVID-19 pandemic.

Comparison between FYE 2022 and FYE 2021

Total assets increased by RM22.25 million or 28.74% to RM99.67 million in FYE 2022 (FYE 2021: RM77.42 million) mainly due to the increase in total non-current assets and total current assets by RM15.70 million and RM6.55 million, respectively.

The increase in total non-current assets was mainly attributable by the increase in property, plant and equipment by RM15.60 million or 55.81% to RM43.55 million in FYE 2022 (FYE 2021: RM27.95 million) mainly due the additions of property, plant and equipment amounting to RM18.37 million in FYE 2022 mainly for the purchase of Johor Factory 3 and other costs related to the purchase of Johor Factory 3 of RM7.56 million, collectively and capital work-in-progress of RM8.74 million in relation to the Perak Plant.

The increase in total current assets was mainly attributable by the increase in trade and other receivables by RM7.12 million or 37.20% to RM26.26 million in FYE 2022 (FYE 2021: RM19.14 million) due to increase in billings to our customers in the last quarter of FYE 2022.

The above increase in current assets was partially offset by the decrease in inventories by RM1.50 million or 5.94% to RM23.74 million in FYE 2022 (FYE 2021: RM25.24 million) mainly due to the decrease in the inventories held for our OEM aerosol spray paints (i.e. Bond7) and decorative paints of approximately RM0.80 million and RM0.49 million, respectively, as we anticipated the stock level is sufficient to meet the demand at that point in time.

Comparison between FYE 2023 and FYE 2022

Total assets increased by RM36.62 million or 36.74% to RM136.29 million in FYE 2023 (FYE 2022: RM99.67 million) mainly due to the increase in total non-current assets and total current assets by RM29.46 million and RM7.16 million, respectively.

The increase in total non-current assets was mainly attributable by the increase in property, plant and equipment by RM29.48 million or 67.69% to RM73.03 million in FYE 2023 (FYE 2022: RM43.55 million) mainly due the additions of property, plant and equipment amounting to RM31.71 million in FYE 2023 mainly in relation to the construction of Perak Plant of approximately RM19.21 million and purchase and commissioning of automated paint production system in Perak Plant of approximately RM7.21 million in FYE 2023.

12. FINANCIAL INFORMATION (Cont'd)

The increase in total current assets was mainly attributable by the following:

- (aa) increase in trade and other receivables by RM3.95 million or 15.04% to RM30.21 million in FYE 2023 (FYE 2022: RM26.26 million) mainly due to the increase in sales during the last quarter of FYE 2023; and
- (bb) increase in inventories by RM1.51 million or 6.36% to RM25.25 million in FYE 2023 (FYE 2022: RM23.74 million) mainly due to increase in production output for decorative paints in the last quarter of FYE 2023 to cater for the increase in sales during the last quarter of FYE 2023.

(ii) Liabilities

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
LIABILITIES				
Non-current liabilities				
Loans and borrowings	7,444	6,610	12,013	37,177
Deferred income	-	-	143	143
Deferred tax liabilities	285	330	410	458
Total non-current liabilities	7,729	6,940	12,566	37,778
Current liabilities				
Loans and borrowings	10,759	1,035	3,736	4,314
Current tax liabilities	308	598	317	402
Trade and other payables	16,390	14,997	21,365	23,056
Contract liabilities	4,099	2,294	1,715	1,967
Total current liabilities	31,556	18,924	27,133	29,739
TOTAL LIABILITIES	39,285	25,864	39,699	67,517

Comparison between FYE 2021 and FYE 2020

Total liabilities decreased by RM13.43 million or 34.18% to RM25.86 million in FYE 2021 (FYE 2020: RM39.29 million) mainly due to the decrease in total non-current liabilities and total current liabilities by RM0.79 million and RM12.64 million, respectively.

The decrease in total non-current liabilities was mainly attributable by the decrease in loans and borrowings by RM0.83 million mainly due to the repayment of term loans in FYE 2021.

The decrease in total current liabilities was mainly attributable by the decrease in loans and borrowings by RM9.72 million mainly due to the absence of bank overdrafts in FYE 2021 as compared to RM9.48 million in FYE 2020.

Comparison between FYE 2022 and FYE 2021

Total liabilities increased by RM13.84 million or 53.52% to RM39.70 million in FYE 2022 (FYE 2021: RM25.86 million) mainly due to the increase in total non-current liabilities and total current liabilities by RM5.63 million and RM8.21 million, respectively.

12. FINANCIAL INFORMATION (Cont'd)

The increase in total non-current liabilities was mainly attributable by the increase in loans and borrowings by RM5.40 million mainly due to the drawdown of new term loan to finance the acquisition of Johor Factory 3 in FYE 2022.

The increase in total current liabilities was mainly attributable by the increase in trade and other payables by RM6.37 million mainly due to the progress billing in relation to the construction of Perak Plant in FYE 2022.

Comparison between FYE 2023 and FYE 2022

Total liabilities increased by RM27.82 million or 70.08% to RM67.52 million in FYE 2023 (FYE 2022: RM39.70 million) mainly due to the increase in total non-current liabilities and total current liabilities by RM25.21 million and RM2.61 million, respectively.

The increase in total non-current liabilities was mainly attributable by the increase in loans and borrowings by RM25.17 million mainly due to the drawdown of new term loan to finance the construction of Perak Plant and purchase and commissioning of automated paint production system in Perak Plant in FYE 2023.

The increase in total current liabilities was mainly attributable by the increase in trade and other payables by RM1.69 million mainly due to the increase in raw materials purchased namely binder, pigment and additive during the last quarter of FYE 2023.

12.4 LIQUIDITY AND CAPITAL RESOURCES

12.4.1 Working capital

Our business has been financed by a combination of internal and external sources of funds. Internal sources of funds comprise shareholders' equity and cash generated from our business operations, while our external sources of funds mainly consist of bank borrowings and credit facilities from licensed financial institutions and credit terms provided by our contractors and suppliers. These funds have mainly been used to finance our business operations and growth.

Based on our audited statement of financial position as at FYE 31 December 2023, our Group has cash and cash equivalents of RM5.92 million and total borrowings of RM41.49 million. As at 31 December 2023, our Group's gearing ratio was 0.60 times and current ratio was 2.12 times.

As at the LPD, our Group has banking facilities available amounting to RM61.62 million, of which approximately RM43.51 million has been utilised/ drawn down for our working capital, purchase of Johor Factory 3 and establishment of Perak Plant.

Our Directors are of the opinion that after taking into consideration our cash and cash equivalents, the expected profits to be generated from our operations, the amount that is available under our existing banking facilities, our expected future cash flows from operations as well as proceeds expected to be raised from the IPO, we will have adequate working capital to meet our present and foreseeable requirements for at least a period of 12 months from the date of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)**12.4.2 Cash flow summary**

The summary of our Group's cash flow based on our Group's historical combined statements of cash flows for the Financial Years Under Review is as follows.

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Net cash from operating activities	4,030	12,318	4,826	3,833
Net cash used in investing activities	(5,459)	(1,564)	(5,378)	(1,433)
Net cash (used in)/ from financing activities	(302)	(2,243)	1,391	(1,678)
Net (decrease)/increase in cash and cash equivalents	(1,731)	8,511	839	722
Cash and cash equivalents at the beginning of the financial year	(2,563)	(4,294)	4,217	5,056
Cash and cash equivalents at the end of the financial year	(4,294)	4,217	5,056	5,778

Details of the cash and cash equivalents are as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Cash and short-term deposits	5,185	4,217	5,056	5,922
Less:				
Bank overdrafts	(9,479)	-	-	-
Short-term deposits	-	-	-	(144)
Cash and cash equivalents at end of financial year	(4,294)	4,217	5,056	5,778

(a) FYE 2020**Net cash from operating activities**

In FYE 2020, our Group recorded net cash from operating activities of RM4.03 million. We have collected approximately RM66.97 million mainly from the following:

- (i) Collections of approximately RM66.57 million from customers;
- (ii) Government subsidy of RM0.39 million from the Malaysian Government; and
- (iii) Tax refund of RM0.01 million from IRB.

12. FINANCIAL INFORMATION (Cont'd)

The above collections were offset by cash payments of approximately RM62.94 million mainly due to the following:

- (i) Payments to our suppliers of approximately RM40.54 million;
- (ii) Payment of staff costs and other operating expenses of approximately RM20.34 million;
- (iii) Interest paid for bank overdrafts of RM0.26 million; and
- (iv) Tax payments to IRB of RM1.80 million.

Net cash used in investing activities

In FYE 2020, our Group's net cash used in investing activities was RM5.46 million which is mainly attributable to the following:

- (i) purchase of property, plant and equipment of approximately RM5.32 million which comprise mainly the following:
 - (aa) plant and machinery of RM1.29 million for the purchase of Smart Colour POS Tinting Machines and production machinery (such as milling machine, and filling and capping machine);
 - (bb) capital work-in-progress of RM1.43 million mainly in relation to the downpayment for automated paint production system for Perak Plant; and
 - (cc) purchase of Perak Land 2, 3 and 4 of RM1.96 million.
- (ii) Acquisition of Smart Paints (M) of RM0.20 million.

Net cash used in financing activities

In FYE 2020, our Group's net cash used in financing activities was RM0.30 million, mainly due to the following cash outflows:

- (i) Repayments of bankers' acceptance of RM2.83 million;
- (ii) Interest paid for term loans and bankers' acceptance of RM0.23 million and RM0.06 million, respectively; and
- (iii) Payment of term loans, lease liabilities and hire purchases of RM0.10 million, RM0.21 million and RM0.17 million, respectively.

The cash outflows above were partially offset by the following cash inflows:

- (i) Drawdown of term loans of RM1.00 million for working capital purposes; and
- (ii) Proceeds from bankers' acceptance of RM2.61 million.

12. FINANCIAL INFORMATION (Cont'd)

(b) FYE 2021

Net cash from operating activities

In FYE 2021, our Group recorded net cash from operating activities of RM12.32 million. We have collected approximately RM83.15 million mainly from the following:

- (i) Collections of approximately RM82.94 million from customers; and
- (ii) Government subsidy of RM0.21 million from the Malaysian Government.

The above collections were offset by cash payments of approximately RM70.83 million mainly due to the following:

- (i) Payments to our suppliers of approximately RM42.71 million;
- (ii) Payment of staff costs and other operating expenses of approximately RM24.42 million;
- (iii) Interest paid for bank overdrafts of RM0.21 million; and
- (iv) Tax payments to IRB of RM3.49 million.

Net cash used in investing activities

In FYE 2021, our Group's net cash used in investing activities was RM1.56 million which is mainly attributable to the purchase of property, plant and equipment of approximately RM1.63 million which comprise mainly the following:

- (i) plant and machinery of RM1.04 million mainly for the purchase of machineries required to set up the testing module for the automated paint production system in Johor Factory 1 and Smart Colour POS Tinting Machines; and
- (ii) motor vehicles of RM0.27 million mainly for the purchase of lorries used for the delivery of goods to our customers.

Net cash used in financing activities

In FYE 2021, our Group's net cash used in financing activities was RM2.24 million mainly due to the following cash outflows:

- (i) Dividends paid to shareholders of RM0.65 million;
- (ii) Interest paid for term loans of RM0.26 million; and
- (iii) Payment of term loans and lease liabilities of RM0.57 million and RM0.49 million, respectively.

The cash outflows above were partially offset by the proceeds from bankers' acceptance of RM0.46 million.

12. FINANCIAL INFORMATION (Cont'd)**(c) FYE 2022****Net cash from operating activities**

In FYE 2022, our Group recorded net cash from operating activities of RM4.83 million. We have collected approximately RM71.93 million mainly from the following:

- (i) Collections of approximately RM71.70 million from customers; and
- (ii) Government subsidy of RM0.23 million from the Malaysian Government.

The above collections were offset by cash payments of approximately RM67.10 million mainly from the following:

- (i) Payments to our suppliers of approximately RM40.17 million;
- (ii) Payment of staff costs and other operating expenses of approximately RM24.07 million;
- (iii) Interest paid for bank overdrafts of RM0.06 million; and
- (iv) Tax payments to IRB of RM2.80 million.

Net cash used in investing activities

In FYE 2022, our Group's net cash used in investing activities was RM5.38 million which is mainly attributable to the purchase of property, plant and equipment of approximately RM5.42 million which comprise mainly the following:

- (i) capital work-in-progress of RM2.53 million in relation to the construction of our Perak Plant;
- (ii) freehold land and buildings of RM1.08 million in relation to Johor Factory 3; and
- (iii) plant and machinery of RM1.29 million mainly for the purchase of Smart Colour POS Tinting Machines and production machinery (such as filling and capping machine).

The cash outflows above were partially offset by the cash inflows from the proceeds received from government grants of RM0.14 million for the implementation of the Industry 4.0 System which includes the implementation of software, maintenance services and the training of the key users and department heads for our Group.

Net cash from financing activities

In FYE 2022, our Group's net cash from financing activities was RM1.39 million mainly due to the proceeds from bankers' acceptance of RM4.86 million.

The cash inflows above were partially offset by the following main cash outflows:

- (i) Repayments of bankers' acceptance of RM2.16 million;
- (ii) Dividends paid to shareholders of RM0.35 million;
- (iii) Interest paid for term loans and bankers' acceptance of RM0.36 million and RM0.08 million, respectively; and
- (iv) Payment of term loans, lease liabilities and hire purchases of RM0.67 million, RM0.36 million and RM0.12 million, respectively.

12. FINANCIAL INFORMATION (Cont'd)

(d) FYE 2023**Net cash from operating activities**

In FYE 2023, our Group recorded net cash from operating activities of RM3.83 million. We have collected approximately RM86.74 million mainly from collections from customers

The above collections were offset by cash payments of approximately RM82.91 million mainly from the following:

- (i) Payments to our suppliers of approximately RM48.28 million;
- (ii) Payment of staff costs and other operating expenses of approximately RM31.37 million;
- (iii) Tax payments to IRB of RM3.05 million; and
- (iv) Interest paid for bank overdrafts of RM0.21 million.

Net cash used in investing activities

In FYE 2023, our Group's net cash used in investing activities was RM1.43 million which is mainly attributable to the purchase of property, plant and equipment of approximately RM1.43 million which comprise mainly the following:

- (i) capital work-in-progress of RM0.76 million in relation to the construction of our Perak Plant; and
- (ii) plant and machinery of RM0.24 million mainly for the purchase of Smart Colour POS Tinting Machines.

Net cash from financing activities

In FYE 2023, our Group's net cash used in financing activities was RM1.68 million, mainly due to the following cash outflows:

- (i) Repayments of bankers' acceptance of RM7.81 million;
- (ii) Interest paid for term loans and bankers' acceptance of RM0.96 million and RM0.16 million, respectively; and
- (iii) Payment of term loans, hire purchase and lease liabilities of RM0.80 million, RM0.12 million and RM0.09 million, respectively.

The cash outflows above were partially offset by proceeds from bankers' acceptance of RM8.29 million.

12. FINANCIAL INFORMATION (Cont'd)**12.4.3 Loans and borrowings**

The table below sets out the details of our Group's bank borrowings and hire purchase payables as at 31 December 2023.

	Purpose	Tenure of the facility	Interest rate per annum	Facility limit	Audited FYE 2023		
					Payable within 12 months	Payable after 12 months	Total amount outstanding
					%	RM'000	RM'000
<u>Term loans</u>							
	To part finance the purchase of Johor Factory 2	15 years	Base Lending Rate – 2.10%	2,706	314	2,365	2,679
	To part finance the purchase of Johor Factory 1	20 years	Base Financing Rate – 2.40%	2,859	122	2,349	2,471
	To part finance the purchase of Johor Factory 3	20 years	Base Lending Rate – 2.40%	6,480	226	6,029	6,255
	To part finance the construction of Perak Plant	20 years	Base Lending Rate – 2.20%	22,560	-	18,859	18,859
	To part finance the purchase and commissioning of automated paint production system in Perak Plant	7 years	Base Lending Rate + 0.50%	11,000	-	7,172	7,172
	Working capital	5 years	3.50%	510	204	288	492
					866	37,062	37,928
<u>Hire purchase payables</u>							
	To part finance the purchase of motor vehicles	4 years	4.10%	200	53	-	53
		2 years	1.30%	300	148	89	237
					201	89	290
<u>Bankers' acceptance</u>							
	Working capital	Up to 120 days	Cost Of Funds + 1.50%	8,000	3,180	-	3,180
					3,180	-	3,180
Total					4,247	37,151	41,398
Gearing ratio (times)⁽¹⁾							0.60

Note:

(1) Calculated based on total borrowings (excluding lease liabilities) divided by total equity.

All our borrowings are interest bearing and denominated in RM.

12. FINANCIAL INFORMATION (Cont'd)

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. Our Group has not defaulted on any payment of either principal sums and/or interest in relation to the borrowings for the Financial Years Under Review and up to the LPD.

As at the LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans, which can materially affect the financial position and results of business operations or investment holders of our securities.

For the Financial Years Under Review, we have not experienced any clawback or reduction in the facilities limit granted to us by our lenders.

12.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

The financial instruments of our Group which are used in the ordinary course of business of our Group, from an accounting perspective, may include financial assets such as, amongst others, fixed deposits with licenced banks, cash and bank balances, trade and other receivables excluding prepayment and other investments as well as financial liabilities such as, amongst others, trade payables, other payables, lease liabilities and bank borrowings.

Our treasury objective is to maintain sufficient working capital to finance our operations and meet our anticipated commitments arising from business operation and financial liabilities, if any, by maintaining adequate liquidity and credit facilities. We manage our liquidity to ensure access to sufficient funding at acceptable costs to meet our business needs and financial obligations throughout our business cycles.

We have historically relied on cash generated from our operating activities, credit extended by our vendors, credit lines such as invoice financing, lease payables and term loans. Our funding objective is to obtain the most suitable types of financing and favourable cost of funding as and when our financing needs arise. Bank borrowings are negotiated with a view to secure the best possible terms and rates of interest.

As at the LPD, save for the bank borrowings and hire purchase payables as disclosed in Section 12.4.3 of this Prospectus, our Group does not use any other financial instruments.

12.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITIES

12.6.1 Material capital commitments

Save as disclosed below, and as at the LPD, our Group does not have any material capital commitment:

	RM'000
Authorised and contracted for:	
(a) Construction of Perak Plant	889 ⁽¹⁾
(b) Painting Works on Perak Plant	148 ⁽²⁾
(c) Purchase and commissioning of automated paint production system in Perak Plant	3,941 ⁽³⁾
(d) Renovation works in Perak Plant	320 ⁽⁴⁾
Total material capital commitments	5,298

12. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) *The total estimated construction cost of our Perak Plant is approximately RM28.20 million. As at the LPD, the progress billing amounting to approximately RM27.31 million (excluding variation order) has been billed.*
- (2) *The total estimated cost for Painting Works on our Perak Plant is approximately RM1.51 million. As at the LPD, the progress billing amounting to approximately RM1.36 million has been billed.*
- (3) *The total estimated cost for the purchase and commissioning of automated paint production system in our Perak Plant is USD3.31 million. As at the LPD, a total sum of USD2.48 million has been paid using internally generated funds and bank borrowings. The remaining sum of USD0.83 million, equivalent to approximately RM3.94 million (based on BNM exchange rate as at LPD) will be paid via the draw down of the banking facility.*
- (4) *Mainly comprising of interior design and furniture fitting for Perak Plant. The total estimated cost for the renovation works in our Perak Plant is approximately RM0.47 million. As at the LPD, the progress billing amounting to approximately RM0.15 million has been billed.*

12.6.2 Material litigation

As at the date of this Prospectus, our Group is not engaged in any governmental proceedings and/or any material litigation, claim and/or arbitration, whether as plaintiff or defendant, which might materially and adversely affect our financial position or the profitability of our Group. Our Directors confirm that there are no legal proceedings, pending or threatened, or of any fact to give rise to any legal proceeding which may materially and adversely affect our financial position or profitability in the 12 months immediately preceding the date of this Prospectus.

12.6.3 Contingent liabilities

As at the LPD, our Directors confirm that there are no material contingent liabilities incurred by our Group, which upon becoming enforceable, may have a material effect on our Group's business, financial results or position.

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12. FINANCIAL INFORMATION (Cont'd)**12.7 KEY FINANCIAL RATIOS**

The following table sets out certain key financial ratios of our Group based on the combined financial statements of our Group for the Financial Years Under Review:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
Average trade receivables turnover period (days) ⁽¹⁾	115	95	99	109
Average trade payables turnover period (days) ⁽²⁾	62	63	72	83
Average inventory turnover period (days) ⁽³⁾	134	159	161	146
Current ratio (times) ⁽⁴⁾	1.63	2.60	2.06	2.12
Gearing ratio (times) ⁽⁵⁾	0.41	0.14	0.26	0.60

Notes:

- (1) Based on the average trade receivables of the respective financial years over total revenue of the respective financial years, and multiplied by 365 days.
- (2) Based on the average trade payables of the respective financial years over total purchases of the respective financial years, and multiplied by 365 days.
- (3) Based on the average inventory of the respective financial years over total cost of sales of the respective financial years, and multiplied by 365 days.
- (4) Based on current assets over current liabilities.
- (5) Based on total borrowings (excluding lease liabilities) divided by total equity.

