VITAL FACTOR CONSULTING
Creating Winning Business Solutions
®

Vital Factor Consulting Sdn Bhd
Company No.: 199301012059 (266797-T)
V Square @ PJ City Centre (VSQ)
Block 6 Level 6, Jalan Utara
46200 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel: (603) 7931-3188
Fax: (603) 7931-2188
Website: www.vitalfactor.com

12 January 2023

The Board of Directors
Cape EMS Berhad
PLO 227A
Jalan Cyber 1A
Kawasan Perindustrian Senai III
81400 Senai
Johor Darul Ta'zim

Dear Sirs/Madams

Independent Assessment of the Electronics Manufacturing Services Industry in Malaysia

We are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include the development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above for inclusion in the prospectus of Cape EMS Berhad concerning its listing on the Main Market of Bursa Securities. We have prepared this report independently and objectively and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, availability of up-to-date information, secondary information and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibility for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the securities of any company.

Our report may include assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information and primary market research, and after careful analysis of data and information, the industry is subject to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from The University of New South Wales, Australia and a degree in Master of Business Administration from The New South Wales Institute of Technology (now known as University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and Institute of Managers and Leaders. He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing on Bursa Securities.

VITAL FACTOR CONSULTING
Creating Winning Business Solutions
®

Date of report: 12 January 2023

INDEPENDENT ASSESSMENT OF THE ELECTRONICS MANUFACTURING SERVICES INDUSTRY IN MALAYSIA

1. INTRODUCTION

- Cape EMS Berhad and its group of companies (Cape Group) are mainly involved in the provision of electronics manufacturing services (EMS) for industrial and consumer electronics. As electronic products are also a part of electrical products, this report will cover the electrical and electronics (E&E) industry in Malaysia. The E&E industry is predominantly export-oriented and as such, this report will focus on Malaysia and provide some coverage of the global market. The focus of this report will be on the EMS of consumer and industrial electronics, excluding semiconductor components.

- Electrical products generate, store, distribute and use electrical power such as lighting and electrical household appliances. Electronic products incorporate semiconductor components including transistors and integrated circuits to control the flow of electrons to perform various tasks or operations. Some examples of electronic products include computers, mobile phones and television. Electronic components are embedded in most E&E devices that use electricity such as consumer electronics, industrial electronics and electrical appliances.

2. ELECTRONICS MANUFACTURING SERVICES INDUSTRY

- The EMS industry can be broadly categorised into three product focus:
  - **electronic components** comprising semiconductor components such as wafers, dies, discrete semiconductor components, integrated circuit packages and multicomponent integrated circuits;
  - **consumer** electronics including, among others, smartphones, laptops, tablets, personal computers, wearables and household appliances; and
  - **industrial** electronics including, among others, robotics, automation, machinery and equipment, industrial communications, instrumentation, control devices, medical devices and equipment, and avionics. Industrial products also cover the government sector.

- The EMS of consumer and industrial electronics include operators that manufacture only electronic parts such as printed circuit board assembly (PCBA) and subassemblies of modules, box build assembly, and end-to-end EMS incorporating procurement and/or manufacture of electronic parts and subassemblies, and box build assembly. Cape Group provides end-to-end EMS for box build consumer and industrial electronic products.

- The categorisation of EMS providers into consumer or industrial electronics is important as EMS providers focusing on consumer products commonly have a high-volume business model compared to industrial products. In addition, consumer products have more frequent product updates or obsolescence. As such the business model of a consumer EMS provider is different from one that focuses on industrial products. Many EMS providers focus on either consumer or industrial products. Cape Group is involved in both industrial and consumer products.

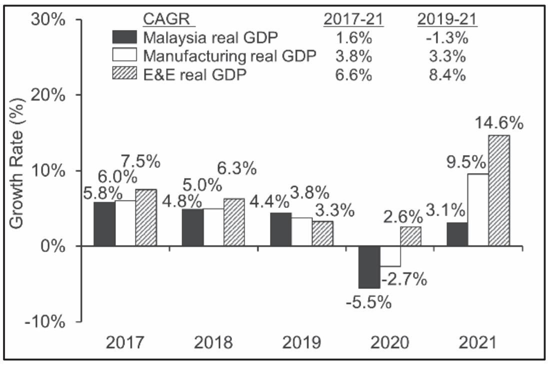
- Malaysia is one of the major hubs for EMS where some multinational EMS companies, alongside domestic companies, have established manufacturing facilities in the country. There are two main parties within the EMS industry, one party is the product and/or brand owner (the customer), and the other party is the manufacturer of the electronic parts or products, referred to as the EMS provider (the outsourcing or contract manufacturing company), for the product and/or brand owner. Cape Group is a contract manufacturing company for product and/or brand owners.

- EMS providers play an increasingly important role as strategic partners to product and/or brand owners by providing a range of services which commonly includes PCBA design, prototyping, procurement of electronic components and other parts, PCBA manufacturing, subassembly, final product assembly and various in-process and final inspection and testing. EMS providers may be contracted at various points in the manufacturing process, depending on their specialisation. This strategic partnership between product and/or brand owners and EMS providers is a common global model for the manufacturing of E&E products.

3. MALAYSIA'S ECONOMY

- Gross Domestic Product (GDP) measures the gross value added in the output of goods and services in a country or sector during a specified period. It indicates the overall size of the country's economy or the sector. GDP growth is commonly measured by comparing a particular year or quarter's GDP with the preceding year or quarter.

Real GDP



CAGR = compound annual growth rate (Sources: Department of Statistics Malaysia (DOSM))

- Real GDP is a method of measuring GDP that takes into account the effect of changes in the prices of goods and services over time, that is, to take into the effects of inflation or deflation. In general, real GDP provides a more meaningful measure of "real" changes in output over time, as any changes from period to period are due to changes in the quantity of goods and services produced, rather than changes in their prices. In the context of this report, all GDP figures are nominal GDP, unless specified otherwise.

- Between 2019 and 2021, the real GDP of Malaysia's economy declined while the real GDP of the manufacturing sector and the E&E industry experienced growth. In 2021, the real GDP of Malaysia's economy, the manufacturing sector and the E&E industry grew by 3.1%, 9.5% and 14.6% respectively. The real GDP growth in the E&E industry was supported by the continued global technology upcycle and robust external demand for semiconductors.

- In 2021, the E&E industry is the largest segment within the manufacturing sector in Malaysia, where the GDP of E&E industry amounted to RM101.4 billion, which accounted for 28.0% of the GDP of Malaysia's manufacturing sector *(Source: DOSM)*.

- For the first 9 months of 2022, the real GDP of Malaysia's economy, the manufacturing sector and the E&E industry grew by 9.3%, 9.7% and 16.0% respectively, underpinned by favourable momentum in the domestic economy, steady expansion in external demand and continued improvement in labour market conditions. Overall, the real GDP of the Malaysian economy is expected to grow between 6.5% and 7.0% in 2022, and forecasted to grow between 4.0% and 5.0% in 2023. *(Source: Ministry of Finance (MOF))*.

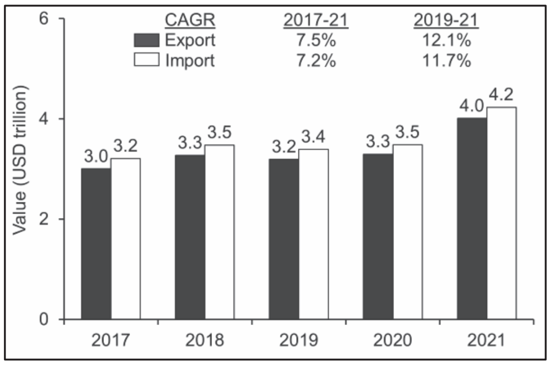
4. SUPPLY AND DEMAND

4.1 Global E&E products

- Malaysia's E&E industry is export-oriented. The following provides some indication of global trends in terms of exports and imports.

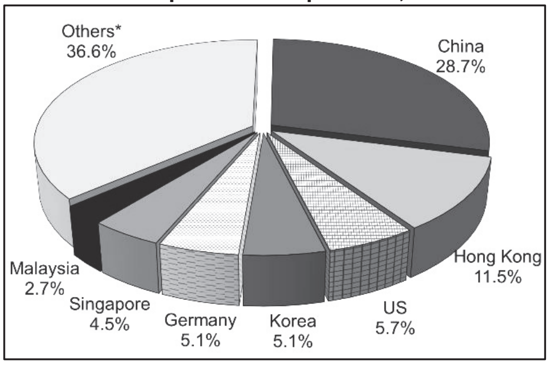
- The exports of E&E products from a global perspective recorded a CAGR of 7.5% between 2017 and 2021. Between 2019 and 2021, the global exports of E&E products grew at a higher CAGR of 12.1% due to the COVID-19 pandemic. In 2021, the top three largest exporting countries for E&E products were China, Hong Kong and the US.

Global exports and imports of E&E products



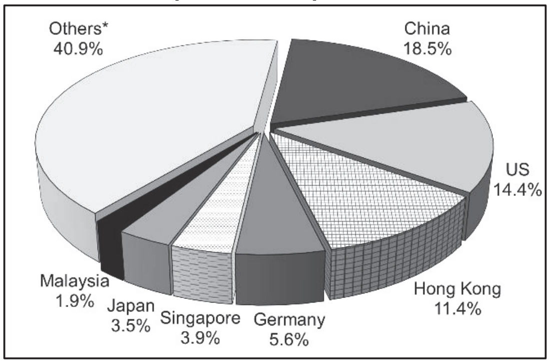
(Source: Vital Factor analysis)

Global exports of E&E products, 2021



** Others include countries with exports of E&E products of less than 4.0% (Source: Vital Factor analysis)*

Global imports of E&E products, 2021



** Others include countries with imports of E&E products of less than 3.2% (Source: Vital Factor analysis)*

- The global sales of semiconductors grew by 6.8% to reach USD440.4 billion in 2020, mainly driven by sensors and integrated circuit products, particularly logic and memory products. In 2021, the global sales of semiconductors further grew by 26.2% to reach USD555.9 billion, mainly driven by significant growth across all major product categories, particularly integrated circuit products, sensors and discrete semiconductors. For the first 9 months of 2022, the global sales of semiconductors grew by 9.9% compared to the corresponding period in 2021. However, the global sales of semiconductor declined since July 2022 to November 2022, compared to the corresponding periods in 2021 *(Source: Vital Factor analysis)*

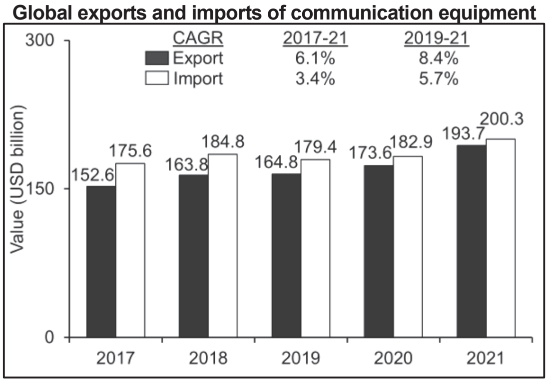
- For the financial year ended (FYE) 31 December 2021, the US was one of the major revenue contributors of Cape Group. This is followed by an increasing contribution from export sales to Singapore.

4.2 Global exports and imports of communication equipment

- Cape Group provides EMS for wireless communications equipment for the US and UK customers.

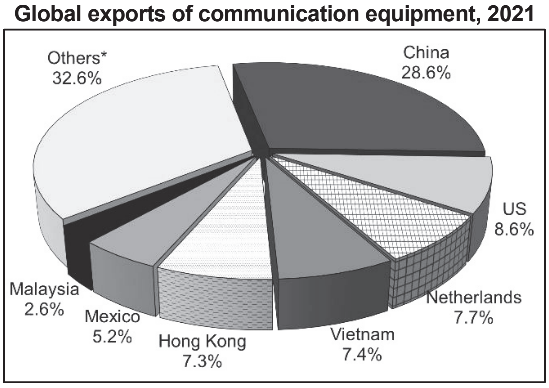
- Communication equipment includes wired and wireless equipment for the transmission and reception of voice, images and other data.

Global exports and imports of communication equipment



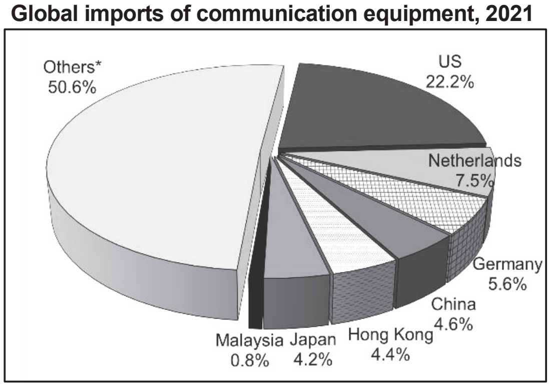
(Source: Vital Factor analysis)

Global exports of communication equipment, 2021



** Others include countries with exports of communication equipment of less than 4.0% (Source: Vital Factor analysis)*

Global imports of communication equipment, 2021



** Others include countries with imports of communication equipment of less than 3.5% (Source: Vital Factor analysis)*

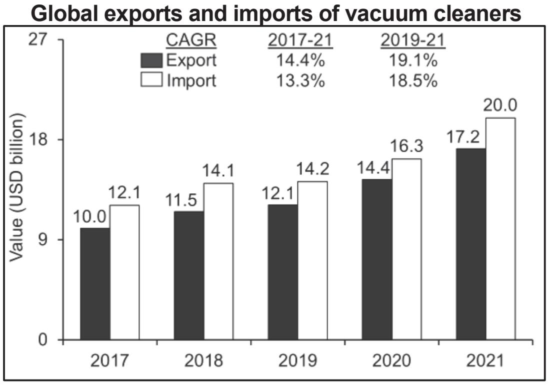
- The global exports of communication equipment recorded a CAGR of 6.1% between 2017 and 2021. Between 2019 and 2021, the global export of communication equipment increased at a CAGR of 8.4% mainly attributed to the increase in the demand for communication equipment during the COVID-19 pandemic. In 2021, the global export of communication equipment grew by 11.6% from USD173.6 billion in 2020 to USD193.7 billion in 2021. In 2021, the top three largest exporting countries for communication equipment were China, the US and Netherlands.

4.3 Global exports and imports of vacuum cleaners

- Cape Group provides EMS for household appliances including vacuum cleaners.

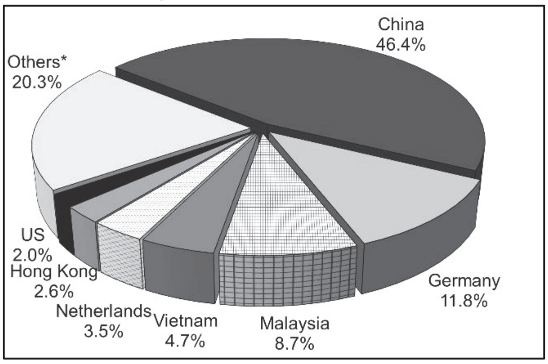
- The exports of vacuum cleaners from a global perspective recorded a CAGR of 14.4% between 2017 and 2021. In 2021, the global export of vacuum cleaners grew by 19.2% from USD14.4 billion in 2020 to USD17.2 billion in 2021. In 2021, the top three largest exporting countries for vacuum cleaners were China, Germany and Malaysia.

Global exports and imports of vacuum cleaners



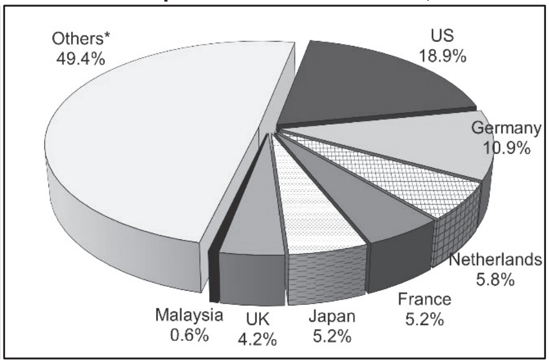
(Source: Vital Factor analysis)

Global exports of vacuum cleaners, 2021



** Others include countries with exports of vacuum cleaners of less than 2.0% (Source: Vital Factor analysis)*

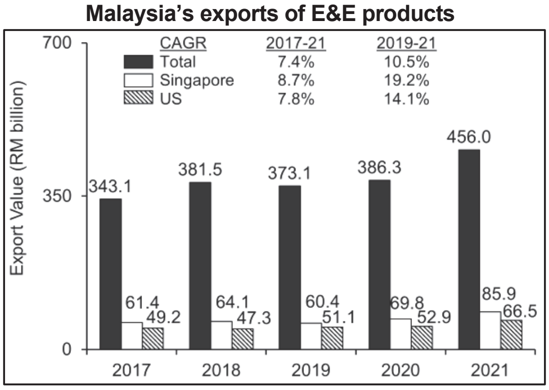
Global imports of vacuum cleaners, 2021



** Others include countries with imports of vacuum cleaners of less than 3.5% (Source: Vital Factor analysis)*

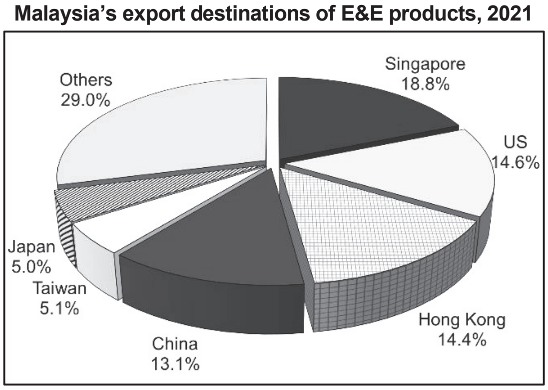
4.4 Malaysia's exports of E&E products

Malaysia's exports of E&E products



(Source: DOSM)

Malaysia's export destinations of E&E products, 2021



** Others include countries with exports of E&E products of less than 5.0% (Source: DOSM)*

- Malaysia's exports of E&E products amounted to RM456.0 billion in 2021. The E&E industry continues to be Malaysia's major export earner which accounted for 36.7% of the total value of gross exports in 2021. In 2021, the value of gross exports of E&E products increased by 18.0% compared to the previous year, mainly as a result of robust demand for semiconductors due to increased remote working and learning as well as business digitalisation *(Source: Minister of International Trade and Industry)*.

- Between 2019 and 2021, Malaysia's exports of E&E products increased at a CAGR of 10.5%. In 2021, the four largest export destinations of Malaysia's E&E products were Singapore, the US, Hong Kong and China, which collectively accounted for 60.9% of the total exports of E&E products.

- Between 2019 and 2021, exports of E&E products to Singapore and the US increased at a CAGR of 19.2% and 14.1% respectively. In 2021, the exports of E&E products to Singapore increased by 23.0% and remained the largest export destination for Malaysia's E&E products. Singapore is a major global hub for semiconductor and electronics manufacturing services as well as the supply chain for products ranging from storage and memory products to microelectromechanical systems.

- In 2022, the global demand for E&E products is projected to be strong amid the drive for digitalisation and automation *(Source: Bank Negara Malaysia)*. For the first 9 months of 2022, Malaysia's exports of E&E products grew by 35.4% compared to the first months of 2021, amounting to RM438.5 million.

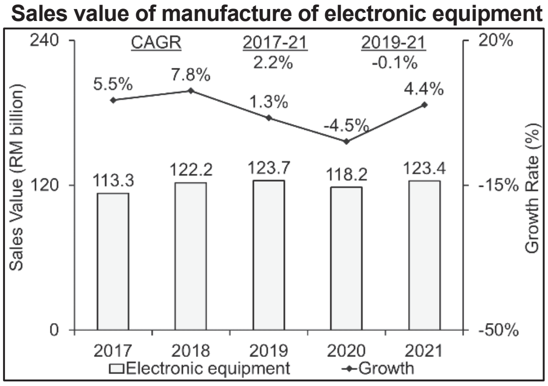
4.5 Manufacturing of electronic products in Malaysia

- Cape Group provides EMS for box build industrial and consumer products. Therefore, the following section examines the performance of the relevant sectors in Malaysia.

- In 2021, Malaysia's domestically manufactured electronic equipment mainly comprises computers and peripheral equipment, consumer electronics, communication equipment and measuring, testing, navigating and control equipment which accounted for 37.9%, 31.3%, 11.7% and 11.4% respectively of total sales value.

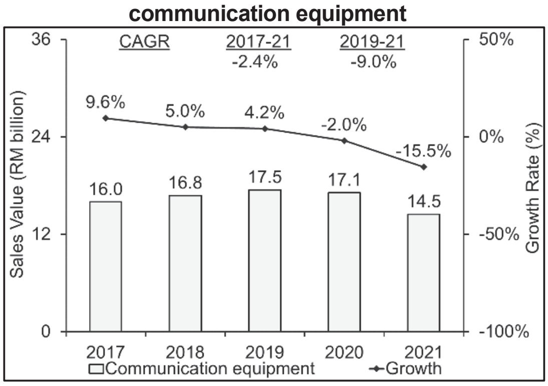
- In 2021, the sales value of manufactured electronic equipment grew by 4.4% amounting to RM123.4 billion, mainly due to the high demand and the acceleration of digitalisation. Cape Group provides EMS for communication equipment and consumer electronics.

Sales value of manufacture of electronic equipment

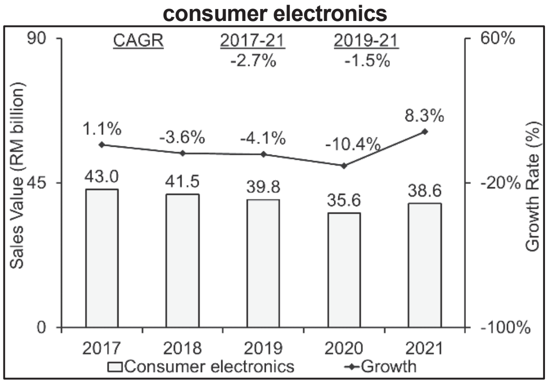


(Source: DOSM)

Sales value of manufacture of communication equipment



Sales value of manufacture of consumer electronics



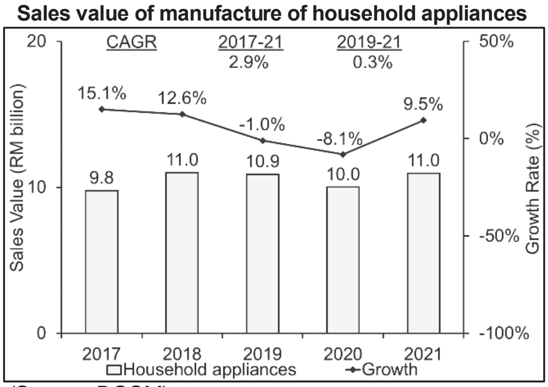
(Source: DOSM)

VITAL FACTOR CONSULTING
Creating Winning Business Solutions
®

- Between 2019 and 2021, the sales value of manufactured communication equipment and consumer electronics declined at an average annual rate of 9.0% and 1.5% respectively, while in 2021 they recorded -15.5% and 8.3% respectively.

- The performance of consumer products is also represented by the sales value of the manufacture of household appliances. Between 2019 and 2021, the sales value of the manufacture of household appliances grew at a CAGR of 0.3%. In 2021, the sales value of manufactured household appliances grew by 9.5%.

Sales value of manufacture of household appliances



(Source: DOSM)

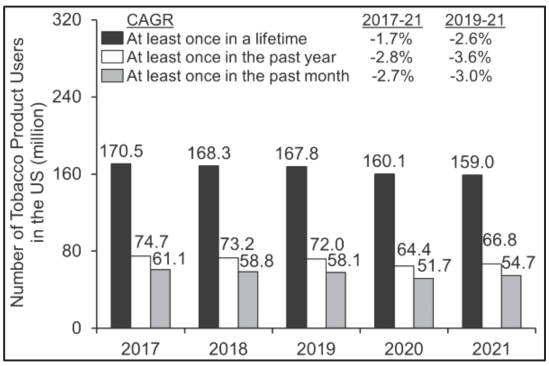
- The growth in the demand for consumer electronics and household appliances in 2021 is mainly due to the change in consumer lifestyle resulting from remote working and home-schooling. For the first 9 months of 2022, the sales value of manufactured electronic equipment, communication equipment, consumer electronics and household appliances recorded 12.2%, 0.1%, 19.1% and 12.7% growth/decline respectively compared to the first 9 months of 2021.

- Cape Group is also involved in the manufacturing of electronic cigarettes (e-cigarettes), which is a consumer electronic product. An e-cigarette is a battery-operated device which vaporises liquids into an inhalable aerosol.

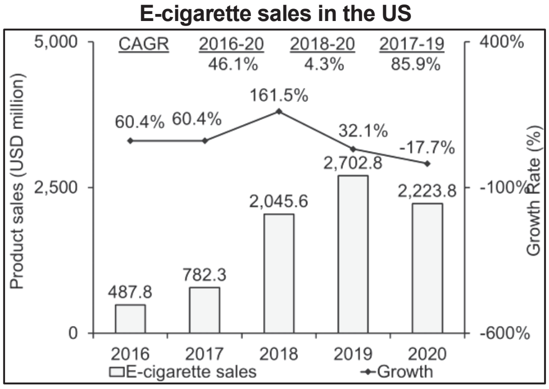
- A typical e-cigarette device contains three components:
  - a device, the main body of the e-cigarette with a battery, used to inhale an aerosol;
  - a pod, also known as a tank or cartridge, used to contain the liquid nicotine which forms part of the e-cigarette device or can be attached to the device. These pods are available in pre-filled or it may be refillable pods; and
  - liquids, also known as e-liquid, vape liquid or vape juice, which contain propylene glycol or vegetable glycerine with the addition of either flavourings or nicotine, or both.

- Cape Group's e-cigarettes are exported to the US. E-cigarettes are a potential replacement for tobacco products. In 2021, the number of people aged 12 or older in the US who used tobacco products at least once was 66.8 million. In the same year, the number of people in the US who used nicotine vaping at least once was 18.9 million, accounting for 5.7% of the total population in the US. Between 2016 and 2020, e-cigarette sales in the US grew at a CAGR of 46.1% amounting to USD2.2 billion in 2020, of which cartridge system products and disposable products accounted for 97.3% and 2.7% respectively *(Source: Vital Factor analysis)*.

Number of tobacco product users in the US



E-cigarette sales in the US



Note: Latest available data *(Source: Vital Factor analysis)*

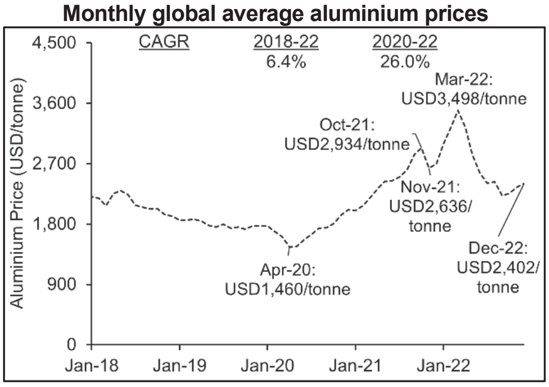
VITAL FACTOR CONSULTING
Creating Winning Business Solutions
®

5. GLOBAL ALUMINIUM PRICES

- Cape Group manufactures aluminium die-cast parts for its EMS as well as sales to external customers. As aluminium is a global commodity, global prices of aluminium would have an impact on Cape Group.

- Between January 2018 and March 2020, the global average aluminium prices were stable and have been fluctuating around USD1,936/tonne until they dipped to a monthly low of USD1,460/tonne in April 2020.

Monthly global average aluminium prices



(Source: Vital Factor analysis)

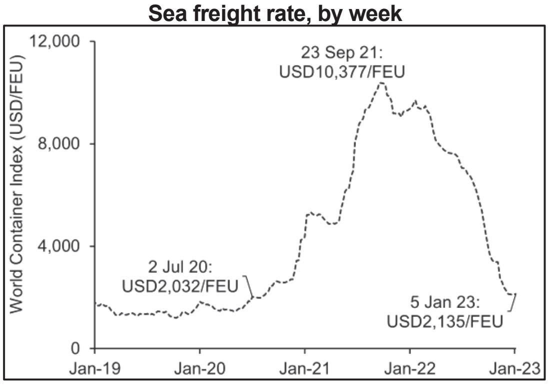
- Subsequently, the global average aluminium prices kept rising to USD2,934/tonne in October 2021 due to strong demand for aluminium products in the automotive industry and global supply chain disruption, coupled with increased prices of energy resources. The global supply chain was disrupted due to containment measures amidst the COVID-19 pandemic and China's decarbonisation policies that limit aluminium production which uses coal extensively. Aluminium prices declined to USD2,636/tonne in November 2021, then back to an increasing trend and recorded USD3,498/tonne in March 2022. The price remained high in 2022 due to the further supply tightness arising from the Russia-Ukraine conflict and sanctions imposed on Russia. In December 2022, the global average aluminium prices declined to USD2,402/tonne, mainly due to the weakening Chinese demand impacted by the continuing lockdowns. However, the Chinese government has gradually lifted the containment measures since December 2022, which may drive the demand for aluminium in the future.

