SMITH ZANDER INTERNATIONAL SDN BHD 201301028298 (1058128-V)
15-01, Level 15, Menara MBMR, 1 Jalan Syed Putra, 58000 Kuala Lumpur, Malaysia
T : +603 2732 7537 W : www.smith-zander.com

SMITH ZANDER

Date: 27 May 2022

The Board of Directors

Seng Fong Holdings Berhad
No. 14, Taman Sri Jeram,
Jalan Bakri,
84000, Muar, Johor

Dear Sirs/ Madams,

Independent Market Research Report on the Block Rubber Processing Industry in Malaysia ("IMR Report")

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("**SMITH ZANDER**") for inclusion in the Prospectus in conjunction with the listing of Seng Fong Holdings Berhad on the Main Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry in which Seng Fong Holdings Berhad and its subsidiaries ("**Seng Fong Group**") operate and to offer a clear understanding of the industry dynamics. As Seng Fong Group is principally involved in the processing of cup lump into block rubber, the scope of work for this IMR Report will thus address the following areas:

(i) The block rubber processing industry in Malaysia;

(ii) Key demand drivers, risks and challenges;

(iii) Competitive overview;

(iv) Thailand, Indonesia and Vietnam as the top 3 global exporters of block rubber; and

(v) Outlook and prospects

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report or otherwise.

For and on behalf of SMITH ZANDER:

DENNIS TAN TZE WEN
MANAGING PARTNER

SMITH ZANDER

The research for this IMR Report was completed on 19 May 2022.

For further information, please contact:

SMITH ZANDER INTERNATIONAL SDN BHD
15-01, Level 15, Menara MBMR
1, Jalan Syed Putra
58000 Kuala Lumpur
Malaysia
Tel: + 603 2732 7537

www.smith-zander.com

About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has 24 years of experience in market research and strategy consulting, including over 19 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE BLOCK RUBBER PROCESSING INDUSTRY IN MALAYSIA

Overview of Block Rubber

Block rubber is a form of processed rubber, which is processed from cup lump (i.e. a coagulated form of natural rubber) where the cup lump is treated, cleaned, processed into crumbs, dried, blended and thereafter compressed into blocks of solid rubber. Block rubber is graded according to precise technical parameters such as dirt content, ash content, nitrogen content, volatile matter as well as properties of the rubber such as its Wallace Rapid Plasticity ("P_o"), Plasticity Retention Index ("PRI") and Mooney Viscosity.

Parameters	Description
Dirt content	A measurement of insoluble impurities such as wood, leaf, sand and earth
Ash content	A measurement of rubber soluble impurities such as chalk
Nitrogen content	A measurement on the quantity of nitrogenous materials which exist in the form of proteins and their derivatives in natural rubber
Volatile matter	A measurement on the amount of moisture in natural rubber
P_o	A measurement on the plasticity of rubber which indirectly gives the estimated molecular weight
PRI	A measurement of the oxidation resistance of rubber
Mooney Viscosity	A measurement on the molecular weight of rubber where high Mooney viscosity requires premastication (i.e. the action of crushing and grounding the rubber) before compounding

Source: Malaysian Rubber Board

Block rubber may be produced as technically specified rubber ("TSR") grade based on pre-determined technical parameters and properties, or as customised grade block rubber based on additional specifications required by the customers, both of which are further explained below:

- **<u>TSR</u>**

In 1965, the Rubber Research Institute of Malaysia introduced the Standard Malaysia Rubber ("SMR") Scheme which revolutionised the presentation, quality and marketing of natural rubber. Under this scheme, rubber is graded based on technical specifications instead of the traditional visual grading system used for rubber sheets and remilled crepes, and it is termed as SMR grade. This is to benchmark the standards of rubber produced by various block rubber processing industry players, as well as provide block rubber purchasers with a set of prescribed criteria from which the quality can be ascertained, enabling them to purchase block rubber with technical properties which correspond to the intended applications. Subsequently, other major block rubber processing countries (e.g. Thailand, Indonesia and Vietnam) adopted the SMR Scheme when producing block rubber and label block rubber produced accordingly to the country of origin, for example, Standard Thai Rubber ("STR") for block rubber produced in Thailand, Standard Indonesia Rubber ("SIR") for block rubber produced in Indonesia and Standard Vietnam Rubber ("SVR") for block rubber produced in Vietnam. In general, all technically specified rubber produced under the scheme which meet the same technical parameters and properties is known as TSR (i.e. SMR20, STR20, SIR20 and SVR20 must meet the same technical parameters and properties, and are known as TSR20 in general). The current TSR grades which are available in the market are TSR5, TSRGP, TSR10CV, TSR10, TSR20CV and TSR20 which are of different technical parameters and properties.

SMR grade - In Malaysia, block rubber is produced in accordance to the SMR Scheme which is under the purview of the Malaysian Rubber Board. The current SMR grades which are available in the market are SMR5, SMRGP, SMR10CV, SMR10, SMR20CV and SMR20 which are of different technical parameters and properties.

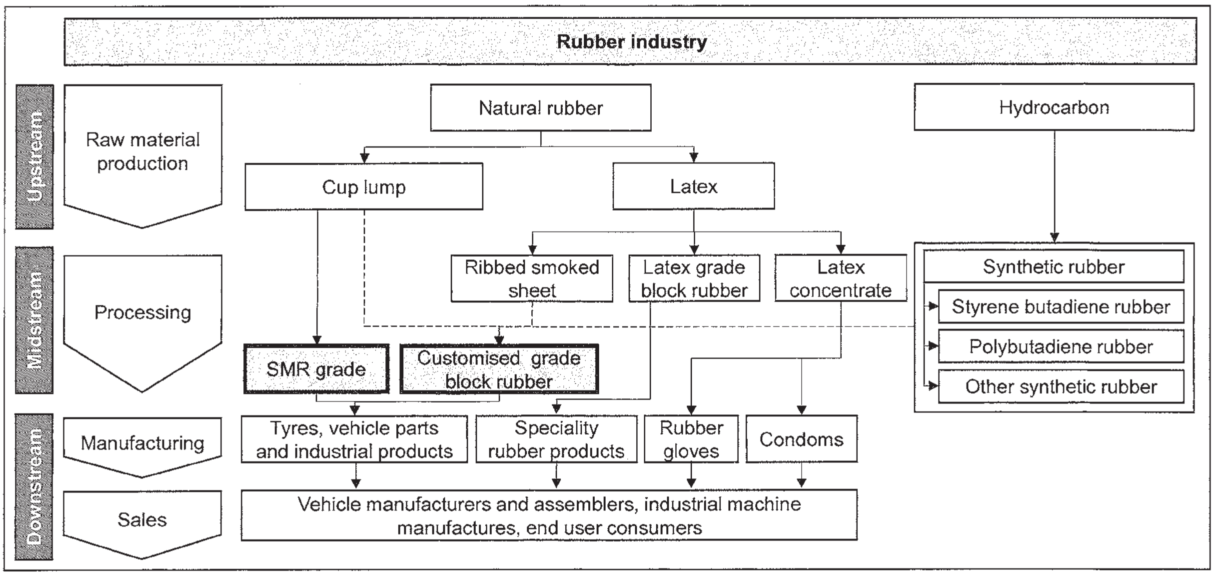
- **<u>Customised grade block rubber</u>**

Aside from SMR grade, block rubber processing industry players may produce customised grade block rubber to meet additional specifications of customers with specific requirements. The production of customised grade block rubber is not under the purview of the Malaysian Rubber Board. Additional components such as semi-processed rubber (e.g. ribbed smoked sheet ("RSS") and value-added additives such as synthetic rubber and other chemicals are blended into SMR grade during processing, allowing these customised grade block rubber to achieve consistency and desired properties which correspond to the specifications and intended applications of their customers. Block rubber processing industry players may market customised grade block rubber as premium grade block rubber, specialty rubber, house-grade rubber, or compound/ mixture rubber. There is no standardised term used for customised grade block rubber.

Overview of the Block Rubber Processing Industry in Malaysia

The block rubber processing industry refers to a midstream sector of the rubber industry where block rubber processing industry players purchase raw materials (i.e. cup lump, semi-processed rubber such as RSS, and synthetic rubber) to be blended and processed into block rubber, and thereafter sold to manufacturers of tyres, vehicle parts and industrial rubber goods, and rubber traders, amongst others. The value chain of the rubber industry is illustrated in the chart below:

Value chain of the rubber industry



Notes:

- ▒ *denotes the block rubber processing industry in which Seng Fong Group is involved.*
- *This list is not exhaustive.*

Sources: Malaysian Rubber Board, SMITH ZANDER

In the block rubber processing industry, industry players purchase raw materials (i.e. cup lump, semi-processed rubber such as RSS, and synthetic rubber) at prevailing rubber prices as rubber is a global commodity. The block rubber processing industry players then apply a processing fee to the price of raw materials and set this as the sales price to their customers. Hence, the cost of raw materials is typically passed on to their customers.

Industry Performance, Size and Growth

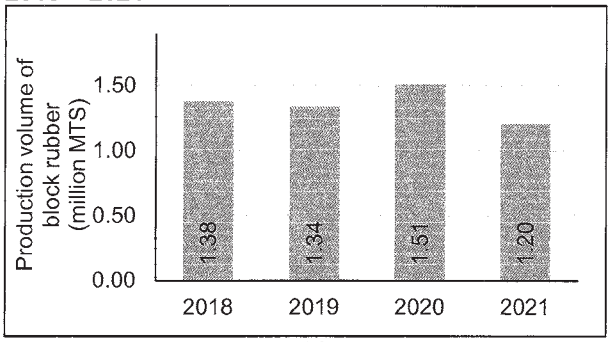
Seng Fong Group is principally involved in the processing of cup lump into block rubber, and the block rubber produced is primarily for the export market. As such, this section includes the production volume of block rubber as well as the export volume of block rubber.

The block rubber processing industry in Malaysia, as represented by the production volume of block rubber, declined slightly from 1.38 million metric tonnes ("MTS") in 2018 to 1.34 million MTS in 2019 but improved to 1.51 million MTS in 2020, and registered a Compound Annual Growth Rate ("CAGR") of 4.60% during this period. The reduction in the production volume of block rubber in 2019 was due to the implementation of export curbs of block rubber from 1 April 2019 to 31 July 2019 in cooperation with Thailand and Indonesia through the 6th Agreed Export Tonnage Scheme under the framework of the International Tripartite Rubber Council, to reduce block rubber stock and stabilise block rubber prices. Due to the outbreak of the coronavirus disease ("COVID-19"), the Government of Malaysia imposed various forms of movement controls/ lockdowns and physical distancing measures since March 2020 to curb the spread of the COVID-19 virus. As block rubber processing is categorised as an essential service, block rubber processing industry players have been allowed to operate during the lockdowns while complying to a set of strict standard operating procedures. Hence, the production of block rubber was generally not affected by the COVID-19 pandemic in 2020.

However, the production volume of block rubber declined by 20.53% year-on-year ("YOY") to 1.20 million MTS in 2021 mainly contributed by the reduced production of compound rubber due to lower export demand.

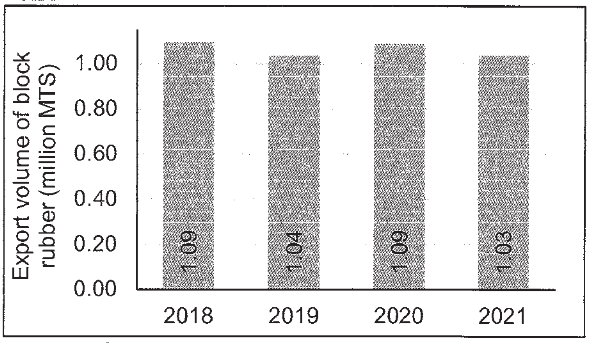
Similar to the production trend, the export volume of block rubber decreased slightly from 1.09 million MTS in 2018 to 1.04 million MTS in 2019, improved and returned to 1.09 million MTS in 2020, and subsequently decreased to 1.03 million MTS in 2021. According to the Malaysian Rubber Board, the reduction in the export volume of block rubber in 2019 was due to the same factor affecting the production of natural block rubber in 2019. In 2020, the rate of recovery in export volume was relatively lower than the recovery in production volume due to the temporary global slowdown in the manufacturing of tyres and vehicle parts. Some automobile manufacturers were required to temporary shut down their factories due to the lockdown measures imposed in respective countries to curb the spread of COVID-19, which subsequently resulted in the decrease in import of block rubber. In 2021, while production volume declined, the export volume for block rubber from Malaysia remained relatively stable, supported by stronger demand for SMR grade.

Production volume of block rubber (Malaysia), 2018 – 2021



Source: Department of Statistics Malaysia ("DOSM"), SMITH ZANDER analysis

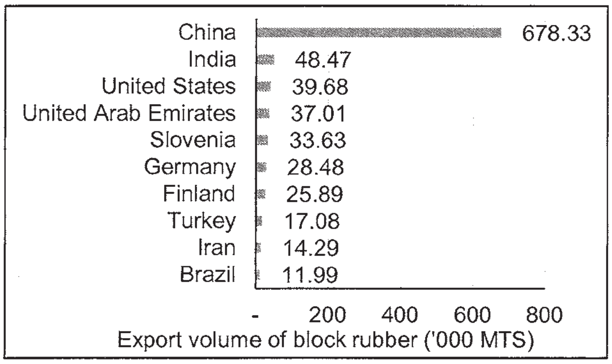
Export volume of block rubber (Malaysia), 2018 – 2021

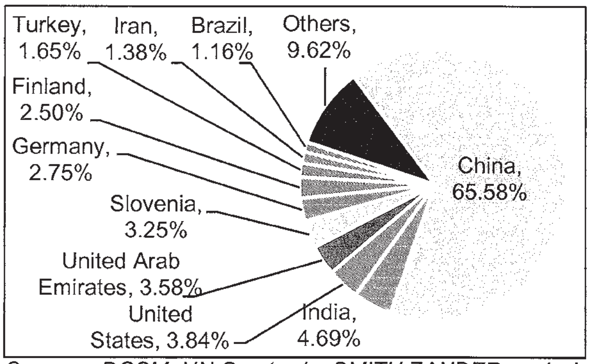


Source: DOSM, United Nations ("UN") Comtrade

Malaysia exported 78.99%, 77.61%, 72.19% and 85.83% of total block rubber produced in 2018, 2019, 2020 and 2021, respectively. In 2021, Malaysia's top 10 block rubber export destinations were China, India, United States, United Arab Emirates, Slovenia, Germany, Finland, Turkey, Iran and Brazil. China, as the top export country of block rubber from Malaysia in 2021, accounted for 65.58% of Malaysia's total export of block rubber.

Malaysia's top 10 block rubber export destinations, 2021





Sources: DOSM, UN Comtrade, SMITH ZANDER analysis

Price Trend Analysis

The price of block rubber is influenced by the demand (i.e. consumption) and supply (i.e. production) conditions of block rubber in the global market. When the rate of consumption exceeds the rate of production, the price of block rubber is naturally expected to increase; when the rate of production exceeds the rate of consumption, the price of block rubber is expected to decrease.

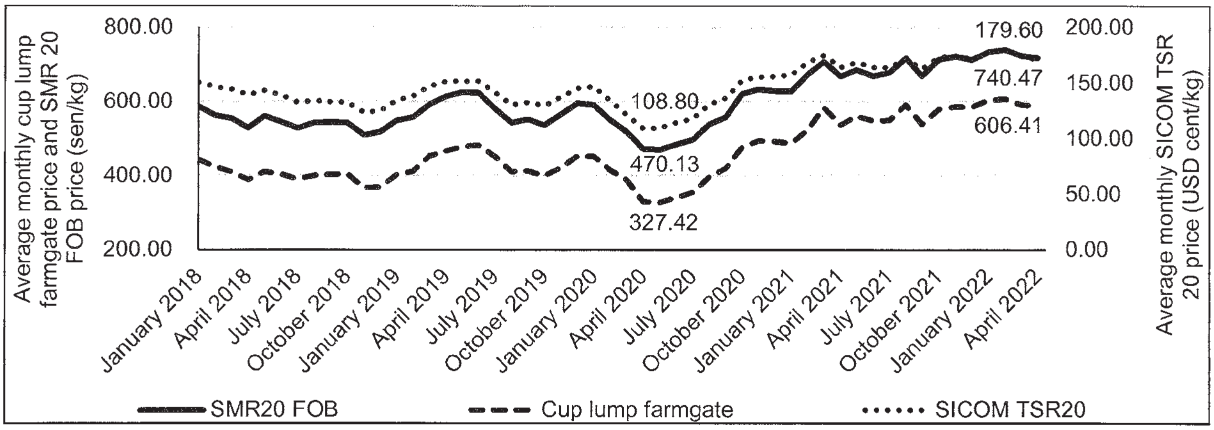
Block rubber is one of the main raw materials to manufacture tyres and vehicle parts, as well as industrial rubber goods (e.g. conveyor belts, machine belts, hoses, gaskets and cross section of machinery). Therefore, the increase in the demand for these products will drive the demand for block rubber.

The supply of block rubber is mainly influenced by the price of block rubber. Generally, rubber tappers adjust their rubber tapping activities based on block rubber and cup lump price levels. Any increase in price generally leads to increase in supply of cup lump as rubber tappers increase rubber tapping activities to capitalise on the favourable higher price. With increased supply of cup lump, the production and supply of block rubber will increase correspondingly. In contrast, any decrease in price may drive rubber tappers to seek alternative employment, which will result in the decrease in supply of cup lump, and eventually affect the production and supply of block rubber.

The commonly used benchmark for rubber prices globally is the SICOM TSR20 price issued by the Singapore Exchange Limited (SGX); whereas in Malaysia, the benchmarks for rubber prices are the cup lump farmgate price (i.e. the price of cup lump excluding transport and delivery charges which rubber tappers, traders and cup lump purchasers refer to when purchasing cup lump) and the SMR20 Free on Board ("FOB") price (i.e. the price of SMR20 which includes transportation to shipment port).

Between January 2018 and April 2022, SICOM TSR20 price fluctuated, with the lowest price at USD108.80 cent/ kilogram ("kg") in April 2020 and the highest price at USD179.60 cent/kg in February 2022. During the same period, in Malaysia, cup lump farmgate price fluctuated, with the lowest price at RM327.42 sen/kg in May 2020 and the highest price at RM606.41 sen/kg in February 2022. SMR20 FOB price fluctuated with the lowest price at RM470.13 sen/kg in May 2020 and the highest price at RM740.47 sen/kg in February 2022 which corresponded to the price of cup lump during the same period, as follows:

SICOM TSR20 price, cup lump farmgate price and SMR20 FOB price, January 2018 – April 2022



Sources: Malaysian Rubber Board, Singapore Exchange, SMITH ZANDER analysis

According to the Malaysian Rubber Board,

- Between January 2018 and November 2018, SMR20 prices were at a decreasing trend as a result of the reduction in the demand for block rubber due to weaker manufacturing activities in China arising from trade tensions between the United States and China, and at the same time, there was increased production of block rubber in Thailand, Indonesia, China and Cambodia.
- Between December 2018 and May 2019, SMR20 prices rebounded as a result of the reduction of cup lump supply in Thailand, Indonesia and China. In Thailand, the government implemented a policy to reduce output to raise rubber prices; in Indonesia, there was a fungal disease outbreak which resulted in a decrease in cup lump supply; while in China, a prolonged drought suspended rubber tapping activities.
- Between June 2019 and October 2019, SMR20 prices were at a decreasing trend as a result of weak manufacturing activities and increased block rubber stock in China.
- Between November 2019 and December 2019, SMR20 prices rebounded due to the full compliance of Thailand, Indonesia and Malaysia in export curbs through the 6th Agreed Export Tonnage Scheme, which enabled block rubber stock to decrease and which stabilised block rubber prices; as well as incidences of fungal disease and wet weather in Thailand, Indonesia and Malaysia which disrupted cup lump supply.
- Between January 2020 and May 2020, SMR20 prices were at a decreasing trend as a result of the COVID-19 pandemic and lockdown measures imposed in respective countries which restricted manufacturing activities for non-essentials and subsequently caused the demand for block rubber to decrease.

- Between June 2020 and February 2021, SMR20 prices were at an increasing trend due to the easing of lockdown measures and increasing manufacturing activities in China; as well as the reduction of cup lump supply due to fungal disease, heavy rainfalls and floods in some parts of Thailand and Malaysia.
- Between March 2021 and April 2022, SMR20 prices were within the range of RM668 sen/kg to RM740 sen/kg. The demand for block rubber improved as the global economy recovers gradually from the impact of the COVID-19 pandemic.

2 KEY DEMAND DRIVERS, RISKS AND CHALLENGES

Key Industry Drivers

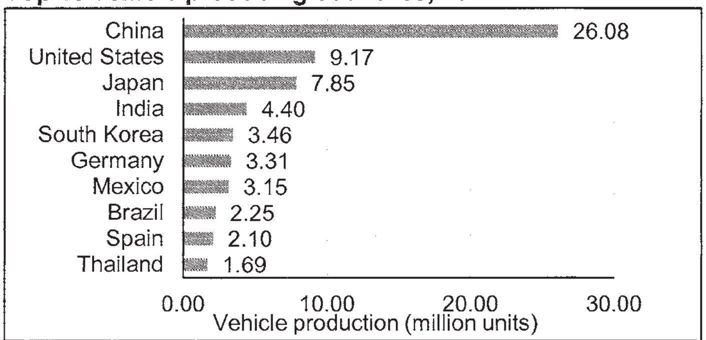
▶ **The demand for block rubber as raw material for tyres drives the block rubber processing industry**

Approximately 70% of global natural rubber is used for tyre manufacturing, hence block rubber as one of the main raw materials for tyre manufacturing is driven by the automotive industry. With increasing number of vehicles produced and sold, the demand for tyres increases, which drives the rubber processing industry. The sale of tyres is determined by the number of vehicles produced where tyres are incorporated as original components for new vehicles, as well as the replacement of worn-out tyres during vehicle maintenance.

The top 10 vehicle producing countries in 2021 were China, United States, Japan, India, South Korea, Germany, Mexico, Brazil, Spain and Thailand. In 2021, China was the largest producer of vehicles, at 26.08 million units. With the large amount of production as well as the need for tyres to support its replacement market, China imported 5.30 million MTS of block rubber, including 0.68 million MTS of block rubber from Malaysia in 2021[1].

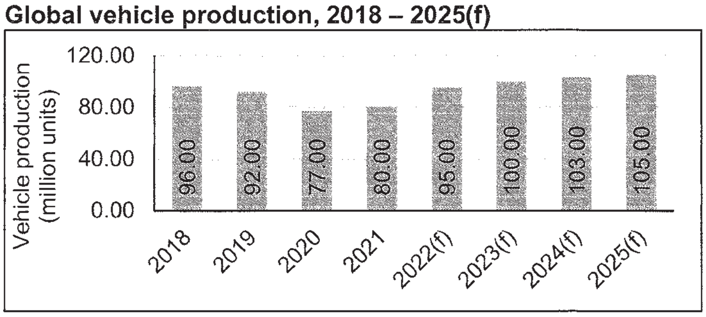
The COVID-19 pandemic led to the imposition of movement controls/ lockdowns in countries around the world to reduce infection rates. Due to the movement controls/ lockdowns, vehicle sales reduced, which led to the decrease in vehicle production from 96 million units in 2018 to 77 million units in 2020[2], at a CAGR of -10.44%. Further, the behaviour towards driving changed and the number of journeys and mileage declined as the general public was confined to travelling within limited distances or to travel only when necessary, which led to the decrease in the demand for tyres in the replacement market.

Top 10 vehicle producing countries, 2021



Source: International Organization of Motor Vehicle Manufacturers

Global vehicle production, 2018 – 2025(f)



Sources: International Organization of Motor Vehicle Manufacturers, International Rubber Study Group

Nevertheless, in 2021, as the economy gradually recovers from the impact of the COVID-19 pandemic and with the upliftment of lockdown measures, consumer sentiment and purchasing power improved. As a result, vehicle production increased by 3.90% YOY to 80 million units in 2021[2]. The world vehicle sector is expected to grow further with the increase of vehicle production from 80 million units in 2021 to 105 million units in 2025[3], at a CAGR of 7.03%, supported by the stimuluses introduced by various governments. This will drive the demand for tyres and subsequently the block rubber processing industry.

[1] *Source: UN Comtrade*
[2] *Source: International Organization of Motor Vehicle Manufacturers*
[3] *Source: International Rubber Study Group*

▶ **Block rubber made from natural rubber cannot be completely replaced by synthetic rubber**

Despite the diverse options for types of synthetic rubber in the market which can be used to produce the same products as natural rubber, synthetic rubber still cannot completely replicate the distinct properties of natural rubber. The chemical structure of natural rubber comprises mainly cis-1,4-polyisoprene, contributing to a high molecular weight which gives it its high tensile strength and low heat build-up. Synthetically derived cis-1,4-polyisoprene cannot completely match the properties of natural rubber. As such, synthetic rubber is used to complement natural rubber in some of its applications.

Tyre manufacturing companies incorporate natural and synthetic rubbers in the composition of their tyres, amongst other materials, to acquire the favourable properties of both rubbers. When vulcanised, natural rubber has high resistance to tearing and fatigue, high tensile strength and low heat accumulation while synthetic rubber possesses resistance to abrasion, aging and heat. Heavy vehicles such as trucks, earthmovers, and off-the-road vehicles tend to generate larger amounts of internal heat in the tyres compared to lighter vehicles such as passenger cars and motorcycles due to greater friction when in contact with the ground as a result of greater mass. As such, a higher ratio of natural rubber to synthetic rubber is incorporated in tyres designed for heavy vehicles to sustain the excessive heat generated and wear and tear of the tyre treads. For the same reason, aircraft tyres are made entirely of natural rubber as aircraft tyres are required to sustain great friction when in contact with the runway to absorb heat generated from friction. As such, in the tyre manufacturing industry, natural rubber and synthetic rubber are two distinct raw materials that serve as complementary materials rather than substitutes.

▶ **Continued initiatives by the Government of Malaysia encourage welfare of stakeholders in the rubber industry drive the block rubber processing industry**

The Government of Malaysia implemented initiatives which encourage the welfare of stakeholders in the upstream and midstream sectors in the rubber industry, which have directly or indirectly benefitted the block rubber processing industry in Malaysia. The initiatives implemented by the Government of Malaysia in the upstream and midstream sectors in the rubber industry are as follows:

a) Upstream sector

The Malaysian Rubber Board introduced the Rubber Production Incentive ("IPG") in January 2015 to provide financial assistance to rubber smallholders when the price of rubber is low to discourage halts in rubber tapping. Under this scheme, rubber smallholders will receive compensation if the average monthly SMR20 FOB price is below RM610 sen/kg or the cup lump farmgate price is below RM250 sen/kg. Through the implementation of the IPG, rubber smallholders are encouraged to continue their operations, thereby enabling block rubber processing industry players to have continuous supply of local cup lump as raw materials for processing. Under Budget 2021, RM300 million was allocated for the IPG. The MRB announced that there will be no IPG payments for October 2021 and it will resume when average monthly SMR20 FOB price or cup lump farmgate price falls below the pre-determined prices. Further, in Budget 2022, the Government intends to implement the National Rubber Industry Transformation Program to consolidate smallholders, rubber entrepreneurs and small cooperatives into a consortium which is capable of processing scrap rubber into crepe rubber. The Government also allocated RM190 million for Monsoon Season Assistance to ease the financial burden of rubber smallholders who lose their income during the monsoon seasons.

b) Midstream sector

On 3 March 1965, the Rubber Research Institute of Malaysia introduced the SMR Scheme with the purpose of (i) providing consumers with a set of prescribed criteria from which the quality can be ascertained, and (ii) benchmarking the standards of rubber produced by various block rubber processing industry players. Through the introduction of the SMR Scheme, the Rubber Research Institute of Malaysia standardised the quality of rubber thereby increasing attractiveness, marketability and quality of block rubber produced in Malaysia.

Key Industry Risks and Challenges

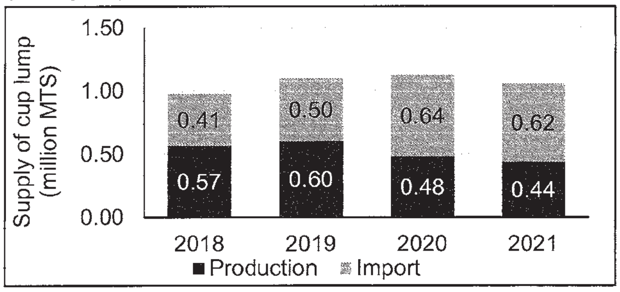
▶ **Dependency on the supply of cup lump as raw material**

The block rubber processing industry is dependent on the availability of cup lump as the raw material for processing. Block rubber processing industry players source these raw materials from local and foreign suppliers, comprising estates, rubber smallholders and traders.

In Malaysia, planted hectarage of rubber trees increased from 1.08 million hectares in 2018 to 1.11 million hectares in 2020[4]. However, the production of cup lump decreased from 0.57 million MTS in 2018 to 0.44 million MTS in 2021 due to various factors including the fluctuation of cup lump prices causing rubber tappers to temporarily stop rubber tapping activities or to switch to other jobs for alternative sources of income while waiting for prices to improve; as well as factors such as wet weather in some months. As a result, locally produced cup lump may not be sufficient to cater to the demand for cup lump in the block rubber processing industry in Malaysia.

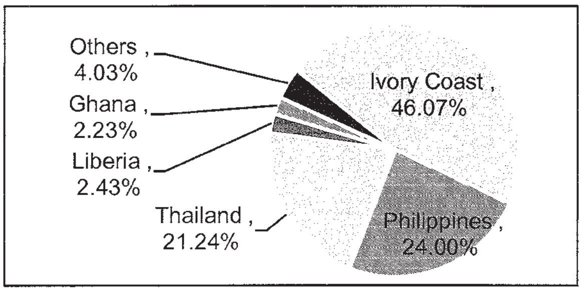
To supplement the locally produced cup lump, block rubber processing industry players source cup lump from other countries through rubber traders. This has resulted in the increase of imports of cup lump from 0.41 million MTS in 2018 to 0.62 million MTS in 2021[5]. In 2021, 46.07% of imported cup lump were from Ivory Coast, followed by Philippines (24.00%), Thailand (21.24%), Liberia (2.43%), Ghana (2.23%) and others (4.03%).

Supply (production and import) of cup lump (Malaysia), 2018 – 2021



Sources: DOSM, UN Comtrade

Top 5 country of origin of imported cup lump (Malaysia), 2021



Source: UN Comtrade

The economic lifespan of rubber trees is 25 to 30 years after the first tapping. After the economic lifespan of the rubber trees, new rubber trees will be planted to replace the old rubber trees, with the next round of tapping occurring after 5 to 7 years when the rubber trees mature. Further, due to the natural cycle of rubber trees, during the annual wintering period, the leaves of the tree wither and fall. This scenario significantly affects latex production which reduces cup lump production. The wintering period differs from country to country and occurs for a period of 2 to 3 months between December and June. The annual wintering period in Malaysia typically falls between February and May. Further, rubber trees are also susceptible to fungal diseases which affect latex and cup lump production.