12.7.1 Trade receivables turnover period

Our average trade receivables turnover period for the Financial Years Under Review is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Opening trade receivables	21,690	23,611	17,741	25,247
Closing trade receivables	23,611	17,741	25,247	28,946
Average trade receivables	22,651	20,676	21,494	27,097
Revenue	71,599	79,766	79,218	91,091
Average trade receivables turnover period (days)	115	95	99	109

Generally, our normal trade terms granted to customers ranges from 30 to 150 days. The credit term for each customer may vary depending on various factors including the length of business relationship, their payment track record, creditworthiness and credit limit.

Our average trade receivables turnover period as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 were recorded at 115 days, 95 days, 99 days and 109 days, respectively, which are all within the normal credit period granted to our customers.

Our average trade receivables turnover period decreased to 95 days in FYE 2021 (FYE 2020: 115 days) due to higher collections from customers recorded in FYE 2021.

Our average trade receivables turnover period increased to 99 days in FYE 2022 (FYE 2021: 95 days) mainly due to increase in trade receivables as a result of increase in sales during the last quarter of FYE 2022 where most of our trade receivables are not past due.

12. FINANCIAL INFORMATION (Cont'd)

Our average trade receivables turnover period increased to 109 days in FYE 2023 (FYE 2022: 99 days) mainly due to the increase in trade receivables as a result of increase in sales during the last quarter of FYE 2023.

The aging analysis of our trade receivables as at 31 December 2023 is as follows:

	Within normal credit period	Exceeding credit period				Total
		1-60 days	61-120 days	121-150 days	> 150 days	
Trade receivables (RM'000)	22,741	4,137	652	14	1,402	28,946
Percentage of total trade receivables (%)	78.57	14.29	2.25	0.05	4.84	100.00
Subsequent collections up to the LPD (RM'000)	17,039	2,028	559	2	540	20,168
Trade receivables net of subsequent collections (RM'000)	5,702	2,109	93	12	862	8,778
Percentage of total trade receivables (net of subsequent collections) (%)	64.96	24.02	1.06	0.14	9.82	100.00

As at 31 December 2023, our total trade receivables stood at approximately RM28.95 million, with approximately RM6.21 million or 21.43% of our trade receivables exceeding the normal credit period.

As at the LPD, the net trade receivables were mainly due to an amount owing that is past due for more than 150 days totalling to RM0.86 million mainly from the following customers:

- (i) Kung Huy Construction Material Supply Co. Ltd. – RM0.10 million. We have received the return of 6 units of our Smart Colour POS Tinting Machine of RM0.97 million to offset the amount payable to us from Kung Huy Construction Material Supply Co. Ltd. As at the LPD, the total trade receivable outstanding from Kung Huy Construction Material Supply Co. Ltd. is RM0.10 million, of which the entire amount is outstanding for more than 150 days; and
- (ii) Toplus Paint – RM0.34 million. We have been receiving partial payments from Toplus Paint. As at the LPD, the total trade receivable outstanding from Toplus Paint is RM0.34 million, of which the entire amount is outstanding for more than 150 days.

Our Group generally provides provision for impairment losses on receivables if an outstanding balance is past due for more than 180 days and with one or more conditions below fulfilled:

- (i) The customer is unreachable;
- (ii) Third letter of demand has been issued to the customer;
- (iii) In the midst of legal proceeding with the customer on the outstanding balance and no settlement arrangement has been agreed;
- (iv) Reported the customer to credit reporting agency such as Experian Information Services (Malaysia) Sdn Bhd; and
- (v) Customer is facing financial difficulties with no agreed repayment plan.

12. FINANCIAL INFORMATION (Cont'd)

As Kung Huy Construction Material Supply Co. Ltd. and Toplus Paint did not trigger any of the above conditions, our Group is of the opinion that the remaining outstanding trade receivables are recoverable and will monitor closely the recoverability of the said receivables on a regular basis, and when required, provide provision for impairment losses on these receivables.

As at the LPD, a total of RM20.17 million was collected which represent 69.67% of the amount outstanding as at 31 December 2023. The remaining balance of RM8.78 million or 30.33% of our trade receivables have yet to be collected as at LPD. Our Group has not encountered any major disputes with our trade receivables and majority of the trade receivables as at 31 December 2023 were within the normal credit period. Hence, our Board is of the opinion that the remaining outstanding trade receivables are recoverable and will monitor closely the recoverability of the said receivables on a regular basis, and when required, provide for impairment of these receivables.

12.7.2 Trade payables turnover period

Our average trade payables turnover period for the Financial Years Under Review is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	7,656	8,046	8,110	9,784
Closing trade payables	8,046	8,110	9,784	13,328
Average trade payables	7,851	8,078	8,947	11,556
Purchases	45,851	46,892	45,140	51,089
Average trade payables turnover period (days)	62	63	72	83

Generally, the normal trade payables turnover period granted by our suppliers ranges from 30 and 90 days, depending on the suppliers used for the financial year.

Our Group's average trade payables turnover period as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 were recorded at 62 days, 63 days, 72 days and 83 days, respectively. All our average trade payables turnover periods are within the normal credit period granted by our suppliers.

Our average trade payables turnover period remained relatively unchanged from 62 days in FYE 2020 to 63 days in FYE 2021.

Our average trade payables turnover period increased to 72 days in FYE 2022 (FYE 2021: 63 days) mainly due to increase in purchase of raw material and trading goods in December 2022 where most of our trade payables are not past due.

Our average trade payables turnover period increased to 83 days in FYE 2023 (FYE 2022: 72 days) mainly due to increase in raw materials purchased namely binder, pigment and additive during the last quarter of FYE 2023.

12. FINANCIAL INFORMATION (Cont'd)

The aging analysis of our trade payables as at 31 December 2023 is as follows:

	Within normal credit period	Exceeding credit period				Total
		1-60 days	61-120 days	121-150 days	> 150 days	
Trade payables (RM'000)	13,246	82	-	-	-	13,328
Percentage of total trade payables (%)	99.38	0.62	-	-	-	100.00
Subsequent payments up to the LPD (RM'000)	11,468	82	-	-	-	11,550
Trade payables net of subsequent payments (RM'000)	1,778	-	-	-	-	1,778
Percentage of total trade payables (net of subsequent payments) (%)	100.00	-	-	-	-	100.00

As at 31 December 2023, our total trade payables stood at RM13.33 million, with RM0.01 million trade payables exceeding the normal credit period.

As at the LPD, a total of RM11.55 million has been paid by our Group, which represent 86.65% from the amount outstanding as at 31 December 2023.

As at the LPD, we do not have any material disputes in respect of our trade payables and no material legal proceedings to demand for payment have been initiated by our suppliers against us.

12.7.3 Inventory turnover period

Our inventories comprise raw materials, work-in-progress and finished goods. Our average inventory turnover period for the Financial Years Under Review is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Opening inventories	14,860	20,978	25,239	23,744
Closing inventories	20,978	25,239	23,744	25,249
Average inventories	17,919	23,109	24,492	24,497
Cost of sales	48,812	53,048	55,683	61,107
Average inventory turnover period (days)	134	159	161	146

Our inventories mainly comprise the following:

- (a) raw materials such as binder, pigment, additive, solvent, extender and colour paste;
- (b) packaging materials;
- (c) finished goods; and
- (d) trading products.

12. FINANCIAL INFORMATION (Cont'd)

Our average inventory turnover period as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 were recorded at 134 days, 159 days, 161 days and 146 days, respectively.

There was an increase in the average inventory turnover period to 159 days for the FYE 2021 (FYE 2020: 134 days) as a result of higher increase in annual production output for decorative paints and protective coatings as compared to the increase in total litres sold for decorative paints and protective coatings.

The average inventory turnover period as at 31 December 2022 remained relatively unchanged at 161 days as compared to 159 days as at 31 December 2021.

Our average inventory turnover period decreased to 146 days in FYE 2023 (FYE 2022: 161 days) as our Group is able to maintain the stock level which is sufficient to meet the demand at that point in time.

12.7.4 Current ratio

Our current ratio for the Financial Years Under Review is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Current assets	51,324	49,244	55,790	62,951
Current liabilities	31,556	18,924	27,133	29,739
Current ratio (times)	1.63	2.60	2.06	2.12

Our Group's current ratio ranges from 1.63 times to 2.60 times for the Financial Years Under Review. This indicates that our Group is able to meet our current obligations as our current assets, such as inventories and trade receivables, which can be readily converted into cash, together with our cash and bank balances is sufficient to meet our immediate current liabilities.

Our Group's current ratio improved from 1.63 times for the FYE 2020 to 2.60 times for the FYE 2021. This was mainly due to the following:

- (a) increase in inventories by RM4.26 million to RM25.24 million (as at 31 December 2020: RM20.98 million) as a result of higher increase in annual production output for decorative paints and protective coatings as compared to the increase in total litres sold for decorative paints and protective coatings. In addition, the increase in inventories is also contributed by the increase in price of raw materials in view of the global supply chain disruption during the COVID-19 pandemic; and
- (b) nil bank overdrafts balance as at 31 December 2021 (as at 31 December 2020: RM9.48 million) mainly due to the increase in internally generated funds from our business operation.

The abovementioned were partially offset by the decrease in trade receivables of approximately RM5.87 million mainly due to higher collection from customers of our company.

12. FINANCIAL INFORMATION (Cont'd)

Our Group's current ratio deteriorated from 2.60 times for the FYE 2021 to 2.06 times for the FYE 2022. This was mainly due the following:

- (a) decrease in inventories of approximately RM1.50 million to RM23.74 million (as at 31 December 2021: RM25.24 million) mainly due to decrease in inventories held for our OEM aerosol spray paints (i.e. Bond7) and decorative paints of approximately RM0.80 million and RM0.49 million, respectively, as we anticipated the stock level is sufficient to meet the demand at that point in time;
- (b) increase in bankers' acceptance balance by RM2.70 million as at 31 December 2022 (as at 31 December 2021: nil) to finance the purchase of raw materials;
- (c) increase in trade payables of approximately RM1.67 million mainly due to increase in purchase of raw material and trading goods in December 2022; and
- (d) increase in other payables of approximately RM4.69 million mainly due to the progress billing in relation to the construction of Perak Plant in FYE 2022.

The abovementioned were partially offset by the increase in trade receivables of approximately RM7.51 million mainly due to increase in sales during the last quarter of FYE 2022.

Our Group's current ratio improved from 2.06 times for the FYE 2022 to 2.12 times for the FYE 2023. This was mainly due to the following:

- (a) increase in trade and other receivables by RM3.95 million to RM30.21 million (as at 31 December 2022: RM26.26 million) mainly due to the increase in sales during the last quarter of FYE 2023; and
- (b) increase in inventories by RM1.51 million to RM25.25 million (as at 31 December 2022: RM23.74 million) mainly due to increase in production output for decorative paints in the last quarter of FYE 2023 to cater for the increase in sales during the last quarter of FYE 2023.

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12. FINANCIAL INFORMATION (Cont'd)**12.7.5 Gearing ratio**

Our gearing ratio for the Financial Years Under Review is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Short term				
Term loans	613	574	850	866
Hire purchase payables	177	120	61	201
Bankers' acceptance	-	-	2,702	3,180
Bank overdrafts	9,479	-	-	-
Total short-term bank borrowings	10,269	694	3,613	4,247
Long term				
Term loans	6,865	6,334	11,870	37,062
Hire purchase payables	79	117	53	89
Total long-term bank borrowings	6,944	6,451	11,923	37,151
Total bank borrowings	17,213	7,145	15,536	41,398
Shareholders' funds/net assets				
Invested equity	51,875	51,875	51,800	51,800
Reorganisation reserve	(25,783)	(25,783)	(25,783)	(25,783)
Retained earnings	15,484	25,514	33,828	42,704
Non-controlling interest	(63)	(53)	121	50
Total shareholders' funds/net assets	41,513	51,553	59,966	68,771
Gearing ratio (times)	0.41	0.14	0.26	0.60

Our gearing ratio ranges from 0.14 times to 0.60 times from FYE 2020 to FYE 2023.

Our gearing ratio has decreased from 0.41 times as at 31 December 2020 to 0.14 times as at 31 December 2021 mainly due to the reduction in bank overdrafts as mentioned in Section 12.7.4 of this Prospectus and the increase in our Group's retained earnings arising from the net profits recorded during FYE 2021.

Our gearing ratio has increased from 0.14 times as at 31 December 2021 to 0.26 times as at 31 December 2022 as a result of the increase in our bank borrowings of approximately RM8.39 million. The increase in bank borrowings is mainly due to drawdown of new term loan to finance the acquisition of Johor Factory 3 and increase in bankers' acceptance of RM2.70 million to finance the purchase of raw materials.

Our gearing ratio has increased from 0.26 times as at 31 December 2022 to 0.60 times as at 31 December 2023 as a result of the increase in our bank borrowings of approximately RM25.86 million. The increase in bank borrowings is mainly due to drawdown of new term loan to finance the construction of Perak Plant and purchase and commissioning of automated paint production system in Perak Plant in FYE 2023.

12. FINANCIAL INFORMATION (Cont'd)

12.8 SIGNIFICANT FACTORS AFFECTING OUR REVENUE

Section 9 details a number of risk factors relating to our business and the industry in which we operate. Some of these risk factors have an impact to our Group's revenue and financial performance. The main factors which affect our revenues and profits include but are not limited to the following:

12.8.1 We are dependent on our wholesalers, dealers and authorised distributors to distribute and sell our products to retail end-users

Our products are primarily distributed to our network of wholesalers, dealers and authorised distributors for onward sale to retail end-users. This is evidenced by the revenue contribution from our wholesalers, dealers and authorised distributors which accounted for 95.06%, 96.84%, 98.53% and 91.87% of our total revenue for the Financial Years Under Review, respectively. As at the LPD, our Group has a total of 9 wholesalers and 937 dealers across Malaysia, and 14 authorised distributors overseas.

There is no assurance that our existing wholesalers, dealers and authorised distributors will continue to purchase our products in the future or that the demand from them will continue to increase or be sustained at current levels in the future. Any loss of parties and our inability to replace them with new wholesalers, dealers and authorised distributors or with additional orders from existing wholesalers, dealers and authorised distributors in a timely manner, as well as continued decline in orders from existing wholesalers, dealers and authorised distributors, could result in a loss of revenue and will have an adverse impact on our Group's financial performance.

12.8.2 We are dependent on the construction and manufacturing industries in Malaysia for our continued success and growth

The performance of our business is dependent on the construction (i.e. new building and infrastructure construction, as well as renovation of existing buildings and infrastructure) and manufacturing industries as we primarily provide decorative paints and protective coatings for household and industrial applications. Thus, our growth is likely to move in tandem with the performance of the construction and manufacturing industries.

As such, a decline in the construction and manufacturing industries may lead to a slowdown in the demand for our decorative paints and protective coatings which could result in a loss of revenue and will have an adverse impact on our Group's financial performance.

12.9 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance for the Financial Years Under Review except for the MCO imposed as detailed in Section 7.5 of this Prospectus.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risk relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 9 of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)**12.10 IMPACT OF INFLATION**

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation during the Financial Years Under Review. However, any significant increase in future inflation may adversely affect our Group's operation and financial performance if we are unable to pass on the increase in costs to our customers by increasing our selling prices.

12.11 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES**12.11.1 Impact of foreign exchange rate**

We are exposed to foreign exchange transaction risk which arises from our revenue and purchases exposure to USD and SGD. The revenue generated from our export sales are denominated in USD and SGD, and it collectively contributed 7.97%, 5.38%, 6.13% and 2.81% to our Group's total revenue for the Financial Years Under Review, respectively. Our supplies which are sourced from overseas are denominated in USD, RMB and SGD, and it collectively contributed 24.51%, 20.92%, 27.76% and 27.16% to our Group's total purchases for the Financial Years Under Review, respectively.

As a result of the above, our Group is subject to the risk arising from the fluctuation in exchange rate for the revenue generated from our export sales as well as foreign currency exchange gains or losses arising from the timing of billing/invoices and actual payment received from our customers. As at the LPD, our Group does not have any foreign exchange contracts.

Any significant change in foreign exchange rates may affect our Group's financial results.

Notwithstanding the above, we monitor foreign exchange fluctuations on an on-going basis to ensure that our net foreign currency exposure is at an acceptable level.

Our sales and purchases in the respective currencies for the Financial Years Under Reviews are as follows:

	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales denominated in:								
RM	65,891	92.03	75,474	94.62	74,359	93.87	88,535	97.19
USD	4,279	5.97	2,574	3.23	2,584	3.26	2,547	2.80
SGD	1,429	2.00	1,718	2.15	2,275	2.87	9	0.01
Total	71,599	100.00	79,766	100.00	79,218	100.00	91,091	100.00
Purchases denominated in:								
RM	34,615	75.49	37,081	79.08	32,610	72.24	37,214	72.84
USD	10,922	23.82	9,618	20.51	12,172	26.97	12,253	23.98
RMB	-	-	-	-	-	-	1,322	2.59
SGD	314	0.69	193	0.41	358	0.79	300	0.59
Total	45,851	100.00	46,892	100.00	45,140	100.00	51,089	100.00

Details of the risks of the impact of foreign exchange rate to our business and operations is set out in Section 9.1.8 of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)**12.11.2 Impact of interest rate**

Interest coverage ratio measures the number of times a company can make its interest payments with its EBIT. The interest coverage ratios for the Financial Years Under Review are as follows:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
EBIT (RM'000)	9,975	14,456	11,724	13,663
Finance costs (RM'000)	574	525	520	1,347
Interest coverage ratio (times) ⁽¹⁾	17.38	27.54	22.55	10.14

Note:

(1) Computed based on EBIT over finance costs for the Financial Years Under Review.

Our interest coverage ratio of between 10.14 times and 27.54 times for the Financial Years Under Review indicates that our Group has been able to generate sufficient EBIT to meet our interest serving obligations.

Our Group's financial results for the Financial Years Under Review were not materially affected by fluctuations in interest rates. However, in view that the interests charged on our bank borrowings are dependent on prevailing interest rates, any significant increase in interest rates will significantly increase our interest expenses and hence, will have an adverse impact on our financial performance.

Details of the risks of the impact of interest rate to our business and operations is set out in Section 9.1.11 of this Prospectus.

12.11.3 Impact of commodity prices

The raw materials used in our manufacturing activities comprise binders, pigment, additives, solvent, extender and colour paste, which collectively contributed 63.17%, 66.77%, 73.05% and 69.57% of our Group's purchases in Financial Years Under Review, respectively.

The prices of certain raw materials such as binder, pigment, solvent and additives are subject to price fluctuations as a result of, amongst others, fluctuations in energy costs, global demand and supply conditions, as well as global and regional economic conditions (e.g. uncertainties arising from the United States-China trade war or sanctions on Russia). As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers.

In addition, any sudden shortages of raw materials may affect our business operations and that there is no assurance that we will be able to obtain raw materials from new suppliers in a timely manner or at reasonably acceptable prices. In the event that we are required to pay higher prices to new suppliers for these raw materials and that we are unable to pass on the increase in cost to our customers in a timely manner, it may adversely affect our financial condition and results of operations.

Details of the risks of the impact of commodity prices to our business and operations is set out in Section 9.2.2 of this Prospectus.

12.12 ORDER BOOK

We do not maintain an order book due to the nature of our business. We generate our revenue as and when we deliver our products based on purchase orders received.

12. FINANCIAL INFORMATION (*Cont'd*)

12.13 TREND INFORMATION

As at the LPD, our Board confirms that our operation has not been and are not expected to be affected by any of the following:

- (a) known trends, demands, commitments, events, or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations, save as disclosed in Sections 7, 8, 9 and 12.3 of this Prospectus;
- (b) material commitment for capital expenditure, save as set out in Section 12.6.1 of this Prospectus;
- (c) unusual, infrequent events, or transactions or any significant economic changes that have materially affected the financial performance, position, and operations on our Group save as discussed in Sections 9 and 12.3 of this Prospectus;
- (d) known trends, demands, commitments, events, or uncertainties that had resulted in a material impact on our Group revenue and/or profits, save as disclosed in Sections 7, 8 and 12.3 of this Prospectus;
- (e) known trends, demands, commitments, events, or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in Sections 9 and 12 of this Prospectus; and
- (f) known trends, demands, commitments, events, or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources, save as disclosed in Sections 7, 9 and 12 of this Prospectus.

Our Board is optimistic about the future prospects of our Group after taking into account the outlook of the paints and coatings industry in Malaysia as set out in Section 8 of this Prospectus, our competitive strengths as set out in Section 7.6 of this Prospectus and our business strategies and future plans as set out in Section 7.22 of this Prospectus.