6. SEA FREIGHT RATES

- Cape Group exports a large proportion of its products to foreign countries, especially the US. Some of its box build products are bulky items such as vacuum cleaners where sea freight rate may impact the overall product cost for its customers in the US.

- The global economic growth is expected to moderate from 6.0% in 2021 to 3.2% in 2022, mainly due to the Russia-Ukraine conflict, frequent and wider-ranging lockdowns in China that could potentially add to the global supply chain disruptions, as well as the persistent price pressures that lead to a tightening of monetary policy in many countries *(Source: Vital Factor analysis)*.

Sea freight rate, by week



(Source: Vital Factor analysis)

- The global supply chain disruption prompted by the COVID-19 pandemic, combined with the US-China trade war led to higher sea freight rates, which in turn led to higher input prices for global traders since July 2020. The sea freight rate generally kept increasing from USD2,032/forty-foot equivalent unit (FEU) on 2 July 2020 to USD10,377/FEU on 23 September 2021, which recorded a growth of 410.7%. Following the gradual relaxing of containment measures in various countries, the rate declined by 79.4% to USD2,135/FEU on 5 January 2023 despite uncertainties remaining high due to the continuing Russia-Ukraine conflict and the inflationary pressures. The decline in sea freight rates was mainly due to greater availability of freight capacity globally and lower freight volumes as the global economy remains uncertain.

VITAL FACTOR CONSULTING
Creating Winning Business Solutions
®

7. COMPETITIVE ANALYSES

7.1 Operators in the Industry

- The EMS industry in Malaysia is diversified where EMS companies produce a wide range of products from electronic components, modules, devices and up to systems and box build products across various industries. These companies in the industry range from local small and medium-sized enterprises to large-scale local corporations and foreign multinational corporations.

- There are no published data on the number of companies providing EMS in Malaysia. The following table is a list of some of the EMS providers in Malaysia, listed in descending order of revenue within their respective categories:

Operators in the industry	Main Product Seg: Cons	Main Product Seg: Ind	FYE(1)	Grp/Co. Revenue (RM mil)(2)	Seg Revenue (RM mil)	Grp/Co. GP (RM mil)(2)	Grp/Co. GP Margin	Grp/Co. NP/(NL) (RM mil)(2)	Grp/Co. NP/(NL) Margin
Public listed companies on Bursa Securities and Cape Group									
V.S. Industry Bhd (MM) (3)	√		Jul-22	3,914.1	n.s.	404.8	10.3%	147.0	3.8%
ATA IMS Bhd (MM) (4)	√		Mar-22	2,602.1	n.s.	83.8	3.2%	(12.2)	(0.5%)
SKP Resources Bhd (MM)	√		Mar-22	2,321.4	2,274.3	324.8	14.0%	173.4	7.5%
EG Industries Bhd (MM)	√	√	Jun-22	1,114.4	1,114.2	45.1	4.0%	10.8	1.0%
P.I.E. Industrial Bhd (MM)	√	√	Dec-21	1,025.2	1,025.2	79.1	7.7%	60.3	5.9%
NationGate Holdings Bhd (AM)	√	√	Dec-21	760.9	760.9	96.8	12.7%	59.5	7.8%
Aurelius Technologies Bhd (MM)		√	Jan-22	367.4	367.3	40.7	11.1%	22.0	6.0%
Cape Group	√	√	**Dec-21**	**344.3**	**320.2**	**41.9**	**12.2%**	**26.3**	**7.6%**
JHM Consolidation Bhd (MM)		√	Dec-21	296.6	165.0	55.4	18.7%	34.2	11.5%
Luster Industries Bhd (MM)	√	√	Dec-21	151.8	123.8	22.7	14.9%	8.7	5.7%
Salutica Bhd (MM)	√		Jun-22	143.8	143.8	n.a.	n.a.	(6.6)	(4.6%)
K-One Technology Bhd (AM)	√	√	Dec-21	125.5	74.3	15.2	12.1%	(2.7)	(2.2%)
Subsidiaries of foreign multinational companies									
Jabil Circuit S/B (5)	√	√	Aug-21	10,424.7	10,402.9	750.4	7.2%	228.5	2.2%
Plexus Manufacturing S/B (6)		√	Sep-21	6,212.0	6,212.0	872.4	14.0%	692.2	11.1%
Flextronics Technology (Penang) S/B (7)		√	Mar-22	4,973.2	4,973.2	239.6	4.8%	161.2	3.2%
Sanmina-SCI Systems (M) S/B (8)		√	Oct-21	2,634.5	2,634.5	n.a.	n.a.	71.9	2.7%
Venture Electronics Services (M) S/B (9)	√	√	Dec-21	1,347.9	1,347.9	n.a.	n.a.	68.5	5.1%
Benchmark Electronics (M) S/B (10)	√	√	Dec-21	1,316.4	1,316.4	232.8	17.7%	168.1	12.8%
GES Manufacturing Services (M) S/B (9)	√	√	Dec-21	1,274.4	1,274.4	n.a.	n.a.	55.6	4.4%
Celestica Malaysia S/B (11)		√	Dec-21	635.1	635.1	30.7	4.8%	17.7	2.8%

FYE = financial year ended; Seg = Segment; Cons = Consumer; Ind = Industrial; Grp/Co. = Group/Company; mil = million; Seg Revenue = mainly revenue from provision of EMS and related services; GP = Gross Profit; NP = Net Profit; NL = Net Loss; Bhd = Berhad; MM = Main Market; AM = ACE Market; S/B = Sdn Bhd; M = Malaysia; n.s. = no segmentation; n.a. = not available.

(1) Latest available financial information. Audited figures from annual reports of respective listed companies, Companies Commission of Malaysia and Cape Group.
(2) May include revenue, GP and NP/NL derived from other business activities.
(3) Mainly involved in investment holding, and the manufacturing, assembling and sale of E&E products, and plastic moulded components and parts.
(4) Mainly involved in manufacturing and sales of precision plastic injection of moulded parts, secondary process, sub assembly, and full assembly of the finished products to the electronic industry.
(5) A subsidiary of Jabil Inc., a listed entity on the New York Stock Exchange.
(6) A subsidiary of Plexus Corp., a listed entity on the NASDAQ Stock Exchange.
(7) A subsidiary of Flex Ltd., a listed entity on the NASDAQ Stock Exchange.
(8) A subsidiary of Sanmina Corporation, a listed entity on the NASDAQ Stock Exchange.
(9) A subsidiary of Venture Corporation Limited, a listed entity on the Singapore Stock Exchange.

(10) A subsidiary of Benchmark Electronics Inc., a listed entity on the New York Stock Exchange.
(11) A subsidiary of Celestica Inc., a listed entity on the Toronto Stock Exchange and the New York Stock Exchange.

- Apart from Cape Group, the list of companies above was selected based on the following criteria:
  (a) provider of EMS and have manufacturing facilities in Malaysia;
  (b) public companies listed on Bursa Securities, or subsidiaries of public companies listed on foreign exchanges and operating in Malaysia; and
  (c) revenue of at least RM100 million for their latest financial year.

7.2 Market size and share

2021			
Manufacturing	**Market size in Malaysia [(a)]**	**Cape Group's revenue [(b)] [(1)]**	**Market share of Cape Group [(c)]**
Electronic equipment	RM123.4 billion [(2)]	RM306.3 million	Less than 1%
Industrial electronics	RM84.8 billion [(3)]	RM214.7 million	Less than 1%
Consumer electronics	RM38.6 billion [(4)]	RM91.6 million	Less than 1%
Household appliances	RM11.0 billion	RM49.3 million	Less than 1%

Source: (a) DOSM; (b) Cape Group; (c) Vital Factor analysis
(1) Based on Cape Group's total revenue and revenues from various categories for FYE 31 December 2021.
(2) The market size was based on the sales value of manufactured computer, electronic and optical products.
(3) Industrial electronic equipment is a subsector of electronic equipment.
(4) Consumer electronic equipment is a subsector of electronic equipment.

There is no up-to-date publicly available data on the market size for e-cigarettes in the United States, therefore it is not possible to derive market share.

8. BARRIERS TO ENTRY

- The barriers to entry for the EMS industry are **medium to high**. This is predicated by the need for a track record to cater to market requirements as EMS providers normally serve large customers that would impose stringent requirements such as product quality, adequate manufacturing capacity and ability to provide fast turnaround of work orders. In some situations, there is a need to invest in machinery and equipment such as those required for PCBA or automated production line. Additionally, EMS providers require sufficient working capital to purchase input materials before invoicing customers for the finished products. Nevertheless, these factors are moderated by the absence of import or export tariffs, and no onerous licences, regulations or restrictions governing the entry of new players. In addition, most input materials used in EMS are widely available.

9. INDUSTRY CONSIDERATION FACTORS

- The global shortage of semiconductors has affected the E&E industry, which ultimately affects the operators within the EMS industry. The shortage of semiconductors started approximately in the second quarter of 2020 and continued into 2022, where the demand exceeded the supply of semiconductors. The shortage of semiconductors was initially due to the drop in semiconductor production as demand from automakers was low amidst the COVID-19 pandemic. The supply of semiconductors is further interrupted by natural disasters and international conflicts including the US-China trade war and the Russia-Ukraine conflict.

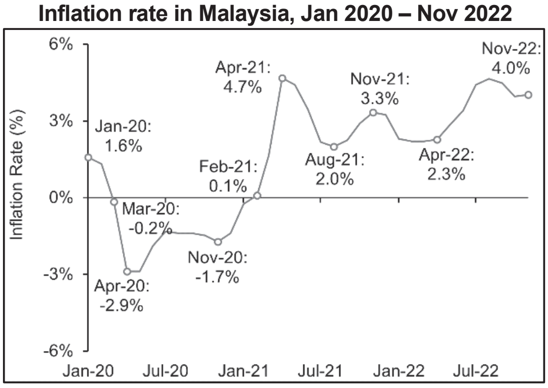
- Following the gradual recovery from the COVID-19 pandemic, the increased demand for semiconductors was due to the mass production of electric vehicles, as well as the rising use of electronic products caused by the increased need for equipment and devices to facilitate, among others, remote healthcare, work-from-home and virtual learning and meetings during the COVID-19 pandemic. The sales of global semiconductors grew by 6.8% and 26.2% in 2020 and 2021 respectively. For the first 9 months of 2022, the global sales of semiconductors grew by 9.9% compared to the corresponding period in 2021.

- The projected global growth of the semiconductor and electronics markets in the near term will drive demand for electronics manufacturing services that will provide market opportunities for operators including EMS providers in Malaysia. This is substantiated by Malaysia's E&E industry which continued to be the key contributor to export earnings accounting for RM456.0 billion or 36.7% of total exports for 2021 (*Source: DOSM*).

- The prospect of the electronics manufacturing services industry in Malaysia is dependent upon, among others, the continuing recovery of Malaysia as well as the global economies from the ongoing COVID-19 pandemic, and other local and global factors that influenced the rising global prices of raw materials. Other considerations include the increased pace of digital transformation globally predicated by export demand for E&E products, and performance of domestic manufacturing of the E&E products, as well as social and economic factors such as inflation rate, interest and unemployment rates, lending policies, business confidence and consumer sentiments, and the labour market in Malaysia.

- Malaysia recorded negative inflation from March 2020 to January 2021, mainly due to falling oil prices and a decline in revenue from the hotel as well as the food and beverages industries as a result of the COVID-19 pandemic. With the easing of containment measures in 2021, the inflation rate increased to a positive level.

Inflation rate in Malaysia, Jan 2020 – Nov 2022



(Source: DOSM)

- Factors that caused the increase in inflation towards the end of 2021 included increases in the cost of transportation such as sea freight, animal feed, fertilisers, crude palm oil and labour which led to increases in prices of consumer goods such as food and beverages. The rising inflation rates for the period of January to November 2022 were mainly driven by food and non-alcoholic beverages, transport, and restaurants and hotels *(Source: DOSM)*.

- For the first 9 months of 2022, the real GDP of Malaysia's economy, the manufacturing sector and the E&E industry grew by 9.3%, 9.7% and 16.0% respectively. The real GDP growth in the E&E industry was driven by the robust external demand for semiconductor components amid technological developments. In addition to the eight economic stimulus packages provided by the Malaysian government which amounted to RM530 billion, a further RM332.1 billion has been allocated to continue driving the recovery of the economy as provided by the Budget 2022. Any resurgence of COVID-19 cases and reimposition of containment measures will weigh on the growth of the economy. Overall, the Malaysian economy is expected to achieve real GDP growth between 6.5% and 7.0% in 2022, and forecasted to grow between 4.0% and 5.0% in 2023 *(Source: MOF).*

- According to the 12th Malaysia Plan, the GDP of the E&E industry is targeted to grow from RM86.1 billion in 2020 to RM120 billion in 2025. Meanwhile, the export value of E&E products is targeted to grow from RM386.1 billion in 2020 to RM495 billion in 2025 led by integrated circuits, diodes and photosensitive semiconductors following continuous demand in emerging technologies such as autonomous vehicles, artificial intelligence, 5G and Internet of Things. *(Source: Economic Planning Unit, Malaysia)*. According to the Budget 2022, RM100 million will be allocated to 200 manufacturing and service sector companies to automate their business processes and RM45 million allocated as technology transformation incentives for small and medium-sized enterprises and mid-stage companies in the manufacturing and service sector for Industrial Revolution 4.0 or Industry4WRD. *(Source: MOF)*.

9. RISK FACTORS

BEFORE INVESTING IN OUR SHARES, YOU SHOULD PAY PARTICULAR ATTENTION TO THE FACT THAT WE AND TO A LARGE EXTENT, OUR BUSINESS AND OPERATIONS ARE SUBJECT TO LEGAL, REGULATORY AND BUSINESS RISKS WHERE WE OPERATE. OUR OPERATIONS ARE ALSO SUBJECT TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE OUR CONTROL. BEFORE MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER, ALONG WITH THE OTHER MATTERS IN THIS PROSPECTUS, THE RISKS AND INVESTMENT CONSIDERATIONS SET OUT BELOW.

9.1 RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP

9.1.1 We are dependent on imported input materials and any disruption in global supply chain may affect our EMS business and result in delay of operations

The input materials needed for our Group's operations include E&E parts and components such as PCBA, mechanical parts, packaging and related materials, as well as aluminium ingots for die casting manufacturing. We source input materials from Malaysia as well as foreign countries but are reliant on imported materials as there are no local alternatives for most of the input materials which are currently imported by our Group, such as batteries. For all of our EMS products, there are both local and foreign sources for input materials, such as E&E parts and components from approved and appointed suppliers by our customers. Imported materials accounted for 34.7%, 27.6%, 49.8% and 59.9% of our total purchases of input materials and services for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively. As such, we are reliant on the supply of the imported materials and any disruptions in the global supply chain would affect our EMS business.

According to the IMR Report as set out in **Section 8** of this Prospectus, there is a global shortage of semiconductors that has affected the E&E industry. The shortage of semiconductors started approximately in the second quarter of 2020 and continued into 2022. This was mainly due to mass production of electric vehicles, as well as rising use in electronic products caused by the increased need for equipment and devices to facilitate, among others, remote healthcare, work-from-home and virtual learning and meetings during the COVID-19 pandemic.

For our EMS business, we are responsible for the procurement of input materials. Our EMS customers provide us with a 6 to 12 months rolling forecast and confirmed purchase orders mainly on a weekly or quarterly basis. As for the proprietary or critical input materials namely the semiconductors, these are mainly supplied by our customers. The shortage of semiconductors does not directly affect our procurement as the semiconductors are mainly supplied by our customers as mentioned above. However, any serious and prolonged global shortage of input materials may lead to delay in our production. The delay in production could result in a delay in delivery to our customers which may in turn affect our business operations and financial performance.

As at the LPD, we have unbilled purchase orders of RM358.7 million to be fulfilled by fourth quarter of 2023.

9.1.2 We are dependent on purchase orders from and/or agreements with a few major customers who contribute substantially to our revenue

We are dependent on the following major customers whose sales collectively contribute a significant portion of our revenue for any one or more years during the Period Under Review:

	Period Under Review								**(1)Length of Relationship**
	FYE 2019		**FYE 2020**		**FYE 2021**		**FPE 2022**		
	(RM'000)	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(Years)**
Changhuat Plastic(2)	25,288	58.6	19,071	11.3	*	*	*	*	5
Airspan group of companies(3)	17,801	41.2	72,278	43.0	78,193	22.7	58,797	18.4	4
K & Q(4)	26	0.1	17,213	10.2	49,350	14.3	34,983	10.9	4
Customer A(5)	-	-	36,406	21.6	42,279	12.3	86,594	27.1	3

	Period Under Review								(1)Length of Relationship
	FYE 2019		FYE 2020		FYE 2021		FPE 2022		
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(Years)
Tastar Electronics(6)	-	-	*	*	62,862	18.3	63,222	19.8	3
SOQ and NextCentury(7)	-	-	10,510	6.2	62,769	18.3	40,205	12.6	3
Total sales	**43,115**	**99.9**	**155,478**	**92.3**	**295,453**	**85.9**	**283,801**	**88.8**	
Our revenue (RM'000)	**43,157**		**168,261**		**344,334**		**319,750**		

Notes:

* Not a Top 5 major customer for the respective financial year.

(1) Length of relationship as at FPE 2022.

(2) Our Group's transactions with Changhuat Plastic were conducted based on purchase orders.

(3) **Mimosa Networks and Airspan Communications (collectively referred to as the Airspan group of companies)**

For the FPE 2022, Mimosa Networks has been our customer for 4 years. However, prior to becoming our subsidiary in 2020, Cape Manufacturing has started dealing with Mimosa Networks since 2014.

Our Company, had on 31 May 2019 entered into a manufacturing supply agreement with Airspan Communications ("**Airspan MSA**") whereby our Company is appointed to manufacture Airspan Communications' products. Please refer to **Section 7.17(iv)** of this Prospectus for the salient terms of the Airspan MSA.

(4) **K & Q**

Our Company had on 24 February 2020 entered into a manufacturing and supply agreement with K & Q ("**K & Q MSA**") for the provision of EMS. Please refer to **Section 7.17(ii)** of this Prospectus for the salient terms of the K & Q MSA.

(5) **Customer A**

Our Company had on 18 May 2022 renewed the manufacturing and supply agreement with Customer A ("**Customer A MSA**") for the provision of EMS. Please refer to **Section 7.17(i)** of this Prospectus for the salient terms of the **Customer A** MSA.

(6) **Tastar Electronics**

On 6 June 2022, our Company entered into a contract manufacturing agreement with Tastar Electronics and Huizhou Sanhua ("**Tastar CMA**"). Please refer to **Section 7.17(iii)** of this Prospectus for the salient terms of the Tastar CMA.

(7) **SOQ**

SOQ is a procurement management company for the brand owner, NextCentury. Our Group's transactions with SOQ were conducted based on purchase orders. However, since October 2021, there were no orders for the provision of EMS from SOQ, while we continued to work with NextCentury. We have been working with the brand owner, NextCentury from the USA since 2020 for the EMS of smart utility data collection equipment. On 15 July 2018, Cape Singapore entered into a licensing agreement with NextCentury. Please refer to **Section 7.17(v)** of this Prospectus for the salient terms of the NextCentury License Agreement.

Although we have master supply agreements(1) with most of our major customers above, our business is based on purchase orders issued by our customers. There is no assurance that we can retain these customers, or that the volume of their product orders will not vary significantly from year to year. In the event there is a termination or non-renewal of the said agreements, or a reduction of or no purchase orders, or the loss of any of these major customers and we are unable to obtain substitute orders of comparable sizes from other existing or new customers in a timely manner, our financial condition and results of our operation may be adversely affected. As at the LPD, the Group has not failed to renew master supply agreements with our major customers.

Note:

(1) The scope of these agreements includes the duration, governing law, dispute settlement, termination in the events of default, payment terms, late delivery obligations, product liability and obligations arising from Force Majeure events. Please refer to **Section 7.17** of this Prospectus for the salient terms of these agreements.

9.1.3 We are dependent on our Directors, Key Senior Management, skilled engineers and technicians

Our growth and success are, to a significant extent, dependent on the service and performance of our Executive Directors and Key Senior Management, namely Tee Kim Chin (30 years of experience), Tee Kim Yok (17 years of experience), Lim Chue Wan (26 years of experience), Alex Miranda Juntado (37 years of experience), Tan Zong Yuan (14 years of experience), Yew Seow Kuen (20 years of experience), Teo Hui Seng (28 years of experience) and Salehaldin Bin Nasron (37 years of experience), for the strategic direction, leadership, business planning and development, management and monitoring of the day-to-day business operations of our Group. Our Executive Directors and Key Senior Management play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group. Further, they are also the key contact points for our major customers, and as such, a significant number of our purchase orders and contracts are procured through our Executive Directors and Key Senior Management. For further details in relation to the experience of our Executive Directors and Key Senior Management, please refer to **Section 7.3.8** of this Prospectus, as well as **Section 5** of this Prospectus for the profiles of our Executive Directors and Key Senior Management.

We are also reliant on the technical expertise of our skilled engineers and technicians involved in the initial design and conceptualisation, assembly and configuration, integration and commissioning stages of our solutions, and provision of after-sales technical support and services to our customers. As at the LPD, we have 165 engineers and technicians in our engineering division, who have in-depth knowledge of industry know-how, processes and facilities, as well as technical expertise enabling us to meet our customers' operational requirements.

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. This in turn may adversely affect our financial performance.

9.1.4 We may not be able to sustain our growth rate and our financial performance in the future

Our revenue grew from RM43.2 million in FYE 2019 to RM344.3 million in FYE 2021, representing a CAGR of 182.5%. Our ability to provide customised EMS has enabled us to grow our EMS business segment from a revenue of RM17.8 million in FYE 2019 to RM306.3 million in FYE 2021, representing a CAGR of 314.5%. Our PAT grew from RM3.8 million in FYE 2019 to RM26.3 million in FYE 2021, representing a CAGR of 162.3%.

Accordingly, there can be no assurance that we will be able to achieve similar growth rates and financial performance in the future. If we are unable to maintain adequate revenue and profit growth, our financial position could also be adversely affected. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or execute our business plans.

9.1.5 We are dependent on production workers for our business operations

Our manufacturing activities require production workers. Although we have automated machinery in our factory, we are still reliant on production workers. As at the LPD, we have 129 production workers (representing 27.6% of our total workforce of 467 employees) working on our factory floor, out of which 86 are contractual foreign workers and 43 permanent local workers. In addition, as at the LPD, our production workers are supplemented by 657 production workers employed by our sub-contractor. We may experience shortage of production workers from time to time due to several factors which affect our supply of both local and foreign workers as well as our ability to obtain additional production workers from our subcontractor. Some of the factors affecting the hiring of local production workers include salary and benefit package offered, and location. As at the LPD, there was no past occurrence where we were unable to hire sufficient production workers as we also engaged subcontractor for the supply of production works.

The number of foreign workers we may hire and our ability to obtain or renew work permits for our foreign workers are subject to regulations and approvals from the Ministry of Home Affairs, as well as policies implemented by other regulatory authorities, such as MITI. On 23 July 2022, MITI announced that the obligation to comply with the condition for manufacturing licence holders to maintain total full-time workforce of at least 80% Malaysians has been deferred to 31 December 2024. Accordingly, our Group has the flexibility to apply to hire such number of foreign workers required for our operations. Our ability to source for foreign workers may also be affected by the laws, regulations, and policies of their countries of origin. Such laws, regulations and policies, changes thereto or the introduction of additional requirements and/or restrictions by their local authorities may affect the supply of foreign labour from such countries.

We may not be able to hire sufficient local production workers. There is no assurance that we will attract and retain sufficient local workers to meet any shortfall in foreign workers.

In the event there is a shortfall in foreign workers, our Group has the option of sub-contracting the supply of workers and/or some of our work. Therefore, we may be dependent on our subcontractor for the supply of additional production workers and/or outsourcing some of our work. We have entered into an agreement with 1 sub-contractor, Chowdhury Manufacturing (M) Sdn Bhd, to secure sub-contract manufacturing services on our premises, which reduces our reliance on in-house production workers. As at the LPD, our production workers are supplemented by 657 production workers employed by our sub-contractor. Notwithstanding that we have engaged only 1 supplier for the provision of sub-contract manufacturing services, our Group is not dependent on this subcontractor as we are able to secure similar services from other sub-contractors in the event that our existing sub-contractor is unable to meet our Group's requirements.

However, any unsuccessful attempts to engage other subcontractors for the manufacturing works may result in delays in project deliverables, which will consequently affect our business operations. In addition, we may experience cost overruns due to having to engage subcontractors at higher cost. Further, should our subcontractor be unable to continue to supply us additional production workers and/or completing some of our work for any reason and we are not able to employ our own production workers, there is no assurance that we will be able to find an alternative subcontractor that is able to supply us additional production workers and/or undertake some of our work in a timely manner and on favourable terms.

9.1.6 We require licences, permits, approvals and certificates from relevant government authorities and regulatory agencies for our business operations

We require and hold certain licences, permits and approvals issued by various government authorities and regulatory agencies and these approvals, licences and permits are essential for the conduct of our business. See **Section 7.15** of this Prospectus for further details of our major licences, permits and approvals including the applicable authorities, expiration dates and status of compliance.

As at the LPD, we have obtained all major licences, permits and approvals which our Group is dependent on for our business operations in Malaysia.

Notwithstanding that we are taking steps to submit the applications for such licences, permits and certificates, there can be no assurance that we will be able to obtain such licences, permits and certificates in a timely manner, or at all.

In relation to the past non-compliance of die-casting operations at the Temenggong 22 Factory, for the period of non-compliance from 30 June 2016 to 14 March 2022, the potential maximum penalties which may be imposed are approximately RM2.1 million which are approximately 8.2% of the Group's FYE 2021 PBT which would not have a material adverse impact on our business and financial results. Please refer to **Section 7.23(i)(aa)** of this Prospectus for further details.

In relation to the past non-compliance of EMS operations at the Temenggong 22 Factory, for the period of non-compliance from 30 June 2016 and up to 14 August 2022, the potential maximum penalties which may be imposed are approximately RM2.2 million, representing approximately 8.8% of the Group's FYE 2021 PBT which would not have a material adverse impact on our business and financial results. Please refer to **Section 7.23(i)(bb)** of this Prospectus for further details.

As at the LPD, we have not been subject to any enforcement action with respect to the foregoing. However, there can be no assurance that we will not be subject to enforcement actions by the relevant authorities, including cessation of operation or monetary penalties. We undertake to update our shareholders on the status of our efforts to obtain the approvals for the abovementioned applications through our quarterly reports and annual reports pursuant to the Main Market Listing Requirements.

Generally, the licences, permits and approvals we require and hold are subject to a variety of conditions which are either stipulated within the licences, permits and approvals themselves, or under the particular legislation and/or regulations governing the issuing authorities. Certain of these licences, permits and approvals need to be renewed on a periodic basis or reassessed by the relevant regulatory authorities. If we are unable to fulfil any new or existing terms or conditions that may be imposed, we may not be able to renew or obtain the approvals, licences and permits required for our operations. Further, regulations of the issuing authorities may become more stringent from time to time and it may be costly for us to comply with the terms and conditions of these licences, permits and approvals.

Should there be any subsequent modifications of, or additions or new terms and conditions to the current compliance standards, we may incur additional costs to comply with the new or modified standards which may adversely affect our profitability. Any breach or material non-compliance with such regulations may result in the suspension, withdrawal or termination of the relevant licences, permits and approvals, financial penalties or cessation of our operations.

9.1.7 Our business operations may be disrupted by contagious or virulent diseases

Our business operations are subject to disruptions caused by any contagious or virulent diseases such as COVID-19.

On 11 March 2020, the COVID-19 virus, also known as the novel coronavirus, was declared a worldwide pandemic by the World Health Organization. Although our business operations were deemed as "essential services", our financial performance was affected by the economic disruptions caused by COVID-19 which were felt across the EMS sector due to the lockdowns and border controls imposed by the governments of Malaysia and other countries.

During the first MCO, our business operation was temporarily suspended for 29 days in FYE 2020. This has impacted our financial performance on the monthly revenue of April 2020 where our revenue declined by 89.0% from RM6.8 million in March 2020 to RM0.8 million in April 2020. Subsequently as we resumed partial operations, our revenue increased by 2,428.3% to RM18.8 million in May 2020 as compared to our revenue for the month of April 2020 of RM0.8 million. Thereafter, in FYE 2021, pursuant to the FMCO that started on 1 June 2021 followed by Phase 1 of the NRP, we continued to operate according to the specific guidelines and SOP where our business operations operated at 60% workforce capacity.

There is no assurance that our business activities will not be materially affected by similar sudden crises in future which may result in interruptions to our Group's business operations and adversely affect our business and financial performance.

Please refer to **Section 7.13.1** of this Prospectus on the effect of COVID-19 on our business operations and the implementation of SOP by us to reduce the risk of COVID-19 transmission.