Any disruptions in the supply of cup lump with the required quality and pricing may result in rubber processing industry players failing to adequately fulfil customer orders in a timely manner or incurring higher production costs, which may adversely impact the financial performance of industry players.

▶ Reliance on foreign workers as general labour

The block rubber processing industry is a labour intensive industry. Labour shortage issues are common in the block rubber processing industry in Malaysia where Malaysia is dependent on foreign workers as a result of limited supply of local labour for manufacturing/processing related operations. Any quota restrictions, or suspensions, in the hiring of foreign workers may cause difficulties in employing sufficient labour. Any increase in the levy rate for foreign workers or minimum wages for employees will increase the cost of labour which may result in a negative impact on industry players' profitability. Further, block rubber processing industry players may also face challenges such as the time required to register foreign workers, which may disrupt operations due to insufficient workers.

In June 2020, the Human Resource Minister announced a hiring freeze on foreign workers until the end of 2020, which was further extended until the end of 2021, with the aim to create more job opportunities for the local workforce in view of the adverse impact from the COVID-19 pandemic which caused higher unemployment in the country. Nevertheless, in July 2020, the Government announced its decision to allow foreign workers to work in the construction, agricultural and plantation sectors. Subsequently in August 2020, the Government announced a further easing of the hiring freeze on foreign workers by allowing employers to

[4] *Latest available as at 19 May 2022*
[5] *Malaysian Rubber Board*

hire retrenched foreign workers who are still in Malaysia, provided that these foreign workers have valid work permits and that they are being employed in the same sector that they were previously employed in. In April 2022, the Government announced that approximately 180,000 applications to hire foreign workers in the construction, agriculture, plantation, manufacturing and services sectors will be processed in May 2022, which may ease the shortage of foreign labour in these sectors.

There is no assurance that the issues of foreign labour shortages will persist or reoccur. Foreign labour shortages force block rubber processing industry players to source for local workers. If the block rubber processing industry players are unable to successfully hire sufficient local workers timely, it will result in disruptions to their operations. Any prolonged disruptions in their operations will subsequently affect their delivery schedules and lead to potential cancellation of orders which will adversely impact their financial performance.

3 COMPETITIVE OVERVIEW

Competitive Landscape

In Malaysia, block rubber processing industry players which produce SMR grades are required to be registered with the Malaysian Rubber Board. The technical skills in block rubber processing are crucial as the SMR grades produced must comply to technical parameters and properties. Further, the block rubber produced (SMR grades and customised grades) must meet the requirements and specification set by the customers based on their respective applications. Therefore, due to the specialised nature of the block rubber processing industry, the industry is niche and comprises a small pool of industry players. Based on the latest information by the Malaysian Rubber Board, there are 27 registered block rubber processing companies in Malaysia.

Block rubber processing industry players compete in terms of pricing, range and quality of block rubber, processing capabilities, service offerings and ability to deliver in a timely manner. Block rubber processing industry players may also face competition from new industry players. However, the barriers to entry in the block rubber processing industry is high. This is because block rubber processing industry players require high initial capital for the set-up of processing facilities, comprising machinery and equipment and storage facilities, as well as substantial working capital requirements for the on-going purchase of raw materials. Therefore, industry players who have the ability to secure sufficient sales and be profitable will be able to sustain their business operations in the long term and remain competitive in the industry. Further, block rubber processing industry players face competition from block rubber processing industry players in other major rubber exporting countries such as Thailand, Indonesia and Vietnam. Despite being labelled differently, SMR, STR, SIR and SVR grades have the same technical parameters and properties. Further information on the block rubber processing industry in Thailand, Indonesia and Vietnam are disclosed in Chapter 4.

Key Industry Players of the Block Rubber Processing Industry in Malaysia

As Seng Fong Group is involved in the processing of cup lump into block rubber and their products comprise SMR grade and customised grade block rubber (i.e. premium grade block rubber), the basis for selection of the key industry players in the block rubber processing industry in Malaysia are as follows:

- Block rubber processing companies registered with the Malaysian Rubber Board;
- Companies involved in the processing of cup lump into SMR grade and customised grade block rubber; and
- Companies which recorded more than RM100.00 million revenue based on their respective latest available financial years.

In instances where industry players are exempt private companies for the latest available financial year, or industry players with no publicly available financial reports, the industry players are not included in the table below as the audited financial statements of the companies are not publicly available. The list of identified key industry players is set out below:

Company name	Block rubber products	Latest available financial year	Revenue[i] (RM million)	Gross profit/ (Gross loss) (RM million)	Gross profit margin/ (Gross loss) margin (%)	Profit after tax/ (Loss after tax) (RM million)	Profit after tax margin/ (Loss after tax) margin (%)
Tiong Huat Rubber Factory Sdn Bhd	SMR10, SMR20, SMR5	31 August 2021	1,024.33[ii]	121.99	11.91	43.71	4.27

Company name	Block rubber products	Latest available financial year	Revenue[(i)] (RM million)	Gross profit/ (Gross loss) (RM million)	Gross profit margin/ (Gross loss) margin (%)	Profit after tax/ (Loss after tax) (RM million)	Profit after tax margin/ (Loss after tax) margin (%)
Seng Fong Group	SMR10, SMR20, SMRGP, SMR5, customised grade	30 June 2021	768.18	73.89	9.62	34.62	4.51
FGV Rubber Industries Sdn Bhd (A subsidiary of FGV Holdings Berhad[(iii)])	SMR10, SMR20, customised grade	31 December 2020	677.08[(iv)]	16.54	2.44	(13.05)	(1.93)
Seng Hin Rubber (M) Sdn Bhd	SMR10, SMR20, SMR20CV, SMRGP, customised grade	30 June 2021	566.88	22.10	3.90	9.20	1.62
MARDEC Processing Sdn Bhd	SMR10, SMR20, customised grade	31 December 2020	479.17	14.51	3.03	(35.70)	(7.45)
Hock Hin (Muar) Rubber Co Sdn Bhd	SMR10, SMR20, SMRGP, SMR5	31 May 2021	357.57	25.72	7.19	1.86	0.52
Southland Tatt Win Rubber Sdn Bhd	SMR10, SMR20, SMR10CV	31 December 2020	272.68	3.11	1.14	(2.91)	(1.07)
Hevea KB Sdn Bhd (A subsidiary of Halcyon Agri Corporation Limited[(v)])	SMR10, SMR20, SMR5	31 December 2020	252.59	10.27	4.07	(3.88)	(1.54)
Euroma Rubber Industries Sdn Bhd (A subsidiary of Halcyon Agri Corporation Limited[(v)])	SMR10, SMR20, SMRGP, SMR10CV	31 December 2020	155.78	5.05	3.24	(2.00)	(1.28)
Kota Trading Co Sdn Bhd	SMR10, SMR20, SMR10CV, SMR20CV, SMRGP, SMR5	31 December 2020	127.45	(0.34)	(0.27)	2.19[(vi)]	1.72

Notes:
- *Latest available as at 19 May 2022.*

(i) Comprises sales of block rubber. A separate note is indicated on revenue that comprises sales of other products.
(ii) Comprises sales of block rubber of RM1.02 billion and sales of oil palm of RM0.80 million.
(iii) FGV Holdings Berhad is listed on Bursa Malaysia.
(iv) Comprises sales of block rubber of RM668.15 million, sales of latex of RM8.85 million and sales of other products of RM0.08 million.
(v) Halcyon Agri Corporation Limited is listed on Singapore Exchange.
(vi) Profit after tax recorded was higher than gross profit mainly due to other income of RM5.38 million.
Sources: Seng Fong Group, various company websites, Malaysian Rubber Board, Companies Commission of Malaysia, SMITH ZANDER analysis

The GP margin of the key industry players listed above who derived their revenue solely from the sale of block rubber, is generally low in percentile in the range of 1.14% to 11.91%; with one industry player recording a gross loss margin of 0.27%, based on their respective latest financial information.

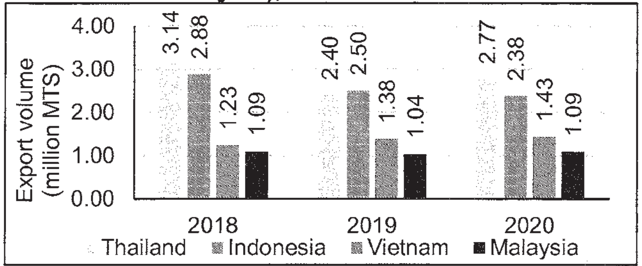
Export Market Share

Seng Fong Group derives the majority of its revenue from exports. The Group captured an export market share of 11.79% based on its total export of 121,404 MTS in the financial year ended 30 June 2021, against the export volume of block rubber in Malaysia at 1.03 million MTS in 2021. Further, the Group captured an export market share to China of 14.78% based on its total export to China of 100,477 MTS in the financial year ended 30 June 2021, against Malaysia's export volume of block rubber to China at 0.68 million MTS in 2021.

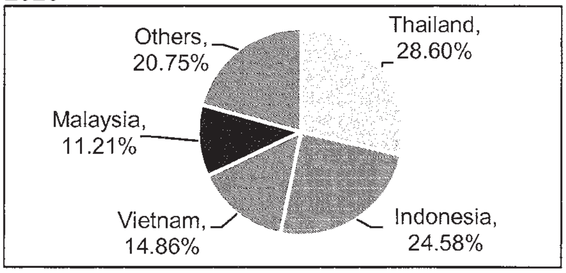
4 THAILAND, INDONESIA AND VIETNAM AS THE TOP 3 GLOBAL EXPORTERS OF BLOCK RUBBER

Thailand, Indonesia and Vietnam are the top 3 exporting countries of block rubber globally, followed by Malaysia. In 2020, Thailand dominated global exports of block rubber with a share of 28.60%, followed by Indonesia (24.58%), Vietnam (14.86%) and Malaysia (11.21%).

Export volume of block rubber (Thailand, Indonesia, Vietnam and Malaysia), 2018 – 2020



Composition of global exports of block rubber, 2020



Notes:

- *The export volume of block rubber from Malaysia is disclosed to provide a comparison of the top 4 global exporters of block rubber.*
- *The latest available data for Thailand, Indonesia and Vietnam is 2020.*

Sources: UN Comtrade, SMITH ZANDER analysis

In Thailand, the export volume of block rubber decreased from 3.14 million MTS in 2018 to 2.77 million MTS in 2020, registering a CAGR of -6.08%. In Indonesia, the export volume of block rubber decreased from 2.88 million MTS in 2018 to 2.38 million MTS in 2020, registering a CAGR of -9.09%. In Vietnam, the export volume of block rubber increased from 1.23 million MTS in 2018 to 1.43 million MTS in 2020, registering a CAGR of 7.82%. The reduction in the export volume of block rubber in 2019 in Thailand and Indonesia was due to the implementation of export curbs of block rubber in cooperation with Malaysia through the 6th Agreed Export Tonnage Scheme, which enabled block rubber stock to decrease and stabilised block rubber prices. The export volume of block rubber of Indonesia continued to decline in 2020 due to high COVID-19 infection cases which had led to the imposition of lockdowns and subsequently disrupted rubber tapping and block rubber production.

In Thailand, Indonesia and Vietnam, the Thai Rubber Association, the Rubber Association of Indonesia and the Vietnam Rubber Association respectively oversees all matters related to the rubber industry, to ensure the quality of block rubber can be ascertained, and enabling purchasers to purchase block rubber with technical properties which correspond to the intended applications.

In Thailand, the current STR grade which is available in the market are STR5, STRGP, STR10CV, STR10, STR20CV and STR20 and examples of block rubber processing industry players in Thailand which produces STR grade are Southland Rubber Co Ltd, Sri Trang Agro-Industry Public Co Ltd and Thai Hua Rubber Public Co Ltd with annual capacity for block rubber processing of 1.44 million MTS, 0.98 million MTS and 0.47 million MTS respectively[6]. All these 3 block rubber processing industry players also produce customised block rubber.

In Indonesia, the current SIR grade which is available in the market are SIR5, SIRGP, SIR10CV, SIR10, SIR20CV and SIR20 and examples of block rubber processing industry players in Indonesia which produces SIR grade are PT Kirana Megatara Tbk, Halcyon Agri Corporation Limited (which operates local companies in Indonesia namely, PT Hok Tong, PT Remco Rubber Indonesia, PT Hevea MK and PT Hevea GE) and Southland Rubber Group (which operates local companies, namely PT Polykencana Raya, PT Abaisiat Raya, PT Bintang Gasing Persada, PT Kota Niaga Raya, PT Bintang Borneo Persada and PT Kahayan Berseri), with annual capacities for block rubber processing of 0.80 million MTS, 0.80 million MTS and 0.40 million MTS respectively[6]. Halcyon Agri Corporation Limited and Southland Rubber Group also produce customised block rubber.

In Vietnam, the current SVR grade which is available in the market are SVR5, SVR10CV, SVR10, SVR20CV and SVR20. Block rubber processing industry players may also produce customised block rubber and examples of block rubber processing industry players in Vietnam which produces SVR grade are Vietnam

[6] *The annual processing capacity of the foreign industry players had been extracted from the latest available information but the specific financial year/ period which this information is related to is not indicated in the respective sources of information.*

Rubber Industry Group, Lien Anh Production Rubber Co Ltd and Thuan Loi Rubber Co Ltd. The annual capacity for block rubber processing for Lien Anh Production Rubber Co Ltd is 0.19 million MTS, while the annual capacities for rubber processing[7] for Vietnam Rubber Industry Group and Thuan Loi Rubber Co Ltd are 0.53 million MTS and 0.08 million MTS respectively[6].

For comparison against foreign block rubber processing industry players mentioned above, Seng Fong Group's annual capacity for block rubber processing was 0.14 million MTS in the financial year ended 30 June 2021.

The financial information of the foreign block rubber processing industry players is not disclosed in this report as such information is incomplete as detailed below:

(i) the revenue for block rubber processing for a majority of the foreign industry players are not available. These industry players are involved in processing of block rubber and other rubber products (e.g. RSS, concentrated latex, skim rubber), and they may also be involved in other businesses not related to rubber processing, and the revenue segmentation by product/ business activities is not publicly available; and

(ii) the financial information for private companies, namely Southland Holding group of companies in Indonesia, and Lien Anh Production Rubber Co Ltd and Thuan Loi Rubber Co Ltd in Vietnam, is not publicly available or outdated (i.e. latest available is 2018).

5 OUTLOOK AND PROSPECTS

The block rubber processing industry in Malaysia, as represented by the production volume of block rubber, declined slightly from 1.38 million MTS in 2018 to 1.34 million MTS in 2019 but improved to 1.51 million MTS in 2020, and registered a CAGR of 4.60% during this period. However, the production volume of block rubber declined by 20.53% YOY to 1.20 million MTS in 2021 mainly contributed by the reduced production of compound rubber due to lower export demand. Similar to the production trend, the export volume of block rubber decreased slightly from 1.09 million MTS in 2018 to 1.04 million MTS in 2019, improved and returned to 1.09 million MTS in 2020, and subsequently decreased to 1.03 million MTS in 2021. The rate of recovery in export volume in 2020 was relatively lower than the recovery in production volume due to the temporary global slowdown in the manufacturing of tyres and vehicle parts. In 2021, while production volume declined, the export volume for block rubber from Malaysia remained relatively stable, supported by stronger demand for SMR grade.

Approximately 70% of global natural rubber is used for tyre manufacturing, hence block rubber as one of the main raw materials for tyre manufacturing is driven by the automotive industry. In 2021, as the economy gradually recovers from the impact of the COVID-19 pandemic and with the upliftment of lockdown measures, consumer sentiment and purchasing power improved. As a result, vehicle production increased by 3.90% YOY to 80 million units in 2021. The world vehicle sector is expected to grow further with the increase of vehicle production from 80 million units in 2021 to 105 million units in 2025, at a CAGR of 7.03%, supported by the stimuluses introduced by various governments. With increasing number of vehicles produced and sold as well as replacement of worn-out tyres during vehicle maintenance, the demand for tyres increases, which drives the rubber processing industry.

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[7] *Rubber processing includes processing block rubber and other rubber products such as RSS and concentrated latex. The specific annual capacity for block rubber processing only is not publicly available.*

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 are dependent on export markets and our major customers who contribute substantially to our Group's revenue

We are dependent on export markets as a majority of our sales are derived from overseas customers. In the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our export sales contributed approximately 99.9%, 99.9%, 100.0% and 99.9% to our Group's revenue respectively. Further, we are also dependent on our major customers who contributed substantially to our Group's revenue. For the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our top 5 major customers contributed 80.3%, 83.5%, 84.3% and 91.0% to our Group's revenue, respectively. The length of business relationship with our major customers ranges between 5 years to 15 years. Please refer to Section 7.19 of this Prospectus for further information on our major customers.

Any delay or decrease in the value of orders from our major customers could have an adverse effect on our financial performance. There is no assurance that our major customers will continue to purchase our products in the future or that demand from them will be sustained at current levels in the future.

We impose minimum purchase volume of block rubber (i.e. 1 twenty-foot equivalent unit container which amounts to approximately 20.16 MTS) on our customers, thus allowing us to plan our annual sales volume and our production schedule. Our sales to our customers are conducted on the basis of spot contract or sales contract. Further details on the spot contract and sales contracts are as set out in Section 7.19 of this Prospectus. However, due to the nature of our industry, in which block rubber pricing is dependent on the fluctuating rubber commodity prices, customers generally do not enter into contracts exceeding 12 months. For the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, save for Maxtrek Tyre Group, all the top 5 major customers had entered into sales contract with our Group. This allows us to secure sales for a fixed period which enabled us to be more efficient in planning our production and purchase of raw materials. While we have not experienced any difficulty in securing new spot contracts with our existing customers or renewing sales contracts with our existing customers in the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, save for the loss of one of our major customers, Chongqing Group in FYE 2020, due to the halt in rubber dealing by Chongqing General Trading Chemical Co., Ltd during the FYE 2020, there is no assurance that we will be able to consistently secure new spot contracts or negotiate for the renewal of the sales contract with our existing customers before their expiration.

Any loss of these major customers and our inability to replace these customers with new customers or with additional orders from existing customers in a timely manner, could result in a loss of revenue and will have an adverse impact on our financial performance. In the event that one or more customers cease to purchase our products, we can find another tyre manufacturer replacement or go through the international rubber traders for an outlet. Nonetheless, there is no assurance that we will be able to achieve the same level of sales value and maintain and/or improve our profit margins. If such adverse events occur, our financial performance will be adversely affected.

9.1.2 We are dependent on licenses granted by MRB to operate our business

It is mandatory for all rubber exporters in Malaysia to hold a valid license granted by the MRB to purchase, store, sell, process and pack natural rubber for export. Without a valid license, we will not be able to purchase, store, sell, process and pack natural rubber for export. Please refer to Section 7.12 of this Prospectus for further details on the licences granted by MRB.

It is mandatory for us to comply with the relevant requirements, regulations and conditions imposed by MRB in order to maintain our license, in which we are required to renew annually. Failure to comply may result in our license being revoked, suspended or not renewed and we may be further liable to a fine or imprisonment, or to both. This will result in our Group being restricted or prohibited from purchasing, storing, selling, processing, packing and exporting our processed rubber. This in turn may cause cancellation of orders and impact our relationships with our customers. In such event, our business, financial position and prospects may be materially and adversely affected. Although our Group has not experienced any failure to renew our license since the beginning of our business, there is no assurance that we will continue to be able to successfully renew our license.

9.1.3 We are exposed to foreign exchange fluctuation risks which may impact the profitability of our Group

For the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our export sales contributed approximately 99.9%, 99.9%, 100.0% and 99.9% to our Group's revenue respectively. The revenue generated from these export sales are denominated in USD. As a result, we are exposed to fluctuations of the USD, and any adverse movements in the foreign exchange markets may have an adverse impact on our financial performance. Any future significant appreciation of the RM against the USD may have a negative impact on our Group's financial statements which is reported in RM being the functional currency of our Group. Conversely, any future significant depreciation of the RM against the USD may have a positive impact on our Group's financial statements.

Further, part of our purchases on the import of raw materials such as cup lump, semi-processed rubber (e.g. RSS and synthetic rubber) and value-added additives (e.g. other chemicals) are also denominated in USD. For the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our USD-denominated purchases contributed 54.2%, 64.0%, 67.9% and 67.7% to our Group's total purchase of raw materials respectively. Our USD-denominated purchases would result in an opposite effect to our Group's financial statements in comparison to the movement of the exchange rate against our export sales. Further details on our revenue generated from sales, and material cost arising from purchases denominated in RM and USD are as set out in Section 12.3.2(ii) of this Prospectus.

We experienced consecutive realised loss on foreign exchange of RM1.1 million, RM5.5 million and RM0.2 million during the past 3 FYEs 2019 to 2021 respectively, and a realised gain on foreign exchange of RM 0.2 million in the FPE 31 December 2021. The realised loss on foreign exchange during the past 3 FYEs 2019 to 2021 was resulted from the contracted rates of forward foreign exchange contracts being lower than the foreign exchange rates used to account for the sales denominated in USD upon receipts. As a result of the timing differences between invoicing and collection, actual collections were lower than the sales amount recorded in the financial statements. As such, notwithstanding that we have entered into forward foreign exchange contracts to partially hedge our foreign exchange risk, there can be no assurance that any future foreign exchange rates fluctuation will not have a material adverse effect on the financial performance of our Group. We will continue to monitor our exposure to foreign exchange movements on a regular basis for our management's assessment on the need to utilise financial instruments to hedge such currency exposure, taking into account factors such as the foreign exchange involved, exposure periods and transaction costs. Please refer to Section 12.4.4 of this Prospectus for further information on our forward foreign exchange contracts.

9.1.4 Our business is exposed to unexpected interruptions or delays caused by equipment failures, fire, outbreak of pandemic as well as environmental factors (including natural disasters), some of which may be beyond our control, which may lead to interruptions in our operations

(i) Interruptions caused by equipment failures, damages and environmental factors

We rely on machinery and equipment to carry out block rubber processing in our factories. These machinery and equipment may, on occasion, be out of service due to unanticipated failures or damages sustained during operations. Further, our business is also subject to loss due to unexpected power failure, fire, lightning or natural disasters such as flood or storm.

The occurrence of these unexpected events that are beyond our control may cause damage or destruction of all or part of our factories and machinery, resulting in interruptions to or prolonged suspension of our production activities. In May 2019, we encountered 2 lightning incidents that had damaged 2 of our weighbridges. The loss amounted to approximately RM24,000 and was fully reimbursed by our insurance. Our operations were not interrupted by these incidents as we have sufficient weighbridges for our operations.

Further, in August 2019, we encountered a fire incident that had damaged some of our trolleys (i.e. used to store rubber crumbs) which were set aside at the cleaning area for cleaning. The loss amounted to approximately RM52,000 and was fully reimbursed by our insurance. Our operations were not interrupted by this incident as we have sufficient trolleys for our operations.

Save for the abovementioned incidents, we have not experienced any incidents of material machinery and equipment failures or catastrophic damages as a result of unexpected power failure, fire or flood, which led to major interruptions in our operations historically up to the LPD. However, there can be no assurance that such incidences will not happen in the future.

(ii) Interruptions caused by the COVID-19 pandemic

Pursuant to the COVID-19 pandemic, the Government of Malaysia had imposed a 1st MCO throughout Malaysia from 18 March 2020 to 3 May 2020. Our business operations were closed from 18 March 2020 to 22 March 2020. While we had resumed operations on 23 March 2020, we faced temporary disruptions as we had to reduce our workforce capacity to 50% of our Group's total workforce and the working hours of our business operations to 8 hours a day, from 12 hours a day. This had affected our production output which in turn delayed the fulfilment of our orders. While the delay had impacted our billing schedule and revenue recognition in 4th quarter of FYE 2020, the revenue was eventually recognised in the 1st quarter of FYE 2021. Further, there were no penalties imposed by our customers as a result of the delay in the fulfilment of orders.

Further, a reimposition of the MCO on 25 May 2021 which was subsequently revised to a four-phase recovery plan beginning 1 June 2021 had also affected our operations as we had to reduce our workforce capacity to 60% of our Group's total workforce. Nevertheless, we had extended our production hours and as such, our production output was not affected during this period. From 1 November 2021 onwards, we have resumed our operations at full workforce capacity.

Our Factory Closure from 12 November 2021 until 18 November 2021 and reduced workforce capacity from 19 November 2021 until 2 December 2021, had temporarily disrupted our production activities. There was a total of 129 reported positive cases of COVID-19, comprising 127 foreign workers and 2 local workers, arising from this incident. All our workers were put under 10 days of quarantine and were allowed to return to work upon uplifting of the order by MOH. By 3 December 2021, all 129 workers who were tested positive of COVID-19 had resumed work at our factory. The incident had resulted in a delay to the initial scheduled shipment in mid-November 2021 to December 2021 and January 2022. Nevertheless, the loss in production output (i.e. amounting to approximately 4,000 MTS with an estimated value of RM29.0 million) arising from the Factory Closure and reduced workforce capacity is not expected to have any material effect on our Group's performance for FYE 2022 as we are able to increase our production hours in the subsequent months to recoup such loss in production output. There were no penalties imposed by our customers as a result of the delay in the fulfilment of orders.

Save as disclosed above, there were no major disruptions to our operations and production output since 18 March 2020 and up to the LPD. In addition, we did not receive any cancellation of orders resulting from the COVID-19 pandemic. Further, we have not encountered any major disruptions in the procurement and receipt of supplies resulting from the COVID-19 pandemic.

The surge in COVID-19 cases in China in March 2022 had resulted in varying levels of lockdown at certain cities within the country which had impacted the country's economic activities. Consequently, there was a delay in the presentation of shipping documents. As China is the principal market for our export sales, the lockdown had resulted in a delay in the collectability of certain trade receivables which exceeded their credit term of 21 days as payments are made only upon presentation of shipping documents. Nonetheless, the trade receivables affected by the lockdown which remain uncollected as at the LPD was subsequently collected in May 2022. Additional details on interruptions to our business operations are set out in Section 7.4.4 of this Prospectus.

Nevertheless, if there is any COVID-19 cases at our factories in the future which result in reduction of workforce or closure of our operations, there can be no assurance that our production, shipment schedules and procurement activities will not be materially impacted and that we will be able to fulfil our orders in a timely manner. Further, there can be no assurance that our customers will not initiate any penalty claims against our Group arising from the delay, which may result in adverse impact on our financial performance.

Notwithstanding that our Group had undertaken necessary precautionary measures and steps in response to the COVID-19 situation, there can be no assurance that our employees will not be infected by the COVID-19 virus. Should all or a portion of our employees be quarantined as a result of potential infection, our business operations may be affected due to a temporary shortage of workers. These disruptions to our business operations will in turn delay our production schedule, which may consequently result in adverse impact on our financial performance. Further, there is no assurance that upon undertaking necessary precautionary measures, the COVID-19 virus will not spread from our workers to outsiders and result in the emergence of a new COVID-19 cluster.

Any prolonged interruptions to our production activities will affect our ability in adhering to our production schedule, thus causing delays in the delivery of products to our customers. This could adversely impact our relationships with customers, financial performance and industry reputation.

While our Group has not experienced any material impact on the collectability of our trade receivables arising from business interruptions as a result of the COVID-19 pandemic, there can be no assurance that there will not be any unfavourable impact on the collectability of our trade receivables in the event of any further resurgence in COVID-19 cases and re-imposition of lockdown measures in the countries where our customers operate, particularly in light of the resurgence in COVID-19 cases in certain parts of China in March 2022 which had resulted in a delay in the collectability of our trade receivables. Any prolonged delay in the collectability of our trade receivables will affect our cash flow and subsequently affect our financial performance.

9.1.5 We are dependent on our Managing Director, Executive Directors and Key Senior Management for continued success and the loss of their continued services may affect our business

Our continued and future success largely depends on the continuing contribution of our Managing Director, Executive Directors and Key Senior Management, the majority of whom have relevant experience in their respective fields and in-depth knowledge in the block rubber processing industry.

Our Managing Director, Er Hock Lai, carrying with him 40 years of industry experience, has been actively involved in our daily business operations and plays a vital role in formulating and implementing strategies to drive the growth and expansion of our Group. Our Executive Director, E Tak Bin, with 46 years of industry experience, plays a vital role in overseeing the purchase of raw materials for our Group. Our Executive Director, Er Tzer Nam, with 5 years of industry experience and 21 years of total working experience plays a vital role in overseeing risk management and corporate planning, sales and marketing as well as human resource of our Group. Please refer to Sections 5.2.2 and 5.4.3 of this Prospectus for further details on their profiles.

Our Executive Directors and Key Senior Management, with years of working experience ranging between 15 and 46 years in their respective fields, are involved in project planning, operational coordination and execution of growth strategies, as well as procuring new suppliers and customers, and maintaining relationships with all our suppliers and customers.

We recognise that our Group's continuing success and future growth depend significantly on the capabilities and efforts of our Managing Director, Executive Directors and Key Senior Management. As such, any loss of these personnel, and our inability to find a suitable replacement in a timely manner, may create an unfavourable or material impact on our Group's operations, and may eventually affect our ability to maintain and/or improve our business performance.

9.1.6 We are subject to the risks relating to the economic, political and/or legal environment in the markets in which we serve

<u>Economic risk</u>

As a block rubber processor, our Group is required to adhere to the instructions laid out by MRB. In 2019, in co-operation with Thailand and Indonesia through the 6th Agreed Export Tonnage Scheme under the framework of the International Tripartite Rubber Council, Malaysia had agreed to implement export curbs of block rubber between 1 April 2019 and 31 July 2019 to reduce block rubber stock and stabilise block rubber prices. In relation to this export curb, our Group had in March 2019 received instructions from MRB to reduce our export which amounted to approximately 1,800 MTS over the 4-month period. While the reduction in export volume arising from this curb is not material to our Group, there is no assurance that the implementation of any export curb or other restrictions in the future will not adversely affect our financial performance.

Majority of our block rubber (i.e. 88.1%, 76.3%, 77.2% and 66.8% of our total revenue in the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, respectively) were exported to China, including our sales to Hong Kong which were derived from international rubber traders (i.e. affiliates of tyre manufacturers in China or independent traders) who purchased block rubber from us for onward shipment or sales to their customers in China. As such, we are exposed to concentration risk arising from our exports to China. Notwithstanding that China is the largest market for block rubber (i.e. China was the largest producer of vehicles in 2021) and that we have not encountered any circumstances that had affected our exports to China in the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, there is no assurance that the changes in the economic, political and/or legal environment in China, if any, will not affect our exports to China in the future. While we may be able to continue exporting our block rubber to other countries in the event that our export to China were to be affected, there is no assurance that we will be able to secure additional sales from our existing customers and sales from new customers in a timely manner to replace the lost in sales to our customers in China. This could result in a loss of revenue and will have an adverse impact on our financial performance.

