

11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated on 4 January 2023 to facilitate the Listing, and the Acquisitions were completed on [•]. BW Scaffold, BWYSSB, BWYS Steel, BWYS Timur and YS Success have been under the common control of our Promoter throughout the Period Under Review and are regarded as continuing entities. As such, the historical financial information of our Group for the Period Under Review is therefore presented based on the historical combined audited financial statements of our Group.

The historical financial information throughout the Period Under Review has been prepared in accordance with MFRS and IFRS and were not subject to any audit qualification.

The following selected financial information is not intended to predict our Group's financial position, results, and cash flows. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Accountants' Report set out in Sections 11.2 and 12 of this Prospectus respectively.

11.1.1 Combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our combined statements of profit or loss and comprehensive income for the Period Under Review:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Revenue	130,864	222,435	236,231
Cost of sales	(105,607)	(170,267)	(179,781)
GP	25,257	52,168	56,450
Other operating income	2,763	9,060	13,181
Impairment losses on trade and other receivables, net	(589)	(2,865)	(1,111)
Administrative and distribution expenses	(17,864)	(24,330)	(29,589)
Operating profit	9,567	34,033	38,931
Finance costs	(4,266)	(4,431)	(5,478)
PBT	5,301	29,602	33,453
Tax expense	(1,990)	(4,763)	(9,942)
PAT/Total comprehensive income for the financial years	3,311	24,839	23,511
Adjusted GP ⁽⁴⁾	25,257	57,066	51,650
Adjusted PBT ⁽⁴⁾	5,301	34,500	28,653
Adjusted PAT ⁽⁴⁾	3,311	29,737	18,711
PAT/Total comprehensive income attributable to:			
- common controlling shareholders of our Group	3,421	24,839	23,511
- Non-controlling interests	(110)	-	-
	3,311	24,839	23,511

11. FINANCIAL INFORMATION (cont'd)

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
EBIT (RM'000) ⁽¹⁾	8,886	33,738	38,488
EBITDA (RM'000) ⁽¹⁾	14,388	40,375	47,061
GP margin (%) ⁽²⁾	19.3	23.5	23.9
PBT margin (%) ⁽³⁾	4.1	13.3	14.2
PAT margin (%) ⁽³⁾	2.5	11.2	10.0
Adjusted GP margin (%) ⁽⁴⁾	19.3	25.7	21.9
Adjusted PBT margin (%) ⁽⁴⁾	4.1	15.5	12.1
Adjusted PAT margin (%) ⁽⁴⁾	2.5	13.4	7.9
Effective tax rate (%) ⁽⁵⁾	37.5	16.1	29.7
Basic and diluted EPS (sen) ⁽⁶⁾	0.3	2.4	2.3

Notes:

- (1) EBIT and EBITDA are calculated as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
PAT	3,311	24,839	23,511
Less:			
Interest income	(681)	(295)	(443)
Add:			
Finance costs	4,266	4,431	5,478
Taxation	1,990	4,763	9,942
EBIT	8,886	33,738	38,488
Add:			
Depreciation	5,502	6,637	8,573
EBITDA	14,388	40,375	47,061

- (2) GP margin is calculated based on GP over revenue.
- (3) PBT and PAT margin is calculated based on respective PBT and PAT for the Period Under Review over revenue.
- (4) In FYE 2021, our Group received a bill of claim from RMCD amounting to RM4.9 million, resulting from an audit on the import duty on steel coils purchased for the taxable period from July 2017 to June 2020 ("**Additional Import Duty**"). Our Group has accrued the Additional Import Duty while pending further clarification from RMCD in FYE 2021. In FYE 2022, our Group has reached an agreement with RMCD on a final settlement of RM0.1 million. As such, the overaccrual of RM4.8 million ("**Overaccrued Import Duty**") was reversed in FYE 2022. Please refer to Section 6.5.14(xi) of this Prospectus for further details. If the impact of the Additional Import Duty and Overaccrued Import Duty which are one-off in nature are adjusted, the adjusted GP, PBT, PAT and its related margins are as follows:

11. FINANCIAL INFORMATION (cont'd)

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Revenue	130,864	222,435	236,231
Cost of sales	(105,607)	(170,267)	(179,781)
Additional Import Duty	-	4,898	-
Overaccrued Import Duty	-	-	(4,800)
Adjusted cost of sales	(105,607)	(165,369)	(184,581)
Adjusted GP	25,257	57,066	51,650
PBT	5,301	29,602	33,453
Additional Import Duty	-	4,898	-
Overaccrued Import Duty	-	-	(4,800)
Adjusted PBT	5,301	34,500	28,653
Tax expense	(1,990)	(4,763)	(9,942)
Adjusted PAT	3,311	29,737	18,711
Adjusted GP margin (%)	19.3	25.7	21.9
Adjusted PBT margin (%)	4.1	15.5	12.1
Adjusted PAT margin (%)	2.5	13.4	7.9

For clarity, the final import duty charged by RMCD of RM0.1 million pertains to transactions which occurred in FYE 2018 and FYE 2019. Hence, there was no impact on the import duty charged to the financial results of FYE 2020.

- (5) Effective tax rate is calculated based on tax expenses divided by PBT.
- (6) Basic and diluted EPS is calculated based on PAT for the Period Under Review over the enlarged share capital of 1,025,213,000 Shares upon Listing. There are no potential dilutive securities in issue during the respective Period Under Review.

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11. FINANCIAL INFORMATION (cont'd)**11.1.2 Combined statements of financial position**

The following table sets out the combined statements of financial position of our Group as at the Period Under Review:

	Audited		
	As at 31 December		
	2020	2021	2022
	RM'000	RM'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	79,797	123,595	130,293
Right-of-use assets	14,928	16,486	18,830
Other investments	10,154	10,263	-
Total non-current assets	104,879	150,344	149,123
Current assets			
Inventories	43,791	95,005	86,227
Trade and other receivables	43,463	56,212	45,495
Current tax assets	635	1,044	3,085
Cash and bank balances	5,649	23,848	14,827
Total current assets	93,538	176,109	149,634
TOTAL ASSETS	198,417	326,453	298,757
EQUITY AND LIABILITIES			
Equity attributable to the common controlling shareholders of our Group			
Invested equity	7,988	7,988	7,988
Reserves	75,106	98,318	110,694
	83,094	106,306	118,682
Non-controlling interests	349	-	-
TOTAL EQUITY	83,443	106,306	118,682
Non-current liabilities			
Other payables	4,069	4,069	-
Borrowings	42,893	69,136	63,228
Lease liabilities	3,079	3,665	4,707
Deferred tax liabilities	1,196	2,463	5,384
Total non-current liabilities	51,237	79,333	73,319
Current liabilities			
Trade and other payables	28,026	58,767	34,593
Borrowings	34,563	78,904	65,886
Lease liabilities	1,127	1,521	2,401
Provision	-	1,474	1,474
Current tax liabilities	21	148	2,402
Total current liabilities	63,737	140,814	106,756
TOTAL LIABILITIES	114,974	220,147	180,075
TOTAL EQUITY AND LIABILITIES	198,417	326,453	298,757

11. FINANCIAL INFORMATION (cont'd)

11.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for the Period Under Review:

	FYE 2020	Audited FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Cash flow from operating activities			
PBT	5,301	29,602	33,453
Adjustments for:			
Bad debts written off	27	1,793	145
Bad debts recovered	(18)	(13)	(177)
Depreciation of property, plant, and equipment	4,431	5,446	6,621
Depreciation of right-of-use assets	1,071	1,191	1,952
Dividend income from other investments	-	(6,890)	-
Impairment loss on other investments	69	-	-
Impairment loss on trade and other receivables	629	2,875	1,728
Interest expenses	4,266	4,431	5,478
Interest income	(681)	(295)	(443)
Gain on lease termination	~	(2)	(22)
Gain on disposal of other investment	-	-	(1,287)
Gain on disposal of property, plant, and equipment	(360)	(19)	(4,290)
Reversal of impairment losses on trade and other receivables	(40)	(10)	(617)
Unrealised loss on foreign exchange	26	192	464
Provision for legal claims	-	1,474	-
Waiver of debts	-	-	(3,189)
Written off of property, plant, and equipment	1,429	636	1,464
Operating profit before changes in working capital	16,150	40,411	41,280
Decrease/(Increase) in inventories	393	(51,213)	(4,744)
Decrease/(Increase) in trade and other receivables	101	(17,398)	9,630
(Decrease)/Increase in trade and other payables	(6,546)	36,143	(23,699)
Cash generated from operations	10,098	7,943	22,467
Tax paid	(2,000)	(3,778)	(6,810)
Tax refunded	-	-	1
Net cash generated from operating activities	8,098	4,165	15,658
Cash flow from investing activities			
Addition in other investments	-	(109)	-
Acquisition of shares from non-controlling interest	-	(376)	-
Dividends received from other investments	-	6,890	-
Interest received	681	295	443
Purchase of property, plant, and equipment	(6,408)	(20,490)	(3,892)
Purchase of right-of-use assets	(246)	(509)	(380)
Proceeds from disposal of other investments	-	-	11,550
Proceeds from disposal of property, plant and equipment	1,823	379	7,022
Proceeds from disposal of right-of-use assets	207	-	-
Net cash (used in)/from investing activities	(3,943)	(13,920)	14,743

11. FINANCIAL INFORMATION (cont'd)

	FYE 2020	Audited FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Cash flow from financing activities			
Dividend paid to common controlling shareholders	-	(1,600)	(11,135)
Dividend paid to non-controlling interests	(220)	-	-
Drawdown of bankers' acceptances	85,354	162,613	181,789
Drawdown of revolving credit	-	1,000	-
Drawdown of term loans	8,000	-	-
Interest paid	(4,082)	(4,113)	(5,101)
Repayment of bankers' acceptances	(92,899)	(118,812)	(196,463)
Repayment of revolving credit	(1,000)	-	-
Repayment of term loans	(4,226)	(2,216)	(6,050)
Repayment of lease liabilities	(967)	(1,576)	(2,450)
Repayment to related parties	(331)	(5,591)	(1,810)
Net changes in deposits with licensed banks	3,569	(3,742)	(3,126)
Net cash (used in)/from financing activities	(6,802)	25,963	(44,346)
Net (decrease)/increase in cash and cash equivalents	(2,647)	16,208	(13,945)
Effects of exchange rate changes on cash and cash equivalents	(10)	~	~
Cash and cash equivalents at the beginning of financial year	2,801	144	16,352
Cash and cash equivalents at the end of financial year	144	16,352	2,407

Note:

~ Represents amounts less than RM1,000.

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11. FINANCIAL INFORMATION (cont'd)

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

The following discussion and segmental analysis of our combined financial statements for the Period Under Review should be read with the Accountants' Report included in Section 12 of this Prospectus.

11.2.1 Overview of our operations

(a) Principal activities

We are principally an investment holding company. Through our subsidiaries, we are principally involved in the manufacture of sheet metal products and supply of scaffoldings. To complement our manufacturing of sheet metal products and supply of scaffoldings, we also engage in trading of steel materials and steel related products.

Our core business activities are as follows:

- (i) manufacture of sheet metal products, including roofing sheets and trusses, industrial racking systems and welded pipes;
- (ii) supply of scaffoldings, including sales and rental of scaffoldings; and
- (iii) trading of steel materials and steel related products.

Please refer to Section 6.5 of this Prospectus for our Group's detailed business overview.

(b) Revenue

Our revenue comprises the manufacturing of sheet metal products, supply of scaffoldings as well as trading of sheet materials and steel related products, and is derived from local markets and foreign countries.

Revenue is measured at the fair value of consideration received or receivable. Our Group recognises revenue as follows:

Manufacture of sheet metal products, supply of scaffoldings and trading of steel materials and steel related products

Revenue from sale of goods is recognised when our Group satisfies a performance obligation by transferring a promised good to a customer. An asset is transferred as and when the customer obtains control of that asset, which coincides with the delivery of goods and services and acceptance by customers.

Rental of scaffoldings

Rental income from equipment for rent are recognised on a straight-line basis over the term of lease.

11. FINANCIAL INFORMATION (cont'd)

(c) Cost of sales

Our cost of sales comprises materials costs, cost of trading goods, labour costs and manufacturing overheads and others:

(i) Materials costs

Our Group's materials costs mainly comprise steel coils (coated metal coils and hot rolled steel coils), other steel products (steel pipes, bars and plates), coating and painting materials.

(ii) Cost of trading goods

Our Group's cost of trading goods mainly comprise steel coils, cabins, and metal frames for doors and windows.

(iii) Labour costs

Our labour costs mainly comprise staff salaries, statutory contributions and staff welfare.

(iv) Manufacturing overheads and others

Our manufacturing overheads mainly comprise depreciation of property, plant and equipment and right-of-use assets, short-term lease of motor vehicles and other direct expenses for our manufacturing activities. Others comprise subcontractor wages.

(d) Other operating income

Other operating income mainly comprise dividend income from other investments, gain on disposal of property, plant and equipment, gain on disposal of other investments, interest income, wage subsidies, realised gain on foreign exchange and waiver of debts.

(e) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables mainly comprise expected credit loss (ECL) allowance from trade receivables.

(f) Administrative and distribution expenses

Administrative and distribution expenses mainly comprise distribution expenses, staff-related costs, depreciation of property, plant and equipment and right-of-use assets, written off of property, plant and equipment, professional fees and bad debts.

(g) Finance costs

Finance costs mainly comprise interest expenses on our bank borrowings and lease liabilities.

11. FINANCIAL INFORMATION (cont'd)**(h) Significant factors affecting our financial condition and result of operations**

Section 8 of this Prospectus details a number of risk factors relating to our business and industry in which we operate. Some of these risk factors have an impact on our Group's financial condition and the result of operations. The main factors which affect our revenue and profits include but are not limited to the following:

(i) Our business and financial performance are subject to fluctuations of steel prices as the price of our steel products are associated to the prevailing global steel prices, and our financial performance will be affected if we sell our steel products at a lower price than our purchase cost of steel

Our main input materials are steel based materials including hot rolled steel coils and coated cold-rolled steel coils as well as other steel products such as steel pipes, bars and plates. The steel based materials are subject to market price fluctuations where increase in the steel prices will result in higher costs of purchases of our steel based materials. Generally, we price our products based on the prevailing market price of steel as well as considering the demand from our customers. A decrease in the global prices of steel may result in a situation where the prevailing prices that our customers are willing to pay may be lower compared to the average cost of purchase for the corresponding products in our inventory. In the event that our selling price of steel products is lower than the cost of our purchases of input steel materials, it may result in low profit or losses from the sale which will negatively affect our financial performance. As our financial performance was affected by the fluctuations in steel prices during the Period Under Review, there can be no assurance that our business and financial performance would not be affected by the fluctuations in steel prices.