9.1.8 We are exposed to foreign currency exchange fluctuations

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, 41.3% (RM17.8 million), 99.1% (RM166.8 million), 94.6% (RM325.6 million) and 99.4% (RM317.8 million) of our total revenue were transacted in USD. Hence, our revenue is mainly denominated in foreign currency. This inherently subjects us to currency exchange rate risks which are affected by a myriad of factors that are beyond our control, including but not limited to political and economic climates of Malaysia and the world. Hence, we are subject to fluctuation of foreign currencies (namely USD) against the RM. Although we have not incurred any material losses arising from foreign currency translations for the Period Under Review, if the foreign exchange rates were to weaken against the RM going forward, we may record lower revenue as most of our sales are conducted in foreign currency. This may have a negative impact on our financial results.

At the same time, 61.8% (RM20.6 million), 90.4% (RM117.4 million), 91.2% (RM232.8 million) and 89.7% (RM166.1 million) of our total purchases were also transacted in USD for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. Any unfavourable foreign currency fluctuations may negatively affect our cost of operations.

Our Group practices natural hedging by maintaining the receipts from our overseas customers in a foreign currency account for payment to overseas suppliers. As at the LPD, we have not entered into any foreign exchange contracts. We are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales. We will constantly monitor and review fluctuations in foreign currency and may hedge against foreign currency fluctuations if our Group experiences a higher risk of it. However, there can be no assurance that fluctuations in foreign currency will not affect the revenue and earnings of our Group. Fluctuations in foreign currency exchange rates between the RM and such foreign currency we transact in, may have a material effect on our reported income and expenses, as they are stated in RM in our financial statements and, any adverse movements in the foreign exchange markets may have an adverse impact on our business, financial conditions and results of operations.

See **Section 12.3.2(iii)** of this Prospectus for further information on the impact of foreign exchange during the Period under Review.

9.1.9 We are exposed to interest rate fluctuations

Our finance cost mainly comprises interest charges on term loans, shipment buyer loans, finance lease liabilities, bankers' acceptance, bank overdraft and OFCL that are granted by banks and financial institutions. The interest rates for our bank borrowings are typically based on the prevailing market rates at the dates of the respective transactions. As at the LPD, our Group has available credit facilities amounting to RM294.2 million, of which RM137.3 million has yet to be utilised. As at 30 September 2022, our total borrowings were RM203.5 million. Of the RM203.5 million of our Group's total borrowings as at 30 September 2022, RM149.3 million were interest-bearing borrowings based on floating rates. Our finance cost increased from RM0.9 million for the FYE 2019 to RM5.3 million for the FYE 2021 and to RM6.1 million for the FPE 2022 due to increased bank borrowings resulting from our Group's investments in capital expenditure and working capital to finance the increase in our Group's operations.

Our gearing ratio and interest coverage ratio for the Period Under Review is set out below:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
Gearing ratio[(1)] (times)	1.0	1.2	0.9	1.1
Interest coverage ratio[(2)] (times)	5.7	10.9	7.7	8.2

Notes:

(1) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties, divided by total equity.

(2) Computed based on EBITDA divided by finance cost.

In this respect, any increase in interest rates may impact our financial performance. If we fail or encounter difficulties in meeting our financial obligations when they fall due, this will result in a financial distress condition which will affect our operations and financial performance.

For the Period Under Review and up to the LPD, we have not defaulted on any payments of either the principal or interests in relation to our bank borrowings.

9.1.10 Security breaches and failure to protect our proprietary and customers' information

We are exposed to confidential information of our customers and suppliers, including commercially sensitive technological know-how, during the course of our operations. Therefore, we are obliged to preserve the confidentiality of our customers and suppliers' confidential information. Employees are subject to non-disclosure undertaking in relation to the confidential information which came into their possession during the course of employment.

In addition, we rely on the security of our IT infrastructure as well as external service provider's cyber security services to preserve confidentiality of such information. Our technology systems may be vulnerable to telecommunication failures, cyber-attacks (such as hacking and data theft), failures during the process of upgrading or replacing software, databases or components, power outages or hardware failures which may result in the unavailability or slowdown of our technology platform. Such unavailability or slowdown of our technology platform necessitates maintenance service, where there may be increased risk of data leakage during resumption of service after such maintenance is carried out on our technology platform. As at the LPD, there has not been any instances of data breaches or cyber security incidents at our Group.

Although our Group seeks to limit these risks through, among others, constant updates of our software and systems, regular service and maintenance of our systems and having a backup system performing daily backup of data, there is no assurance that our Group will be able to respond to technological changes as well as system disruptions in a cost effective and timely manner. Further, any inability to respond to technological changes or compromises on our technology systems could expose us to liabilities, such as claims, legal actions initiated by our customers or suppliers or potential termination of business relationships.

9.1.11 We are subject to operational risk which may cause interruptions to our Group's business operations

Our Group's business operations could be disrupted or delayed due to unforeseeable circumstances. Such risks include, amongst others, equipment failures, environment factors (including natural disaster), fires or floods which may result in the damage to, or destruction of all or part of our factories, machinery and equipment, or manufactured products. Further, our Group's production processes are dependent on a consistent supply of electricity and gas as well as internet access for smooth operations. Although our Group schedules and carries out maintenance works for our machinery and equipment on a regular basis, there may be unexpected disruption to our production process as a result of machine down-time due to maintenance, machine breakdown, or malfunction, power failure, technology systems breakdown, internet down-time and disruption to gas supply. In such scenarios, this may cause a production halt or delay in our production process.

Any prolonged interruptions to our business operations due to the abovementioned factors may affect our ability in adhering to our production timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation. For the Period Under Review and as at the LPD, our Group had not experienced any unexpected interruptions or delays caused by equipment failures, fire as well as environmental factors which may be beyond our Group's control. However, we cannot assure that there will be no disruption to our business operations in the future.

9.1.12 We may not be successful in implementing our business strategies and plans

To grow our business and remain competitive in the EMS industry, our business strategies and plans primarily include utilisation of proceeds as described in **Section 4.6** of this Prospectus. However, there is no assurance that we will be able to effectively implement our plans. Even if we are able to successfully implement our plans, there is no assurance that the results of such plans will lead to the outcomes and results we expect.

The successful implementation of our business strategies and plans are based on our current circumstances and assumptions that certain circumstances will or will not occur in the future. The execution of our business strategies is also dependent on a number of factors such as our ability to obtain timely and sufficient funding, our ability to execute our business strategies well and to retain and recruit competent management and employees as well as the changing demand of the EMS industry. There are also factors beyond our control that affect the successful implementation of our business strategies such as the general market conditions, or changes in the Malaysian government's policy or regulatory regime where our business operates.

Further, the implementation of our plans may also require capital expenditure, and consequently we may require additional financing to fund our plans. There is no assurance that these plans will pay off and increase our revenue to a level which will be commensurate with the costs of our investment. Any failure or delay in the implementation of any or all of our business strategies and plans may have a negative effect on our business, operations and financial performance of our Group.

9.1.13 Our insurance coverage may not cover all losses or liabilities that may arise from our business operations

We have secured insurance policies for a variety of risks for our business operations such as fire, burglary, public liability and general liability. All these insurance policies are subject to exclusions and limitations of liability in both amounts insured and with respect to the insured events. As at the LPD, our Group's material insurance coverage are as follows:

Material insurance coverage	Aggregate coverage amount (RM'000)
Fire and fire consequential loss	189,681
Burglary	550
Public liability	3,000
General liability	107,546
Directors and officers liability	10,000

Our Group is aware of the adverse consequences arising from inadequate insurance coverage for the above risks that could disrupt our business operations. Further, our existing insurance coverage may be insufficient to cover all the risks associated with our business operations.

For the Period Under Review, there has been a total insurance claim of RM0.6 million mainly due to lightning damage to our injection moulding machines. As at the LPD, there are no ongoing claims, whether pending, threatened, or made known but not notified over the last 3 years up to the LPD.

We cannot guarantee that we will be successful in all our claims submitted to the respective insurers. Our business and financial performance may be adversely affected in the event such claims exceed the coverage of our insurance policies or our claims are not successful, in which event, we may be required to bear such losses, damages and liabilities out of our own funds. In addition, any insurance claim records may affect our insurance premiums charged to us subsequently by our respective insurance companies and this may impact our financial conditions.

9.1.14 We are required to comply with health, safety and environment ("HSE") laws and regulations

We are required to comply with the relevant HSE laws and regulations that are enforced at our factories.

If our employees and sub-contract workers are harmed or injured as they perform their jobs or if we fail to comply with or breach any of the relevant HSE laws and regulations, this may result in suspension or slowdown of our work. Accordingly, this could delay our manufacturing activities, and result in penalties which may affect our financial performance.

During the Period Under Review and as at the LPD, there have been no material injury or harm that affected our employees, or breach or failure to comply with the relevant HSE laws and regulations that resulted in any of the negative consequences listed above. Nevertheless, there can be no assurance that injury or harm to our employees, or breach or failure to comply with relevant HSE laws and regulations, will not occur in the future.

9.1.15 We are subject to credit risks based on the credit periods granted to our customers

We are subject to credit risks associated with our customers and our profitability and cash flow may be affected if our customers fail to make timely payments for the provision of our services. During the Period Under Review, we generally extend credit terms between 30 days to 180 days to our customers. As at 30 September 2022, our trade receivables which were past due but not impaired amounted to approximately RM18.6 million, which accounted for approximately 15.2% of our total outstanding trade receivables. During the Period Under Review, we have not made any allowance for doubtful debts or written off any bad debts arising from trade receivables. Please refer to **Section 12.4.8(i)** of this Prospectus for further details.

If a customer delays payment in part or at all, our cash flow and working capital may be adversely affected. While our finance team monitors collections from our customers regularly and follows up on any overdue amounts, the payment recovery process is usually time-consuming. Furthermore, there is no assurance that any outcome will be in our favour or that any dispute will be resolved in a timely manner. If we fail to secure adequate payments in time or to manage past due debts effectively, our business, financial condition, and results of operations may be materially and adversely affected.

Nevertheless, there is no guarantee that our customers will be able to fulfil their debt obligations and our Group will not encounter collection problems in the future. Hence, any failure by our customers to make payment to us on a timely manner may materially and adversely affect our operating cash flows, financial condition and results of operations.

9.1.16 We are subject to the risk of product warranty claims

Our Group is exposed to the risk of product warranty claims arising from manufacturing defects for our EMS of box build products. In addition, our Group provides warranty for digital vending machines and portable power desks assembled by Changhuat Plastic as our Group is the EMS provider that secured the purchase order directly from the customers who are the brand owners of the said products. In the event of the occurrence of any defect as mentioned above, we will be required to repair or replace the defective units which may negatively impact our financial performance.

While our Group has set in place measures, such as incoming, in process and outgoing quality control processes to prevent any manufacturing defects, there can be no assurance that our units will not have any defects or malfunction.

For the Period Under Review up to the LPD, our Group has not experienced any material product warranty claims for our production units. Nevertheless, there is no assurance that we would not experience any warranty claims in the future.

9.1.17 We may be affected by regulatory and policy changes applicable to electronic cigarettes

We provide EMS for electronic cigarettes for Customer A in the USA. The laws and regulations governing electronic cigarettes may be subject to changes due to health or public policy considerations. There can be no assurance that any adverse regulatory changes will not materially affect our business in the future. Adverse development or uncertainty in the regulatory conditions in the USA regarding electronic cigarettes could cause, among others, our customers to defer, reduce or terminate contracts or purchase orders or reduce the price of our products and services, which would have an adverse impact on our business, financial condition and results of operations.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We may face allegations of forced or unethical labour practices

We may face allegations of forced or unethical labour practices, even in the absence of any basis. Any allegations of forced or unethical labour practices may lead to negative publicity and affect our customers' willingness to engage our services. Foreign governments may also restrict or ban the import of our products and this may adversely impact our business, financial conditions and prospects. In 2021, there were allegations of improper labour practices against some operators in the glove and EMS industries in Malaysia which materially impacted them. In this respect, any allegations of forced or unethical labour practices may pose a threat affecting the business operation and financial performance of our Group.

In December 2022, we received electronic mails from a migrant worker rights specialist making allegations of forced labour risks and collection of recruitment fees from foreign workers in relation to our proposed recruitment of foreign workers in Nepal. However, our foreign recruitment firm has confirmed to us that, amongst others, it complies with Malaysian and Nepalese employment requirements and it shall not collect any fee from the foreign workers. We have conducted interviews in Nepal but have not finalised any recruitment of any foreign workers. As at the LPD, we have informed the foreign recruitment agency to cease recruitment of all Nepalese workers.

Save as disclosed above, we have not been subject to any allegations or faced punitive actions on our products and services as at the LPD. There can be no assurance that such circumstances will not arise in the future. As at the LPD, there are no proceedings pending or threatened, or any fact likely to give rise to any proceedings, which might materially affect the Group's financial position or business.

9.2.2 We are subject to the demand of our customers' end-user markets

Our business is dependent on our customers' end-user markets. Any negative performance in their end-user markets could result in less purchase orders for our products and services. Some of the factors that may affect our customers' end-user markets include political, economic, social and regulatory factors; changes in technology; changes in market trends and consumer preferences; and new or enhanced products and services replacing existing products and services.

Any material changes in regional and global demand from our customers' end-user markets may subsequently affect our business and financial performance.

9.2.3 We face competition from other EMS operators in Malaysia and foreign countries

We face competition from other EMS operators that are based in Malaysia as well as in foreign countries that are capable of offering similar services. We may also face competition from new entrants that seek to establish themselves in the industry from time to time.

The barriers to entry for the EMS industry are medium to high. This is predicated by the need for a track record to cater to market requirements as EMS providers normally serve large customers that would impose stringent requirements such as product quality, adequate manufacturing capacity and ability to provide fast turnaround of work orders. In some situations, there is a need to invest in machinery and equipment such as those required for PCBA or automated production line. Additionally, EMS providers require sufficient working capital to purchase input materials before invoicing customers for the finished products. Nevertheless, these factors are moderated by the absence of import or export tariffs, and no onerous licences, regulations or restrictions governing the entry of new players. In addition, most input materials used in EMS are widely available. *(Source: IMR Report as set out in **Section 8** of this Prospectus)*

We generally compete on a variety of factors including, among others, price competitiveness, financial strengths in terms of working capital, availability or willingness to invest in machinery and equipment, adequate production capacity, availability of skilled resources, quality of products and services, customer service, reliable and competent third-party suppliers, promptness in delivery, track record and market reputation.

There can be no assurance that we will continue to remain competitive against existing and prospective competitors. Consequently, there can be no assurance that our existing customers will continue to award contracts and/or purchase orders to us in the future. Failure to remain competitive, adapt quickly to changing market conditions and trends, and ability to secure new contracts or purchase orders will have an adverse effect on our future business and financial performance.

9.2.4 We operate in a technological industry subject to changes in technologies

We operate within the electronics industry typified by technological changes in the products that we manufacture, as well as in some situations, the machine and equipment that we use in our manufacturing process.

There is a risk that our customers may not promptly adopt emerging technological changes that may result in reduced demand for their products and subsequently reduction of purchase orders for our EMS. Similarly, changes in technologies may require us to invest in new or improved machine and equipment which, if we acquire them, may impact on our financial conditions, and/or may cause our EMS to be not price competitive thus affecting our ability to continue to secure purchase orders or new customers.

As such, our business face risks in technological changes or failure to keep abreast of the technological advancements, which may adversely affect our business and financial performance.

9.2.5 We are subject to adverse economic, social, political and regulatory developments and occurrence of force majeure events

We derive most of our revenue from our export markets as well as Malaysia. In addition, our main operations are in Malaysia. Any adverse developments in the economic, social, political, regulatory conditions and geopolitical events, such as the Russia-Ukraine conflict, as well as force majeure events such as emergence of the COVID-19 pandemic in Malaysia and in the countries that we transact business, could adversely affect our financial position and business prospects. Occurrence of adverse events may cause, among others, our customers to defer, reduce or terminate contracts or purchase orders or reduce the price of our products and services, which would have a material adverse effect on our business, results of operations and financial condition.

9.2.6 Our aluminium die cast manufacturing operation is subject to fluctuations in global aluminium prices

We manufacture aluminium die cast parts for our EMS as well as sales to external customers. As aluminium is a global commodity, the fluctuations in global prices of aluminium would have an impact on our financial performance.

According to the IMR Report as set out in **Section 8** of this Prospectus, between January 2018 and March 2020, the global average aluminium prices were stable and have been fluctuating around USD1,936/tonne until they dipped to a monthly low of USD1,460/tonne in April 2020. Subsequently, the global average aluminium prices increased to USD2,934/tonne in October 2021 due to strong demand for aluminium products in the automotive industry and global supply chain disruption, coupled with increased prices of energy resources.

The global supply chain was disrupted due to containment measures amidst the COVID-19 pandemic and China's decarbonisation policies that limit aluminium production which uses coal extensively. Aluminium prices thereafter declined to USD2,636/tonne in November 2021 and thereafter reverted to an increasing trend at USD3,498/tonne in March 2022. The price remained high in 2022 due to constricted supply arising from the Russia-Ukraine conflicts and sanctions imposed on Russia. In December 2022, the global average aluminium prices declined to USD2,402/tonne.

The average purchase price of our aluminium ingots increased by approximately 17.4%, 40.2% and 22.0% for the FYE 2020, FYE 2021 and FPE 2022 respectively. Although our Group had been able to pass on the increase in cost to our customers in a timely manner during the FYE 2020, our Group was unable do so during the FYE 2021 resulting in higher costs to our Group. This was mainly due to the price of the die cast parts being fixed upon confirmation of the purchase order, whereas the delivery period of the die cast parts was between 1 and 3 months depending on the purchase order. In contrast, the purchase of aluminium ingots, which is the main input material used for die cast manufacturing, is based on prevailing market price. At the time of purchase of aluminium ingots, its market price was higher than anticipated. Our Group was therefore unable to pass the increased cost of the aluminium ingots to the customers as the price of the die cast parts was fixed upon confirmation of purchase order. Consequently, we started to review the aluminium prices quarterly with our customers to address any increases in aluminium prices. Save for the above, as at the LPD, there have been no other instances where our Group was unable to pass on material increases in aluminium prices to our customers.

Notwithstanding this, there is no certainty that we will be able to pass on the cost to our customers in future should there be any unfavourable fluctuations and sustained high aluminium prices may result in higher prices for our aluminium die-cast products and in turn, may negatively impact our financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

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 Listing, there has been no prior public market for our Shares. Hence, there is no assurance that upon our Listing, an active market for our Shares will develop, or if developed, that such market can be sustained. There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

There can be no assurance that the Institutional Price or Retail Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon our Listing and the market price of our Shares will not decline below the Institutional Price or Retail Price.

9.3.2 Volatility of share prices traded on Bursa Securities

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

The performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and global stock exchanges and the flows of foreign funds. Market sentiment is also influenced by factors such as the prevailing economic and political climate of the country, and the potential for growth in various sectors of the economy. Other factors that may negatively affect investor sentiment include natural disasters, and health epidemics including outbreaks of contagious diseases. These factors contribute to the volatility of trading volumes on Bursa Securities, and of the market price of our Shares.

9.3.3 Uncertainty of dividend payment

It is the intention of our Board to recommend and distribute a dividend of up to 30% of the profit attributable to the owners of the Company. However, our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors as set out in **Section 12.7** of this Prospectus. 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 can be no assurance (i) that dividends will be paid out in the future; (ii) on timing of any dividends that are to be paid in the future; or (iii) on the quantum of dividends that are to be paid in the future.

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.

Please refer to **Section 12.7** of this Prospectus for further information on our dividend policy.

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

As disclosed in **Section 5.1** of this Prospectus, our Promoters will directly or indirectly hold approximately 54.4% of our enlarged issued Shares upon Listing. As a result, our Promoters will be able to, in the foreseeable future, effectively control the business direction and management of our Group. Given that our Promoters will hold approximately 54.4% of our enlarged issued Shares upon Listing, they will be able to vote on and pass ordinary resolutions at general meetings, specifically pertaining to transactions which do not involve the interest of our Promoters or persons connected with them where they are not required to abstain from voting either by our Constitution, by law and/or by the relevant guidelines or regulations. Other matters which may also be subject to significant influence from our Promoters include the election of Directors as well as the timing and payment of dividends. There can be no assurance that the interests of our Promoters will always be aligned with those of our other shareholders.

9.3.5 The sale, or the possible sale, of a substantial number of our Shares in the public market following our Listing could adversely affect the price of our Shares

Following our Listing, we will have in issue 923,000,000 Shares, of which up to 251,700,000 Shares, will be held by investors participating in our Listing (representing approximately 27.3% of our enlarged issued Shares) and not less than 71.0% will be held by the Promoters and substantial shareholders via their direct interests in our Company. Our Shares offered pursuant to our Listing will be tradable on the Main Market of Bursa Securities following our Listing.

Notwithstanding our existing level of cash and cash equivalents, we may issue additional Shares in connection with our financing activities or otherwise. In addition, the Promoters and substantial shareholders could dispose of some or all of our Shares that they hold after the Moratorium Period pursuant to their own investment objectives. If the Promoters and substantial shareholders sell, or are perceived as intending to sell, a substantial amount of our Shares that they hold, the market price for our Shares could be adversely affected.

9.3.6 Failure or delay in our Listing

The occurrence of certain events, including the following, may cause a delay in, or failure of, our Listing:

(i) the Underwriter exercising its rights under the Underwriting Agreement to discharge itself of its obligations under such agreement;

(ii) identified investors fail to subscribe for the portions of Shares allocated to them;

(iii) our inability to meet the minimum public spread requirement under the Listing Requirements, i.e. at least 25.0% of the total number of our Shares for which our 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; or

(iv) the revocation of the approvals from the relevant authorities prior to our Listing and/or admission for whatever reason other than the reasons specified in paragraph (v) below;

(v) if the SC issues a stop order pursuant to Section 245 of the CMSA prior to our Listing or if permission is not granted by Bursa Securities for our Listing before the expiration of 6 weeks from the date of issue of this Prospectus or such longer period as may be specified by the SC pursuant to Section 243 of the CMSA; or

(vi) the occurrence of any event or circumstance beyond the control of our Group.

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

(i) 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 our Company shall refund all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which the Company 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 specified by the SC pursuant to Section 245(7)(a) of the CMSA upon expiration of that period until full refund is made; or

(ii) 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:

(i) 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, the Company shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA upon expiration of that period until full refund is made; or

(ii) 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 share capital as provided under the Act and its related rules. Such cancellation can be implemented by either:

    (aa) 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

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

Therefore, there is a risk that monies paid in respect of our Shares may not be recovered in a timely manner.

9.3.7 Forward-looking statements are subject to uncertainties and contingencies

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Other statements, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Company for future operations, which are forward-looking in nature, are subject to uncertainties and contingencies. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will subsequently materialise. Their inclusion in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

10. RELATED PARTY TRANSACTIONS

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

10.1.1 Related party transactions

Under the Listing Requirements, a "**related party transaction**" is a transaction entered into by a listed issuer or its subsidiaries that involves the interest, direct or indirect, of a related party. A "**related party**" of a listed issuer 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 in which the terms of the transaction were agreed upon, a director of the listed issuer, its subsidiary or holding company or a chief executive of the listed issuer, its subsidiary or holding company; or

(ii) a major shareholder, 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 major shareholder of the listed issuer or its subsidiaries or holding company, and has or had 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 all the voting shares in the corporation; or

  (b) 5.0% or more of all the 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.

(The rest of this page has been intentionally left blank)

10.1.2 Material related party transactions entered into by our Group

Save as disclosed below, there is no material related party transaction, existing or proposed, entered or to be entered into by our Group which involves the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them for the Period Under Review and up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FPE 2022 (RM'000)	Up to the LPD
Our Company (as purchaser) and Tee Kim Chin (as vendor)	Tee Kim Chin is our Promoter, Director and substantial shareholder	Purchase of the Kempas 6 Factory by our Company from Tee Kim Chin	-	-	6,000 (3.5% of our Group's NA)	-	-
Cape Manufacturing (as purchaser) and Tee Kim Chin (as vendor)	Tee Kim Chin is our Promoter, Director and substantial shareholder and is a director of Cape Manufacturing	Purchase of the Temenggong 22 Factory by Cape Manufacturing from Tee Kim Chin	-	-	6,000 (3.5% of our Group's NA)	-	-
Our Company (as purchaser) and Tee Kim Chin and Alex Miranda Juntado (as vendors)	Tee Kim Chin is our Promoter, Director and substantial shareholder	• Acquisition of the entire equity interest in Cape Manufacturing by our Company from Tee Kim Chin and Alex Miranda Juntado	-	5,575[(1)] (6.9% of our Group's NA)	-	-	-
	Alex Miranda Juntado is our Director	• Acquisition of the entire equity interest in Cape Singapore by our Company from Tee Kim Chin and Alex Miranda Juntado	-	1,583[(2)] (1.9% of our Group's NA)	-	-	-
Our Company and Tee Kim Chin	Tee Kim Chin is our Promoter, Director and substantial shareholder	Rental of the Kempas 6 Factory by our Company from Tee Kim Chin	240 (0.6% over our Company's audited cost of sales)	240 (0.2% over our Group's audited cost of sales)	100 (Less than 0.1% over our Group's audited cost of sales)	-	-

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 2022 (RM'000)	Up to the LPD
Cape Manufacturing and Tee Kim Chin	Tee Kim Chin is our Promoter, Director and substantial shareholder and is a director of Cape Manufacturing	Rent-free use of the Temenggong 22 Factory by Cape Manufacturing from Tee Kim Chin ("**Temenggong 22 Factory Rent-Free**")	Not applicable	-	-	-	-
Our Company and Cape Manufacturing	Tee Kim Chin is our Promoter, Director and substantial shareholder Alex Miranda Juntado is our Director Tee Kim Chin and Alex Miranda Juntado are also the Directors and were substantial shareholders of Cape Manufacturing[(1)(3)]	Purchase of chassis alternating current (ac), enclosure top and bottom, subreflector, and wave guide tube by our Company from Cape Manufacturing	2,300 (5.8% over our Group's audited cost of sales)	-	-	-	-

Notes:

(1) Cape Manufacturing was acquired by our Company in January 2020.

(2) Cape Singapore was acquired by our Company in January 2020.

(3) For the FYE 2019, Tee Kim Chin and Alex Miranda Juntado were directors and substantial shareholders of Cape Manufacturing and our Company.

Our Board has referred to independent reports and letter for respective market values of Kempas 6 Factory and Temenggong 22 Factory, audited net asset of Cape Manufacturing as at 30 June 2019, audited net asset of Cape Singapore as at 31 December 2019, market rental rate applicable to our Kempas 6 Factory, as well as transfer pricing of goods sold between our Company and Cape Manufacturing. In addition, our Board (i) takes cognisance that the quotations in relation to goods sold between our Company and Cape Manufacturing are subject to our end customers' approvals; and (ii) referred to independent report, where it was concluded that the transactions between our Company and Cape Manufacturing had been consistent with the arm's length principle. Premised on this, our Directors confirm that the above material transactions were transacted on an arm's length basis and on normal commercial terms which were not more favourable to the related parties than those generally available to third parties and accordingly were not detrimental or unfavourable to our non-interested shareholders, save for the Temenggong 22 Factory Rent-Free transaction.

The rent-free use of the Temenggong 22 Factory by Cape Manufacturing from Tee Kim Chin is not considered by the Directors to be on an arm's length basis as it was provided on terms more favourable to Cape Manufacturing in comparison to normal commercial terms (i.e. the rental for Temenggong 22 Factory was rent-free).

Nevertheless, the Temenggong 22 Factory Rent-Free transaction is not detrimental to the Group as Cape Manufacturing saved cost in relation to rental fees. It is pertinent to note that Temenggong 22 Factory was subsequently sold to Cape Manufacturing during the FYE 2021.

Following our Listing, our Directors will ensure that future related party transactions (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that the future related party transactions (if any) are carried out on an arm's length basis are set out in **Section 10.2** of this Prospectus.

10.1.3 Transactions that are unusual in nature or condition

Our Directors have confirmed that there are no transactions that were unusual in its nature or condition, involving goods, services, tangible or intangible assets, to which our Company and any of our Subsidiaries were a party in respect of the Period Under Review and up to the LPD.