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12. FINANCIAL INFORMATION (Cont'd)

12.14 DIVIDEND POLICY

Our Group presently does not have a fixed dividend policy. As we are holding company, our ability to declare and pay dividends or make other distributions to our shareholders are depended upon the dividends we receive from our subsidiaries, present and future. Our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for working capital of our business. Our Directors will take into consideration, amongst others, the following factors when recommending dividends for approval by our shareholders or when declaring any dividends:

- (a) The availability of adequate reserves and cash flows;
- (b) Our operating cash flow requirements and financial commitments;
- (c) Our anticipated future operating conditions, as well as future expansion, capital expenditure and investment plans;
- (d) Any material impact of tax laws and other regulatory requirements;
- (e) The prior consent from our banking institutions, if any; and
- (f) Compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies.

The dividends paid by our Group during the Financial Years Under Review are as follows:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
PAT attributable to owners of our Group	7,489	10,680	8,665	8,876
Dividends paid	-	650 ⁽²⁾	351 ⁽²⁾	-
Dividend payout ratio (%) ⁽¹⁾	-	6.09	4.05	-

Notes:

- (1) Computed based on dividends paid over PAT attributable to owners of our Group for each financial year.
- (2) The dividends paid in FYE 2021 and FYE 2022 were funded via internally generated funds.

Subsequent to the FYE 2023 and up to the LPD, there are no dividend declared, made or paid by our Group to our shareholders. Our Group has no intention to declare any dividends prior to our Listing.

The level of dividends should also not be treated as an indication of our Group's future dividend policy. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future. In determining dividends in respect of subsequent financial years, consideration will be given to maximising shareholders' value.

12. FINANCIAL INFORMATION (Cont'd)**12.15 CAPITAL INVESTMENTS AND DIVESTITURES**

(a) Capital investments

Our capital investments for the Financial Years Under Review up to the LPD are set out below:

Description	FYE 2020	FYE 2021	FYE 2022	FYE 2023	1 January 2024 up to the LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold lands	-	-	4,536	-	-
Leasehold lands	1,960	-	-	18	-
Buildings	-	-	3,023	-	-
Computers and software	199	147	86	69	21
Furniture and fittings	38	28	102	75	-
Office equipment	24	25	11	27	2
Plant and machinery	1,290	1,042	1,289	324	56
Motor vehicles	341	274	-	371	-
Renovation	239	49	330	87	-
Capital work-in-progress	1,425	69	8,735	30,722	1,116
Total	5,516	1,634	18,112	31,693	1,195

Our capital investments were primarily funded via a combination of bank borrowings and internally generated funds.

- (i) For FYE 2020, our capital investments of RM5.52 million mainly comprise of the following:
- (aa) purchase of Perak Land 2, 3 and 4;
 - (bb) purchase of 67 units of Smart Colour POS Tinting Machines;
 - (cc) purchase of 1 unit of milling machine; and
 - (dd) downpayment for the purchase and commissioning of automated paint production system in Perak Plant.
- (ii) For FYE 2021, our capital investments of RM1.63 million mainly comprise of the following:
- (aa) purchase of machineries required to set up the testing module for the automated paint production system; and
 - (bb) purchase of 21 units of Smart Colour POS Tinting Machine.
- (iii) For FYE 2022, our capital investments of RM18.11 million mainly comprise of the following:
- (aa) purchase of 87 units of Smart Colour POS Tinting Machine;
 - (bb) purchase of freehold land and buildings in relation to Johor Factory 3; and
 - (cc) cost incurred for the construction of Perak Plant.

12. FINANCIAL INFORMATION (Cont'd)

- (iv) For FYE 2023, our capital investments of RM31.69 million mainly comprise of the following:
 - (aa) cost incurred for the construction of Perak Plant; and
 - (bb) cost incurred for the purchase and commissioning of automated paint production system in Perak Plant.
- (v) As at the LPD, our capital investments of RM1.20 million mainly comprise of the following:
 - (aa) cost incurred for the construction of Perak Plant;
 - (bb) purchase of 1 unit of packing machine for Perak Plant; and
 - (cc) purchase of 1 unit of lab equipment for the laboratory in Perak Plant.

(b) Capital divestitures

Our capital divestitures for the Financial Years Under Review up to the LPD are set out below:

Description	FYE 2020	FYE 2021	FYE 2022	FYE 2023	1 January 2024 up to the LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Computers and software	-	-	26	-	-
Plant and machinery	-	-	114	46	-
Motor vehicles	57	40	33	97	-
Total	57	40	173	143	-

The above capital divestitures were carried out in the ordinary course of business.

- (i) For FYE 2020, our capital divestitures of RM0.06 million was mainly from the disposal of 2 units of motor vehicle.
- (ii) For FYE 2021, our capital divestitures of RM0.04 million was mainly from the disposal of 2 units of motor vehicle.
- (iii) For FYE 2022, our capital divestitures of RM0.17 million was mainly from the disposal of 17 units of our Smart Colour POS Tinting Machine mainly to our authorised distributor in Cambodia, namely Kung Huy Construction Material Supply Co. Ltd. The disposal to our authorised distributor is due to them being located overseas and we do not collect maintenance fee from them.
- (iv) For FYE 2023, our capital divestitures of RM0.14 million was mainly from the disposal of 1 unit motor vehicle.

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13. ACCOUNTANTS' REPORT



Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA)
Chartered Accountants (AF 0117)
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18 April 2024

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The Board of Directors
Smart Asia Chemical Bhd
No. 11, Jalan Indah Gemilang 5
Taman Perindustrian Gemilang
81800 Ulu Tiram, Johor, Malaysia

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www.bakertilly.my

Dear Sirs,

Reporting Accountants' opinion on the Combined Financial Statements contained in the Accountants' Report of Smart Asia Chemical Bhd ("Smart Asia" or the "Company")

Opinion

We have audited the accompanying combined financial statements of the Company and its combining entities as defined in Note 2 to the combined financial statements (collectively known as the "Group"), which comprise of the combined statements of financial position as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 of the Group, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 and notes to the combined financial statements, including material accounting policy information, as set out on pages 7 to 83.

In our opinion, the accompanying combined financial statements contained in the Accountants' Report give a true and fair view of the financial position of the Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 and of its financial performance and its cash flows for the financial years then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)

**Basis for Opinion**

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of the Directors for the Combined Financial Statements

The directors of the Company are responsible for the preparation of the combined financial statements of the Group, that give a true and fair view in accordance with Malaysian Financial Reporting Standards and the International Financial Reporting Standards. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a Reporting Accountants' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)

**Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements (continued)**

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Reporting Accountants' report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Reporting Accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)



Other Matter

This report is made solely to the board of directors of the Company and has been prepared to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the Prospectus of the Company in connection with the proposed listing of and quotation for the entire issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other persons for the content of this report.

A handwritten signature in black ink, appearing to read "Baker Tilly Monteiro Heng".

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

A handwritten signature in black ink, appearing to read "Paul Tan Hong".

Paul Tan Hong
No. 03459/11/2025 J
Chartered Accountant

Kuala Lumpur

Date: 18 April 2024

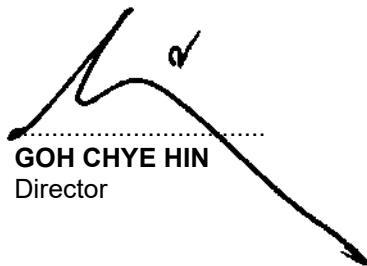
13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
Accountants' Report

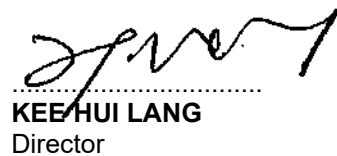
STATEMENT BY DIRECTORS

We, **GOH CHYE HIN** and **KEE HUI LANG**, being two of the directors of SMART ASIA CHEMICAL BHD, do hereby state that in the opinion of the directors, the accompanying combined financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Prospectus Guidelines so as to give a true and fair view of its financial position of the Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 and of its financial performance and cash flows for the financial years then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:



.....
GOH CHYE HIN
Director



.....
KEE HUI LANG
Director

Kuala Lumpur

Date: 18 April 2024

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
Accountants' Report

STATUTORY DECLARATION

I, **JIU CHIEH YIN**, being the officer primarily responsible for the financial management of SMART ASIA CHEMICAL BHD, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying combined financial statements are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



.....
JIU CHIEH YIN
(MIA Membership No: 39380)

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 18 April 2024.

Before me,

.....
Commissioner for Oaths



CHAMBERS TWENTY - FIVE
NO 25, JALAN TUNKU, BUKIT TUNKU
50480 KUALA LUMPUR

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	← As at 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	28,994	27,954	43,549	73,027
Intangible asset	6	-	-	190	170
Other investment	7	385	-	-	-
Deferred tax assets	8	95	219	136	140
Total non-current assets		29,474	28,173	43,875	73,337
Current assets					
Inventories	9	20,978	25,239	23,744	25,249
Current tax assets		142	604	699	365
Trade and other receivables	10	24,727	19,136	26,264	30,206
Contract assets	11	292	48	27	1,209
Cash and short-term deposits	12	5,185	4,217	5,056	5,922
Total current assets		51,324	49,244	55,790	62,951
TOTAL ASSETS		80,798	77,417	99,665	136,288
EQUITY AND LIABILITIES					
Equity attributable to owners of the Group					
Invested equity	13	51,875	51,875	51,800	51,800
Reorganisation reserve	14	(25,783)	(25,783)	(25,783)	(25,783)
Retained earnings		15,484	25,514	33,828	42,704
		41,576	51,606	59,845	68,721
Non-controlling interest		(63)	(53)	121	50
TOTAL EQUITY		41,513	51,553	59,966	68,771

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**
Accountants' Report**COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

	Note	← As at 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Non-current liabilities					
Loans and borrowings	15	7,444	6,610	12,013	37,177
Deferred income	16	-	-	143	143
Deferred tax liabilities	8	285	330	410	458
Total non-current liabilities		7,729	6,940	12,566	37,778
Current liabilities					
Loans and borrowings	15	10,759	1,035	3,736	4,314
Current tax liabilities		308	598	317	402
Trade and other payables	17	16,390	14,997	21,365	23,056
Contract liabilities	11	4,099	2,294	1,715	1,967
Total current liabilities		31,556	18,924	27,133	29,739
TOTAL LIABILITIES		39,285	25,864	39,699	67,517
TOTAL EQUITY AND LIABILITIES		80,798	77,417	99,665	136,288

The accompanying notes form an integral part of these combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	← FYE 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Revenue	18	71,599	79,766	79,218	91,091
Cost of sales		(48,812)	(53,048)	(55,683)	(61,107)
Gross profit		22,787	26,718	23,535	29,984
Other income	19	514	448	749	171
Selling and distribution expenses		(10,045)	(8,300)	(8,032)	(10,013)
Administrative expenses		(3,196)	(3,658)	(4,243)	(6,371)
Other operating expenses		(85)	(752)	(285)	(108)
Operating profit		9,975	14,456	11,724	13,663
Finance income	20	*	*	-	*
Finance costs	21	(574)	(525)	(520)	(1,347)
Profit before tax	22	9,401	13,931	11,204	12,316
Income tax expense	24	(1,959)	(3,241)	(2,590)	(3,511)
Profit for the financial year, representing total comprehensive income for the financial year		7,442	10,690	8,614	8,805
Profit/(loss) attributable to:					
Owners of the Group		7,489	10,680	8,665	8,876
Non-controlling interest		(47)	10	(51)	(71)
		7,442	10,690	8,614	8,805
Total comprehensive income/(loss) attributable to:					
Owners of the Group		7,489	10,680	8,665	8,876
Non-controlling interest		(47)	10	(51)	(71)
		7,442	10,690	8,614	8,805
Earning per share (RM)					
- Basic and diluted	25	0.03	0.04	0.03	0.03

* Less than 1,000

The accompanying notes form an integral part of these combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY

Note	Attributable to owners of the Group			Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
At 1 January 2020	52,075	(25,783)	7,995	34,287	(16)	34,271
Total comprehensive income/(loss) for the financial year						
Profit for the financial year, representing total comprehensive income/(loss) for the financial year	-	-	7,489	7,489	(47)	7,442
Transaction with owners						
Adjustment pursuant to merger accounting	1(a) (200)	-	-	(200)	-	(200)
At 31 December 2020	51,875	(25,783)	15,484	41,576	(63)	41,513

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	← Attributable to owners of the Group →			Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
Note						
At 1 January 2021	51,875	(25,783)	15,484	41,576	(63)	41,513
Total comprehensive income for the financial year						
Profit for the financial year, representing total comprehensive income for the financial year	-	-	10,680	10,680	10	10,690
Transaction with owners						
Dividend paid on shares	-	-	(650)	(650)	-	(650)
At 31 December 2021	51,875	(25,783)	25,514	51,606	(53)	51,553

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Note	Attributable to owners of the Group			Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
At 1 January 2022	51,875	(25,783)	25,514	51,606	(53)	51,553
Total comprehensive income/(loss) for the financial year						
Profit for the financial year, representing total comprehensive income/(loss) for the financial year	-	-	8,665	8,665	(51)	8,614
Transactions with owners						
Adjustment pursuant to merger accounting	(75)	-	-	(75)	-	(75)
Combining entity issue of ordinary shares	-	-	-	-	225	225
Dividend paid on shares	-	-	(351)	(351)	-	(351)
Total transactions with owners	(75)	-	(351)	(426)	225	(201)
At 31 December 2022	51,800	(25,783)	33,828	59,845	121	59,966

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	← Attributable to owners of the Group →			Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
At 1 January 2023	51,800	(25,783)	33,828	59,845	121	59,966
Total comprehensive income/(loss) for the financial year						
Profit for the financial year, representing total comprehensive income/(loss) for the financial year	-	-	8,876	8,876	(71)	8,805
At 31 December 2023	51,800	(25,783)	42,704	68,721	50	68,771

The accompanying notes form an integral part of these combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Cash flows from operating activities				
Profit before tax	9,401	13,931	11,204	12,316
Adjustments for:				
Depreciation of property, plant and equipment	2,166	2,496	2,482	2,166
Property, plant and equipment written off	3	178	-	-
Gain on disposal of property, plant and equipment	(57)	(40)	(55)	(112)
Gain on lease modification	(2)	-	(6)	(9)
Amortisation of intangible asset	-	-	10	20
Loss on disposal of other investment	-	355	-	-
Inventories written down	-	253	125	-
Reversal of inventories written down	-	-	(83)	(137)
Reversal of impairment loss on trade receivables	-	(34)	(334)	(4)
Impairment loss on trade receivables	48	175	14	106
Bad debts recovery	-	-	-	(5)
Bad debts written off	24	27	259	-
Finance costs	574	525	520	1,347
Finance income	(*)	(*)	-	(*)
Net unrealised foreign exchange loss/(gain)	22	(23)	(83)	(23)
Operating profit before changes in working capital	12,179	17,843	14,053	15,665
Changes in working capital:				
Inventories	(6,118)	(4,514)	1,453	(1,368)
Trade and other receivables	(1,462)	5,493	(7,466)	(5,371)
Contract assets	(244)	244	21	(1,182)
Trade and other payables	3,397	(1,241)	206	(905)
Contract liabilities	(1,678)	(1,805)	(579)	252
Net cash generated from operations	6,074	16,020	7,688	7,091
Income tax paid	(1,801)	(3,491)	(2,803)	(3,048)
Income tax refund	13	-	-	-
Interest received	*	*	-	*
Interest paid	(256)	(211)	(59)	(210)
Net cash from operating activities	4,030	12,318	4,826	3,833

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	Note	← FYE 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Cash flows from investing activities					
Purchase of property, plant and equipment	(a)	(5,316)	(1,634)	(5,419)	(1,432)
Proceeds from disposal of property, plant and equipment		57	40	173	143
Purchase of intangible asset		-	-	(200)	-
Proceeds from disposal of other investment		-	30	-	-
Proceeds from government grants related to assets		-	-	143	-
Acquisition of combining entity, net of cash acquired		(200)	-	(75)	-
Change in pledged deposits		-	-	-	(144)
Net cash used in investing activities		(5,459)	(1,564)	(5,378)	(1,433)
Cash flows from financing activities (b)					
Proceeds from issuance of combining entity's shares		-	-	225	-
Drawdown of term loans		1,000	-	-	-
Repayment of term loans		(103)	(570)	(668)	(802)
Payment of lease liabilities		(214)	(490)	(364)	(93)
Repayment of hire purchase		(173)	(219)	(123)	(124)
Proceeds from bankers' acceptance		2,607	463	4,858	8,290
Repayment of bankers' acceptance		(2,825)	(463)	(2,156)	(7,812)
Net changes in amount owing by a related party		(276)	-	431	-
Dividends paid		-	(650)	(351)	-
Interest paid		(318)	(314)	(461)	(1,137)
Net cash (used in)/from financing activities		(302)	(2,243)	1,391	(1,678)
Net (decrease)/increase in cash and cash equivalents		(1,731)	8,511	839	722
Cash and cash equivalents at the beginning of the financial year		(2,563)	(4,294)	4,217	5,056
Cash and cash equivalents at the end of the financial year	12	(4,294)	4,217	5,056	5,778

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

(a) Purchase of property, plant and equipment:

	Note	← FYE 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Purchase of property, plant and equipment	5	6,663	1,634	18,364	31,713
Financed by term loan arrangements		-	-	(6,480)	(26,010)
Financed by way of lease arrangements		(1,147)	-	(252)	(320)
Contra with trade receivable		-	-	-	(1,364)
Financed by way of other payable		(200)	-	(6,213)	(2,587)
Cash payments on purchase of property, plant and equipment		5,316	1,634	5,419	1,432

(b) Reconciliation of changes in liabilities arising from financing activities are as follows:

	1.1.2020 RM'000	Cash flows RM'000	Non-cash RM'000	31.12.2020 RM'000
Term loans	6,581	897	-	7,478
Lease liabilities	104	(214)	1,100	990
Hire purchase payables	429	(173)	-	256
Bankers' acceptance	218	(218)	-	-
Amount owing by a related party	(155)	(276)	-	(431)
	7,177	16	1,100	8,293
	1.1.2021 RM'000	Cash flows RM'000	Non-cash RM'000	31.12.2021 RM'000
Term loans	7,478	(570)	-	6,908
Lease liabilities	990	(490)	-	500
Hire purchase payables	256	(219)	200	237
Bankers' acceptance	-	-	-	-
Amount owing by a related party	(431)	-	-	(431)
	8,293	(1,279)	200	7,214

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

- (b) Reconciliation of changes in liabilities arising from financing activities are as follows:
-
- (continued)

	1.1.2022	Cash flows	Non-cash	31.12.2022
	RM'000	RM'000	RM'000	RM'000
Term loans	6,908	(668)	6,480	12,720
Lease liabilities	500	(364)	77	213
Hire purchase payables	237	(123)	-	114
Bankers' acceptance	-	2,702	-	2,702
Amount owing by a related party	(431)	431	-	-
	<u>7,214</u>	<u>1,978</u>	<u>6,557</u>	<u>15,749</u>
	1.1.2023	Cash flows	Non-cash	31.12.2023
	RM'000	RM'000	RM'000	RM'000
Term loans	12,720	(802)	26,010	37,928
Lease liabilities	213	(93)	(27)	93
Hire purchase payables	114	(124)	300	290
Bankers' acceptance	2,702	478	-	3,180
	<u>15,749</u>	<u>(541)</u>	<u>26,283</u>	<u>41,491</u>

- (c) Total cash outflows for leases

During the financial year, the Group had total cash outflow for leases of RM103,394 (2022: RM523,157, 2021: RM704,280 and 2020: RM408,335).

The accompanying notes form an integral part of these combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS**1. GENERAL INFORMATION**

Smart Asia Chemical Bhd ("Smart Asia" or the "Company") was incorporated on 13 May 2019 as a private limited company and is domiciled in Malaysia. The Company was converted to a public limited company and assumed its present name on 30 May 2023. The registered office of the Company is located at Level 5, Tower 8, Avenue 5, Horizon 2, Bangsar South City, 59200 Kuala Lumpur, Malaysia. The principal place of business of the Company is located at No. 11, Jalan Indah Gemilang 5, Taman Perindustrian Gemilang, 81800 Ulu Tilam, Johor, Malaysia.

The principal activity of the Company is investment holding. The details of the combining entity are as follows:

Combining entity	Principal place of business/ country of incorporation	Principal activities
Smart Paints (M) Sdn. Bhd. ("Smart Paints (M)")	Malaysia	Trading of paints, coatings and varnishing materials
Smart Paint Manufacturing Sdn. Bhd. ("Smart Paint Manufacturing")	Malaysia	Manufacturing of paints, varnishes and similar coatings ink and mastics
Smart Paint (Selangor) Sdn. Bhd. ("Smart Paint (Selangor)")	Malaysia	Trading and distribution of paints, hardwares and painting accessories
Smart Paints (Sabah) Sdn. Bhd. ("Smart Paints (Sabah)")	Malaysia	Trading of paints, coatings and varnishing materials
Color Breeze Sdn. Bhd. ("Color Breeze")	Malaysia	Trading of chemical colorants and pigments

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

There have been no significant changes in the nature of these activities during the financial years under review.

