
12. FINANCIAL INFORMATION

12.1 HISTORICAL COMBINED FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

Notes:

* *Negligible*

12. FINANCIAL INFORMATION (Cont'd)

(1) *Computed as follows:*

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

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

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12. FINANCIAL INFORMATION (Cont'd)

12.1.2 Historical combined statements of financial position

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

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

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

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

Cash and cash equivalents comprise of the following:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Cash and bank balances	5,185	4,217	5,056
Bank overdrafts	(9,479)	-	-
	(4,294)	4,217	5,056

Note:

* *Negligible*

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

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

- (a) Based on the latest unaudited combined financial information as at 31 July 2023; and
 (b) After adjusting for the effects of Acquisitions, IPO and utilisation of proceeds.

The pro forma combined financial information below does not represent our actual capitalisation and indebtedness as at 31 July 2023 and is provided for illustrative purposes only.

	Unaudited	I	II	III
	As at 31 July 2023	After the Acquisitions	After I and after IPO	After II and after utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Indebtedness				
Current				
Secured and guaranteed:				
Term loans	851	851	851	851
Hire purchase payables	171	171	171	171
Bankers' acceptance	2,605	2,605	2,605	2,605
Bank overdrafts	6,838	6,838	6,838	6,838
	10,465	10,465	10,465	10,465
Unsecured and unguaranteed:				
Lease liabilities	95	95	95	95
	95	95	95	95
Non-current				
Secured and guaranteed:				
Term loans	21,941	21,941	21,941	[•]
Hire purchase payables	206	206	206	206
	22,147	22,147	22,147	[•]
Unsecured and unguaranteed:				
Lease liabilities	22	22	22	22
	22	22	22	22
Total indebtedness	32,729	32,729	32,729	[•]
Capitalisation				
Invested equity/Share capital	51,800	55,270	[•]	[•]
Total capitalisation	51,800	55,270	[•]	[•]
Total capitalisation and indebtedness	84,529	87,999	[•]	[•]
Gearing ratio (times) ⁽¹⁾	0.63	0.59	[•]	[•]

Note:

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

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

12.3.1 Overview of our operations

(a) Principal activities

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

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

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

(b) Revenue

Our Group recognises revenue based on the following:

(i) Sales and trading of goods

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

12. FINANCIAL INFORMATION (Cont'd)

Our receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

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

(ii) Rendering of services

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

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

(c) **Cost of sales**

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

(i) Direct material

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

(ii) Cost of inventories

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

(iii) Direct labour

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

Note:

* 4 out of 40 staffs from the sales and marketing department are included in the direct labour for FYE 2022 (FYE 2021 and FYE 2020: 4).

(iv) Production overheads

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

12. FINANCIAL INFORMATION (Cont'd)

(d) Other income

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

(e) Selling and distribution expenses

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

(f) Administrative expenses

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

(g) Other operating expenses

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

(h) Finance costs

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

(i) Exceptional and extraordinary items and audit qualifications

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

12.3.2 Significant changes on the financial position

There were no significant changes that have occurred, which may have a material effect on the financial position and result of our Group subsequent to FYE 2022 and up to the LPD.

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12. FINANCIAL INFORMATION (Cont'd)

12.3.3 Review of results of operations

(a) Revenue

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

(i) Revenue by business segments and product category

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

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

Notes:

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

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

- (3) We are engaged by our ODM customers to manufacture decorative paints, protective coatings as well as binding and coating chemicals under their brand names.
- (4) Our Group engaged OEM in PRC, Vietnam and Hong Kong to manufacture our aerosol spray paints and painting tools and accessories in which the products are manufactured according to our specification. We then sell these OEM products under our house brand 'Bond7' and 'Goldliner' for aerosol spray paints and painting tools and accessories, respectively.
- The trademark for 'Goldliner' was owned by UT Holdings until FYE 2021, before we acquired the trademark from UT Holdings in FYE 2022.
- (5) Non-OEM comprises of revenue generated from trading products which we purchase from our suppliers. This includes mainly raw materials (such as binder, pigment and additives), third party branded aerosol spray paints under the brand of 'Anchor', third party branded painting tools and accessories under the brand of 'Golben', and face masks. We have ceased the sale of face masks in June 2022.
- (6) We utilised our manufacturing line to manufacture surface disinfectants during the COVID-19 pandemic as there was demand for disinfecting products. We also source hand sanitisers from a third party manufacturer in Malaysia in which the products are manufactured and packed under our house brand 'Smart Cares Sihat+'. We sell the surface disinfectants and hand sanitisers under our house brand 'Smart Cares Sihat+'. However, we have ceased the manufacturing of surface disinfectants in April 2022.
- (7) We provide painting services for construction and renovation projects, whereby we are engaged by our customers to supply products and concurrently provide painting services using the products we supply as part of our value-added services provided to our customers. Under these engagements, we outsource the painting services to painting sub-contractors.