Political risk

In February 2022, the outbreak of the Russian-Ukraine war has impacted global supply chains including the shipment of certain commodities, mainly agricultural commodities, metals as well as oil and gas. As at the LPD, our Group's operations are not affected by the Russian-Ukraine war as well as the disruption to the global supply chain arising from the war. Further, our Group does not export to Russia or Ukraine, and does not purchase raw materials from suppliers in Russia or Ukraine, and as such, our Group does not foresee adverse impact to our financial performance for the FYE 2022. Nevertheless, in the event that the war prolongs, there can be no assurance that any adverse economic impact and prolonged global supply chain disruption will not materially affect the business operations and financial performance of our Group.

Legal risk

Notwithstanding that we principally operate in Malaysia, our revenue was mainly derived from export sales (e.g. exported mainly to China, Taiwan and India), further details of which are set out in Section 7.3.3 of this Prospectus. In the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our export sales accounted for approximately 99.9%, 99.9%, 100.0% and 99.9% of our total revenue respectively. As we continue to expand our business, our financial performance and results of operations are expected to be affected by the economic and political conditions in the countries where we transact business, making us increasingly susceptible to the operational risks caused by these conditions. For example, any increase in import tariffs of block rubber due to economic and political conditions in the countries where we export our block rubber may result in a decrease in demand for our block rubber due to increased pricing, which may adversely affect our financial performance.

Further, conducting business in other markets also requires us to comply with foreign laws and regulations covering many aspects of our operations, including trade laws and licensing regulations, and these laws and regulations may change, or may be updated and amended, from time to time, which are beyond our control. Whilst we practise prudent financial management and efficient operating procedures and that we have not encountered any disruptions to our business operations resulting from such incidences in the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, there can be no assurance that any adverse economic, political and/or legal developments will not materially affect the financial performance of our Group.

9.1.7 We are exposed to the risk of environmental safety breach that may subject our Group to penalties

In Malaysia, the DOE regulates and oversees the environmental pollution control. The licensing for our rubber processing activities subjects our Group to the Environmental Quality Act 1974, whereby it states that the holder of a license shall comply in the terms and conditions stipulated in the license. A breach in the terms and conditions stipulated in the license will subject our Group to a fine not exceeding RM25,000, or imprisonment for a period not exceeding 2 years, or both. A further fine of not exceeding RM1,000 is imposed for every day that the offence is continued after a notice has been served.

For example, effluents are by-products produced from rubber processing activities. There are 2 types of system to manage and treat effluents which are an open-system treatment and a closed-system treatment. In an open-system, treated effluent will be released to the environment; whereas in a closed-system, treated effluent will not be released to the environment and are recycled within the system. Effluents that are not treated prior to being released to the environment will result in environmental pollution. We employ a closed-system treatment to manage the effluents produced from our factories. While such system does not discharge treated effluents into the environment and that we have taken necessary measures to prevent potential leakages, there is no assurance that any accident or unexpected damages to our system, which are beyond our control, will not result in the effluent being discharged to the environment. In the event of such occurrence of non-compliance of the Environmental Quality Act 1974, our Group may be subject to the abovementioned penalties.

Our subsidiary, STG was issued with 8 compounds of RM2,000 each by the DOE in the past 11 years due to contravention of the EQSWR, a subsidiary legislation pursuant to the EQA, arising from empty oil barrels with labels removed placed outside the storage area while pending collection by our Group's appointed contractor for refills offsite. Further details on the non-compliance are as set out in Section 7.15.2 of this Prospectus. Collectively, the 8 compounds amounted to RM16,000, being less than 0.1% of our Group's PBT for the FYE 2020, which are not material to our Group.

In addition, our past lapses have been rectified by adopting our current practice which we do not expect to face any further issues with uncollected empty oil barrels in the future. Further, our Group did not experience any difficulty in renewing our DOE license. Save for the aforementioned penalties on environmental safety breach, there is no material impact on our business operations arising from this incident. Nevertheless, there is no assurance that any unanticipated non-compliance in the future will not result in any of the relevant personnel of our Group to be imprisoned or our Group being fined for any of the unintentional offences made. Further, any negative publicity on our Group due to environmental breaches may damage our reputation and our compliance to ESG standards, which may, in turn, affect our customer's confidence towards the credibility of our Group in environmental protection. Should this occur, the business operations and financial performance of our Group may be adversely affected.

9.2 RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

9.2.1 We are exposed to the price volatility and availability of our raw materials

The processing of block rubber is contingent on the availability of raw materials such as cup lump, semi-processed rubber (e.g. RSS and synthetic rubber) and value-added additives (e.g. other chemicals). Rubber is a natural commodity which is exposed to price volatility as a result of market demand and supply conditions. Our selling price is typically priced at a premium to the prevailing SICOM Quote. On the other hand, our purchases of raw materials, predominantly cup lump, from domestic suppliers and foreign suppliers are priced at a discount to the prevailing MRB Quote and SICOM Quote respectively, whilst domestic suppliers derive MRB Quote by referring to the SICOM Quote. As such, we are exposed to the price volatility of our raw materials.

As an intermediary rubber processor, we are able to pass on the price increase in raw materials to our customers as our products are quoted based on prevailing market prices. In other words, our Group as a natural rubber processor adopts a cost-plus approach. Nevertheless, there can be no assurance that we are able to consistently pass on the increase in cost of raw materials in a timely manner. In the event where we are not able to pass on the increase in cost of materials to our customers in a timely manner, our profitability may be negatively impacted and consequently have a negative impact on our financial performance.

Cup lump, semi-processed rubber (e.g. RSS and synthetic rubber) and value-added additives (e.g. other chemicals) are generally readily available and can be sourced locally and overseas as there are many alternative suppliers available in the market. However, in the event of an occurrence of natural environmental condition such as wintering period, harsh weather or a widespread outbreak of agricultural disease which inhibits rubber tapping activities, it may result in a decline in the supply of raw materials. While we have not encountered any disruptions in the supply of our raw materials in the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, there can be no assurance that in the event of any unanticipated natural environmental condition, we will be able to source for our raw materials from our suppliers in a timely manner which may, in turn, affect our business operations and our financial performance.

Due to the natural cycle of rubber tree, during the annual wintering period, the metabolism of the trees slows down which reduces rubber production. The wintering period differs from country to country. In Malaysia, the annual wintering period typically falls between February and May. If we are unable to source for our raw materials (e.g. cup lump) from other suppliers in a timely manner, we may experience loss from loss of sales, delayed delivery or incurred additional costs and as such our financial performance may be negatively impacted.

9.2.2 We are dependent on the availability of foreign workers for our production activities

Our processing activities at all our factories are partially automated, thus we rely on foreign workers for some processes such as reception and inspection of raw materials, transfer of intermediate products between machinery, filling of rubber crumbs into trolleys for drying, controlling the blending of dry rubber to achieve the desired properties, quality control checks and packing. Our Group is reliant on foreign workers to carry out production activities. As at the LPD, we have 144 foreign workers, accounting for 51.2% of our total workforce. All our foreign workers are based under our production department. All our foreign workers have valid working permits, which are renewed annually.

On 22 June 2020, the Human Resources Minister announced a hiring freeze on foreign workers with the aim to create more job opportunities for the local workforce in view of the adverse impact from the COVID-19 pandemic which is causing higher unemployment in the country. Save for the construction, agriculture and plantation sectors in which the hiring freeze on foreign workers was lifted, the implementation of hiring freeze on foreign workers for other sectors was extended until 31 December 2021. Our Group was not affected by this hiring freeze as we have sufficient workforce to support our production activities during this hiring freeze period and we have successfully hired retrenched foreign workers who have remained in Malaysia.

The hiring freeze was uplifted beginning 10 January 2022 according to the statement released by the Ministry of Human Resources on the same day. However, should there be any re-imposition of the hiring freeze in the future, it may affect our Group's anticipated business growth which is subject to the expansion of our production activities where we would require a corresponding increase in foreign labour. As part of our business strategies, we intend to increase the production hours in Factory 3 from 10.5 hours a day to 17 hours a day, which will require an additional 45 new workers and we intend to implement this plan by 2nd quarter of 2022. We also intend to increase the production hours in Factory 2 from 12 hours a day to 17 hours a day, which will require an additional 48 new workers and we intend to implement this plan by 2nd quarter of 2023. Further details on our business strategies are as set out in Section 7.17.1 of this Prospectus. Out of the 93 new workers, we plan to hire around 47 foreign workers. Hence, if the hiring freeze is extended, we will be required to hire local workers for our factory expansion. Any failure in hiring sufficient local workers will result in disruption to our expansion plan and our anticipated business growth.

9.2.3 We face competition risk

Our Group is principally involved in the processing of cup lump into block rubber. We face competition from other block rubber processing industry players in Malaysia. According to the IMR Report, block rubber processing industry players which produce SMR Grade are required to be registered with MRB. The technical skills in block rubber processing are crucial as the SMR Grade produced must comply to technical parameters and properties. Further, the block rubber produced (SMR Grade and Premium Grade block rubber) must meet the requirements and specification set by MRB or the customer based on their respective applications. Therefore, due to the specialised nature of the block rubber processing industry, the industry is niche and comprises a small pool of industry players. Based on the latest information by MRB, there are 27 registered block rubber processing companies in Malaysia, including our Group.

Further, we also face competition from block rubber processing industry players in other major rubber processing countries such as Thailand, Indonesia and Vietnam. Despite being labelled differently, SMR, STR, SIR and SVR Grade have the same technical parameters and properties. In Thailand, Indonesia and Vietnam, the Thai Rubber Association, the Rubber Association of Indonesia and the Vietnam Rubber Association manage all rubber-related issues, respectively, to ensure that the quality of block rubber can be ascertained, enabling purchasers to purchase block rubber with technical properties which correspond to the intended applications. Our Group deems Thailand as the more significant competitor of our Group as China was also the main export market for Thailand.

Our Group competes with these players in terms of, amongst others, pricing, range and quality of block rubber, processing capabilities, service offerings and ability to deliver on a timely manner. While the barriers to entry to the block rubber processing industry are generally high due to high initial capital for purchasing of raw materials and for the set-up of processing facilities, machinery and equipment and storage facilities, we may also be exposed to competition risk from new industry players.

9.3 RISKS RELATING TO OUR SHARES AND OUR LISTING

9.3.1 No prior market for our Shares and it is uncertain whether an active or sustainable market will ever develop

Prior to our IPO, there has been no prior public market for our Shares. Accordingly, there is no assurance that an active market for our Shares will develop upon Listing or, if developed, that such a market can be sustained. There is also no assurance as to the liquidity of any 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.

In addition, there can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the Main Market upon our Listing. There is also no assurance that the market price of our Shares will not decline below the IPO Price.

9.3.2 Investors in our IPO will suffer immediate dilution in NA

Our pro forma combined NA per Share as at 31 December 2021 of approximately RM0.30 after taking into account the Public Issue and after adjusting for the use of the proceeds from our IPO, is lower than the IPO price per Share. This represents an immediate dilution in pro forma combined NA per Share of RM0.45 or 60.0% from the IPO Price to our new investors.

9.3.3 Our Share price and trading volume may be volatile

The performance of Bursa Securities is dependent on external factors such as the performance of the regional and global stock exchanges and the flows of foreign funds. The sentiment is also induced by factors such as economic and political conditions and the growth potential of the various sectors of the economy. These factors constantly contribute to the volatility of share prices witnessed on Bursa Securities and this adds risks to the market price of our Shares. Nevertheless, our profitability is not dependent on the performance of Bursa Securities as our business activities have no direct correlation with the performance of securities listed on Bursa Securities.

It is expected that there will be about 10 Market Days after the close of the Public Issue before the trading of our Shares commences. We cannot assure you that there will be no event or occurrence that will have an adverse impact on the securities market (both local and foreign), our industry or us specifically during this period that would adversely affect the market price of our Shares when they begin trading.

In addition, the market price of our Shares may fluctuate significantly and rapidly in response to, amongst others, the following factors, some of which are beyond our control:

(i) variations in our financial results and operations;

(ii) success or failure of our Executive Directors and Key Senior Management personnel in implementing business and growth strategies;

(iii) gain or loss of an important business relationship;

(iv) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;

(v) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other related events or factors;

(vi) changes in market valuations and share prices of companies with similar businesses to our Group that may be listed on Bursa Securities;

(vii) additions or departures of our Executive Directors and Key Senior Management;

(viii) fluctuation in stock market prices and volume;

(ix) involvement in litigation;

(x) changes in government policy, legislation or regulation; and/or

(xi) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of our Shares. Accordingly, there can be no assurance that our Shares will not trade at prices lower than the IPO Price.

There can be no assurance that the price and trading of our Shares will not be subject to the same fluctuations.

9.3.4 The interest of our Promoters who control our Group may not be aligned with the interest of our shareholders

Our Promoters will hold in aggregate at least 66.3% of our enlarged number of issued Shares upon Listing. As a result, they will be able to, in the foreseeable future, effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends as well as having voting control over our Group and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and by relevant guidelines or regulations.

As a step towards good corporate governance, the appointment of Independent Non-Executive Directors and our Audit Committee will serve as an effective mechanism to promote good corporate governance to ensure future transactions of our Group, including related party transactions, if any, are entered into at arms' length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to our minority shareholders. Our Audit Committee will in that sense represent the interest of the minority shareholders and general public at large.

However, there can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders.

9.3.5 Uncertainty of dividend payments

Our ability to declare dividends to our shareholders is dependent on, among others, our future financial performance, cash flow position, capital requirements and other obligations, and our ability to implement our business plans. Deterioration of these factors could have an effect on our business, which in turn will affect our ability to declare dividends to our shareholders. As such, there is no assurance that we will be able to pay dividends to our shareholders.

Furthermore, dividend payments are not guaranteed and our Board may decide, at its discretion, at any time and for any reason, not to pay dividends. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

9.3.6 Failure or delay in our Listing

The occurrence of certain events, including but not limited to the following, may cause a delay in or termination of our Listing:

(i) our Underwriter exercising its rights under the Underwriting Agreement, or the Placement Agent's exercise of its rights under the Placement Agreement, to discharge itself from its obligations under such agreements;

(ii) our inability to meet the public shareholding spread requirement of the Listing Requirements of having at least 25% of our enlarged number of issued Shares for which listing is sought to be held by a minimum of 1,000 public shareholders holding not less than 100 Shares each, at the point of our Listing;

(iii) the revocation of approvals from the relevant authorities prior to our Listing or Admission for whatever reason; or

Where prior to the issuance and allotment of our IPO Shares:

(a) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled, and we and our Offerors shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be prescribed by the SC pursuant to Section 245(7)(a) of the CMSA; or

(b) our Listing is aborted, investors will not receive any of our IPO Shares, all monies paid in respect of all Applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment of our IPO Shares:

(aa) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be prescribed by the SC pursuant to Section 245(7)(b) of the CMSA; or

(bb) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of our share capital as provided under the Act and its related rules. Such cancellation can be implemented by either:

- the sanction of our shareholders by special resolution in a general meeting, consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or

- the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from our Directors.

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Pursuant to the Listing Requirements, a "related party transaction" is a transaction entered into by a listed corporation or its subsidiaries that involves the interest (direct or indirect) of a related party. A "related party" of a listed corporation is:

(i) A director, having the meaning given in Section 2(1) of the CMSA and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a director of the listed corporation, its subsidiaries or holding company or a chief executive of the listed corporation, its subsidiaries or holding company; or

(ii) A major shareholder including any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed corporation or its subsidiaries or holding company, having an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares is:

   (a) 10.0% or more of the total number of voting shares in the corporation; or

   (b) 5.0% or more of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation; or

(iii) A person connected with such director or major shareholder.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.1.1 Transaction that are material to our Group

Save as disclosed below, there is no other material related party transaction entered or to be entered into by our Group which involves the interest, direct or indirect, of our Directors, Substantial Shareholders and/or persons connected with them for the Financial Years Under Review, FPE 31 December 2021 and up to the LPD:

			Transaction value				
Transacting parties	Nature of relationship	Nature of transaction	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 31 December 2021 RM'000	1 January 2022 up to the LPD RM'000
STG and Sin Hock Guan Trading	A sole proprietorship which provides transportation services. It is owned by Gan Sock Hua. Gan Sock Hua is the spouse of Er Jin Hoo[1], who is the Promoter of our Company and she is the sister-in-law of Er Hock Lai and E Tak Bin, who are the Promoters, Substantial Shareholders and Directors of our Company.	Transport service provided to STG on an ad hoc basis. This transaction is recurrent in nature and will subsist after our Listing[2][3]	2,775 (0.5% of our Group's COS)	2,699 (0.5% of our Group's COS)	3,881 (0.6% of our Group's COS)	872 (0.5% of our Group's COS)	1,913

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
			FYE 2019	FYE 2020	FYE 2021	FPE 31 December 2021	1 January 2022 up to the LPD
			RM'000	RM'000	RM'000	RM'000	RM'000
STG and Shang Fu Trading	A sole proprietorship which provides indirect materials and sundry supplies, including but not limited to white mortar (lime), tapioca starch, gloves and bottled mineral water. It is owned by Goh Siak Kiau. Goh Siak Kiau is the spouse of E Tak Bin, who is the Promoter, Substantial Shareholder and Director of our Company.	Purchase of indirect materials and sundry supplies by STG on an ad hoc basis. The purpose of the indirect materials and sundry supplies such as white mortar (lime), tapioca starch and gloves for rubber processing and safety purposes and bottled mineral water for the welfare of the employees. This transaction is recurrent in nature and will subsist after our Listing[(2)]	171 (<0.1% of our Group's COS)	174 (<0.1% of our Group's COS)	155 (<0.1% of our Group's COS)	88 (<0.1% of our Group's COS)	90

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 31 December 2021 RM'000	1 January 2022 up to the LPD RM'000
STG and Teguh Timber Merchant	A sole proprietorship that supplies wooden pallets and related transportation services. It is owned by Er Aik Sia. Er Aik Sia is the sister of Er Hock Lai and E Tak Bin, who are the Promoters, Substantial Shareholders and Directors of our Company.	Purchase of wooden pallets for the packaging of processed rubber and related transportation charges by STG on an ad hoc basis. This transaction is recurrent in nature and will subsist after our Listing[(2)]	745 (0.1% of our Group's COS)	589 (0.1% of our Group's COS)	484 (0.1% of our Group's COS)	-	-
STG and Gold Coast Chemicals Sdn Bhd	A company which supplies chemicals. It is owned by Ch'ng Chan Chai (30%) and Yuan Chang Ming (70%). Ch'ng Chan Chai is a director of the company and he is the brother-in-law of Er Hock Lai and E Tak Bin, who are the Promoters, Substantial Shareholders and Directors of our Company.	Purchase of steric acid by STG as a value-added additive for the processing of Premium Grade block rubber on an ad hoc basis. This transaction is recurrent in nature and will subsist after our Listing[(2)]	92 (<0.1% of our Group's COS)	51 (<0.1% of our Group's COS)	125 (<0.1% of our Group's COS)	57 (<0.1% of our Group's COS)	74

10. RELATED PARTY TRANSACTIONS (CONT'D)

			Transaction value				
Transacting parties	Nature of relationship	Nature of transaction	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 31 December 2021 RM'000	1 January 2022 up to the LPD RM'000
STG and Jah Ho Logistic Sdn Bhd	A company which provides transportation services. It is owned by our Promoter, Er Jin Hoo's[1] children, Er Chin Lee (40%), Er Chin Nee (30%) and Er Chin Lu (30%), who are also directors of the company.	Transport service provided to STG on an ad hoc basis. This transaction is recurrent in nature and will subsist after our Listing[2][3]	1,010 (0.2% of our Group's COS)	988 (0.2% of our Group's COS)	809 (0.1% of our Group's COS)	395 (0.1% of our Group's COS)	207

***Notes**:*

(1) A Promoter and a director of our subsidiaries, SFT and STG. He is a person connected to the following related parties:

- *brother of Er Hock Lai, who is a Promoter, Substantial Shareholder and Managing Director of our Company; and*
- *brother of E Tak Bin, who is a Promoter, Substantial Shareholder and Non-Independent Executive Director of our Company.*

(2) Our Group has been and may continue to purchase supplies and engage for transport service from the related parties if it is more cost effective to do so as compared to purchasing from or engaging other third-party suppliers.

(3) The transactions were carried out at a lower value than the market price. Nonetheless, there is no material impact to the PAT of our Group should the transactions had been carried out at the market price.

10. RELATED PARTY TRANSACTIONS (CONT'D)

The Directors confirm that the above RPTs were carried out on arms' length basis and on normal commercial terms which were not unfavourable to our Company but comparable to those generally available to third parties, save for the following:

(i) Transport services provided to STG by Sin Hock Guan Trading and Jah Ho Logistics Sdn Bhd ("**Related Suppliers**")

The prices paid for the transport services provided by the Related Suppliers are not considered by the Directors to be on an arm's length basis as it was provided on terms favourable to STG (i.e. prices paid to the Related Suppliers were below the market price for services of similar nature). Nevertheless, in view that the percentage contribution to the COS of our Group is less than 1% during the Financial Years Under Review and FPE 31 December 2021, any increase in the prices of such services will not have any material impact to the PAT of our Group and our Group is not dependent on the Related Suppliers.

Following our Listing, the Directors will ensure that future transactions with the Related Suppliers (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that the future transactions with the Related Suppliers (if any) are carried out on an arm's length basis are set out in Section 10.3 of this Prospectus.

10.2 OTHER TRANSACTIONS

10.2.1 Related party transactions entered into that are unusual in their nature or conditions

Our Group has not entered into any transactions that is unusual in their nature or conditions, involving goods, services, tangible or intangible assets, with a related party for the Financial Years Under Review, FPE 31 December 2021 and up to the LPD.

10.2.2 Loans and financial assistance made to or for the benefit of related parties

Save as disclosed below, our Board has confirmed that there are no outstanding loans and financial assistance (including guarantees of any kind) made by us to or for the benefit of any related party for the Financial Years Under Review, FPE 31 December 2021 and up to the LPD:

	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 31 December 2021**	**1 January 2022 up to the LPD**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Short-term advances extended by Er Hock Lai(1)	-	-	-	100	510

Note:

(1) Er Hock Lai is the Promoter, Substantial Shareholder and Director of our Company. The advances are made interest-free for the purposes of payment for listing and other incidental expenses incurred by Seng Fong during the FPE 31 December 2021 up to the LPD. Our Company intends to repay the amount owing to Er Hock Lai upon the completion of the Acquisition.

10. RELATED PARTY TRANSACTIONS (CONT'D)

The advances received from Er Hock Lai are not considered by our Directors to be on an arm's length basis as it was provided on terms favourable to our Company (i.e. interest-free). Future loans and financial assistance from related parties, if any, will be carried out on normal commercial terms which are not more favourable to the related parties than those generally available to third parties dealing at arm's length and are not to the detriment of our Group.

10.2.3 Provision of guarantees by our Directors and/or Promoters for the banking facilities granted to our Group

Our Directors and/or Promoters, namely, Er Hock Lai, E Tak Bin and Er Jin Hoo, have jointly and severally provided personal guarantees for the banking facilities extended by AmBank (M) Berhad, AmBank Islamic Berhad, Hong Leong Bank Berhad and United Overseas Bank (Malaysia) Bhd (collectively, "**Financier(s)**") to STG. The breakdown of the facilities secured by STG as at LPD is set out below:

Financiers	**Guarantors**	**Amount utilised RM'000**	**Unutilised balance RM'000**	**Total amount of guarantee provided RM'000**
AmBank (M) Berhad	▪ Er Hock Lai ▪ Er Jin Hoo ▪ E Tak Bin	77,617	58,383	136,000
AmBank Islamic Berhad	▪ Er Hock Lai ▪ Er Jin Hoo ▪ E Tak Bin	8,205	2,161	10,366
Hong Leong Bank Berhad	▪ Er Hock Lai ▪ Er Jin Hoo ▪ E Tak Bin	37,328	64,172	101,500
United Overseas Bank (Malaysia) Bhd	▪ Er Hock Lai ▪ Er Jin Hoo ▪ E Tak Bin	28,193	70,207	98,400
	Total	**151,343**	**194,923**	**346,266**

Our Group has obtained conditional consents from the Financiers to release the above personal guarantees by substituting the same with corporate guarantees to be provided by our Company. These conditional consents are subject to the successful listing of our Company on the Main Market of Bursa Securities.

10.3 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Upon our Listing, our Audit and Risk Management Committee will review the terms of all related party transactions (including recurrent related party transactions), and our Directors will report such transactions, if any, annually in our Company's annual report. In the event that there are any proposed related party transactions that involve the direct or indirect interest of our Directors, our interested Directors shall disclose to our Board the nature and extent of their interest including all matters in relation to the proposed related party transactions that they are aware or should reasonably be aware of, which is not in our best interest. Our interested Directors shall also abstain from any of our Board's deliberation and voting on the relevant resolutions in respect of such proposed related party transactions.

10. RELATED PARTY TRANSACTIONS (CONT'D)

Further, we will be required to seek our shareholders' approval each time we enter into material related party transactions in accordance with the Listing Requirements. However, if the related party transactions are deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions. The interested person shall abstain from voting on the relevant resolutions in respect of such proposed related party transactions at our general meetings. Pursuant to the Listing Requirements, related party transactions may be aggregated to determine their materiality if the related party transactions occurred within a 12-month period, are entered with the same party or with parties connected to one another or if the transactions involve the acquisition or disposal of securities or interests in one particular corporation/asset or of various parcels of land contiguous to each other.

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11. CONFLICT OF INTEREST

11.1 INTEREST IN ENTITIES CARRYING ON A SIMILAR TRADE AS OUR GROUP OR WHICH ARE OUR CUSTOMERS AND/OR SUPPLIERS

As at LPD, none of our Directors and Substantial Shareholders have any interest, direct or indirect, in other businesses or corporations which:

(i) carry on a similar trade as that of our Group; or

(ii) are customers or suppliers of our Group.

In the event where a conflict of interest arises in our Group, our Audit and Risk Management Committee will assess the financial risk and matters relating to any potential conflict of interest situation that may arise within our Group including any transaction, procedure or course of conduct that raises questions of management integrity, to ensure that transactions are carried out in the best interest of our Group.

11.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

(i) Declaration by HLIB

HLIB, its subsidiaries and associated companies as well as its penultimate holding company, namely Hong Leong Financial Group Berhad, and the subsidiaries and associated companies of Hong Leong Financial Group Berhad (collectively, the "**Hong Leong Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and funds management and credit transaction services businesses.

The Hong Leong Group has engaged, and may in the future engage, in transactions with and perform services for our Group. In addition, in the ordinary course of business, any member of the Hong Leong Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with our Group, hold long or short positions, and may trade or otherwise effect transactions for its own account or the account of its customers in debt or equity securities or senior loans of our Group.

As at LPD, our Group has outstanding banking facilities with the Hong Leong Group amounting to approximately RM38.8 million. We have allocated approximately RM27.9 million to partially repay the outstanding trade financing facilities granted by Hong Leong Bank Berhad using the proceeds raised from the Public Issue.

Notwithstanding the above, HLIB is of the view that the aforesaid lending relationship would not give rise to a conflict of interest situation in its capacity as our Principal Adviser, Underwriter and Placement Agent for our IPO as:

(i) HLIB is a licensed investment bank and its appointment as the Principal Adviser, Underwriter and Placement Agent for our IPO and the extension of the banking facilities by the Hong Leong Group arose in its ordinary course of business;

(ii) the conduct of the Hong Leong Group in its banking business is strictly regulated by the Financial Services Act 2013, Islamic Financial Services Act 2013 and, where applicable, the CMSA, as well as the Hong Leong Group's own internal controls and checks; and

(iii) the said banking facilities which is approximately 0.1% of the audited NA of the Hong Leong Group as at 30 June 2021 of RM29.5 billion, are not material.

11. CONFLICT OF INTEREST (CONT'D)

HLIB has also confirmed that as at LPD, there are no circumstances that exists or is likely to exist to give rise to a possible conflict of interest situation in its capacity as our Principal Adviser, Placement Agent and Underwriter in relation to our IPO.

(ii) Declaration by Rosli Dahlan Saravana Partnership

Rosli Dahlan Saravana Partnership has confirmed that there is no existing or potential conflict of interest in its capacity as Legal Advisers to our Company in relation to our IPO.

(iii) Declaration by Crowe Malaysia PLT

Crowe Malaysia PLT has confirmed that there is no existing or potential conflict of interest in its capacity as the Auditors and the Reporting Accountants to our Company in relation to our IPO.

(iv) Declaration by Smith Zander

Smith Zander has confirmed that there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher to our Company in relation to our IPO.

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The historical audited combined financial information of our Group for the Financial Years Under Review and FPE 31 December 2020 and FPE 31 December 2021 has been extracted from the Accountants' Report set out in Section 13 of this Prospectus. The historical audited combined financial information should be read in conjunction with the following:

- the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 12.3 of this Prospectus; and
- the Accountants' Report together with its accompanying notes as set out in Section 13 of this Prospectus.

The historical audited combined financial information included in this Prospectus does not reflect our operating results, financial position and cash flows in the future, and our past operating results are not indicative of our future operating performance.

12.1.1 Historical statements of profit or loss and other comprehensive income of our Group

The table below sets out the selected financial information of the combined statements of profit or loss and other comprehensive income for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021, which is extracted from the Accountants' Report as set out in Section 13 of this Prospectus:

	<-------Audited FYE 30 June------>			Unaudited	Audited
	2019	**2020**	**2021**	**FPE 31 December 2020**	**FPE 31 December 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	636,834	616,435	768,177	337,116	400,490
COS	(591,731)	(576,844)	(694,290)	(311,224)	(363,096)
GP	**45,103**	**39,591**	**73,887**	**25,892**	**37,394**
Other income	1,074	4,226	563	2,473	378
Selling expenses	(16,743)	(14,414)	(18,281)	(7,851)	(9,802)
Administrative expenses	(6,398)	(5,292)	(8,626)	(2,714)	(3,407)
Other expenses	(1,324)	(5,558)	(588)	(1)	(125)
Finance costs	(2,862)	(2,373)	(1,123)	(570)	(510)
PBT	**18,850**	**16,180**	**45,832**	**17,229**	**23,928**
Income tax expense	(4,504)	(3,442)	(11,210)	(4,000)	(5,972)
PAT(1)	**14,346**	**12,738**	**34,622**	**13,229**	**17,956**
Other comprehensive income					
- Foreign currency translation differences	418	265	-	-	-
Total comprehensive income for the FY/FP	**14,764**	**13,003**	**34,622**	**13,229**	**17,956**

12. FINANCIAL INFORMATION (CONT'D)

	<-----Audited FYE 30 June----->			Unaudited	Audited
	2019	2020	2021	FPE 31 December 2020	FPE 31 December 2021
	RM'000	RM'000	RM'000	RM'000	RM'000
PAT[1] attributable to:					
Owners of our Company	14,546	13,355	34,622	13,229	17,956
Non-controlling interests	(200)	(617)	-	-	-
	14,346	12,738	34,622	13,229	17,956
Total comprehensive income attributable to:					
Owners of our Company	14,797	13,281	34,622	13,229	17,956
Non-controlling interests	(33)	(278)	-	-	-
	14,764	13,003	34,622	13,229	17,956
GP margin (%)[2]	7.1	6.4	9.6	7.7	9.3
EBITDA (RM'000)[3]	24,506	20,375	49,213	18,983	25,558
Adjusted EBITDA (RM'000)[3]	24,506	17,586	49,213	18,983	25,558
EBITDA margin (%)[4]	3.8	3.3	6.4	5.6	6.4
Adjusted EBITDA margin (%)[5]	3.8	2.9	6.4	5.6	6.4
PBT margin (%)[6]	3.0	2.6	6.0	5.1	6.0
PAT margin (%)[7]	2.3	2.1	4.5	3.9	4.5
Basic and diluted EPS (sen)[8]	2.8	2.6	6.7	2.5	3.5
Effective tax rate (%)	23.9	21.3	24.5	23.2	25.0

Notes:

(1) In accordance with Malaysian Financial Reporting Standards 5 – Non-Current Assets Held for Sale and Discontinued Operations, the operations of BMI have not been classified as a discontinued operation in the combined financial statements because its operations and cash flows could not be clearly distinguished, operationally and for financial reporting purposes, from the rest of entities within our Group as BMI sold all its processed natural block rubber, CSR, to STG within our Group.