(ii) We are reliant on imports of mainly steel materials which expose us to risks associated with supply chain disruptions and increases in sea freight rate

For the Period Under Review, we mainly purchased imported steel coils. The purchases of steel coils including coated cold-rolled steel coils and hot rolled steel coils, accounted for 88.2%, 87.7% and 84.5% of our total purchases of input materials and services for FYE 2020, FYE 2021 and FYE 2022 respectively. During the Period Under Review, 83.4%, 90.9% and 70.4% of the purchases of steel coils for FYE 2020, FYE 2021 and FYE 2022 were sourced from suppliers in foreign countries including China, Korea, Singapore, Taiwan and Japan. In addition, we purchased other steel products such as steel pipes, bars and plates which accounted for 4.1%, 6.8% and 12.4% of our total purchases of input materials and services for FYE 2020, FYE 2021 and FYE 2022 respectively. Of this, 69.2%, 87.4% and 2.0% of the purchases of other steel products for the FYE 2020, FYE 2021 and FYE 2022 respectively were sourced from suppliers in foreign countries mainly China and Vietnam.

In this respect, if there are any disruptions in the supply chain of these steel materials from foreign countries, it would interrupt our manufacturing and supply operations, and we would be unable to fulfil our customers' orders in a timely manner. There is no assurance that our operations would not be affected by any prolonged disruptions in the supply chain. Fluctuating sea freight rates can also significantly affect input material prices and may further impact our business and financial performance.

11. FINANCIAL INFORMATION (cont'd)

(iii) Our financial performance is subject to unfavourable foreign exchange fluctuations

We are exposed to foreign exchange fluctuations including USD arising from our purchases of input materials. For FYE 2020, FYE 2021 and FYE 2022, 77.9%, 86.2% and 59.7% of our total purchases were transacted in foreign currencies which are mainly in USD. Any adverse fluctuations in USD against RM may affect our financial performance. In addition, our export sales were transacted in foreign currencies which are mainly in USD and this accounted for 1.6%, 8.4% and 4.2% of our total revenue for FYE 2020, FYE 2021 and FYE 2022 respectively.

Please refer to Section 11.2.4(a) of this Prospectus for further information on the impact of foreign exchange rates.

As at the LPD, we have not entered into any forward exchange contracts to hedge against negative foreign currency movements. There is no assurance that our financial performance would not be materially affected by any adverse movements in USD against the RM.

(iv) We are exposed to credit risk from our customers

During the Period Under Review, the normal credit term granted ranges from 30 days to 90 days. Our trade receivables turnover period was 104 days, 55 days and 55 days for FYE 2020, FYE 2021 and FYE 2022 respectively. In the event of any downturn in our customer's business performance, this may adversely affect our customer's ability to pay us for the goods we have supplied, which in turn may adversely affect our cash flow and profitability. If customers fail to pay us within the stipulated credit period or fail to pay us at all, we could be required to make an allowance for any impairment losses to our trade receivables or write off our bad debts, either of which would adversely affect our business performance.

The impairment loss on trade receivables was 1.4% (RM0.6 million), 5.1% (RM2.9 million) and 2.4% (RM1.1 million) of our total trade receivables for the FYE 2020, FYE 2021 and FYE 2022 respectively. In addition, there were bad debts written off which accounted for 0.5% (RM27,000), 6.1% (RM1.8 million) and 0.4% (RM0.1 million) of our total PBT for the FYE 2020, FYE 2021 and FYE 2022 respectively. There can be no assurance that the additional allowance for impairment losses to our trade receivables and bad debts written off will not increase in the future.

11. FINANCIAL INFORMATION (cont'd)

11.2.2 Review of our results of operations

(i) Revenue

Analysis of revenue by business segments and products

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
<u>Manufacture of sheet metal products</u>						
Roofing sheets and trusses	61,886	47.3	121,879	54.8	115,303	48.8
Industrial racking systems	18,042	13.8	40,605	18.3	48,862	20.7
Welded pipes	22,029	16.8	21,938	9.8	27,832	11.8
	101,957	77.9	184,422	82.9	191,997	81.3
<u>Supply of scaffoldings</u>						
Sales of scaffoldings	18,988	14.5	14,927	6.7	29,117	12.3
Rental of scaffoldings	7,134	5.5	10,888	4.9	11,273	4.8
	26,122	20.0	25,815	11.6	40,390	17.1
<u>Trading of steel materials and steel related products</u>						
	2,785	2.1	12,198	5.5	3,844	1.6
Total revenue	130,864	100.0	222,435	100.0	236,231	100.0
	FYE 2020		FYE 2021		FYE 2022	
	Metres	Tonnes	Metres	Tonnes	Metres	Tonnes
Roofing sheets and trusses	8,619,186	N/A	13,924,586	N/A	18,910,471	N/A
Welded pipes	N/A	8,350	N/A	6,082	N/A	7,805
Trading of steel materials	N/A	474	N/A	3,117	N/A	556

Note:

- (1) The volume for roofing sheet and trusses are measured by length (metres) whilst the volume of welded pipes and steel materials are measured by weight (tonnes).

11. FINANCIAL INFORMATION (cont'd)**Analysis of revenue by geographical location**

	FYE 2020		Audited FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
	Malaysia	128,790	98.4	203,657	91.6	226,324
Overseas						
- US	-	-	17,975	8.1	9,907	4.2
- Singapore	1,945	1.5	71	~	-	-
- Others ⁽¹⁾	129	0.1	732	0.3	-	-
	2,074	1.6	18,778	8.4	9,907	4.2
Total revenue	130,864	100.0	222,435	100.0	236,231	100.0

Notes:

~ Represents amount less than 0.1%.

(1) Comprises Indonesia, Australia, Bangladesh, the Philippines, UAE, and Brunei.

Comparison between FYE 2020 and FYE 2021

Our revenue increased by RM91.5 million or 69.9%, to RM222.4 million for FYE 2021 (FYE 2020: RM130.9 million), mainly contributed by the higher revenue recorded for our manufacture of sheet metal products segment and trading of steel materials and steel related products segments during FYE 2021. The increase in global steel prices during FYE 2021 has also contributed to the increase in revenue during FYE 2021.

The Malaysian market was our primary revenue contributor for FYE 2021, contributing RM203.7 million, or 91.6% of our total revenue (FYE 2020: RM128.8 million or 98.4%).

Manufacture of sheet metal products

The manufacture of sheet metal products segment was our primary revenue contributor, which recorded an increase in revenue of RM82.4 million or 80.8%, to RM184.4 million for FYE 2021 (FYE 2020: RM102.0 million), mainly due to the following:

- (a) increase in revenue from roofing sheets and trusses of RM60.0 million or 96.9%, to RM121.9 million for FYE 2021 (FYE 2020: RM61.9 million), primarily due to the resumption of building construction activities resulting from the progressive relaxation of MCO, as well as the rise in global steel prices in FYE 2021. Thus, the higher selling prices, coupled with the higher volume sold, which increased from 8,619,186 metres for FYE 2021 to 13,924,586 metres for FYE 2022, have collectively contributed to the higher revenue in FYE 2021. In addition, our Group was able to secure orders from new customers, contributing to the increase in revenue in FYE 2021.
- (b) increase in revenue from industrial racking systems of RM22.6 million or 125.6%, to RM40.6 million for FYE 2021 (FYE 2020: RM18.0 million), mainly due to our Group securing orders from a new customer in the USA amounting to RM18.0 million.

11. FINANCIAL INFORMATION (cont'd)***Supply of scaffoldings***

Revenue from our supply of scaffoldings segment decreased by RM0.3 million or 1.1%, to RM25.8 million for FYE 2021 (FYE 2020: RM26.1 million), primarily driven by the decrease in sales of scaffoldings of RM4.0 million or 21.2%, to RM14.9 million in FYE 2021 (FYE 2020: RM18.9 million) due to lower demands from our customers. The said decrease was partially offset by the increase in rental of scaffoldings of RM3.8 million or 53.5%, to RM10.9 million in FYE 2021 (FYE 2020: RM7.1 million), mainly due to higher demands for our CIDB-certified scaffoldings following the enforcement of the CIDBA whereby CIDB-certified scaffoldings are required to be used for new construction sites from September 2021 onwards.

Trading of steel materials and steel related products

Revenue from our trading of steel materials and steel related products segment increased by RM9.4 million or 335.7%, to RM12.2 million for FYE 2021 (FYE 2020: RM2.8 million). This was primarily due to the higher demand for steel coils from our customers following the shortage of steel coils in Malaysia resulting from the global supply chain disruption attributed to the COVID-19. The increase in revenue was also contributed by the increase in steel prices during the year and hence our Group was able to price our products at a higher price. Besides, the increase in volume sold for steel coils from 474 tonnes to 3,117 tonnes also contributed to the increase in revenue for this segment. In addition, the higher revenue for this segment in FYE 2021 was also contributed by the one-off revenue of RM3.9 million from the sales of steel coils that do not meet our manufacturing specifications (colour of these steel coils do not meet our anticipated quality standards).

Comparison between FYE 2021 and FYE 2022

Our revenue further improved by RM13.8 million or 6.2%, to RM236.2 million for FYE 2022 (FYE 2021: RM222.4 million), mainly contributed by the increased revenue from our manufacture of sheet metal products and supply of scaffoldings segments. Such an increase was partially offset by the decrease in revenue from trading of steel materials and steel related products segment. The decrease in global steel prices during FYE 2022 has affected our selling prices which was offset by the higher volume sold during FYE 2022.

The Malaysian market continued to be our primary revenue contributor for FYE 2022, contributing RM226.3 million or 95.8% of our total revenue (FYE 2021: RM203.7 million or 91.6%).

Manufacture of sheet metal products

Revenue from our manufacture of sheet metal products segment continued to grow by RM7.6 million or 4.1%, to RM192.0 million for FYE 2022 (FYE 2021: RM184.4 million), mainly driven by the following:

- (a) increase in revenue from industrial racking systems of RM8.3 million or 20.4%, to RM48.9 million for FYE 2022 (FYE 2021: RM40.6 million), contributed mainly by a bulk order secured from an existing local customer, which resulted in an increase of RM10.1 million to our revenue from industrial racking systems for FYE 2022. The increase was partially offset by the lower sales from other existing customers; and
- (b) increase in revenue from welded pipes of RM5.9 million or 26.9%, to RM27.8 million for FYE 2022 (FYE 2021: RM21.9 million), primarily due to the higher volume sold which increased from 6,082 tonnes for FYE 2021 to 7,805 tonnes for FYE 2022, coupled with orders secured from new customers from welded pipes amounting to RM8.6 million which was partially offset by the decrease in sales of RM3.0 million from Hung Tat Trading due to ongoing litigation as explained in Section 11.3.5 of this Prospectus.

The abovementioned increases were partially offset by the decrease from roofing sheets and trusses of RM6.6 million or 5.4%, to RM115.3 million in FYE 2022 (FYE 2021: RM121.9 million), mainly due to the decline in steel prices for FYE 2022.

11. FINANCIAL INFORMATION (cont'd)

Supply of scaffoldings

Revenue from our supply of scaffoldings segment increased by RM14.6 million or 56.6%, to RM40.4 million for FYE 2022 (FYE 2021: RM25.8 million). Such an increase was mainly due to the increase in sales of scaffoldings of RM14.2 million or 95.3%, to RM29.1 million in FYE 2022 (FYE 2021: RM14.9 million) as a result of the higher demands from our customers for our CIDB-certified scaffoldings following the enforcement of the CIDBA whereby CIDB-certified scaffoldings are required to be used for new construction sites from September 2021 onwards.

Trading of steel materials and steel related products

Revenue from our trading of steel material and steel related products segment decreased by RM8.4 million or 68.9%, to RM3.8 million for FYE 2022 (FYE 2021: RM12.2 million). This was mainly due to lower revenue from sales of steel coils, as the easing of steel coils shortage in Malaysia during FYE 2022 has led to lower demand from customers for the steel coils which the volume sold decreased from 3,117 tonnes to 556 tonnes. There was also a one-off revenue of RM3.9 million from the sales of steel coils that did not meet our manufacturing specifications in FYE 2021.

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11. FINANCIAL INFORMATION (cont'd)**(ii) Cost of sales, GP and GP margin****Analysis of cost of sales by cost components**

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Materials costs	83,670	79.2	⁽¹⁾ 131,657	77.4	⁽¹⁾ 151,402	84.2
Cost of trading goods	1,512	1.4	14,364	8.4	329	0.2
Labour costs	6,901	6.6	7,495	4.4	9,719	5.4
Manufacturing overheads and others	13,524	12.8	16,751	9.8	18,331	10.2
Total cost of sales	105,607	100.0	170,267	100.0	179,781	100.0

Note:

- (1) In FYE 2021, our Group received a bill of claim from RMCD amounting to RM4.9 million, resulting from an audit on the import duty on steel coils purchased for the taxable period from July 2017 to June 2020. Our Group has accrued the Additional Import Duty while pending further clarification from RMCD in FYE 2021. In FYE 2022, our Group has reached an agreement with RMCD on a final settlement of RM0.1 million. As such, the Overaccrued Import Duty was reversed in FYE 2022. Please refer to Section 6.5.14(xi) of this Prospectus for further details.

(i) Materials costs

Materials costs were the largest component of our cost of sales, representing 79.2%, 77.4% and 84.2% of our total cost of sales for the Period Under Review.

(ii) Cost of trading goods

Cost of trading goods mainly comprise steel coils, cabins, and metal frames for doors and windows. Our cost of trading goods represented 1.4%, 8.4% and 0.2% of our total cost of sales for the Period Under Review.

(iii) Labour costs

Labour costs mainly comprise staff salaries, statutory contributions and staff welfare. Our labour costs represented 6.6%, 4.4% and 5.4% of our total cost of sales for the Period Under Review.

11. FINANCIAL INFORMATION (cont'd)**(iv) Manufacturing overheads and others**

Manufacturing overheads mainly comprises depreciation of property, plant and equipment and right-of-use assets, short-term lease of motor vehicles and other direct expenses for our manufacturing activities. Others comprise subcontractor wages, which amounted to RM2.5 million, RM4.0 million and RM4.4 million for FYE 2020, FYE 2021 and FYE 2022 respectively. Our manufacturing overheads and others represented 12.8%, 9.8%, and 10.2% of our total costs of sales for the Period Under Review.