The combined financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 April 2024.

(a) Increase in equity interests by Smart Asia

(i) Acquisition of Smart Paints (M)

FYE 31 December 2020

On 10 March 2020, the Company acquired the entire equity interest, representing 200,002 ordinary shares in Smart Paints (M) for a total purchase consideration of RM200,002.

On 22 June 2020, the Company subscribed to an additional 799,998 ordinary shares in Smart Paints (M) for a total purchase consideration of RM799,998. The Company's effective ownership in Smart Paints (M) is maintained at 100% as a result of the additional shares subscribed.

(ii) Acquisition of Color Breeze

FYE 31 December 2022

On 2 August 2022, the Company acquired 75% of equity interest, representing 75,000 ordinary shares in Color Breeze for a total purchase consideration of RM75,000. It did not change the effective ownership interest of the Group in Color Breeze.

Color Breeze had on 3 August 2022 issued 900,000 new ordinary shares to the Company and non-controlling interest who are also the director of Color Breeze as at the date of allotment. It did not change the effective ownership of the Group in Color Breeze.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**1. GENERAL INFORMATION (CONTINUED)****(b) Non-controlling interest in combining entity**

The financial information of the Group's combining entity that have material non-controlling interest are as follows:

Equity interest held by non-controlling interest:

Name of company	← Ownership interest →			
	2020 (%)	2021 (%)	2022 (%)	2023 (%)
Color Breeze	25	25	25	25

Carrying amount of material non-controlling interest:

Name of company	← As at 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Color Breeze	(63)	(53)	121	50

Profit or loss allocated to material non-controlling interest:

Name of company	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Color Breeze	(47)	10	(51)	(71)

(c) Summarised financial information of material non-controlling interest

The non-controlling interest of the Group's combining entity is not material individually or in aggregate to the financial position, financial performance and cash flows of the Group. Therefore, the summarised financial information of the Group's combining entity that have non-controlling interest is not presented.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION**

The combined financial statements of Smart Asia consist of the financial statements of the following entities for each of the financial year:

Combining entity	FYE 31 December			
	2020	2021	2022	2023
Smart Asia	√, ^	√, ^	√, @	√, @
Smart Paints (M)	√, ^	√, ^	√, @	√, @
Smart Paint Manufacturing	√, ^	√, ^	√, @	√, @
Smart Paint (Selangor)	√, ^	√, ^	√, @	√, @
Smart Paints (Sabah)	√, ^	√, ^	√, @	√, @
Color Breeze	√, ^	√, ^	√, @	√, @

- √ *The combined financial statements of the Group include the financial statements of these combining entities prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and the International Financial Reporting Standards ("IFRSs") for the respective financial years.*
- ^ *The combined financial statements of the Group for the respective financial years have been prepared based on the audited financial statements which were re-audited by Baker Tilly Monteiro Heng PLT for the purpose of inclusion into the combined financial statements of the Group. The audited financial statements which were lodged with Companies Commission of Malaysia were audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.*
- @ *The combined financial statements of the Group for the respective financial year have been prepared based on the audited financial statements which were audited by Baker Tilly Monteiro Heng PLT.*

The audited financial statements of all the combining entity within the Group for the relevant years reported above were not subject to any modifications.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)**

The combined financial statements of the Group for the relevant periods were prepared in a manner as if the entities under common control were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of the entities within the Group, if later.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory ("commonly controlled entities"). Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the commonly controlled entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

The financial information presented in the combined financial statements may not correspond to those in the consolidated financial statements of the Group had the relevant transactions to legally constitute a group been incorporated in the consolidated financial statements for the respective financial years. Such financial information in the combined financial statements does not purport to predict the financial position, results and the cash flows of the entities under common control for those financial years.

The combined financial statements are prepared under the historical cost convention.

The accounting policies applied by the Group are consistently applied for all the financial years presented in these combined financial statements.

2.1 Statement of compliance

The combined financial statements of the Group have been prepared in accordance with MFRSs and the IFRSs.

2.2 Changes in accounting policies

The Group has adopted Amendments to MFRS 101 *Presentation of Financial Statements* which is effective for annual periods beginning on or after 1 January 2023 and has adopted Amendment to MFRS 16 *Leases* which is effective for annual periods beginning on or after 5 June 2020 or/and 6 April 2021.

Amendments to MFRS 101 *Presentation of Financial Statements*

The amendments require an entity to disclose its material accounting policy information rather than significant accounting policies. The amendments, amongst others, also include examples of circumstances in which an entity is likely to consider an accounting policy information to be material to its combined financial statements.

Accordingly, the Group disclosed its material accounting policy information in these combined financial statements. However, the amendments did not result in changes to the accounting policies of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)****2.2 Changes in accounting policies (continued)****Amendments to MFRS 16 Leases**

The Group has adopted the amendments to MFRS 16 that exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Coronavirus Disease 2019 ("COVID-19") pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19 related rent concessions that reduce lease payments due on or before 30 June 2021.

The adoption of the above amendments to MFRSs did not have any significant effect on the combined financial statements of the Group and did not result in significant changes to the Group's existing accounting policies.

2.3 Amendments to MFRSs that have been issued, but yet to be effective

- (a) The Group has not adopted the following amendments to MFRSs that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
<u>Amendments to MFRSs</u>		
MFRS 7	Financial Instruments: Disclosures	1 January 2024
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 16	Leases	1 January 2024
MFRS 101	Presentation of Financial Statements	1 January 2024
MFRS 107	Statements of Cash Flows	1 January 2024
MFRS 121	The Effect of Change in Foreign Exchange Rates	1 January 2025
MFRS 128	Investment in Associates and Joint Ventures	Deferred

- (b) The Group plans to adopt the above applicable amendments to MFRSs when they become effective. A brief discussion on the above significant amendments to MFRSs that may be applicable to the Group are summarised below:

Amendments to MFRS 16 Leases

The amendments clarify how an entity should subsequently measure the leaseback liability that arise in a sale and leaseback transaction. Although MFRS 16 includes requirements on how to account for a sale and leaseback at the date the transaction takes place, it has not specified how to measure the sale and leaseback transaction when reporting after that date.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)****2.3 Amendments to MFRSs that have been issued, but yet to be effective (continued)**

- (b) The Group plans to adopt the above applicable amendments to MFRSs when they become effective. A brief discussion on the above significant amendments to MFRSs that may be applicable to the Group are summarised below: (continued)

Amendments to MFRS 16 Leases (continued)

The amendments add subsequent measurement requirements for the right-of-use assets and lease liability arising from a sale and leaseback transaction by clarifying that a seller-lessee in a sale and leaseback transaction shall apply paragraphs 29 to 35 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 to the lease liability arising from the leaseback. The amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction.

Amendments to MFRS 101 Presentation of Financial Statements

The amendments include specifying that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period; clarifying that classification of liability is unaffected by the likelihood of the entity to exercise its right to defer settlement of the liability for at least twelve months after the reporting period; clarifying how lending conditions affect classification of a liability; and clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The latest amendments to MFRS 101 clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. As such, the amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require an entity to disclose information about these covenants in the notes to the combined financial statements.

Amendments to MFRS 107 Statement of Cash Flows and MFRS 7 Financial Instruments: Disclosures

Amendments to MFRS 107 and MFRS 7 respond to investors' concerns that some supplier finance arrangements – also referred to as supply chain finance, trade payables finance or reverse factoring arrangements – used by entities are not sufficiently visible, hindering investors' analysis.

The disclosure requirements require entities to disclose information that would enable users of financial statements to assess how supplier finance arrangements affect an entity's operations; including the effects supplier finance arrangements have on an entity's liability, cash flows and exposures to liquidity risk. The new disclosure requirements would also inform users of financial statements on how an entity might be affected if the arrangements were no longer available to it.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)****2.3 Amendments to MFRSs that have been issued, but yet to be effective (continued)**

- (b) The Group plans to adopt the above applicable amendments to MFRSs when they become effective. A brief discussion on the above significant amendments to MFRSs that may be applicable to the Group are summarised below: (continued)

Amendments to MFRS 121 The Effects of Changes in Foreign Exchange Rates

Amendments to MFRS 121 respond to stakeholder feedback and concerns about diversity in practice in accounting for a lack of exchangeability between currencies.

Applying the Amendments, entities will be applying a consistent approach in determining if a currency can be exchanged into another currency. These amendments provide guidance on the spot exchange rate to use when a currency is not exchangeable into another currency and the disclosures entities need to provide to enable users of financial statements to understand the impact on the entities' financial performance, financial position and cash flows as a result of a currency being not exchangeable into another currency.

- (c) The initial application of the above amendments to MFRSs are not expected to have any material impact on the prior and current periods of the combined financial statements.

2.4 Functional and presentation currency

The combined financial statements of the Group are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The combined financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency, and has been round to the nearest thousand, unless otherwise stated.

2.5 Basis of measurement

The combined financial statements of the Group have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHDAccountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. MATERIAL ACCOUNTING POLICY INFORMATION**

Unless otherwise stated, the following material accounting policy information have been applied consistently to all the financial years presented in the combined financial statements of the Group.

3.1 Basis of combination**Subsidiaries and business combination**

The Group applies the acquisition method of accounting except for those business combinations which were accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Under the merger method of accounting, the results of subsidiaries are presented as if the business combination had been affected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to reorganisation reserve or merger deficit.

3.2 Financial instruments**Financial assets - subsequent measurement and gains and losses**Debt instruments at amortised cost

The Group subsequently measures these assets at amortised cost under the effective interest method. The gross carrying amount is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****3.2 Financial instruments (continued)****Financial liabilities – subsequent measurement and gains and losses**

The Group classifies the financial liabilities at amortised cost. The Group subsequently measures the financial liabilities at amortised cost under the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

3.3 Property, plant and equipment

Property, plant and equipment other than right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated. Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

All other property, plant and equipment (other than the right-of-use assets as disclosed in Note 3.4) are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Buildings	50
Computers and software	2.5
Furniture and fittings	5
Office equipment	5
Plant and machinery	5 - 20
Motor vehicles	5
Renovation	5

3.4 Leases**(a) Lessee accounting**

The Group presents right-of-use assets that do not meet the definition of investment property as property, plant and equipment in Note 5 and lease liabilities as loans and borrowings in Note 15.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. Accordingly, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****3.4 Leases (continued)****(a) Lessee accounting (continued)**Right-of-use assets

The right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjust for any remeasurement of the lease liabilities. The right-of-use assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term.

Lease liabilities

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate.

The Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(b) Lessor accounting

The Group recognises lease payments under operating leases as income on a straight-line basis over the lease term.

3.5 Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The amortisation methods used and the estimated useful lives are as follows:

	Method	Useful lives (years)
Patent	Straight-line	10

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****3.6 Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- raw materials: purchase costs on a first-in first-out basis
- finished goods and work-in-progress: standard costing which includes costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

3.7 RevenueFinancing components

The Group has applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components as the Group expects that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

(a) Sale of goods

The Group is involved in manufacturing and trading paints, coatings, varnishing materials and hardware and painting accessories. Revenue from the sale of goods are recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

Revenue is recognised based on the price specified in the contract.

(b) Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered because the customer receives and uses the benefits simultaneously.

The Group recognises a contract asset for any excess of revenue recognised to date over the billings-to-date. Any amount previously recognised as a contract asset is reclassified to trade receivables when an invoice is issued or when billing is due based on the passage of time. If the milestone billing exceeds the revenue recognised to date and any deposits or advances received from customers, then the Group recognised a contract liability for the difference.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of combined financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity that have the most significant effect on the Group's combined financial statements, or areas where assumptions and estimates that have a significant risk of resulting in a material adjustment to the Group's combined financial statements within the next financial year are disclosed as follows:

(a) Depreciation and useful lives of property, plant and equipment

The Group reviews the residual values, useful lives and depreciation methods at the end of each reporting period. Judgements are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and therefore, future depreciation charges could be revised.

The carrying amounts of the Group's property, plant and equipment are disclosed in Note 5.

(b) Impairment of financial assets and contract assets

The impairment provisions for financial assets and contract assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history and existing market conditions at the end of each reporting period.

The Group uses a provision matrix to calculate expected credit losses for trade receivable and contract assets. The provision rate depends on the number of days that a trade receivable is past due. The Group uses the grouping according to the customer segments that have similar loss patterns. The criteria include geographical region, product type and customer type.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates and expected credit losses is a significant estimate. The amount of expected credit loss is sensitive to changes in circumstances and forecast of economic conditions over the expected lives of the financial assets and contract assets. The Group's historical credit loss experience and forecast of the economic conditions may also not be representative of customer's actual default in the future.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Impairment of financial assets and contract assets (continued)

The information about the expected credit losses on the Group's financial assets and contract assets are disclosed in Note 27(b)(i).

(c) Write-down of obsolete or slow-moving inventories

The Group writes down its obsolete or slow-moving inventories based on the assessment of its estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses sales trend and current economic trends when making a judgement to evaluate the adequacy of the write-down of obsolete or slow-moving inventories. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

The carrying amounts of the Group's inventories are disclosed in Note 9.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

	Note	Freehold lands RM'000	Buildings RM'000	Computers and software RM'000	Furniture and fittings RM'000	Office equipment RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Renovation RM'000	Capital work-in- progress RM'000	Right-of-use assets RM'000	Total RM'000
Cost												
At 1 January 2020		7,291	6,564	386	765	232	12,157	2,486	697	2,957	2,943	36,478
Additions		-	-	199	38	24	1,290	341	239	1,425	3,107	6,663
Disposals		-	-	-	-	-	-	(221)	-	-	-	(221)
Written off		-	-	(11)	-	-	-	-	-	-	-	(11)
Derecognition		-	-	-	-	-	-	-	-	-	(97)	(97)
At 31 December 2020		7,291	6,564	574	803	256	13,447	2,606	936	4,382	5,953	42,812
Accumulated depreciation												
At 1 January 2020		-	415	318	552	148	8,250	1,599	624	-	27	11,933
Depreciation charge for the financial year	22	-	131	84	66	26	1,318	292	28	-	221	2,166
Disposals		-	-	-	-	-	-	(221)	-	-	-	(221)
Written off		-	-	(8)	-	-	-	-	-	-	-	(8)
Derecognition		-	-	-	-	-	-	-	-	-	(52)	(52)
At 31 December 2020		-	546	394	618	174	9,568	1,670	652	-	196	13,818
Carrying amount												
At 1 January 2020		7,291	6,149	68	213	84	3,907	887	73	2,957	2,916	24,545
At 31 December 2020		7,291	6,018	180	185	82	3,879	936	284	4,382	5,757	28,994

13. ACCOUNTANTS' REPORT (Cont'd)

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Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold lands RM'000	Buildings RM'000	Computers and software RM'000	Furniture and fittings RM'000	Office equipment RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Renovation RM'000	Capital work-in- progress RM'000	Right-of-use assets RM'000	Total RM'000
Cost												
At 1 January 2021		7,291	6,564	574	803	256	13,447	2,606	936	4,382	5,953	42,812
Additions		-	-	147	28	25	1,042	274	49	69	-	1,634
Disposals		-	-	-	-	-	-	(74)	-	-	-	(74)
Written off		-	-	(204)	(21)	(25)	(691)	(15)	(58)	-	-	(1,014)
At 31 December 2021		7,291	6,564	517	810	256	13,798	2,791	927	4,451	5,953	43,358
Accumulated depreciation												
At 1 January 2021		-	546	394	618	174	9,568	1,670	652	-	196	13,818
Depreciation charge for the financial year	22	-	131	127	60	28	1,259	329	66	-	496	2,496
Disposals		-	-	-	-	-	-	(74)	-	-	-	(74)
Written off		-	-	(187)	(21)	(25)	(530)	(15)	(58)	-	-	(836)
At 31 December 2021		-	677	334	657	177	10,297	1,910	660	-	692	15,404
Carrying amount												
At 1 January 2021		7,291	6,018	180	185	82	3,879	936	284	4,382	5,757	28,994
At 31 December 2021		7,291	5,887	183	153	79	3,501	881	267	4,451	5,261	27,954

13. ACCOUNTANTS' REPORT (Cont'd)

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Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold lands RM'000	Buildings RM'000	Computers and software RM'000	Furniture and fittings RM'000	Office equipment RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Renovation RM'000	Capital work-in- progress RM'000	Right-of-use assets RM'000	Total RM'000
Cost												
At 1 January 2022		7,291	6,564	517	810	256	13,798	2,791	927	4,451	5,953	43,358
Additions		4,536	3,023	86	102	11	1,289	-	330	8,735	252	18,364
Disposals		-	-	(26)	-	-	(103)	(99)	-	-	-	(228)
Derecognition		-	-	-	-	-	-	-	-	-	(1,147)	(1,147)
At 31 December 2022		11,827	9,587	577	912	267	14,984	2,692	1,257	13,186	5,058	60,347
Accumulated depreciation												
At 1 January 2022		-	677	334	657	177	10,297	1,910	660	-	692	15,404
Depreciation charge for the financial year	22	-	161	135	67	31	1,298	316	113	-	361	2,482
Disposals		-	-	(22)	-	-	(19)	(69)	-	-	-	(110)
Derecognition		-	-	-	-	-	-	-	-	-	(978)	(978)
At 31 December 2022		-	838	447	724	208	11,576	2,157	773	-	75	16,798
Carrying amount												
At 1 January 2022		7,291	5,887	183	153	79	3,501	881	267	4,451	5,261	27,954
At 31 December 2022		11,827	8,749	130	188	59	3,408	535	484	13,186	4,983	43,549

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold lands RM'000	Buildings RM'000	Computers and software RM'000	Furniture and fittings RM'000	Office equipment RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Renovation RM'000	Capital work-in- progress RM'000	Right-of-use assets RM'000	Total RM'000
Cost												
At 1 January 2023		11,827	9,587	577	912	267	14,984	2,692	1,257	13,186	5,058	60,347
Additions		-	-	69	75	27	324	371	87	30,722	38	31,713
Disposals		-	-	-	-	-	(36)	(592)	-	-	-	(628)
Derecognition		-	-	-	-	-	-	-	-	-	(78)	(78)
At 31 December 2023		11,827	9,587	646	987	294	15,272	2,471	1,344	43,908	5,018	91,354
Accumulated depreciation												
At 1 January 2023		-	838	447	724	208	11,576	2,157	773	-	75	16,798
Depreciation charge for the financial year	22	-	192	105	89	30	1,197	300	149	-	104	2,166
Disposals		-	-	-	-	-	(5)	(592)	-	-	-	(597)
Derecognition		-	-	-	-	-	-	-	-	-	(40)	(40)
At 31 December 2023		-	1,030	552	813	238	12,768	1,865	922	-	139	18,327
Carrying amount												
At 1 January 2023		11,827	8,749	130	188	59	3,408	535	484	13,186	4,983	43,549
At 31 December 2023		11,827	8,557	94	174	56	2,504	606	422	43,908	4,879	73,027

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(a) Assets pledged as security**

Freehold lands and buildings with a carrying amount of RM20,384,003 (2022: RM20,575,754, 2021: RM13,177,751 and 2020: RM13,309,026) has been pledged as security to secure loans and borrowings of the Group as disclosed in Note 15(a).

Motor vehicles with carrying amount of RM428,278 (2022: RM167,352, 2021: RM446,631 and 2020: RM439,020) have been pledged as security for hire purchase arrangement as disclosed in Note 15(c).

Capital work-in-progress with carrying amount of RM7,171,642 (2022, 2021 and 2020: RMNil) have been pledged as security secure loans and borrowings of the Group as disclosed in Note 15(a).

(b) Right-of-use assets

The Group leases several assets including leasehold land, buildings and plant and machinery.

Information about leases for which the Group is lessee is presented below:

	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Total RM'000
Carrying amount				
At 1 January 2020	2,813	77	26	2,916
Additions	1,960	1,147	-	3,107
Depreciation charge for the financial year	-	(214)	(7)	(221)
Derecognition*	-	(45)	-	(45)
At 31 December 2020	4,773	965	19	5,757
Depreciation charge for the financial year	-	(489)	(7)	(496)
At 31 December 2021	4,773	476	12	5,261
Additions	-	252	-	252
Depreciation charge for the financial year	-	(354)	(7)	(361)
Derecognition*	-	(169)	-	(169)
At 31 December 2022	4,773	205	5	4,983
Additions	18	-	20	38
Depreciation charge for the financial year	-	(98)	(6)	(104)
Derecognition*	-	(38)	-	(38)
At 31 December 2023	4,791	69	19	4,879

* Derecognition of the right-of-use assets during the financial year was a result of termination of certain leases.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(b) Right-of-use assets (continued)**

The Group leases land and buildings for its office space, operation site and staff accommodation. The leases for the leasehold land and buildings generally have lease term of 2 to 99 years.