(The rest of this page has been intentionally left blank)

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

10.1.4 Outstanding loans and/or financial assistance (including guarantees of any kind) made to or for the benefit of related parties

Save as disclosed below, our Board has confirmed that there are no outstanding loan and/or financial assistance (including guarantee of any kind) made to our Group or by our Group to or for the benefit of any related parties for the Period Under Review and up to the LPD:

(i) Outstanding loans

Loans made to or for the benefit of related parties	Interested related party and nature of relationship	Nature of transaction	Transaction Value				
			FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FPE 2022 (RM'000)	Up to the LPD (RM'000)
Advances made to our Company by Cape Manufacturing	Tee Kim Chin is our Promoter, Director and substantial shareholder Tee Kim Chin is a director and was a substantial shareholder of Cape Manufacturing[(1)]	Advances for our working capital purposes	664	-	-	-	-
Advances made to Cape Singapore by our Company	Tee Kim Chin is our Promoter, Director and substantial shareholder Tee Kim Chin is a director and was a substantial shareholder of Cape Singapore[(2)]	Advances for Cape Singapore's working capital purposes	70	-	-	-	-
Advances made to Tee Kim Chin by our Company	Tee Kim Chin is our Promoter, Director and substantial shareholder	Advances to Director	-	-	4,740	-	-
Advances made by Tee Kim Chin to our Company	Tee Kim Chin is our Promoter, Director and substantial shareholder	Advances from Director for our working capital purposes	1,860	14,230	-	-	-

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

Loans made to or for the benefit of related parties	Interested related party and nature of relationship	Nature of transaction	Transaction Value				
			FYE 2019	FYE 2020	FYE 2021	FPE 2022	Up to the LPD
			(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Advances made by Cape Manufacturing to Tee Kim Chin	Tee Kim Chin is our Promoter, Director and substantial shareholder	Advances to Director	-	4,962	299	-	-
Advances made by Cape Singapore to Tee Kim Chin	Tee Kim Chin is our Promoter, Director and substantial shareholder	Advances to Director	-	3,367	3,076	-	-

Notes:

(1) Cape Manufacturing was acquired by our Company in January 2020.

(2) Cape Singapore was acquired by our Company in January 2020.

The abovementioned advances do not carry any interest and the amounts have been fully repaid as at 31 December 2021.

Our Board is of the view that the advances provided to the Group are not considered to be on an arm's length basis as the advances were provided on terms favourable to the Group (i.e. interest-free), and accordingly were not detrimental or unfavourable to our non-interested shareholders.

Following the acquisition of Cape Manufacturing and Cape Singapore by our Company in January 2020, advances made between our Company, Cape Manufacturing and Cape Singapore will no longer be considered to be provision of loans and/or financial assistance (including guarantees of any kind) involving the interests of related parties.

As at the LPD, our Group's available banking facilities for working capital purposes amounted to RM294.2 million, of which RM137.3 million has yet to be utilised. After taking into consideration our cash and bank balances and existing banking facilities, we have adequate working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus. Premised on the above, our Board is of the view that advances provided to the Group involving the interests of related parties may occur after Listing, but are not likely to become a significant source of funds for the Group moving forward.

Following our Listing, our Directors will ensure that future advances made to our Group by related parties (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that future related party transactions with the related parties (if any) are carried out on an arm's length basis are set out in **Section 10.2** of this Prospectus.

All the advances made to and from Tee Kim Chin to our Group has been settled as at 31 December 2021.

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

(ii) Financial assistance (including guarantees of any kind)

(a) Our Company

Tee Kim Chin and Tee Kim Yok, our Promoters, Directors and substantial shareholders, and Alex Miranda Juntado, our Director, have provided personal guarantees for banking facilities extended to our Company by Affin Bank Berhad, AmBank (M) Berhad Hong Leong Bank Berhad, HSBC Amanah Malaysia Berhad, HSBC Bank Malaysia Berhad and Malaysian Industrial Development Finance Berhad (collectively, "**Financiers of our Company**").

In conjunction with our Listing, we have applied to the Financiers of our Company to obtain a release and/or discharge of the guarantees. Until such release and/or discharge are obtained from the respective Financiers of our Company, Tee Kim Chin, Tee Kim Yok, and Alex Miranda Juntado will continue to guarantee the banking facilities extended to our Company. As at the LPD, we have received conditional approvals from the Financiers of our Company to discharge the above guarantees. These conditional approvals are among others, subject to the successful Listing of our Company.

(b) Cape Manufacturing

Tee Kim Chin and Tee Kim Yok, our Promoters, Directors and substantial shareholders, and Alex Miranda Juntado, our Director, have provided personal guarantees for banking facilities extended to Cape Manufacturing by Affin Bank Berhad, HSBC Amanah Malaysia Berhad, HSBC Bank Malaysia Berhad, Public Bank Berhad and RHB Bank Berhad (collectively, "**Financiers of Cape Manufacturing**").

In conjunction with the Listing, Cape Manufacturing applied to the Financiers of Cape Manufacturing to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company. Until such release and/or discharge are obtained from the respective Financiers of Cape Manufacturing, Tee Kim Chin, Tee Kim Yok and Alex Miranda Juntado will continue to guarantee the banking facilities extended to Cape Manufacturing. As at the LPD, Cape Manufacturing has received conditional approvals from the Financiers of Cape Manufacturing to discharge the above guarantees. These conditional approvals are subject to, among others, the successful listing of our Company.

The total credit facilities granted by the respective Financiers of our Group to each of Cape EMS and Cape Manufacturing as at the LPD are set out below:

	Total credit facilities granted		
Financier	**Cape EMS**	**Cape Manufacturing**	**Total**
	(RM)	**(RM)**	**(RM)**
Affin Bank Berhad	501,000	534,000	1,035,000
AmBank (M) Berhad	6,738,167	-	6,738,167
AmBank Islamic Berhad	-	34,200,000	34,200,000
Hong Leong Bank Berhad	103,936,014	-	103,936,014
HSBC Amanah Malaysia Berhad	9,200,000	1,857,000	11,057,000
HSBC Bank Malaysia Berhad	106,400,000	19,655,104	126,055,104
Malaysian Industrial Development Finance Berhad	8,000,000	-	8,000,000
Public Bank Berhad	-	118,000	118,000
RHB Bank Berhad	-	27,000,000	27,000,000
Total	**234,775,181**	**83,364,104**	**318,139,285**

(c) Company related to Directors and major shareholders

Our Company and Cape Manufacturing had provided corporate guarantees of RM19,976,000 (FYE 2018 and FYE 2019) and RM21,759,364 (FYE 2020 and FYE 2021) in favour of RHB Bank Berhad in relation to loans granted by RHB Bank Berhad to Christee Holding Sdn Bhd, which is a company related to our Promoters, Directors and substantial shareholders, Tee Kim Chin and Tee Kim Yok.

Tee Kim Chin and Tee Kim Yok are our Promoters, Directors and substantial shareholders, who are also directors and substantial shareholders of Christee Holding Sdn Bhd.

The amount of corporate guarantees provided by our Company and Cape Manufacturing are determined based on the amount of loan drawn down by Christee Holding Sdn Bhd.

The corporate guarantee has been uplifted on 2 June 2022 after full settlement of loans by the related party on 24 May 2022.

Following our Listing, the Directors will ensure that future related party transactions (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that the future related party transactions (if any) are carried out on an arm's length basis are set out in **Section 10.2** of this Prospectus.

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

10.2.1 Audit Committee review

Our Audit Committee reviews the financial risk and matters relating to related party transactions and conflict of interest situation that may arise within our Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity. It also sets the procedures and processes to ensure that transactions to be entered into are carried out are at arm's length, and on transaction prices and terms not more favourable to the related parties than those generally available to the public, fair and not detrimental to the minority shareholders of the Company. Amongst others, the related parties and parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations on the transactions.

All reviews by our Audit Committee are reported to our Board for its further action.

10.2.2 Our Group's policy on related party transactions

Related party transactions by their very nature, involve conflicts of interest between our Group and the related parties. Some of the officers and the directors of our Group are also officers, directors and in some cases, shareholders of the related parties of our Group, as disclosed in this Prospectus and, with respect to these related party transactions, may individually and in aggregate have conflicts of interest. It is the policy of our Group that all related party transactions are carried out on normal commercial terms which are not more favourable to the related parties than those generally available to the public dealing at arm's length with our Group and are not to the detriment of our minority shareholders.

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situations and intend for the framework to be guided by the Listing Requirements and the MCCG upon our Listing. The procedures which may form part of the framework includes, among others, the following:

(i) our Board shall ensure that at least half of our Board members are independent directors and will undertake an annual assessment of the independence of our independent directors;

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

(ii) the directors of our Group will be required to declare any direct or indirect interest that they may have in any business enterprise that is engaged in or proposed to be engaged in a transaction with our Group. Upon such disclosure, the interested director (with any interest, direct or indirect), must abstain from board deliberation and voting at the relevant board meeting. Additionally, the said interested director must abstain from voting and shall procure persons connected to the said interested director to abstain from voting on the relevant resolution in respect of the related party transaction at a general meeting (if applicable). The interested director must inform the board approving the transaction (which may be our Board or the board of directors of our subsidiary, as the case maybe), the details of the nature and extent of his/her interest, including all matters concerning the said related party transaction that he is aware or should reasonably be aware of, which is not in the best interest of our Company or our subsidiary; and

(iii) all existing or potential related party transactions would have to be disclosed by the interested party for management reporting. Our management will review the said transactions on whether the terms and conditions of the related party transactions to be entered into are at arm's length, and on transaction prices and terms not more favourable to the related parties than those generally available to the public, fair and not detrimental to the minority shareholders of our Company and will then propose the transactions to our Audit Committee for their review who would in turn, make a recommendation to our Board for deliberation and approval.

After our Listing, we will be required to seek our shareholders' approval each time we provide financial assistance (including guarantees of any kind) which involves the interests of related parties, in accordance with the Listing Requirements. However, if the related party transactions can be deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such related party transactions during the validity period of the mandate. For avoidance of doubt, related party transactions as defined in the Listing Requirements includes the provision of financial assistance by our Group which involves the interest, direct or indirect, of a related party.

In the event there are any proposed related party transactions that require prior approval of our shareholders, our Directors, major shareholders and/or persons connected with them who have any direct or indirect interest in the proposed related party transactions shall abstain from deliberation and voting on resolution(s) pertaining to the respective transactions. Under the Listing Requirements, related party transactions may be aggregated to determine its materiality, if (i) the transactions occurred within a 12-month period, (ii) are entered into with the same party or with parties related to one another, or (iii) if the transactions involved the acquisition or disposal of securities of interests in one corporation/asset or of various parcels of land contiguous to each other.

In addition, to safeguard the interest of our Group and our non-interested shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, among others, supervise and monitor any recurrent related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board will make the appropriate disclosure in our annual report with regards to any recurrent related party transaction entered into by us. 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.

11. CONFLICT OF INTEREST

11.1 CONFLICT OF INTEREST

11.1.1 Interest in similar business of our Group

None of our Directors or substantial shareholders has any other interest, whether direct or indirect, in any businesses or corporations which are carrying on a similar trade as our Group or which are the customers or suppliers of our Group.

The Directors' involvement in other business activities outside the Cape Group would not give rise to any conflict of interest situations as the principal activities of those companies are not similar to the Cape Group's business.

Moving forward, our Audit Committee will supervise any conflict of interest or potential conflict of interest situations that may arise and review our Group's current and future related party transactions to ensure that such transactions will be carried out on an arm's length basis and on commercial terms in the best interest of our Group. Please refer to **Section 10.2** of this Prospectus for further details of our monitoring and oversight policy on conflict of interest.

11.2 DECLARATION BY ADVISERS ON CONFLICT OF INTEREST

11.2.1 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 the LPD, our Group has outstanding banking facilities with the Hong Leong Group amounting to approximately RM70.9 million.

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, Joint Bookrunner and Joint Underwriter for our IPO as:

(i) HLIB is a licensed investment bank and its appointment as the Principal Adviser, Joint Bookrunner and Joint Underwriter 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 less than 0.3% of the audited net assets attributable to the owners of Hong Leong Financial Group Berhad as at 30 June 2022 of RM24.3 billion, are not material.

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 the Principal Adviser, Joint Bookrunner and Joint Underwriter in relation to our IPO.

11.2.2 Declaration by AmInvestment Bank Berhad

AmInvestment Bank is a wholly-owned subsidiary of AMMB Holdings Berhad. AMMB Holdings Berhad and its group of companies (collectively, "**AmBank Group**") form a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, commercial banking, private banking, brokerage, securities trading, asset and funds management and credit transaction services businesses. AmBank Group's securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of Cape Group.

As at the LPD, the AmBank Group has extended loan facilities with a combined limit of RM5.48 million to Cape Group. AmInvestment Bank is of the opinion that the loan facilities do not give rise to a conflict of interest situation in its capacity as the Joint Bookrunner and Joint Underwriter for our IPO due to the following reasons:

(i) the loan facilities were provided by AmBank Group in its ordinary course of business, and the said loan facilities are not material when compared to the audited NA of AmBank Group as at 31 March 2022 of approximately RM16.76 billion;

(ii) AmBank Group forms a diversified financial group and is engaged in a wide range of transactions as highlighted above. AmInvestment Bank is a licensed investment bank and its appointment as the Joint Bookrunner and Joint Underwriter for our IPO is in the ordinary course of business;

(iii) the loan facilities and repayment of the aforementioned credit facilities was not determined in contemplation of and not conditional upon AmInvestment Bank being appointed as the Joint Bookrunner and Joint Underwriter for our IPO; and

(iv) each of the entities and departments of the AmBank Group are also subject to internal control and checks, which regulate the sharing of information between entities and departments. Additionally, each department and entities within AmBank Group has separate and distinct operations and decisions are made independent of each other. In addition, the conduct of AmInvestment Bank is regulated by Bank Negara Malaysia.

AmInvestment Bank has confirmed that there is no existing or potential conflict of interest in its capacity as the Joint Bookrunner and Joint Underwriter for our IPO.

11.2.3 Declaration by 3p Capital Advisers Sdn Bhd

3p Capital Advisers Sdn Bhd has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Financial Adviser in relation to our IPO.

11.2.4 Declaration by Jeff Leong, Poon & Wong

Jeff Leong, Poon & Wong has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Legal Adviser to our Company as to the laws of Malaysia in relation to our IPO.

11.2.5 Declaration by Withers KhattarWong

Withers KhattarWong has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Legal Adviser to our Company as to the laws of Singapore in relation to our IPO.

11.2.6 Declaration by Mah-Kamariyah & Philip Koh

Mah-Kamariyah & Philip Koh has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Legal Adviser to the Joint Bookrunners and Joint Underwriters in relation to our IPO.

11.2.7 Declaration by Grant Thornton Malaysia PLT

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

11.2.8 Declaration by Vital Factor Consulting Sdn Bhd

Vital Factor Consulting Sdn Bhd has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Independent Business and Market Research Consultants to our Group in relation to our IPO.

11.3 SALIENT TERMS OF ENGAGEMENT AND SCOPE OF WORK OF OUR FINANCIAL ADVISER

The salient terms of engagement and scope of work of our Financial Adviser are, among others, as follows:

(i) reviewing and understanding the various businesses of our Group including, but not limited to, examining and reviewing our Group's assets, liabilities and shareholding structure, for the purpose of our Listing;

(ii) in consultation with the Principal Adviser, assisting our Company in addressing its suitability and readiness for our Group to undertake our Listing in respect of our Group's corporate governance, conflict of interest and related party transactions;

(iii) in consultation with our Company and Principal Adviser, advising on the restructuring exercise and equity structure of our Company in preparation for our Listing;

(iv) in consultation with our Company and Principal Adviser, assisting on conceptualising, advising, planning, and implementing our Listing, including the offer structure, size and method of achieving the optimal public shareholding spread, pricing of the ordinary shares, the enlarged issued share capital and other related capital/financial matters. For avoidance of doubt, the role of the Financial Adviser does not involve making available, offer for subscription or purchase or issue an invitation to subscribe for or purchase securities in relation to our Listing;

(v) participating in the due diligence working group to verify the information, data, documents and representations by our Directors contained in this Prospectus and submissions to the relevant authorities;

(vi) to review and provide appropriate sign-off on the due diligence planning memorandum, due diligence report, minutes of due diligence working group meetings, as well as verification notes in relation to the submission documents related to our Listing; and

(vii) assisting our Company in reviewing the consultation paper(s) to be submitted by our Principal Adviser to the SC.

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The historical financial information of our Group for the FYEs 2019, 2020, 2021, as well as for the FPEs 2021 and 2022, have been extracted from the Accountants' Report set out in **Section 13** of this Prospectus.

The historical audited consolidated financial information for the Period Under Review as set out in this section is based on financial statements that have been prepared in accordance with MFRS and IFRS. The selected financial information included in this Prospectus is not intended to represent our future financial position and results.

You should read the historical financial information below together with our Management's Discussion and Analysis of Financial Condition and Results of Operations set out in **Section 12.3** of this Prospectus and the Accountants' Report set out in **Section 13** of this Prospectus.

12.1.1 Consolidated Statements of Profit and Loss and Other Comprehensive Income

	Audited			**Unaudited**	**Audited**
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	43,157	168,261	344,334	243,597	319,750
Cost of sales	(39,762)	(135,840)	(302,443)	(215,658)	(278,199)
GP	**3,395**	**32,421**	**41,891**	**27,939**	**41,551**
Other income	1,023	2,149	984	1,206	5,992
Finance income	3	4	19	3	72
Administrative expenses	(2,242)	(7,522)	(10,674)	(7,661)	(10,265)
Distribution costs	(119)	(991)	(965)	(439)	(291)
Other expenses	(48)	(382)	(568)	-	-
Finance costs	(889)	(2,982)	(5,332)	(3,676)	(6,119)
PBT	**1,123**	**22,697**	**25,355**	**17,372**	**30,940**
Income tax expense	2,695	(2,465)	909	2,531	(6,333)
PAT	**3,818**	**20,232**	**26,264**	**19,903**	**24,607**
Other comprehensive income, net of tax	-	20,126	1,930	22	319
Total comprehensive income	**3,818**	**40,358**	**28,194**	**19,925**	**24,926**
Supplementary financial information					
EBITDA(1) (RM)	5,064	32,594	41,305	27,632	50,397
GP margin(2) (%)	7.9	19.3	12.2	11.5	13.0
EBITDA margin(3) (%)	11.7	19.4	12.0	11.3	15.8
PBT margin(4) (%)	2.6	13.5	7.4	7.1	9.7
Effective tax rate(5) (%)	-	10.9	-	-	20.5
PAT margin(6) (%)	8.8	12.0	7.6	8.2	7.7
PAT attributable to the owners of the Company	3,818	20,232	26,264	19,903	24,607
Basic EPS(7) (sen)	0.51	2.70	3.50	2.65	3.28
Diluted EPS(8) (sen)	0.41	2.19	2.85	2.16	2.67

Notes:

(1) EBITDA is computed as PAT plus: (i) income tax expense; (ii) finance costs; (iii) depreciation of property, plant and equipment; and (iv) depreciation of right-of-use assets, less (v) finance income. See below for details of computation as well as information regarding the use of non-MFRS measures.

The following table reconciles our PAT to EBITDA for the financial years indicated:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
PAT	3,818	20,232	26,264	19,903	24,607
Add/(Less):					
Income tax expense	(2,695)	2,465	(909)	(2,531)	6,333
Finance costs	889	2,982	5,332	3,676	6,119
Depreciation of property, plant and equipment	1,148	3,293	6,504	5,312	7,124
Depreciation of right-of-use assets	1,907	3,626	4,133	1,275	6,286
Finance income	(3)	(4)	(19)	(3)	(72)
EBITDA	**5,064**	**32,594**	**41,305**	**27,632**	**50,397**

EBITDA and EBITDA margin are supplemental measure of our performance and liquidity that are not required by or presented in accordance with the MFRS or IFRS. EBITDA and EBITDA margin are not measures of our financial performance or liquidity under the MFRS or IFRS and should not be considered as alternatives to net income or any other performance measures derived in accordance with the MFRS or IFRS or as alternatives to cash flows from operating activities or as a measure of liquidity. In addition, EBITDA and EBITDA margin are not standardised terms, and hence, a direct comparison of similarly titled measures between companies may not be possible. Other companies may calculate EBITDA and EBITDA margin differently from us, limiting its usefulness as a comparative measure.

(2) Computed based on GP divided by revenue.

(3) Computed based on EBITDA divided by revenue.

(4) Computed based on PBT divided by revenue.

(5) For more information, refer **Section 12.3.1(vii)** of this Prospectus and Note 25 of the Accountants' Report in **Section 13** of this Prospectus.

(6) Computed based on PAT divided by revenue.

(7) Computed based on PAT attributable to owners of the Company divided by issued share capital of 750,000,000 Shares after the Pre-IPO Restructuring Exercise.

(8) Computed based on PAT attributable to owners of the Company divided by the enlarged share capital of 923,000,000 Shares after the IPO.

(The rest of this page has been intentionally left blank)

12.1.2 Consolidated Statements of Financial Position

The consolidated statements of financial position for the Period Under Review are as follows:

	Audited as at			
	31 December			30 September
	2019	**2020**	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total non-current assets	26,085	99,807	218,883	230,614
Total current assets	74,898	157,359	183,257	233,004
Total assets	**100,983**	**257,166**	**402,140**	**463,618**
Total non-current liabilities	12,797	59,879	112,136	129,849
Total current liabilities	67,177	115,919	120,442	152,245
Total liabilities	**79,974**	**175,798**	**232,578**	**282,094**
Net assets	**21,009**	**81,368**	**169,562**	**181,524**
Net current assets	7,721	41,440	62,815	80,759
Share capital	20,000	40,000	100,000	100,000
Exchange translation reserve	-	(6)	34	353
Revaluation reserve	-	20,104	21,607	21,288
Retained profits	1,009	21,270	47,921	59,883
Total equity	**21,009**	**81,368**	**169,562**	**181,524**
Total bank borrowings[(1)] (RM'000)	14,488	87,521	156,264	203,487
Total borrowings[(2)] (RM'000)	20,697	94,219	156,327	203,512
Gearing ratio[(3)] (times)	1.0	1.2	0.9	1.1
Net borrowings[(4)] (RM'000)	19,571	81,032	115,959	171,197
Net gearing ratio[(5)] (times)	0.9	1.0	0.7	0.9
Current ratio[(6)]	1.1	1.4	1.5	1.5

Notes:

(1) Computed based on total bank borrowings including lease liabilities under the hire purchase contracts owing to financial institutions.

(2) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties, including a supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai. For more information, see Note 34 of the Accountants' Report included in **Section 13** of this Prospectus.

(3) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties divided by total equity.

(4) Computed based on total borrowings (including overdraft) less (i) cash and bank balances, (ii) fixed deposit not pledged to bank. See below for details of computation of net borrowings.

	Audited as at			
	31 December			30 September
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Borrowings	20,697	94,219	156,327	203,512
(Less):				
Cash and bank balances	(1,126)	(13,187)	(40,261)	(32,315)
Fixed deposit not pledged with bank	-	-	(107)	-
Net borrowings	**19,571**	**81,032**	**115,959**	**171,197**

(5) Computed based on net borrowings (total borrowings (including overdraft) less (i) cash and bank balances; and (ii) fixed deposits not pledged to bank) divided by total equity.

(6) Computed based on current assets over current liabilities.

12.2 CAPITALISATION AND INDEBTEDNESS

The following table summarises our pro forma capitalisation and indebtedness based on the unaudited management account as at 31 December 2022 and giving effect to the completion of our IPO and the utilisation of proceeds having occurred on 31 December 2022.

The pro forma financial information below does not represent our Group's actual capitalisation and indebtedness as at 31 December 2022 and is provided for illustrative purposes only.

	Unaudited	
	As at 31 December 2022	After our Public Issue and Use of Proceeds
	(RM'000)	(RM'000)
Indebtedness		
Current		
Secured and guaranteed		
Term loans	6,841	6,841
Bank overdraft	6,430	6,430
Bankers' acceptance	3,898	3,898
Invoice financing	7,858	7,858
OFCL	8,267	8,267
Receivables finance	13,692	13,692
Shipment buyer loans	17,380	17,380
Lease liabilities with financial institutions (hire purchase)	10,112	10,112
Not secured and not guaranteed		
Other lease liabilities[(2)]	15	15

	Unaudited	
	As at 31 December 2022	**After our Public Issue and Use of Proceeds**
	(RM'000)	**(RM'000)**
Non-current		
Secured and guaranteed		
Term loans	74,242	74,242
Lease liabilities with financial institutions (hire purchase)	43,160	43,160
Not secured and not guaranteed		
Other lease liabilities[(2)]	-	-
Total indebtedness	**191,895**	**191,895**
Capitalisation		
Equity attributable to owners of our Company	**185,789**	**[(1)]330,489**
Total capitalisation and indebtedness	**377,684**	**522,384**

Notes:

(1) Computed after taking into account the issuance of the Issue Shares based on the Retail Price, and the estimated listing expenses.

(2) Refers to lease liabilities arising from lease of hostels recognised in accordance with MFRS 16.

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 Period Under Review should be read in conjunction with the accompanying notes, assumptions and bases set out in the Accountants' Report in **Section 13** of this Prospectus.

The discussion and analysis contain data derived from our audited consolidated financial statements as well as forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ significantly from those projected in the forward-looking statements. The 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.

The consolidated financial statements of the Group for the FYE 2019 reflects the financial information of Cape EMS only while the consolidated financial statements for FYE 2020 and FYE 2021 reflects the financial information of the Group as our Company acquired Cape Manufacturing and Cape Singapore in January 2020.

12.3.1 Review of operations

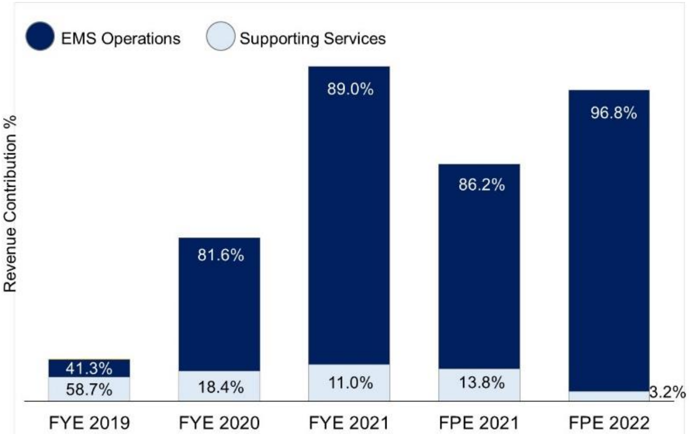
Our business is principally involved in the provision of EMS for industrial and consumer electronic products. As an EMS provider, we offer a range of contract manufacturing services for end-to-end manufacturing services which entail parts and component sourcing and procurement, production, assembly, testing, packaging up to direct shipment fulfilment. Our manufacturing contracts are typically turnkey contracts to provide complete box build products.

We also carry out supporting services for our EMS operations where we have in-house aluminium die cast manufacturing, as well as sourcing and procurement of parts and components for our box build consumer and industrial electronic products. In addition, we manufacture die cast parts and supply parts and components to external parties.

Please refer to **Section 7** of this Prospectus for further information on our business activities.

(i) Revenue

Revenue from the provision of EMS and supporting services is recognised when we have transferred control of goods to our customers, on the date when the goods have been accepted by our customers. The pricing for our Group's EMS products is quoted based on customised services taking into consideration the type of products to be assembled, input materials to be sourced and procured as well as type of value-added services to be provided, which is typically based on an ex-factory basis. In this respect, the average selling price is not applicable for our EMS operations.



Revenue Contribution	FYE 2019 *RM'000*	FYE 2020 *RM'000*	FYE 2021 *RM'000*	FPE 2021 *RM'000*	FPE 2022 *RM'000*
EMS	**17,827**	**137,260**	**306,287**	**209,905**	**309,451**
Industrial electronics	*17,801*	*83,641*	*214,658*	*146,820*	*187,874*
Consumer electronics	*26*	*53,619*	*91,629*	*63,085*	*121,577*
Supporting services	**25,330**	**31,001**	**38,047**	**33,692**	**10,299**
Die casting manufacturing	*#*	*11,403*	*24,143*	*21,738*	*8,163*
Supply of parts and components	*25,330*	*19,598*	*13,904*	*11,954*	*2,136*
Total Revenue	**43,157**	**168,261**	**344,334**	**243,597**	**319,750**

Note:
\# Cape Manufacturing was acquired by our Company in January 2020.

For the Period under Review, our revenue was mainly derived from the provision of EMS for industrial and consumer electronic products, which accounted for 41.3% (RM17.8 million), 81.6% (RM137.3 million), 89.0% (RM306.3 million) and 96.8% (RM309.5 million) of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

Between FYE 2019 and FYE 2021, our revenue increased at a CAGR of 182.5%, from RM43.2 million in FYE 2019 to RM344.3 million in FYE 2021. Our revenue increased by 31.3% in FPE 2022 as compared to FPE 2021. Please refer to **Section 12.3.1(i)(a)** of this Prospectus for further revenue analysis.

We have gained access to both foreign and domestic markets, and this is supported by our customer base which is spread across 9 countries for FYE 2021 and 10 countries for FPE 2022, where the top 2 foreign countries were the USA and Singapore, which collectively accounted for 87.9% (RM302.7 million) and 85.8% (RM274.3 million) of our total revenue for FYE 2021 and FPE 2022 respectively. Please refer to **Section 12.3.1(i)(b)** of this Prospectus for further revenue analysis by geographical markets.