For the FYE 2019 and 11-month financial period ended 31 May 2020, the revenue of BMI were RM49,364,385 and RM24,377,373 respectively which were eliminated on consolidation in our Group's financial statements. This is due to all the finished products of BMI were sold to STG for the FYE 2019 and 11-month financial period ended 31 May 2020 were treated as our COS. Therefore, there is no revenue contribution by BMI to our Group.

The disposal of BMI was completed on 11 June 2020.

(2) GP Margin is computed as GP divided by revenue.

(3) *EBITDA and adjusted EBITDA are computed as follows:*

	<--Audited FYE 30 June-->			*Unaudited*	*Audited*
	2019	***2020***	***2021***	***FPE 31 December 2020***	***FPE 31 December 2021***
	RM'000	***RM'000***	***RM'000***	***RM'000***	***RM'000***
PAT	*14,346*	*12,738*	*34,622*	*13,229*	*17,956*
Add/(Deduct):					
Taxation	*4,504*	*3,442*	*11,210*	*4,000*	*5,972*
Finance costs	*2,862*	*2,373*	*1,123*	*570*	*510*
Finance income	*(316)*	*(569)*	*(119)*	*(50)*	*(50)*
Depreciation	*3,110*	*2,391*	*2,377*	*1,234*	*1,170*
EBITDA	***24,506***	***20,375***	***49,213***	***18,983***	***25,558***
Deduct non-recurring income:					
Gain on disposal of subsidiary	*-*	*(2,789)*	*-*	*-*	*-*
Adjusted EBITDA	***24,506***	***17,586***	***49,213***	***18,983***	***25,558***

EBITDA/adjusted EBITDA, and the related ratios presented in this Prospectus are supplemented measures of our performance and liquidity and should not be considered as an alternative to net income results from operating activities or any other performance measures or as an alternative to cash flows from operating activities or as a measure of liquidity.

The EBITDA/adjusted EBITDA presented here may not be comparable to similar terms or measures presented by other companies because not all companies use the same definitions or methodology to derive their EBITDA/adjusted EBITDA.

(4) *EBITDA Margin is computed as EBITDA divided by revenue.*

(5) *Adjusted EBITDA Margin is computed as adjusted EBITDA divided by revenue.*

(6) *PBT Margin is computed as PBT divided by revenue.*

(7) *PAT Margin is computed as PAT divided by revenue.*

(8) *Basic and diluted EPS of our Group is computed based on PAT attributable to owners of our Company divided by our enlarged issued Shares of 518,960,000 Shares upon Listing. There are no potential dilutive securities in issue during the respective Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021.*

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Historical statements of financial position of our Group

The table below sets out the selected financial information of our combined statements of financial position as at the Financial Years Under Review and FPE 31 December 2021 as extracted from the Accountants' Report as set out Section 13 of this Prospectus:

	<----Audited as at 30 June---->			Audited
	2019	**2020**	**2021**	**FPE 31 December 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ASSETS				
Non-current assets				
Property, plant and equipment	32,011	26,926	30,854	40,706
Right-of-use assets	-	4,798	4,657	4,587
Total non-current assets	**32,011**	**31,724**	**35,511**	**45,293**
Current assets				
Inventories	34,526	59,778	106,157	130,327
Trade receivables	71,155	46,135	35,898	55,917
Other receivables	2,148	3,209	3,546	4,225
Current tax assets	-	181	-	-
Derivative assets	-	177	-	51
Deposits, bank and cash balances	29,020	23,549	13,453	1,541
	136,849	133,029	159,054	192,061
Assets of disposal group classified as held for sale	25,639	-	-	-
	162,488	**133,029**	**159,054**	**192,061**
TOTAL ASSETS	**194,499**	**164,753**	**194,565**	**237,354**
EQUITY AND LIABILITIES				
Equity				
Share capital	-	-	-	*
Invested capital[(1)]	6,000	6,000	6,000	6,000
Reserves	85,802	69,723	81,845	89,801
Equity attributable to owners of our Company	**91,802**	**75,723**	**87,845**	**95,801**
Non-controlling interests	**7,019**	**-**	**-**	**-**
TOTAL EQUITY	**98,821**	**75,723**	**87,845**	**95,801**
Non-current liabilities				
Bank borrowings	-	-	-	6,864
Deferred tax liabilities	3,628	3,628	3,740	3,736
Total non-current liability	**3,628**	**3,628**	**3,740**	**10,600**

	<------Audited as at 30 June------>			Audited
	2019 **RM'000**	**2020** **RM'000**	**2021** **RM'000**	**FPE 31 December 2021** **RM'000**
Current liabilities				
Trade payables	3,017	2,041	6,727	25,738
Other payables	7,585	5,904	14,869	14,696
Bank Borrowings	77,082	77,435	76,799	85,402
Current tax liabilities	165	22	4,447	5,087
Derivative liabilities	61	-	138	30
	87,910	85,402	102,980	130,953
Liabilities of disposal group classified as held for sale	4,140	-	-	-
	92,050	**85,402**	**102,980**	**130,953**
TOTAL LIABILITIES	**95,678**	**89,030**	**106,720**	**141,553**
TOTAL EQUITY AND LIABILITIES	**194,499**	**164,753**	**194,565**	**237,354**

Notes:

* *Denote RM1.00.*

(1) *For the purpose of the combined statements of financial position of our Group for the FYEs 2019, 2020 and 2021, as well as FPE 31 December 2021 the invested capital as at the end of the respective FYs and FP constitutes the share capital of our Company and SFT.*

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12.2 CAPITALISATION AND INDEBTEDNESS

The table below sets out our capitalisation and indebtedness based on our unaudited management accounts as at 30 April 2022 and assuming that our IPO and the use of the proceeds arising from the Public Issue as set out in Section 4.7 of this Prospectus.

The pro forma financial information below does not represent our actual cash and cash equivalents, capitalisation and indebtedness as at 30 April 2022 and is provided for illustrative purposes only.

Our long-term indebtedness is not secured and guaranteed by any third party.

	Unaudited as at 30 April 2022 **RM'000**	**After our IPO and use of proceeds** **RM'000**
Deposit, bank and cash balances	**19,025**	**43,826**
Indebtedness:		
<u>Current</u>		
Unsecured and guaranteed		
- Trade bills	141,357	113,495
- Term loan	2,000	-
	143,357	**113,495**
<u>Non-current</u>		
Unsecured and guaranteed		
- Trade bills	-	-
- Term loan	6,372	-
	6,372	**-**
Total indebtedness	**149,729**	**113,495**
Total equity	**108,814**	**174,942**
Total capitalisation and indebtedness	**258,543**	**283,437**
Gearing ratio (times)^	1.4	0.6
Net gearing ratio (times)*	1.2	0.4

Notes:

^ *Computed based on total indebtedness over the total equity.*

* *Computed based on total indebtedness less deposit, bank and cash balances over the total equity.*

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

The following management's discussion and analysis of our financial condition and results of operations for the Financial Years Under Review and FPE 31 December 2021 should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus.

This discussion and analysis contain information derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, 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.

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to Note 3 of the Accountants' Report as set out in Section 13 of this Prospectus.

12.3.1 Review of our business operations

We are an investment holding company and engaged in provision of management services. Through our subsidiaries, we are primarily involved in the processing and sale of natural rubber of various grades, principally SMR Grade and Premium Grade block rubber.

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

12.3.2 Significant factors affecting our financial position and results of operations

Our financial position and results of operations have been, and are expected to be, affected by the following significant factors:

(i) Dependency on export markets and major customers

We are dependent on the export markets as approximately 99.9%, approximately 99.9%, 100% and approximately 99.9% of our Group's revenue for the respective Financial Years Under Review and FPE 31 December 2021 are derived from overseas customers and our major customers who contribute substantially to our Group's revenue. Our Group is dependent on the top 5 major customers as they, in aggregate, contributed substantially to our Group's revenue of 80.3%, 83.5%, 84.3% and 91.0% for the FYE 2019, FYE 2020, FYE 2021 and FPE 31 December 2021 respectively.

There is no assurance that these customers will continue to purchase our products in the future as we enter into spot contracts which typically for a one-time delivery within 2 to 3 months and sale contracts which typically ranges from 6 months to 1 year, under which an agreed quantity of our products are delivered to our customer each month within the period of sales contracts. If these customers discontinue their business relationships with us, we may not be able to secure other customers who are able to contribute similar proportion of revenue on a timely basis. Any loss of business from these customers may adversely affect our business and operating results.

(ii) Foreign exchange fluctuation

For the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our export sales contributed approximately 99.9%, 99.9%, 100.0% and 99.9% to our Group's revenue respectively. The revenue generated from these export sales are denominated in USD. As a result, we are exposed to foreign exchange risk. On the other hand, our USD-denominated purchases for the Financial Years Under Review and FPE 31 December 2021 is between the range of 53.6% and 68.3% consisting of the import of raw materials such as cup lump, semi-processed rubber and synthetic rubber as well as the indirect materials, packing materials and block rubber trading stocks.

For the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021, our revenue and purchase of materials denominated in RM and USD comprised the following:

	<------------ FYE 30 June--------------->					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
RM-denominated revenue	3	*	238	*	-	-
USD-denominated revenue *(in RM equivalents)*	636,831	99.9	616,197	99.9	768,177	100.0
Total revenue	**636,834**	**100.0**	**616,435**	**100.0**	**768,177**	**100.0**
RM-denominated purchases	243,977	46.4	206,847	36.8	219,430	31.7
USD-denominated purchases *(in RM equivalents)*	281,596	53.6	354,735	63.2	472,334	68.3
Total purchase of the materials	**525,573**	**100.0**	**561,582**	**100.0**	**691,764**	**100.0**

	<-----------FPE 31 December--------->			
	2020		**2021**	
	RM'000	**%**	**RM'000**	**%**
RM-denominated revenue	-	-	-	-
USD-denominated revenue *(in RM equivalents)*	337,116	100.0	400,490	100.0
Total revenue	**337,116**	**100.0**	**400,490**	**100.0**
RM-denominated purchases	117,004	36.6	117,095	32.2
USD-denominated purchases *(in RM equivalents)*	202,724	63.4	246,816	67.8
Total purchase of the materials	**319,728**	**100.0**	**363,911**	**100.0**

***Note**:*

* *Less than 0.05%.*

Based on the above, our foreign exchange rate exposures is mitigated to a certain extent as the nature of our operations warrants the use of our revenue to pay for the purchases. This would therefore provide, to a certain extent, a natural hedge against foreign exchange fluctuations. In addition, we have entered into forward foreign exchange contracts to partially hedge our foreign currency risk, details of which are set out in Section 12.4.4 of this Prospectus.

Nevertheless, we are exposed to foreign currency exchange gains or losses as there are timing differences between invoicing and collection/payment.

The historical impact of foreign exchange fluctuations on our financial performance were as follows:

	<---------FYE 30 June--------->		
	2019	**2020**	**2021**
Realised loss on foreign exchange (**RM '000**)(1)	(1,142)	(5,545)	(164)
Unrealised gain/(loss) on foreign exchange (**RM '000**)(2)	470	392	(367)
Net loss on foreign exchange (RM '000)	**(672)**	**(5,153)**	**(531)**
As a percentage of PBT (%)	(3.6)	(31.8)	(1.2)

	<------FPE 31 December------->	
	2020	**2021**
Realised gain on foreign exchange (**RM '000**)(1)	1,279	182
Unrealised gain on foreign exchange (**RM '000**)(2)	316	93
Net gain on foreign exchange (RM '000)	**1,595**	**275**
As a percentage of PBT (%)	9.3	1.1

Notes:

(1) Realised gain/(loss) on foreign exchange is due to the following:

(i) the difference in the foreign exchange rate as at the date of our sales invoices as compared to the foreign exchange rate when the payment for the sales invoices are received;

(ii) the difference in the foreign exchange rate as at the date of our purchase invoices of supplies as compared to the foreign exchange rate when the payment for the supplies are made; and

(iii) the difference in the foreign exchange rate as at the date of trade bills as compared to the foreign exchange rate when the payment of the trade bills is received or made.

(2) Unrealised gain/(loss) on foreign exchange represents the difference in the foreign exchange rate as at the date of our sales invoices, purchase invoices and trade bills as compared to the closing rates of foreign exchange as at respective FYEs and FPEs.

Please refer to Section 12.10.1 of this Prospectus for the sensitivity analysis of our PAT to a change in the foreign currency rates within our Group.

The fluctuations in our net exchange gain/(loss) are described in Sections 12.3.3(vii) of this Prospectus.

In addition, we recognise foreign currency translation differences in other comprehensive income when assets, liabilities, income and expenses recorded by BMI are translated from USD into RM for financial reporting purpose. For the Financial Years Under Review, the amounts recognised under other comprehensive income were as follows:

	<-----FYE 30 June----->		
	2019	**2020**[(1)]	**2021**
Foreign currency translation differences (**RM '000**)	418	265	-

Note:

(1) SFT had in FYE 2020 disposed of its entire 60% equity interest in BMI which was indirectly held through STG. Please refer to Section 7.1 of this Prospectus for details on the disposal of BMI in FYE 2020.

For avoidance of doubt, there is no foreign currency translation differences incurred during FPE 31 December 2020 and FPE 31 December 2021 as the disposal of BMI was completed on 11 June 2020.

The movements in the foreign currency translation differences for the Financial Years Under Review represent the exchange differences arising from translation of assets and liabilities of BMI at exchange rates at the end of each reporting period, and translation of income and expenses of BMI at average foreign exchange rates for respective periods for consolidation purposes. There was no foreign currency translation differences incurred in FYE 2021 after the disposal of the entire 60% equity interest in BMI was completed in the FYE 2020.

(iii) Fluctuation in the prices of our raw materials

Our raw materials are primarily natural rubber such as cup lump, semi-processed rubber and synthetic rubber which are subjected to fluctuations in prices as determined by the open market. Please refer to Section 7.7 of this Prospectus for the breakdown of purchase of our raw materials. Cup lump is a coagulated form of rubber and its market price is subjected to fluctuations due to supply and demand conditions in the global commodity market. Cup lump purchased from domestic suppliers are priced based on the MRB Quote while cup lump purchased from foreign suppliers are priced based on the SICOM Quote. Hence, the price of cup lump, like many other commodities is subjected to fluctuation of market forces. Daily MRB Quote is derived with reference to daily SICOM Quote. The breakdown of our purchase of raw materials, predominantly cup lump from domestic and foreign suppliers for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

Purchase of cup lump	<--- FYE 30 June --->					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Domestic	202,029	53.0	184,638	45.6	179,284	32.4
Foreign	179,027	47.0	220,202	54.4	373,877	67.6
Total	**381,056**	**100.0**	**404,840**	**100.0**	**553,161**	**100.0**

Purchase of cup lump	<--- FPE 31 December --->			
	2020		2021	
	RM'000	%	RM'000	%
Domestic	104,034	39.6	97,605	34.5
Foreign	158,376	60.4	185,010	65.5
Total	**262,410**	**100.0**	**282,615**	**100.0**

Our sales contract is priced based on a premium over the prevailing SICOM Quote. On the other hand, our purchases of raw materials, predominantly cup lump, from domestic suppliers and foreign suppliers are priced at a discount to the prevailing MRB Quote and SICOM Quote respectively, whilst domestic suppliers derive MRB Quote by referring to SICOM Quote too. In view of our sales and purchase of raw materials which make reference directly or indirectly to SICOM Quote which are denominated in USD, there is a natural hedge between the prices of our raw materials namely cup lump; and the prices of our product, i.e. the block rubber. We expect to be able to pass on the costs of any price increase of our raw materials to our customers.

Our Group constantly monitors the fluctuations in natural rubber prices to manage the raw materials purchases and assess any pass on effect to be factored into the selling price of our products. The increase in cost of raw materials may have an impact on the profitability of our Group if we are unable to pass on the costs to our customers. As such, we endeavour to maintain long-term relationships with our local and overseas suppliers in order to procure sufficient raw materials at competitive cost.

(iv) Interruptions in our business operation

Our business operations could be disrupted or delayed due to unforeseeable circumstances. Such risks include, amongst others, equipment failures, fire or flood, outbreak of pandemic as well as environment factors (including natural disaster and outbreak of diseases).

Any prolonged interruptions to our business operations due to such factors will affect our ability in adhering to our project timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation.

Kindly refer to Risk Factors in Section 9.1.4 (i) of this Prospectus on the impact of unexpected interruptions caused by equipment failures, damages and environmental factors and Section 9.1.4 (ii) of this Prospectus on the unexpected interruptions caused by the COVID-19 pandemic on our Group.

(v) Impact on the Group's financial performance

As a result of the 1st MCO whereby our Group's workforce capacity was reduced to 50%, our Group's production capacity was affected which in turn delayed the fulfilment of our Group's orders. Our Group experienced a delay in the fulfilment of 23 orders for 3 overseas customers namely Megarun Tyre Co. Ltd, Federal Corporation and R1 International Pte Ltd. The delivery to these customers was initially scheduled to be fulfilled in May 2020 and June 2020, but due to the impact of the 1st MCO and the delay due to port congestion, these orders were fulfilled between June 2020 and August 2020. As a result of this, our Group's revenue of approximately RM13.2 million could only be recognised in 1st quarter of FYE 2021 instead of prior to 4th quarter of FYE 2020.

Our Factory Closure from 12 November 2021 until 18 November 2021 had delayed the shipment of 21 orders for 5 overseas customers, mainly to R1 International Pte Ltd, Wanli Group and Jiangsu General Science Technology Co., Ltd. The initial scheduled shipment in mid-November 2021 to the affected customers was rescheduled and fulfilled in December 2021 and January 2022.

(vi) Economic, political and/or legal environment

Risks relating to economic, political and/or legal conditions which may materially affect our operations are set out in Section 9.1.6 of this Prospectus.

Our Group had in March 2019 received instructions from MRB to reduce our export which amounted to approximately 1,800 MTS over a 4-month period (i.e. 1 April 2019 to 31 July 2019) in order to reduce block rubber stock and stabilise block rubber prices. The said reduction in export volume arising from this curb is not material to our Group. However, there is no assurance that the implementation of any export curb or other restrictions in the future will not adversely affect our financial performance.

As we continue to expand our business, our financial performance and results of operations are expected to be affected by the economic, political and/or legal conditions in the countries where we transact business, making us increasingly susceptible to the operational risks caused by these conditions.

Although we will continue to comply with the legal and regulatory frameworks in Malaysia and the countries in which our customers operate, there is no assurance that future introduction of new law or other economic, political and legal conditions will not have adverse effect on our business, operation achievement and financial performance.

(vii) Dependent on the availability of foreign workers for our production activities

Our processing activities at all our factories are partially automated, thus we rely on foreign workers for some processes such as reception and inspection of raw materials, transfer of intermediate products between machinery, filling of rubber crumbs into trolleys for drying, controlling the blending of dry rubber to achieve the desired properties, quality control checks and packing. Our Group is reliant on foreign workers to carry out production activities. As at the LPD, we have 144 foreign workers, accounting for 51.2% of our total workforce.

On 22 June 2020, the Human Resources Minister announced the hiring freeze on foreign workers. Nevertheless, our Group has sufficient workforce to support our production activities during this hiring freeze period and we have successfully hired retrenched foreign workers who have remained in Malaysia.

The hiring freeze of foreign workers may still affect our Group's anticipated business growth which is subject to the expansion of our production activities where we would require a corresponding increase in foreign labour. If such hiring freeze of foreign workers is extended, we will be required to hire local workers and retrenched foreign workers who have remained in Malaysia for our factories. The failure to hire sufficient local workers and retrenched foreign workers who have remained in Malaysia will result in disruption to our operations, which in turn will affect our financial performance.

12.3.3 Review of operations

(i) Analysis of revenue

Our Group's revenue is derived from two business segments, the Processing Segment and Trading Segment. Our Group mainly produces SMR Grade and Premium Grade block rubbers. Details of the various products are set out in Section 7.3 of this Prospectus. We also carry out trading of block rubber.

Our customers are end-user customers as well as indirect distribution channels who are international rubber traders. Our end-user customers are primarily tyre manufacturers. Our sales to our customers are conducted either on the basis of spot or sales contracts. Spot contracts are those in which the price, volume and delivery date are fixed upfront with the customers, typically for a one-time delivery within two to three months after the spot contracts have been entered into. Sales contracts are those in which the volume, delivery schedule and pricing basis are set for a longer time period, typically 6 months to 12 months, under which an agreed quantity of our products is delivered to the customer each month within the period of the sales contracts.

Our Group intends to achieve a judicious balance for our sales by securing both spot contracts and sales contracts with our customers. The objective of our Group is to strike a balance between sales visibility and customer dependency as those who have sales contracts with our Group are essentially from our major customers. For the FYE 2019, FYE 2020, FYE 2021 and FPE 31 December 2021, 65.1%, 54.9%, 46.3% and 50.9% of our sales volume respectively and 65.5%, 54.7%, 48.1% and 51.7% of our revenue respectively were derived from sales contracts. Our remaining sales volume and revenue were derived from spot contracts.

In addition, the balance of composition of spot and sales contracts is to secure the long-term demand from our sales contract's customers which allows our Group to be more efficient in planning our production and purchase of raw materials. This will allow us to plan our production schedule such as our production workforce in advance and provide an effective control in our inventory such as the purchase of raw materials. Taking into consideration of our Group's production capacity, balance of composition of sales contracts and spot contracts will allow our Group to have the opportunity to expand our market share by approaching potential new customers.

Our spot and sales contracts are typically priced at a premium over the prevailing SICOM Quote. We believe this allows us to closely match the price at which our raw materials purchases are made with the sale price, and therefore reduces the impact of rubber price fluctuations on our results of operations.

Further details for the process of order confirmation from our customers are set in Section 7.4.1 of this Prospectus.

Other factors affecting our Group's revenue include:

(a) our ability to secure spot and/or sales contracts from new and existing customers;

(b) our ability to increase our production output;

(c) our ability to secure sufficient raw materials;

(d) our ability to deliver our products to our customers on time; and

(e) fluctuations in foreign exchange rates.

Please refer to "Risk Factors" in Section 9 of this Prospectus for other factors which may affect our revenue.

Our revenue in this section is net sales i.e. gross sales value net off the cess incurred in relation to the duty levied on export of rubber.

The analysis of our revenue for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

a. Revenue by business segment

Further analysis of our revenue by business segment for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<--------------------FYE 30 June--------------------->					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Processing Segment	635,522	99.8	616,435	100.0	737,300	96.0
Trading Segment	1,312	0.2	-	-	30,877	4.0
Total revenue	**636,834**	**100.0**	**616,435**	**100.0**	**768,177**	**100.0**

	<----------------FPE 31 December--------------->			
	2020		**2021**	
	RM'000	**%**	**RM'000**	**%**
Processing Segment	324,013	96.1	390,293	97.5
Trading Segment	13,103	3.9	10,197	2.5
Total revenue	**337,116**	**100.0**	**400,490**	**100.0**

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(i) **Revenue by products from Processing Segment**

Further analysis of our revenue from our Processing Segment is calculated based on the sales volume of our products shipped to our customers and the price at which such products are sold.

The breakdown of our Processing Segment into sales value and sales volume by SMR Grade block rubber and Premium Grade block rubber sub-segments are as follows:

	<---FYE 30 June--->					
	2019	**2020**	**% Year on Year ("YOY") change**	**2020**	**2021**	**% YOY change**
Processing Segment						
SMR Grade(1)						
Sales value (RM'000)	376,704	347,530	(7.7)	347,530	384,529	10.6
Sales volume (MTS)	65,716	59,976	(8.7)	59,976	64,129	6.9
ASP (RM)(2)	5,732	5,794	1.1	5,794	5,996	3.5
Premium Grade(3)						
Sales value (RM'000)	258,818	268,905	3.9	268,905	352,771	31.2
Sales volume (MTS)	44,433	45,058	1.4	45,058	57,275	27.1
ASP (RM)(2)	5,825	5,968	2.5	5,968	6,159	3.2
Total Processing Segment(4)						
Sales value (RM'000)	635,522	616,435	(3.0)	616,435	737,300	19.6
Sales volume (MTS)	110,149	105,034	(4.6)	105,034	121,404	15.6
ASP (RM) (2)	5,770	5,869	1.7	5,869	6,073	3.5
ASP (USD) (2) (5)	1,399	1,398	(0.1)	1,398	1,471	5.2

	<---FPE 31 December--->		
	2020	**2021**	**% Change from the preceding period**
Processing Segment			
SMR Grade(1)			
Sales value (RM'000)	171,092	206,424	20.7
Sales volume (MTS)	31,954	29,272	(8.4)
ASP (RM)(2)	5,354	7,052	31.7
Premium Grade(3)			
Sales value (RM'000)	152,921	183,869	20.2
Sales volume (MTS)	27,256	25,140	(7.8)
ASP (RM)(2)	5,611	7,314	30.4

	<--------------------------FPE 31 December-------------------------->		
	2020	**2021**	**% Change from preceding period**
Total Processing Segment(4)			
Sales value (RM'000)	324,013	390,293	20.5
Sales volume (MTS)	59,210	54,412	(8.1)
ASP (RM) (2)	5,472	7,173	31.1
ASP (USD) (2) (5)	1,307	1,717	31.4

Notes:

(1) Comprises SMR5, SMR10, SMR20, SMRGP and other type of standard grade block rubbers.

(2) Sales value divided by sales volume.

(3) Comprises MSSR(RSS)-P, CV Grade (i.e. ST 5CV, ST 10CV and ST 20CV) and other type of Premium Grade block rubber.

(4) Total of SMR Grade block rubber and Premium Grade block rubber.

*(5) Computed based on weighted average foreign exchange rates ("**WAFEX**") for USD:RM in FYE 2019, FYE 2020, FYE 2021, FPE 31 December 2020 and FPE 31 December 2021 as set in Section 12.3.3 (i) (b) of this Prospectus.*

(ii) Revenue from Trading Segment

Revenue from Trading Segment relates to trading of block rubbers to customers in Indonesia, Hong Kong and China.

The performance of Trading Segment is minimal as it had only contributed approximately 0.2%, 4.0%, and 2.5% of our total revenue for the FYE 2019, FYE 2021 and FPE 31 December 2021 respectively. There is no revenue from Trading Segment incur during the FYE 2020.

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b. Revenue by geographical locations

Further analysis of our revenue by geographical locations for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<---FYE 30 June--->					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
China(1)	320,718	50.4	298,839	48.5	448,455	58.4
Hong Kong (Republic of China)(2)	240,119	37.7	171,544	27.8	144,251	18.8
Singapore(3)	62,894	9.9	95,760	15.5	138,988	18.1
Taiwan(4)	10,767	1.7	49,013	8.0	35,487	4.6
Others(5)	2,336	0.3	1,279	0.2	996	0.1
Total revenue	**636,834**	**100.0**	**616,435**	**100.0**	**768,177**	**100.0**

	<---FPE 31 December--->			
	2020		2021	
	RM'000	%	RM'000	%
China(1)	189,853	56.3	186,307	46.5
Hong Kong (Republic of China)(2)	59,847	17.8	81,271	20.3
Singapore(3)	66,084	19.6	124,283	31.0
Taiwan(4)	20,614	6.1	3,224	0.8
Others(5)	718	0.2	5,405	1.4
Total revenue	**337,116**	**100.0**	**400,490**	**100.0**

Notes:

(1) All our sales to China were derived from tyre manufacturers and international rubber traders based in China whom are either affiliates of tyre manufacturers in China or independent traders who ship directly to China.

(2) All our sales to Hong Kong were derived from international rubber traders based in Hong Kong (i.e. affiliates of tyres manufacturers in China or independent traders) who purchased block rubbers from us for onward shipment or sales to their customers in China.

(3) All our sales to Singapore were derived from international rubber traders based in Singapore. Majority of our sales from Singapore were derived from one of our major customers, R1 International Pte Ltd, who purchased block rubbers from us for onward sales to their customers mainly in India, as well as to their customers in China, USA and Argentina. In the past 3 FYEs 2019 to 2021 and FPE 31 December 2021, our sales from R1 International Pte Ltd contributed 95.3%, 99.9%, 100.0% and 94.3% respectively, to our sales from Singapore.

(4) All our sales to Taiwan were derived from tyre manufacturer and international rubber traders based in Taiwan (i.e. independent traders) for direct shipment to Taiwan and China.

(5) Others include sales to international rubber traders based in Indonesia, British Virgin Islands, Australia, Singapore, Netherlands and Malaysia who shipped the products to Indonesia, Australia, Malaysia, Turkey, Poland and Germany.

Commentaries on revenue

Comparisons between FYE 2019 and FYE 2020

Our total revenue decreased by RM20.4 million or approximately 3.2% to RM616.4 million in FYE 2020 (FYE 2019: RM636.8 million) driven mainly by the decline in revenue from Processing Segment which contributed 100.0% of our total revenue in FYE 2020 and the revenue of RM13.2 million which could not be recognised in 4th quarter of FYE 2020 due to the production output affected by the COVID-19 pandemic which in turn delayed shipment of our customers' orders as a result of the conditional MCO imposed by the government of Malaysia in March 2020. The decrease of the revenue from the Processing Segment was mainly due to the decrease of revenue in SMR Grade resulted from the loss of one of our Group's major customer, Chongqing Group in FYE 2020 and partially offset by the increase in sales of Premium Grade block rubber mainly contributed from Federal Corporation and R1 International Pte Ltd. There was no revenue incurred from our Trading Segment for FYE 2020 (FYE 2019: RM1.3 million).

By geographical location

Customers from China remain the main market for our export sales including the sales derived from Hong Kong customers who are international rubber traders will onward shipment to customers in China. Sales to customers from China and Hong Kong account for approximately 48.5% in FYE 2020 (FYE 2019: 50.4%) and 27.8% in FYE 2020 (FYE 2019: 37.7%) respectively. Our export sales to Hong Kong are mainly to international rubber traders which we ship our products directly to China. There was a decline in our revenue contributed from the customers from China and Hong Kong by a total of RM90.5 million or approximately 16.1% from the 2 markets of RM470.3 million in FYE 2020 (FYE 2019: RM560.8 million). This is largely due to the loss of one of our major customer, Chongqing Group in FYE 2020 which contributed RM138.2 million or approximately 21.7% of total revenue in FYE 2019. Chongqing General Trading Chemical Co., Ltd, which under Chongqing Group had ceased its rubber business dealing during the FYE 2020.