Analysis of cost of sales by business segments and products

	FYE 2020		Audited FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
<u>Manufacture of sheet metal products</u>						
Roofing sheets and trusses	46,630	44.2	85,876	50.4	89,083	49.5
Industrial racking systems	14,734	13.9	⁽¹⁾ 33,622	19.7	⁽¹⁾ 39,567	22.0
Welded pipes	19,401	18.4	⁽¹⁾ 18,679	11.0	⁽¹⁾ 26,208	14.6
	80,765	76.5	138,177	81.1	154,858	86.1
<u>Supply of scaffoldings</u>						
Sales of scaffoldings	19,756	18.7	13,620	8.0	19,381	10.8
Rental of scaffoldings	3,277	3.1	3,872	2.3	4,506	2.5
	23,033	21.8	17,492	10.3	23,887	13.3
<u>Trading of steel materials and steel related products</u>	1,809	1.7	14,598	8.6	1,036	0.6
Total cost of sales	105,607	100.0	170,267	100.0	179,781	100.0

Note:

- (1) FYE 2021 has included the Additional Import Duty and FYE 2022 has included the reversal of Overaccrued Import Duty, as disclosed in the footnote under the table for cost of sales by cost components. The said Additional Import Duty was included in the costs of sales for our industrial racking systems and welded pipes, amounting to RM3.0 million and RM1.9 million, respectively. Please refer to Section 6.5.14(xi) of this Prospectus for further details. If the impact of the Additional Import Duty and Overaccrued Import Duty which are one-off in nature are adjusted, the adjusted cost of sales are as follows:

11. FINANCIAL INFORMATION (cont'd)

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
<u>Manufacture of sheet metal products</u>						
Roofing sheets and trusses	46,630	44.2	85,876	51.9	89,083	48.3
Industrial racking systems	14,734	13.9	30,646	18.6	42,445	23.0
Welded pipes	19,401	18.4	16,757	10.1	28,130	15.2
	80,765	76.5	133,279	80.6	159,658	86.5
<u>Supply of scaffoldings</u>						
Sales of scaffoldings	19,756	18.7	13,620	8.3	19,381	10.5
Rental of scaffoldings	3,277	3.1	3,872	2.3	4,506	2.4
	23,033	21.8	17,492	10.6	23,887	12.9
Trading of steel materials and steel related products	1,809	1.7	14,598	8.8	1,036	0.6
Total cost of sales	105,607	100.0	165,369	100.0	184,581	100.0

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11. FINANCIAL INFORMATION (cont'd)

Analysis of GP and GP margin by business segments and products

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%
<u>Manufacture of sheet metal products</u>						
Roofing sheets and trusses	15,256	24.7	36,003	29.5	26,220	22.7
Industrial racking systems	3,308	18.3	⁽¹⁾ 6,983	⁽¹⁾ 17.2	⁽¹⁾ 9,295	⁽¹⁾ 19.0
Welded pipes	2,628	11.9	⁽¹⁾ 3,259	⁽¹⁾ 14.9	⁽¹⁾ 1,624	⁽¹⁾ 5.8
	21,192	20.8	⁽²⁾ 46,245	⁽²⁾ 25.1	⁽²⁾ 37,139	⁽²⁾ 19.3
<u>Supply of scaffoldings</u>						
Sales of scaffoldings	(768)	(4.0)	1,307	8.8	9,736	33.4
Rental of scaffoldings	3,857	54.1	7,016	64.4	6,767	60.0
	3,089	11.8	8,323	32.2	16,503	40.9
<u>Trading of steel materials and steel related products</u>						
	976	35.0	⁽³⁾ (2,400)	⁽³⁾ (19.7)	2,808	73.0
Total	25,257	19.3	⁽²⁾ 52,168	⁽²⁾ 23.5	56,450	⁽²⁾ 23.9

Notes:

- (1) FYE 2021 has included the Additional Import Duty and FYE 2022 has included the reversal of Overaccrued Import Duty, as disclosed in the footnote under the table for cost of sales by cost components. The said Additional Import Duty was included in the cost of sales for our industrial racking systems and welded pipes, amounting to RM3.0 million and RM1.9 million, respectively. Please refer to Section 6.5.14(xi) of this Prospectus for further details. If the said amounts were excluded, the GP margin for industrial racking systems and welded pipes for FYE 2021 would have been 24.6% and 23.9% respectively. For FYE 2022, the GP margin for industrial racking systems for FYE 2022 would have been 12.9% and welded pipes would have recorded a gross loss margin of 1.3%.
- (2) If the Additional Import Duty was excluded in FYE 2021, the manufacture of sheet metal products would have recorded a GP of RM51.1 million and GP margin of 27.7%. The total GP would have been RM57.1 million and the overall GP margin would have been 25.7%. If the reversal of Overaccrued Import Duty was excluded in FYE 2022, the manufacture of sheet metal products would have recorded a GP of RM32.3 million and GP margin of 16.8%. The total GP would have been RM51.7 million and the overall GP margin would have been 21.9%.

11. FINANCIAL INFORMATION (cont'd)

If the impact of the Additional Import Duty and Overaccrued Import Duty which are one-off in nature are adjusted, the adjusted GP and GP margin are as follows:

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%
<u>Manufacture of sheet metal products</u>						
Roofing sheets and trusses	15,256	24.7	36,003	29.5	26,220	22.7
Industrial racking systems	3,308	18.3	9,959	24.5	6,417	13.1
Welded pipes	2,628	11.9	5,181	23.6	(298)	(1.1)
	21,192	20.8	51,143	27.7	32,339	16.8
<u>Supply of scaffoldings</u>						
Sales of scaffoldings	(768)	(4.0)	1,307	8.8	9,736	33.4
Rental of scaffoldings	3,857	54.1	7,016	64.4	6,767	60.0
	3,089	11.8	8,323	32.2	16,503	40.9
<u>Trading of steel materials and steel related products</u>						
	976	35.0	(2,400)	(19.7)	2,808	73.0
Total	25,257	19.3	57,066	25.7	51,650	21.9

- (3) In FYE 2021, trading of steel material and steel related products recorded a one-off sale of steel coils which do not meet our manufacturing specifications. If the one-off sale was excluded, the trading of steel materials and steel related products would have recorded a GP of RM4.8 million and a GP Margin of 58.4%.

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11. FINANCIAL INFORMATION (*cont'd*)

Comparison between FYE 2020 and FYE 2021

Analysis by cost components

Our cost of sales increased by RM64.7 million or 61.3%, to RM170.3 million for FYE 2021 (FYE 2020: RM105.6 million), mainly attributable to the following:

- (a) the increase in materials costs of RM48.0 million or 57.4%, to RM131.7 million for FYE 2021 (FYE 2020: RM83.7 million) was mainly attributable to the following:
 - (aa) the higher demands for our roofing sheets and trusses and industrial racking systems as well as the increase in our main raw material prices, i.e. steel coils, which increased in tandem with the rise in steel prices; and
 - (bb) the one-off accrual of Additional Import Duty in FYE 2021, which was pending further clarification and explanation with RMCD.
- (b) increase in the cost of trading goods of RM12.9 million or 850.0% to RM14.4 million for FYE 2021 (FYE 2020: RM1.5 million), which increased in tandem with the increase in revenue for the trading of steel materials and steel related products segment; and
- (c) the increase in manufacturing overheads and others of RM3.3 million or 23.9% to RM16.8 million for FYE 2021 (FYE 2020: RM13.5 million), mainly due to increase in subcontractor wages resulting from the increase in number of subcontractors for the industrial racking systems segment.

If the abovementioned one-off Additional Import Duty is excluded from the cost of sales and Materials costs, the increase in the cost of sales and materials costs would be RM59.8 million or 56.6% and RM40.7 million or 47.3%, respectively, which was in tandem with our revenue growth.

Analysis by business segment

Our cost of sales increased by RM64.7 million or 61.3%, to RM170.3 million for FYE 2021 (FYE 2020: RM105.6 million), mainly contributed by the increase in cost of sales for our manufacture of sheet metal products segment and the trading of steel materials and steel related products segments.

Our GP increased by RM26.9 million or 106.3%, to RM52.2 million for FYE 2021 (FYE 2020: RM25.3 million). The manufacture of sheet metal products segment was the main contributor to our GP, which recorded an increase of RM25.0 million or 117.9%, to RM46.2 million for FYE 2021 (FYE 2020: RM21.2 million). The increase in GP was in tandem with the increase in revenue for FYE 2021.

Our overall GP margin increased to 23.5% in FYE 2021 (FYE 2020: 19.3%). This was primarily contributed by the improved GP margin of our manufacture of sheet metal products and supply of scaffoldings segments.

Manufacture of sheet metal products

Our cost of sales for the manufacture of sheet metal products increased by RM57.4 million or 71.0% to RM138.2 million for FYE 2021 (FYE 2020: RM80.8 million), which grew at a rate lower than our revenue growth rate of 80.8%, as we had purchased our raw materials before the significant increase in raw material prices during FYE 2021, coupled with the increase in the steel prices. Thus, our GP for this segment improved by RM25.0 million or 117.9%, to RM46.2 million for FYE 2021 (FYE 2020: RM21.2 million) and the GP margin improved to 25.1% for FYE 2021 (FYE 2020: 20.8%).

11. FINANCIAL INFORMATION (cont'd)

Our cost of sales for the roofing sheets and trusses increased by RM39.3 million or 84.3% to RM85.9 million for FYE 2021 (FYE 2020: RM46.6 million), which grew at a rate lower than our revenue growth rate of 96.9%, mainly due to the reasons stated above. Hence, our GP increased by RM20.7 million or 135.3% to RM36.0 million for FYE 2021 (FYE 2020: RM15.3 million), and we recorded an improved GP margin for the roofing sheets and trusses of 29.5% for FYE 2021 (FYE 2020: 24.7%).

Our cost of sales for the industrial racking systems increased by RM18.9 million or 128.6% to RM33.6 million for FYE 2021 (FYE 2020: RM14.7 million), which grew at a rate higher than our revenue growth rate of 125.6%, mainly due to the accrual of Additional Import Duty in FYE 2021. Hence, despite our GP increased by RM3.7 million or 112.1% to RM7.0 million for FYE 2021 (FYE 2020: RM3.3 million), we recorded a lower GP margin for the industrial racking systems of 17.2% for FYE 2021 (FYE 2020: 18.3%). If the accrual of RM3.0 million for the Additional Import Duty is excluded from our cost of sales for industrial racking systems, we will register an improved GP margin from the industrial racking systems of 24.5%. The improved margin in FYE 2021 was mainly contributed by the sales to a new customer in the USA.

Our cost of sales for welded pipes decreased by RM0.7 million or 3.6%, to RM18.7 million for FYE 2021 (FYE 2020: RM19.4 million), which was in tandem with the decline in revenue. Our GP for welded pipes increased by RM0.7 million or 26.9% to RM3.3 million for FYE 2021 (FYE 2020: RM2.6 million), and we recorded an improved GP margin for welded pipes of 14.9% for FYE 2021 (FYE 2020: 11.9%). If the accrual of RM1.9 million of the Additional Import Duty is excluded from our cost of sales for welded pipes, we will register an improved GP margin from welded pipes of 23.6%. The improved margin in FYE 2021 was mainly due to higher selling prices in FYE 2021, coupled with lower materials costs resulting from raw materials that were purchased prior to the increase in steel prices in FYE 2021.

Supply of scaffoldings

Our cost of sales for this segment decreased by RM5.5 million or 23.9% to RM17.5 million for FYE 2021 (FYE 2020: RM23.0 million), mainly due to a lower cost of sales recorded for the sales of scaffoldings for FYE 2021, which declined in tandem with the decrease in revenue.

The overall GP for the supply of scaffoldings recorded an increase of RM5.2 million or 167.7%, to RM8.3 million for FYE 2021 (FYE 2020: RM3.1 million). The GP margin for the supply of scaffoldings segment increased from 11.8% in FYE 2020 to 32.2% in FYE 2021, mainly attributable to the following:

- (i) the sales of scaffoldings have turnaround from a gross loss of RM0.8 million in FYE 2020 to a GP margin of 6.6% in FYE 2021 which is primarily attributable to the higher selling prices in FYE 2021. The gross loss of RM0.8 million in FYE 2020 was primarily due to higher subcontractor wages incurred for this segment for fabrication works resulting from the shortage of workers during MCO period; and
- (ii) the rental of scaffoldings has recorded an improved GP margin from 54.1% in FYE 2020 to 64.4% in FYE 2021 mainly due to higher revenue from rental of scaffoldings as more scaffoldings were rented out whilst the manufacturing overheads and others for this segment, i.e. depreciation expenses for equipment for rent, upkeep of factory equipment and machinery (welding and cutting machine) are relatively fixed-in-nature.

11. FINANCIAL INFORMATION (cont'd)***Trading of steel materials and steel related products***

Our cost of sales for this segment increased by RM12.8 million or 711.1%, to RM14.6 million for FYE 2021 (FYE 2020: RM1.8 million), which increased higher than our revenue growth rate for this segment of 335.7%. This was mainly due to the lower selling prices for the sales of steel coils that do not meet our manufacturing specifications (colour of these steel coils do not meet our anticipated quality standards) in FYE 2021 which amounted to RM3.9 million which was sold at a discounted price lower than the purchase price, resulting in this segment to record a gross loss position of RM2.4 million. If the sales of steel coils that do not meet our manufacturing specifications are excluded, we would record a GP of RM4.8 million and a GP margin of 58.4% from the trading of steel materials and steel related products. The improved GP margin in FYE 2021 was mainly attributable to the increase in selling prices for steel coils resulting from the shortage of supplies in Malaysia due to the global supply chain disruption caused by the COVID-19.

Comparison between FYE 2021 and FYE 2022**Analysis by cost components**

Our cost of sales increased by RM9.5 million or 5.6%, to RM179.8 million for FYE 2022 (FYE 2021: RM170.3 million), mainly attributable to the following:

- (i) materials costs increased by RM19.7 million or 15.0% to RM151.4 million for FYE 2022 (FYE 2021: RM131.7 million), mainly due to higher demands for our industrial racking systems, welded pipes and scaffoldings, in which the said increases were narrowed by the decrease in our core raw material prices, i.e. steel coils, which decline in tandem with the average monthly steel prices from USD856/tonne for 2021 to USD698/tonne for 2022;
- (ii) labour costs increased by RM2.3 million or 31.1% to RM9.7 million for FYE 2022 (FYE 2021: RM7.4 million), mainly due to increased production activities; and
- (iii) manufacturing overheads and others increased by RM1.5 million or 8.9% to RM18.3 million for FYE 2022 (FYE 2021: RM16.8 million), mainly due to increased production activities.