(a) Revenue by business segments

The table below sets out our revenue by business segments for the Period Under Review:

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**(%)**	**RM'000**	**(%)**	**RM'000**	**(%)**
Provision of EMS						
• Industrial electronic products	17,801	41.2	83,641	49.7	214,658	62.3
- *Wireless communication equipment*	*17,801*	*41.2*	*71,324*	*42.4*	*79,282*	*23.0*
- *Smart utility data collection equipment*	-	-	*10,609*	*6.3*	*67,924*	*19.7*
- *POS terminals*	-	-	*1,610*	*1.0*	*62,862*	*18.3*
- *Others*(1)	-	-	*98*	*	*4,590*	*1.3*
• Consumer electronic products	26	0.1	53,619	31.9	91,629	26.6
- *Household appliances*	*26*	*0.1*	*17,213*	*10.2*	*49,350*	*14.3*
- *Electronic cigarettes*	-	-	*36,406*	*21.7*	*42,279*	*12.3*
	17,827	**41.3**	**137,260**	**81.6**	**306,287**	**(2)89.0**
Supporting services						
• Die casting manufacturing#	-	-	11,403	6.8	24,143	7.0
• Supply of parts and components	25,330	58.7	19,598	11.6	13,904	4.0
	25,330	**58.7**	**31,001**	**18.4**	**38,047**	**11.0**
Total	**43,157**	**100.0**	**168,261**	**100.0**	**344,334**	**100.0**

	FPE 2021		FPE 2022	
	RM'000	**(%)**	**RM'000**	**(%)**
Provision of EMS				
• Industrial electronic products	146,820	60.3	187,874	58.8
- *Wireless communication equipment*	*62,146*	*25.5*	*58,823*	*18.4*
- *Smart utility data collection equipment*	*55,170*	*22.6*	*52,069*	*16.3*
- *POS terminals*	*27,588*	*11.3*	*63,222*	*19.8*
- *Others*(1)	*1,916*	*0.8*	*13,760*	*4.3*
• Consumer electronic products	63,085	25.9	121,577	38.0
- *Household appliances*	*45,393*	*18.6*	*34,983*	*10.9*
- *Electronic cigarettes*	*17,692*	*7.3*	*86,594*	*27.1*
	209,905	**86.2**	**309,451**	**96.8**
Supporting services				
• Die casting manufacturing#	21,738	8.9	8,163	2.5
• Supply of parts and components	11,954	4.9	2,136	0.7
	33,692	**13.8**	**10,299**	**3.2**
Total	**243,597**	**100.0**	**319,750**	**100.0**

Notes:

* Less than 0.1%.

\# Cape Manufacturing was acquired by our Company in January 2020.

(1) Includes digital vending machines and portable printer power desks as well as LED lighting products for FPE 2022.

(2) Figures in the table may not tally due to rounding issue.

Sales volume of industrial and consumer electronic products

	FYE 2019	**FYE 2020**	**FYE 2021**
	(Units)	**(Units)**	**(Units)**
Industrial electronic products	97,911	665,760	1,388,605
- *Wireless communication equipment*	*97,911*	*489,690*	*599,222*
- *Smart utility data collection equipment*	-	*173,070*	*641,742*
- *POS terminals*	-	*2,981*	*147,629*
- *Others*(1)	-	*19*	*12*
Consumer electronic products	6	80,477	974,651
- *Household appliances*	*6*	*74,421*	*193,751*
- *Electronic cigarettes*	-	*6,056*	*780,900*

	FPE 2021	**FPE 2022**
	(Units)	**(Units)**
Industrial electronic products	989,735	1,433,426
- *Wireless communication equipment*	*548,792*	*361,234*
- *Smart utility data collection equipment*	*369,189*	*850,566*
- *POS terminals*	*71,742*	*169,481*
- *Others*(1)	*12*	*52,145*
Consumer electronic products	175,815	21,329,318
- *Household appliances*	*175,815*	*166,018*
- *Electronic cigarettes*	-	*21,163,300*

Note:

(1) Includes 12 units and 43 units of digital vending machines for FPE 2021 and FPE 2022 respectively, as well as 52,102 units of LED lighting products for FPE 2022.

(b) Revenue by geographical markets

The table below sets out revenue contribution by geographical markets for the Period Under Review as follows:

	FYE 2019		**FYE 2020**		**FYE 2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Asia Pacific						
Singapore	26	0.1	18,823	11.2	112,212	32.6
Malaysia	25,330	58.7	22,720	13.5	27,005	7.8
Hong Kong	-	-	1,835	1.1	4,835	1.4
Japan	-	-	100	0.1	5,155	1.5
China	-	-	898	0.5	570	0.2
Taiwan	-	-	382	0.2	308	0.1
India	-	-	31	#	19	#
	25,356	**58.8**	**44,789**	**26.6**	**150,104**	**43.6**

12. FINANCIAL INFORMATION *(Cont'd)*

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Americas						
USA	10,821	25.1	92,369	54.9	190,518	55.3
	10,821	**25.1**	**92,369**	**54.9**	**190,518**	**55.3**
Europe						
UK	6,980	16.1	30,599	18.2	3,712	1.1
Sweden	-	-	504	0.3	-	-
	6,980	**16.1**	**31,103**	**18.5**	**3,712**	**1.1**
Total revenue	**43,157**	**100.0**	**168,261**	**100.0**	**344,334**	**100.00**

	FPE 2021		FPE 2022	
	RM'000	**%**	**RM'000**	**%**
Asia Pacific				
Singapore	72,981	30.0	98,205	30.7
Malaysia	24,114	9.9	9,871	3.1
Hong Kong	4,722	1.9	25	#
Japan	2,962	1.2	11,864	3.7
China	493	0.2	617	0.2
Taiwan	356	0.1	252	0.1
India	19	#	26	#
	105,647	**43.3**	**120,860**	**37.8**
Americas				
USA	135,088	55.5	176,047	55.1
	135,088	**55.5**	**176,047**	**55.1**
Europe				
UK	2,862	1.2	22,706	7.1
Sweden	-	-	137	#
	2,862	**1.2**	**22,843**	**7.1**
Total revenue	**243,597**	**100.0**	**319,750**	**100.0**

Note:

Contribution less than 0.1%

(The rest of this page has been intentionally left blank)

(c) Commentaries on revenue

Comparison between FYE 2020 and FYE 2019

For FYE 2020, our total revenue increased by RM125.1 million or 289.9% from RM43.2 million for FYE 2019 to RM168.3 million for FYE 2020. This was mainly attributed to the increase in revenue from the provision of EMS comprising industrial and consumer electronic products.

Revenue from the provision of EMS increased by RM119.4 million or 669.9% from RM17.8 million for FYE 2019 to RM137.3 million for FYE 2020, contributed by the following products:

- Revenue from industrial electronic products increased by RM65.8 million or 369.9% from RM17.8 million for FYE 2019 to RM83.6 million for FYE 2020 mainly due to higher sales for wireless communication equipment to the Airspan group of companies where we fulfilled the increased volume based on orders placed by the said customer as reflected in the sales volume increased by 400.1% from 97,911 units for FYE 2019 to 489,690 units for FYE 2020. The increase in orders placed by our customers arose from our ability in meeting their specifications and requirements as well as delivery schedules. Revenue from wireless communication equipment increased by RM53.5 million or 300.7% from RM17.8 million for FYE 2019 to RM71.3 million for FYE 2020.

  In addition, the revenue increase was partly contributed by the increase of RM10.6 million from smart utility data collection equipment for FYE 2020 as we secured new customers, namely SOQ and NextCentury pursuant to the acquisition of Cape Singapore by our Company in FYE 2020.

- For FYE 2020, revenue from consumer electronic products accounted for RM53.6 million mainly contributed by revenue of RM36.4 million from the commencement of EMS for electronic cigarettes for Customer A which was mainly derived from the value-added services for the initial development which included the customisation of automated production line, development of tooling for plastic and metal parts with suppliers to meet the customer's requirements and specifications.

  The increase in revenue from consumer electronic products was also partly contributed by the commencement of mass production of household appliance for K & Q where revenue increased by RM17.2 million for FYE 2020, which increased from approximately RM26,000 for FYE 2019 to RM17.2 million for FYE 2020. The revenue of RM26,000 recorded during the FYE 2019 was derived from pilot assembled sample products for customer prior to the mass production.

For FYE 2020, revenue from supporting services increased by RM5.7 million or 22.4% from RM25.3 million for FYE 2019 to RM31.0 million for FYE 2020. This was mainly contributed by revenue of RM11.4 million from our die cast manufacturing operations including value added services mainly for the initial development of tooling such as the tooling design for the mould and die prior to the mass production of die cast parts. The die cast manufacturing operation is undertaken by our subsidiary, Cape Manufacturing which was acquired by our Company in FYE 2020.

The increase was partially offset by a decrease in revenue by RM5.7 million from the supply of parts and components, where the revenue decreased by 22.6% from RM25.3 million for FYE 2019 to RM19.6 million for FYE 2020. This was mainly due to decrease in supply of the parts and components to Changhuat Plastic mainly due to lower orders of plastic and metal parts and components from Changhuat Plastic due to reduction in orders from their customers.

Comparison between FYE 2021 and FYE 2020

For FYE 2021, our total revenue increased by RM176.1 million or 104.6% from RM168.3 million for FYE 2020 to RM344.3 million for FYE 2021. This was mainly attributed to the increase in revenue from the provision of EMS of industrial and consumer electronic products.

Revenue from the provision of EMS increased by RM169.0 million or 123.1% from RM137.3 million for FYE 2020 to RM306.3 million for FYE 2021. This was mainly contributed by the following products:

- Revenue from industrial electronic products increased by RM131.0 million or 156.6% from RM83.6 million for FYE 2020 to RM214.6 million for FYE 2021 mainly due to higher orders for POS terminals from Tastar Electronics where we fulfilled the increased volume based on orders placed by the said customer, which reflected in the sales volume increased by 4,852.3% from 2,981 units for FYE 2020 to 147,629 units for FYE 2021. The increase in orders placed by our customers arose from our ability in meeting their specifications and requirements as well as delivery schedules. Revenue from this product increased by RM61.3 million or 3,804.7% for FYE 2021 from RM1.6 million for FYE 2020 to RM62.9 million for FYE 2021.

  The increase in revenue from industrial electronic products was also contributed by the higher sales for smart utility data collection equipment to SOQ and NextCentury where we fulfilled the increased volume based on orders placed by the said customers, which reflected in the sales volume increased by 270.8% from 173,070 units for FYE 2020 to 641,742 units for FYE 2021. The increase in orders placed by our customers arose from our ability in meeting their specifications and requirements as well as delivery schedules. The revenue of this type of products increased by RM57.3 million or 540.3% from RM10.6 million for FYE 2020 to RM67.9 million for FYE 2021.

  Our revenue from industrial electronic products was also contributed by the increase in revenue from sales of wireless communication equipment to the Airspan group of companies, as well as other products including digital vending machines and portable printer power desks to customers in the USA where the collective revenue from these products increased by RM12.4 million or 17.4% for FYE 2021. Collectively, the revenue from the aforementioned products increased from RM71.4 million for FYE 2020 to RM83.8 million for FYE 2021. The increase was mainly due to higher orders from the Airspan group of companies where we fulfilled the increased volume based on orders placed by the said customers and the sales volume increased by 22.4% from 489,690 units for FYE 2020 to 599,222 units for FYE 2021 while revenue increased by RM8.0 million or 11.2%, from RM71.3 million for FYE 2020 to RM79.3 million for FYE 2021. The increase in orders placed by our customers arose from our ability in meeting their specifications and requirements as well as delivery schedules.

  Furthermore, the increase was partly driven by the increase in revenue from digital vending machines resulting from the fulfilment of the increased orders placed by customers and the revenue increased by RM4.3 million or 7,940.8%, from RM0.1 million for FYE 2020 to RM4.4 million for FYE 2021. While the revenue contribution from the portable printer power desks was minimal at RM0.2 million for FYE 2021.

- Revenue from consumer electronic products increased by RM38.0 million or 70.9% from RM53.6 million for FYE 2020 to RM91.6 million for FYE 2021 mainly due to higher sales of household appliances to K & Q where we fulfilled the increased volume based on orders placed by the said customer, which reflected in the sales volume increased by 160.3% from 74,421 units for FYE 2020 to 193,751 units for FYE 2021. Revenue from this product increased by RM32.1 million or 186.7% from RM17.2 million for FYE 2020 to RM49.3 million for FYE 2021.

  The increase in revenue from consumer electronic products was also contributed by the commencement of mass production of electronic cigarettes for Customer A where revenue increased by RM5.9 million or 16.1% from RM36.4 million for FYE 2020 to RM42.3 million for FYE 2021.

For the FYE 2021, revenue from supporting services increased by RM7.0 million or 22.7% from RM31.0 million in FYE 2020 to RM38.0 million in FYE 2021. This was mainly contributed by the increase in revenue of RM12.7 million or 111.7% from our die cast manufacturing operations, which increased from RM11.4 million for FYE 2020 to RM24.1 million for FYE 2021 where the sales volume increased by 142.2% from 587,501 pieces to 1,423,073 pieces for FYE 2021 due to the sales of aluminium die cast parts to a new customer who is a metal stamping manufacturer.

Comparison between FPE 2022 and FPE 2021

For FPE 2022, our total revenue increased by RM76.2 million or 31.3% from RM243.6 million for FPE 2021 to RM319.7 million for FPE 2022. This was mainly attributed to the increase in revenue from the provision of EMS of industrial and consumer electronic products.

Revenue from the provision of EMS increased by RM99.5 million or 47.4% from RM209.9 million for FPE 2021 to RM309.5 million for FPE 2022. This was mainly contributed by the following products:

- Revenue from industrial electronic products increased by RM41.1 million or 28.0% from RM146.8 million for FPE 2021 to RM187.9 million for FPE 2022 mainly due to higher sales of POS terminals to Tastar Electronics where we fulfilled the increased volume based on orders placed by the said customer, as reflected in the sales volume which increased by 136.2% from 71,742 units for FPE 2021 to 169,481 units for FPE 2022. Revenue from this product increased by RM35.6 million or 129.2% for FPE 2022 from RM27.6 million for FPE 2021 to RM63.2 million for FPE 2022.

  The increase in revenue from industrial electronic products was also contributed by the increase in revenue from EMS of other industrial electronic products by RM11.8 million or 618.2% from RM1.9 million for FPE 2021 to RM13.8 million for FPE 2022. This was mainly contributed by the commencement of EMS for LED lighting products during the FPE 2022 with a total sales volume of 52,102 units for FPE 2022, as well as fulfilment of higher orders for the digital vending machines which was also reflected in the increase in sales volume from 12 units for FPE 2021 to 43 units for FPE 2022.

The increase in revenue from industrial electronic products was partially moderated by the decrease in revenue from sales of wireless communication equipment to mainly the Airspan group of companies where the revenue from this product decreased by RM3.3 million or 5.3% from RM62.1 million for FPE 2021 to RM58.8 million for FPE 2022 due to lower confirmed orders from our customer and our production of wireless communication equipment was affected in April and May 2022 arising from the semiconductor shortages. This was also reflected in the decrease in sales volume by 34.2% from 548,792 units for FPE 2021 to 361,234 units for FPE 2022. Subsequently the production of this said products returned to normal from June 2022 onwards.

The decrease in revenue from industrial electronic products was also due to the decrease in revenue from sales of smart utility data collection equipment as there were no orders for SOQ since October 2021 due to end of life of older model while we continued to work directly with NextCentury.

- Revenue from consumer electronic products increased by RM58.5 million or 92.7% from RM63.1 million for FPE 2021 to RM121.6 million for FPE 2022 mainly due to commencement of mass production of electronic cigarettes for Customer A in the last quarter of FYE 2021. The revenue from electronic cigarettes increased by RM68.9 million or 389.5% from RM17.7 million for FPE 2021 to RM86.6 million for FPE 2022.

  The increase in revenue from consumer electronic products was moderated by the decrease in sales of household appliances to K & Q where the revenue decreased by RM10.4 million or 22.9% from RM45.4 million in FPE 2021 to RM35.0 million in FPE 2022. The decrease was mainly attributed to lower demand from K & Q and this was reflected in the decrease in sales volume by 5.6% from 175,815 units in FPE 2021 to 166,018 units in FPE 2022.

For the FPE 2022, revenue from supporting services decreased by RM23.4 million or 69.4% from RM33.7 million in FPE 2021 to RM10.3 million in FPE 2022. This was mainly attributed to the decrease in revenue from our die cast manufacturing operations where the sales volume decreased by 40.2% from 856,499 pieces for FPE 2021 to 512,590 pieces for FPE 2022. The decrease was mainly due to no sales order for aluminium die cast parts from Cape Manufacturing's customer for FPE 2022. However, we currently deal directly with the said customer's end customer, who is also our customer for the EMS of box build LED lighting products, the revenue of which is recognised under the provision of EMS segment. The decrease was also partly attributed to the decrease in revenue from the supply of parts and components of RM9.8 million or 82.1% from RM12.0 million in FPE 2021 to RM2.1 million in FPE 2022, which is mainly due to lower sales to Changhuat Plastic as a result of reduction in orders from their customers.

(The rest of this page has been intentionally left blank)

(ii) Cost of sales

(a) Cost of sales by cost components

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

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Input materials	31,213	78.5	108,637	80.0	251,002	83.0
Subcontracted services[(1)]	99	0.3	7,378	5.4	15,867	5.2
Labour cost	1,474	3.7	5,400	4.0	11,201	3.7
Factory overheads	6,976	17.5	14,425	10.6	24,373	8.1
Total	**39,762**	**100.0**	**135,840**	**100.0**	**302,443**	**100.0**

	FPE 2021		FPE 2022	
	RM'000	**%**	**RM'000**	**%**
Input materials	181,366	84.1	208,941	75.1
Subcontracted services[(1)]	8,962	4.1	21,841	7.9
Labour cost	8,756	4.1	16,211	5.8
Factory overheads	16,574	7.7	31,206	11.2
Total	**215,658**	**100.0**	**278,199**	**100.0**

Note:

(1) Subcontracted labour for EMS operations.

(b) Cost of sales by business segments

The table below sets out our cost of sales by business segments for the Period Under Review:

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Provision of EMS	**15,332**	**38.6**	**108,890**	**80.2**	**266,978**	**88.3**
• Industrial electronic products	15,310	38.5	70,386	51.8	195,611	64.7
• Consumer electronic products	22	0.1	38,504	28.4	71,367	23.6
Supporting services	**24,430**	**61.4**	**26,950**	**19.8**	**35,465**	**11.7**
Total	**39,762**	**100.0**	**135,840**	**100.0**	**302,443**	**100.00**

	FPE 2021		FPE 2022	
	RM'000	**%**	**RM'000**	**%**
Provision of EMS	**184,545**	**85.6**	**269,398**	**96.8**
• Industrial electronic products	131,482	61.0	175,708	63.1
• Consumer electronic products	53,063	24.6	93,690	33.7
Supporting services	**31,113**	**14.4**	**8,801**	**3.2**
Total	**215,658**	**100.0**	**278,199**	**100.0**

(c) Commentaries on cost of sales

(i) Input materials

The cost of sales of input materials for the provision of EMS mainly consists of E&E parts and components, mechanical parts as well as packaging and related materials as follows:

- E&E parts and components including mainly electronic components for portable credit card readers, wireless data gathering systems, wireless vacuum cleaners and antenna for wireless communications, as well as other electronic components, PCBA, LED panels and related materials, vending machine parts, battery parts and components, electrical parts, components as well as wireless antenna parts.
- Mechanical parts including plastic parts for enclosures, metal parts, gas meter parts, silicon and rubber seals, plugs, caps and O-rings, fasteners, jigs, plug gauges and springs.
- Packaging and related materials including labels, carton boxes, blister trays, paper trays, blister foils, tray packaging, plastic pallets, barrier bags, bottom covers, OPP tapes and ESD shoes, adhesives as well as rubber parts.

The cost of sales of materials for the die cast manufacturing mainly consists of aluminium ingots.

For FYE 2020, the cost of sales of materials increased by RM77.4 million or 248.1% which was mainly attributed to increase in purchase of input materials to meet the incremental orders from our customers. This was in tandem with the increase in our revenue of 289.9%, mainly contributed by the provision of EMS for industrial and consumer electronic products.

For FYE 2021, the cost of sales of materials increased by RM142.4 million or 131.0% which was mainly attributed to increase in purchase of input materials to meet the incremental orders from our customers. This was in line with the increase in revenue of 104.6% mainly attributed to the increase in revenue from the provision of EMS of industrial and consumer electronic products.

For FPE 2022, the cost of sales of materials increased by RM27.6 million or 15.2% which was mainly attributed to increase in purchase of input materials to meet the incremental orders from our customers. This was in tandem with the increase in revenue of 31.3% mainly attributed to the increase in revenue from the provision of EMS of industrial and consumer electronic products.

Please refer to **Section 12.3.1(i)(c)** of this Prospectus for further revenue analysis.

(ii) Subcontracted services

Subcontracted services refer to the subcontracted labour engaged for our EMS services and services we engaged for the die cast manufacturing operations. This includes surface treatment and coating for our finished die cast parts, as well as machining that requires specialised CNC machines that we do not have in-house.

For FYE 2020, the cost of sales of subcontracted services increased by RM7.3 million or 7,352.5% mainly contributed by consolidating the subcontracted services costs of RM5.0 million from the die cast manufacturing operations undertaken by our subsidiary Cape Manufacturing which was acquired by our Company in FYE 2020.

For FYE 2021, the cost of sales of subcontracted services increased by RM8.5 million or 115.1% mainly contributed by the provision of EMS segment where we engage additional subcontracted labour to carry out the assembly process due to increase in orders as reflected in the increase in revenue from provision of EMS.

For FPE 2022, the cost of sales of subcontracted services increased by RM12.9 million or 143.7% mainly contributed by higher requirement of subcontractor services related to production workers employed by our sub-contractor for our EMS operations at Senai 227 Factory during the FPE 2022. The number of production workers supplied by our sub-contractor to meet our production requirements increased from 468 workers for the FPE 2021 to 922 workers for the FPE 2022.

(iii) Labour cost

Labour cost consists of salaries, wages, allowances, employee contributions and other staff-related costs incurred concerning production floor workers.

For FYE 2020, our labour cost increased by RM3.9 million or 266.4% mainly due to increase in the number of production floor workers where the overall production workers increased from 16 workers for the FYE 2019 to 70 workers for the FYE 2020. Of the total 70 workers in FYE 2020, 57 workers were from our die casting manufacturing operations undertaken by our subsidiary Cape Manufacturing which was acquired by our Company in FYE 2020.

For FYE 2021, our labour cost increased by RM5.8 million or 107.4% mainly due to increase in the number of production floor workers mainly for the provision of EMS. The overall production workers increased from 70 workers for the FYE 2020 to 206 workers for the FYE 2021.

For FPE 2022, our labour cost increased by RM7.5 million or 85.1% mainly due to an increase in the number of production floor workers mainly for the provision of EMS, salary increment coupled with the increase in minimum wage to RM1,500 which took effect on 1 May 2022. The overall production workers increased from 79 workers as at 30 September 2021 to 123 workers as at 30 September 2022.

(iv) Factory overheads

Factory overheads consist of depreciation of machinery and equipment, utility costs including electricity and water, upkeep and maintenance cost of machinery and equipment as well as supply of mould and die.

For FYE 2020, our factory overhead costs increased by RM7.4 million or 106.8% mainly due to the consolidation of the factory overhead costs of RM4.4 million from our die casting manufacturing operations undertaken by our subsidiary, Cape Manufacturing, which was acquired by our Company in FYE 2020. The increase in factory overhead costs was also partly due to the increase in depreciation of machinery and equipment for our EMS operations which resulted from purchase of additional machinery and equipment for the EMS operations and the purchase of Senai 227 Factory.

For FYE 2021, our factory overhead costs increased by RM9.9 million or 69.0% mainly due to increase in factory overhead costs for our EMS operations including increase in depreciation of machinery and equipment associated with the purchase of machinery and equipment for the electronic cigarette production lines as well as equipment for die cast manufacturing, upkeep cost incurred for machinery and equipment, utility costs, freight costs as well as sorting and rework costs.

For FPE 2022, our factory overhead costs increased by RM14.6 million or 88.3% mainly due to increase in depreciation of machinery and equipment for our EMS operations arising from our increased investment in machinery and equipment during the FPE 2022, including purchase and installation of 3 semi-automated production lines for the disposable cigarette sticks located in our Senai 227 Factory and the purchase of die casting machines located in our Temenggong 22 Factory, as well as renovation works at Senai 227 Factory. The increase in depreciation of machinery and equipment was also partly contributed by the purchase and installation of the 11 production lines for electronic cigarettes during the second half of the FYE 2021.

(The rest of this page has been intentionally left blank)

12. FINANCIAL INFORMATION *(Cont'd)*

(iii) GP and GP margin

(a) GP and GP margin by business segments

The table below sets out our GP and GP margin for the Period Under Review:

	FYE 2019			FYE 2020			FYE 2021		
	RM'000	%[1]	GP Margin[2] %	RM'000	%[1]	GP Margin[2] %	RM'000	%[1]	GP Margin[2] %
Provision of EMS	**2,495**	**73.5**	**14.0**	**28,370**	**87.5**	**20.7**	**39,309**	**93.8**	**12.8**
• Industrial electronic products	2,491	73.4	14.0	13,255	40.9	15.8	19,047	45.4	8.9
• Consumer electronic products	4	0.1	15.4	15,115	46.6	28.2	20,262	48.4	22.1
Supporting services	**900**	**26.5**	**3.6**	**4,051**	**12.5**	**13.1**	**2,582**	**6.2**	**6.8**
Die casting manufacturing#	-	-	-	2,511	7.7	22.0	1,507	3.6	6.2
Supply of parts and components	900	26.5	3.6	1,540	4.8	7.9	1,075	2.6	7.7
Total	**3,395**	**100.0**	**7.9**	**32,421**	**100.0**	**19.3**	**41,891**	**100.0**	**12.2**

(The rest of this page has been intentionally left blank)

	FPE 2021			FPE 2022		
	RM'000	%(1)	GP Margin(2) %	RM'000	%(1)	GP Margin(2) %
Provision of EMS	**25,360**	**90.8**	**12.1**	**40,053**	**96.4**	**12.9**
• Industrial electronic products	15,338	54.9	10.4	12,166	29.3	6.5
• Consumer electronic products	10,022	35.9	15.9	27,887	67.1	22.9
Supporting services	**2,579**	**9.2**	**7.7**	**1,498**	**3.6**	**14.5**
Die casting manufacturing#	1,761	6.3	8.1	1,451	3.5	17.8
Supply of parts and components	818	2.9	6.8	47	0.1	2.2
Total	**27,939**	**100.0**	**11.5**	**41,551**	**100.0**	**13.0**

Notes:

\# Cape Manufacturing was acquired by our Company in January 2020.

(1) Computed based on the respective GP over total GP of the respective financial year.

(2) Computed based on the respective GP over respective revenue of the respective financial year.

(b) Commentaries on GP and GP margin

Comparison between FYE 2020 and FYE 2019

For FYE 2020, our GP increased by RM29.0 million or 854.9% from RM3.4 million for FYE 2019 to RM32.4 million for FYE 2020. Our GP margin improved from 7.9% in FYE 2019 to 19.3% in FYE 2020. This was mainly attributed to the GP and GP margin from the provision of EMS for consumer electronic products.

Provision of EMS – GP and GP margin

GP from the provision of EMS increased by RM25.9 million or 1,037.1% from RM2.5 million for FYE 2019 to RM28.4 million for FYE 2020. This was mainly attributed to the following:

- GP from consumer electronic products increased by RM15.1 million or more than 1,000.0% from approximately RM4,000 for FYE 2019 to RM15.1 million for FYE 2020. This was mainly contributed by the commencement of EMS for Customer A's electronic cigarettes as well as the commencement of mass production for household appliances for K & Q.

- GP from industrial electronic products increased by RM10.8 million or 432.1% from RM2.5 million for FYE 2019 to RM13.3 million for FYE 2020. This was mainly attributed to higher orders of wireless communication equipment to the Airspan group of companies as well as smart utility data collection equipment to SOQ and NextCentury pursuant to the acquisition of Cape Singapore by our Company in FYE 2020. This was in tandem with the increase of 369.9% in revenue derived from EMS of industrial electronic products.

Our GP margin from the provision of EMS increased from 14.0% for FYE 2019 to 20.7% for FYE 2020. This was mainly contributed by the increase in GP margin from EMS of consumer electronic products which improved from 15.4% in FYE 2019 to 28.2% in FYE 2020. This was mainly contributed by the value-added services for the initial development for the EMS of electronic cigarettes. This involved the customisation of automated production lines and development of tooling for plastic and metal parts with suppliers to meet the customer's requirements and specifications.