However, this was partially offset mainly by the increase in revenue from the customers from Singapore and Taiwan by RM32.9 million and RM38.2 million in FYE 2020 or by approximately 52.3% and 355.2% respectively, which reduce the reliance of customers from China. Our export sales to our customers from Singapore consist of international rubber traders who ship our products mainly to India as well as to China, USA and Argentina.

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By business segment

Processing Segment experienced a marginal decrease of RM19.1 million or 3.0% in sales to RM616.4 million in FYE 2020 (FYE 2019: RM635.5 million) as a result of lower sales as evidenced by a corresponding decrease of 5,115 MTS or 4.6% in sales volume to 105,034 MTS in FYE 2020 (FYE 2019: 110,149 MTS). The decrease was partially offset by an increase in ASP of RM99 per MTS or 1.7% in ASP to RM5,869 per MTS in FYE 2020 (FYE 2019: RM5,770 per MTS). This was mainly due to the following reasons:

(1) Our revenue for 4th quarter of FYE 2020 dropped to RM134.5 million (4th quarter of FYE 2019: RM173.8 million) where approximately RM13.2 million of revenue could not be recognised in 4th quarter of FYE 2020. This was due to production capacity was affected which in turn delayed certain shipments of our Group's order as a result of the COVID-19 pandemic and the conditional MCO imposed by the government of Malaysia in March 2020 as well as global lockdown restrictions.

Notwithstanding the above, our revenue also decreased was due to lower ASP in 4th quarter of FYE 2020 for RM5,513 per MTS as compared to RM6,253 per MTS in 4th quarter of FYE 2019 and lower sales volume in 4th quarter of FYE 2020 for 24,394 MTS as compared to 27,804 MTS in 4th quarter of FYE 2019.

(2) There was a net decrease in sales of SMR Grade block rubber by RM29.2 million or approximately 7.8% to RM347.5 million in FYE 2020 (FYE 2019: RM376.7 million) as a result of lower sales and correspondingly a decrease of 5,740 MTS or 8.7% in sales volume to 59,976 MTS (FYE 2019: 65,716 MTS) which was partially offset by an increase of RM62 per MTS or 1.1% in ASP to RM5,794 per MTS in FYE 2020 (FYE 2019: RM5,732 per MTS). This was mainly as a result of:

- decrease in orders for SMR Grade block rubber largely due to the loss of one of our Group's major customer, Chongqing Group in FYE 2020. There is no revenue contributed by Chongqing Group in FYE 2020 (FYE 2019: RM138.2 million);

- decrease in orders for SMR Grade block rubber from our other major customer, Maxtrek Tyre Group where the revenue had decreased by RM31.3 million or approximately 50.8% to RM30.3 million in FYE 2020 (FYE 2019: RM61.6 million) represented by a decrease of 5,343 MTS or 50.0% in sales volume to 5,342 MTS in FYE 2020 (FYE 2019: 10,685 MTS);

- partially offset by the increase in orders for SMR Grade block rubber due to:

    - additional orders for SMR Grade block rubber from Westwater Group where revenue from the said customer increased by RM57.5 million or approximately 97.3% to RM116.6 million in FYE 2020 (FYE 2019: RM59.1 million) represented by an increase of 10,080 MTS or 100.0% in sales volume to 20,160 MTS in FYE 2020 (FYE 2019: 10,080 MTS);

- additional orders for SMR Grade block rubber from Wanli Group where revenue from the said customer increased by RM24.4 million or approximately 39.2% to RM86.7 million in FYE 2020 (FYE 2019: RM62.3 million) represented by an increase of 4,233 MTS or 39.2% in sales volume to 15,019 MTS in FYE 2020 (FYE 2019: 10,786 MTS); and

- additional orders for SMR Grade block rubber from Shandong Xinghongyuan Tyre Co., Ltd. where revenue from the said customer increased by RM13.1 million or approximately 31.2% to RM55.1 million in FYE 2020 (FYE 2019: RM42.0 million) as a result of an increase of 1,971 MTS or 25.6% in sales volume to 9,677 MTS in FYE 2020 (FYE 2019: 7,706 MTS).

(3) partially offset by the increase in sales of Premium Grade block rubber by RM10.1 million or approximately 3.9% to RM268.9 million in FYE 2020 (FYE 2019: RM258.8 million) as a result of an increase of 625 MTS or 1.4% in sales volume to 45,058 MTS in FYE 2020 (FYE 2019: 44,433 MTS) and an increase of RM143 per MTS or 2.5% in ASP to RM5,968 per MTS in FYE 2020 (FYE2019: RM5,825 per MTS). This was mainly as a result of:

- additional orders for Premium Grade block rubber from Federal Corporation where revenue from the said customer increased by RM38.2 million or approximately 353.7% to RM49.0 million in FYE 2020 (FYE 2019: RM10.8 million) represented by an increase of 5,745 MTS or 331.3% in sales volume to 7,479 MTS in FYE 2020 (FYE 2019: 1,734 MTS);

- additional orders for Premium Grade block rubber from R1 International Pte Ltd where revenue from the said customer increased by RM37.4 million or approximately 184.2% to RM57.7 million in FYE 2020 (FYE 2019: RM20.3 million) represented by an increase of 6,310 MTS or 195.6% in sales volume to 9,536 MTS in FYE 2020 (FYE 2019: 3,226 MTS);

- additional orders for Premium Grade block rubber from Jiangsu General Science Technology Co., Ltd where revenue from the said customer increased by RM16.9 million or approximately 11.7% to RM160.9 million in FYE 2020 (FYE 2019: RM144.0 million) represented by an increase of 2,964 MTS or 11.9% in sales volume to 27,821 MTS in FYE 2020 (FYE 2019: 24,857 MTS); and

- partially offset by the decrease in orders for Premium Grade block rubber mainly due to the loss of a major customer in FYE 2020.

The increase in sales of Premium Grade block rubber is mainly due to the growing demand from our recurring customers involved in the tyre manufacturing industry, resultant from the expansion of the automobile industry. Premium Grade block rubber, which requires additional components and value-added additives as well as specific properties, usually commands a higher premium and therefore contributes to a higher GP margin.

The performance of Trading Segment is minimal as it had only contributed approximately 0.2% of our total revenue for the FYE 2019 (FYE 2020: Nil).

For the FYE 2020, RM616.2 million or approximately 99.9% of our total revenue are denominated in USD (FYE 2019: RM636.8 million or approximately 99.9%). During the FY, our revenue increased by RM11.0 million due to the strengthening of USD against RM as compared to the FYE 2019 exchange rate as follows:

			Variance due to movement in exchange rate	
	FYE 2019	**FYE 2020**	**FYE 2020**	**Increase**
USD-denominated revenue[(1)] (**USD'000**)	154,436	146,773	146,773	-
USD-denominated revenue (**RM'000**)	636,831	616,197	605,233[(3)]	10,964
Exchange rate (**RM per USD**)	4.1236[(2)]	4.1983[(2)]	4.1236[(3)]	0.0747

Notes:

(1) Computed as USD-denominated revenue divided by the exchange rate which is stated in the table above for the respective FYs.

(2) Based on the WAFEX for USD:RM in FYE 2019 and FYE 2020.

(3) Computed based on the WAFEX used for the FYE 2019.

Comparisons between FYE 2020 and FYE 2021

For the FYE 2021, our total revenue increased by RM151.8 million or approximately 24.6% to RM768.2 million (FYE 2020: RM616.4 million) driven mainly from our Processing Segment (RM737.3 million or 96.0%). The increase of revenue from our Processing Segment was mainly due to the increase of revenue as a result of the increased in sales quantity and ASP of SMR Grade and Premium Grade block rubber.

By geographical location

China remains the principal market for our export sales, including sales derived from Hong Kong customers who are international rubber traders will onward shipment to customers in China. Sales to customers from China accounted for approximately 58.4% in FYE 2021 (FYE 2020: 48.5%). There was an increase in our revenue contributed by a customer from Singapore of RM43.2 million or approximately 45.1% to RM139.0 million in FYE 2021 (FYE2020: RM95.8 million) mainly due to higher demand from our existing customer, R1 International Pte Ltd which shipped most of their products to India in FYE 2021. However, there was a decline in our revenue contributed from customers from Hong Kong by RM27.2 million or approximately 15.9% to RM144.3 million in FYE 2021 (FYE 2020: RM171.5 million), mainly due to decrease in order from one of our major customer, Westwater Group in FYE 2021. The decrease in order from Westwater Group was mainly due to orders received were SMR Grade only instead of Premium Grade block rubber.

By business segment

Revenue contributed from our Processing Segment increased by RM120.9 million or 19.6% to RM737.3 million for FYE 2021 (FYE 2020: RM616.4 million), as a result of increase of our sales quantity by 16,370 MTS or 15.6% to 121,404 MTS in FYE 2021 (FYE 2020: 105,034 MTS) and increase of RM204 per MTS or 3.5% in ASP to RM6,073 per MTS in FYE 2021 (FYE 2020: RM5,869 per MTS). The increase in our revenue was mainly due to the following:

(1) There was an increase in sales of SMR Grade block rubber by RM37.0 million or approximately 10.6% to RM384.5 million in FYE 2021 (FYE 2020: RM347.5 million) as a result of higher sales and correspondingly an increase of 4,153 MTS or 6.9% in sales volume to 64,129 MTS in the FYE 2021 (FYE 2020: 59,976 MTS) and an increase of RM202 per MTS or 3.5% in ASP to RM5,996 per MTS in FYE 2021 (FYE 2020: RM5,794 per MTS). This was mainly as a result of:

- additional orders for SMR Grade block rubber from Shandong Xinghongyuan Tyre Co., Ltd. where revenue from the said customer increased by RM31.3 million or approximately 56.8% to RM86.4 million in FYE 2021 (FYE 2020: RM55.1 million) as a result of an increase of 4,637 MTS or 47.9% in sales volume to 14,314 MTS in FYE 2021 (FYE 2020: 9,677 MTS);

- additional orders for SMR Grade block rubber from Maxtrek Tyre Group where revenue from the said customer increased by RM12.5 million or approximately 41.3% to RM42.8 million in FYE 2021 (FYE 2020: RM30.3 million) as a result of an increase of 1,714 MTS or 32.1% in sales volume to 7,056 MTS in FYE 2021 (FYE 2020: 5,342 MTS); and

- additional orders for R1 International Pte Ltd where revenue from the said customer increased by RM11.5 million or approximately 30.3% to RM49.4 million in FYE 2021 (FYE 2020: RM37.9 million) as a result of an increase of 2,541 MTS or 40.8% in sales volume to 8,770 MTS in FYE 2021 (FYE 2020: 6,229 MTS).

- partially offset by the decrease in orders for SMR Grade block rubber due to decrease in orders from Westwater Group where the revenue had decreased by RM14.8 million or approximately 12.7% to RM101.8 million in FYE 2021 (FYE 2020: RM116.6 million) represented by a decrease of 4,032 MTS or 20.0% in sales volume to 16,128 MTS in FYE 2021 (FYE 2020: 20,160 MTS);

(2) There was an increase in sales of Premium Grade block rubber by RM83.9 million or approximately 31.2% to RM352.8 million in FYE 2021 (FYE 2020: RM268.9 million) as a result of higher sales and correspondingly an increase of 12,217 MTS or 27.1% in sales volume to 57,275 MTS (FYE 2020: 45,058 MTS) and an increase of RM191 per MTS or 3.2% in ASP to RM6,159 per MTS in FYE 2021 (FYE 2020: RM5,968 per MTS). This was mainly as a result of:

- additional orders for Premium Grade block rubber from R1 International Pte Ltd where revenue from the said customer increased by RM31.8 million or approximately 55.1% to RM89.5 million in FYE 2021 (FYE 2020: RM57.7 million) as a result of an increase of 4,576 MTS or 48.0% in sales volume to 14,112 MTS in FYE 2021 (FYE 2020: 9,536 MTS);

- additional orders for Premium Grade block rubber from Jiangsu General Science Technology Co., Ltd where revenue from the said customer increased by RM37.7 million or approximately 23.4% to RM198.6 million in FYE 2021 (FYE 2020: RM160.9 million) as a result of an increase of 4,939 MTS or 17.8% in sales volume to 32,760 MTS in FYE 2021 (FYE 2020: 27,821 MTS);

- new orders for Premium Grade block rubber from our existing customer, Shandong Xinghongyuan Tyre Co., Ltd. where revenue from the said customer was RM33.4 million in FYE 2021 and sales volume was 5,242 MTS in FYE 2021; and

- partially offset by the decrease in orders for Premium Grade block rubber due to decrease in orders from Federal Corporation where the revenue had decreased by RM14.0 million or approximately 28.6% to RM35.0 million in FYE 2021 (FYE 2020: RM49.0 million) represented by a decrease of 1,733 MTS or 23.2% in sales volume to 5,746 MTS in FYE 2021 (FYE 2020: 7,479 MTS).

For the FYE 2021, RM768.2 million or 100.0% of our total revenue are denominated in USD (FYE 2020: RM616.2 million or approximately 99.9%). During the said FY, our revenue decreased by RM13.2 million due to the weakening of USD against RM as compared to the FYE 2020 exchange rate as follows:

			Variance due to movement in exchange rate	
	FYE 2020	**FYE 2021**	**FYE 2021**	**Decrease**
USD-denominated revenue[(1)] (**USD'000**)	146,773	186,121	186,121	-
USD-denominated revenue (**RM'000**)	616,197	768,177	781,392[(3)]	13,215
Exchange rate (**RM per USD**)	4.1983[(2)]	4.1273 [(2)]	4.1983[(3)]	0.0710

Notes:

(1) Computed as USD-denominated revenue divided by the exchange rate which is stated in the table above for the respective FYs.

(2) Based on the WAFEX for USD:RM in FYE 2020 and FYE 2021.

(3) Computed based on the WAFEX used for the FYE 2020.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

For the FPE 31 December 2021, our total revenue increased by RM63.4 million or approximately 18.8% to RM400.5 million (FPE 31 December 2020: RM337.1 million) driven mainly from our Processing Segment (RM390.3 million or 97.5%). The increase of revenue from our Processing Segment was mainly due to the increase of revenue as a result of the increased in ASP of SMR Grade and Premium Grade block rubber even though there is a decrease in sales volume. The decrease of the sales volume during the FPE 31 December 2021 was due to the Factory Closure between 12 November 2021 and 2 December 2021 which resulted in the lower production output by approximately 4,000 MTS with an estimated value of RM29.0 million.

By geographical location

China remains the principal market for our export sales, including sales derived from Hong Kong customers who are international rubber traders will onward shipment to customers in China. Sales to customers from China and Hong Kong account for approximately 46.5% in FPE 31 December 2021 (FPE 31 December 2020: 56.3%) and 20.3% in FPE 31 December 2021 (FPE 31 December 2020: 17.8%) respectively. There was a decline in our revenue contributed from customers from China by a total of RM3.6 million or approximately 1.9% of RM186.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM189.9 million) mainly due to Factory Closure and hence the initial scheduled shipment in mid-November 2021 was subsequently rescheduled to December 2021 and January 2022. However, there was an increase in our revenue contributed from customers from Hong Kong by RM21.5 million or approximately 36.0% to RM81.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM59.8 million), mainly due to higher demand from our major customer, Westwater Group.

The increase in our revenue was also contributed from customers from Singapore by RM58.2 million or approximately 88.0% to RM124.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM66.1 million), which reduce the reliance of customers from China. The increase in revenue contributed from customers from Singapore was mainly due to higher demand from our existing customer, R1 International Pte Ltd which shipped most of their products to India during the FPE 31 December 2021.

By business segment

Revenue contributed from our Processing Segment increased by RM66.3 million or 20.5% to RM390.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM324.0 million), as a result of the increase of RM1,701 per MTS or 31.1% in ASP to RM7,173 per MTS in FPE 31 December 2021 (FPE 31 December 2020: RM5,472 per MTS). The increase in our revenue was mainly due to the following:

(1) There was an increase in sales of SMR Grade block rubber by RM35.3 million or approximately 20.6% to RM206.4 million in FPE 31 December 2021 (FPE 31 December 2020: RM171.1 million) as a result of an increase of RM1,698 per MTS or 31.7% in ASP to RM7,052 per MTS in FPE 31 December 2021 (FPE 31 December 2020: RM5,354 per MTS). Notwithstanding the increase in sales to our major customers, namely R1 International Pte Ltd, Jiangsu General Science Technology Co., Ltd, Shandong Xinghongyuan Tyre Co., Ltd and Westwater Group at an increased ASP, there was a decrease in overall sales volumes to our other customers of 2,682 MTS or 8.4% to 29,272 MTS in FPE 31 December 2021 (FPE 31 December 2020: 31,954 MTS).

The increase in sales was also attributable to the following:

- additional orders for SMR Grade block rubber from R1 International Pte Ltd where revenue from the said customer increased by RM32.3 million or approximately 140.4% to RM55.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM23.0 million) as a result of an increase of 3,286 MTS or 72.4% in sales volume to 7,822 MTS in FPE 31 December 2021 (FPE 31 December 2020: 4,536 MTS);

- additional orders for SMR Grade block rubber from Jiangsu General Science Technology Co., Ltd where revenue from the said customer increased by RM2.5 million or approximately 131.6% to RM4.4 million in FPE 31 December 2021 (FPE 31 December 2020: RM1.9 million) as a result of an increase of 303 MTS or 100.3% in sales volume to 605 MTS in FPE 31 December 2021 (FPE 31 December 2020: 302 MTS);

- additional orders for SMR Grade block rubber from Shandong Xinghongyuan Tyre Co., Ltd. where revenue from the said customer increased by RM18.0 million or approximately 59.4% to RM48.3 million in FPE 31 December 2021 (FPE 31 December 2020: RM30.3 million) as a result of an increase of 1,209 MTS or 21.4% in sales volume to 6,854 MTS in FPE 31 December 2021 (FPE 31 December 2020: 5,645 MTS);

- additional orders for SMR Grade block rubber from Westwater Group where revenue from the said customer increased by RM19.0 million or approximately 50.5% to RM56.6 million in FPE 31 December 2021 (FPE 31 December 2020: RM37.6 million) as a result of an increase of 1,209 MTS or 17.9% in sales volume to 7,963 MTS in FPE 31 December 2021 (FPE 31 December 2020: 6,754 MTS); and

- partially offset by decrease in orders for SMR Grade block rubber from Wanli Group where revenue from the said customer decreased by RM19.9 million or approximately 51.7% to RM18.6 million in FPE 31 December 2021 (FPE 31 December 2020: RM38.5 million) as a result of a decrease of 3,931 MTS or 60.0% in sales volume to 2,621 MTS in FPE 31 December 2021 (FPE 31 December 2020: 6,552 MTS).

(2) There was an increase in sales of Premium Grade block rubber by RM31.0 million or approximately 20.3% to RM183.9 million in FPE 31 December 2021 (FPE 31 December 2020: RM152.9 million) as a result of an increase of RM1,703 per MTS or 30.4% in ASP to RM7,314 per MTS in FPE 31 December 2021 (FPE 31 December 2020: RM5,611 per MTS). Notwithstanding the increase in sales to our major customers namely Wanli Group and R1 International Pte Ltd at an increased ASP, there was a decrease in the overall sales volume to our other customers of 2,116 MTS or 7.8% in sales volume to 25,140 MTS in FPE 31 December 2021 (FPE 31 December 2020: 27,256 MTS).

The increase in sales was also attributable to the following:

- additional orders for Premium Grade block rubber from Wanli Group where revenue from the said customer is RM24.4 million in FPE 31 December 2021 (FPE 31 December 2020: Nil) as a result of 3,427 MTS in sales volume in FPE 31 December 2021 (FPE 31 December 2020: Nil);

- additional orders for Premium Grade block rubber from R1 International Pte Ltd where revenue from the said customer increased by RM18.8 million or approximately 43.6% to RM61.9 million in FPE 31 December 2021 (FPE 31 December 2020: RM43.1 million) as a result of an increase of 787 MTS or 10.5% in sales volume to 8,266 MTS in FPE 31 December 2021 (FPE 31 December 2020: 7,479 MTS); and

- partially offset by decrease in orders for Premium Grade block rubber from Federal Corporation where revenue from the said customer decreased by RM19.2 million or approximately 93.2% to RM1.4 million in FPE 31 December 2021 (FPE 31 December 2020: RM20.6 million) as a result of a decrease of 3,326 MTS or 94.3% in sales volume to 202 MTS in FPE 31 December 2021 (FPE 31 December 2020: 3,528 MTS).

The performance of Trading Segment is minimal as it had only contributed approximately 2.5% of our total revenue for the FPE 31 December 2021 (FPE 31 December 2020: 3.9%).

For the FPE 31 December 2021, RM400.5 million or 100.0% of our total revenue are denominated in USD (FPE 31 December 2020: RM337.1 million or 100.0%). During the said FP, our revenue decreased by RM0.7 million due to the weakening of USD against RM as compared to the FPE 31 December 2020 exchange rate as follows:

			Variance due to movement in exchange rate	
	FPE 31 December 2020	**FPE 31 December 2021**	**FPE 31 December 2021**	**Decrease**
USD-denominated revenue[1] (**USD'000**)	80,534	95,848	95,848	-
USD-denominated revenue (**RM'000**)	337,116	400,490	401,220[3]	730
Exchange rate (**RM per USD**)	4.1860[2]	4.1784[2]	4.1860[3]	0.0076

Notes:

(1) Computed as USD-denominated revenue divided by the exchange rate which is stated in the table above for the respective FPs.

(2) Based on the WAFEX for USD:RM in FPE 31 December 2020 and FPE 31 December 2021.

(3) Computed based on the WAFEX used for the FPE 31 December 2020.

(ii) Analysis of COS

Our COS consists primarily of:

(i) **Material costs**

Material costs, the largest component of our COS, which includes costs of raw materials, costs of indirect materials and packing materials as well as block rubber trading stock. Material costs generally moves in tandem with our sales volume; where an increase or decrease in our sales volume will result in an increase or decrease in our material costs.

Our costs of raw materials, particularly cup lump and semi-processed rubber are directly related to the market price for natural rubber, based on the average daily closing price on MRB Quote and SICOM Quote.

Due to the nature of our business where our products are tailored according to our customers' orders, the raw materials consumed for each product are based on customers' specific requirements, the grade and technical properties of the raw materials.

(ii) **Direct labour costs**

Direct labour costs which consist of production staff cost and foreign worker expenses. Our production staff costs consist of payroll while foreign worker expenses consist of foreign worker levy and staff welfare.

(iii) **Production overheads**

Production overheads which consist of cost such as electricity, fuel, depreciation of manufacturing-related assets, repair and maintenance of manufacturing-related assets, insurance of manufacturing-related assets and lubricants.

(iv) **Laboratory expenses**

Laboratory expenses which consists of laboratory staff costs and other laboratory related expenses such as laboratory testing expenses.

The analysis of our COS for the Financial Years Under Review and FPE 31 December 2021 is as follows:

a. COS by cost components

The table below sets out our COS by cost components for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021:

	<---------------------------FYE 30 June----------------------------->					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Material costs[1]	556,998	94.2	546,910	94.8	658,120	94.8
Direct labour costs	7,638	1.3	7,848	1.4	8,084	1.2
Production overheads	26,248	4.4	21,272	3.7	27,199	3.9
Laboratory expenses	847	0.1	814	0.1	887	0.1
Total	**591,731**	**100.0**	**576,844**	**100.0**	**694,290**	**100.0**

	<--------FPE 31 December-------->			
	2020		2021	
	RM'000	%	RM'000	%
Material costs[(1)]	295,063	94.8	345,619	95.2
Direct labour costs	3,652	1.2	3,964	1.1
Production overheads	12,077	3.9	13,093	3.6
Laboratory expenses	432	0.1	420	0.1
Total	**311,224**	**100.0**	**363,096**	**100.0**

Note:

(1) Material costs consist of the costs of raw materials such as cup lump, semi-processed rubber and synthetic rubber, costs of indirect materials such as chemicals used for rubber processing and packing materials as well as block rubber trading stock.

The breakdown of the costs of raw materials such as cup lump, semi-processed rubber and synthetic rubber for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<--------FYE 30 June--------->					
	2019		*2020*		*2021*	
	RM'000	*%*	*RM'000*	*%*	*RM'000*	*%*
Cup lump	*420,495*	*77.8*	*372,815*	*70.5*	*514,217*	*84.8*
*Semi-processed rubber**	*119,814*	*22.2*	*155,818*	*29.5*	*92,419*	*15.2*
Total	***540,309***	***100.0***	***528,633***	***100.0***	***606,636***	***100.0***

	<--------FPE 31 December-------->			
	2020		*2021*	
	RM'000	*%*	*RM'000*	*%*
Cup lump	*232,791*	*85.5*	*261,408*	*80.2*
*Semi-processed rubber**	*39,612*	*14.5*	*64,602*	*19.8*
Total	***272,403***	***100.0***	***326,010***	***100.0***

Note:

* *Inclusive of the synthetic rubber material cost of RM1.3 million, RM2.7 million, RM2.9 million, RM1.8 million and RM 0.1 million in the past 3 FYEs 2019 to 2021, FPE 31 December 2020 and FPE 31 December 2021 respectively.*

Commentaries on COS

Comparisons between FYE 2019 and FYE 2020

Our COS decreased by RM14.9 million or approximately 2.5% to RM576.8 million in FYE 2020 (FYE 2019: RM591.7 million) in line with the decrease in our total revenue. This was mainly due to the following reasons:

(1) net decrease in material costs by RM10.1 million or 1.8% mainly due to:

- decrease in costs of raw materials by RM11.7 million or 2.2% mainly due to decrease in consumption of raw materials, particularly cup lump, in line with the decrease in our revenue from Processing Segment;

- there is no cost incur from block rubber trading stock as there is no revenue was generated from the Trading Segment in FYE 2020 (FYE 2019: RM1.2 million); and

- partially offset by the increase in costs of indirect materials by RM1.3 million or 99.0% in line with the increase in Premium Grade block rubber sales. Indirect materials consist of other chemicals used in producing Premium Grade block rubber.

(2) decrease in production overheads by RM5.0 million or 19.0% largely due to:

- fewer scheduled maintenance carried out by maintenance team resulting in reduced repairs and maintenance of plant and machinery expenditure by RM1.5 million or 31.4%, in line with the decrease in sales volume in FYE 2020;

- decline in electricity cost by RM0.3 million or 3.1%, in line with the decrease in sales volume in FYE 2020;

- decline in diesel cost by RM1.4 million or 18.8%. Further, the lower diesel price (average price per litre of diesel in FYE 2019: RM2.3; FYE 2020: RM1.9) during the said FY contributed to further lower cost; and

- decrease in depreciation of manufacturing-related assets by RM0.6 million or 22.8% are mainly due to no depreciation provided for plant and machinery of BMI which reclassified as assets held for sale in FYE 2019.

Comparisons between FYE 2020 and FYE 2021

Our COS increased by RM117.5 million or approximately 20.4% to RM694.3 million in FYE 2021 (FYE 2020: RM576.8 million) in line with the increase in our total revenue. This was mainly due to the following reasons:

(1) increase in material costs by RM111.2 million or 20.3% mainly due to:

- increase in costs of raw materials by RM78.0 million or 14.8% mainly due to increase in consumption of raw materials, particularly cup lump, in line with the increase in our revenue from Processing Segment;

- incur of RM28.3 million in block rubber trading stock in line with the revenue from Trading Segment incurred in FYE 2021 (FYE 2020: Nil); and

- increase in costs of packing materials by RM1.0 million or 14.8% in line with the increase in sales during the said FY.

(2) increase in production overheads by RM5.9 million or 27.9% in line with the increase of revenue mainly due to:

- additional repair and maintenance costs by RM2.6 million or 78.7% due to higher utilisation of our plant and machinery in line with the higher production outputs during the said FY;

- increase in electricity cost by RM1.4 million or 14.6% in line with the higher production output to fulfil the increase sales volumes demanded from our customers; and
- increase in diesel cost by RM1.4 million or 23.1% in line with the higher production output during the said FY.

<u>**Comparisons between FPE 31 December 2020 and FPE 31 December 2021**</u>

Our COS increased by RM51.9 million or approximately 16.7% to RM363.1 million in FPE 31 December 2021 (FPE 31 December 2020: RM311.2 million) in line with the increase in our total revenue. This was mainly due to the following reasons:

(1) increase in material costs by RM50.6 million or 17.1% mainly due to:

- increase in costs of raw materials by RM53.6 million or 19.7% to RM326.0 million in FPE 31 December 2021 (FPE 31 December 2020: RM272.4 million) due to the higher average purchase price of raw materials such as cup lump and semi-processed rubber. The increase in average purchase price of raw materials by RM1,497 per MTS or 31.6% to RM6,229 per MTS in the FPE 31 December 2021 (FPE 31 December 2020: RM4,732 per MTS). This was attributed by the higher rubber market prices based on the MRB Quote and SICOM Quote during FPE 31 December 2021 as compared to the prior FP;

- partially offset by the lower block rubber trading purchase cost by RM2.3 million or 19.1% in line with the decrease in revenue from Trading Segment during the FPE 31 December 2021; and

- partially offset by the lower costs of indirect materials by RM0.3 million or 21.2% in line with the decrease in total sales volume of Premium Grade block rubber. Indirect materials consist of other chemicals used in producing Premium Grade block rubber.

(2) increase in production overheads by RM1.0 million or 8.4% in line with the increase in revenue mainly due to:

- increase in repair and maintenance costs by RM1.8 million or 87.1% due to additional purchases of the major spare part of the machineries in preparation for the increase in production capacity of Factory 3 for the first half of year 2022;

- increase in diesel cost by RM0.6 million or 20.2% due to higher diesel price (average price per litre of diesel in FPE 31 December 2020: RM1.6; FPE 31 December 2021: RM2.3) during the said FP; and

- partially offset by the decrease in electricity cost by RM0.9 million or 16.2% in line with the reduction of production output as a result of the lower sales volumes during the FPE 31 December 2021.

(iii) Analysis of GP and GP margin

Similar to other commodity prices, the price of natural rubber is dynamic and fluctuates based on the supply-demand situation at each point in time. The difference between the selling price of finished products and purchase price of raw materials is deemed as "**Processing Fee**" for intermediary natural rubber processor.

The selling price of our products is typically priced at a premium to the prevailing SICOM Quote. On the other hand, our purchases of raw materials from domestic suppliers and foreign suppliers are priced at a discount to the prevailing MRB Quote and SICOM Quote respectively, whilst domestic suppliers derive MRB Quote by referring to SICOM Quote too. The selling price of our products moves in tandem with our purchase price of raw materials.

Our Group purchases raw materials predominantly in the form of cup lump with the remaining in the form of semi-processed rubber (including synthetic rubber). Therefore, our UMC of raw materials represents the sum of both costs of cup lump and semi-processed rubber (i.e. excluding indirect and packing materials costs) divided by the total sales quantity in MTS from the Processing Segment for the said FY and FP. Our UMC is illustrated in per MTS.