The abovementioned increases were narrowed by the decrease in the cost of trading goods of RM14.1 million or 97.9% to RM0.3 million for FYE 2022 (FYE 2021: RM14.4 million), which decreased in tandem with the decrease in revenue for the trading of steel materials and steel related products segment.

During FYE 2022, there was a reversal of Overaccrued Import Duty recorded in the cost of sales. If the reversal of Overaccrued Import Duty was excluded from the cost of sales, the increase in cost of sales and materials costs would be RM19.3 million or 11.7% and RM29.5 million or 23.3%, which was in tandem with the increase in revenue.

Analysis by business segment

Our cost of sales increased by RM9.5 million or 5.6%, to RM179.8 million for FYE 2022 (FYE 2021: RM170.3 million), mainly contributed by the increase in cost of sales for the manufacture of sheet metal products segment and the increase in cost of sales for the supply of scaffoldings segment. This was partially offset by the lower cost of sales for the trading of steel materials and steel related products segment.

Our GP increased by RM4.3 million or 8.2%, to RM56.5 million for FYE 2022 (FYE 2021: RM52.2 million) and our GP margin increased to 23.9% in FYE 2022 (FYE 2021: 23.5%). During FYE 2022, a reversal of RM4.8 million was recorded upon the final settlement of RM0.1 million as agreed with RMCD on the Additional Import Duty.

11. FINANCIAL INFORMATION (cont'd)

If the said reversal was excluded in FYE 2022, the total GP would be RM51.5 million and the GP margin would be 21.8% (FYE 2021: RM57.1 million and 25.7%). Our Group's GP margin is lower in FYE 2022 mainly due to the decrease in steel prices during the year which our Group price its products at a lower price, whereas raw materials were purchased at higher prices before the significant decrease in steel prices.

Manufacture of sheet metal products

Our cost of sales for the manufacture of sheet metal products increased by RM16.7 million or 12.1% to RM154.9 million for FYE 2022 (FYE 2021: RM138.2 million), which grew in tandem with our revenue growth rate of 4.1%. Our GP for manufacture of sheet metal products segment recorded a decrease of RM9.1 million or 19.7%, to RM37.1 million for FYE 2022 (FYE 2021: RM46.2 million). The GP margin decreased as well, from 25.1% in FYE 2021 to 19.3% in FYE 2022.

The decrease in GP and GP margin for our manufacture of sheet metal products segment was primarily due to the decline in the global steel coil prices during FYE 2022. Our Group had lowered the price of our products following the decline in steel prices, whereas raw materials were purchased prior to the decline in steel prices, resulting in our Group's GP margin to decline in FYE 2022 in line with the fall in steel prices.

Our cost of sales for roofing sheets and trusses increased by RM3.2 million or 3.7% to RM89.1 million for FYE 2022 (FYE 2021: RM85.9 million), despite our revenue declined by 5.4%, mainly due to the higher materials costs as explained above. As such, our GP decreased by RM9.8 million or 27.2% to RM26.2 million for FYE 2022 (FYE 2021: RM36.0 million), and we recorded a lower GP margin for the sales of roofing and sheets and trusses of 22.7% for FYE 2022 (FYE 2021: 29.5%).

Our cost of sales for industrial racking systems increased by RM6.0 million or 17.9% to RM39.6 million for FYE 2022 (FYE 2021: RM33.6 million), which grew at a rate lower than our revenue growth rate of 20.4%, mainly due to the reversal of RM3.0 million Overaccrued Import Duty. Hence, our GP increased by RM2.3 million or 32.9% to RM9.3 million for FYE 2022 (FYE 2021: RM7.0 million), and we recorded an improved GP margin of 19.0% for FYE 2022 (FYE 2021: 17.2%). If the said reversal is excluded from our cost of sales, the GP margin for the industrial racking systems would have been 13.1%. The decrease in GP margin was mainly due to lower sales and discount given to a USA customer, coupled with the global decline in steel prices during FYE 2022.

Our cost of sales for the welded pipes increased by RM7.5 million or 40.1% to RM26.2 million for FYE 2022 (FYE 2021: RM18.7 million), which grew at a rate higher than our revenue growth rate of 26.9%, mainly due to the decline in selling prices which was in line with the market prices during FYE 2022, and higher materials costs for the materials costs which were purchased in FYE 2021 prior to the decline in steel prices in FYE 2022. Hence, our GP decreased by RM1.6 million or 50.0% to RM1.6 million for FYE 2022 (FYE 2021: RM3.2 million), and we recorded a lower GP margin for the sales of welded pipes of 5.8% for FYE 2022 (FYE 2021: 14.9%). In FYE 2022, there was a reversal of RM1.9 million Overaccrued Import Duty recorded in our cost of sales for welded pipes. If the said reversal is excluded from our cost of sales, our sale of welded pipe would register a gross loss of RM0.3 million or a gross loss margin of 1.1% as our Group were unable to pass on the higher materials costs which were purchased in FYE 2021 to our customers.

11. FINANCIAL INFORMATION (cont'd)

Supply of scaffoldings

Our cost of sales for supply of scaffoldings increased by RM6.4 million or 36.6%, to RM23.9 million for FYE 2022 (FYE 2021: RM17.5 million), mainly due to increase in cost of sales recorded from the sales of scaffoldings segment for FYE 2022 of RM5.8 million, which increased in tandem with the increase in revenue.

The overall GP for the supply of scaffoldings segment recorded an increase of RM8.2 million or 98.8%, to RM16.5 million for FYE 2022 (FYE 2021: RM8.3 million). The GP margin for the supply of scaffoldings segment increased from 32.2% in FYE 2021 to 40.9% in FYE 2022. The increase in GP was primarily due to the increase in GP for sales of scaffoldings as a result of the sourcing of components and accessories from third-party manufacturers and suppliers at lower costs.

Trading of steel materials and steel related products

Our GP for the trading of steel materials and steel related products was RM2.8 million in FYE 2022 (FYE 2021: gross loss of RM2.4 million) as there was a one-off revenue from sales of steel coils that do not meet our manufacturing specifications in FYE 2021 which was sold at a loss. As such, GP margin for the trading of steel materials and steel related products improved to 73.0% in FYE 2022 (FYE 2021: gross loss of 19.7%). The higher GP margin of 73.0% for FYE 2022 as compared to the adjusted GP margin of 58.4% was mainly due to the sales of steel coils at a higher price to local customers as we were able to meet their demand for specified steel coils.

11. FINANCIAL INFORMATION (cont'd)

(iii) Other operating income

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Dividend income from other investment	-	-	6,890	76.0	-	-
Gain on disposal of property, plant and equipment	360	13.0	19	0.2	4,290	32.5
Gain on disposal of other investments	-	-	-	-	1,287	9.8
Insurance compensations	-	-	461	5.1	-	-
Interest income ⁽¹⁾	681	24.7	295	3.3	443	3.4
Realised gain on foreign exchange	176	6.4	-	-	1,330	10.1
Wages subsidy programme	818	29.6	105	1.2	-	-
Rental income	77	2.8	121	1.3	493	3.7
Waiver of debts	-	-	-	-	3,189	24.2
Sales of scrap metal	271	9.8	677	7.5	1,584	12.0
Compensation for damaged rented scaffoldings	94	3.4	11	0.1	-	-
Bad debts recovered	18	0.6	13	0.1	177	1.3
Others ⁽²⁾	268	9.7	468	5.2	388	3.0
Total other operating income	2,763	100.0	9,060	100.0	13,181	100.0

Notes:

- (1) Mainly consists of interests received from late payment charges imposed on customers, interest charged to related parties and fixed deposits.
- (2) Comprises mainly management fees, rebate on insurance premium and reimbursement of handling charges from customers.

11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2020 and FYE 2021

Our other operating income increased by RM6.3 million or 225.0%, to RM9.1 million in FYE 2021 (FYE 2020: RM2.8 million), mainly due to the dividend income of RM6.9 million received from Visage Industries, a former subsidiary of BWYS Steel (FYE 2020: RM Nil). In addition, our Group also received a fire insurance compensation of RM0.4 million in FYE 2021 (FYE 2020: RM Nil). This compensation resulted from a fire incident that occurred in our Banting Factory in August 2020 where our Group incurred a total repair cost of RM0.6 million.

The abovementioned increases were partially offset by the following:

- (i) decrease in income derived from the wages subsidy programme of RM0.7 million, from RM0.8 million in FYE 2020 to RM0.1 million in FYE 2021. These subsidies are temporary financial assistance provided by the Malaysian Government during the COVID-19; and
- (ii) lower interest income, which decreased to RM0.3 million in FYE 2021 from RM0.7 million in FYE 2020. This was mainly due to lower interest from trade debtors for late payment in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our other operating income increased by RM4.1 million or 45.1%, to RM13.2 million for FYE 2022 (FYE 2021: RM9.1 million), mainly due to the following:

- (i) gain on disposal of property, plant and equipment of RM4.3 million in FYE 2022 (FYE 2021: RM19,000), mainly arising from the compensation from customers for the loss of rented scaffoldings amounting to RM4.2 million. Our Group will impose additional charges to the customers for the loss of rented scaffoldings, and these scaffoldings will be deemed to have been sold;
- (ii) waiver of debts by an overseas supplier amounting to RM3.2 million in FYE 2022 (FYE 2021: RM Nil) due to the export of steel products from China was entitled to export tax rebates until such rebate incentive was removed following the announcements by the Government of China in April 2021 and July 2021. During this period, one of our suppliers imposed additional cost on our purchases of steel coils which our Group managed to negotiate with the supplier in FYE 2022 to waive the additional cost charged;
- (iii) gain on disposal of other investments amounting to RM1.3 million pertaining to BWYS Steel's disposal of its 100.0% equity interests held in Visage Industries to KBH, and 44.0% equity interest held in Eco High to Tan Seong Beng for a total consideration of RM11.6 million during FYE 2022; and
- (iv) realised gain on foreign exchange of RM1.3 million as a result of the strengthening of USD against RM during FYE 2022.

The abovementioned increases were partially offset by the decrease in dividend income, as there was no dividend income in FYE 2022 (FYE 2021: RM6.9 million).

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11. FINANCIAL INFORMATION (cont'd)**(iv) Impairment losses on trade and other receivables**

	FYE 2020		Audited FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
	Trade receivables:					
- ECL allowance	251	42.6	1,584	55.3	1,586	142.7
- Individually impaired	368	62.5	1,291	45.0	142	12.8
- Reversal of ECL allowance	(40)	(6.8)	-	-	(617)	(55.5)
Other receivables:						
- Individually impaired/(Reversal of individual impairment)	10	1.7	(10)	(0.3)	-	-
Total impairment losses on trade and other receivables	589	100.0	2,865	100.0	1,111	100.0

Our Group recognises allowance for impairment losses for trade receivables based on the simplified approach in accordance with MFRS 9 *Financial Instruments* and measures the allowance for impairment loss based on a lifetime ECL from initial recognition while using the three stage general approach within MFRS 9 using the forward-looking ECL model for allowance for impairment losses for other receivables.

Our Group uses an allowance matrix to measure the ECL of trade receivables from past due ageing. Expected loss rates are determined by the probability of the non-collection from the trade receivables multiplied by the amount of the expected loss arising from default. Trade receivables have been grouped based on shared credit risk characteristics – the days past due.

During the process, the probability of non-payment by the trade receivables is adjusted by forward-looking information (producer price index, industrial production index and inflation rate) affecting the ability of the customers to settle the receivables and multiplied by the amount of the expected loss arising from default to determine the lifetime ECL for the trade receivables.

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11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2020 and FYE 2021

Our impairment losses on trade and other receivables increased by RM2.3 million or 383.3%, to RM2.9 million in FYE 2021 (FYE 2020: RM0.6 million), mainly due to:

- (i) higher ECL allowance on trade receivables due to the increased credit risk characteristics on the outstanding trade receivables as at the end of FYE 2021; and
- (ii) higher individual impairment on debtors who have adverse changes in the financial capability and default or significant delay in payments as at end of FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our impairment losses on trade and other receivables decreased by RM1.8 million or 62.1%, to RM1.1 million in FYE 2022 (FYE 2021: RM2.9 million). This was mainly due to lower individual impairment on trade receivables in FYE 2022.

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11. FINANCIAL INFORMATION (cont'd)**(v) Administrative and distribution expenses**

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Staff-related costs	6,461	36.2	8,657	35.6	10,815	36.5
Directors' remuneration	1,231	6.9	1,437	5.9	1,480	5.0
Depreciation of property, plant, and equipment	1,699	9.5	1,761	7.2	2,142	7.2
Distribution expenses	2,685	15.0	2,915	12.0	5,541	18.7
Travelling expenses	558	3.1	638	2.6	1,252	4.2
Written off of property, plant, and equipment ⁽¹⁾	1,429	8.0	636	2.6	1,464	5.0
Professional fees	483	2.7	1,046	4.3	1,725	5.8
Provision for legal claims	-	-	1,474	6.0	-	-
Bad debts	27	0.2	1,793	7.4	145	0.5
Insurance expenses	534	3.0	609	2.5	729	2.5
Security charges	415	2.3	601	2.5	886	3.0
Upkeep expenses	496	2.8	460	1.9	727	2.5
Bank charges	231	1.3	311	1.3	295	1.0
Unrealised loss on foreign exchange	26	0.1	192	0.8	464	1.6
Realised loss on foreign exchange	-	-	344	1.4	-	-
Quit rent and assessment	225	1.2	234	1.0	340	1.1
Utilities	300	1.7	266	1.1	264	0.9
Others ⁽²⁾	1,064	6.0	956	3.9	1,320	4.5
	17,864	100.0	24,330	100.0	29,589	100.0

Notes:

- (1) The written off of property, plant, and equipment pertains to damaged or unlocated scaffoldings for rent. In situations where scaffoldings sustain damages beyond repair, it will be written off.
- (2) Comprises mainly printing and stationery, entertainment expenses and office expenses.