Leasehold land has been pledged as security to secure loans and borrowings of the Group as disclosed in Note 15(a).

The Group also leases plant and machinery for its operation. The leases for plant and machinery generally have lease term of 5 years.

6. INTANGIBLE ASSET

	Note	Patent RM'000
Cost		
At 1 January 2020		-
Additions		-
At 31 December 2020		-
Additions		-
At 31 December 2021		-
Additions		200
At 31 December 2022		200
Additions		-
At 31 December 2023		200
Accumulated amortisation		
At 1 January 2020		-
Amortisation charge for the financial year	22	-
At 31 December 2020		-
Amortisation charge for the financial year	22	-
At 31 December 2021		-
Amortisation charge for the financial year	22	10
At 31 December 2022		10
Amortisation charge for the financial year	22	20
At 31 December 2023		30
Carrying amount		
At 31 December 2020		-
At 31 December 2021		-
At 31 December 2022		190
At 31 December 2023		170

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13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**6. INTANGIBLE ASSET (CONTINUED)****Amortisation**

The amortisation of patent of the Group amounting to RM20,000 (2022: RM10,000, 2021 and 2020: RMNil) is included in cost of sales.

7. OTHER INVESTMENT

	←	As at 31 December		→
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
At cost:				
Unquoted shares	385	-	-	-

Other investment in unquoted ordinary shares for financial year ended 31 December 2020 represents investment in an associate at cost.

The financial position, financial performance and cash flows of the below company had been carved out from the combined financial statements as the management disposed the company for the purposes of the listing on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

Details of the associate is as follows:

Name of company	Principal place of business/ country of incorporation	Ownership interest				Principal activities
		2020	2021	2022	2023	
		%	%	%	%	
PT Smartindo Global Asia ("PT Smartindo")	Indonesia	50	-	-	-	Manufacturing of paints and coating materials

Disposal of PT Smartindo

On 23 December 2021, the Company disposed its entire equity interest in PT Smartindo, representing 1,250 ordinary shares in PT Smartindo for a total consideration of RM30,000. PT Smartindo ceased to be an associate of the Company.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**8. DEFERRED TAX ASSETS/(LIABILITIES)**

Deferred tax relates to the following:

	At 1 January 2020 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31 December 2020 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(267)	(18)	(285)
Deferred tax assets:			
Impairment loss on trade receivables	82	12	94
Lease liabilities	-	1	1
	<u>82</u>	<u>13</u>	<u>95</u>
	<u>(185)</u>	<u>(5)</u>	<u>(190)</u>
	At 1 January 2021 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31 December 2021 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(285)	(45)	(330)
Deferred tax assets:			
Property, plant and equipment	-	5	5
Impairment loss on trade receivables	94	57	151
Impairment loss on inventories	-	61	61
Lease liabilities	1	1	2
	<u>95</u>	<u>124</u>	<u>219</u>
	<u>(190)</u>	<u>79</u>	<u>(111)</u>

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**8. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

Deferred tax relates to the following: (continued)

	At 1 January 2022 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31 December 2022 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(330)	(80)	(410)
Deferred tax assets:			
Property, plant and equipment	5	(3)	2
Impairment loss on trade receivables	151	(76)	75
Impairment loss on inventories	61	(2)	59
Lease liabilities	2	(2)	*
	<u>219</u>	<u>(83)</u>	<u>136</u>
	<u>(111)</u>	<u>(163)</u>	<u>(274)</u>
	At 1 January 2023 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31 December 2023 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(410)	(42)	(452)
Unrealised foreign exchange gain	-	(6)	(6)
	<u>(410)</u>	<u>(48)</u>	<u>(458)</u>
Deferred tax assets:			
Property, plant and equipment	2	17	19
Impairment loss on trade receivables	75	20	95
Impairment loss on inventories	59	(33)	26
Lease liabilities	*	-	*
	<u>136</u>	<u>4</u>	<u>140</u>
	<u>(274)</u>	<u>(44)</u>	<u>(318)</u>

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**8. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	31	1	-	-
Impairment loss on trade receivables	95	-	-	-
Unused tax losses	313	150	342	627
Unabsorbed capital allowance	2	-	1	2
	441	151	343	629
Potential deferred tax benefit at 24%	106	36	82	151

The availability of unused tax losses for offsetting against future taxable profits in Malaysia are subject to requirements under the Income Tax, 1967 and guidelines issued by the tax authority.

The unused tax losses are available for offset against future taxable profits of the Group up to the following years:

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
2028	95	-	-	-
2029	43	-	-	-
2030	175	150	150	150
2032	-	-	192	192
2033	-	-	-	285
	313	150	342	627

9. INVENTORIES

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
At lower of cost and net realisable value:				
Raw materials	9,429	10,957	10,503	9,180
Work-in-progress	63	439	572	781
Finished goods	11,486	13,843	12,669	15,288
	20,978	25,239	23,744	25,249

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**9. INVENTORIES (CONTINUED)**

- (a) The cost of inventories of the Group recognised as an expense in cost of sales during the financial year was RM50,166,899 (2022: RM37,558,811, 2021: RM36,129,064 and 2020: RM34,889,089).
- (b) The cost of inventories of the Group recognised as an expense in cost of sales during the financial year in respect of write-down of inventories to net realisable value was RMNil (2022: RM125,432, 2021: RM252,753 and 2020: RMNil).
- (c) During the financial year, the Group reversed the previous inventories written down value of RM137,264 (2022: RM82,510, 2021 and 2020: RMNil). The amount of reversal was included in cost of sales.

10. TRADE AND OTHER RECEIVABLES

	Note	← As at 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Trade					
Trade receivables	(a)				
- Third parties		22,070	17,140	24,021	28,293
- Related parties		2,025	1,226	1,531	951
Retention sums		-	-	-	109
		24,095	18,366	25,552	29,353
Less: Impairment losses for trade receivables		(484)	(625)	(305)	(407)
		23,611	17,741	25,247	28,946
Non-trade					
Other receivables		466	571	11	83
Deposits		132	299	236	626
Prepayments		87	94	770	551
Amount owing by a related party	(b)	431	431	-	-
		1,116	1,395	1,017	1,260
Total trade and other receivables		24,727	19,136	26,264	30,206

(a) Trade receivables

Trade receivables are non-interest bearing and normal credit term offered by the Group ranges from 30 to 150 days (2022, 2021 and 2020: 30 to 150 days) from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**10. TRADE AND OTHER RECEIVABLES (CONTINUED)****(a) Trade receivables (continued)**Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the reconciliation of the movement in the impairment of trade receivables are as follow:

	Note	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
At 1 January		436	484	625	305
Charge for the financial year					
- Individually assessed	22	36	112	-	-
- Collectively assessed	22	12	63	14	106
Reversal of impairment losses	19	-	(34)	(334)	(4)
At 31 December		484	625	305	407

(b) Amount owing by a related party

Amount owing by a related party is unsecured, non-trade in nature, non-interest bearing, repayable on demand and is expected to be settled in cash.

The information about the credit exposures is disclosed in Note 27(b)(i).

11. CONTRACT ASSETS/(LIABILITIES)

	← As at 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Contract assets relating to service contracts	292	48	27	1,209
Contract liabilities relating to sale of goods	4,099	2,294	1,715	1,967

(a) Contract assets

Contract assets primarily relate to the Group's right to consideration for service transferred for which receipt of its consideration is conditional on the completion and acceptance by the customers. Contract assets are transferred to receivables when the right becomes unconditional.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

11. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(b) Contract liabilities

The contract liabilities represent invoice billed for the sale of goods for which performance obligations have not been satisfied. The contract liabilities will only be recognised as revenue when the cash balances are used for purchases or when redemption occurs or upon expiry of the redemption period, and hence the Group applies the practical expedient not to disclose the information pertaining to the timing of revenue recognition from the remaining performance obligations.

(c) Significant changes in contract balances

	FYE 31 December 2020		FYE 31 December 2021		FYE 31 December 2022		FYE 31 December 2023	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities	Contract assets	Contract liabilities	Contract assets	Contract liabilities
	Increase/ (decrease)	Decrease/ (increase)	Increase/ (decrease)	Decrease/ (increase)	Increase/ (decrease)	Decrease/ (increase)	Increase/ (decrease)	Decrease/ (increase)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue recognised that was included in contract liability at the beginning of the financial year	-	3,171	-	2,455	-	1,500	-	1,465
Increase due to invoice billed in advance to customer, but revenue not recognised	-	(1,493)	-	(650)	-	(921)	-	(1,717)
Increase as a result of changes in the measure of progress	244	-	-	-	27	-	1,209	-
Transfers from contract assets recognised at the beginning of the financial year to receivables	-	-	(244)	-	(48)	-	(27)	-

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13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**11. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)****(d) Revenue recognised in relation to contract balances**

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Revenue recognised that was included in contract liability at the beginning of the financial year	3,171	2,455	1,500	1,465

Revenue recognised that was included in the contract liability balance at the beginning of the financial year represented primarily revenue from the sale of goods.

12. CASH AND SHORT-TERM DEPOSITS

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	5,185	4,217	5,056	5,778
Short-term deposits	-	-	-	144
	5,185	4,217	5,056	5,922

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise of the following:

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Short-term deposits	-	-	-	144
Less: Pledged deposits	-	-	-	(144)
	-	-	-	-
Cash and bank balances	5,185	4,217	5,056	5,778
Bank overdrafts	(9,479)	-	-	-
	(4,294)	4,217	5,056	5,778

Short-term deposits placed with licensed banks of the Group have been pledged to the licensed banks to secure credit facilities granted to the Group as disclosed in Note 15.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

13. INVESTED EQUITY

	Number of ordinary shares				Amounts			
	2020 Unit'000	2021 Unit'000	2022 Unit'000	2023 Unit'000	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Issued and fully paid-up (no par value):								
At 1 January	52,075	51,875	51,875	51,800	52,075	51,875	51,875	51,800
Issuance of shares pursuant to:								
- Share split	-	-	-	203,600	-	-	-	-
Adjustment pursuant to merger accounting	(200)	-	(75)	-	(200)	-	(75)	-
At 31 December	51,875	51,875	51,800	255,400	51,875	51,875	51,800	51,800

For the purpose of this report, the invested equity as at 31 December 2020 and 31 December 2021 represent the aggregate number of issued share capital of all combining entities within the Group eliminated against the investment in subsidiaries, the share capital of Smart Paint Manufacturing and Smart Paints (M) had been eliminated against the investment in subsidiaries of Smart Asia. As at 31 December 2022 and 31 December 2023, the invested equity represent the aggregate number of issued share capital of all combining entities within the Group eliminated against the investment in subsidiaries, the share capital of Smart Paint Manufacturing, Smart Paints (M) and Color Breeze had been eliminated against the investment in subsidiaries of Smart Asia.

On 12 May 2023, the issued and paid-up share capital of the Company was increased from 51,800,002 ordinary shares to 255,400,010 ordinary shares by way of issuance of 203,600,008 new ordinary shares pursuant to the share split involving the subdivision of every one (1) existing ordinary share in the Company held into five (5) ordinary shares.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**14. REORGANISATION RESERVE**

The reorganisation reserve arose from the differences between the carrying amount of the investment and the nominal value of the share of the subsidiaries upon consolidation using the merger accounting principles.

15. LOANS AND BORROWINGS

	Note	← As at 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Non-current:					
Term loans	(a)	6,865	6,334	11,870	37,062
Lease liabilities	(b)	500	159	90	26
Hire purchase payables	(c)	79	117	53	89
		7,444	6,610	12,013	37,177
Current:					
Term loans	(a)	613	574	850	866
Lease liabilities	(b)	490	341	123	67
Hire purchase payables	(c)	177	120	61	201
Bankers' acceptance	(d)	-	-	2,702	3,180
Bank overdrafts	(e)	9,479	-	-	-
		10,759	1,035	3,736	4,314
Total loans and borrowings					
Term loans	(a)	7,478	6,908	12,720	37,928
Lease liabilities	(b)	990	500	213	93
Hire purchase payables	(c)	256	237	114	290
Bankers' acceptance	(d)	-	-	2,702	3,180
Bank overdrafts	(e)	9,479	-	-	-
		18,203	7,645	15,749	41,491

(a) Term loans

Term loan 1 of the Group of RM2,679,094 (2022: RM2,981,220, 2021: RM3,295,553 and 2020: RM3,618,004) bears interest at Base Lending Rate ("BLR") minus 2.10% per annum and is repayable by monthly instalments of RM36,169 over 180 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over freehold land and building of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**15. LOANS AND BORROWINGS (CONTINUED)****(a) Term loans (continued)**

Term loan 2 of the Group of RM2,470,768 (2022: RM2,592,904, 2021: RM2,732,018, 2020: RM2,859,437) bears interest at Base Financing Rate ("BFR") minus 2.40% per annum and is repayable by monthly instalments of RM19,159 over 240 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

Term loan 3 of the Group of RM492,573 (2022: RM689,881, 2021: RM880,412 and 2020: RM1,000,000) bears interest at Base Negara Malaysia Funding Rate under special relief facility of 3.50% per annum and is repayable by monthly instalments of RM18,192 over 60 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Joint and several guarantee by certain directors of the Group; and
- (ii) Corporate guarantee by a third party under the special relief facility scheme for 80% of the principal and interest outstanding.

Term loan 4 of the Group of RM6,254,815 (2022: RM6,455,734, 2021 and 2020: RMNil) bears interest at BLR minus 2.40% per annum and is repayable by monthly instalments of RM36,170 over 240 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

Term loan 5 of the Group of RM7,171,642 (2022, 2021 and 2020: RMNil) bears interest at BLR minus 0.60% per annum and is repayable by monthly instalments of RM165,212 over 84 months commencing upon full drawdown or 36 months from the letter offer date whichever is earlier and is secured and supported as follows:

- (i) Specific charge over the production line and machine which capitalised in the capital work-in-progress of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

Term loan 6 of the Group of RM18,858,892 (2022, 2021 and 2020: RMNil) bears interest at BLR minus 2.30% per annum and is repayable by monthly instalments of RM138,495 over 240 months commencing upon full drawdown or the fourth day of the 37 months from the letter offer date whichever is earlier and is secured and supported as follows:

- (i) Legal charge over short-term deposits as disclosed in Note 12;
- (ii) Legal charge over leasehold land, freehold lands and buildings of the Group as disclosed in Note 5; and
- (iii) Joint and several guarantee by certain directors of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**15. LOANS AND BORROWINGS (CONTINUED)****(b) Lease liabilities**

Future minimum lease payments together with the present value of net minimum lease payments are as follows:

	← As at 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Minimum lease payments:				
- Not later than one year	518	351	131	70
- Later than one year and not later than five years	514	163	92	28
	1,032	514	223	98
Less: Future finance charges	(42)	(14)	(10)	(5)
Present value of minimum lease payments	990	500	213	93
Present value of minimum lease payments:				
- Not later than one year	490	341	123	67
- Later than one year and not later than five years	500	159	90	26
	990	500	213	93
Less: Amount due within twelve months	(490)	(341)	(123)	(67)
Amount due after twelve months	500	159	90	26

(c) Hire purchase payables

Hire purchase payables of the Group of RM290,502 (2022: RM113,943, 2021: RM236,764 and 2020: RM256,512) bear interest ranging from 1.30% to 4.10% (2022: 4.10% to 6.64%, 2021 and 2020: 3.60% to 6.64%) per annum and are secured by the Group's motor vehicles under hire purchase arrangements as disclosed in Note 5(a).

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**15. LOANS AND BORROWINGS (CONTINUED)****(d) Bankers' acceptance**

Bankers' acceptance bears effective interests at rates ranging from 5.31% to 5.40% (2022: 4.22% to 5.19%, 2021 and 2020: Nil%) per annum and is secured and supported as follows:

- (i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

(e) Bank overdrafts

Bank overdraft 1 of the Group of RMNil (2022: RMNil, 2021: RMNil and 2020: RM 1,918,256) bears interest at BLR minus 1.00% per annum and is secured and supported as follows:

- (i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

Bank overdraft 2 of the Group of RMNil (2022: RMNil, 2021: RMNil and 2020: RM 2,703,537) bears interest at BLR add 0.50% per annum and is secured and supported as follows:

- (i) Legal charge over certain directors' properties; and
- (ii) Joint and several guarantee by certain directors of the Group.

Bank overdraft 3 of the Group of RMNil (2022: RMNil, 2021: RMNil and 2020: RM4,856,637) bears interest at BFR add 0.30% per annum and is secured and supported as follows:

- (i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
- (ii) Joint and several guarantee by certain directors of the Group.

16. DEFERRED INCOME

	Note	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Non-current					
Government grants					
At 1 January		-	-	-	143
Received during the financial year	(a)	-	-	143	-
At 31 December		-	-	143	143

(a) Government grants relates to assets

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**17. TRADE AND OTHER PAYABLES**

	Note	← As at 31 December →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Trade					
Trade payables	(a)				
- Third parties		7,380	7,468	9,624	12,242
- Related parties		224	557	97	1
Accruals		442	85	63	1,032
Retention sums		-	-	-	53
		8,046	8,110	9,784	13,328
Non-trade					
Other payables		3,813	2,408	8,283	6,181
Accruals		4,373	4,275	3,172	3,421
Deposits		158	204	126	126
		8,344	6,887	11,581	9,728
Total trade and other payables		16,390	14,997	21,365	23,056

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 30 to 90 days (2022, 2021 and 2020: 30 to 90 days).

For explanations on the Group's liquidity risk management processes, refer to Note 27(b)(ii).

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**18. REVENUE**

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Revenue from contract with customers:				
Sale of goods	70,618	79,708	78,869	88,422
Service contracts	981	58	349	2,669
	71,599	79,766	79,218	91,091
Timing of revenue recognition:				
At a point in time	70,666	79,708	79,058	89,369
Over time	933	58	160	1,722
	71,599	79,766	79,218	91,091

19. OTHER INCOME

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Gain on disposal of property, plant and equipment	57	40	55	112
Management fee	36	12	1	-
Net realised foreign exchange gain	-	128	-	-
Net unrealised foreign exchange gain	-	23	83	23
Bad debts recovery	-	-	-	5
Reversal of impairment loss on trade receivables	-	34	334	4
Gain on lease modification	2	-	6	9
Rental income	3	3	4	2
Government subsidy	389	206	230	-
Miscellaneous	27	2	36	16
	514	448	749	171

20. FINANCE INCOME

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Interest income	*	*	-	*

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**21. FINANCE COSTS**

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
- Term loans	229	258	355	959
- Lease liabilities	17	27	12	7
- Hire purchase	13	19	12	7
- Bankers' acceptance	58	10	82	157
- Bank overdrafts	256	211	59	210
- Bank guarantee	-	-	-	7
- Advances from a related party	1	-	-	-
	574	525	520	1,347

22. PROFIT BEFORE TAX

Other than disclosed elsewhere in the combined financial statements, the following items have been (credited)/charged in arriving at profit before tax:

	← FYE 31 December →			
	2020	2021	2022	2023
Note	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration - statutory audit:				
- Baker Tilly Monteiro Heng PLT	-	-	105	130
- Member firm of Baker Tilly International	70	79	-	-
Depreciation of property, plant and equipment	5	2,166	2,496	2,482
Property, plant and equipment written off		3	178	-
Amortisation of intangible asset	6	-	-	10
Inventories written down		-	253	125
Reversal of inventories written down		-	-	(83)
Impairment loss on trade receivables	10	48	175	14
Bad debts written off		24	27	259
Rental expense on:				
- premises		80	81	37
- office equipment		96	106	110
- office		-	-	-
Loss on disposal of other investment	7	-	355	-
Net realised foreign exchange loss		40	-	118
Net unrealised foreign exchange loss		22	-	-
Employee benefits expense	23	8,857	10,000	9,978
		8,857	10,000	9,978
		10,422	10,422	10,422

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**23. EMPLOYEE BENEFITS EXPENSE**

	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Salaries, wages, allowances and bonuses	7,351	8,359	8,393	8,698
Defined contribution plans	813	901	915	904
Other staff related benefits	693	740	670	820
	8,857	10,000	9,978	10,422
Included in employee benefits expense are:				
- Directors' fee	-	-	-	104
- Directors' remuneration	629	628	643	686
- Directors' defined contribution plans	77	77	75	78
- Directors' other related benefits	4	4	4	12
	710	709	722	880

24. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 are as follows:

	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Combined statement of comprehensive income				
Current income tax:				
- Current income tax charge	1,980	3,320	2,427	3,553
- Adjustment in respect of prior year	(26)	*	-	(86)
	1,954	3,320	2,427	3,467
Deferred tax (Note 8):				
- Origination/(Reversal) of temporary differences	39	(147)	168	8
- Adjustment in respect of prior year	(34)	68	(5)	36
	5	(79)	163	44
Income tax expense recognised in profit or loss	1,959	3,241	2,590	3,511

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**24. INCOME TAX EXPENSE (CONTINUED)**

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% of the estimated assessable profit for the financial years.