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

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

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

Note:

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

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

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

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

The increase was partially offset by the following:

- (aa) decrease in the sales of non-OEM products of RM1.28 million mainly due to the decrease in selling price and volume of face masks sold as a result of higher supply of face masks in the market. In addition, there was a decrease in sales of third party brand aerosol spray paints namely Anchor as we focus more on selling our OEM aerosol spray paints (i.e. Bond7) due to the decline in GP margin for Anchor brand aerosol spray paints as a result of increase in purchase price from our supplier; and
- (bb) decrease in sales of disinfecting products of RM0.98 million mainly due to the lower demand as a result of higher supply of disinfecting products in the market.

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

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

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

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

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

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

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

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12. FINANCIAL INFORMATION (Cont'd)

(iii) GP and GP margin by business segments and product category

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

GP

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

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12. FINANCIAL INFORMATION (Cont'd)GP margin

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

Notes:

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

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

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

Comparison between FYE 2021 and FYE 2020

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

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

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

Comparison between FYE 2022 and FYE 2021

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

The abovementioned were being offset by the following:

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

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

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

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

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

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

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

Notes:

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

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

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

Comparison between FYE 2022 and FYE 2021

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

12. FINANCIAL INFORMATION (Cont'd)**(d) Selling and distribution expenses**

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

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

Notes:

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

(i) Commentaries on selling and distribution expensesComparison between FYE 2021 and FYE 2020

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

Comparison between FYE 2022 and FYE 2021

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

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12. FINANCIAL INFORMATION (Cont'd)

(e) Administrative expenses

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

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

Notes:

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

(i) Commentaries on administrative expenses

Comparison between FYE 2021 and FYE 2020

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

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

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

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

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

(f) Other operating expenses

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

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

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

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

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

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

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

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

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

(g) Finance costs

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

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

(i) Commentaries on finance costsComparison between FYE 2021 and FYE 2020

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

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

Comparison between FYE 2022 and FYE 2021

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

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

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

(i) Commentaries on PBT, PBT margin, PAT and PAT marginComparison between FYE 2021 and FYE 2020

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

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

Comparison between FYE 2022 and FYE 2021

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

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

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12. FINANCIAL INFORMATION (Cont'd)**(i) Taxation**

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

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

Note:

* *Negligible*

(i) Commentaries on taxation and effective tax rateComparison between FYE 2021 and FYE 2020

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

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

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

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

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

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

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

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

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

(j) Review of financial position**(i) Assets**

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	28,994	27,954	43,549
Intangible asset	-	-	190
Other investment	385	-	-
Deferred tax assets	95	219	136
Total non-current assets	29,474	28,173	43,875
Current assets			
Inventories	20,978	25,239	23,744
Current tax assets	142	604	699
Trade and other receivables	24,727	19,136	26,264
Contract assets	292	48	27
Cash and bank balances	5,185	4,217	5,056
Total current assets	51,324	49,244	55,790
TOTAL ASSETS	80,798	77,417	99,665

Comparison between FYE 2021 and FYE 2020

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

12. FINANCIAL INFORMATION (Cont'd)

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

- (aa) decrease in property, plant and equipment by RM1.04 million or 3.59% to RM27.95 million in FYE 2021 (FYE 2020: RM28.99 million) mainly due to the following:
- depreciation charges amounting to RM2.50 million in FYE 2021; and
 - increase in property, plant and equipment written off by RM0.18 million mainly pertaining to the Smart Colour POS Tinting Machines.

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

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

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

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

Comparison between FYE 2022 and FYE 2021

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

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

(ii) Liabilities

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

Comparison between FYE 2021 and FYE 2020

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

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

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

Comparison between FYE 2022 and FYE 2021

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

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

12. FINANCIAL INFORMATION (Cont'd)

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

12.4 LIQUIDITY AND CAPITAL RESOURCES**12.4.1 Working capital**

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

Based on our audited statement of financial position as at FYE 31 December 2022, our Group has cash and cash equivalents of RM5.06 million and total borrowings of RM15.75 million. As at 31 December 2022, our Group's gearing ratio was 0.26 times and current ratio was 2.06 times.