Supporting Services – GP and GP margin

GP from supporting services increased by RM3.2 million or 350.1% from RM0.9 million for FYE 2019 to RM4.1 million for FYE 2020. This was mainly contributed by the die cast manufacturing operations with a GP contribution of RM2.5 million in FYE 2020. The die cast manufacturing operations undertaken by Cape Manufacturing was acquired by our Company in January 2020. The increase in GP margin was also partly attributed to the improvement in GP margin from supporting services which improved from 3.6% in FYE 2019 to 13.1% in FYE 2020 contributed by the die cast manufacturing operations mainly due to value added services arising from the initial development of tooling.

Comparison between FYE 2021 and FYE 2020

For FYE 2021, our GP increased by RM9.5 million or 29.2% from RM32.4 million in FYE 2020 to RM41.9 million for FYE 2021 due to an increase in GP from the provision of EMS including industrial and consumer electronic products. Our GP margin declined from 19.3% for FYE 2020 to 12.2% for FYE 2021.

Provision of EMS – GP and GP margin

GP from the provision of EMS increased by RM10.9 million or 38.6% from RM28.4 million for FYE 2020 to RM39.3 million for FYE 2021. This was mainly attributed to the following:

- GP from industrial electronic products increased by RM5.8 million or 43.7% from RM13.3 million for FYE 2020 to RM19.0 million for FYE 2021. This was mainly attributed to higher orders for smart utility data collection equipment to SOQ and NextCentury as well as POS terminals to Tastar Electronics. The increase in GP was also reflected in the increase of 156.6% in revenue derived from industrial electronic products.

- GP from consumer electronic products increased by RM5.1 million or 34.1% from RM15.1 million in FYE 2020 to RM20.3 million in FYE 2021. This was mainly attributed to higher sales of household appliances to K & Q as well as the commencement of mass production for Customer A's electronic cigarettes. The increase in GP was also reflected in the increase of 70.9% in revenue derived from consumer electronic products.

Our GP margin from the provision of EMS declined from 20.7% in FYE 2020 to 12.8% in FYE 2021. This was mainly attributed to the decline in GP margin from the smart utility data collection equipment as a result of the sales and final delivery of the low-margin older model products to SOQ. The decline in GP margin was also partly due to the higher GP contribution from the lower margin consumer electronic products namely household appliances.

Supporting Services – GP and GP margin

The increase in GP was partially moderated by a decrease of RM1.5 million or 36.3% in GP from supporting services from RM4.1 million for FYE 2020 to RM2.6 million for FYE 2021. This was mainly attributed to a decrease of RM1.0 million or 40.0% in GP from our die cast manufacturing operations from RM2.5 million for FYE 2020 to RM1.5 million for FYE 2021. The decrease in GP from our die cast manufacturing operations was due to increase in aluminium prices where we were unable to pass on the increased cost to customers timely during the FYE 2021. This was mainly due to the price of the die cast parts being fixed upon confirmation of the purchase order, where the delivery period of the die cast parts was between 1 and 3 months depending on the purchase order. However, the purchase of aluminium ingots, which is the main input material used for die cast manufacturing is based on prevailing market price. At the time of purchase of aluminium ingots, its market price was higher than anticipated. We were unable to pass the increased cost of the aluminium ingots to the customers as the price of the die cast parts was fixed upon confirmation of purchase order. Consequently, we started to review the aluminium prices quarterly with our customers to address any increases in aluminium prices.

GP margin from supporting services also declined from 13.1% in FYE 2020 to 6.8% in FYE 2021 mainly due to decrease in GP margin from 22.0% in FYE 2020 to 6.2% in FYE 2021 from our die cast manufacturing operations which were affected by the increases in aluminium prices as explained above.

Comparison between FPE 2022 and FPE 2021

For FPE 2022, our GP increased by RM13.6 million or 48.7% from RM27.9 million in FPE 2021 to RM41.6 million in FPE 2022 while our GP margin increased from 11.5% for FPE 2021 to 13.0% for FPE 2022. This was mainly attributed to the GP and GP margin from the provision of EMS for consumer electronic products.

Provision of EMS – GP and GP margin

GP from the provision of EMS increased by RM14.7 million or 57.9% from RM25.4 million for FPE 2021 to RM40.1 million for FPE 2022. This was mainly attributed to the GP from consumer electronic products which increased by RM17.9 million or 178.3% from RM10.0 million in FPE 2021 to RM27.9 million in FPE 2022. This was mainly attributed to the commencement of mass production for Customer A's electronic cigarettes in the last quarter of FYE 2021. This was also reflected in the increase of 92.7% in revenue derived from consumer electronic products.

Our GP margin from the provision of EMS increased from 12.1% in FPE 2021 to 12.9% in FPE 2022. This was mainly attributed to the GP contribution from the high margin consumer electronic products namely electronic cigarettes.

Supporting Services – GP and GP margin

The GP from supporting services decreased by RM1.1 million or 41.9% from RM2.6 million in FPE 2021 to RM1.5 million in FPE 2022. This was mainly attributed to the decrease in GP contribution from the supply of parts and components and die cast parts mainly due to lower orders. This was also reflected in the decreased in revenue by 69.4% from supporting services arising from the decrease in supply of parts and components as well as die cast manufacturing operations.

GP margin from supporting services increased from 7.7% in FPE 2021 to 14.5% in FPE 2022 mainly due to improvement in GP margin from our die cast manufacturing operations where the GP margin improved from 8.1% in FPE 2021 to 17.8% in FPE 2022. The lower GP margin in FPE 2021 was due to the increase in aluminium prices where we were unable to pass on the increased cost to customers in a timely manner during the FPE 2021. Consequently, we started to review the aluminium prices quarterly with our customers to address any increases in aluminium prices and this was reflected in the improvement in our GP margin to 17.8% in FPE 2022.

(The rest of this page has been intentionally left blank)

(iv) Other income

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Rental income	319	31.2	1,166	54.3	278	28.3
Gain on disposal of PPE	-	-	-	-	124	12.6
Gain on foreign exchange	111	10.9	182	8.5	123	12.5
- *Unrealised gain on foreign exchange*	*111*	*10.9*	*182*	*8.5*	*54*	*5.5*
- *Realised gain on foreign exchange*	-	-	-	-	*69*	*7.0*
Fair value gain on investment property	-	-	-	-	123	12.5
Insurance claims	476	46.5	117	5.4	36	3.6
Wage subsidy	-	-	479	22.3	13	1.3
Reimbursement for labour services charged	117	11.4	-	-	-	-
Others	*	-	(1)205	9.5	(2)287	29.2
Total	**1,023**	**100.0**	**2,149**	**100.0**	**984**	**100.0**

	FPE 2021		FPE 2022	
	RM'000	**%**	**RM'000**	**%**
Rental income	206	17.1	864	14.4
Gain on disposal of non-current assets held for sale	-	-	149	2.5
Gain on disposal of PPE	51	4.2	-	-
Gain on foreign exchange	645	53.5	4,738	79.1
- *Unrealised gain on foreign exchange*	*566*	*46.9*	*2,258*	*37.7*
- *Realised gain on foreign exchange*	*79*	*6.6*	*2,480*	*41.4*
Insurance claims	36	3.0	-	-
Wage subsidy	5	0.4	36	0.6
Others	(2)263	21.8	(3)205	3.4
Total	**1,206**	**100.0**	**5,992**	**100.0**

Notes:

* Insignificant amount of less than RM1,000.

(1) Including gain on early termination of the lease contract, one-off line set up charge to a customer, rebates received from bank on the interest charged in relation to the banking facilities under the government guarantee schemes by Syarikat Jaminan Pembiayaan Perniagaan (SJPP) in FYE 2020, as well as sales of scrap mainly aluminium scrap generated following the casting works from die cast manufacturing operations in FYE 2021.

Pending completion of the acquisition of Senai 227 Factory, our Company leased the said factory from the vendors. The gain on early termination of the lease contract of RM0.08 million in FYE 2020 was in relation to the MFRS 16 for Senai 227 Factory which was terminated in FYE 2020 upon the completion of acquisition. The gain arises as the balance of the lease liability was higher than the balance of carrying value of right-of-use asset on the date of early termination.

(2) Including overpayment of RM0.2 million by Tee Kim Chin, our Director, written off arising from deemed interest charged under Singapore tax laws pursuant to amounts owing by the Directors in FYE 2020 which was paid in FPE 2021 and FYE 2021.

(3) Including mainly rebates received from bank on the interest charged in relation to the banking facilities under the government guarantee schemes by SJPP and sales of scrap mainly aluminium scrap generated following the casting works from die cast manufacturing operations in FPE 2022.

Comparison between FYE 2020 and FYE 2019

Our other income increased by RM1.1 million or 110.1% in FYE 2020. This was mainly contributed by the increase in rental income of RM0.8 million, which was mainly derived from the rental of 36 units of radio frequency testing equipment to Airspan Communications in FYE 2020. The reason of renting the radio frequency testing equipment was a one-off request from the said customer to carry out the testing activities for them for a period of time between FYE 2020 and FYE 2021, which took into consideration the availability of our equipment at the factory.

In addition, the increase was attributed by the wage subsidy received amounting to RM0.5 million in FYE 2020 from Wage Subsidy Program ("**PSU**") implemented by Malaysia Social Security Organisation ("**SOCSO**") as well as Support Scheme implemented by Inland Revenue Authority Singapore ("**IRAS**") and Ministry of Manpower of Singapore ("**MOM**").

The increase in other income was partially moderated by the decrease of RM0.4 million in insurance claims. The insurance claims of RM0.5 million and RM0.1 million in FYE 2019 and FYE 2020 were pertaining to the claims on 5 of the injection moulding machines in FYE 2019 and 2 injection moulding machines in FYE 2020 which were damaged by lightning strike.

Comparison between FYE 2021 and FYE 2020

Our other income decreased by RM1.2 million or 54.2% in FYE 2021, which was mainly due to decrease in rental income as a result of cessation of rental of equipment to the abovementioned customer and wage subsidy received in FYE 2020 as mentioned above. The decrease in other income was partially offset by the overpayment written off amounting to RM0.2 million, gain of RM0.1 million on disposal of motor vehicles, equipment, furniture and fittings, and RM0.1 million of fair value gain on an investment property namely the PLO 103 Factory. The PLO 103 Factory, located in Senai, Johor, is having a subsisting tenancy agreement with Changhuat Plastic up to 31 December 2023. Please refer to **Section 7.21.2** of this Prospectus for further information on our PLO 103 Factory.

Comparison between FPE 2022 and FPE 2021

Our other income increased by RM4.8 million or 396.8% in FPE 2022, which was mainly contributed by the increase in gain on foreign exchange of RM4.1 million due to the movement of the foreign exchange arising from our revenue and purchases of input materials which were transacted in USD. In addition, the increase was also partly attributed to the increase in rental income of RM0.7 million mainly derived from the rental of the PLO 103 Factory in FPE 2022.

(v) **Operating expenses**

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Administrative expenses	**2,242**	**93.1**	**7,522**	**84.6**	**10,674**	**87.4**
- Staff cost	997	41.4	2,540	28.6	3,868	31.7
- Professional and consultancy fees	105	4.4	1,725	19.4	2,128	17.4
- Directors' remuneration	689	28.6	775	8.6	1,672	13.7
- Depreciation of PPE	117	4.9	483	5.4	795	6.5
- Stamp duty	19	0.8	1	*	593	4.9
- Upkeep and maintenance	55	2.3	187	2.1	334	2.7
- Bank charges	43	1.8	120	1.4	259	2.1
- Insurance	-	-	49	0.6	243	2.0
- Travelling expenses	28	1.2	313	3.5	154	1.3
- Rental expenses	-	-	85	1.0	121	1.0
- Training	84	3.4	11	0.1	4	*
- Other administrative expenses(1)	105	4.3	1,233	13.9	503	4.1
Distribution costs	**119**	**4.9**	**991**	**11.1**	**965**	**7.9**
Other expenses	**48**	**2.0**	**382**	**4.3**	**568**	**4.7**
Total	**2,409**	**100.0**	**8,895**	**100.0**	**12,207**	**100.0**

	FPE 2021		FPE 2022	
	RM'000	%	RM'000	%
Administrative expenses	**7,661**	**94.6**	**10,265**	**97.2**
- Staff cost	3,019	37.3	3,083	29.2
- Professional and consultancy fees	1,606	19.8	1,029	9.7
- Directors' remuneration	972	12.0	2,151	20.4
- Depreciation of PPE	576	7.1	809	7.7
- Stamp duty	592	7.3	237	2.2
- Upkeep and maintenance	212	2.6	377	3.6
- Bank charges	128	1.6	221	2.1
- Insurance	168	2.1	239	2.3
- Travelling expenses	129	1.6	62	0.6
- Rental expenses	75	0.9	205	1.9
- Training	3	*	15	0.1
- Other administrative expenses(1)	181	2.3	1,837	17.4
Distribution costs	**439**	**5.4**	**291**	**2.8**
Other expenses	**-**	**-**	**-**	**-**
Total	**8,101**	**100.0**	**10,556**	**100.0**

Notes:

* Less than 0.1%.

(1) Including office-related expenses, quit rent and assessment fee, licence and subscription fees, levy and permit fees, penalty and advertisement expense.

Comparison between FYE 2020 and FYE 2019

Our operating expenses increased by RM6.5 million or 269.2% in FYE 2020. This was mainly attributed to an increase in administrative expenses as follows:

- Increase in staff cost by RM1.5 million or 154.8% mainly due to the increase in headcounts from 15 employees in FYE 2019 to 35 employees in FYE 2020 mainly from administration department, due to the acquisition of Cape Manufacturing by our Company in FYE 2020.

- Increase in professional and consultancy fees by RM1.6 million or 1,542.9% mainly due to legal fees paid for the preparation of banking facility agreements.

- The increase in other administrative expenses by RM1.1 million or 1,074.3% is mainly attributed to the write-off pertaining to the accumulated intercompany differences between Cape Manufacturing and Cape Singapore amounting to RM0.6 million, security services charges of RM0.1 million and office-related expenses of RM0.3 million.

The increase in operating expenses was also partly attributed to the increase in distribution cost by RM0.9 million or 732.8% in FYE 2020. This was mainly due to the RM0.7 million of freight cost incurred in FYE 2020.

Comparison between FYE 2021 and FYE 2020

Our operating expenses increased by RM3.3 million or 37.2% in FYE 2021. This was mainly attributed to the increase in administrative expenses as follows:

- Increase in staff cost by RM1.3 million or 52.3% mainly due the increase in headcounts from 35 employees in FYE 2020 to 61 employees in FYE 2021 mainly from the administration department.

- Increase in directors' remuneration by RM0.9 million or 115.7%.

- Increase in professional and consultancy fees by RM0.4 million or 23.4% mainly due to fees paid to a consultant (Hughes Consulting Group LLC) in the USA in servicing our customer in relation to the smart utility data collection equipment from the USA. This mainly pertains to obtaining further data and information relating to smart utility data collection equipment during 2021 to have an in-depth understanding of the customer of smart utility data collection equipment through periodic discussion on market updates in anticipation of higher sales from the said customer. The services were subsequently ended in February 2022 as the services were no longer required for this project.

- Increase in stamp duty payment by RM0.6 million incurred mainly for the stamping of banking facility agreements.

- Increase in depreciation by RM0.3 million or 64.6% mainly contributed by the purchases of additional office equipment, furniture and motor vehicles.

Comparison between FPE 2022 and FPE 2021

Our operating expenses increased by RM2.5 million or 30.3% in FPE 2022. This was mainly attributed to the increase in administrative expenses as follows:

- Increase in directors' remuneration by RM1.2 million or 121.3% mainly attributed to the director's fee to Alex Miranda Juntado which was paid since July 2021.
- Increase in other administrative expenses by RM1.7 million mainly due to withholding tax paid, sponsorship for a private football club, security services charges as well as office-related expenses.

(vi) Finance cost

	FYE 2019		**FYE 2020**		**FYE 2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Interest expense on:						
- Bank overdraft	-	-	147	4.9	146	2.7
- Lease liabilities(1)	532	59.8	805	27.0	1,986	37.3
- Trade financing(2)	36	4.0	322	10.8	815	15.3
- Term loans	141	15.9	733	24.6	1,867	35.0
- Short term advances interest(3)	180	20.3	975	32.7	453	8.5
Receivables finance discounting charges	-	-	-	-	57	1.1
Bank guarantee commission	-	-	-	-	8	0.1
Total	**889**	**100.0**	**2,982**	**100.0**	**5,332**	**100.0**

	FPE 2021		**FPE 2022**	
	RM'000	**%**	**RM'000**	**%**
Interest expense on:				
- Bank overdraft	106	2.9	343	5.6
- Lease liabilities(1)	1,245	33.9	2,400	39.2
- Trade financing(2)	714	19.4	676	11.1
- Term loans	1,150	31.3	2,195	35.9
- Letter of credit	-	-	93	1.5
- Short term advances interest(3)	453	12.3	-	-
Receivables finance discounting charges	-	-	412	6.7
Bank guarantee commission	8	0.2	-	-
Total	**3,676**	**100.0**	**6,119**	**100.0**

Notes:

(1) Including lease liabilities under hire purchase and other lease liabilities.

(2) Including OFCL, shipment buyer loans and trust receipts.

(3) Short term advances refer to the advances from a supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai, for operational working capital purposes, which bear interest at a rate ranging from 0.75% and 2.5% per month. The short term advances have been fully settled during the FYE 2021. Please refer to Note 20 of the Accountants' Report set out in **Section 13** of this Prospectus for further details on the short term advances. This was not a common arrangement with our suppliers and the purpose for the said advances were used to temporarily fund our operational working capital while we were waiting for the approval and drawdown of the additional banking facilities when we experienced increased orders from customers during the FYE 2020. In addition, we were managing the payments to other suppliers to ensure no disruptions on the input materials, mainly the E&E parts and components for our EMS operations.

Our finance cost consists mainly of interest charged on bank facilities by banking and financial institutions including bankers' acceptance, bank overdrafts, lease liabilities and term loans, as well as short term advances. Our finance costs accounted for 2.1%, 1.8%, 1.5% and 1.9% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

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

Our finance cost increased by RM2.1 million or 235.4% in FYE 2020. This was mainly attributed to the following:

- Interest expense on short term advances which increased by RM0.8 million or 441.7%, which was mainly advances from third parties, which are our supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai, for operational working capital purposes.

- Interest expense on term loans which increased by RM0.6 million or 419.9%. This was mainly for the purchase of Senai 227 Factory including land and building as well as the purchase of machinery and equipment mainly for the 2 SMT lines during the FYE 2020.

- Interest expense on trade financing which increased by RM0.3 million or 794.4% due to an increase in the utilisation of bankers' acceptance used for working capital.

- Interest expense on lease liabilities which increased by RM0.3 million or 51.3%. These were facilities granted by financial institutions for the purchase of machinery and equipment as well as motor vehicles.

- Interest expense on bank overdraft amounting to RM0.1 million which was used for working capital purposes.

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

Our finance cost increased by RM2.4 million or 78.8% in FYE 2021. This was mainly attributed to the following:

- Interest expense on lease liabilities which increased by RM1.2 million or 146.7%. These were mainly attributed to the purchase of machinery and equipment for the EMS of electronic cigarettes during the FYE 2021 as well as motor vehicles.

- Interest expense on term loans which increased by RM1.1 million or 154.7%. This was mainly for the purchase of PLO 226B and PLO 227B, and extension of the Senai 227 Factory during the FYE 2021.

- Interest expense on trade financing which increased by RM0.5 million or 153.1% due to an increase in the utilisation of bankers' acceptance used for working capital purposes.

The increase in interest expense was partially moderated by the decrease in interest expense on short term advances which decreased by RM0.5 million or 53.5% as the short term advances by third parties have been fully settled during the FYE 2021.

Comparison between FPE 2022 and FPE 2021

Our finance cost increased by RM2.4 million or 66.5% in FPE 2022. This was mainly attributed to the following:

- Interest expense on lease liabilities which increased by RM1.2 million or 92.8%. These were mainly attributed to the purchase of machinery and equipment for the EMS of electronic cigarettes during the FYE 2021 and FPE 2022 as well as motor vehicles.

- Interest expenses on term loans which increased by RM1.0 million or 90.9%. This was mainly attributed to the purchase of PLO 226B and PLO 227B, and extension of the Senai 227 Factory during the FYE 2021, as well as the purchase of die casting machines located in our Temenggong 22 Factory in FPE 2022 and renovation works at Senai 227 Factory in FPE 2022.

- There was also RM0.4 million of receivables finance discounting charges arising from the utilisation of the said facility for operational working capital.

- Interest expenses on bank overdraft which increased by RM0.2 million or 223.6% arising from the utilisation of the said facility for operational working capital.

The increase in finance cost was partially moderated by the decrease in interest expenses on short term advances which decreased by RM0.5 million as the short term advances have been fully settled during the FYE 2021.

(vii) PBT, PAT and effective tax rate

	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
PBT (RM'000)	1,123	22,697	25,355	17,372	30,940
PBT margin	2.6%	13.5%	7.4%	7.1%	9.7%
Tax (expenses)/income (RM'000)	2,695	(2,465)	909	2,531	(6,333)
Effective tax rate	-	10.9%	-	-	20.5%
PAT (RM'000)	3,818	20,232	26,264	19,903	24,607
PAT margin	8.8%	12.0%	7.6%	8.2%	7.7%

We assume responsibility for the withholding tax on payments to our service providers who are not resident in Malaysia where the services are rendered, as well as on rental of machinery and interest payments paid to non-residents. In Cape Singapore, we also assume responsibility for withholding tax on remuneration/fees for a non-resident director. We remit withheld taxes to the relevant tax authorities.

Comparison between FYE 2020 and FYE 2019

Our PBT increased by RM21.6 million or 1,920.5% for FYE 2020. The increase was in line with the growth in our GP of RM29.0 million or 854.9% in FYE 2020 which was mainly attributed to the increase in GP from the provision of EMS. Our PBT margin improved from 2.6% in FYE 2019 to 13.5% in FYE 2020 mainly due to the improvement in GP margin from the provision of EMS for consumer electronic products. Please refer to **Section 12.3.1(iii)** of this Prospectus for further details on our GP and GP margin.

For FYE 2020, our effective tax rate was 10.9% which was lower than the statutory tax rate of 24.0%, mainly attributed to the recognition of deferred tax asset on reinvestment allowance for the new machinery and equipment purchased and installed during the FYE 2020 mainly the 2 SMT lines and other machinery and equipment purchased for the EMS business.

For FYE 2019, there was a tax income of RM2.7 million mainly due to the recognition of deferred tax assets on business losses incurred by our Company prior to FYE 2019 and reinvestment allowances for the purchase of additional new machinery and equipment incurred before FYE 2019 but not recognised in the previous financial periods. Deferred tax assets were recognised in FYE 2019 as our Group expects to earn sufficient taxable profit in order to fully utilise the said business losses and reinvestment allowances that were previously incurred but not recognised.

Comparison between FYE 2021 and FYE 2020

Our PBT increased by RM2.7 million or 11.7% for FYE 2020. The increase was in tandem with the growth in our GP of RM9.5 million or 29.2% for FYE 2021 attributable to the increase in GP from our provision of EMS. Our PBT margin declined from 13.5% for FYE 2020 to 7.4% for FYE 2021 mainly due to the increase of 37.2% in operating expenses and 78.8% in finance cost, and partly due to a decrease of 54.2% in other income. Please refer to **Section 12.3.1(v)** for further details on our operating expenses, **Section 12.3.1(vi)** of this Prospectus for further details on our finance costs and **Section 12.3.1(iv)** of this Prospectus for further details on our other income.

For FYE 2021, there was a tax income of RM0.9 million mainly pertaining to the recognition of deferred tax asset on reinvestment allowance for the purchase of additional new machinery and equipment.

Comparison between FPE 2022 and FPE 2021

Our PBT increased by RM13.6 million or 78.1% for FPE 2022. The increase was in line with the growth in our GP of RM13.6 million or 48.7% in FPE 2022 which was mainly attributed to the increase in GP from the provision of EMS. Our PBT margin improved from 7.1% in FPE 2021 to 9.7% in FPE 2022 mainly due to the improvement in GP margin from the provision of EMS for consumer electronic products. Please refer to **Section 12.3.1(iii)** of this Prospectus for further details on our GP and GP margin.

For FPE 2022, our effective tax rate was 20.5% which was lower than the statutory tax rate of 24.0% mainly attributed to the recognition of deferred tax asset on reinvestment allowance for the new machinery and equipment purchased and installed mainly for the production lines for the EMS of electronic cigarettes during the FPE 2022.

12.3.2 Significant factors affecting our financial condition 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) Customers' demand for the provision of EMS

Our business performance is dependent on customers' demand for the provision of EMS which is based on purchase orders. For our EMS business segment, we mainly enter into agreement with our major customers and our customers will place purchase orders periodically for the purchase of products and services. In the event of any reduction in customers' orders and/or no purchase orders and/or non-renewal upon expiry or termination of agreements, our business, financial conditions and results of operations may be adversely affected. Please refer to **Section 9.1.2** of this Prospectus for further details on the risk factors pertaining to non-renewal or termination of agreements with customers, or reduction of or no purchase orders.

(ii) Dependency on certain major customers and ability to retain our major customers

We are dependent on certain major customers, namely Changhuat Plastic, Airspan group of companies, Tastar Electronics, K & Q, Customer A and SOQ who collectively contributed more than 80% of our revenue during the Period Under Review. Please refer to **Section 7.19** of this Prospectus for further details on our major customers. In the event of any interruptions in securing purchase orders from these major customers or the loss of any of these major customers, but not limited to, delays or deferment of purchase orders or a decrease in the value or quantity of purchase orders would adversely affect the impact on our business operations and financial performance. Please refer to **Section 9.1.2** of this Prospectus for further details on this risk factor.

(iii) Impact of foreign exchange

Our revenue is predominantly based on USD which accounted for 41.3% (RM17.8 million), 99.1% (RM166.8 million), 94.6% (RM325.6 million) and 99.4% (RM317.8 million) of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. Similarly, 61.8% (RM20.6 million), 90.4% (RM117.4 million), 91.2% (RM232.8 million) and 89.7% (RM166.1 million) of our total purchases were also transacted in USD for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. In this respect, we are exposed to fluctuations in foreign exchange rates, especially between USD and RM, and any adverse movements in the foreign exchange may have a negative impact on our business and financial position and operating results.

Details of our foreign currency exchange gains and losses are as follows:

	FYE 2019 RM'000	**FYE 2020 RM'000**	**FYE 2021 RM'000**	**FPE 2021 RM'000**	**FPE 2022 RM'000**
Realised gain on foreign currency exchange	-	-	69	79	2,480
Unrealised gain on foreign currency exchange	111	182	54	566	2,258
Realised loss on foreign currency exchange	(48)	(478)	-	-	-
Net (loss)/gain on foreign currency exchange	**63**	**(296)**	**123**	**645**	**4,738**

Any unfavourable fluctuations of foreign exchange rates between USD and RM may result in a net loss on our Group's foreign currency exchange, which may negatively impact on our profitability where our PBT may reduce. Please refer to **Section 9.1.8** of this Prospectus for the risk in relation to exposure to foreign currency exchange fluctuations.

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, to a certain extent, provides a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks.

Nevertheless, our business is subject to risks relating to any unfavourable foreign currency exchange rate fluctuations which may materially affect our financial performance. Please refer to **Section 9.1.8** of this Prospectus for further details on the risk factors pertaining to foreign currency exchange fluctuations. As at the LPD, we have foreign currency forward hedging facilities but have yet to be utilised.

(iv) Impact of interest rate

All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. Our finance cost mainly comprises interest charges on term loans, shipment buyer loans, lease liabilities, bankers' acceptance, bank overdraft and OFCL that are granted by banks and financial institutions. As at 30 September 2022, our total bank borrowings were RM203.5 million, of which RM149.3 million were interest-bearing based on floating rates. Our finance cost increased from RM0.9 million for the FYE 2019 to RM5.3 million for the FYE 2021, and our finance cost for FPE 2022 was RM6.1 million. In this respect, any increase in interest rates may impact our financial performance. If we fail or encounter difficulties in meeting our financial obligations when they fall due, this will result in a financial distress condition which will affect our operations and financial performance. For the Period Under Review and up to the LPD, we have not defaulted on any payments of either the principal or interests in relation to our bank borrowings.

(v) Prolonged COVID-19 or any other outbreaks of contagious or virulent diseases

The outbreak of COVID-19 or any epidemics or pandemics may potentially affect our business operations. Between March 2020 and up to the LPD, there were several MCO measures implemented including full and partial lockdown containment measures and restrictions imposed.

Impact on our business and financial conditions in FYE 2020

Generally, our business was impacted due to containment measures during the MCO periods between 18 March 2020 and 16 April 2020 where our manufacturing operations were temporarily suspended for 29 days in FYE 2020. In this respect, our manufacturing operations were affected in the first half of 2020 and the disruptions in the supply of materials mainly semiconductors arising from the COVID-19 pandemic. Consequently, the manufacturing activities in the second half of the year were higher to make up for lost time from the lower manufacturing activity in the first half of the year. For the second half of FYE 2020, our revenue was RM112.5 million which was higher compared to RM55.8 million for the first half of FYE 2020.