The income tax rate applicable to small and medium scale enterprise ("SME") incorporated in Malaysia with paid-up capital of RM2,500,000 and below and annual sales less than RM50,000,000 (2022, 2021 and 2020: RM50,000,000) is subject to the statutory income tax rate of 15% (2022, 2021 and 2020: 17%) on the first chargeable income of RM150,000 and 17% (2022, 2021 and 2020: 17%) on the next RM450,000. For chargeable income excess of RM600,000 (2022, 2021 and 2020: RM600,000), statutory income tax rate of 24% (2022, 2021 and 2020: 24%) is still applicable.

The reconciliations from the tax amount at the statutory income tax rate to the Group's tax expense are as follows:

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Profit before tax	9,401	13,931	11,204	12,316
Tax at Malaysian statutory income tax rate of 24%	2,256	3,343	2,689	2,956
SME tax savings	(84)	(61)	(68)	(68)
Adjustments:				
- Income not subject to tax	(275)	(125)	(93)	(16)
- Reinvestment allowance	(112)	(128)	(114)	-
- Non-deductible expenses	216	214	135	620
- Deferred tax not recognised on tax losses and temporary differences	42	-	46	69
- Adjustment in respect of current income tax of prior year	(26)	*	-	(86)
- Utilisation of previously unrecognised tax losses and capital allowances	(24)	(70)	-	-
- Adjustment in respect of deferred tax of prior year	(34)	68	(5)	36
Income tax expense	1,959	3,241	2,590	3,511

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. EARNINGS PER SHARE****Basic earnings per ordinary share and diluted earnings per ordinary share**

Basic earnings per ordinary share are based on the profit for the financial years attributable to owner of the Group and the weighted average number of ordinary shares outstanding during the financial years.

Diluted earnings per ordinary share are based on the profit for the financial years attributable to owner of the Group and the weighted average number of ordinary shares outstanding during the financial years plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The basic and diluted earnings per ordinary share are computed as follow:

	← FYE 31 December →			
	2020	2021	2022	2023
Profit attributable to owners of the Group (RM'000)	7,489	10,680	8,665	8,876
Weighted average number of ordinary shares in issue after effect of share split [^] (in '000 unit)	255,400	255,400	255,400	255,400
Basic and diluted earnings per share (RM)	0.03	0.04	0.03	0.03

[^] For the purpose of this report, the weighted average number of ordinary shares is the invested equity of the Group. The weighted average number of ordinary shares in issue for the previous financial years have been restated to reflect the retrospective adjustment arising from the share split which was completed during the financial year ended 31 December 2023.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**26. DIVIDENDS**

	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Recognised during the financial year:				
Dividends on ordinary shares:				
- Single-tier interim dividend for the FYE 31 December 2021: RM0.54 per ordinary share, paid on 26 January 2022	-	-	351	-
- Single-tier interim dividend for the FYE 31 December 2021: RM1.00 per ordinary share, paid on 21 December 2021	-	650	-	-
	-	650	351	-

27. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned:

	Carrying amount RM'000	Amortised cost RM'000
At 31 December 2020		
Financial assets		
Other investment	385	385
Trade and other receivables, less prepayments	24,640	24,640
Cash and short-term deposits	5,185	5,185
	30,210	30,210
Financial liabilities		
Loans and borrowings	(18,203)	(18,203)
Trade and other payables	(16,390)	(16,390)
	(34,593)	(34,593)

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(a) Categories of financial instruments (continued)**

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned: (continued)

	Carrying amount RM'000	Amortised cost RM'000
At 31 December 2021		
Financial assets		
Trade and other receivables, less prepayments	19,042	19,042
Cash and short-term deposits	4,217	4,217
	<u>23,259</u>	<u>23,259</u>
Financial liabilities		
Loans and borrowings	(7,645)	(7,645)
Trade and other payables	(14,997)	(14,997)
	<u>(22,642)</u>	<u>(22,642)</u>
At 31 December 2022		
Financial assets		
Trade and other receivables, less prepayments	25,494	25,494
Cash and short-term deposits	5,056	5,056
	<u>30,550</u>	<u>30,550</u>
Financial liabilities		
Loans and borrowings	(15,749)	(15,749)
Trade and other payables	(21,365)	(21,365)
	<u>(37,114)</u>	<u>(37,114)</u>

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(a) Categories of financial instruments (continued)**

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned: (continued)

	Carrying amount RM'000	Amortised cost RM'000
At 31 December 2023		
Financial assets		
Trade and other receivables, less prepayments	29,655	29,655
Cash and short-term deposits	5,922	5,922
	<u>35,577</u>	<u>35,577</u>
Financial liabilities		
Loans and borrowings	(41,491)	(41,491)
Trade and other payables	(23,056)	(23,056)
	<u>(64,547)</u>	<u>(64,547)</u>

(b) Financial risk management

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders. The Group does not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management.

(i) Credit risk

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its investing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Credit worthiness of a customer is assessed based on a set of evaluation criteria and individual credit limits are defined in accordance with this assessment.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

The Group considers a financial asset to be in default when:

- the counterparty is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
- the contractual payment of the financial asset is more than credit term unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

At the end of the reporting period, the Group assesses whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Those events evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the counterparty;
- a breach of contract, including a default event;
- a concession or restructuring of loans granted by the lender of the counterparty;
- relating to the counterparty's financial difficulty; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedure for recovery of amounts due.

13. ACCOUNTANTS' REPORT (Cont'd)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables and contract assets is represented by the carrying amounts in the combined statements of financial position.

The carrying amount of trade receivables and contract assets are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile

At the end of the reporting period, the Group does not have any significant exposure to its individual customer.

The Group applies the simplified approach to provide for impairment losses prescribed by MFRS 9 *Financial Instruments*, which permits the use of the lifetime expected losses provision for all trade receivables and contract assets. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impairment losses also incorporate forward looking information.

13. ACCOUNTANTS' REPORT (Cont'd)

SMART ASIA CHEMICAL BHD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows:

	Contract assets	Retention sums	Trade receivables								Total
			Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	
At 31 December 2020											
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	0.9%	2.1%	2.4%	9.5%	2.0%
Gross carrying amount at default (RM'000)	292	-	14,033	3,232	1,103	378	117	94	165	4,973	24,095
Impairment losses (RM'000)	-	-	4	1	1	1	1	2	4	470	484

13. ACCOUNTANTS' REPORT (Cont'd)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows:
(continued)

	Contract assets	Retention sums	Trade receivables								Total
			Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	
At 31 December 2021											
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.8%	3.5%	0.2%	19.2%	3.4%
Gross carrying amount at default (RM'000)	48	-	10,751	3,049	832	169	128	198	50	3,189	18,366
Impairment losses (RM'000)	-	-	2	1	1	*	1	7	*	613	625

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows:
(continued)

	Contract assets	Retention sums	Trade receivables								Total
			Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	
At 31 December 2022											
Expected credit loss rate	0.0%	0.0%	0.0%	0.1%	0.7%	0.4%	1.0%	3.7%	13.4%	11.5%	1.2%
Gross carrying amount at default (RM'000)	27	-	19,803	1,172	460	770	596	487	238	2,026	25,552
Impairment losses (RM'000)	-	-	8	1	3	3	6	18	32	234	305

13. ACCOUNTANTS' REPORT (Cont'd)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows:
(continued)

	Contract assets	Retention sums	Trade receivables								Total
			Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	
At 31 December 2023											
Expected credit loss rate	0.0%	0.0%	0.1%	0.1%	0.5%	0.8%	0.8%	12.5%	0.4%	24.0%	1.4%
Gross carrying amount at default (RM'000)	1,209	109	22,660	3,074	1,070	392	266	16	251	1,515	29,244
Impairment losses (RM'000)	-	-	29	2	5	3	2	2	1	363	407

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)****Other receivables and other financial assets**

For other receivables and other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other financial assets is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of counterparties in the group and changes in the operating results of the counterparty.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than the credit term in making a contractual payment.

Intercompany loans between related entities are repayable on demand. For loans that are repayable on demand, impairment losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the debtor does not have sufficient highly liquid resources when the loan is demanded, the Group will consider the expected manner of recovery and recovery period of the intercompany loan.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)****Other receivables and other financial assets (continued)**

As at the end of the reporting date, the Group considers the other receivables and other financial assets as low credit risk and any loss allowance would be negligible.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arise primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arise principally from trade and other payables and loans and borrowings.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group uses a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost on borrowed funds. The Group's finance department also ensure that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows:

	Carrying amount RM'000	Contractual cash flows			Total RM'000
		On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	
At 31 December 2020					
Trade and other payables	16,390	16,390	-	-	16,390
Term loans	7,478	828	4,284	3,980	9,092
Lease liabilities	990	518	514	-	1,032
Hire purchase payables	256	192	88	-	280
Bank overdrafts	9,479	9,479	-	-	9,479
	34,593	27,407	4,886	3,980	36,273

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(ii) Liquidity risk (continued)**Maturity analysis (continued)

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows: (continued)

	← Contractual cash flows →				Total RM'000
	Carrying amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	
At 31 December 2021					
Trade and other payables	14,997	14,997	-	-	14,997
Term loans	6,908	882	4,066	3,316	8,264
Lease liabilities	500	351	163	-	514
Hire purchase payables	237	130	125	-	255
	22,642	16,360	4,354	3,316	24,030
At 31 December 2022					
Trade and other payables	21,365	21,365	-	-	21,365
Term loans	12,720	1,364	5,098	10,706	17,168
Lease liabilities	213	131	92	-	223
Hire purchase payables	114	68	53	-	121
Bankers' acceptance	2,702	2,702	-	-	2,702
	37,114	25,630	5,243	10,706	41,579
At 31 December 2023					
Trade and other payables	23,056	23,056	-	-	23,056
Term loans	37,928	1,364	17,169	35,166	53,699
Lease liabilities	93	70	28	-	98
Hire purchase payables	290	204	91	-	295
Bankers' acceptance	3,180	3,180	-	-	3,180
	64,547	27,874	17,288	35,166	80,328

(iii) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when sales and purchases that are denominated in a foreign currency).

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**

The foreign currencies in which these transactions are denominated are United States Dollar ("USD"), Singapore Dollar ("SGD") and Chinese Renminbi ("RMB").

The Group's unhedged financial assets and liabilities that are not denominated in its functional currencies are as follows:

	← As at 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Financial assets and liabilities not held in functional currencies:				
<u>Trade receivables</u>				
USD	1,482	693	1,586	804
SGD	466	499	797	854
	<u>1,948</u>	<u>1,192</u>	<u>2,383</u>	<u>1,658</u>
<u>Bank balances</u>				
USD	98	396	177	11
<u>Trade payables</u>				
USD	1,733	761	1,815	2,630
SGD	420	274	33	122
RMB	-	43	-	-
	<u>2,153</u>	<u>1,078</u>	<u>1,848</u>	<u>2,752</u>

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**Sensitivity analysis for foreign currency risk

The Group's principal foreign currency exposure relates mainly to USD, SGD and RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, SGD and RMB, with all other variables held constant on the Group's total equity and profit for the financial years.

	Change in rate %	Effect on profit and equity for the financial year RM'000
At 31 December 2020		
USD	+15	17
	-15	(17)
SGD	+15	(5)
	-15	5
<hr/>		
At 31 December 2021		
USD	+15	(37)
	-15	37
SGD	+15	(26)
	-15	26
RMB	+15	5
	-15	(5)
<hr/>		
At 31 December 2022		
USD	+15	6
	-15	(6)
SGD	+15	(87)
	-15	87
<hr/>		
At 31 December 2023		
USD	+15	207
	-15	(207)
SGD	+15	(83)
	-15	83
<hr/>		

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iv) Interest rate risk**

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its loans and borrowings with floating interest rates.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial years:

	Carrying amount RM'000	Change in basis points	Effect on profit and equity for the financial year RM'000
At 31 December 2020			
Term loans	7,478	+50	(28)
		-50	28
Bank overdrafts	9,479	+50	(36)
		-50	36
At 31 December 2021			
Term loans	6,908	+50	(26)
		-50	26
At 31 December 2022			
Term loans	12,720	+50	(48)
		-50	48
Bankers' acceptance	2,702	+50	(10)
		-50	10
At 31 December 2023			
Term loans	37,928	+50	(144)
		-50	144
Bankers' acceptance	3,180	+50	(12)
		-50	12

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value measurement**

The carrying amount of cash and cash equivalents, short-term receivables and payables and short-term loans and borrowings reasonably approximate to their fair values due to the relatively short-term nature of these financial instruments.

There have been no transfers between Level 1 and Level 2 during the financial years (2022, 2021 and 2020: no transfer in either direction).

The following table provide the fair value measurement hierarchy of the Group's financial instruments:

	Carrying amount RM'000	Fair value of financial instruments not carried at fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
At 31 December 2020					
Financial liability					
Non-current					
Term loans	6,865	-	-	5,433	5,433
At 31 December 2021					
Financial liability					
Non-current					
Term loans	6,334	-	-	5,119	5,119
At 31 December 2022					
Financial liability					
Non-current					
Term loans	11,870	-	-	9,528	9,528
At 31 December 2023					
Financial liability					
Non-current					
Term loans	37,062	-	-	30,494	30,494

Level 3 fair valueFair value of financial instruments not carried at fair value

The fair value of liability component of term loans is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate of similar liabilities.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**28. COMMITMENTS**

The Group has made commitments for the following's capital expenditures:

	← As at 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Approved and contracted for:				
- Construction of factory building	-	-	23,556	1,279
- Supply and installation of plant and machinery in new factory	8,717	9,038	9,526	3,487
- Implementation of software	-	358	274	76
	<u>8,717</u>	<u>9,396</u>	<u>33,356</u>	<u>4,842</u>

29. RELATED PARTIES**(a) Identity of related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:

- (i) Entity in which person connected to a director has interests; and
- (ii) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows:

	← FYE 31 December →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Purchase of property, plant and equipment				
- Entity in which person connected to a director has interests	230	-	-	-
Purchase of intangible asset				
- Entity in which person connected to a director has interests	-	-	200	-

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**29. RELATED PARTIES (CONTINUED)****(b) Significant related party transactions (continued)**

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows: (continued)

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Disposal of property, plant and equipment				
- Entity in which person connected to a director has interests	-	-	30	-
Sales of goods				
- Entities in which person connected to a director has interests	6,953	7,592	7,284	5,659
Purchase of goods				
- Entities in which person connected to a director has interests	5,294	2,752	702	379
Rental charged to				
- Entity in which person connected to a director has interests	3	4	4	2
Rental charged by				
- A director	42	42	21	-
Management fee charged by				
- Entity in which person connected to a director has interests	36	12	1	-
Maintenance services charged to				
- Entity in which person connected to a director has interests	-	-	5	-

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**29. RELATED PARTIES (CONTINUED)****(b) Significant related party transactions (continued)**

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows: (continued)

	← FYE 31 December →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Transportation costs charged by				
- Entities in which person connected to a director has interests	8	-	12	2
Advances to				
- Entities in which person connected to a director has interests	126	-	-	-
Payment of sinking funds and maintenance fees				
- A director	10	6	6	-
Interest charged by				
- Entity in which person connected to a director has interests	1	-	-	-

(c) Compensation of key management personnel

Key management personnel include personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group.

There is no compensation of key management personnel other than as disclosed in Note 23.

Significant outstanding balances with related parties at the end of the reporting periods are disclosed in Notes 10 and 17.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**30. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023.

The Group monitors capital using gearing ratio. The gearing ratio is calculated as total debts divided by total equity. The gearing ratio as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023 are as follows:

		← As at 31 December →			
		2020	2021	2022	2023
	Note	RM'000	RM'000	RM'000	RM'000
Loans and borrowings/total debts	15	18,203	7,645	15,749	41,491
Total equity		41,513	51,553	59,966	68,771
Gearing ratio (times)		0.44	0.15	0.26	0.60

There were no changes in the Group's approach to capital management during the financial years under review.

The Group is required to maintain a gearing ratio of 2.0 times to comply with a bank covenant. The Group has not breached the covenant.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**31. SIGNIFICANT EVENTS DURING THE FINANCIAL YEARS****(a) COVID-19 pandemic**

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak as a pandemic in recognition of its rapid spread across the globe. Many countries including the Malaysian Government imposed the Movement Control Order to curb the spread of the COVID-19 pandemic. The COVID-19 pandemic also resulted in travel restriction, lockdown and other precautionary measures imposed in various countries. The emergence of the COVID-19 pandemic since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group operates.

The Group has performed an assessment of the overall impact of the situation on the Group's operations and financial implications, including the recoverability of the carrying amount of assets and subsequent measurements of assets and liabilities and concluded that there was no material adverse effect on the combined financial statements for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023.

(b) Share Split

The Company has undertaken the share split involving the subdivision of 50,900,002 existing ordinary share into 254,500,010 ordinary shares, which was completed on 12 May 2023.

(c) Smart Paint (Selangor) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paint (Selangor) comprising 650,000 ordinary shares from Goh Chye Hin, Chu Teck, Kee Hui Lang, Goh Chye Leng and Lim Kok Beng for a total purchase consideration of RM3,771,645, to be fully satisfied by the issuance of 18,858,225 new ordinary shares at an issue price of RM0.20 per share. The acquisition of Smart Paint (Selangor) was completed on 1 February 2024.

(d) Smart Paints (Sabah) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paints (Sabah) comprising 250,000 ordinary shares from Goh Chye Hin, Kee Hui Lang and Wong Kui Ming for a total purchase consideration of RM598,437, to be fully satisfied by the issuance of 2,992,185 new ordinary shares at an issue price of RM0.20 per share. The acquisition of Smart Paints (Sabah) was completed on 1 February 2024.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**32. SEGMENT INFORMATION**

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by directors for the purpose of making decisions about resource allocation and performance assessment.

The three reportable operating segments are as follow:

Segments	Product and services
Manufacturing	Development, manufacturing, distribution and sale of decorative paints, and protective coatings for household and industrial applications and related products which includes colourant and binding and coating chemicals and provision of original design manufacturers ("ODM") services of decorative paints, protective coating as well as binding and coating chemicals for third party brand owners.
Sale and Trading	Sale and trading of painting tools and accessories, aerosol spray paints and other related products which mainly include raw materials such as pigments and additives.
Others	Provision of painting services and selling of disinfectant products and sales and maintenance services of Smart Colour POS Tinting Machine.

Inter-segment pricing is determined on negotiated basis.

Segment profit

Segment performance is used to measure performance as Group's Managing Director believes that such information is the most relevant in evaluating the results of certain segment relative to other entities that operate within these industries.

Segment assets and liabilities

Segment assets and liabilities information are neither included in the internal management reports nor provided regularly to the Managing Director. Hence, no disclosure is made on segments assets and liabilities.

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**32. SEGMENT INFORMATION (CONTINUED)**

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2020				
Revenue:				
Revenue from external customers	55,783	8,763	7,053	71,599
Segment profit	17,194	2,350	3,243	22,787
Other income				514
Unallocated expenses				(13,326)
Finance income				*
Finance costs				(574)
Income tax expense				(1,959)
Profit for the financial year				7,442
Results:				
<i>Included in the measure of segment profit are:</i>				
Depreciation of property, plant and equipment				2,166
Employee benefits expense				8,857

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**32. SEGMENT INFORMATION (CONTINUED)**

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2021				
Revenue:				
Revenue from external customers	67,007	7,691	5,068	79,766
Segment profit	22,315	1,792	2,611	26,718
Other income				448
Unallocated expenses				(12,710)
Finance income				*
Finance costs				(525)
Income tax expense				(3,241)
Profit for the financial year				10,690
Results:				
<i>Included in the measure of segment profit is:</i>				
Depreciation of property, plant and equipment				2,496
Loss on disposal of other investment				355
Employee benefits expense				10,000

* Less than 1,000

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**32. SEGMENT INFORMATION (CONTINUED)**

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2022				
Revenue:				
Revenue from external customers	70,086	7,981	1,151	79,218
Segment profit	20,688	2,496	351	23,535
Other income				749
Unallocated expenses				(12,560)
Finance costs				(520)
Income tax expense				(2,590)
Profit for the financial year				8,614
Results:				
<i>Included in the measure of segment profit is:</i>				
Depreciation of property, plant and equipment				2,482
Amortisation of intangible asset				10
Employee benefits expense				9,978

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**32. SEGMENT INFORMATION (CONTINUED)**

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2023				
Revenue:				
Revenue from external customers	81,375	6,703	3,013	91,091
Segment profit	28,069	1,550	365	29,984
Other income				171
Unallocated expenses				(16,492)
Finance income				*
Finance costs				(1,347)
Income tax expense				(3,511)
Profit for the financial year				8,805
Results:				
<i>Included in the measure of segment profit is:</i>				
Depreciation of property, plant and equipment				2,166
Amortisation of intangible asset				20
Employee benefits expense				10,422

* *Less than 1,000*

13. ACCOUNTANTS' REPORT (Cont'd)**SMART ASIA CHEMICAL BHD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION (CONTINUED)**Geographical information

Revenue information based on the geographical location of customers are as follows:

	Revenue RM'000
At 31 December 2020	
Local	57,976
Overseas	13,623
	<u>71,599</u>
At 31 December 2021	
Local	65,907
Overseas	13,859
	<u>79,766</u>
At 31 December 2022	
Local	64,539
Overseas	14,679
	<u>79,218</u>
At 31 December 2023	
Local	77,914
Overseas	13,177
	<u>91,091</u>

14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION



18 April 2024

The Board of Directors
Smart Asia Chemical Bhd
No. 11, Jalan Indah Gemilang 5
Taman Perindustrian Gemilang
81800 Ulu Tiram, Johor, Malaysia

Baker Tilly Monteiro Heng PLT
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Dear Sirs,

SMART ASIA CHEMICAL BHD (“Smart Asia” or the “Company”)

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma combined statements of financial position of Smart Asia Chemical Bhd (“Smart Asia” or the “Company”) and the combining entities, namely Smart Paint Manufacturing Sdn. Bhd., Smart Paints (M) Sdn. Bhd., Smart Paints (Sabah) Sdn. Bhd., Smart Paint (Selangor) Sdn. Bhd. and Color Breeze Sdn. Bhd. (collectively referred to as “Group”) for which the directors of Smart Asia are solely responsible. The pro forma combined statements of financial position consist of the pro forma combined statements of financial position as at 31 December 2023 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Smart Asia have compiled the pro forma combined statements of financial position are as described in Note 2 to the pro forma combined statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia (“Prospectus Guidelines”) (“Applicable Criteria”).