The main determinants of our GP are the Processing Fee and sales volume. Our Group adopts a cost-plus concept, thus any increase in our raw material prices will be passed on to our customers with higher selling prices of our products. Whilst the Processing Fee is rather stable in absolute term (by value), and is not affected by the fluctuation in natural rubber prices, the GP margin however is vulnerable to fluctuation in selling prices of our products. Therefore, a higher selling price, whilst other factors being equal, results in a lower GP margin because the selling price is larger as a denominator but the GP remains constant as numerator.

Thus, for the block rubber processing industry player, GP is normally the indicator used to measure their business performance and not the GP margin. In most instances when the factors which will affect the UMC (i.e. type and quantity of raw materials purchased, proportion of cup lump and semi-processed rubber purchased) remain unchanged, a higher selling price of our products may translate into a lower GP margin and vice versa. This trend has been generally consistent for the FYEs 2019 and 2020. For FYEs 2019 and 2020, semi-processed rubber constituted 26.1% to 26.7% of our purchases of raw materials whereas cup lump accounted for the remaining purchases. The breakdown of our purchase of the raw materials for the FYEs 2019 and 2020 is set out in Section 7.7 of this Prospectus.

For the FYE 2021, there was a higher ASP and a higher GP margin which was inconsistent with the trend due to the significant change in the proportion of cup lump and semi-processed rubber purchased which reduced our overall UMC. In FYE 2021, where our raw materials purchase was mostly made up of cup lump instead of semi-processed rubber, which reduced our overall total purchase of semi-processed rubber to 15.1%. The breakdown of our purchase of raw materials during FYE 2021 is set out in Section 7.7 of this Prospectus. On top of this, higher orders were recognised in our Sales in FYE 2021 for our Premium Grade block rubber which commands a higher premium as compared to our SMR Grade block rubber. Therefore, our Group had improved GP and GP margin in FYE 2021.

For the FPE 31 December 2021, there was a higher ASP and a higher GP margin which was inconsistent with the trend. This was due to a higher increase in ASP as compared to the increase in UMC. Our ASP increased by RM1,701 per MTS to RM7,173 per MTS in the FPE 31 December 2021 (FPE 31 December 2020: RM5,472 per MTS). However, our UMC marginally increase at RM5,992 per MTS in the FPE 31 December 2021 (FPE 31 December 2020: RM4,601 per MTS) in respect to our Processing Segment.

The table below set out our analysis of our GP and GP margin by business segment for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021:

	<-----------FYE 30 June----------->			FPE 31 December	
	2019	**2020**	**2021**	**2020**	**2021**
GP (RM '000)					
Processing Segment^	45,003	39,591	71,289	24,815	36,930
Trading Segment	100	-	2,598	1,077	464
Total	**45,103**	**39,591**	**73,887**	**25,892**	**37,394**
GP margin (%)					
Processing Segment^	7.1	6.4	9.7	7.7	9.5
Trading Segment	7.6	-	8.4	8.2	4.6
Group GP margin (%)	**7.1**	**6.4**	**9.6**	**7.7**	**9.3**
UMC (RM)/ MTS	4,905	5,033	4,997	4,601	5,992
Sales volume (MTS)					
Processing Segment	110,149	105,034	121,404	59,210	54,412
Trading Segment	458	-	4,737	2,117	1,411
Total	**110,607**	**105,034**	**126,141**	**61,327**	**55,823**

Note:

^ *The breakdown of the GP and GP margin from our Processing Segment is as follows:*

	<-------FYE 30 June------>			*FPE 31 December*	
	2019	***2020***	***2021***	***2020***	***2021***
GP (RM '000)					
SMR Grade	*24,393*	*18,142*	*32,722*	*9,625*	*16,322*
Premium Grade block rubber	*20,610*	*21,449*	*38,567*	*15,190*	*20,608*
Total	***45,003***	***39,591***	***71,289***	***24,815***	***36,930***
GP margin (%)					
SMR Grade	*6.5*	*5.2*	*8.5*	*5.6*	*7.9*
Premium Grade block rubber	*8.0*	*8.0*	*10.9*	*9.9*	*11.2*

Commentaries on GP and GP margin

Comparison between FYE 2019 and FYE 2020

Our GP decreased by RM5.5 million or 12.2% to RM39.6 million for FYE 2020 (FYE 2019: RM45.1 million). During the said FY, our GP was derived from our Processing Segment only of RM39.6 million. This was mainly due to the followings:

(i) the decrease in sales volume of 5,573 MTS or 5.0% to 105,034 MTS in FYE 2020 (FYE 2019: 110,607 MTS); and

(ii) despite the marginal increase in GP contribution for Premium Grade block rubber, the decrease in GP contribution was mainly due to lower GP from the SMR Grade of RM6.3 million or 25.8% to RM18.1 million for FYE 2020 (FYE 2019: RM24.4 million).

Our overall GP margin decreased slightly by 0.7 percentage point to 6.4% for FYE 2020 (FYE 2019: 7.1%). This was mainly due to the followings:

(i) a higher ASP in FYE 2020 at RM5,869 per MTS (FYE 2019: RM5,758 per MTS). The higher ASP mainly contributed from Premium Grade block rubber products as illustrated in Section 12.3.3 (i) (a) of this Prospectus;

(ii) a higher UMC for FYE 2020 at RM5,033 per MTS (FYE 2019: RM4,905 per MTS) in respect to our Processing Segment. It was due to our purchase of raw materials cost such as semi-processed rubber in FYE 2020 is higher than FYE 2019, as the cost of semi-processed rubber is higher than cup lump; and

(iii) our direct labour costs experience a slight increase was mainly due to increase in foreign worker levy by RM0.2 million and increase in worker welfare expenses by RM0.1 million.

There were no GP earned from the Trading Segment in FYE 2020 (FYE 2019: 7.6%) as there were no sales generated from the Trading Segment.

Comparisons between FYE 2020 and FYE 2021

Our GP increased by RM34.3 million or 86.6% to RM73.9 million for FYE 2021 (FYE 2020: RM39.6 million). During the said FY, our GP was mainly derived from our Processing Segment of RM71.3 million or approximately 96.5%, and the remaining from Trading Segment of RM2.6 million or approximately 3.5%. This was mainly due to the followings:

(i) the increase in sales volume of 21,107 MTS or 20.1% to 126,141 MTS in FYE 2021 (FYE 2020: 105,034 MTS); and

(ii) both the SMR Grade and Premium Grade block rubber contributed a higher GP in FYE 2021 which was due to the followings:

  (a) the increase in GP contribution of the Premium Grade block rubber of RM17.2 million or 80.4% to RM38.6 million for FYE 2021 (FYE 2020: RM21.4 million); and

  (b) the increase in GP contribution of SMR Grade block rubber of RM14.6 million or 80.7% to RM32.7 million for FYE 2021 (FYE 2020: RM18.1 million).

Our overall GP margin increased by 3.2 percentage point to 9.6% for FYE 2021 (FYE 2020: 6.4%). This was mainly due to the followings:

(i) a higher ASP in FYE 2021 at RM6,090 per MTS (FYE 2020: RM5,869 per MTS). The higher ASP mainly contributed from Premium Grade block rubber products as illustrated in Section 12.3.3 (i) (a) of this Prospectus; and

(ii) a lower UMC for FYE 2021 at RM4,997 per MTS (FYE 2020: RM5,033 per MTS) in respect to our Processing Segment, where our raw materials purchase was mostly made up of cup lump instead of semi-processed rubber. Our Group had reduced purchasing of semi-processed rubber, which carried a higher cost as compared to cup lump.

In most instance, a higher selling price of our products may translate into a lower GP margin and vice versa, as occurred in FYE 2019 and FYE 2020. In respect of GP margin for the FYE 2021 does not align with the abovementioned statement, it was mainly due to a higher ASP and a lower UMC as illustrated above.

There were sales from our Trading Segment incurred in FYE 2021. Hence, our GP margin from the Trading Segment is 8.4% in FYE 2021 (FYE 2020: Nil).

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our GP increased by RM11.5 million or 44.4% to RM37.4 million for FPE 31 December 2021 (FPE 31 December 2020: RM25.9 million). During the said FP, our GP was mainly derived from our Processing Segment of RM36.9 million or approximately 98.7%, and the remaining from Trading Segment of RM0.5 million or approximately 1.3%. This was mainly resulted from both SMR Grade and Premium Grade block rubber contributed a higher GP in FPE 31 December 2021 which was due to the followings:

(i) the increase in GP contribution of the Premium Grade block rubber of RM5.4 million or 35.5% to RM20.6 million for FPE 31 December 2021 (FPE 31 December 2020: RM15.2 million); and

(ii) the increase in GP contribution of SMR Grade block rubber of RM6.7 million or 69.8% to RM16.3 million for FPE 31 December 2021 (FPE 31 December 2020: RM9.6 million).

Our overall GP margin increased by 1.6 percentage point to 9.3% in FPE 31 December 2021 (FPE 31 December 2020: 7.7%). This was mainly due to a higher ASP in FPE 31 December 2021 at RM7,173 per MTS (FPE 31 December 2020: RM5,472 per MTS). The significant high ASP was contributed from Premium Grade and SMR Grade block rubber products as illustrated in Section 12.3.3 (i) (a) of this Prospectus.

In most instance, a higher selling price of our products may translate into a lower GP margin and vice versa, as occurred in FYE 2019 and FYE 2020. In respect of GP margin for the FPE 31 December 2021 does not align with the abovementioned statement, it was mainly due to higher increase in ASP as compared to the increase in UMC.

Our GP margin from the Trading Segment decreased by 3.6 percentage point to 4.6% in FPE 31 December 2021 (FPE 31 December 2020: 8.2%). This was due to the decrease of the GP by RM0.6 million or 54.5% to RM0.5 million for FPE 31 December 2021 (FPE 31 December 2020: RM1.1 million). The decrease of the GP was mainly contributed from the increase in trading purchase cost from RM5,681 per MTS in FPE 31 December 2020 to RM6,897 per MTS in FPE 31 December 2021 attributed by the higher rubber market prices based on the MRB Quote and SICOM Quote during FPE 31 December 2021 as compared to the prior FP.

(iv) Analysis of other income

Our other income included mainly the following:

(i) Gain on disposal of SFT's entire 60% equity interest in BMI held indirectly through STG;

(ii) Unrealised gain on foreign exchange arising from the difference in the foreign exchange rate as at the date of our sales, purchases and trade bills compared to the foreign exchange rate as at respective FYEs;

(iii) Interest income, which refers to the interest income from our deposits placed with licensed banks; and

(iv) Insurance profit & commission received from insurance purchased for our Group's coverage (i.e. STG is a registered insurance agents and therefore receive commissions from the insurance companies). STG became an insurance agent of LONPAC Insurance Bhd and MSIG Insurance (Malaysia) Bhd in 2012 and 2013 respectively.

The analysis of our other income for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<---------------------FYE 30 June---------------------->					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Insurance profit & commission	219	20.4	187	4.4	230	40.8
Interest income	316	29.4	569	13.5	119	21.1
Fair value gain on derivatives	-	-	38	0.9	118	21.0
Gain on disposal of subsidiary	-	-	2,789	66.0	-	-
Unrealised gain on foreign exchange	470	43.8	392	9.3	-	-
Others(1)	69	6.4	251	5.9	96	17.1
Total	**1,074**	**100.0**	**4,226**	**100.0**	**563**	**100.0**

	<----------FPE 31 December----------->			
	2020		**2021**	
	RM'000	**%**	**RM'000**	**%**
Insurance profit & commission	46	1.9	53	14.1
Interest income	50	2.0	50	13.2
Fair value gain on derivatives	721	29.1	-	-
Realised gain on foreign exchange	1,279	51.7	182	48.1
Unrealised gain on foreign exchange	316	12.8	93	24.6
Others(1)	61	2.5	-	-
Total	**2,473**	**100.0**	**378**	**100.0**

Note:

(1) Others include insurance claimed for cargo goods damaged, gain on disposal of property, plant and equipment, compensation received for contract washout, scrap income comprises proceeds from sales of used pallets, tolling fees received by BMI, rental income from staff in BMI, and wages subsidy from the Government amidst the COVID-19 pandemic.

For information only, a contract washout is a way of settling a contract obligation between the buyer and the seller based on mutual consensus before the contract falls due. In this instance, our buyer (independent rubber trader) was unable to fulfil its contract obligation with the seller (our Group) and therefore our buyer has agreed to compensate our Group by paying the difference in value of the contractual selling price against the SICOM price quoted on the date of the order cancellation.

Commentaries on other income

Comparisons between FYE 2019 and FYE 2020

Our other income increased by RM3.1 million or approximately 281.8% to RM4.2 million in FYE 2020 (FYE 2019: RM1.1 million). This was mainly due to the following reasons:

(i) the one-off gain on disposal of SFT's entire 60% equity interest in BMI held indirectly through STG of RM2.8 million for a total cash consideration of USD3.0 million (equivalent to RM12.3 million), and recognised a gain on disposal as follows:

	RM'000
Consideration received	12,318
Less: Carrying amount of net assets disposed of	(10,112)
Add: Foreign exchange translation reserve	583
Gain on disposal of BMI	**2,789**

Please refer to Section 7.1 of this Prospectus for details on the disposal of BMI in FYE 2020.

(ii) increase in interest income by RM0.3 million generated from higher amount of placements of short-term deposits in FYE 2020 in view of the higher interest rates offered by licensed banks during the said FY; and

(iii) increase in others mainly due to incur of tolling fees by RM0.1 million charged by BMI to rubber plantation for processing raw materials to semi-processed rubber in FYE 2020.

Comparisons between FYE 2020 and FYE 2021

Our other income decreased by RM3.6 million or approximately 85.7% to RM0.6 million in FYE 2021 (FYE 2020: RM4.2 million). This was mainly due to the following reasons:

(i) decrease in interest income by RM0.5 million generated as lesser placement of our cash balances in short-term deposits with licensed banks in view of the lower interest rates offered by licensed banks during the said FY;

(ii) partially offset by the increase in fair value gain on derivatives by RM0.1 million. The net gain fair value on forward foreign exchange contract in FYE 2021 was mainly due to lower rate at the settlement date compared to market rate as at 30 June 2020; and

(iii) decrease in others mainly due to no tolling fees incurred during the said FY as BMI has been disposed by our Group in FYE 2020.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our other income decreased by RM2.1 million or approximately 84.0% to RM0.4 million in FPE 31 December 2021 (FPE 31 December 2020: RM2.5 million). This was mainly due to the following reasons:

(i) decrease in realised gain on foreign exchange by RM1.1 million arising from lower rate at settlement date (USD1.00: RM 4.19) compared to the foreign exchange rates used to account for the trade bills denominated in USD (USD1.00: RM 4.24) upon settlement in FPE 31 December 2020;

(ii) a fair value loss on derivatives of RM0.1 million incurred in the FPE 31 December 2021 as set out in Section 12.3.3(vii) of this Prospectus as compared to a fair value gain on derivatives of RM0.7 million recorded in the FPE 31 December 2020; and

(iii) decrease in unrealised gain on foreign exchange by RM0.2 million mainly due to the weakening of USD against RM as compared to the FPE 31 December 2020 exchange rate.

Please refer to WAFEX for USD:RM in FPE 31 December 2020 and FPE 31 December 2021 as set in Section 12.3.3 (i) (b) of this Prospectus.

(v) Analysis of selling and distribution expenses

The key components of our selling and distribution expenses throughout the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 consist of:

(i) agent fees paid for customer referrals, which accounted for approximately 17.5%, 16.4%, 11.6%, 16.1% and 2.1% of our selling and distribution expenses;

(ii) carriage outward which accounted for approximately 55.2%, 56.2%, 63.9%, 55.4% and 76.8% of our selling and distribution expenses; and

(iii) transportation cost, which accounted for approximately 18.5%, 20.5%, 19.3%, 23.0% and 16.8% of our selling and distribution expenses.

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The analysis of our selling and distribution expenses for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<------------------------FYE 30 June--------------------------->					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Agent fees	2,922	17.5	2,361	16.4	2,111	11.6
Carriage outward(1)	9,247	55.2	8,101	56.2	11,680	63.9
Transportation(2)	3,104	18.5	2,950	20.5	3,537	19.3
Others(3)	1,470	8.8	1,002	6.9	953	5.2
Total	**16,743**	**100.0**	**14,414**	**100.0**	**18,281**	**100.0**

	<------------FPE 31 December------------>			
	2020		2021	
	RM'000	%	RM'000	%
Agent fees	1,262	16.1	206	2.1
Carriage outward(1)	4,351	55.4	7,529	76.8
Transportation(2)	1,803	23.0	1,648	16.8
Others(3)	435	5.5	419	4.3
Total	**7,851**	**100.0**	**9,802**	**100.0**

Notes:

(1) Refer to ocean freight costs for the shipment of our products to our customer.

(2) Refer to local transportation costs for the delivery of our products to Port Klang in Malaysia.

(3) Others include cargo insurance, customer rebate, travelling expenses, fuel cost, fumigation expense and insurance for goods-in-transit.

Commentaries on selling and distribution expenses

<u>Comparisons between FYE 2019 and FYE 2020</u>

Our selling and distribution expenses decreased by RM2.3 million or approximately 13.8% to RM14.4 million in FYE 2020 (FYE 2019: RM16.7 million). This was mainly due to following reasons:

(i) decrease in our carriage outward cost by RM1.1 million or 12.4% as well as transportation charges by RM0.2 million or 5.0% in line with the decline in sales volume; and

(ii) decrease in agent fees by RM0.6 million or 19.2% due to decrease in customer referrals which in line with the decline in sales volume in FYE 2020.

Comparisons between FYE 2020 and FYE 2021

Our selling and distribution expenses increased by RM3.9 million or approximately 27.1% to RM18.3 million in FYE 2021 (FYE 2020: RM14.4 million). This was mainly due to the following reasons:

(i) increase in carriage outward cost by RM3.6 million or 44.2% as well as transportation charges by RM0.6 million or 19.9% in line with the increase in export sales and ocean freight costs during the said FY; and

(ii) partially offset by decrease in agent fees by RM0.3 million or 10.6% due to decrease in customer referrals from a particular customer, Westwater Group who reduced the sales orders in FYE 2021.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our selling and distribution expenses increased by RM1.9 million or approximately 24.1% to RM9.8 million in FPE 31 December 2021 (FPE 31 December 2020: RM7.9 million). This was mainly due to the following reasons:

(i) increase in carriage outward cost by RM3.2 million or 73.0% in line with the increase in ocean freight costs during the said FP; and

(ii) partially offset by decrease in agent fees by RM1.1 million or 83.7% decrease in customer referrals which in line with the decline in sales volume in FPE 31 December 2021.

(vi) Analysis of administrative expenses

The key components of our administrative expenses throughout the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 consist of:

(i) non-manufacturing related staff's salaries and staff-related benefits for our administrative employees, which accounted for approximately 29.8%, 37.6%, 26.6%, 37.5% and 29.8% of our administrative expenses;

(ii) directors' remuneration which accounted for approximately 32.1%, 20.7%, 40.7%, 20.7% and 22.6% of our administrative expenses; and

(iii) entertainment expenses, which accounted for approximately 9.7%, 10.1%, 1.4%, 0.7% and 0.6% of our administrative expenses.

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The analysis of our administrative expenses for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<------------------------FYE 30 June----------------------->					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Audit fee	130	2.0	111	2.1	101	1.2
Bank charge	298	4.7	251	4.7	294	3.4
Depreciation(1)	294	4.6	211	4.0	245	2.8
Directors' remuneration	2,056	32.1	1,094	20.7	3,512	40.7
Entertainment expenses	622	9.7	533	10.1	124	1.4
Licence fee	372	5.8	291	5.5	388	4.5
Listing expenses(2)	-	-	-	-	945	11.0
Repairs and maintenance	138	2.2	155	2.9	102	1.2
Non-manufacturing related staff costs(3)	1,906	29.8	1,989	37.6	2,291	26.6
Telephone charge	148	2.3	151	2.9	148	1.7
Others(4)	434	6.8	506	9.5	476	5.5
Total	**6,398**	**100.0**	**5,292**	**100.0**	**8,626**	**100.0**

	<-----------FPE 31 December----------->			
	2020		2021	
	RM'000	%	RM'000	%
Audit fee	51	1.9	137	4.0
Bank charge	144	5.3	98	2.9
Depreciation(1)	117	4.3	126	3.7
Directors' remuneration	562	20.7	768	22.6
Entertainment expenses	19	0.7	22	0.6
Licence fee	209	7.7	167	4.9
Listing expenses(2)	260	9.6	693	20.3
Repairs and maintenance	40	1.5	53	1.6
Non-manufacturing related staff costs(3)	1,018	37.5	1,015	29.8
Telephone charge	73	2.7	78	2.3
Others(4)	221	8.1	250	7.3
Total	**2,714**	**100.0**	**3,407**	**100.0**

Notes:

(1) For non-manufacturing assets.

(2) The listing expenses was incurred for our Listing exercise.

(3) Refer to staff costs for sales and marketing, human resources and finance departments.

(4) Others include costs for printing and stationery, professional fees, tax fees, postage and stamp and secretarial fee, road tax and insurance charges and other miscellaneous expenses.

Commentaries on administrative expenses

Comparisons between FYE 2019 and FYE 2020

Our administrative expenses decreased slightly by RM1.1 million or approximately 17.2% to RM5.3 million in FYE 2020 (FYE 2019: RM6.4 million). The decrease in administrative expenses was mainly due to the following:

(i) decrease in directors' remuneration by RM1.0 million as a result of lower net profit recorded in FYE 2020 from FYE 2019;

(ii) decrease in depreciation by RM0.1 million due to the disposal and write off of motor vehicle and office equipment in FYE 2020; and

(iii) decrease in licence fees by RM0.1 million due to reduction in export permit charges as a result of decrease in sales volume in FYE 2020.

Comparisons between FYE 2020 and FYE 2021

Our administrative expenses increased by RM3.3 million or approximately 62.3% to RM8.6 million in FYE 2021 (FYE 2020: RM5.3 million). The increase in administrative expenses was mainly due to the following:

(i) increase in directors' remuneration by RM2.4 million as a result of higher net profit recorded in FYE 2021; and

(ii) the listing expenses of RM0.9 million for the payment of advisers and professional fees for our Listing exercise in FYE 2021.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our administrative expenses increased by RM0.7 million or approximately 25.9% to RM3.4 million in FPE 31 December 2021 (FPE 31 December 2020: RM2.7 million). The increase in administrative expenses was mainly due to the following:

(i) increase in directors' remuneration by RM0.2 million as a result of higher net profit recorded in FPE 31 December 2021; and

(ii) increase in listing expenses by RM0.4 million was arising from the payment of advisers and professional fees for our Listing exercise in FPE 31 December 2021.

(vii) Analysis of other expenses

The key components of our other expenses throughout the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 consist of mainly loss on foreign exchange arising from ordinary trade transactions in foreign currencies and translation of our sales, purchases and trade bills denominated in USD into RM and property, plant and equipment written off.

The analysis of our other expenses for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<----------FYE 30 June---------->					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Fair value loss on derivatives	170	12.8	-	-	-	-
Realised loss on foreign exchange	1,142	86.3	5,545	99.8	164	27.9
Unrealised loss on foreign exchange	-	-	-	-	367	62.4
Property, plant and equipment written off	12	0.9	13	0.2	57	9.7
Total	**1,324**	**100.0**	**5,558**	**100.0**	**588**	**100.0**

	<----------FPE 31 December---------->			
	2020		2021	
	RM'000	%	RM'000	%
Fair value loss on derivatives	-	-	124	99.2
Realised loss on foreign exchange	-	-	-	-
Unrealised loss on foreign exchange	-	-	-	-
Property, plant and equipment written off	1	100.0	1	0.8
Total	**1**	**100.0**	**125**	**100.0**

Commentaries on other expenses

<u>Comparisons between FYE 2019 and FYE 2020</u>

Our other expenses increased by RM4.3 million or approximately 330.8% to RM5.6 million in FYE 2020 (FYE 2019: RM1.3 million). This was mainly due to the increase in realised loss on foreign exchange by RM4.4 million or 385.6% in FYE 2020 arising from USD transactions as a result of:

(i) a higher net loss on realised foreign exchange of approximately RM4.3 million in FYE 2020 (FYE 2019: RM2.9 million) mainly due to the contracted rates of forward foreign exchange contracts were lower than the foreign exchange rates used to account for the sales denominated in USD upon receipts.

In FYE 2020, average USD/RM rate for receipts in USD (USD1.00: RM4.17) after taking into accounts of the abovementioned forward foreign exchange contracts were lower than the average USD/RM for USD denominated sales (USD1.00: RM4.20) resulting in actual collections being lower than the sales amount recorded in the financial statements.

Comparisons between FYE 2020 and FYE 2021

Our other expenses decreased by RM5.0 million or approximately 89.3% to RM0.6 million in FYE 2021 (FYE 2020: RM5.6 million). This was mainly due to decrease of the realised loss on foreign exchange of RM5.3 million or 96.4% in FYE 2021 arising from USD transactions as a result of:

(i) a lower net loss on realised foreign exchange of approximately RM0.9 million in FYE 2021 (FYE 2020: RM4.3 million) arising from the contracted rates of forward foreign exchange contracts being lower than the foreign exchange rates used to account for the sales denominated in USD upon receipts.

In FYE 2021, average USD/RM rate for receipts in USD (USD1.00: RM4.12) after taking into accounts of the abovementioned forward foreign exchange contracts were lower than the average USD/RM for USD denominated sales (USD1.00: RM4.13) resulting in actual collections being lower than the sales amount recorded in the financial statements.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our other expenses increased by RM0.1 million or approximately 8,634.0% to RM0.1 million in FPE 31 December 2021 (FPE 31 December 2020: RM1,430). This was mainly due to fair value loss on derivatives of RM0.1 million incurred in FPE 31 December 2021. The net loss fair value on forward foreign exchange contract in FPE 31 December 2021 was mainly due to higher rate at the settlement date as compared to market rate as at 30 June 2021.

(viii) Analysis of finance costs

Our finance cost consists of the following:

(i) Trade bills costs to finance our purchase of raw materials and working capital;

(ii) Bank interest charges is for bank overdraft facility. The amount of bank interest charges for the Financial Years Under Review and FPE 31 December 2020 are negligible. There is no bank interest charge incurred during FPE 31 December 2021; and

(iii) Term loan interest is to finance our installation of the Solar System in our factories.

The analysis of our finance costs for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<-------------------- FYE 30 June -------------------------->					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Trade bills costs(1)	2,862	100.0	2,373	100.0	1,123	100.0
Term loan interest	-	-	-	-	-	-
Total	**2,862**	**100.0**	**2,373**	**100.0**	**1,123**	**100.0**

	<-------------------FPE 31 December------------------>			
	2020		**2021**	
	RM'000	**%**	**RM'000**	**%**
Trade bills costs[(1)]	570	100.0	492	96.5
Term Loan Interest	-	-	18	3.5
Total	**570**	**100.0**	**510**	**100.0**

Note:

(1) The trade bills costs consist of bankers' acceptance, foreign currency trade loan, letter of credit financing and document against payment financing.

Commentaries on finance costs

<u>Comparisons between FYE 2019 and FYE 2020</u>

Our finance costs decreased by RM0.5 million or approximately 17.2 % to RM2.4 million in FYE 2020 (FYE 2019: RM2.9 million). The decrease in finance costs during the said FY was mainly attributable to lower interest rate of our trade bills for the said FY.

<u>Comparisons between FYE 2020 and FYE 2021</u>

Our finance costs decreased by RM1.3 million or approximately 54.2% to RM1.1 million in FYE 2021 (FYE 2020: RM2.4 million). The decrease in finance cost during the said FY was mainly attributable to lower interest rate of our trade bills for the said FY.

<u>Comparisons between FPE 31 December 2020 and FPE 31 December 2021</u>

Our finance costs decreased by RM0.1 million or approximately 16.7% to RM0.5 million in FPE 31 December 2021 (FPE 31 December 2020: RM0.6 million). The decrease in finance cost during the said FP was mainly attributable to lower interest rate of our trade bills for the said FP.

(ix) Analysis of PBT and PBT margin

Our PBT and PBT margin for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 are set out below:

	<----Audited FYE 30 June---->			Unaudited	Audited
	2019	**2020**	**2021**	**FPE 31 December 2020**	**FPE 31 December 2021**
PBT (**RM'000**)	18,850	16,180	45,832	17,229	23,928
PBT margin (%)	3.0	2.6	6.0	5.1	6.0

Commentaries on PBT and PBT margin

<u>Comparisons between FYE 2019 and FYE 2020</u>

Our PBT decreased by RM2.7 million or approximately 14.3% to RM16.2 million in FYE 2020 (FYE 2019: RM18.9 million). The decrease in PBT was mainly due to lower GP in tandem with lower revenue during the said FY. Our PBT margin decreased from 3.0% in FYE 2019 to 2.6% in FYE 2020, mainly due to lower GP margin, which was mainly further compounded by higher other expenses largely as a result of higher realised loss on foreign exchange in FYE 2020 as explained in Section 12.3.3(vii) of this Prospectus.

Comparisons between FYE 2020 and FYE 2021

Our PBT increased by RM29.6 million or approximately 182.7% to RM45.8 million in FYE 2021 (FYE 2020: RM16.2 million). The increase in PBT was mainly due to higher GP in tandem with higher revenue during the said FY. Our PBT margin increased from 2.6% in FYE 2020 to 6.0% in FYE 2021, mainly due to:

(i) higher GP as discussed in Section 12.3.3(iii) of this Prospectus;

(ii) increase of the of sales volume of 21,107 MTS or 20.1% to 126,141 MTS in FYE 2021 (FYE 2020: 105,034 MTS);

(iii) decrease of finance costs by RM1.3 million or approximately 54.2% to RM1.1 million in FYE 2021 (FYE 2020: RM2.4 million); and

(iv) decrease of the loss on realised foreign exchange by RM5.3 million or 96.4% to RM0.2 million in FYE 2021 (FYE 2020: RM5.5 million).

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our PBT increased by RM6.7 million or approximately 39.0% to RM23.9 million in FPE 31 December 2021 (FPE 31 December 2020: RM17.2 million). The increase in PBT was mainly due to higher GP in tandem with higher revenue during the said FP. Our PBT margin increased from 5.1% in FPE 31 December 2020 to 6.0% in FPE 31 December 2021, mainly due to higher GP as discussed in Section 12.3.3(iii) of this Prospectus.

(x) Analysis of tax

The analysis of our tax together with the comparison between our effective and statutory tax rates for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 are set out below:

	<-Audited FYE 30 June->		
	2019	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**
Current tax			
▪ Current year provision	4,656	3,621	11,314
▪ Over provision in prior years	(142)	(179)	(216)
Deferred tax			
▪ (Reversal)/Origination of temporary differences	(2)	-	112
▪ Over provision in prior years	(8)	-	-
Total	**4,504**	**3,442**	**11,210**
Effective tax rate (%)	23.9	21.3	24.5
Statutory tax rate (%)	24.0	24.0	24.0

	Unaudited	Audited
	FPE 31 December 2020	**FPE 31 December 2021**
	RM'000	**RM'000**
Current tax		
▪ Current year provision	3,990	5,976
▪ Under provision in prior years	1	-
Deferred tax		
▪ Origination/(Reversal) of temporary differences	9	(4)
▪ Over provision in prior years	-	-
Total	**4,000**	**5,972**
Effective tax rate (%)	23.2	25.0
Statutory tax rate (%)	24.0	24.0

For the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021, we do not have any outstanding or provision for withholding tax.