As at the LPD, our Group has banking facilities available amounting to RM70.78 million, of which approximately RM32.61 million has been utilised/ drawn down for our working capital, purchase of Johor Factory 3 and construction.

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

12.4.2 Cash flow summary

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

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

12. FINANCIAL INFORMATION (Cont'd)

Details of the cash and cash equivalents are as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Cash and bank balances	5,185	4,217	5,056
Less:			
Bank overdrafts	(9,479)	-	-
Cash and cash equivalents at end of financial year	(4,294)	4,217	5,056

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

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

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

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

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

Net cash used in investing activities

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

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

12. FINANCIAL INFORMATION (Cont'd)

Net cash used in financing activities

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

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

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

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

(b) FYE 2021

Net cash from operating activities

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

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

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

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

Net cash used in investing activities

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

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

12. FINANCIAL INFORMATION (Cont'd)

Net cash used in financing activities

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

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

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

(c) FYE 2022

Net cash from operating activities

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

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

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

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

Net cash used in investing activities

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

Net cash from financing activities

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

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

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

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12. FINANCIAL INFORMATION (Cont'd)

12.4.3 Loans and borrowings

The table below sets out the details of our Group's bank borrowings and hire purchase payables as at 31 December 2022.

	Purpose	Tenure of the facility	Interest rate per annum	Facility limit	Audited FYE 2022		
					Payable within 12 months	Payable after 12 months	Total amount outstanding
					%	RM'000	RM'000
Term loans	To part finance the purchase of Johor Factory 2	15 years	Base Lending Rate – 2.10%	3,109	306	2,675	2,981
	To part finance the purchase of Johor Factory 1	20 years	Base Financing Rate – 2.40%	2,859	123	2,470	2,593
	To part finance the purchase of Johor Factory 3	20 years	Base Lending Rate – 2.40%	6,480	224	6,232	6,456
	Working capital	5 years	3.50%	770	197	493	690
					850	11,870	12,720
Hire purchase payables	To part finance the purchase of motor vehicles	4 years	4.10%	200	51	53	104
		9 years	4.55%	100	10	-	10
					61	53	114
Bankers' acceptance	Working capital	Up to 120 days	Cost Of Funds + 1.00% to 1.50%	12,000	2,702	-	2,702
					2,702	-	2,702
Total					3,613	11,923	15,536
Gearing ratio (times)⁽¹⁾							0.26

Note:

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

All our borrowings are interest bearing and denominated in RM.

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

12.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

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

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

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

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

12.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITIES

12.6.1 Material capital commitments

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

	RM'000
Authorised and contracted for:	
(a) Construction of Perak Plant	8,332 ⁽¹⁾
(b) Painting Works on Perak Plant	1,079 ⁽²⁾
(c) Purchase and commissioning of automated paint production system in Perak Plant	6,975 ⁽³⁾
(d) Purchase and commissioning of equipment in Perak Plant	551 ⁽⁴⁾
(e) Implementation of Industry 4.0 System	231 ⁽⁵⁾
Total material capital commitments	17,168

12. FINANCIAL INFORMATION (Cont'd)

Notes:

- (1) *The total estimated construction cost of our Perak Plant is approximately RM28.20 million. As at the LPD, the progress billing amounting to approximately RM19.87 million (excluding variation order) has been billed.*
- (2) *The total estimated cost for Painting Works on our Perak Plant is approximately RM1.51 million. As at the LPD, the progress billing amounting to approximately RM0.43 million has been billed.*
- (3) *The total estimated cost for the purchase and commissioning of automated paint production system in our Perak Plant is USD3.10 million. As at the LPD, a total sum of USD1.55 million has been paid using internally generated funds and bank borrowings. The remaining sum of USD1.55 million, equivalent to approximately RM6.98 million (based on BNM exchange rate as at LPD) will be paid via the draw down of the banking facility.*
- (4) *Mainly for the purchase of air compressor comprising 1 unit of air receiver tank and 1 unit of air dryer, and installation of industrial waste water treatment system in our Perak Plant.*
- (5) *The total estimated cost for the implementation of Industry 4.0 System is approximately RM0.45 million. As at the LPD, a total sum of RM0.22 million has been billed.*

12.6.2 Material litigation

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

12.6.3 Contingent liabilities

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

12.7 KEY FINANCIAL RATIOS

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

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

Notes:

- (1) *Based on the average trade receivables of the respective financial years over total revenue of the respective financial years, and multiplied by 365 days.*
- (2) *Based on the average trade payables of the respective financial years over total purchases of the respective financial years, and multiplied by 365 days.*
- (3) *Based on the average inventory of the respective financial years over total cost of sales of the respective financial years, and multiplied by 365 days.*

12. FINANCIAL INFORMATION (Cont'd)

(4) Based on current assets over current liabilities.