11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2020 and FYE 2021

Our administrative and distribution expenses increased by RM6.4 million or 35.8%, to RM24.3 million for FYE 2021 (FYE 2020: RM17.9 million), mainly attributable to the following:

- (i) increase of RM2.2 million or 33.8% in staff-related costs, to RM8.7 million in FYE 2021 (FYE 2020: RM6.5 million). This is primarily due to higher staff bonuses and annual salary increment during FYE 2021;
- (ii) increase of RM1.8 million in bad debts in FYE 2021, mainly due to uncollectible debts which resulted from long outstanding trade debts and winding-up of businesses; and
- (iii) RM1.5 million of provision for legal claims in FYE 2021 (FYE 2020: RM Nil) in respect of the counterclaims by two of our debtors on our legal demand of outstanding debts. The counterclaims brought against our Group are in relation to the debtors alleging their suffering of substantial damages due to defective products and breach of the agreement terms.

Comparison between FYE 2021 and FYE 2022

Our administrative and distribution expenses increased by RM5.3 million or 21.8%, to RM29.6 million for FYE 2022 (FYE 2021: RM24.3 million). This was mainly attributable to the following:

- (i) increase of RM2.6 million or 89.7% in distribution expenses, to RM5.5 million in FYE 2022 (FYE 2021: RM2.9 million), mainly due to the higher transportation charges incurred for shipments to Sabah and Sarawak;
- (ii) increase of RM2.1 million or 24.1% in staff-related costs to RM10.8 million in FYE 2022 (FYE 2021: RM8.7 million), mainly due to the expansion of our headcount for administrative staff;
- (iii) increase of RM0.9 million or 150.0% in property, plant, and equipment written off to RM1.5 million in FYE 2022 (FYE 2021: RM0.6 million), mainly due to damaged or unlocated scaffoldings for rent;
- (iv) increase of RM0.7 million or 116.7% in travelling expenses, to RM1.3 million in FYE 2022 (FYE 2021: RM0.6 million), primarily due to more marketing activities following the relaxation of MCO imposed by the Government of Malaysia in FYE 2022; and
- (v) increase of RM0.7 million or 70.0% in professional fees, to RM1.7 million in FYE 2022 (FYE 2021: RM1.0 million), primarily due to professional fees incurred for the Listing.

The abovementioned increases were partially offset by the decrease in bad debts of RM1.7 million or 94.4%, to RM0.1 million in FYE 2022 (FYE 2021: RM1.8 million). There was also no provision for legal claims in FYE 2022 (FYE 2021: RM1.5 million), as explained in Section 11.2.2(v) of this Prospectus.

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11. FINANCIAL INFORMATION (cont'd)**(vi) Finance costs**

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Term loans	1,881	44.1	1,930	43.6	2,569	46.9
Bankers' acceptances	1,603	37.6	1,630	36.8	2,187	39.9
Bank overdrafts	61	1.4	93	2.1	169	3.1
Lease liabilities	184	4.3	318	7.2	377	6.9
Revolving credit	36	0.9	10	0.2	42	0.8
Others ⁽¹⁾	501	11.7	450	10.1	134	2.4
Total finance costs	4,266	100.0	4,431	100.0	5,478	100.0

Note:

(1) Comprises mainly interest charged by related parties on advances to our Group.

Comparison between FYE 2020 and FYE 2021

Our finance costs increased by RM0.1 million or 2.3%, to RM4.4 million for FYE 2021 (FYE 2020: RM4.3 million). This was mainly attributable to the increase in finance costs resulting from lease liabilities of RM0.1 million or 50.0%, to RM0.3 million in FYE 2021 (FYE 2020: RM0.2 million).

Comparison between FYE 2021 and FYE 2022

Our finance costs increased by RM1.1 million or 25.0%, to RM5.5 million for FYE 2022 (FYE 2021: RM4.4 million), mainly due to the following:

- (i) increase in finance costs from bankers' acceptances of RM0.6 million or 37.5%, to RM2.2 million for FYE 2022 (FYE 2021: RM1.6 million). This was due to higher bankers' acceptances drawn for our working capital requirements; and
- (ii) increase in finance costs from term loans by RM0.7 million or 36.8%, to RM2.6 million for FYE 2022 (FYE 2021: RM1.9 million). This was due to full year interest charged on the new term loan obtained to finance the acquisition of Lot 1215 Land together with Penang 1572 Factory in FYE 2021.

The abovementioned increases were offset partially by the decrease in interest charged by related parties of RM0.4 million or 80.0%, to RM0.1 million in FYE 2022 (FYE 2021: RM0.5 million). This is primarily due to the repayment of advances to related parties.

11. FINANCIAL INFORMATION (cont'd)**(vii) PBT and PBT margin**

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
PBT (RM'000)	5,301	29,602	33,453
PBT margin (%)	4.1	13.3	14.2

Comparison between FYE 2020 and FYE 2021

We recorded an increase in PBT of RM24.3 million in FYE 2021. Our PBT margin also increased from 4.1% in FYE 2020 to 13.3% in FYE 2021. The increase in PBT and PBT margin was mainly due to the higher GP and GP margin as explained in Section 11.2.2(ii) of this Prospectus, as well as the dividend income received from Visage Industries as explained Section 11.2.2(iii) of this Prospectus.

Comparison between FYE 2021 and FYE 2022

We recorded an increase in PBT of RM3.8 million in FYE 2022. Our PBT margin also increased from 13.3% in FYE 2021 to 14.2% in FYE 2022. The increase in PBT and PBT margin was mainly due to the higher GP and GP margin as explained in Section 11.2.2(ii) of this Prospectus, as well as the higher other operating income recorded primarily from the gain on disposal of property, plant and equipment, gain on disposal of other investments, realised gain on foreign exchange and waiver of debts by a supplier.

(viii) Tax expense

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Taxation	1,990	4,763	9,942
Effective tax rate (%)	37.5	16.1	29.7
Statutory tax rate (%)	24.0	24.0	24.0

Tax expenses comprise the current financial year's income tax payable, deferred tax and any under or overprovision of tax expenses in the previous financial year. The applicable statutory tax rate for the Period Under Review is 24.0%.

On 29 November 2011, BWYS Timur was granted pioneer status by MIDA for output production of metal roofing, corrugated sheets, batten c-section and c-purlin for a period of ten years, which ended in November 2021, whereby 100% of its statutory income on the pioneer activities of BWYS Timur is tax exempted.

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11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2020 and FYE 2021

Our tax expenses increased by RM2.8 million or 140.0%, to RM4.8 million in FYE 2021 (FYE 2020: RM2.0 million), mainly due to higher PBT recorded in FYE 2021.

Despite the higher PBT, our effective tax rate in FYE 2021 was 16.1%, which was lower than the statutory tax rate of 24.0%. This was mainly attributable to non-taxable dividend income from other investment as well as non-taxable pioneer income by BWYS Timur.

In contrast, our effective tax rate in FYE 2020 was 37.5%, which was higher than the statutory tax rate of 24.0%. This was mainly due to YS Global and BW Scaffold recording losses before tax, whereby no deferred tax assets were recognised on the losses recorded from these combining entities.

Comparison between FYE 2021 and FYE 2022

Our tax expenses increased by RM5.1 million or 106.3%, to RM9.9 million for FYE 2022 (FYE 2021: RM4.8 million). This was mainly attributable to higher PBT recorded for FYE 2022.

Our effective tax rate of 29.7% for FYE 2022 was higher than the statutory tax rate of 24.0%, due to underprovision of deferred tax in prior years amounting to RM2.2 million in respect of temporary differences between net carrying amount of property, plant, and equipment and the corresponding tax written down values.

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11. FINANCIAL INFORMATION (cont'd)**11.2.3 Review of financial position****(a) Assets**

	Audited		
	As at 31 December		
	2020	2021	2022
	RM'000	RM'000	RM'000
Non-current assets			
Property, plant and equipment	79,797	123,595	130,293
Right-of-use assets	14,928	16,486	18,830
Other investments	10,154	10,263	-
Total non-current assets	104,879	150,344	149,123
Current assets			
Inventories	43,791	95,005	86,227
Trade and other receivables	43,463	56,212	45,495
Current tax assets	635	1,044	3,085
Cash and bank balances	5,649	23,848	14,827
Total current assets	93,538	176,109	149,634
Total assets	198,417	326,453	298,757

Comparison between 31 December 2020 and 31 December 2021

Our total assets increased by RM128.1 million or 64.6%, to RM326.5 million as at 31 December 2021 (as at 31 December 2020: RM198.4 million). The increase was mainly attributable to the increase in non-current assets by RM45.5 million and current assets by RM82.6 million as at 31 December 2021.

The increase in non-current assets was mainly attributable to the following:

- (a) increase in property, plant and equipment of RM43.8 million, mainly due to the net effects of the following:
 - (i) acquisition of Lot 1215 Land together with Penang 1572 Factory and capitalisation of its incident costs totaling RM36.3 million;
 - (ii) purchase of other property, plant and equipment of RM13.9 million comprises mainly equipment for rent, and plant and machinery; and
 - (iii) depreciation charges of RM5.4 million.
- (b) increase in right-of-use assets of RM1.6 million, mainly due to the purchase motor vehicles of RM1.8 million and plant and machinery of RM0.4 million under hire purchase arrangements, as well as the lease of office premises of RM0.6 million, of which the additions were narrowed by the depreciation charges of RM1.2 million.

11. FINANCIAL INFORMATION (cont'd)

The increase in current assets was mainly due to the following:

- (a) increase inventories of RM51.2 million, mainly due to the increase in raw materials purchased during FYE 2021 and the increase in work-in-progress inventories due to higher work-in-progress for the roofing sheets and trusses and welded pipes as at 31 December 2021. In addition, the higher steel price in FYE 2021 as compared to FYE 2020 has also contributed to the increase in inventories as at 31 December 2021;
- (b) increase in trade and other receivables of RM12.7 million, mainly due to the increase in other receivables by RM10.1 million as a result of deposits paid to a supplier for the purchase of raw materials; and
- (c) increase in cash and bank balances of RM18.2 million, mainly due to cash generated from our business operations.

Comparison between 31 December 2021 and 31 December 2022

Our total assets decreased by RM27.7 million or 8.5%, to RM298.8 million as at 31 December 2022 (as at 31 December 2021: RM326.5 million), mainly due to the decrease in current assets of RM26.5 million as at 31 December 2022. The decrease in current assets was primarily due to the following:

- (a) decrease in trade and other receivables of RM10.7 million mainly due to lower other receivables as a result of deposits paid to a supplier during FYE 2021 for the purchase of raw materials being offset with the supplier invoices upon the receipt of the raw materials during FYE 2022;
- (b) decrease in inventories of RM8.8 million, mainly due to lower work-in-progress towards the end of FYE 2022; and
- (c) decrease in cash and bank balances of RM9.0 million, mainly due to net repayments of borrowings, repayments to related parties, lease liabilities, and interest paid totalling RM30.1 million and dividend payments of RM11.1 million during FYE 2022. Such decreases were narrowed by the net cash from investing activities of RM14.7 million comprising mainly disposal proceeds from other investments and property, plant and equipment as well as cash generated from our business operations.

Our total non-current assets decreased by RM1.2 million or 0.8%, to RM149.2 million as at 31 December 2022 (as at 31 December 2021: RM150.4 million). This was mainly due to the decrease in other investments of RM10.3 million which resulted from the disposal of other investments comprising 100.0% equity interest in Visage Industries and 44.0% equity interest in Eco High during FYE 2022.

The abovementioned decrease in non-current assets was partially offset by the following:

- (a) increase in property, plant, and equipment of RM6.7 million, mainly due to equipment for rent amounting to RM13.5 million being transferred from inventories, which was narrowed by depreciation charges of RM6.6 million. The transfer from inventories occurs when scaffoldings which were previously intended to be sold as part of our inventories, are then used for rental purposes instead; and
- (b) increase in right-of-use assets of RM2.3 million, primarily due to the purchase of motor vehicles under hire purchase arrangements of RM2.6 million and the renting of Kuching warehouse and office, Bintulu warehouse and office and Kota Kinabalu warehouse and office amounting to RM2.0 million, narrowed by depreciation charges of RM1.9 million.

11. FINANCIAL INFORMATION (cont'd)**(b) Liabilities**

	Audited		
	As at 31 December		
	2020	2021	2022
	RM'000	RM'000	RM'000
Non-current liabilities			
Other payables	4,069	4,069	-
Borrowings	42,893	69,136	63,228
Lease liabilities	3,079	3,665	4,707
Deferred tax liabilities	1,196	2,463	5,384
Total non-current liabilities	51,237	79,333	73,319
Current liabilities			
Trade and other payables	28,026	58,767	34,593
Borrowings	34,563	78,904	65,886
Lease liabilities	1,127	1,521	2,401
Provision	-	1,474	1,474
Current tax liabilities	21	148	2,402
Total current liabilities	63,737	140,814	106,756
Total liabilities	114,974	220,147	180,075

Comparison between 31 December 2020 and 31 December 2021

Our total liabilities increased by RM105.1 million or 91.4%, to RM220.1 million as at 31 December 2021 (as at 31 December 2020: RM115.0 million), mainly due to the following:

- (i) increase in borrowings of RM70.6 million mainly due to higher drawdowns of bankers' acceptances for the purchase of steel coils and drawdown of new term loan to finance the acquisition of Lot 1215 Land together with Penang 1572 Factory;
- (ii) increase in trade payables of RM20.0 million, mainly due to higher purchases of steel coils towards the end of FYE 2021; and
- (iii) increase in other payables of RM10.7 million, mainly due to the increase in accrued purchases of steel coils of RM5.8 million and the accrued Additional Import Duty imposed by RMCD of RM4.9 million.

Comparison between 31 December 2021 and 31 December 2022

Our total liabilities decreased by RM40.0 million or 18.2% to RM180.1 million as at 31 December 2022 (as at 31 December 2021: RM220.1 million) mainly due to the following:

- (i) decrease in borrowings of RM18.9 million, mainly due to higher repayments of bankers' acceptances during the year resulting in lower outstanding bankers' acceptances as at 31 December 2022 as compared to 31 December 2021 and scheduled repayments of term loans during FYE 2022;
- (ii) decrease in trade payables of RM13.8 million, as there were lower outstanding purchases of steel coils as at end of FYE 2022; and
- (iii) decrease in other payables of RM14.5 million, mainly due to no accrued purchases of steel coils as at the end of FYE 2022 as compared to FYE 2021, and the reversal of Overaccrued Import Duty of RM4.8 million imposed by RMCD due to the lower final settlement made in FYE 2022.