Commentaries on tax

FYE 2019

For FYE 2019, our tax expense was approximately RM4.5 million translating into an effective tax rate of approximately 23.9%, which was slightly lower than the statutory tax rate of 24.0% principally attributable to the overprovision for current tax expense in prior years of approximately RM0.1 million.

FYE 2020

For FYE 2020, our tax expense was approximately RM3.4 million translating into an effective tax rate of approximately 21.3%, which was lower than the statutory tax rate of 24.0% principally attributable to the non-taxable income arising from the gain on disposal of BMI of approximately RM0.7 million.

FYE 2021

For FYE 2021, our tax expense was approximately RM11.2 million translating into an effective tax rate of approximately 24.5%, which was slightly higher than the statutory tax rate of 24.0% principally attributable to certain one-off expenses such as depreciation for property, plant and equipment that is not qualified for capital allowances and unrealised loss on foreign exchange incurred which are not deductible for tax purposes.

FPE 31 December 2021

For FPE 31 December 2021, our tax expense was approximately RM6.0 million translating into an effective tax rate of approximately 25.0%, which was higher than the statutory tax rate of 24.0% principally attributable to certain one-off expenses such as depreciation for property, plant and equipment that is not qualified for capital allowances as well as fair value loss on derivatives and listing expenses incurred which are not deductible for tax purposes.

(xi) Analysis of PAT and PAT margin

Our PAT and PAT margin for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 are set out below:

	<-------Audited FYE 30 June------>			Unaudited	Audited
	2019	2020	2021	FPE 31 December 2020	FPE 31 December 2021
PAT (**RM'000**)	14,346	12,738	34,622	13,229	17,956
PAT margin (%)	2.3	2.1	4.5	3.9	4.5

Commentaries on PAT and PAT margin

Comparisons between FYE 2019 and FYE 2020

Our PAT decreased by RM1.6 million or approximately 11.2% to RM12.7 million in FYE 2020 (FYE 2019: RM14.3 million) is in line with the decrease in PBT. However, the decrease in PAT margin by 0.2 percentage point in the FYE 2020 is lower than the decrease in PBT margin of 0.4 percentage point in the FYE 2020 mainly attributable to lower effective tax rate principally due to the non-taxable income arising from the gain on disposal of BMI of approximately RM0.7 million.

Comparisons between FYE 2020 and FYE 2021

Our PAT increased by RM21.9 million or approximately 172.4% to RM34.6 million in FYE 2021 (FYE 2020: RM12.7 million) is in line with the increase in PBT. The increase in PAT margin by 2.4 percentage point in the FYE 2021 is lower than the increase in PBT margin of 3.4 percentage point in the FYE 2021 mainly attributable to higher effective tax rate.

Comparisons between FPE 31 December 2020 and FPE 31 December 2021

Our PAT increased by RM4.8 million or approximately 36.4% to RM18.0 million in FPE 31 December 2021 (FPE 31 December 2020: RM13.2 million) is in line with the increase in PBT. The increase in PAT margin by 0.6 percentage point in the FPE 31 December 2021 is lower than the increase in PBT margin of 0.9 percentage point in the FPE 31 December 2021 mainly attributable to higher effective tax rate.

12.4 LIQUIDITY AND CAPITAL RESOURCES

12.4.1 Working capital

Our business is financed by a combination of internal and external sources of funds. The internal sources of funds comprise of our shareholders' equity and cash generated from our business operations, while our external sources of funds largely comprise of the following:

(i) credit terms granted by our suppliers; and

(ii) trade bills.

As at 31 December 2021, we have:

(i) deposits, bank and cash balances of RM1.5 million;

(ii) working capital of RM61.1 million, being the difference between current assets of RM192.1 million and current liabilities of RM131.0 million; and

(iii) credit facilities, which consist of the following:

(a) trade bills with a total limit of RM309.0 million, of which RM225.7 million has yet to be utilised;

(b) term loan in relation to the installation of Solar Systems with a total limit of RM10.0 million of which RM0.6 million has yet to be drawdown; and

(c) bank overdraft with a total limit of RM3.5 million and has yet to be utilised.

Based on our past financial performance, future prospects, the potential impact from the ongoing COVID-19 pandemic and movement control orders imposed by Malaysian Government and after taking into consideration our deposits, bank and cash balances, the expected funds to be generated from operating activities as well as the amounts available under our existing banking facilities together with the gross proceeds to be raised from the Public Issue, our Board is of the view that we will have sufficient working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus.

12.4.2 Cash flows

The summary of our cash flows for the Financial Years Under Review, FPE 31 December 2020 and FPE 31 December 2021 is as follows:

	<----Audited FYE 30 June--->			Unaudited	Audited
	2019 RM'000	2020 RM'000	2021 RM'000	FPE 31 December 2020 RM'000	FPE 31 December 2021 RM'000
Net cash from/(for) operating activities	61,320	11,455	20,477	(8,019)	(5,796)
Net cash (for)/from investing activities	(8,049)	9,572	(6,207)	(996)	(10,953)
Net cash (for)/from financing activities	(29,922)	(28,320)	(24,366)	(12,280)	4,837
Net increase/(decrease) in cash and cash equivalents	23,349	(7,293)	(10,096)	(21,295)	(11,912)
Cash and cash equivalents at the beginning of the FY/ FP	**7,564**	**30,865**	**23,549**	**23,549**	**13,453**
Effects of foreign exchange translation	(48)	(23)	-	-	-
Cash and cash equivalents at the end of the FY/ FP^	**30,865**	**23,549**	**13,453**	**2,254**	**1,541**

Note:

^ *Details of the cash and cash equivalents are as follows:*

	<--Audited as at 30 June-->			***Unaudited***	***Audited***
	2019	***2020***	***2021***	***FPE 31 December 2020***	***FPE 31 December 2021***
	RM'000	***RM'000***	***RM'000***	***RM'000***	***RM'000***
Cash and bank balances	*5,433#*	*8,694*	*4,084*	*2,254*	*1,541*
Add: Short-term deposits	*25,432*	*14,855*	*9,369*	*-*	*-*
Less: Pledged deposits	*-*	*-*	*-*	*-*	*-*
Less: Bank overdrafts	*-*	*-*	*-*	*-*	*-*
Cash and cash equivalents at the end of the FY/ FP	***30,865***	***23,549***	***13,453***	***2,254***	***1,541***

Note:

\# *Including RM1.8 million of the cash and cash equivalents of BMI classified under disposal group held for sale.*

There is no legal, financial or economic restriction on our subsidiaries' ability to transfer/receive funds to/from our Company in the form of cash dividends, loans or advances, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenant.

Commentaries on cash flows

<u>FYE 2019</u>

Net cash from operating activities

For FYE 2019, we recorded net cash from operating activities approximately of RM61.3 million. During the said FY, our cash inflows comprised mainly collection from our customers amounting to RM654.5 million.

The above cash inflows were mainly offset by the following payments during the said FY:

(i) payment for purchases of raw materials, indirect and packing materials ("**Materials**") amounting to RM518.7 million;

(ii) payment of Directors' and staff remuneration amounting to RM11.3 million;

(iii) payment for operating expenses amounting to RM57.8 million mainly relating to payment for cess, electricity and diesel amounted to RM27.2 million and other expenses; and

(iv) payment of income taxes amounting to RM3.2 million.

Net cash for investing activities

For FYE 2019, we recorded net cash for investing activities of RM8.0 million, which was mainly attributed to payment of approximately RM3.1 million during the said FY for purchased of plant and machineries during the said FY to upgrade our production facilities and balance payment for the purchase of plant and machineries of RM4.7 million during the said FY relating to purchase from prior FY.

Net cash for financing activities

For FYE 2019, we recorded net cash for financing activities of RM29.9 million which was mainly attributable to:

(i) dividend payment of RM5.0 million during the said FY; and

(ii) net cash outflow in trade bills amounting to RM24.9 million. This is due to the utilisation of trade bills of approximately RM793.7 million for the purchase of Materials and working capital which was offset by repayment of trade bills amounting to RM818.6 million.

FYE 2020

Net cash from operating activities

For FYE 2020, we recorded net cash from operating activities approximately of RM11.5 million. During the said FY, our cash inflows comprised mainly collection from our customers amounting to RM647.9 million.

The above cash inflows were mainly offset by the following payments during the said FY:

(i) payment for purchases of Materials amounting to RM562.7 million. Payment increased by RM44.0 million from FYE 2019 due to storing up of raw materials required for the wintering period and increase in production output for FYE 2021. Please refer to Section 7.7 of this Prospectus for the details of the wintering period;

(ii) payment of Directors' and staff remuneration amounting to RM12.7 million;

(iii) payment for operating expenses amounting to RM55.9 million mainly relating to payment for cess, electricity and diesel amounted to RM23.3 million and other expenses; and

(iv) payment of income taxes amounting to RM3.8 million.

Net cash from investing activities

For FYE 2020, we recorded net cash from investing activities of RM9.6 million, which was mainly attributed to:

(i) the RM11.9 million received from the disposal of SFT's entire 60% equity interest in BMI held indirectly through STG for a total cash consideration of USD3.0 million (equivalent to RM12.3 million) less cash and cash equivalents of BMI amounting to RM0.4 million which was completed on 11 June 2020; and

(ii) payment of RM2.2 million which was mainly attributable to the purchase of motor vehicles and production machineries amounting to RM0.6 million and RM1.4 million respectively and balance payment for the purchase of plant and machineries of RM0.3 million during the said FY relating to purchase from prior FY.

Net cash for financing activities

For FYE 2020, we recorded net cash for financing activities of RM28.3 million which was mainly attributable to:

(i) dividend payment of RM29.4 million during the said FY; and

(ii) net cash inflow in trade bills amounting to RM1.0 million. This is due to the utilisation of trade bills of approximately RM949.7 million for the purchase of Materials and working capital which was offset by the repayment of trade bills amounting to RM948.7 million.

FYE 2021

Net cash from operating activities

For FYE 2021, we recorded net cash from operating activities approximately of RM20.5 million. During the said FY, our cash inflows comprised mainly collection from our customers amounting to RM785.4 million.

The above cash inflows were mainly offset by the following payments during the said FY:

(i) payment for purchases of Materials amounting to RM687.2 million;

(ii) payment of Directors' and staff remunerations amounting to RM12.1 million;

(iii) payment for operating expenses amounting to RM58.3 million mainly relating to payment for cess, electricity, diesel amounted to RM24.8 million and other expenses; and

(iv) payment of income taxes amounting to RM6.5 million.

Net cash for investing activities

For FYE 2021, we recorded net cash for investing activities of RM6.2 million, which was mainly attributed to payment of approximately RM3.9 million during the said FY and the breakdown of the said payment is as follows:

(i) RM1.2 million for construction of a workers' quarter for the Workers' Quarter 2 which is in compliance with the minimum requirements as set out under the Employees' Minimum Standards of Housing, Accommodations and Amenities (Accommodation and Centralized Accommodation) Regulations 2020 and have been issued with the Certificates for Accommodation by the Department of Labour of Peninsular Malaysia; and

(ii) RM2.7 million for the Solar System project is for our Group's cost-savings plan in reducing electricity consumption,

and RM2.2 million during the said FY for purchased of plant and machineries to upgrade our production facilities.

Net cash for financing activities

For FYE 2021, we recorded net cash for financing activities of RM24.4 million which was attributable to:

(i) dividend payment of RM22.5 million during the said FY; and

(ii) net cash outflow in trade bills amounting to RM1.2 million. This is due to the utilisation of proceeds of approximately RM905.1 million for the purchase of Materials and working capital which was offset by repayment of trade bills amounting to RM906.3 million.

FPE 31 December 2020

Net cash for operating activities

For FPE 31 December 2020, we recorded net operating cash outflow for operating activities of approximately RM8.0 million. During the said FP, our cash inflows comprised mainly collection from our customers amounting to RM334.3 million.

The above cash inflows were mainly offset by the following payments during the said FP:

(i) payment for purchase of Materials amounting to RM310.8 million due to the storing up of raw materials required for the wintering period and increase in production output for FYE 2021. Please refer to Section 7.7 of this Prospectus for the details of the wintering period;

(ii) payment of staff costs amounting to RM5.0 million;

(iii) payment for operating expenses amounting to RM26.4 million mainly relating to payment for cess, electricity and diesel amounted to RM11.4 million and other expenses; and

(iv) payment of income tax amounting to RM0.9 million.

Net cash for investing activities

For FPE 31 December 2020, we recorded net cash outflow used in investing activities of RM1.0 million, which was mainly attributed to payment of approximately RM0.8 million during the said FP and the breakdown of the said payment is as follows:

(i) RM0.2 million for construction of a workers' quarter for the Workers' Quarter 2 which is in compliance with the minimum requirements as set out under the Employees' Minimum Standards of Housing, Accommodations and Amenities (Accommodation and Centralized Accommodation) Regulations 2020 and have been issued with the Certificates for Accommodation by the Department of Labour of Peninsular Malaysia; and

(ii) RM0.6 million for the extension of the factory in relation to the installation of the Biomass Systems,

and RM0.7 million during the said FY for purchased of plant and machineries to upgrade our production facilities.

Net cash for financing activities

For FPE 31 December 2020, we recorded net cash outflow used in financing activities of RM12.3 million which was attributable to:

(i) dividend payment of RM11.5 million during the said FP; and

(ii) net cash outflow in trade bills amounting to RM0.5 million. This is due to the utilisation of proceeds of approximately RM516.5 million for the purchase of Materials and working capital which was offset by repayment of trade bills amounting to RM517.0 million.

FPE 31 December 2021

Net cash for operating activities

For FPE 31 December 2021, we recorded net operating cash outflow for operating activities approximately of RM5.8 million. During the said FP, our cash inflows comprised mainly collection from our customers amounting to RM383.5 million.

The above cash inflows were mainly offset by the following payments during the said FP:

(i) payment for purchases of Materials amounting to RM346.4 million due to the following reasons:

- storing up of raw materials required for the wintering period and in anticipation of the increase in the production capacity for Factory 3 for the first half of year 2022 in order to ensure sufficient raw materials supply. Please refer to Section 7.7 of this Prospectus for the details of the wintering period; and

- the increase in rubber price also attributed to the higher average purchase cost of our raw materials by RM1,497 per MTS or 31.6% to RM6,229 per MTS during FPE 31 December 2021 as compared to RM4,732 per MTS in FPE 31 December 2020.

(ii) payment of staff costs amounting to RM7.8 million;

(iii) payment for operating expense amounting to RM29.5 million mainly relating to payment for cess, electricity and diesel amounted to RM11.8 million and other expenses; and

(iv) payment of income taxes amounting to RM5.3 million, was arising from higher tax estimations in anticipation of increased taxable income for FYE2022, as well as the balance of tax payment for the FYE 2021.

To further analyse the negative net cash outflow used in operating activities of RM5.8 million of our Group during FPE 31 December 2021, the breakdown of the cash flows from operating activities are extracted from combined statements of cash flows from the Accountants' Report as follows:

	Unaudited FPE 31 December 2019 RM'000	Unaudited FPE 31 December 2020 RM'000	Audited FPE 31 December 2021 RM'000
Cash flows for operating activities			
Profit before tax	3,124	17,229	23,928
Adjustments for:			
Depreciation of property, plant and equipment	1,172	1,164	1,100
Depreciation of right-of-use assets	-	70	70
Fair value loss/(gain) on derivatives measured at fair value through profit or loss	-	(721)	124
Listing expenses	-	260	693

	Unaudited FPE 31 December 2019 RM'000	Unaudited FPE 31 December 2020 RM'000	Audited FPE 31 December 2021 RM'000
Gain on disposal of property, plant and equipment	-	(54)	-
Property, plant and equipment written off	13	1	1
Unrealised (gain)/loss on foreign exchange	*	(316)	(93)
Interest expenses	1,173	570	510
Interest income	(302)	(50)	(50)
Operating profit before working capital changes	**5,180**	**18,153**	**26,283**
Inventories	(53,917)	(30,607)	(24,170)
Trade and other receivables	26,610	(7,022)	(21,157)
Trade and other payables	(3,387)	12,865	19,044
Cash for operations	**(25,514)**	**(6,611)**	*****
Interest paid	(1,173	(570)	(510)
Interest received	302	50	50
Tax paid	(2,054)	(888)	(5,336)
Net cash for operating activities	**(28,439)^**	**(8,019)**	**(5,796)**

Notes:

* *The amount is less than RM500.*

^ *Including BMI's net cash for operating activities of RM1.3 million. The disposal of BMI was completed on 11 June 2020.*

As tabulated above, our Group recorded an operating profit before working capital changes during FPE 31 December 2021. This demonstrated that our Group's business is sustainable and profitable after fulfilling all related operating expenses for our rubber processing business.

The changes in working capital which attributed to the negative operating cash flows during FPE 31 December 2021 were mainly due to the following reasons:

(i) the increase in inventories resulted from storing up of raw materials required for the wintering period to ensure sufficient raw materials supply, higher sales anticipated and the increase in the production capacity for Factory 3 for the first half of year 2022. In additions, the increase in rubber price also attributed to the increase in the purchase cost of our raw materials during second half of year 2021 as compared to prior FP. Further, due to the Factory Closure, our production activity were temporarily halted for 1 week in November 2021 which resulted in the delay in production as well as the delay in shipment of our products to our customers and hence, our raw materials inventory level was higher than anticipated.

(ii) apart from a higher revenue was recorded for the FPE 31 December 2021 which resulted in a higher trade receivable, the shipment of our products to customers were delayed and rescheduled to December 2021 and January 2022 was due to Factory Closure as well as port congestion in Malaysia arising from the COVID-19 pandemic. As at the LPD, we have fully collected all of our total trade receivables which were outstanding as at 31 December 2021. Please refer to Section 12.6.1 of this Prospectus for the aging analysis of our trade receivables.

(iii) higher tax paid arising from higher tax estimations in anticipation of increased taxable income for FYE2022, as well as the balance of tax payment for the FYE 2021.

Even though our Group recorded a negative operating cash flow position for the FPE 31 December 2021, barring any unforeseen circumstances and after deliberation with the Principal Adviser and Reporting Accountants, our management is of the view that our Group is expected to achieve a positive operating cash flow for the FYE 30 June 2022. This is taking into consideration the views of our management as well as bases and assumptions as follows:

(i) our Group typically purchases more raw materials during the first half of our financial year to ensure sufficient raw materials supply in view of the wintering period in Malaysia which occurs within the second half of our financial year. As such, the lower amount of raw materials purchased in the second half of our financial year is expected to result in lower inventories which in turn is expected to improve the cash flow position of our Group. Such purchasing patterns have been practiced by our Group which have contributed to the negative operating cash flow position of our Group for the 6-month FPE in the past 3 years and subsequently a positive operating cash flow position for the Financial Years Under Review;

(ii) sales of our Group for the second half of our financial year is expected to be higher arising from the sales contract secured from our customers, namely Jiangsu General Science Technology Co., Ltd, Megarun Tyre Co. Ltd and R1 International Pte Ltd, whereby an agreed quantity of block rubber has been fixed for delivery in the second half of our financial year. This is expected to reduce the level of inventory as at 30 June 2022 which will improve the cash flow position of our Group;

(iii) there will be no significant changes to the prevailing political and economic conditions that may have an adverse effect on the activities and performance of our Group; and

(iv) there will be no significant impact to our Group's financial performance and cash flows caused by the global COVID-19 pandemic and any other events for the period from the LPD up to 30 June 2022 including delay in production and delivery schedules of our finished products and the collections from our customers.

Net cash for investing activities

For FPE 31 December 2021, we recorded net cash for investing activities of RM10.9 million, which was attributed to the breakdown of the said payment during the said FP is as follows:

(i) RM1.3 million for the Biomass System project is for our Group's cost-savings plan in reducing diesel consumption; and

(ii) RM9.6 million for the Solar System project is for our Group's cost-savings plan in reducing electricity consumption.

Net cash from financing activities

For FPE 31 December 2021, we recorded net cash from financing activities of RM4.8 million which was attributable to:

(i) net cash inflow in trade bills amounting to RM6.7 million. This is due to the utilisation of proceeds of approximately RM548.2 million for the purchase of Materials and working capital which was offset by repayment of trade bills amounting to RM541.5 million;

(ii) net cash inflow in term loan amounting to RM9.0 million. This is due to the utilisation of proceeds of approximately RM9.4 million for the installation of Solar Systems which was offset by repayment of term loan amounting to RM0.4 million; and

(iii) dividend payment of RM10.0 million during the said FP.

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12.4.3 Borrowings

Our total outstanding bank borrowings as at 31 December 2021 stood at RM92.3 million as follows:

Type of facility	Tenure	Annual interest rate	Credit limit RM'000	Amount outstanding as at 31 December 2021 RM'000	Repayable in 12 months RM'000	Repayable after 12 months RM'000
Trade bills[(1)]	16 - 95 days	0.6% - 2.1%	309,000	83,319	83,319	-
Term loan[(2)]	5 years	i-FCOF + 1.0%	10,000	8,947	2,083	6,864
Bank overdraft[(3)]	Repayable on demand	BLR + 0.75%/ BLR + 1.0%	3,500	-	-	-
Total borrowings			**322,500**	**92,266**	**85,402**	**6,864**

Notes:

(1) *The trade bills is for the purchase of raw materials such as cup lump, semi-processed rubber and synthetic rubber.*

(2) *The term loan is for the installation of the Solar System in our factories.*

(3) *The bank overdraft is for our working capital purposes.*

The gearing ratio for the Financial Years Under Review and FPE 31 December 2021 are as follows:

	<------------- As at 30 June------------>			As at 31 December
	2019	**2020**	**2021**	**2021**
Gearing ratio (times)*	0.8	1.0	0.9	1.0
Net gearing ratio (times)^	0.5	0.7	0.7	0.9

Notes:

* *Calculated based on total borrowings over total equity.*

^ *Calculated based on total borrowings less deposit, bank and cash balances over total equity.*

We have not defaulted on payments of either interest and/or principal sums in respect of any of our borrowings for the Financial Years Under Review and FPE 31 December 2021 as well as for the period from 1 January 2022 up to the LPD. As at the LPD, we are also not in breach of any terms and conditions or covenants associated with our credit arrangements or bank loans which can materially affect our financial position, result of business operations or the investment by holders of our Shares.

We do not encounter seasonality in the trend of our borrowings and there is no restriction on the use of our committed banking facilities.

Save for the borrowings as disclosed above and the types of financial instruments used as set out in Section 12.4.4 of this Prospectus, our Group does not use any other financial instruments.

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12.4.4 Types of financial instruments used

As at the LPD, our financial instruments, from an accounting perspective, comprised of deposits, bank and cash balances, term loan, trade bills, derivative assets, trade and other receivables as well as trade and other payables, as shown on the combined statements of financial position. We use the abovementioned financial instruments in the ordinary course of our business.

In addition to the above, we had used forward foreign exchange contracts to manage some of our transaction exposure. During the Financial Years Under Review and FPE 31 December 2021, we have entered into a number of forward foreign exchange contracts to hedge our foreign exchange exposure against the USD. As at the LPD, we have outstanding forward foreign exchange contracts of USD9.5 million (equivalent to RM41.8 million based on the foreign exchange rate USD1: RM4.40 as at 18 May 2022) and we had used our export sales proceeds to pay our foreign suppliers as natural hedging to reduce foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales.

We assess all unsettled contracts at the end of each FY and FP, and determine the impact of any foreign currency differences arising from the translation of the outstanding forward foreign exchange contracts into RM.

12.4.5 Treasury policies and objectives

One of the main treasury responsibilities is to ensure that we have the liquidity and cash to meet our obligations as they fall due. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations and trade bills. Using appropriate governance and policies, it is the responsibility of treasury to identify, quantify, monitor and control the risks (liquidity, interest, currency, credit, legal and regulatory) associated with these activities, using appropriate mitigation and hedging techniques.

In our ordinary course of business, we deal with customers and suppliers from both the domestic market and foreign market, where transactions are denominated in both local currency as well as foreign currency. We maintain bank accounts mainly in RM and USD, such that collections can be used to settle payments of the same currency where possible. This provides a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks. Save for the RM and USD currencies which we exposed, our Group does not expose to any other foreign currency.

12.5 MATERIAL CAPITAL COMMITMENTS, CONTINGENT LIABILITY AND MATERIAL LITIGATION

12.5.1 Material capital commitments

As at the LPD, our material capital commitments consist of the following:

	As at LPD **RM'000**
Approved and contracted for:	
Purchase of property, plant and equipment	
• Biomass System project(1)	3,424
• Solar System project(2)	639
Total	**4,063**

Notes:

(1) The total costs of the purchase and installation of the 2 units of Biomass System is RM6.3 million and will be fully funded from the proceeds from the Public Issue. Please refer Section 7.17.3 of this Prospectus for the status and estimated timeframe for the Biomass System project.

(2) The estimated total costs of the installation of the Solar System is approximately RM12.8 million, which RM2.8 million will be internally funded and RM10.0 million financed via term loan from Ambank Islamic Berhad which will be funded from the proceeds from the Public Issue. Please refer Section 7.17.2 of this Prospectus for the status and estimated timeframe for the Solar System project.

We expect to meet our material capital commitments through the following:

- internally generated funds;
- approved term loan of RM10.0 million from Ambank Islamic Berhad in relation to the installation of Solar System; and
- RM68.1 million from the proceeds from the Public Issue.

We intend to increase the production capacity of our factories by increasing production shifts with additional manpower and hence, we do not expect to incur any material capital expenditure to other than disclosed above. Please refer to Section 4.7 of this Prospectus for further details on the use of our IPO proceeds and Section 7.17 of this Prospectus for our future plans which including the increasing of our production shifts and manpower.

Save for the material capital commitments as disclosed above, there are no material capital commitments incurred or known to be incurred by us that have not been provided for, which upon becoming enforceable, may have a material impact on our business, financial performance or financial position.

12.5.2 Contingent liabilities

As at the LPD, our Board, having made reasonable inquiry, has reasonable grounds to believe that there are no material contingent liabilities which have become enforceable or are likely to become enforceable, which may materially and adversely affect the business or financial position of our Group.

12.5.3 Material litigations

As at the LPD, neither our Company nor our subsidiaries are engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the 12 months immediately preceding the date of this Prospectus.

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12.6 KEY FINANCIAL RATIOS

Our key financial ratios for the Financial Years Under Review and FPE 31 December 2021 are as follows:

	<--------As at 30 June------->			As at 31 December
	2019	**2020**	**2021**	**2021**
Trade receivables turnover (days)[(a)]	43	35	19	21
Trade payables turnover (days)[(b)]	2	2	2	8
Inventories turnover (days)[(c)]	31	30	44	59
Current ratio (times)[(d)]	1.6	1.6	1.5	1.5
Gearing ratio (times)[(e)]	0.8	1.0	0.9	1.0
Net gearing ratio (times)[(f)]	0.5	0.7	0.7	0.9

Notes:

(a) Calculated based on average trade receivables of the respective FY/FP over total revenue of the respective FY/FP, and multiplied by 365/182 days.

(b) Calculated based on average trade payables of the respective FY/FP over total purchases of materials of the respective FY/FP, and multiplied by 365/182 days.

(c) Calculated based on average inventory of the respective FY/FP over total cost of sales of the respective FY/ FP, and multiplied by 365/182 days.

(d) Calculated based on current assets over current liabilities exclude assets and liabilities of BMI classified as held for sale.

(e) Calculated based on total borrowings over total equity.

(f) Calculated based on total borrowings less deposit, bank and cash balances over total equity.

12.6.1 Trade receivables turnover period

A summary of our trade receivables for the Financial Years Under Review and FPE 31 December 2021 is set out below:

	<----------------FYE 30 June---------------->			FPE 31 December
	2019	**2020**	**2021**	**2021**
Average trade receivables (RM '000)[(a)]	74,934	58,645	41,017	45,907
Revenue (RM '000)	636,834	616,435	768,177	400,490
Trade receivables turnover period (days)[(b)]	43	35	19	21

Notes:

(a) Computed based on the trade receivables as at the beginning and end of the respective FY and FP.

(b) Calculated based on average trade receivables of the respective FY/FP over total revenue of the respective FY/FP, and multiplied by 365/182 days.

The normal trade terms granted to our customers range from cash terms to 90 days of credit. Our credit terms to customers may vary depending on various factors such as our business relationship with the customer, customer credit worthiness, customer historical payment trend as well as transaction volume and value.

Our average trade receivables turnover period stood at 43 days, 35 days, 19 days and 21 days for the Financial Years Under Review and FPE 31 December 2021, which fell within our normal credit term to our customers. The improvement in collections during the Financial Years Under Review was due to the shorter payment terms agreed with our customers upon the execution of the sales contracts. The slight increase in trade receivables turnover period during FPE 31 December 2021 was due to the increase in trade receivables during near period end as certain numbers of our shipments in November 2021 were delayed to December 2021 and January 2022 attributed from Factory Closure.

We have not experienced any significant bad debts for the Financial Years Under Review and FPE 31 December 2021. We will assess the collectability of trade receivables on an individual customer basis and provide for impairment loss on receivables for those customers where recoverability is uncertain based on our past dealings with customers.

The aging analysis of our trade receivables as at 31 December 2021 is as follows:

		<------------ Exceeding credit period ------------->					
	Within credit period	**1-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**>120 days**	**Total**
Total trade receivables (RM'000)	**55,917**	**-**	**-**	**-**	**-**	**-**	**55,917**
% of total trade receivables	**100.0**	**-**	**-**	**-**	**-**	**-**	**100.0**
Subsequent collections up to the LPD (**RM'000**)	**55,917**	**-**	**-**	**-**	**-**	**-**	**55,917**
Outstanding balance as at the LPD (**RM'000**)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
% of total trade receivables net of subsequent collections	**-**	**-**	**-**	**-**	**-**	**-**	**-**

As at 31 December 2021, our total trade receivables amounted to approximately RM55.9 million.

As at the LPD, we have collected RM55.9 million or 100% of our total trade receivables which were outstanding as at 31 December 2021.