Impact on our business and financial conditions in FYE 2021

There were various containment measures implemented in FYE 2021 including FMCO and various phases of NRP between June and December 2021. We continued to operate according to the specific guidelines and the latest SOP where we operate at specified capacity of workforce and gradually up to 100% capacity of workforce during the various phases of NRP upon the relaxation of the measures. Our business and financial conditions were not materially affected as reflected by our revenue in the second half of FYE 2021 amounting to RM208.1 million which was higher compared to RM136.2 million for the first half of FYE 2021.

Impact on our supply chain

According to the IMR, there is a global shortage of semiconductors that has affected the electronics industry. The shortage of semiconductors started approximately in the second quarter of 2020 and continued into 2022. This was mainly due to the increase in the demand for E&E products caused by the increased use of electronic devices as a result of the COVID-19 pandemic as well as the increased use of semiconductors in automobiles.

Our EMS customers provide us with a 6 to 12 months rolling forecast and confirmed purchase orders mainly on a weekly or quarterly basis. Our customers are responsible for the supply of semiconductors and any delays in supplying semiconductors to us will consequently delay our manufacturing process and delivery.

Notwithstanding the above, in the event of a prolonged COVID-19 pandemic or any other outbreaks of contagious or virulent diseases in the future, our business operation and financial performance would be materially affected. Please refer to **Section 9.1.7** of this Prospectus for further details on this risk factor.

(vi) Impact of fluctuations in global aluminium prices

Our die cast manufacturing operation is subject to fluctuations in global aluminium prices. For FYE 2021, there was a decrease of 40.0% in GP and decrease in GP margin to 6.2% in FYE 2021 (FYE 2020: 22.0%) from our die casting manufacturing operations due to an increase in aluminium prices where we were unable to pass on the increased cost to customers in a timely manner during the FYE 2021. Please refer to **Section 12.3.1(iii)(b)** of this Prospectus for further details on our Group's GP and GP margin.

In this respect, any unfavourable fluctuations and sustained high aluminium prices may result in higher prices for our aluminium die cast products which may negatively impact the results of our Group's operations and financial performance. Please refer to **Section 9.2.6** of this Prospectus for further details on this risk factor.

(vii) Impact of inflation

The business, financial condition or results of our operations for the Period Under Review were not materially affected by the impact of inflation. Nevertheless, there can be no assurance that future inflation would not have an impact on our business operations and financial performance.

(viii) Government/economic/ fiscal/ monetary policies

Our business is subject to risk relating to government, economic, fiscal or monetary policies in Malaysia and in the countries in which we serve. Any unfavourable changes in such government policies, economic conditions, or fiscal or monetary policies may materially affect our operations in Malaysia and Singapore. Please refer to **Section 9.2.5** of this Prospectus for further details.

12.3.3 Significant changes in the financial position

There are no significant changes that have occurred, which may have a material effect on our financial position and results since FPE 2022, being our most recent interim financial statement.

12.4 LIQUIDITY AND CAPITAL RESOURCES

12.4.1 Working capital

During the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, the Group had financed its working capital and capital expenditures through among others, a combination of cash generated from operations, external sources of funds including term loans, lease liabilities, credit facilities, advances from third parties, the impact of COVID-19 pandemic on our business as well as proceeds received from the issuance of ICPS. The principal uses of cash by the Group have been for settlement of trade and other payables, capital expenditure such as construction of the extension of its main office and acquisition of factories and land for purposes of expansion of its operations, and operation expenses which include administrative costs and factory overhead cost.

As at 30 September 2022, the Group has:

(i) Cash and cash equivalents of approximately RM24.5 million, being RM40.1 million (consisting cash and bank balances of approximately RM32.3 million and fixed deposits placed with licensed banks of approximately RM7.8 million) less bank overdrafts of approximately RM7.8 million and fixed deposit with a licensed bank pledged to bank of approximately RM7.8 million;

(ii) working capital of approximately RM80.8 million, being the difference between current assets of approximately RM233.0 million and current liabilities of RM152.2 million; and

(iii) credit facilities, which consist of term loans, bankers' acceptance, bank overdrafts, OFCL, receivables finance, shipment buyer loans and trust receipts, with a total credit limit of RM294.2 million, of which RM137.3 million has yet to be utilised as at the LPD.

Our Group carefully considers its cash position and ability to obtain further financing when making significant capital commitments, such as new factory and land acquisitions, purchases of new machineries as well as new automation lines. Given suitable opportunities, our Group intends to access the capital markets through further equity or equity-linked capital raising or debt-related capital raising.

Based on the equity attributable to owners of our Company as at 30 September 2022 of approximately RM181.5 million, lease liabilities and loans and borrowings of approximately RM203.5 million, the gearing ratio of our Company was approximately 1.1 times. After accounting for the gross proceeds to be raised from the Proposed Public Issue which is estimated to be approximately RM155.7 million and the estimated listing expenses of RM11.0 million, our Company's gearing level will decrease to approximately 0.6 times.

After taking into consideration the above, our Board is of the view that we will have sufficient working capital for 12 months from the date of this Prospectus.

12.4.2 Cash flow summary

The table below sets out the summary of our consolidated statements of cash flows for the Period Under Review and should be read in conjunction with the Accountants' Report as set out in **Section 13** of this Prospectus.

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Net cash from/(used in) operating activities	4,549	(1,957)	33,069	2,783
Net cash used in investing activities	(4,540)	(6,438)	(46,131)	(11,878)
Net cash (used in)/from financing activities	(155)	17,708	40,461	(6,143)
Net (decrease)/increase in cash and cash equivalents	(146)	9,313	27,399	(15,238)
Effect of exchange rate changes	145	215	(229)	1,945
Cash and cash equivalents at beginning of the financial year	1,113	1,112	10,640	37,810
Cash and cash equivalents at end of the financial year	1,112	10,640	37,810	24,517

Most of our cash and cash equivalents are held in RM and/or USD. There are no legal, financial or economic restrictions on our Subsidiaries' ability to transfer funds to our Company in the form of cash dividends, subject to the availability of distributable profits and reserves, and any applicable financial covenants.

(a) Net cash from operating activities

FYE 2019

For FYE 2019, our net cash from operating activities was RM4.5 million mainly after taking into account the following:

- Increase in receivables by RM37.3 million was mainly attributed to slow payment from Changhuat Plastic with an outstanding amount of RM44.3 million. As this customer is also our supplier of plastic parts, during FYE 2019 we were working closely with them for initial tooling development and prototypes of plastic enclosures for our new products which they incurred costs during their initial development process. Therefore, we granted the said customer the extension of payment. As at the LPD, the outstanding receivables have been settled.
- Increase in payables by RM36.2 million mainly attributed to outstanding amount owing to Changhuat Plastic for the purchase of plastic parts and casing, and battery packs in FYE 2019 due to higher purchases at the end of FYE 2019 for subsequent planned production.
- Net increase in advances from Tee Kim Chin, our Director, of RM4.3 million to our Company for working capital purposes. As at the LPD, the advances have been settled.
- Increase in inventories by RM2.7 million mainly attributed to higher purchases at the end of FYE 2019 comprising plastic parts and electronic components for the subsequent planned production of wireless communications equipment and household appliances.

- Increase in the amount due to related parties of RM1.0 million mainly attributed to the purchase of aluminium die cast parts from Cape Manufacturing prior to the acquisition of Cape Manufacturing by our Company.

FYE 2020

For FYE 2020, our net cash used in operating activities was RM2.0 million mainly after taking into account the following:

- Increase in receivables by RM33.3 million was mainly attributed to higher billings to our customers in the fourth quarter of FYE 2020 where we issued the invoices to customers once the orders are fulfilled and picked up by customers. This was also reflected in the growth of revenue by 44.4% in the fourth quarter of FYE 2020 where revenue increased from RM46.0 million in the third quarter of FYE 2020 to RM66.4 million in the fourth quarter of FYE 2020 mainly driven by the increased volume that we fulfilled based on orders placed by our customers.

  The increase was also partly attributed to deposits and advances of RM8.6 million paid mainly for the purchase of machinery and equipment for EMS of electronic cigarettes.

- Increase in inventories by RM18.5 million mainly attributed to the higher purchases of input materials including E&E parts and components during the end of FYE 2020 for subsequent planned production in FYE 2021.

- Increase in payables by RM8.7 million was attributed to the higher purchases of E&E parts and components at the end of FYE 2020 mainly for the planned production in FYE 2021 of wireless communication equipment, POS terminals and household appliances.

- Net increase in advances from Tee Kim Chin, our Director, of RM8.6 million to our Company which was mainly for operational working capital. The advances have been settled as at the LPD.

We recorded a net cash flow used in operating activities of RM2.0 million in FYE 2020, mainly due to an outstanding amount of RM25.1 million from Changhuat Plastic. On 31 December 2020, Cape EMS entered into an agreement with Changhuat Plastic to extend the repayment term for the outstanding amount of RM25.1 million to December 2021. Subsequently in December 2021, the repayment term for the outstanding amount of RM7.6 million was further extended to December 2022. As at the LPD, the outstanding receivables has been settled. As at the LPD, we continue to transact with Changhuat Plastic.

FYE 2021

For FYE 2021, our net cash from operating activities was RM33.1 million mainly after taking into account the following:

- Increase in inventories by RM7.4 million mainly attributed to the higher purchases of input materials during the end of FYE 2021 for subsequent planned production for the FYE 2022.

- Decrease in receivables by RM3.3 million mainly due to lower deposits and advances of RM6.4 million paid for the purchase of property, plant and equipment as at 31 December 2021 compared to RM14.1 million paid as at 31 December 2020. The deposit of RM6.4 million paid was mainly for the purchase of machinery and equipment for EMS of wireless data gathering systems and electronic cigarettes as well as purchase of a factory.

- Decrease in payables by RM2.5 million mainly attributed to prompt payment to suppliers.

- Net repayment of RM0.2 million to Tee Kim Chin, our Director, mainly attributed to the contra payment for the acquisition of Kempas 6 Factory and Temenggong 22 Factory.

FPE 2022

For FPE 2022, our net cash from operating activities was RM2.8 million mainly after taking into account the following:

- Increase in receivables by RM26.2 million was mainly attributed to higher billings to our customers in the last three months of FPE 2022 where we issued the invoices to customers once the orders are fulfilled and picked up by customers. This was also reflected in the growth of revenue by 35.8% in the last three months of FPE 2022 where revenue increased to RM131.7 million in the last three months of FPE 2022 as compared to the preceding three months of RM97.0 million, mainly driven by the increased volume that we fulfilled based on orders placed by our customers. In addition, the increase in receivables was partly due to the longer credit term granted to Customer A based on Customer A's request and terms agreed.

- Increase in contract assets of RM10.8 million pertaining to EMS of electronic cigarettes where the orders have been fulfilled but pending issuance of invoices arising from the following events:
  - RM4.9 million relating to the pending finalisation of unit price adjustment that revised upwards;
  - RM2.9 million pertaining to the claims for defective devices due to the product design by the customer; and
  - RM3.0 million relating to value added services arising from the customisation of new production lines for disposable cigarette sticks and additional tooling development.

  As at the LPD, we have subsequently issued invoices for the RM10.8 million and have yet to be collected as the amount is not due as at the LPD.

- Decrease in payables by RM4.8 million mainly attributed to prompt payment to suppliers.

- Increase in inventories of RM1.6 million mainly due to higher purchases of input materials during the last three months of FPE 2022 as mentioned above.

(b) Net cash used in investing activities

FYE 2019

For FYE 2019, our net cash used in investing activities was RM4.5 million mainly to fund part of the total purchase of RM11.0 million for PPE comprising:

- RM1.7 million to fund part of the total purchase of RM6.5 million (including legal fees and stamp duty) for land and building, namely PLO 103 Factory while the remaining payments were financed through borrowings.

- RM2.8 million to fund part of the total purchase of RM4.5 million of other PPE including mainly office equipment, furniture and fittings, renovation works, electrical installation as well as the purchase of machinery and equipment for setting up of production lines for wireless communication equipment, and 1 unit of motor vehicle, while the remaining payments were financed through borrowings.

FYE 2020

For FYE 2020, our net cash used in investing activities was RM6.4 million mainly attributed to the following:

- RM4.0 million to fund part of the total purchase of RM48.2 million for PPE mainly comprising RM20.0 million for machinery and equipment mainly the SMT lines, and RM23.2 million for the purchase of Senai 227 Factory, as well as RM3.0 million of renovation and electrical installation works. The remaining payments were financed through borrowings.

- RM2.5 million of cash outflow resulted from the bank overdraft in subsidiary acquired, namely Cape Manufacturing, offset by cash and bank balances in subsidiaries acquired, namely Cape Manufacturing and Cape Singapore, by our Company.

The net cash used is partially offset by the proceeds of RM0.1 million received from the disposal of one unit of the coordinate measuring machine.

FYE 2021

For FYE 2021, our net cash used in investing activities was RM46.1 million which was mainly to fund part of the total purchase of RM116.6 million for PPE mainly attributed to the following:

- RM28.2 million to fund part of the total purchases of RM76.3 million for machinery and equipment mainly for the electronic cigarette production lines and additional machinery and equipment for the die cast manufacturing operations, while the remaining payments were financed through borrowings.

- RM17.7 million to fund total purchases of RM39.3 million for land and buildings including 2 pieces of land, namely PLO 226B and PLO 277B as well as the extension of the Senai 227 Factory, purchase of office equipment and furniture, renovation and electrical installation works, while the remaining payments were financed through borrowings.

- RM0.5 million to fund the total purchases of RM1.0 million for 5 units of motor vehicles while the remaining payments were financed through borrowings.

The net cash used was partially offset by the proceeds of RM0.3 million received from the disposal of 4 units of fully depreciated motor vehicles.

FPE 2022

For FPE 2022, our net cash used in investing activities was RM11.9 million which was mainly to fund part of the total purchase of RM36.6 million for PPE comprising mainly RM17.5 million for the purchase of Tebrau 6 Factory, RM6.8 million for machinery and equipment mainly the production lines for the EMS of electronic cigarettes, RM2.7 million for office equipment, furniture and fittings and RM2.5 million of renovation and electrical installation works. The remaining payments were financed through borrowings.

The net cash used was partially offset by the proceeds of RM3.2 million received from the disposal of PPE comprising 16 units of injection moulding machines.

(c) Net cash from financing activities

FYE 2019

For FYE 2019, our net cash used in financing activities was RM0.2 million mainly attributed to the following:

- RM2.7 million used for the repayment of lease liabilities including interest paid of RM0.5 million, mainly for the purchase of machinery and equipment as well as motor vehicles.

- Others comprising RM0.3 million for interest paid mainly due to borrowings drawn down for the purchase of PLO 103 Factory, machinery and equipment as well as interest expense on short term advances from a supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai, and RM0.2 million for repayment of term loans. The term loan was obtained for the purchase of our PLO 103 Factory.

The net cash used in financing activities was partially offset by the RM2.5 million from the drawdown of short-term borrowings mainly trust receipt for operational working capital, as well as RM0.6 million advances from related parties, namely Cape Manufacturing and Cape Singapore prior to the acquisition, for operational working capital.

FYE 2020

For FYE 2020, our net cash from financing activities was RM17.7 million mainly attributed to the following:

- RM30.2 million from the drawdown of short-term borrowings which were mainly trade facilities including shipment buyer loans, and bankers' acceptance for operational working capital.

- RM3.0 million of advances from Changhuat Plastic for operational working capital purposes.

The net cash from financing activities was partially offset by the following:

- RM10.1 million used for the repayment of short-term borrowings mainly trade facilities used for our operating working capital as mentioned above.

- RM3.8 million used for the repayment of lease liabilities including interest paid amounting to RM0.6 million, mainly for the purchase of machinery and equipment as well as motor vehicles.

- Others comprise RM1.6 million for interest paid mainly due to the borrowings drawn down for the purchase of Senai 227 Factory and machinery and equipment, mainly 2 SMT lines during the FYE 2020 as well as interest expense on short term advances as set out above and RM0.3 million for repayment of term loans. The term loan was obtained for the purchase of Senai 227 Factory.

FYE 2021

For FYE 2021, our net cash from financing activities was RM40.5 million mainly attributed to the following:

- RM89.8 million from the drawdown of short-term borrowings which were mainly trade facilities including shipment buyer loans, bankers' acceptance, OFCL and receivables finance for the operational working capital.

- RM60.0 million of proceeds received from the issuance of ICPS to Fortress and AOF. Please refer to **Section 5.1.2(iii)** of this Prospectus for further details on the information of Fortress.

- RM1.7 million from the drawdown of term loans for the refinancing of loan for Cape Manufacturing for working capital and insurance.

The net cash from financing activities was partially offset by the following:

- RM84.7 million used for the repayment of short-term borrowings mainly trade facilities used for our operating working capital as mentioned above.

- RM6.8 million used for the repayment of short-term advances from a supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai, which were mainly used for operational working capital.

- RM6.7 million used for the repayment of lease liabilities including interest paid of RM1.8 million, mainly for the purchase of machinery and equipment as well as motor vehicles.

- RM5.9 million used for the net placement of fixed deposit that was pledged with licensed banks as security for banking facilities granted.

- Others comprising RM3.6 million of repayment of term loans and RM3.3 million for interest paid mainly pertaining to the borrowings used for the purchase of 2 pieces of land, namely PLO 226B and PLO 227B, and the extension of Senai 227 Factory during FYE 2021. The aforementioned term loans were obtained for the purchase of 2 pieces of land, namely PLO 226B and PLO 227B, and the extension of Senai 227 Factory during FYE 2021.

FPE 2022

For FPE 2022, our net cash used in financing activities was RM6.1 million mainly attributed to the following:

- RM67.8 million used for the repayment of short-term borrowings mainly trade facilities used for our operating working capital as mentioned above.

- Dividend of RM13.0 million paid to our existing shareholders, being Tee Kim Chin, Tee Kim Yok, Fortress and AOF.

- RM12.1 million used for the repayment of lease liabilities including interest paid of RM2.4 million, mainly for the purchase of machinery and equipment as well as motor vehicles.

- RM4.6 million used for the repayment of term loans mainly for the purchase of PLO 226B and PLO 227B, PLO 103 Factory and Senai 227 Factory during the FYE 2021, as well as the purchase of die casting machines located in our Temenggong 22 Factory in FPE 2022 and renovation works at Senai 227 Factory in FPE 2022.

- RM3.7 million of interest paid pertaining to borrowings mainly used for acquisition of 2 pieces of land, namely PLO 226B and PLO 227B, PLO 103 Factory and Senai 227 Factory during FYE 2021.

- RM3.3 million for the payment of listing expenses.

- RM1.7 million was placement of fixed deposit that was pledged with licensed banks as security for banking facilities secured.

The net cash used in financing activities was partially offset by the following:

- RM92.6 million from the drawdown of short-term borrowings which were mainly trade facilities including shipment buyer loans, bankers' acceptance, OFCL and receivables finance for the operational working capital.

- RM7.3 million from the drawdown of term loans for the purchase of die casting machines.

(The rest of this page has been intentionally left blank)

12. FINANCIAL INFORMATION *(Cont'd)*

12.4.3 Bank borrowings

Our total outstanding bank borrowings as at 30 September 2022 was RM203.5 million (including lease liabilities under hire purchase contracts owing to financial institutions for the purchase of machinery and equipment as well as motor vehicles), of which RM149.3 million of the bank borrowings are floating rate borrowings, and details are set out as below:

			As at 30 September 2022		
	Purpose	**Interest rate per annum**	**Payable within 12 months**	**Payable after 12 months**	**Total**
			(RM'000)	**(RM'000)**	**(RM'000)**
Term loans	For the purchase of properties[(1)] as well as renovation and extension of Senai 227 Factory and the construction of cleanroom facilities, and purchase of machinery and equipment	3.70% to 6.89%	6,638	75,970	[(3)]82,608
Lease liabilities	Finance the purchase of machinery and equipment, and motor vehicles[(2)]	3.70% to 8.96%	9,508	44,639	54,147
Shipment buyer loans	Working capital	1.69% to 4.63%	13,859	-	[(3)]13,859
Receivables finance	Working capital	2.08% to 5.56%	25,485	-	[(3)]25,485
Bankers' acceptance	Working capital	1.00% to 5.68%	10,382	-	[(3)]10,382
Bank overdraft	Working capital	6.20% to 7.64%	7,797	-	[(3)]7,797
OFCL	Working capital	1.45% to 5.15%	9,209	-	[(3)]9,209
Total			**82,878**	**120,609**	**203,487**

Notes:

(1) The purchase of properties mainly comprising PLO 103 Factory, Senai 227 Factory, 2 plots of vacant land namely PLO 226B and PLO 277B as well as Tebrau 6 Factory.

(2) Refers to lease liabilities under hire purchase contracts.

(3) Based on floating rates.

The maturity profile of our bank borrowings as at 30 September 2022 are set out below:

	As at 30 September 2022			
	Less than 1 year *RM'000*	**1 to 5 years** *RM'000*	**More than 5 years** *RM'000*	**Total** *RM'000*
Term loans	6,638	29,615	46,355	82,608
Lease liabilities (1)	9,508	38,488	6,151	54,147
Shipment buyer loans	13,859	-	-	13,859
Receivables finance	25,485	-	-	25,485
Bankers' acceptance	10,382	-	-	10,382
Bank overdraft	7,797	-	-	7,797
OFCL	9,209	-	-	9,209
Total	**82,878**	**68,103**	**52,506**	**203,487**

Note:

(1) Refers to lease liabilities under hire purchase contracts owing to financial institutions for the purchase of machinery and equipment as well as motor vehicles.

Our Group has not defaulted on any payment of either principal sums or interest in relation to the borrowings for the Period Under Review and up to the LPD.

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

12.4.4 Financial instruments, treasury policies and objectives

As at the LPD, save as disclosed in **Section 12.4.3** of this Prospectus, our Group did not use any other financial instruments.

Our Group's operations have been funded through shareholders' equity, cash generated from our operations and external sources of funds as well as proceeds received from the issuance of ICPS. The external sources of funds mainly consist of banking facilities from financial institutions. The normal credit terms granted by our suppliers range from 30 days to 120 days.

As at the LPD, our Group's banking facilities from financial institutions mainly consist of the following:

- Term loans used for the purchase of properties, renovation and extension of Senai 227 Factory and the construction of cleanroom facilities, and purchase of machinery and equipment;

- Lease liabilities used for the purchase of machinery and equipment as well as motor vehicles; and

- Credit facilities including shipment buyer loans, receivables finance, bankers' acceptance, bank overdraft and OFCL for working capital purposes.

The interest rates for our bank borrowings are typically based on the prevailing market rates at the dates of the respective transactions. As at the LPD, our Group has available credit facilities amounting to RM294.2 million, of which RM137.3 million has yet to be utilised.

The main objective of our capital management is to ensure sustainable shareholders' equity and our ability to support and grow our business in order to maximise shareholders' value. We review and manage our capital structure to maintain our debt-to-equity ratio at an optimal level based on the business requirements and prevailing economic conditions.

In our ordinary course of business, we deal with customers and suppliers from both the domestic and foreign markets, where transactions are denominated in both domestic currency as well as foreign currencies. 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, to a certain extent, provides a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks. As at the LPD, we have foreign currency forward hedging facilities but have yet to be utilised.

12.4.5 Material capital commitment

As at the LPD, our Group's material commitments for capital expenditure are summarised below:

		Source of funds	
	Capital commitment *RM'000*	**Internally generated funds/bank borrowings** *RM'000*	**Proceeds from the Public Issue** *RM'000*
Approved and/or contracted for:			
On-going expansion for our die cast manufacturing facilities in Tebrau 6 Factory (1)	**11,600**	**11,600**	**-**
- Acquisition of Tebrau 6 Factory	1,200(2)	1,200(2)	-
- 10 units of new die casting machines	10,400(3)	10,400(3)	-
- 10 units of furnaces	-(3)	-(3)	-
Approved but not contracted for:			
On-going expansion for our die cast manufacturing facilities in Tebrau 6 Factory (1)	**8,432**	**3,833**	**4,599**
- Natural gas piping system	3,000	3,000	-
- 9 sets of robotic pickup and spraying equipment	3,734	-	3,734
- Overhead crane	833	833	-
- 2 units of CNC lathe machines	500	-	500
- 3 units of rotary screw air compressors	365	-	365
Future expansion of operational facilities in Senai, Johor	**119,603**	-	**119,603**
- New production facilities for EMS operations	66,498	-	66,498
- New Senai 226 Warehouse and automated storage facilities	53,105	-	53,105
Total	**139,635**	**15,433**	**124,202**

Notes:

(1) The estimated total cost of the new facilities for Tebrau 6 Factory including the acquisition of Tebrau 6 Factory, renovation cost, purchase and installation of aluminium die cast production lines and related machinery and equipment is RM39.7 million.

(2) The total cost of the acquisition of Tebrau 6 Factory is RM18.0 including the acquisition cost of RM16.8 million and renovation cost of RM1.2 million. We completed the sale and purchase agreement for the acquisition of Tebrau 6 Factory in September 2022.

(3) The total cost of the purchase of furnaces is RM2.9 million and is financed through borrowings. In February 2022, we placed orders for the purchase of the 10 new die casting machines and subsequently in May 2022, we secured a letter of credit of RM8.9 million for the purchase of the new die casting machines.

12.4.6 Material litigation or claims

Neither we 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.

12.4.7 Contingent liabilities

As at the LPD, we do not have any other material contingent liabilities which, upon becoming enforceable, may have a material adverse impact on our results of operations or financial position.

12.4.8 Key financial ratios

Our key financial ratios for the Period Under Review are as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
Average trade receivables turnover period(1) (days)	315	146	86	87
Average trade payables turnover period(2) (days)	244	129	61	46
Average inventory turnover period(3) (days)	21	42	37	34
Current ratio(4) (times)	1.1	1.4	1.5	1.5
Gearing ratio(5) (times)	1.0	1.2	0.9	1.1

Notes:

(1) Computed based on the average trade receivables over revenue of the respective financial year/period multiplied by 365 days/273 days.

(2) Computed based on the average trade payables over the cost of sales of the respective financial year/period multiplied by 365 days/273 days.

(3) Computed based on the average inventory over the cost of sales of the respective financial year/period multiplied by 365 days/273 days.

(4) Computed based on current assets over current liabilities.

(5) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties divided by total equity.

(i) Trade receivables

A summary of our trade receivables for the Period Under Review is as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Average trade receivables[1]	37,249	67,321	81,245	102,194
Revenue	43,157	168,261	344,334	319,750
Average trade receivables turnover period[2] (days)	315	146	86	87

Notes:

(1) Computed as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Opening trade receivables	20,426	54,072	80,571	81,918
Closing trade receivables	54,072	80,571	81,918	122,469
Average trade receivables	**37,249**	**67,321**	**81,245**	**102,194**

(2) Computed based on the average receivables over revenue of the respective financial year/period multiplied by 365 days/273 days.

We deal with our customers on credit terms and the normal credit terms granted to our customers are as follows:

	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
Normal credit terms (days)	30 to 60	30 to 90[1]	30 to 90[1]	30 to 180[2]

Note:

(1) For FYE 2020 and FYE 2021, we granted a credit term of 90 days to a customer of home appliances, namely K & Q in Singapore as requested by the said customer and terms agreed.

(2) For FPE 2022, we granted a credit term of 180 days to Customer A based on Customer A's request and terms agreed.

We grant credit terms to new customers on a case-by-case basis, taking into consideration factors including the customer's creditworthiness and financial strength.

Our average trade receivable turnover period improved from 315 days in FYE 2019 to 146 days in FYE 2020 and further improved to 86 days in FYE 2021. The decreasing trend in average trade receivables turnover period for the Period Under Review was mainly due to improvement in collections from customers.

The average trade receivables turnover period in FYE 2019 and FYE 2020 exceeded the normal credit terms granted to our customers for the relevant periods, mainly attributed to slow payments from Changhuat Plastic in FYE 2019 and Airspan group of companies in FYE 2020 as discussed below:

- In FYE 2019, our average trade receivable turnover period of 315 days was mainly attributed to slow payment from Changhuat Plastic with outstanding receivables of RM44.3 million or 82.0% which exceeded the credit period. The slow payment was requested by Changhuat Plastic in its capacity as a customer. Please refer to **Section 7.19** and **Section 7.20** of this Prospectus for further details on our working arrangements with them. As at the LPD, the outstanding receivables have been settled.
- In FYE 2020, our average trade receivable turnover period of 146 days was mainly attributed to the outstanding receivables of RM17.3 million or 21.5% which exceeded the credit period. This was mainly due to slow payment from Airspan group of companies resulting from validation of documentation. As at the LPD, the outstanding receivables have been settled.

For FYE 2021, the above payment request for Changhuat Plastic was no longer applicable and Changhuat Plastic has improved its payment to us. Similarly, for FYE 2021 Airspan group of companies improved its validation of documentation process resulting in faster payment to us.