The pro forma combined statements of financial position of the Group has been compiled by the directors of Smart Asia, for illustrative purposes only, for inclusion in the prospectus of Smart Asia (“Prospectus”) in connection with the listing of and quotation for the entire enlarged issued share capital of Smart Asia on the ACE Market of Bursa Malaysia Securities Berhad (“Listing”) comprising public issue of 93,500,000 initial public offering shares (“IPO”), after making certain assumptions and such adjustments to show the effects on the pro forma combined statements of financial position of the Group as at 31 December 2023 adjusted for the Pre-Listing or Internal Restructuring Exercise, IPO and utilisation of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 December 2023 Included in a Prospectus



As part of this process, information about the Group's pro forma combined statements of financial position has been extracted by the directors of Smart Asia from the audited combined financial statements of the Group for the Financial Year Ended ("FYE") 31 December 2023, on which a reporting accountants' report dated 18 April 2024 has been issued.

The audited combined financial statements of the Group for the FYE 31 December 2023 were reported by us to the members without any modifications.

Directors' Responsibility for the Pro Forma Combined Statements of Financial Position

The directors of Smart Asia are responsible for compiling the pro forma combined statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma combined statements of financial position has been compiled, in all material respects, by the directors of Smart Asia based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Smart Asia have compiled, in all material respects, the pro forma combined statements of financial position based on the Applicable Criteria.

**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 December 2023 Included in a Prospectus



Reporting Accountants' Responsibilities (Continued)

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma combined statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma combined statements of financial position.

The purpose of the pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Smart Asia in the compilation of the pro forma combined statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to Listing Scheme as described in Note 1.2 to the pro forma combined statements of financial position, and to obtain sufficient appropriate evidence about whether:

- (a) The pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited combined financial statements of the Group for the FYE 31 December 2023, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its audited financial statements for the FYE 31 December 2023; and
- (b) Each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma combined statements of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma combined statements of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 December 2023 Included in a Prospectus



Opinion

In our opinion:

- (a) the pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited financial statements of the Group for the FYE 31 December 2023 and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its financial statements for the FYE 31 December 2023; and
- (b) each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

Other matter

This report has been prepared for inclusion in the Prospectus of Smart Asia in connection with the Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Baker Tilly Monteiro Heng".

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

A handwritten signature in black ink, appearing to read "Paul Tan Hong".

Paul Tan Hong
No. 03459/11/2025 J
Chartered Accountant

14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

1. INTRODUCTION

The pro forma combined statements of financial position of Smart Asia Chemical Bhd (“Smart Asia” or the “Company”) and its combining entities, namely Smart Paint Manufacturing Sdn. Bhd. (“Smart Paint Manufacturing”), Smart Paints (M) Sdn. Bhd. (“Smart Paints (M)”), Smart Paints (Sabah) Sdn. Bhd. (“Smart Paints (Sabah)”), Smart Paint (Selangor) Sdn. Bhd. (“Smart Paint (Selangor)”) and Color Breeze Sdn. Bhd. (“Color Breeze”) (hereinafter collectively referred to as the “Group”) has been compiled by the directors of Smart Asia, for illustrative purposes only, for inclusion in the prospectus of Smart Asia in connection with the listing of and quotation for the entire enlarged issued share capital of 369,850,420 ordinary shares in Smart Asia (“Share(s)”) on the ACE Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing”).

1.1 In conjunction with the admission of Smart Asia to the Official List of the ACE Market of Bursa Securities and Listing, Smart Asia had undertaken the following transactions:

1.2 Listing Scheme

1.2.1 Pre-Listing or Internal Restructuring Exercise

In conjunction with Listing, the Company has undertaken the Acquisitions as follows:

Acquisitions

Smart Paint (Selangor) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paint (Selangor) comprising 650,000 ordinary shares from Goh Chye Hin, Chu Teck, Kee Hui Lang, Goh Chye Leng and Lim Kok Beng for a total purchase consideration of RM3,771,645, to be fully satisfied by the issuance of 18,858,225 new Shares at an issue price of RM0.20 per Share. The acquisition of Smart Paint (Selangor) was completed on 1 February 2024.

The purchase consideration for the Smart Paint (Selangor) Acquisition of RM3,771,645 was arrived at based on a “willing-buyer willing-seller” basis after taking into consideration the audited net assets (“NA”) of Smart Paint (Selangor) as at 31 December 2022 of RM3,771,645.



**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

1. (Continued)

1.2 (Continued)

1.2.1 (Continued)

Acquisitions (Continued)

Smart Paints (Sabah) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paints (Sabah) comprising 250,000 ordinary shares from Goh Chye Hin, Kee Hui Lang and Wong Kui Ming for a total purchase consideration of RM598,437, to be fully satisfied by the issuance of 2,992,185 new Shares at an issue price of RM0.20 per Share. The acquisition of Smart Paints (Sabah) was completed on 1 February 2024.

The purchase consideration for the Smart Paints (Sabah) Acquisition of RM598,437 was arrived at based on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of Smart Paints (Sabah) as at 31 December 2022 of RM598,437.



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

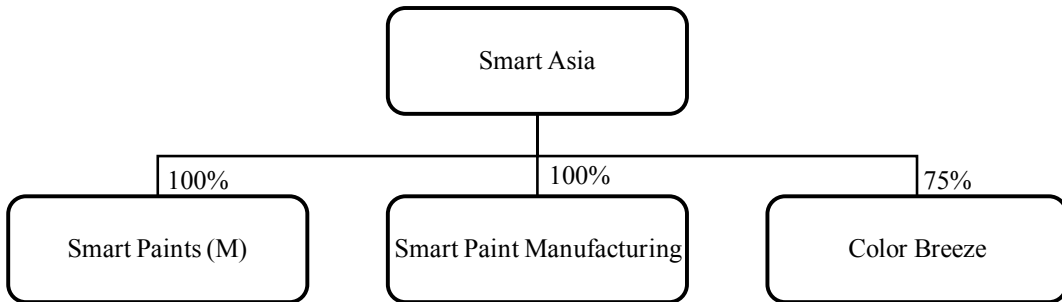
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

- 1. (Continued)
- 1.2 (Continued)
- 1.2.1 (Continued)

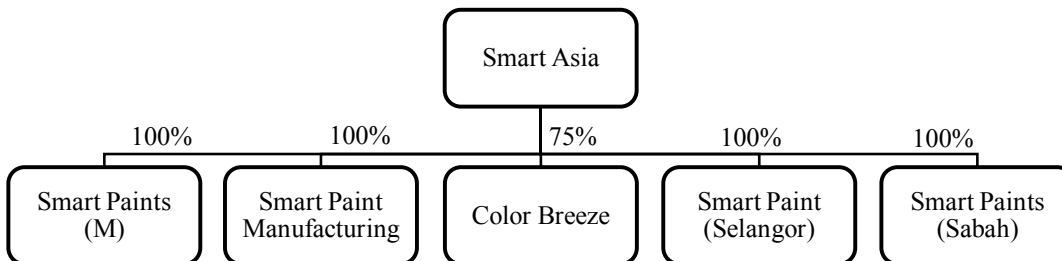
Acquisitions (Continued)

The Group structure before and after the Acquisitions are as below:

As at 31 December 2023



After the Acquisitions



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

1. (Continued)

1.2 (Continued)

1.2.2 IPO

A total of 93,500,000 IPO Shares, representing approximately 25.28% of the enlarged issued Shares of Smart Asia are offered at RM0.40 per IPO Share ("IPO Price"), will be allocated in the following manner:

- (i) 18,492,600 IPO Shares, representing 5.00% of enlarged issued Shares, will be made available for application by the Malaysian Public by way of balloting, of which at least 50% will be set aside to Bumiputera public investors; and
- (ii) 12,100,000 IPO Shares, representing 3.27% of enlarged issued Shares, will be reserved for application by the eligible Directors, employees of the Group and persons who have contributed to the success of the Group; and
- (iii) 62,907,400 IPO Shares, representing 17.01% of enlarged issued Shares, have been reserved for application by way of private placement in the following manner:
 - (a) 46,231,400 IPO Shares, representing 12.50% of enlarged issued Shares, made available for selected Bumiputera investors approved by Ministry of Investment, Trade and Industry of Malaysia; and
 - (b) 16,676,000 IPO Shares, representing approximately 4.51% of our enlarged issued Shares, made available for selected investors.

(Collectively hereinafter referred to as "IPO").

1.2.3 Listing

Upon completion of the IPO, Smart Asia's entire enlarged issued Shares of RM92,670,084 comprising 369,850,420 Shares will be listed on the ACE Market of Bursa Securities.



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

- 2.1 The pro forma combined statements of financial position have been prepared to illustrate the pro forma combined financial position of the Group as at 31 December 2023, adjusted for the Pre-Listing or Internal Restructuring Exercise, IPO and utilisation of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.
- 2.2 The pro forma combined statements of financial position have been prepared based on the audited combined financial statements of the Group for the financial year ended ("FYE") 31 December 2023.
- 2.3 The audited combined financial statements of the Group for the FYE 31 December 2023 were reported by the auditors to the members without any modifications.
- 2.4 The pro forma combined statements of financial position of the Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.
- 2.5 The pro forma combined statements of financial position of the Group have been properly prepared on the basis set out in the accompanying notes to the pro forma combined statements of financial position based on the audited combined financial statements of the Group for FYE 31 December 2023, which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

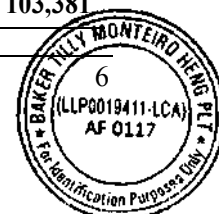
SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP

- 3.1 The pro forma combined statements of financial position of the Group as set out below, for which the directors of Smart Asia are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited combined statement of financial position of the Group as at 31 December 2023, had the transactions as described in Note 1.2 and utilisation of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Combined Statements of Financial Position as at 31 December 2023# RM'000	Pro Forma I After the Pre-Listing or Internal Restructuring Exercise RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the utilisation of proceeds RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	73,027	73,027	73,027	73,027
Intangible asset	170	170	170	170
Deferred tax assets	140	140	140	140
Total non-current assets	73,337	73,337	73,337	73,337
Current assets				
Inventories	25,249	25,249	25,249	25,249
Current tax assets	365	365	365	365
Trade and other receivables	30,206	30,206	30,206	29,777
Contract assets	1,209	1,209	1,209	1,209
Cash and short-term deposits	5,922	5,922	43,322	17,789
Total current assets	62,951	62,951	100,351	74,389
TOTAL ASSETS	136,288	136,288	173,688	147,726
EQUITY AND LIABILITIES				
Equity attributable to owners of the Group				
Invested equity/Share capital	51,800	55,270	92,670	91,633
Reorganisation reserve	(25,783)	(29,253)	(29,253)	(29,253)
Retained earnings	42,704	42,704	42,704	40,951
	68,721	68,721	106,121	103,331
Non-controlling interest	50	50	50	50
TOTAL EQUITY	68,771	68,771	106,171	103,381

Pro Forma Combined Statements of Financial Position



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)
SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES
3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)
3.1 (Continued)

	Combined Statements of Financial Position as at 31 December 2023# RM'000	Pro Forma I After the Pre-Listing or Internal Restructuring Exercise RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the utilisation of proceeds RM'000
Non-current liabilities				
Loans and borrowings	37,177	37,177	37,177	14,005
Deferred income	143	143	143	143
Deferred tax liabilities	458	458	458	458
Total non-current liabilities	37,778	37,778	37,778	14,606
Current liabilities				
Loans and borrowings	4,314	4,314	4,314	4,314
Current tax liabilities	402	402	402	402
Trade and other payables	23,056	23,056	23,056	23,056
Contract liabilities	1,967	1,967	1,967	1,967
Total current liabilities	29,739	29,739	29,739	29,739
TOTAL LIABILITIES	67,517	67,517	67,517	44,345
TOTAL EQUITY AND LIABILITIES	136,288	136,288	173,688	147,726
Number of ordinary shares assumed to be in issue ('000)	255,400*	276,350	369,850	369,850

NA^ (RM'000)	68,721	68,721	106,121	103,331
NA per ordinary share (RM)	0.2691	0.2487	0.2869	0.2794
^ attributable to owners of the Group				
* represent the aggregate number of issued Shares of Smart Asia, Smart Paint (Selangor) and Smart Paints (Sabah)				

Extracted from Group's audited combined financial statements for the FYE 31 December 2023.



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 Notes to the pro forma combined statements of financial position are as follows:

3.2.1 The pro forma combined statements of financial position of the Group, for which the directors of Smart Asia are solely responsible, have been prepared for illustrative purposes only, to show the effects on the combined audited statements of financial position of the Group as at 31 December 2023, had the transactions as described in Note 1.2 and utilisation of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the IPO would be used in the following manner:

Details of use of proceeds	RM'000	%	Estimated timeframe for utilisation from the date of listing
Not reflected in pro forma combined statements of financial position			
Establishment of Perak Plant:			
(i) Purchase and commissioning of automated paint production system ⁽¹⁾	3,828	10.23	Within 12 months
Purchase of 250 sets of Smart Colour POS Tinting Machine ⁽²⁾	5,000	13.37	Within 36 months
Working capital	1,300	3.48	Within 12 months
Reflected in pro forma combined statements of financial position			
Establishment of Perak Plant:			
(i) Construction of Perak Plant	16,000	42.78	Within 12 months
(ii) Purchase and commissioning of automated paint production system	7,172	19.18	Within 12 months
Estimated listing expenses	4,100	10.96	Within 1 month
Gross proceeds	37,400	100.00	

(1) As at 31 December 2023, the Group has yet to drawdown the banking facilities to part finance the Establishment of Perak Plant of RM3.83 million. Accordingly, the utilisation of proceeds earmarked for the repayment of banking facilities to part finance the Establishment of Perak Plant of RM3.83 million are not reflected in the pro forma combined statements of financial position.



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.2 (Continued)

(2) *As at the latest practicable date, the Group has yet to issue any purchase order in relation to the purchase of 250 sets of Smart Colour POS Tinting Machine. Accordingly, the utilisation of proceeds earmarked for the purchase of 250 sets of Smart Colour POS Tinting Machine are not reflected in the pro forma combined statements of financial position.*

3.2.3 The pro forma combined statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

Pro Forma I incorporate the effects of the Pre-Listing or Internal Restructuring Exercise as described in Note 1.2.1 on the audited combined statements of financial position of the Group as at 31 December 2023.

Smart Paint (Selangor) Acquisition

The reorganisation reserve arising from the Smart Paint (Selangor) Acquisition are as below:

	RM'000
Purchase consideration	3,772
Less: Share capital of Smart Paint (Selangor)	(650)
	<hr/>
Reorganisation reserve	3,122
	<hr/>

Smart Paints (Sabah) Acquisition

The reorganisation reserve arising from the Smart Paints (Sabah) Acquisition are as below:

	RM'000
Purchase consideration	598
Less: Share capital of Smart Paints (Sabah)	(250)
	<hr/>
Reorganisation reserve	348
	<hr/>



**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**
SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES
**3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE
GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(a) Pro Forma I (Continued)

The Pre-Listing or Internal Restructuring Exercise will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2023:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Invested equity/Share capital	-	3,470
Reorganisation reserve	-	(3,470)
	<u>-</u>	<u>-</u>

(b) Pro Forma II

Pro Forma II incorporates the cumulative effects of Pro Forma I and IPO as described in Note 1.2.2.

The IPO will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2023:

	Increase	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Cash and short-term deposits	37,400	-
Invested equity/Share capital	-	37,400
	<u>37,400</u>	<u>37,400</u>



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

(c) Pro Forma III

Pro Forma III incorporates the cumulative effects of Pro Forma II and the utilisation of proceeds from the IPO of RM37.40 million after netting off RM4.10 million of estimated listing expenses.

The remaining proceeds expected from the IPO of RM33.30 million will be used in the manner as described in Note 3.2.2.

The proceeds arising from the IPO earmarked for the purchase of 250 sets of Smart Colour POS Tinting Machine and Group's working capital purposes of RM6.30 million will be included in the Cash and Short-term Deposits Account.

As at 31 December 2023, out of the RM27.00 million for the Establishment of Perak Plant, RM23.17 million have been incurred and recognised as loans and borrowings. The proceeds arising from the Public Issue earmarked for the Establishment of Perak Plant of RM23.17 million will be debited to Loans and Borrowings Account under non-current liabilities. The loans and borrowings for the Establishment of Perak Plant of RM3.83 million yet to drawdown will be included in Cash and Short-Term Deposits Account.

As at 31 December 2023, out of the RM4.10 million for listing expenses, RM1.74 million has been incurred of which RM1.31 million is charged to the Retained Earnings Account and RM0.43 million has been recognised as prepayment. The RM0.43 million is recognised as prepayment as this is direct attributable expenses relating to the new issuance of Shares which will be capitalised as Invested Equity/Share Capital Account upon Listing.

Out of the remaining estimated listing expense to be incurred of RM2.36 million, RM1.75 million will be charged to Retained Earnings Account and RM0.61 million is recognised in Invested Equity/Share Capital Account as this is directly attributable expenses relating to the new issuance of Shares. Together with the amount previously recorded as prepayment of RM0.43 million, a total of RM1.04 million will be capitalised under Invested Equity/Share Capital Account.



**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

**3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE
GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(c) Pro Forma III (Continued)

The utilisation of proceeds will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2023:

	Decrease	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Trade and other receivables	(429)	-
Cash and short-term deposits	(25,533)	-
Invested equity/Share capital	-	(1,037)
Retained earnings	-	(1,753)
Loans and borrowings		
- Non-current	-	(23,172)
	(25,962)	(25,962)



**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

**3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE
GROUP (CONTINUED)**

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Invested equity/ Share capital RM'000	Reorganisation reserve RM'000	Retained earnings RM'000
Combined statements of financial position of the Group as at 31 December 2023	51,800	(25,783)	42,704
Arising from the Pre-Listing or Internal Restructuring Exercise	3,470	(3,470)	-
Per Pro Forma I	55,270	(29,253)	42,704
Arising from the IPO	37,400	-	-
Per Pro Forma II	92,670	(29,253)	42,704
Arising from the defrayment of estimated listing expenses in relation to the Listing	(1,037)	-	(1,753)
Per Pro Forma III	91,633	(29,253)	40,951



14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and short-term deposits are as follows:

	RM'000
Combined statements of financial position of the Group as at 31 December 2023	5,922
Arising from the Pre-Listing or Internal Restructuring Exercise	-
Per Pro Forma I	5,922
Arising from the IPO	37,400
Per Pro Forma II	43,322
Arising from the utilisation of proceeds:	
- Establishment of Perak Plant	(23,172)
- Estimated listing expenses	(2,361)
Per Pro Forma III	17,789

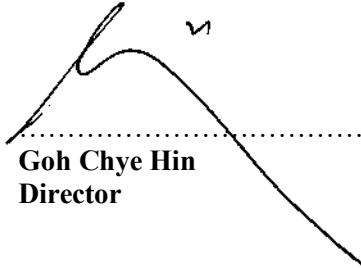


**14. REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO
FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

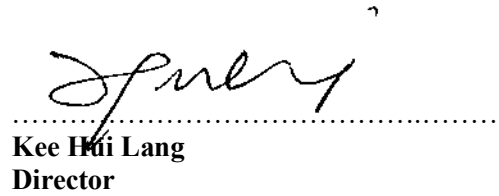
SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

APPROVAL BY BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Smart Asia Chemical Bhd in accordance with a resolution dated 18 April 2024.