12.6.2 Trade payables turnover period

A summary of our trade payables for the Financial Years Under Review and FPE 31 December 2021 is set out below:

	<--------------FYE 30 June---------------->			FPE 31 December
	2019	**2020**	**2021**	**2021**
Average trade payables (**RM'000**)[(a)]	2,633	2,529	4,384	16,233
Total purchase of materials (**RM'000**)	525,573	561,582	691,764	363,911
Trade payables turnover period (days)[(b)]	2	2	2	8

Notes:

(a) *Computed based on the trade payables as at the beginning and end of the respective FY/FP.*

(b) *Calculated based on average trade payables of the respective FY/FP over total purchases of materials of the respective FY/FP, and multiplied by 365/182 days.*

The normal trade terms extended by our suppliers to us range from cash term to 60 days of credit. Our trade payables turnover period stood at range of 2 days to 8 days for all the Financial Years Under Review and FPE 31 December 2021, which fell within the normal credit period granted by our suppliers. It is our practice to make prompt payments to our suppliers, in order to foster good business relationship with our suppliers to safeguard the continuity of supplies at competitive pricing. Our trade payables turnover period for the FYE 2019 to FYE 2021 remained consistent at 2 days, whereas our trade payables turnover period for the FPE 31 December 2021 had increased to 8 days due to higher purchases of raw materials required for the wintering period and in anticipation of the increase of production capacity for Factory 3 for the first half of the year 2022 in order to ensure sufficient raw materials supply thus contributed to the higher trade payables balance as at 31 December 2021.

The aging analysis of our trade payables as at 31 December 2021 is as follows:

	Within credit period	**<----------- Exceeding credit period ----------->**					**Total**
		1-30 days	**31-60 days**	**61-90 days**	**91-120 days**	**>120 days**	
Total trade payables (RM'000)	**23,276**	**1,731**	**732**	-	-	-	**25,739**
% of total trade payables	**90.5**	**6.7**	**2.8**	**-**	**-**	**-**	**100.0**
Subsequent payments up to the LPD (**RM'000**)	**23,276**	**1,731**	**732**	-	-	-	**25,739**
Outstanding balance as at the LPD (**RM'000**)	-	-	-	-	-	-	-
% of total trade payables net of subsequent payments	-	-	-	-	-	-	-

Our total trade payables stood at RM25.7 million as at 31 December 2021, of which RM2.5 million or approximately 9.6% exceeded the normal credit period.

As at the LPD, we have settled RM25.7 million or 100% of our total trade payables which were outstanding as at 31 December 2021. There is no legal action initiated by our suppliers to demand for payment as the LPD.

12.6.3 Inventories turnover period

A summary of our inventories for the Financial Years Under Review and FPE 31 December 2021 is set out below:

	<--------------- FYE 30 June-------------->			FPE 31 December
	2019	**2020**	**2021**	**2021**
Raw materials (RM'000)	31,266	45,485	77,497	109,877
Store and supplies (RM'000)[(a)]	1,541	1,466	2,294	3,924
Finished goods (RM'000)	1,719	12,827	26,366	16,526
Inventories (RM'000) [(b)]	**34,526**	**59,778**	**106,157**	**130,327**
Average inventories[(c)]	49,707	47,152	82,968	118,242
COS (RM'000)	591,731	576,844	694,290	363,096
Inventories turnover period (days)[(d)]	31	30	44	59

Notes:

(a) *Refer to inventories for packing materials, diesel and machinery spare parts.*

(b) *Balances of inventories as at the end of the respective FY/FP.*

(c) *Computed based on the inventories as at the beginning and end of the respective FY/FP.*

(d) *Calculated based on average inventory of the respective FY/FP over total cost of sales of the respective FY/FP, and multiplied by 365/182 days.*

As at 31 December 2021, our inventories amounted to approximately RM130.3 million.

From FYE 2019 to FYE 2020, our inventories turnover period decreased from 31 days to 30 days mainly due to higher average inventory in FYE 2019 which attributable to higher inventory opening as at 1 July 2018 of RM64.9 million in comparison with the inventory balance as at 30 June 2019 of RM34.5 million. The decrease in the inventories balance as at 30 June 2019 is mainly due to the decrease in volume of raw materials for the FYE 2019 in tandem with the sales orders anticipated for the FYE 2020. This resulted in the decrease of the inventory turnover period by 1 day as compared to FYE 2019.

From FYE 2020 to FYE 2021, our inventories turnover period increased from 30 days to 44 days mainly due to:

(i) increase in raw materials by RM32.0 million to store up of raw materials for the preparation of increase in production capacity for FYE 2022. Increase in raw materials is resulted from increase in volume of raw materials from 9,859 MTS in FYE 2020 to 12,997 MTS in FYE 2021. Meanwhile the cost increased by 29.8% from RM4,560 per MTS in FYE 2020 to RM5,920 per MTS in FYE 2021; and

(ii) increase in finished goods by RM13.5 million due to delay in delivery of goods in 4th quarter of FYE 2021 as a result of COVID-19 pandemic and Full Movement Control Order imposed by the Malaysian Government with the effect on 1 June 2021. The volume of finished goods increase from 2,560 MTS in FYE 2020 to 4,139 MTS in FYE 2021.

From FYE 2021 to FPE 31 December 2021, our inventories turnover period further increased to 59 days mainly due to the following:

(i) increase in raw materials by RM32.4 million resulting from:

- higher purchases of raw materials required for the wintering period and anticipation of the increase in the production capacity for Factory 3 for the first half of year 2022 in order to ensure sufficient raw materials supply; and

- increase of the purchase costs of raw materials such as cup lump and semi-processed rubber attributed by the higher rubber market prices based on the MRB Quote and SICOM Quote during FPE 31 December 2021.

(ii) increase in store and supplies by RM1.6 million mainly resulting from the higher purchase of machinery spare parts for the anticipation of the increase in the production capacity for Factory 3 for the first half of year 2022 .

We are of the opinion that there are no material slow-moving/obsolete inventories as at the LPD in view that:

(i) our raw materials are primarily cup lump and semi-processed rubber, which can be store for long period without deterioration; and

(ii) we have not experienced any significant impairment of inventories throughout the Financial Years Under Review and FPE 31 December 2021.

12.6.4 Current ratio

Our current ratio for the Financial Years Under Review and FPE 31 December 2021 is as follows:

	<-----------Audited as at 30 June---------->			Audited as at 31 December
	2019	**2020**	**2021**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	136,849	133,029	159,054	192,061
Current liabilities	87,910	85,402	102,980	130,953
Net current assets	**48,939**	**47,627**	**56,074**	**61,108**
Current ratio (times)^	1.6	1.6	1.5	1.5

Note:

^ *Calculated based on current assets over current liabilities exclude assets and liabilities of BMI classified as held for sale.*

From FYE 2019 to FYE 2020, our current ratio has retained at 1.6 times. This was mainly due to slight decrease in trade receivables, cash and bank balances and trade payables, which is in tandem with the decrease in our revenue in FYE 2020.

From FYE 2020 to FYE 2021, our current ratio decreased slightly to 1.5 times as compared to 1.6 times for FYE 2020. This was mainly due to:

(i) increase of current assets by RM26.0 million or 19.6% attributable to the increase in inventories which is in tandem with the increase in our purchase of raw materials in FYE 2021; and

(ii) increase of current liabilities by RM17.6 million or 20.6% attributable to the increase in trade and other payables as well as current tax liabilities.

From FYE 2021 to FPE 31 December 2021, our current ratio remained consistent at 1.5 times. This was mainly due to increase in stock of raw materials and trade payables in FPE 31 December 2021 which is due to the increase in purchase of raw materials attributed to the following reasons:

(i) storing up of raw materials required for the wintering period and anticipation of the increase in the production capacity for Factory 3 for the first half of year 2022 in order to ensure sufficient raw materials supply; and

(ii) increase in purchase costs of raw materials such as cup lump and semi-processed rubber attributed by the higher rubber market prices based on the MRB Quote and SICOM Quote during FPE 31 December 2021.

12.6.5 Gearing ratio

Our gearing ratio for the Financial Years Under Review and FPE 31 December 2021 is as follows:

	<--------------As at 30 June------------->			Audited as at 31 December
	2019	**2020**	**2021**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Bank borrowings^				
- Trade bills	77,082	77,435	76,799	83,319
- Term loan	-	-	-	8,947
Deposits, bank and cash balances	(29,020)	(23,549)	(13,453)	(1,541)
Net debt	**48,062**	**53,886**	**63,346**	**90,725**
Total equity	98,821	75,723	87,845	95,801
Gearing ratio (times)*	0.8	1.0	0.9	1.0
Net gearing ratio (times)#	0.5	0.7	0.7	0.9

Notes:

^ *Bank borrowings consist of both short-term and long-term borrowings such as trade bills and term loan.*

* *Calculated based on total borrowings over total equity.*

\# *Calculated based on total borrowings less deposit, bank and cash balances over total equity.*

Our gearing ratio increased by 0.2 times or 25.0% from 0.8 times in FYE 2019 to 1.0 times in FYE 2020 mainly due to the following:

(i) increase in borrowings, mostly trade bills, which were used to finance our purchase of raw materials and working capital; and

(ii) decrease in total equity due to dividend paid out to shareholders in FYE 2020.

From FYE 2020 to FYE 2021, our gearing ratio decreased by 0.1 times or 10.0% from 1.0 times in FYE 2020 to 0.9 times in the FYE 2021 mainly due to increase in our retained earnings as well as the repayment of our trade bills.

Our gearing ratio increased by 0.1 times or 11.1% from 0.9 times in FYE 2021 to 1.0 times in FPE 31 December 2021 mainly due to the increase in bank borrowings which mostly are from trade bills, which were used to finance our purchase of raw materials and working capital.

12.7 OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements for the Financial Years Under Review and FPE 31 December 2021.

12.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9 of this Prospectus.

12.9 IMPACT OF INFLATION

Our financial performance during the Financial Years Under Review and FPE 31 December 2021 was not significantly affected by the impact of inflation. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

12.10 IMPACT OF FOREIGN EXCHANGE RATE AND INTERST RATES

12.10.1 Impact of foreign exchange rates

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to foreign currency risk on sales, purchases and trade bills that are denominated in USD other than our functional currency. Please refer to Section 12.3.2 (ii) of this Prospectus for the details of our sales and purchase denominated in USD and RM.

Where possible, our Group will naturally hedge our foreign currency risk by selling and purchasing in the same currency. Otherwise, our Group enters into forward foreign exchange contracts to limit our exposure on foreign currency receivables and payables and on cash flows generated from anticipated transactions denominated in foreign currencies. Our Group's policy on the extent of a foreign currency transaction/ balance to be hedged is dependent on the duration to the settlement date in terms of transaction exposure is hedged only if it is expected to be cost effective.

The following table demonstrates the sensitivity analysis of our net profit to a reasonably possible change in the foreign currency within our Group, with all other variables held constant:

Effects on PAT	FYE 2019	FYE 2020	FYE 2021	FPE 31 December 2021
USD/RM	RM'000	RM'000	RM'000	RM'000
- Strengthened by 5%	(2,551)	(3,617)	(3,247)	(488)
- Weakened by 5%	2,551	3,617	3,247	488

12.10.2 Impact of interest rates

Our interest rate risk arises primarily from trade bills that expose us to fixed rate which is pegged to the base financing rate as stipulated by our financial institution that may change from time to time. The interest rate of trade bills will be fixed upfront until the settlement of trade bill (i.e. 3 months for settlement). As at the LPD, the outstanding amount of our fixed rate borrowings stood at approximately RM143.1 million, comprising trade bills financing only which is 94.6% over our Group's borrowings.

As such, any change in the interest rate of our floating rate term loan will raise the cost of our borrowings and our finance costs, which in turn may have an adverse effect on our financial performance.

Our Group's financial result for the Financial Years Under Review and FPE 31 December 2021 were not materially affected by fluctuations in interest rate.

12.11 SIGNIFICANT CHANGES

There are no significant changes that have occurred which may have a material effect on the financial position and results of our Group since 31 December 2021 and up to the LPD.

12.12 TREND INFORMATION

As at the LPD, our Board confirms that there are no:

(i) 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, other than those discussed in Section 7, Section 8 and this Section 12 of this Prospectus;

(ii) material commitment for capital expenditure, save as disclosed in Section 12.5.1 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in Section 7, Section 8 and this Section 12 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits save for those that have been disclosed in this Section 12, the business overview and industry overview as set out in Sections 7 and 8 of this Prospectus, and the future plans and strategies as set out in Section 7.17 of this Prospectus;

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of the future financial performance and position; and

(vi) 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 liquidity and capital resources.

12.13 ORDER BOOK

Due to the nature of our business, we do not maintain an order book. However, we do have sales contracts, as described in Section 7.19 of this Prospectus.

12.14 DIVIDEND POLICY

Our ability to pay dividends is dependent upon various factors including but not limited to our financial performance, cash flow requirements and capital expenditure plans. Our Board intends to recommend and distribute dividend(s) of at least 50% of our annual audited consolidated PAT attributable to our shareholders.

Investors should take note that this dividend policy merely describes our current intention and shall not constitute legally binding statements in respect of our future dividends that are subject to our Board's discretion.

When recommending the final dividends for approval by shareholders or when declaring any interim dividends, our Board will consider, among others:

(i) our anticipated future operating conditions as well as future expansion, capital expenditure and investment plan;

(ii) our operating cash flow requirements and financing commitments;

(iii) our expected financial performance including return on equity and retained earnings;

(iv) any restrictive covenants contained in our current and future financing arrangements;

(v) the availability of adequate reserves and cash flows; and

(vi) any material impact of tax laws and regulatory requirements.

For information purpose, the table below sets out the dividend pay-out ratio of our Group for the Financial Years Under Review and FPE 31 December 2021:

	<----Audited FYE 30 June------>			Audited
	2019	2020	2021	FPE 31 December 2021
	RM'000	RM'000	RM'000	RM'000
Dividend declared	17,000	22,860	27,000	10,000
Dividend paid out(1)	5,000	29,360	22,500	10,000
PAT	14,346	12,738	34,622	17,956
Dividend pay-out ratio(2)	34.9%	230.5%	65.0%	55.7%

Notes:

(1) The source of payment for the dividends paid during the Financial Years Under Review and FPE 31 December 2021 were from the retained profits of our Group.

(2) Computed based on dividend paid out divided by PAT during the FY/FP.

Subsequent to 31 December 2021, our Company declared on 29 April 2022 an interim dividend of RM5.0 million for the financial year ending 30 June 2022 and intends to pay on 7 June 2022. The source of payment for the said dividend will be from the retained profits of our Group and is not expected to affect the execution and implementation of our future plans and strategies as set out in Section 7.17 of this Prospectus.

Save as disclosed above, there is no other dividend paid or declared subsequent to 31 December 2021 but prior to our Listing.

Actual dividends proposed and declared may vary depending on our financial performance and cash flows, and may be waived if the payment of the dividends would adversely affect our cash flows and operations. Save for certain borrowing restrictive covenants which our Group is subject to, there are no dividend restriction being imposed on our Group as at the LPD.

Dividend payments, capital gains and profits from dealing in our Shares will not be subject to Malaysian taxation (not applicable to entities including companies with trading of shares as their principal business activity). No withholding tax is imposed on the above transactions. Potential investors are advised to consult their professional tax advisers if they are in any doubt as to the taxation implication of subscribing, holding or disposing of and dealing in our Shares.

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12. FINANCIAL INFORMATION (CONT'D)

12.15 REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
8, Jalan Pesta 1/1
Taman Tun Dr. Ismail 1, Jalan Bakri
84000 Muar, Johor
Malaysia
Main +6 06 9524 328
Fax +6 06 9527 328
info.muar@crowe.my
www.crowe.my

Date: 27 May 2022

The Board of Directors
Seng Fong Holdings Berhad
No. 14 Taman Sri Jeram
Jalan Bakri
84000 Muar
Johor Darul Takzim

Dear Sirs

SENG FONG HOLDINGS BERHAD ("SENG FONG" OR "THE COMPANY")
REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

We have completed our assurance engagement to report on the compilation of pro forma combined statements of financial position of Seng Fong and its combining entities, namely Seng Fong Trading Sdn. Bhd. and its subsidiary or SFT Group (collectively known as "Seng Fong Group" or "the Group") as at 31 December 2021 and related notes as set out in Appendix A, for which we have stamped for the purpose of identification. The pro forma combined statements of financial position and related notes have been compiled by the Board of Directors of the Company for inclusion in the prospectus of Seng Fong ("Prospectus") in connection with the listing of and quotation for its entire enlarged number of issued ordinary shares on the Main Market of Bursa Malaysia Securities Berhad ("the Listing").

The applicable criteria on the basis of which the Board of Directors have compiled the pro forma combined statements of financial position are set out in notes thereto in accordance with the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma combined statements of financial position have been compiled by the Board of Directors of the Company, for illustrative purpose only, to illustrate the impact of the events or transactions as set out in notes thereto on the Group's financial position as at 31 December 2021.

As part of this process, information about the Group's financial position have been extracted by the Board of Directors from the combined financial statements of Seng Fong for the 6-month financial period ended 31 December 2021, on which an audit report has been issued.

THE BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors of the Company is responsible for compiling the pro forma combined statements of financial position based on the Applicable Criteria.

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REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants and *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The 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 regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the pro forma combined statements of financial position have been compiled, in all material respects, by the Board of Directors of the Company on the basis of the Applicable Criteria.

We conducted our engagement in accordance with the International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma combined statements of financial position on the basis of the Applicable Criteria.

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 pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma combined statements of financial position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma combined statements of financial position reflect the proper application of those adjustments to the unadjusted financial information.

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 have been compiled, and other relevant engagement circumstances.

Crowe

REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONT'D)

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.

OPINION

In our opinion, pro forma combined statements of financial position of the Company have been compiled, in all material respects, on the basis of the Applicable Criteria.

OTHER MATTER

This letter has been prepared solely for the purpose of inclusion in the Prospectus in connection with the Listing. As such, this letter should not be 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

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Ng Kim Kiat
02074/10/2022 J
Chartered Accountant

Muar, Johor Darul Takzim

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Crowe
Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

SEng FONG HOLDINGS BERHAD

APPENDIX A

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	As at 31 December 2021**	Significant subsequent transaction Declaration of interim dividend	Acquisition of SFT Group	Pro Forma I After acquisition of SFT Group	Public issue	Pro Forma II After Pro Forma I and public issue	Use of proceeds	Pro Forma III After Pro Forma II and use of proceeds
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS									
NON-CURRENT ASSETS									
Property, plant and equipment	4.1	40,706			40,706		40,706	5,093	45,799
Right-of-use assets		4,587			4,587		4,587		4,587
		45,293			45,293		45,293		50,386
CURRENT ASSETS									
Inventories		130,327			130,327		130,327		130,327
Trade and other receivables		60,142			60,142		60,142		60,142
Derivative assets		51			51		51		51
Cash and bank balances	4.2	1,541	(1,541)		-	68,111	68,111	(44,630)	23,481
		192,061			190,520		258,631		214,001
TOTAL ASSETS		237,354			235,813		303,924		264,387
EQUITY AND LIABILITIES									
Equity attributable to owners of the Company									
Share capital	4.3	#		77,845	77,845	68,111	145,956	(2,134)	143,822
Invested capital	4.4	6,000		(6,000)	-		-		-
Merger deficit	4.5	-		(71,845)	(71,845)		(71,845)		(71,845)
Retained profits	4.6	89,801	(5,000)		84,801		84,801	(594)	84,207
TOTAL EQUITY		95,801			90,801		158,912		156,184

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Chartered Accountants

SENG FONG HOLDINGS BERHAD

APPENDIX A

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

	Note	As at 31 December 2021**	Significant subsequent transaction Declaration of interim dividend	Acquisition of SFT Group	Pro Forma I After acquisition of SFT Group	Public issue	Pro Forma II After Pro Forma I and public issue	Use of proceeds	Pro Forma III After Pro Forma II and use of proceeds
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
NON-CURRENT LIABILITIES									
Bank borrowings	4.7	6,864			6,864		6,864	(6,864)	-
Deferred tax liabilities		3,736			3,736		3,736		3,736
		10,600			10,600		10,600		3,736
CURRENT LIABILITIES									
Trade and other payables		40,434			40,434		40,434		40,434
Bank borrowings	4.7	85,402	3,459		88,861		88,861	(29,945)	58,916
Current tax liabilities		5,087			5,087		5,087		5,087
Derivative liabilities		30			30		30		30
		130,953			134,412		134,412		104,467
TOTAL LIABILITIES		141,553			145,012		145,012		108,203
TOTAL EQUITY AND LIABILITIES		237,354			235,813		303,924		264,387
No. of ordinary shares in issue ('000)		3,750			428,145		518,960		518,960
NA (RM'000)		95,801			90,801		158,912		156,184
NA per ordinary share (RM)		25.55			0.21		0.31		0.30

Notes:

\# Denote RM 1

** Extracted from the combined financial statements of Seng Fong for the 6-month financial period ended 31 December 2021

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Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

SENG FONG HOLDINGS BERHAD APPENDIX A

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

1. ABBREVIATION

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No.: 200301033577 (635998 - W))
Listing	:	Listing of and quotation for the entire enlarged number of issued ordinary shares in Seng Fong on the Main Market of Bursa Securities
NA	:	Net assets
RM and sen	:	Ringgit Malaysia and sen
Seng Fong or the Company	:	Seng Fong Holdings Berhad (Registration No.: 202101022910 (1423210 - X))
Seng Fong Group or the Group	:	Collectively, the Company and SFT Group
Seng Fong Share(s) or Share(s)	:	Ordinary share(s) in the Company
SFT	:	Seng Fong Trading Sdn. Bhd. (Registration No.: 197501002671 (24361 - A))
STG	:	Syarikat Tenaga (Gemas) Sdn. Bhd. (Registration No.: 198101002330 (68443 - P))
SFT Group	:	Collectively, SFT and its subsidiary, namely STG

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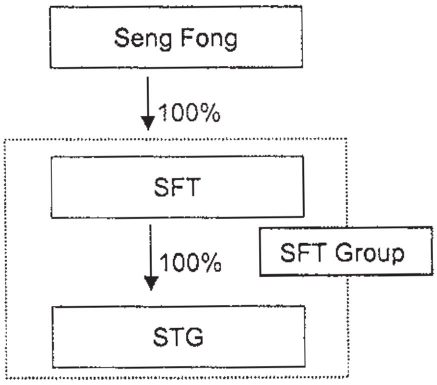
NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

2. PRO FORMA GROUP AND BASIS OF PREPARATION

2.1 Pro forma group

The pro forma corporate structure of Seng Fong Group is as follow:



2.2 Basis of preparation

The pro forma combined statements of financial position of Seng Fong as at 31 December 2021 has been prepared for illustration purposes using the audited combined statements of financial position of Seng Fong as at 31 December 2021 which are prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and are not subject to any qualification, modification or disclaimer.

The financial position of Seng Fong and SFT Group are combined using the merger method as these companies are under common control by the same parties, both before and after the acquisition of SFT, and control is not transitory. When the merger method is used, the difference between the cost of investment recorded by Seng Fong and the share capital of SFT is accounted for as merger deficit in the pro forma combined statements of financial position, as follows:

	RM'000
New Shares issued by the Company as consideration for the acquisition of SFT Group	77,845
Less: Reversal of issued and paid-up share capital of SFT as at 31 December 2021	(6,000)
Merger deficit	71,845

2.3 Applicable criteria

(a) The pro forma combined statements of financial position of Seng Fong have been prepared solely to illustrate the effect on the financial positions of the Seng Fong Group as at 31 December 2021 had the transactions as set out in Note 3 herein been implemented on 31 December 2021.

(b) The pro forma combined statements of financial position of Seng Fong have also been compiled in a manner consistent with both the format of the audited financial statements and accounting policies of SFT Group for the 6-month financial period ended 31 December 2021.

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Crowe
Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

2. PRO FORMA GROUP AND BASIS OF PREPARATION (CONT'D)

2.3 Applicable criteria (Cont'd)

(c) Material and appropriate adjustments have been made in the preparation of pro forma combined statements of financial position of Seng Fong.

2.4 Significant subsequent transaction

Declaration of interim dividend

On 29 April 2022, SFT declared an interim dividend of RM 5,000,000 in respect of the financial year ending 30 June 2022, which shall be paid by 7 June 2022. The effect of this declaration of interim dividend is illustrated in the pro forma combined statements of financial position to show the effect of this transaction had it occurred on 31 December 2021.

2.5 Listing scheme

As part of the Listing, Seng Fong shall undertake the followings:

(i) Acquisition of SFT

On 3 September 2021, Seng Fong entered into a conditional share sale agreement with Sumber Panji, E Tak Bin, Er Koon Hong and Er Koon Chuan (collectively known as "Vendors") to acquire the entire issued share capital of SFT, together with its subsidiary, for a purchase consideration of RM 77,844,599. The purchase consideration which was satisfied via the issuance of 77,844,599 new Shares at an issue price of RM 1.00 per Share to Vendors.

The purchase consideration of RM 77,844,599 was arrived at on a willing-buyer-willing-seller basis, after taking into consideration the adjusted consolidated NA of SFT as at 30 June 2021 as follows:

	RM'000
Audited consolidated NA as at 30 June 2021	87,845
Less: Payment of final dividend	(10,000)
Adjusted consolidated NA as at 30 June 2021	**77,845**

The acquisition was completed on 18 May 2022.

(ii) Share split

Upon completion of the above acquisition, the Company had on 19 May 2022 undertook a share split involving the subdivision of every existing 2 Shares into 11 Shares. As a result, the number of issued ordinary shares of the Company increased to 428,145,300 Shares.

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Crowe Malaysia PLT
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Chartered Accountants

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

2. PRO FORMA GROUP AND BASIS OF PREPARATION (CONT'D)

2.5 Listing scheme (Cont'd)

As part of the Listing, Seng Fong shall undertake the followings (cont'd):

(iii) Initial public offering

Initial public offering of 160,874,300 Shares, comprising public issue of 90,814,700 new Shares and offer for sale of 70,059,600 existing Shares at the RM 0.75, to be allocated in the following manner:

(a) 25,948,000 Shares to the Malaysian public;

(b) 16,250,000 Shares to the eligible directors and employees of the Group and persons who have contributed to the success of the Group;

(c) 64,870,000 Shares by way of private placement to Bumiputera investors approved by the Ministry of International Trade and Industry; and

(d) 53,806,300 Shares by way of private placement to other institutional and selected investors.

The offer for sale does not have any impact on the pro forma combined statements of financial position as at 31 December 2021.

(iv) Listing

Upon completion of the initial public offering, the Company shall be admitted to the official list and its entire enlarged share capital of RM 145,955,625 comprising 518,960,000 Shares shall be listed and quoted on the Main Market of Bursa Securities.

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

3. PRO FORMA ADJUSTMENTS TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

The pro forma combined statements of financial position as at 31 December 2021 have been prepared solely for illustrative purposes only to show the effects of the following transactions based on the assumptions that they had taken effect on 31 December 2021:

3.1 Pro Forma I

Pro Forma I incorporates the effects of the acquisition of SFT Group as set out in Section 2.5(i) and share split as set out in Section 2.5(ii) after taking into account of the significant subsequent transaction as set out in Section 2.4.

3.2 Pro Forma II

Pro Forma II incorporates the effects of the Pro Forma I and effect of the public issue as set out in Section 2.5(iii) above.

3.3 Pro Forma III

Pro Forma III incorporates the effects of Pro Forma I, II and the use of the proceeds from the public issue.

The proceeds from the public issue will be used as follows:

Use of proceeds	Note	Amount of proceeds (RM'000)	%	Estimated timeframe for use of proceeds from the date of Listing
Working capital		19,722	28.9	Within 12 months
Repayment of bank borrowings	(i)	37,862	55.6	Within 6 months
Purchase of biomass plant equipment	(ii)	6,250	9.2	Within 12 months
Estimated listing expenses	(iii)	4,277	6.3	Within 2 months
Total		68,111	100.0	

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NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

3. PRO FORMA ADJUSTMENTS TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.3 Pro Forma III (Cont'd)

Note:

(i) The proceeds will be used to repay the bank borrowings in the following manner:

(a) Trade bills of RM 27.862 million; and

(b) The term loan of RM 10.0 million used to part-finance the installation of solar system with an estimated total cost of RM 12.779 million. The remaining RM 2.779 million shall be funded via internally generated fund. As at 31 December 2021, the Group has drawn down RM 9.372 million of the term loan and captured RM 12.140 million of the solar system as capital work-in-progress under property, plant and equipment.

(ii) As at 31 December 2021, the Group has captured RM 1.785 million of biomass plant equipment as capital work-in-progress under property, plant and equipment which shall be deducted from the allocation of RM 6.250 million for such use of proceeds.

(iii) The estimated listing expenses totaling RM 4.277 million to be borne by the Company comprise brokerage, underwriting and placement fees, professional fees, relevant regulatory fees and miscellaneous expenses. A total of RM 2.134 million is assumed to be directly attributable to the issuance of new Shares and therefore will be offset against the share capital. The remaining expenses of RM 2.143 million is not directly attributable to the issuance of new Shares and therefore will be charged to the statements of profit or loss and other comprehensive income. As at 31 December 2021, the retained profits have captured an amount of RM 1.549 million out of RM 2.143 million of listing expenses estimated to be charged to the statements of profit or loss and other comprehensive income.

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SENG FONG HOLDINGS BERHAD APPENDIX A

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

4. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

4.1 Property, plant and equipment

	RM'000
At 31 December 2021/As per Pro Forma I and II	40,706
Installation of solar system part-financed by term loan	628
Pursuant to use of proceeds from public issue as set out in Section 3.3(ii)	4,465
As per Pro Forma III	45,799

4.2 Cash and bank balances

	RM'000
At 31 December 2021	1,541
Declaration of interim dividend	(1,541)
As per Pro Forma I	-
Pursuant to public issue	68,111
As per Pro Forma II	68,111
Pursuant to use of proceeds from public issue	(44,630)
As per Pro Forma III	23,481

4.3 Share capital

	Number of ordinary shares ('000)	Amount of share capital RM'000
At 31 December 2021	^	*
Pursuant to acquisition of SFT	77,845	77,845
Pursuant to share split	350,300	-
As per Pro Forma I	428,145	77,845
Pursuant to public issue	90,815	68,111
As per Pro Forma II	518,960	145,956
Estimated listing expenses	-	(2,134)
As per Pro Forma III	518,960	143,822

^ Represent 1 ordinary share
* Denote RM 1

SENG FONG HOLDINGS BERHAD

APPENDIX A

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

4. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

4.4 Invested capital

	RM'000
At 31 December 2021	6,000
Pursuant to acquisition of SFT	(6,000)
As per Pro Forma I to III	-

4.5 Merger deficit

	RM'000
At 31 December 2021	-
Pursuant to acquisition of SFT	(71,845)
As per Pro Forma I to III	(71,845)

4.6 Retained profits

	RM'000
At 31 December 2021	89,801
Declaration of interim dividend	(5,000)
As per Pro Forma I to II	84,801
Estimated listing expenses	(594)
As per Pro Forma III	84,207

4.7 Bank borrowings

	RM'000
At 31 December 2021	92,266
Declaration of interim dividend	3,459
As per Pro Forma I and II	95,725
Term loan drawn down to part-finance installation of solar system	628
Pursuant to use of proceeds from public issue as set out in Section 3.3(i)(b)	(9,575)
	(8,947)
Pursuant to use of proceeds from public issue as set out in Section 3.3(i)(a)	(27,862)
As per Pro Forma III	58,916

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SENG FONG HOLDINGS BERHAD

APPENDIX A

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of the Company in accordance with a resolution dated 27 MAY 2022

On behalf of the Board of Directors

Er Hock Lai

Er Tzer Nam