11. FINANCIAL INFORMATION (cont'd)

11.2.4 Impact of Foreign Exchange Rates, Interest Rates and/or Commodity Prices

(a) Impact of foreign exchange rates

Our exposure to foreign currency risk arises primarily from sales and purchases that are denominated in currencies other than the functional currency of our Group. We have a natural hedge to the extent that payment for foreign currency payables are matched against receivables denominated in the same foreign currency. Our foreign currency risk arises when and to the extent these payment and receivable amounts do not match.

The following is the breakdown of our sales based on currency denomination throughout the Period Under Review:

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
RM	128,790	98.4	203,657	91.6	226,324	95.8
USD	129	0.1	18,707	8.4	9,907	4.2
SGD	1,945	1.5	71	~	-	-
Total	130,864	100.0	222,435	100.0	236,231	100.0

Note:

~ Represents amount less than 0.1%.

The following is the breakdown of our input materials and services that we purchased and engaged for our business operations based on currency denomination throughout the Period Under Review:

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
RM	18,881	22.1	25,694	13.8	64,673	38.5
USD	66,401	77.9	160,996	86.2	95,397	56.8
RMB	-	-	-	-	7,764	4.6
Total	85,282	100.0	186,690	100.0	167,834	100.0

A depreciation of the RM against the USD may adversely affect our financial performance and our GP margin. If the USD significantly appreciates against the RM, we will record a higher revenue and higher cost of sales in RM after conversion. Conversely, if the USD significantly depreciates against the RM, we will record a lower revenue and lower cost of sales in RM after conversion.

For illustration purposes, the sensitivity analysis of the effect on our PAT for Period Under Review of a 5.0% strengthening or weakening of RM relative to the respective currencies are summarised in the following table:

PAT	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
USD/RM			
- Strengthen by 5%	130	(356)	(197)
- Weaken by 5%	(130)	356	197

11. FINANCIAL INFORMATION (cont'd)

	Audited		
	FYE 2020	FYE 2021	FYE 2022
PAT	RM'000	RM'000	RM'000
SGD/RM			
- Strengthen by 5%	3	-	-
- Weaken by 5%	(3)	-	-

Details of our foreign currency exchange gain/losses during the Period Under Review are as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Realised gain/(loss) on foreign exchange	176	(344)	1,330
Unrealised (loss)/gain on foreign exchange	(26)	(192)	(464)
Net gain/(loss)	150	(536)	866

We currently do not have a formal policy with respect to our foreign exchange transactions. Exposure to foreign exchange is monitored on an ongoing basis, and our Group endeavours to keep the net exposure at an acceptable level. Our Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

From time to time, we use hedging instruments to manage our foreign exchange exposure from overseas purchases denominated in USD to mitigate the adverse effect on our financial performance. For the Period Under Review, the derivatives gains or losses arising from foreign exchange forward contracts were not material and were offset against realised gains or losses on foreign exchange account. The gains and losses arising from hedging instruments during the Period Under Review are summarised in the table below:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Gain from hedging instruments	-	37	244

As at LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchases from our foreign suppliers and revenue from our foreign sales. A depreciation of the RM against the USD will lead to higher costs of supplies for our Group. In the event that we are unable to pass the increase in costs to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher costs of supplies.

(b) Impact of interest rates

Our exposure to changes in interest rate risk relates primarily to our borrowings from banks. We do not generally hedge interest rate risks.

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

	Audited		
	FYE 2020	FYE 2021	FYE 2022
Interest coverage ratio (times) ⁽¹⁾	2.1	7.6	7.0

11. FINANCIAL INFORMATION (cont'd)

Note:

(1) Computed based on EBIT over finance costs for the respective financial years.

Our interest coverage ratio ranged between 2.1 times to 7.6 times for FYE 2020 to FYE 2022. This indicates that our Group has been able to generate sufficient EBIT to meet our interest servicing obligations.

(c) Impact of commodity prices

Most of our products and materials (steel coils) are commodities in which prices fluctuate based on market conditions. In 2021, global hot-rolled and cold-rolled coil prices have been trending upwards, reaching USD1,481/tonne and USD1,658/tonne respectively in September 2021 before tapering in the fourth quarter of 2021. In 2022, global hot-rolled and cold-rolled coil prices increased to USD1,345/tonne and USD1,546/tonne respectively in April 2022 and subsequently declined to USD746/tonne and USD871/tonne respectively in August 2023. Accordingly, our product margins and profitability fluctuate in accordance with commodity price movement. To manage the risk of commodity price fluctuation, we implement several controls and management, including inventory management, such as purchasing more as and when we observe an upward trend in material prices, daily monitoring and passing costs increase to customers to dampen the influence of such volatility.

Please refer to Section 8.1.1 of this Prospectus for further information on the risk relating to price fluctuations of our main input materials.

(d) Impact of inflation

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

(e) Impact of government, economic, fiscal, or monetary policies

There were no government, economic, fiscal, or monetary policies or factors which have materially affected our financial performance during the Period Under Review.

Any adverse changes in the political, social, economic, and regulatory conditions in Malaysia could have a negative impact on our business operations and financial performance. We are also susceptible to the risk of local epidemics or pandemics where we may face business interruptions, including, among others, temporary suspension of our business operations. Please refer to Section 6.5.15 of this Prospectus for further details on the impact of the COVID-19.

Changes in the political, social, economic, fiscal and regulatory conditions could arise from, among others, changes in political leadership, risks of war or civil unrest, changes in import tariffs and related duties, and conditions governing licensing, registrations and permits to conduct business. Similarly, any local, regional or global economic downturn would also affect overall business conditions, consumer confidence, as well as investments, which would subsequently affect the demand for our products. As such, there can be no assurance that any adverse political, social, economic, fiscal and regulatory developments or outbreak of diseases which are beyond our control will not materially affect our business operations and financial performance.

11. FINANCIAL INFORMATION (cont'd)**11.2.5 Review of cash flows**

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Net cash from operating activities	8,098	4,165	15,658
Net cash (used in)/from investing activities	(3,943)	(13,920)	14,743
Net cash (used in)/from financing activities	(6,802)	25,963	(44,346)
Net changes in cash and cash equivalents	⁽¹⁾ (2,647)	16,208	⁽¹⁾ (13,945)
Cash and cash equivalents at the beginning of the financial year	2,801	144	16,352
Effects of exchange rate changes on cash and cash equivalents	(10)	~	~
Cash and cash equivalents at the end of the financial year	144	16,352	2,407

Notes:

~ Represents amount less than RM1,000.

- (1) The decrease in cash and cash equivalents in FYE 2020 was mainly due to net cash used in investing activities in relation to the purchase of property, plant, and equipment and net cash used in financing activities in relation to the repayment of bank borrowings and interest paid. Such cash outflows were narrowed by the cash generated from business operations.

The decrease in cash and cash equivalents in FYE 2022 was mainly due to net cash used in financing activities in relation to repayment of bank borrowings and interest paid. Such cash outflow was narrowed by the cash generated from business operations as well as cash inflows from investing activities primarily from proceeds from the disposals of our investments in Visage Industries and Eco High.

FYE 2020**Net cash from operating activities**

For FYE 2020, net cash generated from operating activities was RM8.1 million. We collected RM139.6 million from our customers as well as receipt of other operating income of RM1.5 million comprise mainly wage subsidy and sales of scrap metal. However, the above was partially offset by cash payments made of RM133.0 million, mainly for the following:

- (i) RM116.9 million paid to our suppliers and for the labour costs;
- (ii) RM14.1 million paid for our other operating expenses and staff salaries; and
- (iii) income tax paid of RM2.0 million.

Net cash used in investing activities

For FYE 2020, our Group recorded a net cash outflow of RM3.9 million from investing activities, mainly attributable to the following:

- (i) cash payments for the purchase of property, plant, and equipment amounting to RM6.4 million comprise mainly of equipment for rent, plant and machinery and motor vehicles; and

11. FINANCIAL INFORMATION (cont'd)

- (ii) cash payments for the purchase of right-of-use assets amounting to RM0.2 million comprised mainly plant and machinery under hire purchase arrangements.

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

- (i) interest income of RM0.7 million, mainly from interest charges on late payments from our trade receivables;
- (ii) proceeds of RM1.8 million from the disposal of property, plant, and equipment comprised mainly equipment for rent and motor vehicles; and
- (iii) proceeds of RM0.2 million from the disposal of motor vehicles under right-of-use assets.

Net cash used in financing activities

For FYE 2020, our Group recorded a net cash outflow of RM6.8 million from financing activities due to the following:

- (i) dividends of RM0.2 million paid to the non-controlling interests of YS Global;
- (ii) interests paid on bank borrowings (excluding interest on lease liabilities) of RM4.1 million;
- (iii) repayment of bankers' acceptances amounting to RM92.9 million;
- (iv) repayment of revolving credit amounting to RM1.0 million;
- (v) repayment of term loans amounting to RM4.2 million;
- (vi) repayment of lease liabilities amounting to RM1.0 million; and
- (vii) net repayment of RM0.6 million to a related party, namely Visage Industries, narrowed by advances of RM0.3 million from a related party, namely Visage Global. The advances with related parties are for working capital purposes.

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

- (i) drawdown of bankers' acceptances amounting to RM85.4 million for settlement of the purchase of raw materials comprised mainly steel coils;
- (ii) drawdown of term loans amounting to RM8.0 million for working capital purposes; and
- (iii) decrease in deposits pledged with licensed banks amounting to RM3.6 million.

FYE 2021

Net cash for operating activities

For FYE 2021, net cash generated from operating activities was RM4.2 million. We collected RM225.8 million from our customers as well as receipts of other operating income of RM1.9 million, comprised mainly of insurance compensations received and sales of scrap metal. However, the above was partially offset by cash payments made of RM223.5 million, mainly for the following:

- (i) RM203.0 million paid to our suppliers and for the labour costs;
- (ii) RM16.7 million paid for our other operating expenses and staff salaries; and
- (iii) income tax payments of RM3.8 million.

11. FINANCIAL INFORMATION (cont'd)

Net cash used in investing activities

For FYE 2021, our Group recorded a net cash outflow of RM13.9 million from investing activities attributable to the following:

- (i) additional investment of 225,500 ordinary shares in Eco High for a total consideration of RM0.1 million for its working capital purposes;
- (ii) acquisition of 200,000 ordinary shares representing 20.0% equity interest in YS Global from two unrelated parties, namely Chuah Choon Lim and Lim Saw Hong for a total consideration of RM0.4 million;
- (iii) cash payments for the purchase of property, plant, and equipment amounting to RM20.5 million comprised mainly the purchase of Lot 1215 Land together with Penang 1572 Factory and installation costs of a new production line for welded pipes as part of our business expansion. Additionally, we also acquired equipment for rent, plant and machinery, and motor vehicles; and
- (iv) cash payments for the purchase of right-of-use assets amounting to RM0.5 million comprise mainly the purchase of motor vehicles under hire purchase arrangements.

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

- (i) dividend income received from Visage Industries amounting to RM6.9 million;
- (ii) interest income of RM0.3 million, mainly from interest charges on late payments from trade receivables and deposits with licensed banks; and
- (iii) proceeds of RM0.4 million from the disposal of property, plant, and equipment comprise mainly motor vehicles and plant and machinery.

Net cash from financing activities

For FYE 2021, our Group recorded a net cash inflow of RM26.0 million from financing activities, mainly attributable to the drawdown of bankers' acceptances amounting to RM162.6 million for settlement of the purchase of raw materials comprise mainly steel coils and drawdown of revolving credit amounting to RM1.0 million for working capital purposes.

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

- (i) dividends of RM1.6 million paid to common controlling shareholders;
- (ii) interest paid on bank borrowings (excluding interest on lease liabilities) of RM4.1 million;
- (iii) repayment of bankers' acceptances amounting to RM118.8 million;
- (iv) repayment of term loans amounting to RM2.2 million;
- (v) repayment of lease liabilities amounting to RM1.6 million;
- (vi) repayment of RM6.7 million to a related party, namely Visage Industries, narrowed by advances of RM1.1 million from related parties, namely Visage Global and YHTJ Sarawak. The advances to/from related parties were for working capital purposes; and
- (vii) increase in deposits pledged with licensed banks amounting to RM3.8 million to secure the credit facilities granted by the financial institutions.

11. FINANCIAL INFORMATION (cont'd)**FYE 2022****Net cash from operating activities**

For FYE 2022, net cash generated from operating activities was RM15.7 million. We collected RM254.6 million from our customers as well as receipts of other operating income of RM2.6 million, comprised mainly income from sales of scrap metal and rental income. However, the above was partially offset by cash payments made of RM241.5 million, mainly for the following:

- (i) RM213.8 million paid to our suppliers and for the labour costs;
- (ii) RM20.9 million paid for our other operating expenses and staff salaries; and
- (iii) income tax paid of RM6.8 million.

Net cash from investing activities

For FYE 2022, our Group recorded a net cash inflow of RM14.7 million from investing activities due to the following:

- (a) interest income of RM0.4 million mainly from deposits with licensed banks;
- (b) proceeds from the disposals of our investment in Visage Industries to KBH, and Eco High to Tan Seong Beng for a total consideration of RM11.6 million; and
- (c) proceeds of RM7.0 million from the disposal of property, plant, and equipment which comprise mainly equipment for rent and motor vehicles.

The above cash inflows were partially narrowed by the cash payments for the purchase of property, plant and equipment of RM3.9 million, which comprise mainly plant and machinery, building and installation costs of production line for welded pipes, furniture, fittings and office equipment and renovation costs.

Net cash used in financing activities

For FYE 2022, our Group recorded a net cash outflow of RM44.3 million from financing activities, mainly due to:

- (i) dividends paid of RM11.1 million to common controlling shareholders;
- (ii) interest paid on bank borrowings (excluding interest on lease liabilities) of RM5.1 million;
- (iii) repayment of bankers' acceptances amounting to RM196.5 million;
- (iv) repayment of term loans amounting to RM6.1 million;
- (v) repayment of lease liabilities amounting to RM2.5 million;
- (vi) repayment of RM1.8 million to related parties, namely Visage Global, Visage Industries and YHTJ Sarawak; and
- (vii) increased in deposits pledged with licensed banks amounting to RM3.1 million to secure credit facilities granted by the financial institutions.

The above cash outflows were partially offset by the drawdown of bankers' acceptances amounting to RM181.8 million for settlement of the purchase of raw materials comprised mainly steel coils.