.....
Goh Chye Hin
Director



.....
Kee Hui Lang
Director



15. STATUTORY AND OTHER INFORMATION

15.1 SHARE CAPITAL

- (a) As at the date of this Prospectus, we have only 1 class of shares in our Company, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.
- (b) Save for the new Shares to be issued under the Pink Form Allocations as disclosed in Section 4.3.1 of this Prospectus,
 - (i) no Director or employee of our Group has been or is entitled to be given or has exercised any option to subscribe for any shares of our Company or our subsidiaries; and
 - (ii) there is no scheme involving the directors and employees of our Group in the shares of our Company or our subsidiaries.
- (c) Save for the new Shares issued for the Acquisitions as disclosed in Section 6.1.2 of this Prospectus and to be issued pursuant the IPO as disclosed in Section 4.3.1 of this Prospectus, respectively, no shares of our Company have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 3 years immediately preceding the LPD.
- (d) Save for our IPO as disclosed in Section 4.3.1 of this Prospectus, there is no intention on the part of our Directors to further issue any Shares.
- (e) As at the date of this Prospectus, we do not have any outstanding warrants, options, convertible debt securities or uncalled capital.

15.2 CONSTITUTION

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here, or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the Listing Requirements, the Act and the Depository Rules.

(a) Remuneration, voting and borrowing power of Directors

The provisions in our Constitution dealing with remuneration, voting and borrowing power of Directors are as follows:

Remuneration of Directors

Clause 103 – Remuneration

The fees and any benefits payable to the Directors shall be such fixed sum as shall from time to time be determined by an ordinary resolution of the Company and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such fees are payable shall be entitled only to rank in such division for a proportion of the fees related to the period during which he has held office PROVIDED ALWAYS that:-

- 103.1 fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover;
- 103.2 salaries payable to executive Directors may not include a commission on or percentage of turnover;

15. STATUTORY AND OTHER INFORMATION (Cont'd)

- 103.3 fees of directors, any benefits payable to directors shall be subject to shareholders' approval at general meeting; and
- 103.4 any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Clause 104 – Reimbursement and special remuneration

- 104.1 The Directors shall be entitled to be reimbursed for all travelling or such other reasonable expenses as may be incurred in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or otherwise howsoever in connection with or about the business of the Company in the course of the performance of their duties as Directors.
- 104.2 If by arrangement with the Directors, any Director shall perform or render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Directors may pay him special remuneration, in addition to his Director's fees, and such special remuneration may be by way of a fixed sum, or otherwise as may be arranged subject to any other provisions of our Constitution.

Directors voting powers

Clause 123 – Declaration of interest and restriction of voting

A Director who is in any way, whether directly or indirectly interested in a contract or proposed contract or arrangement with the Company, shall declare the nature of his interest in accordance with the provisions of the Act. A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly, a personal interest and if he should do so, his vote should not be counted, but this prohibition shall not apply to:

- (a) any arrangement for giving any Director any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of a security.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

Clause 127 – Director’s interest in corporation promoted by the Company

A Director of the Company may be or become a Director or other officer of or otherwise interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or officer of or from his interest in such corporation unless the Company otherwise directs at the time of his appointment. The Directors may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by them as Directors of such other corporation in such manner and in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the Directors or other officers of such corporation), and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be, or is about to be appointed a Director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in the manner aforesaid.

Directors' borrowing powers

Clause 108 – Directors' borrowing powers

- 108.1 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or of any related third party PROVIDED ALWAYS that nothing contained in this Constitution shall authorise the Directors to borrow any money or mortgage or charge any of the Company’s undertaking, property or any uncalled capital or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.
- 108.2 The Directors shall cause a proper register to be kept in accordance with Section 362 of the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to the registration of mortgages and charges therein specified or otherwise.
- 108.3 If the Directors or any of them, or any other person, shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or persons so becoming liable as aforesaid from any loss in respect of such liability.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

(b) Changes to Share Capital

The provisions in our Constitution dealing with changes to share capital and variation of class rights are as follows:

Variation of rights

Clause 18 – Alteration of class rights

Whenever the capital of the Company is divided into different classes of shares or groups the special rights attached to any class or group may be subject to the provisions of this Constitution (unless otherwise provided by the terms of issue of the shares of the class), either with the consent in writing of the holders of three-quarters (3/4) of the issued shares capital of the class or group, or with the sanction of any special resolution passed at a separate general meeting of such holders (but not otherwise), be modified or abrogated, and may be so modified or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up, and such writing or resolution shall be binding upon all the holders of shares of the class. To every such separate general meeting all the provisions of this Constitution relating to general meetings or to the proceedings thereat shall, mutatis mutandis, apply, except that the necessary quorum shall be two persons at least holding or represented by proxy (but so that if an adjourned meeting of such holders a quorum as above defined is not present those Members who are present shall be a quorum), that any holder of shares in the class present in person or by proxy may demand a poll and that the holders of shares of the class or group shall, on a poll, have one vote in respect of every share of the class or group held by them respectively. To every such special resolution, the provisions of Section 292 of the Act shall, with such adaptations as are necessary, apply.

Alteration of Capital

Clause 54 – Alteration of capital

Subject to the provision of the Act and Listing Requirements, the Company may by ordinary resolution:

- (i) consolidate and divide all or any of its share capital the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived;
- (ii) convert all or any of its paid-up shares into stock and may reconvert that stock into paid-up shares; or
- (iii) subdivide its shares or any of the shares, whatever is in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived.

The Company may, subject to the provision of the Act, by special resolution reduce its share capital.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

(c) Transfer of shares

The provision in our Constitution dealing with transfer of securities is as follows:

Transfer of Securities

Clause 42 – Transfer of securities

The transfer of any listed Security or class of listed Security in the Company shall be by way of book entry by the Depository in accordance with the Rules and notwithstanding Sections 105, 106 or 110 of the Act, subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed Security.

(d) Rights, preferences, and restrictions attached to each class of securities relating to voting, dividend, liquidation, and any special rights

The provisions in our Constitution dealing with rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation, and any special rights are as follows:

Clause 81

(i) Members' vote

Subject to Clause 60 in the Constitution and any rights or restrictions for the time being attached to any class or classes of shares, at meetings of Members or classes of Members, each Member shall be entitled to be present and to vote at any general meeting of the Company either personally or by proxy or by attorney and to be reckoned in a quorum in respect of shares fully paid and in respect of partly paid shares where calls are not due and unpaid.

(ii) Number of votes

Subject to any special rights or restrictions as to voting attached to any class or classes of shares by or in accordance with the Constitution, on a show of hands a holder of ordinary shares or preference shares who presents as a Member or a Member's representative or proxy or attorney and entitled to vote shall be entitled to one (1) vote on any question at any general meeting and in the case of a poll every Member present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for every share held by him. A person entitled to more than one (1) vote need not use all his votes or cast all the votes he uses on a poll in the same way.

(iii) Shares of different denominations

Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

15. STATUTORY AND OTHER INFORMATION (*Cont'd*)

Clause 152 – Dividends

The Directors may if they think fit from time to time pay to the Members such dividends as appear to the Directors to be justified by the profits of the Company. If at any time the share capital of the Company is divided into different classes, the Directors may pay such dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Directors act bona fide they shall not incur any responsibility to the holder of shares conferring any preferential rights for any damage that they may suffer by reason of the payment of a dividend on any shares having deferred or non-preferential rights. The Directors may also pay half- yearly or at other suitable intervals to be determined by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits justify the payment.

15.3 DEPOSITED SECURITIES AND RIGHTS OF DEPOSITORS

As our Shares are proposed for quotation on the Official List, such Shares must be prescribed as shares required to be deposited with Bursa Depository. Upon such prescription, a holder of our Shares must deposit his Shares with Bursa Depository on or before the date is fixed, failing which our Share Registrar will be required to transfer the Shares to the Minister of Finance, and such Shares may not be traded on Bursa Securities.

Dealing in our Shares deposited with Bursa Depository may only be effected by a Depositor by means of entries in the securities account/ CDS Account of that Depositor.

A Depositor whose name appears in the Record of Depositors maintained by Bursa Depository in respect of our Shares shall be deemed to be our shareholder and shall be entitled to all rights, benefits, powers, and privileges and be subject to all liabilities, duties, and obligations in respect of, or arising from, such Shares.

15.4 GENERAL INFORMATION

- (a) Save for the Directors' remuneration as disclosed in Section 5.2.4 of this Prospectus, dividends paid to our Promoters as disclosed in Section 12.14 of this Prospectus, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoters, Directors or substantial shareholders.
- (b) Save as disclosed in Section 10.1 of this Prospectus, none of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the procedures for application of our Shares are set out in Section 16 of this Prospectus.
- (d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

15.5 MATERIAL CONTRACTS

Save as disclosed below, our Group has not entered into any material contract which is not in the ordinary course of our Group's business within the period covered by the historical financial information as disclosed in this Prospectus up to the date of this Prospectus:

- (a) sale and purchase agreement between Smart Paint Manufacturing (as purchaser) and Perbadanan Kemajuan Negeri Perak ("**PKNP**") (as vendor) dated 9 July 2020 in relation to the purchase of Perak Land 2, Perak Land 3 and Perak Land 4 for a purchase consideration of RM1,815,811.67. The sale and purchase of the aforementioned industrial lands were completed in February 2021;
- (b) sale and purchase agreement dated 10 March 2022 between Smart Paint Manufacturing (as purchaser) and Sheng Sin Equipment Sdn Bhd (as vendor) in respect of the purchase of Johor Factory 3 for a purchase consideration of RM7,200,000.00. The sale and purchase of the aforementioned property was completed in July 2022;
- (c) letter of award dated 22 June 2022 between Smart Paint Manufacturing and Maneto Engineering Sdn Bhd ("**Maneto Engineering**") for the construction and completion of Perak Plant for a consideration of RM28,200,000.00. The Perak Plant was completed on 14 November 2023;
- (d) YGL E-Corporate Suite proposal dated and accepted on 25 June 2021 in relation to the engagement of YGL Intelligent Technology Sdn Bhd by Smart Paint Manufacturing for the implementation of the Industry 4.0 System which includes the implementation of software, maintenance services and the training of the key users and department heads for our Group. The cost for the implementation of the system amounts to RM448,000.00 and an annual software and maintenance support service of RM68,090.00 per annum. The implementation of the Industry 4.0 System is pending completion and is estimated to be completed by the second quarter of 2024;
- (e) letter of award dated 22 December 2022 between Paints Depot and Smart Paint Manufacturing for Painting Works for the Perak Plant for a consideration of RM1,511,479.60 ("**Painting Works Consideration**"). As at the LPD, the Painting Works is pending completion and is estimated to be completed by May 2024;
- (f) settlement agreement between dated 28 December 2022 between Smart Paint Manufacturing and Paints Depot in respect of the set off of an outstanding debt owed by Paints Depot, amounting to RM1,654,744.71, to Smart Paint Manufacturing ("**Debt**") by way of Painting Works for the Perak Plant. The outstanding debt arose from unpaid invoices for products sold by Smart Paint Manufacturing to Paints Depot. The remaining outstanding balance of the Debt amounting to RM143,265.11 (after setting off the Painting Works Consideration against the Debt) is to be paid by Paints Depot to Smart Paint Manufacturing. The outstanding balance of RM143,265.11 was paid on 29 December 2022. As at the LPD, the Painting Works is pending completion and is estimated to be completed by May 2024;

15. STATUTORY AND OTHER INFORMATION (Cont'd)

- (g) supplemental agreement dated 17 May 2023 ("**Supplemental Agreement**") between Smart Paint Manufacturing (as purchaser) and PKNP (as vendor) (supplemental to the sale and purchase agreement dated 13 August 2018 between the same parties in relation to the purchase of Perak Land ("**Principal SPA**"). The Principal SPA states that PKNP will be liable at its own cost to provide the main infrastructure to the Perak Land. The Supplemental Agreement revises the aforementioned provision, and the parties agree that Smart Paint Manufacturing will take over and assume PKNP's obligations to provide main infrastructure to the Perak Land. In return, PKNP will make a payment of RM1,275,960.00 to Smart Paint Manufacturing within 6 months of the Supplemental Agreement ("**Infrastructure Payment**"). PKNP, had via a letter dated 26 March 2024, confirmed that there is no objection to Smart Paint Manufacturing's request for payment following the completion of the infrastructure works. However, this is conditional upon Smart Paint Manufacturing providing PKNP with the complete documentations as outlined in clause 2.5 of the Supplemental Agreement, being the relevant certification(s) and/or confirmation(s) issued by the relevant authorities or governing bodies in respect of the main infrastructure works carried out. As at the LPD, the Group is still in progress of compiling such certification(s) and/or confirmation(s) from the relevant authorities and/or governing bodies and estimates that the full compilation will be completed and submitted by May 2024. The Infrastructure Payment remains fully outstanding as at the LPD and is estimated to be settled by June 2024;
- (h) construction contract dated 1 June 2023 between Smart Paint Manufacturing and Maneto Engineering to carry out of the road and drainage works for the Perak Land for a consideration of RM1,160,000.00. The aforementioned road and drainage works has been completed on 17 November 2023;
- (i) conditional share sale agreement dated 19 June 2023 between our Company and Goh Chye Hin, Kee Hui Lang, Chu Teck, Goh Chye Leng and Lim Kok Beng to acquire 100% equity interest in Smart Paint (Selangor) for a total purchase consideration of RM3,771,645.00 to be satisfied by way of an issuance of a total of 18,858,225 Shares of our Company, which was completed on 1 February 2024;
- (j) conditional share sale agreement dated 19 June 2023 between our Company and Goh Chye Hin, Kee Hui Lang and Wong Kui Ming to acquire 100% equity interest in Smart Paints (Sabah) for a purchase consideration of RM598,437.00 to be satisfied by way of an issuance of 2,992,185 Shares of our Company, which was completed on 1 February 2024;
- (k) contract dated 2 February 2024 between Smart Paint Manufacturing and Singnan Communications Sdn Bhd for billboard advertisement services for the period from 15 April 2024 to 30 April 2025 for a consideration of RM2,200,000.00; and
- (l) the Underwriting Agreement dated 18 April 2024 between our Company and Mercury Securities as Underwriter for the underwriting of 30,592,600 IPO Shares for an Underwriting commission of up to 2.50% of IPO Price multiplied by the number of IPO Shares underwritten.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

15.6 EXCHANGE CONTROLS

All corporations in Malaysia are required to adopt a single-tier system. As such, all dividends distributed by Malaysian corporations under this system are not taxable. Further, the Malaysian Government does not levy withholding tax on dividends payment. Therefore, there is no withholding tax imposed on dividends paid to non-residents by Malaysian corporations. There is no Malaysian capital gains tax arising from the disposal of listed shares. However, in the event the capital gain arising from the disposal of listed shares is revenue in nature, such gain can be subject to income tax.

As at the date of this Prospectus, we do not have any foreign subsidiary or associated company. As such, there are no law, decree, regulation or other requirement which may affect the repatriation of capital and remittance of profits by or to our Group.

15.7 CONSENTS

- (a) The respective written consents of the Principal Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Company Secretary, Share Registrar, and Issuing House for the inclusion in this Prospectus of their names and all references in the form and context in which such names appear have been given before the issue of this Prospectus, and such consents have not subsequently been withdrawn;
- (b) The written consent of the External Auditors and Reporting Accountants for the inclusion in this Prospectus of its name, Accountants' Report and Reporting Accountants' Report on the compilation of Pro Forma Combined Statements of Financial Position as at 31 December 2023 and all references thereto, in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus, and such consent has not subsequently been withdrawn; and
- (c) The written consent of the IMR for the inclusion in this Prospectus of its name and the IMR Report and all references thereto, in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus, and such consent has not subsequently been withdrawn.

15.8 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) our Constitution;
- (b) the audited financial statements of our Group for the Financial Years Under Review;
- (c) the Accountants' Report as set out in Section 13 of this Prospectus;
- (d) the Reporting Accountants' Report on the compilation of Pro Forma Combined Statements of Financial Position as at 31 December 2023 as set out in Section 14 of this Prospectus;
- (e) the IMR Report as set out in Section 8 of this Prospectus;
- (f) the material contracts as set out in Section 15.5 of this Prospectus; and
- (g) the letters of consent as set out in Section 15.7 of this Prospectus.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

15.9 RESPONSIBILITY STATEMENTS

Our Directors and Promoters have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

Mercury Securities being our Principal Adviser, Sponsor, Underwriter and Placement Agent in relation to our IPO, acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE “DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE” ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

16.1 OPENING AND CLOSING OF APPLICATION

Applications for our IPO Shares will be accepted and closed at the time and date stated as below:

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., ON 2 MAY 2024

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., ON 13 MAY 2024

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspapers within Malaysia.

Late Applications will not be accepted.

16.2 METHODS OF APPLICATIONS

16.2.1 Retail Offering

Application must accord with the terms of our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

<u>Types of Application and category of investors</u>	<u>Application Method</u>
Applications by our Eligible Persons	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.2.2 Private Placement

Types of Application	Application Method
Applications by:	
(a) Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(b) Bumiputera Investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera Investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

16.3 ELIGIBILITY

16.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS account must be in your own name. **Invalid, nominee or third party CDS accounts will not be accepted** for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (*Cont'd*)

16.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
 - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
 - (ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
 - (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and
- (c) You must submit Applications by using only one of the following methods:
 - (i) White Application Form;
 - (ii) Electronic Share Application; or
 - (iii) Internet Share Application.

16.3.3 Application by the Eligible Persons

Eligible Persons will be provided with Pink Application Forms and letters from us detailing their respective allocation as well as detailed procedures on how to subscribed to the allocated IPO Shares. Applicants must follow the notes and instructions on the said documents and where relevant, in this Prospectus.

The Eligible Persons who have made applications using the Pink Application Form may still apply for our IPO Shares allocated to the Malaysian Public using the White Application Form or through the Electronic Share Application or the Internet Share Application.

16.4 APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions printed therein or which are illegible will not be accepted.

The FULL amount payable is RM0.40 for each IPO Share.

Payment must be made out in favour of “**TIIH SHARE ISSUE ACCOUNT NO. 764**” and crossed “**A/C PAYEE ONLY**” and endorsed on the reverse side with your name and address.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

- (i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd
(Registration No. 197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

- (ii) **DELIVER BY HAND AND DEPOSIT** in the issuing house drop-in box provided at Tricor Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur so as to arrive not later than 5.00 p.m. on 13 May 2024 or by such other time and date specified in any change to the time or date for the closing of the applications for our IPO shares.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

16.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

The exact procedures, terms and conditions for Electronic Share Application are set out on the ATM screens of the relevant Participating Financial Institutions.

16.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the following Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CGS International Securities Sdn. Bhd. (formerly known as CGS-CIMB Securities Sdn Bhd), Malayan Banking Berhad and Public Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

- (a) reject Applications which:
 - (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
 - (ii) are illegible, incomplete or inaccurate; or
 - (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 16.9 of this Prospectus below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

16.8 OVER / UNDER SUBSCRIPTION

In the event of over-subscription, the Issuing House will conduct a ballot in the manner approved by our Directors to determine the acceptance of Applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting and allocating our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market for our Shares.

The basis of allocation of our IPO shares and the balloting results in connection therewith will be furnished by the Issuing House to Bursa Securities, at all major Bahasa Malaysia and English newspapers as well as posted on the Issuing House's website at <https://tiih.online> within one Market Day after the balloting date.

Pursuant to the Listing Requirements, we are required to have a minimum of 25.00% of our Company's issued share capital to be held by at least 200 public shareholders holding not less than 100 Shares each upon Listing and completion of our IPO. We expect to achieve this at the point of Listing. In the event this requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all Applications will be returned in full (without interest).

In the event of an under-subscription of our IPO Shares by the Malaysian Public and/or Eligible Persons, subject to the clawback and reallocation provisions as set out in Section 4.3.2 of this Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by our Underwriter based on the terms of the Underwriting Agreement.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.9 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful / partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

16.9.1 For applications by way of Application Forms

- (a) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your registered or correspondence address last maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (b) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (a) and (b) above (as the case may be).
- (d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by ordinary / registered post to your registered or correspondence address last maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (b) above (as the case may be).

16.9.2 For applications by way of Electronic Share Application and Internet Share Application

- (a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited (without interest) into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (b) You may check your account on the 5th Market Day from the balloting date.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution or Internet Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution or Internet Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

16.10 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (a) Our IPO Shares allotted to you will be credited into your CDS account.
- (b) A notice of allotment will be despatched to you at your registered or correspondence address last maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (c) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.
- (d) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

16.11 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	Issuing House Enquiry Services at telephone no.03-2783 9299
Electronic Share Application	The relevant Participating Financial Institution
Internet Share Application	The relevant Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tiih.online>, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.