(5) Based on total borrowings (excluding lease liabilities) divided by total equity.

12.7.1 Trade receivables turnover period

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

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

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

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

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

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

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

	Within normal credit period	Exceeding credit period				Total
		1-60 days	61-120 days	121-150 days	> 150 days	
Trade receivables (RM'000)	19,794	1,628	1,357	469	1,999	25,247
Percentage of total trade receivables (%)	78.40	6.45	5.37	1.86	7.92	100.00
Subsequent collections up to the LPD (RM'000)	18,925	1,582	595	95	1,097	22,294
Trade receivables net of subsequent collections (RM'000)	869	46	762	374	902	2,953
Percentage of total trade receivables (net of subsequent collections) (%)	29.43	1.56	25.82	12.66	30.55	100.00

As at 31 December 2022, our total trade receivables stood at approximately RM25.25 million, with approximately RM5.45 million or 21.60% of our trade receivables exceeding the normal credit period.

12. FINANCIAL INFORMATION (Cont'd)

As at the LPD, the net trade receivables were mainly due to an amount owing that is past due for more than 150 days totalling to RM1.08 million by one of our customers, Paints Depot. Our subsidiary, Smart Paint Manufacturing has entered into a settlement agreement with Paints Depot on 28 December 2022 in respect of the set off of debt owed by Paints Depot to Smart Paint Manufacturing. The debt owed will be set off by the provision of Painting Works done by Paints Depot on our Perak Plant. As at the LPD, the Painting Works is pending completion and is estimated to be completed by November 2023.

As at the LPD, a total of RM22.29 million was collected which represent 88.30% of the amount outstanding as at 31 December 2022. The remaining balance of RM2.95 million or 11.70% of our trade receivables have yet to be collected as at LPD. Our Group has not encountered any major disputes with our trade receivables and majority of the trade receivables as at 31 December 2022 were within the normal credit period. Hence, our Board is of the opinion that the remaining outstanding trade receivables are recoverable and will monitor closely the recoverability of the said receivables on a regular basis, and when required, provide for impairment of these receivables.

12.7.2 Trade payables turnover period

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

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

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

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

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

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

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12. FINANCIAL INFORMATION (Cont'd)

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

	Within normal credit period	Exceeding credit period				Total
		1-60 days	61-120 days	121-150 days	> 150 days	
Trade payables (RM'000)	8,092	1,692	-	-	-	9,784
Percentage of total trade payables (%)	82.71	17.29	-	-	-	100.00
Subsequent payments up to the LPD (RM'000)	8,092	1,692	-	-	-	9,784
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-	-
Percentage of total trade payables (net of subsequent payments) (%)	-	-	-	-	-	-

As at 31 December 2022, our total trade payables stood at RM9.78 million, with nil trade payables exceeding the normal credit period.

As at the LPD, a total of RM9.78 million has been paid by our Group, which represent 100.00% from the amount outstanding as at 31 December 2022.

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

12.7.3 Inventory turnover period

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

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

Our inventories mainly comprise the following:

- raw materials such as binder, pigment, additive, solvent, extender and colour paste;
- packaging materials;
- finished goods; and
- trading products.

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

12. FINANCIAL INFORMATION (Cont'd)

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

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

12.7.4 Current ratio

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

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

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

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

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

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

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

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

12. FINANCIAL INFORMATION (Cont'd)

- (d) increase in other payables of approximately RM4.69 million mainly due to the progress billing in relation to the construction of Perak Plant in FYE 2022.

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

12.7.5 Gearing ratio

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

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

Our gearing ratio ranges from 0.14 times to 0.41 times from FYE 2020 to FYE 2022.

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

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

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12. FINANCIAL INFORMATION (Cont'd)

12.8 SIGNIFICANT FACTORS AFFECTING OUR REVENUE

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

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

Our products are primarily distributed to our network of wholesalers, dealers and authorised distributors for onward sale to retail end-users. This is evidenced by the revenue contribution from our wholesalers, dealers and authorised distributors which accounted for 95.06%, 96.84% and 98.53% of our total revenue for the Financial Years Under Review, respectively. As at the LPD, our Group has a total of 8 wholesalers and 747 dealers across Malaysia, and 12 authorised distributors overseas.