11. FINANCIAL INFORMATION (*cont'd*)

11.3 LIQUIDITY AND CAPITAL RESOURCES

11.3.1 Working capital

We finance our operations with cash generated from operations, credit extended by trade payables and/or financial institutions as well as cash and bank balances. Our facilities from financial institutions comprise term loans, bank overdrafts, bank guarantees, trade facilities as well as finance lease liabilities.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflow and outflow, future working capital requirements, future capital expenditure requirements and the interest rate on borrowings.

There are no legal, financial or economic restrictions on subsidiaries' ability to transfer funds to our Group in the form of cash dividends, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenants.

Our Board is confident that our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

- (a) Our cash and cash equivalent of approximately RM4.8 million as at LPD;
- (b) Our expected future cash flows from operations;
- (c) Our total banking facilities as at LPD of RM222.5 million (excluding finance leases), of which RM144.2 million have been utilised; and
- (d) Our pro forma gearing ratio of [•] times, based on our pro forma combined statements of financial position as at 31 December 2022 after adjustment for other material transaction, Capitalisations, Acquisitions and IPO.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Save as disclosed in Section 11.3.5 of this Prospectus, our Group has not encountered any major disputes with our customers. Our finance personnel work closely with our sales and marketing staff for the collection of outstanding balances on a monthly basis. This measure has proven to be effective while allowing us to maintain cordial relationship with our customers.

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11. FINANCIAL INFORMATION (cont'd)

11.3.2 Borrowings

All of our borrowings are secured, interest-bearing and denominated in RM. Our total outstanding borrowings (excluding lease liabilities arising from right-of-use assets of RM1.8 million) as at 31 December 2022 stood at RM134.4 million, details of which are set out below:

		Purposes	Interest rate	Tenure	As at 31
			% per annum		December 2022
					RM'000
Current					
Bank overdrafts	For working capital purposes		6.20 – 8.45	N/A	3,526
Bankers' acceptances	For working capital purposes		1.96 – 5.01	1-3 months	56,629
Revolving credit	For working capital purposes		4.20 – 5.20	3 months	1,000
Term loans	To finance property, plant, and equipment, and for working capital purposes		3.00 – 8.20	6-12 months	4,731
Hire purchases	To finance motor vehicles and plant and machinery		1.92 – 4.28	12 months	1,636
Total current borrowings					67,522
Non-current					
Term loans	To finance property, plant, and equipment, and for working capital purposes		3.00 – 8.20	4-20 years	63,228
Hire purchases	To finance motor vehicles and plant and machinery		1.92 – 4.28	2-5 years	3,692
Total non-current borrowings					66,920
Total borrowings					134,442
Pro forma gearing (times)					
After adjustments for other material transactions, Capitalisations and Acquisitions but before IPO ⁽¹⁾					0.99
After adjustments for other material transactions, Capitalisations, Acquisitions and IPO ⁽²⁾					[•]

Notes:

- (1) Computed based on our pro forma equity attributable to the owners of our Company of RM138.1 million in the pro forma combined statements of financial position after adjustments for other material transactions, Capitalisations and Acquisitions, but before IPO.
- (2) Computed based on our pro forma equity attributable to the owners of our Company of RM[•] million in the pro forma combined statements of financial position after adjustments for other material transactions, Capitalisations, Acquisitions, and IPO which includes the repayment of bank borrowings of RM[•] million.

11. FINANCIAL INFORMATION *(cont'd)*

Separately, we have also recognised the following lease liabilities on the right-of-use assets, which are denominated in RM:

	Purpose	Tenure	As at 31 December 2022 RM'000
Lease liabilities payable within 1 year	Rental of factory warehouse and staff hostel	Initial lease of 2 years with option to renew for another 2 years	765
Lease liabilities payable after 1 year	Rental of factory warehouse and staff hostel	Initial lease 2 years with option to renew for another 2 years	1,015
			1,780

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

As at the date of this Prospectus, we have received all conditional approvals from the Financiers to discharge the above guarantees by substituting the same with a corporate guarantee from BWYS. We have also received letters from MBSB Bank Berhad noting the Listing and will carry out a review of our request to discharge the above guarantees in favour of MBSB Bank Berhad upon the Listing. The Financiers have imposed conditions that the discharge is conditional upon the completion of the Listing and execution and perfection of a corporate guarantee by the Company.

11. FINANCIAL INFORMATION (cont'd)

The maturity profile based on the undiscounted contractual repayment obligation of our total borrowings (excluding lease liabilities for right-of-use assets) as of the dates indicated is as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Within one year	38,178	83,476	69,880
One to five years	26,293	33,977	33,254
More than five years	34,854	61,075	60,124
Total contractual cash flow	99,325	178,528	163,258
Total carrying amount	81,224	152,496	134,442

Our interest-bearing borrowings carry the following effective interest rates for the Period Under Review:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	% per annum		
Bankers' acceptance	1.96 – 4.72	2.03 – 3.80	2.90 – 5.01
Term loans	3.37 – 7.45	3.00 – 7.20	3.50 – 8.20
Bank overdrafts	6.45 – 6.95	6.20 – 6.69	7.20 – 8.45
Lease liabilities	1.92 – 8.00	1.92 – 8.00	1.92 – 7.35
Revolving credit	-	4.20	5.20

As at LPD, we do not have any borrowings which are non-interest bearing. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the Period Under Review as well as subsequent FYE 2022 up to LPD.

As at LPD, neither our Group nor our subsidiaries are in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

During the Period Under Review, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

11. FINANCIAL INFORMATION (*cont'd*)

11.3.3 Types of financial instruments used, treasury policies and objectives

As at LPD, save for our borrowings as disclosed in Section 11.3.2 of this Prospectus, we do not have nor utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers and external sources of funds which mainly comprise borrowings. The principal usages of these bank borrowings are for working capital as well as the purchase of raw materials, and property, plant and equipment.

From time to time, we use hedging instruments to manage our foreign exchange exposure from overseas purchases denominated in USD to mitigate the adverse effect on our financial performance.

Save for our hire purchase, bankers' acceptances, special relief term loans and revolving credit which carry fixed interest rates, other borrowings bear variable interest rates based on the bank's base lending rate plus or minus a rate, which varies depending on the different types of bank facilities.

11.3.4 Material capital commitments

As at LPD, save as disclosed below, there are no material capital commitments incurred or to be incurred by us that have not been provided for which, upon becoming enforceable, may have a material impact on our financial results:

- (i) integrated PU form sandwich panel production line amounted to RM1.5 million as set out in Section 6.6.3 of this Prospectus.
- (ii) capital expenditure to support the growth of our business, details of which are set out in Section 4.9 of this Prospectus.

We expect to finance these capital expenditures through the IPO proceeds and/or internally generated funds.

11.3.5 Material litigation and contingent liabilities

Save as disclosed below, we are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there is no proceeding pending or threatened or any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at LPD:

1. *Shah Alam Sessions Court Suit No. BA-B52NCC-13-02/2022*
YS Success Industries Sdn Bhd ("Plaintiff")
-v-
Tan Kean Siang and Teoh Chiau Huei both trading as Hung Tat Trading (Registration No.: 201303262877 (PG0331127-D)) ("Defendants")

The Plaintiff had, upon the Defendants' request and order, sold and delivered to the Defendants goods including but not limited to various types, measurements, dimensions, parts, colours, specifications and/or sizes of "Galvanised Pipe", "Conduit Pipe", and others ("**Products**").

11. FINANCIAL INFORMATION (cont'd)

The Products ordered by the Defendants had been delivered by the Plaintiff in its entirety and in order. The Defendants had acknowledged that the Products were delivered in accordance with their order and in good condition. The Defendants made partial payments to the Plaintiff on 14 January 2022, 18 February 2022 and 15 March 2022. However, the Defendants have refused to settle the outstanding sum due and owing to the Plaintiff despite multiple demands by the Plaintiff. On 22 February 2022, the Plaintiff filed a writ action to claim for a sum of RM768,667.82, interest in the sum of RM38,791.02 as at 21 February 2022 calculated at the rate of 1.5% per month on the sum; and additional interest at the rate of 1.5% per month on RM729,876.80 from 22 February 2022 until the date of full settlement, due and payable from the Defendant.

By way of the defence and counterclaim dated 30 May 2022, the Defendants claimed that the Plaintiff did not deliver the entirety of the Products that were ordered by the Defendants counterclaimed for RM755,123.00 plus 5% interest per annum on the counterclaim sum.

A case management for filing of the pre-trial documents has been fixed on 17 November 2023.

The legal counsel acting for YS Success opines that YS Success has a fair chance to win the case.

2. *Kota Bharu Sessions Court Suit No. DA-A52NCvC-20-07/2022*

BW Yee Seng Steel Industries Sdn Bhd ("Plaintiff")

-v-

Mentari Arus Sdn Bhd, Kong Bee Kai and Thau Po Been ("Defendants")

The Plaintiff, pursuant to a sale agreement dated 22 October 2019 entered into with the Defendants, sold and delivered certain products and rental services, including those related to VFrame Wall Framing System V70 ("**Products**"), to the Defendants.

The Defendants had acknowledged that the Products were delivered but refused to make payments. In response to Plaintiff's letter of demand, Defendants vide a letter of demand dated 27 September 2021, counter-claimed for the sum of RM987,402.00, alleging that the supply of Products were defective.

On 5 July 2022, the Plaintiff filed a writ action to claim for a sum of RM155,321.03 due and payable from the Defendant, among others. By way of a defence and counterclaim dated 25 August 2022, the Defendants counterclaimed for the sum of RM987,402.00, alleging that the Products were defective and they have suffered substantial damages as a result of the breach of the agreements.

The matter has been fixed for trial on 30 January 2024 and 31 January 2024.

The legal counsel acting for BWYS Steel is of the view that BWYS Steel has a fair chance to win the case.

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

11. FINANCIAL INFORMATION (*cont'd*)

11.4 KEY FINANCIAL RATIOS

The key financial ratios of our Group for the Period Under Review are as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
Trade receivables turnover (days) ⁽¹⁾	104	55	55
Trade payables turnover (days) ⁽²⁾	25	31	35
Inventory turnover (days) ⁽³⁾	159	149	184
Current ratio (times) ⁽⁴⁾	1.47	1.25	1.40
Gearing ratio (times) ⁽⁵⁾	0.98	1.44	1.15

Notes:

- (1) Computed based on the average trade receivables as at year end over revenue for the respective years, multiplied by 365/366 days for each financial year.
- (2) Computed based on the average trade payables as at year end over cost of sales for the respective years, multiplied by 365/366 days for each financial year.
- (3) Computed based on the average inventory as at year end over cost of sales for the respective years, multiplied by 365/366 days for each financial year.
- (4) Computed based on current assets over current liabilities as at the end of each financial year.
- (5) Computed based on total borrowings over total equity as at the end of each financial year.

11.4.1 Trade receivables turnover

Our average trade receivables turnover (days) for the Period Under Review is stated as below:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Opening trade receivables	42,430	32,166	34,462
Closing trade receivables	32,166	34,462	36,150
Average trade receivables	37,298	33,314	35,306
Revenue	130,864	222,435	236,231
Trade receivables turnover (days)	104	55	55

The normal credit period offered by our Group in respect of our trade receivables is between 30 and 90 days from the date of invoice on a case-by-case basis by taking into consideration various factors such as our business relationship with our customers and the credit history of the customers while new customers are subject to our credit verification and assessment process. Other credit terms can sometimes be negotiated (such as for new customers or large orders) upon the request of our customer. Such terms would be assessed and approved on a case-by-case basis. All of our outstanding trade receivables are closely monitored by our finance department.

11. FINANCIAL INFORMATION (*cont'd*)

Our Group established policies on credit control involving comprehensive credit evaluations, setting up appropriate credit limits, ensuring the sales are made to customers with good credit history, and regular review of customers' outstanding balances and payment trends. Our Group considers the risk of material loss in the event of non-performance by the customers to be unlikely.

As our Group did not hold any collateral, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position. A significant portion of trade receivables represent regular customers of our Group. Our Group uses ageing analysis to monitor the credit quality of the trade receivables.

Our average trade receivables turnover period for FYE 2020, 2021, and 2022 was 104 days, 55 days, and 55 days respectively. The higher trade receivables turnover period for FYE 2020 was mainly attributable to the MCO implemented by the Government of Malaysia, which encouraged companies to adopt the work-from-home practice, resulting in our customers requiring an extended period to process the submitted invoices.

The trade receivables turnover period decreased to 55 days for FYE 2021, resulting from the relaxation of the MCO. The customers had returned to the offices, allowing them to expedite the processing of the invoices submitted. The Group's trade receivables turnover period has remained consistent at 55 days for FYE 2021 and FYE 2022, which was within the normal credit period.

Our trade receivables turnover period remained consistent at 55 days for FYE 2021 and FYE 2022.

The ageing analysis of our trade receivables as at 31 December 2022 is as follows:

	Within normal credit period	Exceeding credit period (days past due)					Total
		0 – 90 days	1 – 30 days	31 – 60 days	61 – 90 days	> 90 days	
Trade receivables (RM'000)	22,324	1,171	3,983	2,784	10,305	40,567	
Impairment loss (RM'000)	(168)	(44)	(219)	(239)	(3,747)	(4,417)	
Net trade receivables (RM'000)	22,156	1,127	3,764	2,545	6,558	36,150	
Percentage of total trade receivables (%)	61.3	3.1	10.4	7.1	18.1	100.0	
Subsequent collections up to the LPD (RM'000)	21,104	1,127	3,247	2,150	5,445	33,073	
Trade receivables net of subsequent collections (RM'000)	1,052	-	517	395	1,113	3,077	
Percentage of total trade receivables net of subsequent collections (%)	34.2	-	16.8	12.8	36.2	100.0	

11. FINANCIAL INFORMATION (cont'd)

As at 31 December 2022, our Group's trade receivables amounted to approximately RM36.2 million, of which RM14.0 million or 38.7% of our trade receivables exceeded the normal credit period. Subsequent to 31 December 2022 and up to LPD, we have collected RM33.1 million, representing 91.4% of the total trade receivables as at 31 December 2022.

As at the LPD, we have outstanding receivables of RM3.1 million, representing 8.6% of our trade receivables as at 31 December 2022. The outstanding amount comprises mainly the following:

- (c) RM1.1 million receivables that are pending the finalisation of the quantities of equipment for rent returned from the customers, of which a total deposit of RM0.7 million from the customers will be offset against the outstanding balances; and
- (d) RM2.0 million receivables in which our Group are of the view that the said amount is collectible considering the follow-up and reminders to our customers.