Our average trade receivable turnover period increased slightly from 86 days in FYE 2021 to 87 days in FPE 2022, which fall within the normal credit terms granted to our customers for the relevant periods.

For the Period Under Review, there was no provision made or write-off for our receivables.

The ageing analysis of our trade receivables as at 30 September 2022 is as follows:

		Exceeding credit period				
	Within credit period	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Trade receivables (RM'000)	103,851	10,662	2,792	1,487	3,677	122,469
% of trade receivables	84.8	8.7	2.3	1.2	3.0	100.00
Subsequent collections as at the LPD (RM'000)	70,066	6,939	2,685	1,270	3,562	84,522
Outstanding trade receivables as at the LPD (RM'000)	33,785	3,723	107	217	115	37,947
% of trade receivables net of subsequent collections	89.0	9.8	0.3	0.6	0.3	100.0

As at the LPD, RM84.5 million of our trade receivables as at 30 September 2022 has been subsequently collected. The remaining overdue outstanding amount of RM4.2 million was mainly attributed to slow payments from NextCentury and Airspan group of companies resulting from validation of documentation such as, matching of invoices and shipments received which typically takes 90 days. Subsequent to the LPD, the overdue outstanding amount from these said customers have been collected.

(ii) Trade payables

A summary of our trade payables for the Period Under Review is as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Average trade payables(1)	26,583	47,890	50,378	46,639
Cost of sales	39,762	135,840	302,443	278,199
Average trade payables turnover period(2) (days)	244	129	61	46

Notes:

(1) Computed as follows:

	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Opening trade payables	15,570	37,596	58,184	42,573
Closing trade payables	37,596	58,184	42,573	50,704
Average trade payables	**26,583**	**47,890**	**50,378**	**46,639**

(2) Computed based on the average payables over the cost of sales of the respective financial year/period multiplied by 365 days/273 days.

We deal with our suppliers on credit terms and the normal credit terms granted to us were as follows:

	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
Normal credit terms (days)	30 to 60	30 to 120(1)	30 to 120(1)	30 to 120(1)

Note:

(1) For FYE 2020, FYE 2021 and FPE 2022, the credit terms of 120 days were granted by a Jiangsu Midea, our major supplier from China for the components for home appliances.

Our average trade payables turnover period decreased from 244 days in FYE 2019 to 129 days in FYE 2020 and further improved to 61 days in FYE 2021 and 46 days in FPE 2022. The decreasing trend in our average trade payables turnover period for the Period Under Review was mainly attributed to timely payments to suppliers. Average trade payables turnover period in FYE 2019 and FYE 2020 exceeded the normal credit terms granted by our suppliers, mainly due to slow payments to Changhuat Plastic in FYE 2019, as well as to BM Nagano and Jiangsu Midea in FYE 2020 as discussed below:

- In FYE 2019, our average trade payables turnover period of 244 days was mainly attributed to the outstanding amount owing to Changhuat Plastic amounting to RM22.5 million, which exceeded the relevant credit period, for the purchase of plastic parts, casing and battery packs as at 31 December 2019. As at the LPD, the outstanding payment to Changhuat Plastic has been settled.

- In FYE 2020, our average trade payables turnover period of 129 days was mainly attributed to the outstanding amount owing to BM Nagano and Jiangsu Midea amounting to RM5.5 million and RM4.3 million as at 31 December 2020 respectively, which exceeded the relevant credit period. The slow payments were due to our working arrangements mentioned below where we usually made payment to supplier once we received the collections from customer. As at the LPD, the outstanding payments to BM Nagano and Jiangsu Midea have been settled.

The improvement in the average trade payables turnover period from 129 days in FYE 2020 to 61 days in FYE 2021 was mainly attributed to timely payments to suppliers which was in line with our working arrangements mentioned below where there was improvement in collections from customers as mentioned earlier.

In general, our Group's customers will approve and appoint major suppliers for us to source the input materials. Our customers will instruct us to procure relevant input materials and services from the approved and appointed major suppliers. As such, we are obligated to purchase from these approved and appointed major suppliers. Pursuant to the said working arrangements, we usually make payment to major suppliers once we have received the collections from major customers.

Our average trade payables turnover period exceeded credit period for FYE 2019 and FYE 2020 mainly arising from slow payment from Changhuat Plastic and Airspan group of companies in FYE 2019 and FYE 2020 as mentioned above. Consequently, this has affected the timing for us to process the payments to suppliers. In view of differences in timing between our collection of trade receivables from customers and our payments of trade payables to suppliers, our Group utilises banking facilities as working capital for payments to our suppliers, when the need arises.

The ageing analysis of our trade payables as at 30 September 2022 is as follows:

		Exceeding credit period				
	Within credit period	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Trade payables (RM'000)	40,645	6,445	2,742	421	451	50,704
% of trade payables	80.2	12.7	5.4	0.8	0.9	100.0
Subsequent payments as at the LPD (RM'000)	25,796	6,334	2,706	421	451	35,708
Outstanding trade payables as at the LPD (RM'000)	14,849	111	36	-	-	14,996
% of trade payables net of subsequent payments	99.0	0.8	0.2	-	-	100.0

As at the LPD, RM35.7 million of our trade payables as at 30 September 2022 has been subsequently paid. Of the remaining outstanding payables of RM15.0 million, 99.0% of the outstanding payables are still within credit period.

(iii) Inventory turnover

A summary of our inventories for the Period Under Review is as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Average inventories[(1)]	2,257	15,554	30,286	34,796
Closing inventories	4,513	26,594	33,977	35,615
- *Input materials*	*3,014*	*12,669*	*31,210*	*34,060*
- *Work-in-progress*	-	*4,475*	*1,539*	*1,389*
- *Finished goods*	*1,499*	*3,697*	*424*	*166*
- *Goods-in-transit*	-	*5,753*	*804*	-
Cost of sales	39,762	135,840	302,443	278,199
Average inventory turnover period[(2)] (days)	21	42	37	34
- *Input materials*	*14*	*21*	*26*	*32*
- *Work-in-progress*	-	*6*	*4*	*1*
- *Finished goods*	*7*	*7*	*3*	*
- *Goods-in-transit*	-	*8*	*4*	*

Notes:

* Less than 1 day.

(1) Computed as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Opening inventories	-	4,513	26,594	33,977
Closing inventories	4,513	26,594	33,977	35,615
Average inventories	**2,257**	**15,554**	**30,286**	**34,796**

(2) Computed based on the average inventory over the cost of sales of the respective financial year/period multiplied by 365 days/273 days.

Our inventory consists of the following:

- Input materials comprising E&E parts and components, mechanical parts, packaging and related materials for our provision of EMS as well as aluminium ingots for the die cast manufacturing operations.

- Work-in-progress refers to products that are partially finished before undergoing further processing into finished goods.

- Finished goods comprising completed products before delivery to customers.

- Goods-in-transit refers to raw materials which have been shipped by the suppliers but have yet to reach our manufacturing plant. This was based on freight on board at the shipping point where we technically have taken procession of materials as soon as the shipment departs from the suppliers.

Our inventory planning policy for our EMS operations is to purchase relevant input materials based on 6 to 12 months rolling forecast and confirmed purchase orders mainly on weekly or quarterly basis incorporating quantity and delivery schedules. As such, our inventory planning policy is to purchase sufficient materials taking into consideration our production capacity and output to meet scheduled delivery dates. This applies to all input materials for our EMS operations.

Our inventory planning policy for our manufacture of aluminium die cast parts is based on customer demand which impacts our input material comprising aluminium ingots. Our inventory levels of aluminium ingots are reviewed regularly. When the stock level drops to a certain threshold which represents our buffer level, we would have to restock the aluminium ingot inventory.

Our inventory policy for buffer stock level is a minimum of 3 months' worth of production requirement. Our inventory policy for restocking aluminium ingot is commonly one 40-footer container of aluminium ingot. For the Period Under Review, there were no inventory written off and written down.

Our average inventory turnover period increased from 21 days in FYE 2019 to 42 days in FYE 2020. This was mainly due to higher purchases of input materials including E&E parts and components during the end of FYE 2020 for subsequent planned productions.

Our average inventory turnover period decreased from 42 days in FYE 2020 to 37 days in FYE 2021. This was mainly due to a lower inventory of finished goods in line with the growth in our revenue arising from higher delivery of finished goods in FYE 2021.

Our average inventory turnover period decreased from 37 days in FYE 2021 to 34 days in FPE 2022. This was mainly due to a lower inventory of finished goods in line with the growth in our revenue arising from higher delivery of finished goods in the last three months of FPE 2022.

The ageing analysis of our inventories as at 30 September 2022 is as follows:

	1 to 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Closing inventories	27,125	8,490	-	-	35,615
- *Input materials*	*26,001*	*8,059*	-	-	*34,060*
- *Work-in-progress*	*1,004*	*385*	-	-	*1,389*
- *Finished goods*	*120*	*46*	-	-	*166*
- *Goods-in-transit*	-	-	-	-	-

(iv) Current ratio

A summary of our current ratio for the Period Under Review is as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Current assets	74,898	157,359	183,257	233,004
Current liabilities	67,177	115,919	120,442	152,245
Current ratio[(1)] (times)	1.1	1.4	1.5	1.5

Note:

(1) Computed based on current assets over current liabilities.

Our current ratio improved from 1.1 times as at 31 December 2019 to 1.4 times as at 31 December 2020. This was mainly due to an increase in inventories arising from higher purchases of input materials for subsequent planned productions, and partly contributed by an increase in trade receivables pertaining to an outstanding amount from Airspan group of companies, and higher cash and bank balances. The improvement in the current asset position was partially offset by the increase in current liabilities arising from higher borrowings and trade payables.

Our current ratio increased slightly from 1.4 times as at 31 December 2020 to 1.5 times as at 31 December 2021. This was mainly due to improvement in our current assets position comprising mainly trade receivables, cash and bank balances, in line with the increase in our revenue and profit in FYE 2021.

Our current ratio remained at 1.5 times as at 30 September 2022. This was mainly due to the increase in in current liabilities arising from higher borrowings utilised during the FPE 2022 mainly trade facilities for our operational working capital. This was partially offset by an increase in current asset position contributed by the increase in trade receivables due to higher billings to our customers for orders fulfilled and picked up by customers in the last three months of FPE 2022 as well as the longer credit term granted to Customer A based on Customer A's request and terms agreed.

(v) Gearing ratio

A summary of our gearing ratio for the Period Under Review is as follows:

	Audited			
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2022**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Total bank borrowings	14,488	87,521	156,264	203,487
Total equity	21,009	81,368	169,562	181,524
Total borrowings(1) (RM'000)	20,697	94,219	156,327	203,512
Gearing ratio(2) (times)	1.0	1.2	0.9	1.1

Notes:

(1) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties, including a supplier, Changhuat Plastic and our engineering consultant, Wu Jung Wai.

(2) Computed based on total borrowings including lease liabilities and interest-bearing advances from third parties divided by total equity.

Our gearing ratio increased from 1.0 times as at 31 December 2019 to 1.2 times as at 31 December 2020 mainly due to higher borrowings. This was mainly attributed to a drawdown of term loan for the acquisition of the Senai 227 Factory in FYE 2020 and shipment buyer loans which were used for operational working capital.

In addition, we obtained advances from a supplier, Changhuat Plastic and an engineering consultant for operational working capital purposes, which bear interest rates as well as lease liabilities arising from right-of-use assets.

Our gearing ratio decreased from 1.2 times as at 31 December 2020 to 0.9 times as at 31 December 2021. This was mainly attributed to the increase in the share capital of RM60.0 million in FYE 2021 pursuant to the issuance of ICPS. The increase was partially offset by the increase in lease liabilities mainly used for the purchase of machinery and equipment mainly for the electronic cigarette production lines and additional machinery and equipment for the die cast manufacturing operations as well as higher term loans drawdown mainly for the purchase of PLO 226B and PLO 227B, and extension of the Senai 227 Factory in FYE 2021.

Our gearing ratio increased from 0.9 times as at 31 December 2021 to 1.1 times as at 30 September 2022 mainly due to higher borrowings utilised during the FPE 2022 mainly trade facilities for our operational working capital and higher term loan utilised for the purchase of Tebrau 6 Factory as well as purchase of die casting machines.

12.5 ORDER BOOK

Our sales are typically derived from purchase orders issued by customers according to the agreements entered with our customers. We usually fulfill the purchase orders within 90 days upon the issuance of purchase orders by our customers. As such, we do not maintain an order book based on contracts due to the nature of our business.

As at the LPD, we have unbilled purchase orders of RM358.7 million to be fulfilled by the fourth quarter of 2023. The details are set out below:

Unbilled purchase orders	**Industrial electronic products**	**Consumer electronic products**	**Total**
	RM'000	**RM'000**	**RM'000**
To be delivered from January 2023 to March 2023	55,969	23,666	79,635
To be delivered from April 2023 to June 2023	95,292	-	95,292
To be delivered from July 2023 to September 2023	91,901	-	91,901
To be delivered from October 2023 to December 2023	91,901	-	91,901
Total	**335,063**	**23,666**	**358,729**

12.6 TREND INFORMATION

Saved as disclosed in this Prospectus, our operations have not been or are not expected to be affected by any of the following:

(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, operations, liquidity and capital resources, save as set out in **Sections 7** and **9** of this Prospectus;

(ii) material commitment for capital expenditure, as set out in **Section 12.4.5** 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;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits, save for the interruption to business and operations due to the COVID-19 pandemic as set out in **Section 7.13** of this Prospectus;

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

12.7 DIVIDEND POLICY

It is the intention of our Board to recommend and distribute a dividend of up to 30.0% of our audited PAT of each financial year on a consolidated basis after taking into consideration anticipated future operating conditions, operating cash flow requirements, financing commitments, subject to any applicable law and contractual obligations and provided that such distribution will not be detrimental to our Group's cash requirements or any plans approved by our Board.

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.

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. There is no dividend restriction being imposed on our Group currently.

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 advisors if they are in any doubt as to the taxation implication of subscribing, holding or disposing of and dealing in our Shares.

For the FYE 2019, FYE 2020 and FYE 2021, there was no dividend declared, made or paid by us or our Subsidiaries to shareholders.

For the FPE 2022, we declared and paid a dividend of RM12,964,667, amounting to approximately 39.5% of our annualised PAT for FPE 2022 of approximately RM32.8 million, to our then existing shareholders, being Tee Kim Chin, Tee Kim Yok, Fortress and AOF. The source of funds for the paid dividend of RM12,964,667 is derived from internally generated funds. However, moving forward, after considering our cash flow requirements, our Company intends to recommend and distribute a dividend of up to 30.0% of our audited consolidated PAT of each financial year. Our Company is of the view that the dividends paid will not affect the execution and implementation of our Company's future plans or strategies moving forward.

Our Company has no intention to declare any further dividends up to the completion of the Listing.

12.8 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CAPE EMS BERHAD
(FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD)
(Registration No.: 199901026859 (501759-M))
(Incorporated in Malaysia)

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd

Grant Thornton

REPORTING ACCOUNTANTS' ASSURANCE REPORT ON COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022
(Prepared for inclusion in the Prospectus)

Grant Thornton Malaysia PLT
Suite 28.01, 28th Floor
Menara Zurich
No.15, Jalan Dato' Abdullah Tahir
80300 Johor Bahru, Johor
Malaysia

T +607 332 8335
F +607 332 2268

Date: 2 February 2023

The Board of Directors
Cape EMS Berhad
(Formerly known as Cape EMS Manufacturing (M) Berhad)
PLO 227A, Jalan Cyber 1A
Kawasan Perindustrian Senai III
81400 Senai
Johor Darul Ta'zim

Dear Sirs,

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) ("COMPANY" OR "CAPE EMS") AND ITS SUBSIDIARIES

REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position of the Company and its subsidiaries ("Cape Group" or "Group") as at 30 September 2022, together with the notes and assumptions thereto (which we have stamped for the purpose of identification), which have been compiled and prepared by the Directors of the Company for inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing of and quotation for the entire enlarged issued share capital in the Company on the Main Market of Bursa Malaysia Securities Berhad ("Listing") ("Prospectus").

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia and described in Note 2 to the Pro Forma Consolidated Statements of Financial Position ("Applicable Criteria").

The Pro Forma Consolidated Statements of Financial Position as at 30 September 2022 have been compiled by the Directors of the Company, for illustrative purposes only, to show the effects of the events and transactions as set out in the notes thereon on the Consolidated Statements of Financial Position presented had the Listing been effected on 30 September 2022. As part of this process, information about the Group's Consolidated Financial Position has been extracted by the Directors of the Company from the Cape EMS audited consolidated financial statements for the financial period ended 30 September 2022, on which was reported by us to the Directors of Cape EMS on 2 February 2023 without any modification.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Directors of the Company are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis of the Applicable Criteria.

Our Independence and Quality Control

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

Our firm applies *International Standard on Quality Management ("ISQM") 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statements of Financial Position have been properly compiled, in all material respect, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements ("ISAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"*, issued by International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated 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 financial information used in compiling the Pro Forma Consolidated 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 Consolidated Statements of Financial Position.

The purpose of the Pro Forma Consolidated Statements of Financial Position included in the Prospectus is solely to illustrate the impact as if the events had occurred or the transactions 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.

Our Responsibility (Cont'd)

A reasonable assurance engagement to report on whether the Pro Forma Consolidated 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 Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions enumerated in the notes thereto, and to obtain sufficient appropriate evidence about whether:-

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statements of Financial Position reflects 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 event or transaction in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated 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, the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with requirements of Chapter 9 and 10 of Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and the Guidance Note for Issuers of Pro Forma Financial Information issued by Malaysian Institute of Accountants.

Other Matter

This letter has been prepared at your request for inclusion in the Prospectus in connection with the Listing. It is not intended to be used for any other purposes. 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 letter contrary to the aforesaid purpose.

Yours faithfully,

GRANT THORNTON MALAYSIA PLT	WONG WEN TAK
(201906003682 & LLP0022494-LCA)	(NO: 3043/04/2023 J)
CHARTERED ACCOUNTANTS (AF 0737)	CHARTERED ACCOUNTANT

Johor Bahru
2 February 2023

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022

The Pro Forma Consolidated Statements of Financial Position of Cape EMS Berhad (formerly known as Cape EMS Manufacturing (M) Berhad) ("Cape EMS" or "Company") and its subsidiaries ("Cape Group" or "Group") as at 30 September 2022 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Consolidated Statements of Financial Position on the assumption that these transactions were completed on 30 September 2022, and should be read in conjunction with the notes accompanying to the Pro Forma Consolidated Statements of Financial Position.

	Notes	Audited as at 30 September 2022	Pro Forma I After Public Issue	Pro Forma II After Pro Forma I and After Use of Proceeds from Public Issue
		RM	RM	RM
ASSETS				
Non-current assets				
Property, plant and equipment		215,570,853	215,570,853	215,570,853
Investment property		8,800,000	8,800,000	8,800,000
Goodwill on acquisition		6,243,746	6,243,746	6,243,746
Total non-current assets		230,614,599	230,614,599	230,614,599
Current assets				
Inventories		35,614,621	35,614,621	35,614,621
Trade receivables		122,468,562	122,468,562	122,468,562
Contract assets		10,835,485	10,835,485	10,835,485
Other receivables	3.1	14,209,582	14,209,582	10,892,857
Current tax assets		941,961	941,961	941,961
Fixed deposits with licensed banks		7,759,808	7,759,808	7,759,808
Cash and bank balances	3.2	32,314,675	188,014,675	180,331,400
		224,144,694	379,844,694	368,844,694
Non-current assets held for sale		8,858,831	8,858,831	8,858,831
Total current assets		233,003,525	388,703,525	377,703,525
Total assets		463,618,124	619,318,124	608,318,124
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to owners of				
Share capital	3.3	100,000,000	255,700,000	251,314,177
Exchange translation reserve		352,503	352,503	352,503
Revaluation reserve		21,287,618	21,287,618	21,287,618
Retained earnings	3.4	59,883,472	59,883,472	53,269,295
Total equity		181,523,593	337,223,593	326,223,593

GRANT THORNTON MALAYSIA PLT FOR IDENTIFICATION PURPOSES ONLY

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022 (CONT'D)

The Pro Forma Consolidated Statements of Financial Position of Cape Group as at 30 September 2022 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Consolidated Statements of Financial Position on the assumption that these transactions were completed on 30 September 2022, and should be read in conjunction with the notes accompanying to the Pro Forma Consolidated Statements of Financial Position (cont'd).

	Notes	Audited as at 30 September 2022	Pro Forma I After Public Issue	Pro Forma II After Pro Forma I and After Use of Proceeds from Public Issue
		RM	RM	RM
EQUITY AND LIABILITIES (CONT'D)				
LIABILITIES				
Non-current liabilities				
Lease liabilities		44,638,810	44,638,810	44,638,810
Loans and borrowings		75,969,622	75,969,622	75,969,622
Deferred tax liabilities		9,240,839	9,240,839	9,240,839
Total non-current liabilities		129,849,271	129,849,271	129,849,271
Current liabilities				
Trade payables		50,704,228	50,704,228	50,704,228
Other payables		17,656,130	17,656,130	17,656,130
Amount due to a related party		10,580	10,580	10,580
Lease liabilities		9,533,529	9,533,529	9,533,529
Loans and borrowings		73,370,048	73,370,048	73,370,048
Currrent tax liabilities		970,745	970,745	970,745
Total current liabilities		152,245,260	152,245,260	152,245,260
Total liabilities		282,094,531	282,094,531	282,094,531
Total equity and liabilities		463,618,124	619,318,124	608,318,124
Issued ordinary share capital (Unit)	3.3	750,000,000	923,000,000	923,000,000
Net assets per share (RM)		0.24	0.37	0.35
Borrowings		203,512,009	203,512,009	203,512,009
Gearing ratio (times) [(1)]		1.12	0.60	0.62
Net gearing ratio (times) [(2)]		0.94	0.05	0.07

Notes:

[(1)] Computed based on total borrowings including lease liabilities divided by total equity.

[(2)] Computed based on total borrowings including lease liabilities, less cash and cash equivalents (cash and bank balances and fixed deposit not pledged to bank), divided by total equity.

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Pro Forma Consolidated Statements of Financial Position of Cape EMS Berhad (formerly known as Cape EMS Manufacturing (M) Berhad) ("Cape EMS" or "Company") and its subsidiaries ("Cape Group" or "Group") as at 30 September 2022 have been prepared for inclusion in the prospectus to be issued by the Company in connection with the initial public offering ("IPO") and the listing of and quotation for the entire enlarged issued share capital in the Company on the Main Market of Bursa Malaysia Securities Berhad ("Listing") ("Prospectus") and should not be relied upon for any other purposes.

1. **Basis of Preparation**

The Pro Forma Consolidated Statements of Financial Position of the Group have been prepared for illustrative purposes and on the assumptions that the Consolidated Statements of Financial Position were effected on that date by the Listing as per Note 2 to the Pro Forma Consolidated Statements of Financial Position assuming that all the transactions mentioned as per Note 2 to the Pro Forma Consolidated Statements of Financial Position had taken place on 30 September 2022. Pro Forma Consolidated Statements of Financial Position is prepared in accordance with the requirements of Chapter 9 and 10 of Prospectus Guidelines issued by the Securities Commission Malaysia and the Guidance Note for Issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants.

The Pro Forma Consolidated Statements of Financial Position have been prepared based on audited consolidated financial statements of the Group for the financial period ended 30 September 2022, which was prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"), and in a manner consistent with the format of the statement of financial position and the accounting policies adopted by the Group, and as adjusted for the events and transactions as detailed in Note 2.

2. **Pro Forma Adjustments to the Pro Forma Consolidated Statements of Financial Position**

2.1 **IPO**

2.1.1 **Pro Forma I: Listing Scheme**

Public Issue

The IPO involves a public issue of up to 173,000,000 new ordinary shares in Cape EMS at an offer price of RM0.90 per share.

In conjunction with the IPO, the Company would seek the listing of and quotation for its entire enlarged issued share capital comprising 923,000,000 ordinary shares in Cape EMS on the Main Market of Bursa Malaysia Securities Berhad.

Offer For Sale

The Offer For Sale by the selling shareholders, Tee Kim Chin and Tee Kim Yok, of up to 86,700,000 ordinary shares in the Company ("selling shareholders") at an offer price of RM0.90 per share. The Company will not receive any proceeds from the Offer For Sale. The gross proceeds of up to RM78,030,000 will accrue entirely to the selling shareholders.

The Offer For Sale does not have any impact on the Pro Forma Consolidated Statements of Financial Position as at 30 September 2022.

GRANT THORNTON MALAYSIA PLT FOR IDENTIFICATION PURPOSES ONLY

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

2. **Pro Forma Adjustments to the Pro Forma Consolidated Statements of Financial Position (Cont'd)**

2.1 **IPO (Cont'd)**

2.1.2 **Pro Forma II: Use of Proceeds from the Public Issue**

Gross proceeds from the Public Issue of RM155,700,000 are expected to be used as follows:-

Details of use of proceeds	**Estimated timeframe for use from the date of Listing**	**RM'000**	**%**
Not reflected in Pro Forma Consolidated Statements of Financial Position			
Capital expenditure [(i)]			
- Construction of New Senai 226 Warehouse and installation of automated storage facilities	Within 48 months	53,105	34.1
- Setting-up of new cleanroom facility and purchase of new automated production lines for electronics manufacturing services ("EMS") operations	Within 24 months	62,810	40.3
- Installation of energy saving cooling system	Within 24 months	3,688	2.4
- Purchase of new machinery and equipment for die cast manufacturing related services	Within 12 months	4,599	3.0
Working capital	Within 12 months	20,498	13.2
Reflected in Pro Forma Consolidated Statements of Financial Position			
Estimated listing expenses [(ii)]	Within 3 months	11,000	7.0
Total estimated proceeds		155,700	100.0

Notes:-

Capital expenditure

[(i)] As at the latest practicable date ("LPD") prior to the date of the Prospectus, the Group has yet to enter into any contractual binding arrangements or issue any purchase orders in relation to the above capital expenditure. Accordingly, the use of proceeds earmarked for capital expenditure is not reflected in the Pro Forma Consolidated Statements of Financial Position.

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

2. **Pro Forma Adjustments to the Pro Forma Consolidated Statements of Financial Position (Cont'd)**

2.1 **IPO (Cont'd)**

2.1.2 **Pro Forma II: Use of Proceeds from the Public Issue (Cont'd)**

Estimated listing expenses

(ii) The estimated listing expenses comprise the followings-

	Amount RM'000
Professional fees	4,673
Fees payable to authorities	604
Brokerage, underwriting and placement fees	3,522
Fees and expenses for printing, advertising and roadshow	1,100
Miscellaneous expenses and contingencies	1,101
Total	11,000

The total listing expenses to be borne by the Company is estimated to be RM11,000,000. As of 30 September 2022, RM3,316,725 has been paid. The estimated listing expenses of RM4,385,823 will be set-off against equity and the remaining RM6,614,177 will be charged out to the profit or loss account upon completion of the IPO. The apportionment is disclosed in Notes 3.2 and 3.3 respectively.

3. **Effects on the Pro Forma Consolidated Statements of Financial Position**

3.1 **Other receivables**

The movements of other receivables are as follows:-

	Amount RM
As per 30 September 2022 and as per Pro Forma 1	14,209,582
Pursuant to Use of Proceeds from the Public Issue	
- Estimated listing expenses	(3,316,725)
As per Pro Forma II	10,892,857

FOR IDENTIFICATION PURPOSES ONLY
GRANT THORNTON MALAYSIA PLT

CAPE EMS BERHAD (FORMERLY KNOWN AS CAPE EMS MANUFACTURING (M) BERHAD) AND ITS SUBSIDIARIES

NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3. **Effects on the Pro Forma Consolidated Statements of Financial Position (Cont'd)**

3.2 **Cash and bank balances**

The movements of cash and bank balances are as follows:-

	Amount RM
As per 30 September 2022	32,314,675
Pursuant to Public Issue	155,700,000
As per Pro Forma I	188,014,675
Pursuant to Use of Proceeds from the Public Issue	
- Estimated listing expenses	(7,683,275)
As per Pro Forma II	180,331,400

3.3 **Share capital**

The movements of the issued share capital are as follows:-

	No. of Shares Unit	Amount RM
As at 30 September 2022	750,000,000	100,000,000
Pursuant to Public Issue	173,000,000	155,700,000
As per Pro Forma I	923,000,000	255,700,000
Pursuant to Use of Proceeds from the Public Issue	-	(4,385,823)
As per Pro Forma II	923,000,000	251,314,177

3.4 **Retained earnings**

The movements of the retained earnings are as follows:-

	Amount RM
As at 30 September 2022 and as per Pro Forma I	59,883,472
Pursuant to Use of Proceeds from the Public Issue	(6,614,177)
As per Pro Forma II	53,269,295

GRANT THORNTON MALAYSIA PLT FOR IDENTIFICATION PURPOSES ONLY