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

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

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

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

12.9 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance from FYE 2020 to FYE 2022 except for the MCO imposed as detailed in Section 7.5 of this Prospectus.

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

12. FINANCIAL INFORMATION (Cont'd)

12.10 IMPACT OF INFLATION

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

12.11 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES

12.11.1 Impact of foreign exchange rate

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

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

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

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

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

	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Sales denominated in:						
RM	65,891	92.03	75,474	94.62	74,359	93.87
USD	4,279	5.97	2,574	3.23	2,584	3.26
SGD	1,429	2.00	1,718	2.15	2,275	2.87
Total	71,599	100.00	79,766	100.00	79,218	100.00
Purchases denominated in:						
RM	34,615	75.49	37,081	79.08	32,610	72.24
USD	10,922	23.82	9,618	20.51	12,172	26.97
SGD	314	0.69	193	0.41	358	0.79
Total	45,851	100.00	46,892	100.00	45,140	100.00

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

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

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

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

Note:

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

Our interest coverage ratio of between 17.38 times and 27.54 times for the Financial Years Under Review indicates that our Group has been able to generate sufficient EBIT to meet our interest serving obligations.

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

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

12.11.3 Impact of commodity prices

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

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

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

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

12.12 ORDER BOOK

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

12. FINANCIAL INFORMATION (Cont'd)

12.13 TREND INFORMATION

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

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

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

12.14 DIVIDEND POLICY

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

- (a) The availability of adequate reserves and cash flows;
- (b) Our operating cash flow requirements and financial commitments;
- (c) Our anticipated future operating conditions, as well as future expansion, capital expenditure and investment plans;
- (d) Any material impact of tax laws and other regulatory requirements;
- (e) The prior consent from our banking institutions, if any; and

12. FINANCIAL INFORMATION (Cont'd)

- (f) Compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies.

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

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

Notes:

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

Subsequent to the FYE 2022 and up to the LPD, there are no dividend declared, made or paid by our Group to our shareholders. Our Group has no intention to declare any dividends prior to our Listing.

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

12.15 CAPITAL INVESTMENTS AND DIVESTITURES

- (a) Capital investments

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

Description	FYE 2020	FYE 2021	FYE 2022	1 January 2023 up to the LPD
	RM'000	RM'000	RM'000	RM'000
Freehold lands	-	-	4,536	18
Buildings	-	-	3,023	-
Computers and software	199	147	86	38
Furniture and fittings	38	28	102	43
Office equipment	24	25	11	15
Plant and machinery	1,290	1,042	1,289	53
Motor vehicles	341	274	-	371
Renovation	239	49	330	61
Capital work-in-progress	1,425	69	8,735	13,621
Total	3,556	1,634	18,112	14,220

12. FINANCIAL INFORMATION (Cont'd)

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

- (i) For FYE 2020, our capital investments of RM3.56 million mainly comprise of the following:
- (aa) purchase of 67 units of Smart Colour POS Tinting Machines;
 - (bb) purchase of 1 unit of milling machine; and
 - (cc) downpayment for the purchase and commissioning of automated paint production system in Perak Plant.
- (ii) For FYE 2021, our capital investments of RM1.63 million mainly comprise of the following:
- (aa) purchase of machineries required to set up the testing module for the automated paint production system; and
 - (bb) purchase of 21 units of Smart Colour POS Tinting Machine.
- (iii) For FYE 2022, our capital investments of RM18.11 million mainly comprise of the following:
- (aa) purchase of 87 units of Smart Colour POS Tinting Machine;
 - (bb) purchase of freehold land and buildings in relation to Johor Factory 3; and
 - (cc) cost incurred for the construction of Perak Plant.
- (iv) As at the LPD, our capital investments of RM14.22 million mainly comprise cost incurred for the construction of Perak Plant.

(b) Capital divestitures

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

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

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

- (i) For FYE 2020, our capital divestitures of RM0.06 million was mainly from the disposal of 2 units of motor vehicle.
- (ii) For FYE 2021, our capital divestitures of RM0.04 million was mainly from the disposal of 2 units of motor vehicle.

12. FINANCIAL INFORMATION (Cont'd)

- (iii) For FYE 2022, our capital divestitures of RM0.17 million was mainly from the disposal of 17 units of our Smart Colour POS Tinting Machine mainly to our authorised distributor in Cambodia, namely Kung Huy Construction Material Supply Co. Ltd. The disposal to our authorised distributor is due to them being located overseas and we do not collect maintenance fee from them.

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