Our customers have generally been paying within the credit period granted. Saved as disclosed in Section 11.3.5 of this Prospectus, our Group has not encountered any major disputes with our trade receivables. Our net impairment loss on trade receivables for the Period Under Review are as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Loss allowance recognised in profit or loss ⁽¹⁾	629	2,875	1,728
Loss allowance no longer required	(40)	(10)	(617)
Bad debts written off	27	1,793	145
Bad debts recovered	(18)	(13)	(177)

Note:

- (1) Comprise the recognition of impairment losses for trade receivables based on the simplified approach in accordance with MFRS 9 *Financial Instruments* and measure the allowance for impairment loss based on a lifetime ECL from initial recognition.

11.4.2 Trade payables turnover

Our average trade payables turnover (days) for the Period Under Review is as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Opening trade payables	10,204	4,277	24,323
Closing trade payables	4,277	24,323	10,553
Average trade payables	7,241	14,300	17,438
Cost of sales	105,607	170,267	179,781
Average trade payables turnover (days)	25	31	35

Trade payables comprise mainly amounts outstanding for the purchase of steel coils. The credit terms granted to our Group for trade purchases ranged from 30 to 120 days. To maintain good relationships with our suppliers, we will pay the suppliers as the payments fall due.

11. FINANCIAL INFORMATION (cont'd)

Our trade payables turnover period for FYE 2020, 2021 and 2022 was 25 days, 31 days, and 35 days respectively, which were within the normal credit terms granted by our suppliers.

The ageing analysis of our trade payables as at 31 December 2022 is as follows:

	Within normal credit period	Exceeding credit period (days past due)				Total
	0 – 120 days	1 – 30 days	31 – 60 days	61 – 90 days	> 90 days	
Trade payables (RM'000)	4,105	148	889	483	4,928	10,553
Percentage of total trade payables (%)	38.9	1.4	8.4	4.6	46.7	100.0
Subsequent payments up to the LPD (RM'000)	4,105	148	889	483	3,582	9,207
Trade payables net of subsequent payments (RM'000)	-	-	-	-	1,346	1,346
Percentage of total trade payables net of subsequent payments (%)	-	-	-	-	100.0	100.0

As at 31 December 2022, our total trade payables stood at RM10.6 million, with RM6.4 million or 61.1% of our trade payables exceeding the normal credit period. Subsequent to 31 December 2022 and up to LPD, we have paid RM9.2 million, representing 87.2% of the total trade payable as at 31 December 2022.

As at the LPD, we have outstanding trade payables of RM1.3 million, representing 12.8% of our trade payables as at 31 December 2022. The outstanding amount comprises mainly RM1.2 million owing to a trade creditor of which our Group is in the midst of arranging a settlement arrangement to settle the outstanding balance.

As at LPD, we do not have any disputes in respect of our trade payables and there are no legal proceedings initiated to demand payment from us.

11. FINANCIAL INFORMATION (cont'd)**11.4.3 Inventory turnover**

Our inventories comprise mainly the raw materials and work-in-progress steel coils as well as finished goods for our roofing sheets and trusses, industrial racking systems, welded pipes and supply of scaffoldings. Our average inventory turnover (days) for the Period Under Review is set out below:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Opening inventories			
- Raw materials	26,689	16,921	47,735
- Work-in-progress	6,267	7,087	23,504
- Finished goods	15,128	19,783	23,766
	<u>48,084</u>	<u>43,791</u>	<u>95,005</u>
Closing inventories			
- Raw materials	16,921	47,735	49,443
- Work-in-progress	7,087	23,504	15,294
- Finished goods	19,783	23,766	21,490
	<u>43,791</u>	<u>95,005</u>	<u>86,227</u>
Average inventories			
- Raw materials	21,805	32,328	48,589
- Work-in-progress	6,677	15,296	19,399
- Finished goods	17,456	21,775	22,628
	<u>45,938</u>	<u>69,398</u>	<u>90,616</u>
Cost of sales	105,607	170,267	179,781
Average inventory turnover (days)			
- Raw materials	76	69	99
- Work-in-progress	23	33	39
- Finished goods	60	47	46
	<u>159</u>	<u>149</u>	<u>184</u>

The inventories consist of raw materials, work-in-progress, and finished goods. As most of the raw materials (i.e. steel coils) require a delivery lead time of 6 to 8 weeks upon the order being placed, we maintain a stock holding policy for raw materials of at least 8 to 12 weeks. The average inventory turnover for FYE 2020, 2021 and 2022 was 159 days, 149 days, and 184 days, respectively.

Our inventory turnover period decreased from 159 days for FYE 2020 to 149 days for FYE 2021, mainly attributable to the improvement in our order fulfilment for our roofing sheets whereby the Group was able to fulfil the orders received at a shorter turnaround period as a result of more machines deployed for the production. In addition, the rising trend of steel prices throughout FYE 2021 has led to a significant increase in the cost of sales of 61.2% for FYE 2021, which is higher than the increase in average inventories of 51.1%, thus leading to the decrease in inventory turnover period.

Our inventory turnover period for FYE 2022 increased to 184 days, mainly contributed by the higher average inventories for FYE 2022 due to higher opening inventories as we purchase more raw materials towards end of FYE 2021 anticipating higher demands from our customers. In addition, there was also a postponement in the production of industrial racking systems for our US customer, which was pending the settlement of outstanding balances before the fulfilment of the outstanding purchase orders. The purchase orders had been received during FYE 2021 which was scheduled to be fulfilled progressively during FYE 2022. However, due to the postponement in the production of industrial racking systems, the inventories amounted to

11. FINANCIAL INFORMATION (cont'd)

RM9.4 million remained as closing inventories as at 31 December 2022. The raw materials for these purchase orders were purchased during the second half of FYE 2021. Upon settlement of the outstanding balances, the said outstanding purchase orders for industrial racking systems have been fulfilled in the first quarter of 2023. The higher closing inventory from raw materials for FYE 2022 was due to the purchase of more raw materials towards the end of FYE 2022 in anticipation of higher demand from our customers.

We review our inventories on a product-by-product and ageing basis during periodic stock count and we make allowance for damaged, obsolete and slow-moving inventories, when necessary. Management estimates the net realisable value for such inventory items based primarily on the current market conditions.

During the Period Under Review and up to LPD, our Group do not have any inventories written down and provision for obsolescence.

11.4.4 Current ratio

Our current ratio throughout the Period Under Review is as follows:

	Audited		
	As at 31 December		
	2020	2021	2022
	RM'000	RM'000	RM'000
Current assets	93,538	176,109	149,634
Current liabilities	63,737	140,814	106,756
Net current assets	29,801	35,295	42,878
Current ratio (times)	1.47	1.25	1.40

Our current ratio ranges from 1.25 times to 1.47 times for the Period Under Review. This indicates that our Group can meet our current obligations as our current assets, such as inventories and trade receivables, which can be readily converted into cash, together with our fixed deposits and bank balances, are enough to meet immediate current liabilities.

11.4.5 Gearing ratio

Our gearing ratio throughout the Period Under Review is as follows:

	Audited		
	As at 31 December		
	2020	2021	2022
	RM'000	RM'000	RM'000
Total borrowings ⁽¹⁾	81,662	153,226	136,222
Total equity	83,443	106,306	118,682
Gearing ratio (times)	0.98	1.44	1.15

Note:

- (1) Computed based on total interest-bearing borrowings over total equity as at the end of each financial year.

Our gearing ratio ranges from 0.98 times to 1.44 times throughout the Period Under Review.

11. FINANCIAL INFORMATION (cont'd)

We recorded a higher gearing ratio of 1.44 times as at 31 December 2021 as compared to 0.98 times as at 31 December 2022 mainly due to higher outstanding bankers' acceptances as at 31 December 2021 as a result of higher purchases of raw materials in anticipation of the higher sales volume in early FYE 2022.

Our gearing ratio decreased to 1.15 times as at 31 December 2022 mainly due to repayments of borrowings coupled with the improved total equity arising from the profit generated during FYE 2022.

11.5 TREND INFORMATION

Based on our track record for the Period Under Review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

- (a) during the Period Under Review, our manufacture of sheet metal products and supply of scaffoldings segments have been the main revenue contributors for our business. We expect that these two segments will continue contributing significantly to our revenue in the future;
- (b) during the Period Under Review, our revenue is derived from both local and export sales. We expect this trend to continue in the future;
- (c) the main components of our cost of sales are materials costs. Moving forward, our cost of sales is expected to fluctuate in tandem with our revenue levels. Our cost of sales is dependent on amongst others, the availability and price fluctuation of raw materials; and
- (d) we achieved a GP margin of 19.3%, 23.5% and 23.9% for FYE 2020, FYE 2021 and FYE 2022, respectively. We expect to maintain our GP margin within the same range in the future. This would depend on, amongst others, our continued ability to manage our costs efficiently.

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

- (a) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations, other than those discussed in this section, Sections 6 and 8 of this Prospectus;
- (b) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in this section, Sections 6 and 8 of this Prospectus;
- (c) known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discussed in this section, Sections 8 and 12 of this Prospectus;
- (d) material commitments for capital expenditure as set out in Section 11.3.4 of this Prospectus; and
- (e) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 6.5.15 of this Prospectus.

11. FINANCIAL INFORMATION (cont'd)

Our Board is optimistic about the future prospects of our Group given the positive outlook of the sheet metal products industry as set out in the Industry Overview in Section 7 of this Prospectus, our Group's competitive strengths as set out in Section 6.5.6 of this Prospectus and our business strategies and plans as set out in Section 6.6 of this Prospectus.

11.6 ORDER BOOK

Our revenue for roofing sheets, roof trusses, industrial racking systems, welded pipes, sales of scaffoldings and trading of steel materials and steel related products are generated by way of purchase orders from our customers on an ongoing basis.

Commonly, we deliver the roofing sheets and trusses, and welded pipes within the next business day from the receipt of purchase order. As our industrial racking systems are manufactured upon the receipt of purchase orders, the finished products will be delivered to our customers between 4 to 8 weeks depending on the size of the purchase order, from the receipt of purchase orders.

Only for roof trusses under projects, we will enter into a contractual agreement with some of our customers where our customer will issue a letter of award or work order to us for the supply and installation of roof trusses. Typically, the contract period ranges from 6 months to 9 months. However, in some cases, we have contracts for up to 2 years.

For rental of scaffoldings, we will enter into a rental agreement with our customers commonly with a minimum rental period of 3 months. The rental period may be extended upon expiry and there is no maximum rental period.

As at the LPD, our total secured order for roof trusses amounted to RM6.3 million as summarised below:

Total secured orders	Total secured orders up to the LPD	Revenue recognition			
		Up to the LPD	Post LPD to December 2023	FYE 2024	FYE 2025
	RM'million	RM'million	RM'million	RM'million	RM'million
Roof trusses under projects	6.3	-	3.8	2.5	-

11.7 DIVIDENDS

As our Company is an investment holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our subsidiaries, present or future. Our subsidiaries will require their financiers' consent as set out in the respective facility agreements to pay dividends to our Company. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us.

Our Group presently does not have any formal dividend policy. The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board. It is our intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board. 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 activity). No withholding tax is imposed on the above transactions.

11. FINANCIAL INFORMATION (cont'd)

During the Period Under Review and up to LPD, we have declared and paid the following dividend:

	<u>FYE 2020</u> <u>RM'000</u>	<u>FYE 2021</u> <u>RM'000</u>	<u>FYE 2022</u> <u>RM'000</u>	<u>Up to LPD</u> <u>RM'000</u>
Dividends declared and paid	220	1,600	11,135	3,000

All dividends were paid using internally generated funds and our Group confirms that there will be no further dividends to be declared/paid up to the completion of our Listing. Our Board does not foresee that dividends paid during the Period Under Review would affect the execution and implementation of our future plans or business strategies moving forward.

11.8 SIGNIFICANT CHANGES

Saved as disclosed below, there are no other significant changes since FYE 2022, being our most recent financial statements, which may have a material effect on the financial position and results of our Group:

- (a) On 8 June 2023, BWYSSB declared a single-tier interim dividend of RM3 per ordinary share amounting to RM3,000,000 in respect of the financial year ending 31 December 2023, which was paid on 16 June 2023. The said dividend was accounted for in equity as an appropriation of retained earnings of BWYSSB in FYE 2023;
- (b) On 14 August 2023, the issued and fully paid-up share capital of BW Scaffold increased from RM2,488,000 to RM4,706,497 following the completion of the Capitalisation in BW Scaffold;
- (c) On 14 August 2023, the issued and fully paid-up share capital of BWYS Steel increased from RM2,000,000 to RM13,082,073 following the completion of the Capitalisation in BWYS Steel; and
- (d) On 14 August 2023, the issued and fully paid-up share capital of YS Success increased from RM2,000,000 to RM11,068,890 following the completion of the Capitalisation in YS Success.

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11. FINANCIAL INFORMATION (cont'd)

11.9 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 July 2023 and after adjusting for the effects of the other material transactions, Capitalisations, Acquisitions and IPO.

	<u>Unaudited</u>	<u>I</u>	<u>II</u>
	<u>As at 31 July 2023</u>	<u>Upon completion of the other material transactions, Capitalisations and Acquisitions</u>	<u>After I and IPO</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Capitalisation			
Invested equity/Share capital	7,988	146,093	[•]
Total capitalisation	7,988	146,093	[•]
Indebtedness			
<u>Current</u>			
<u>Secured and guaranteed</u>			
Bank overdrafts	4,814	4,814	4,814
Bankers' acceptances	81,623	81,623	81,623
Revolving credit	1,000	1,000	1,000
Term loans	4,636	4,636	4,636
Lease liabilities owing to financial institutions	1,710	1,710	1,710
<u>Unsecured</u>			
Lease liabilities owing to non-financial institutions	903	903	903
<u>Non-current</u>			
<u>Secured and guaranteed</u>			
Term loans	60,053	60,053	[•]
Lease liabilities owing to financial institutions	3,486	3,486	3,486
<u>Unsecured</u>			
Lease liabilities owing to non-financial institutions	761	761	761
Total indebtedness	158,986	158,986	[•]
Total capitalisation and indebtedness	166,974	305,079	[•]
Gearing ratio (times)⁽¹⁾	19.90	1.09	[•]

Notes:

(1) Calculated based on total indebtedness divided by total capitalisation.