Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA)
Chartered Accountants (AF 0117)
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24 August 2023

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

Dear Sirs,

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

Opinion

We have audited the accompanying combined financial statements of the Company and its combining entities as defined in Note 2 to the combined financial statements (collectively known as the "Group"), which comprise of the combined statements of financial position as at 31 December 2020, 31 December 2021 and 31 December 2022 of the Group, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022, and notes to the combined financial statements, including a summary of significant accounting policies, as set out on pages 7 to 97.

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

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Responsibilities of the Directors for the Combined Financial Statements

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

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

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

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

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)

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

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

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

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

SMART ASIA CHEMICAL BHD
(Incorporated in Malaysia)

Other Matter

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

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

Paul Tan Hong
No. 03459/11/2023 J
Chartered Accountant

Kuala Lumpur

Date: 24 August 2023

SMART ASIA CHEMICAL BHD
Accountants' Report

STATEMENT BY DIRECTORS

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

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

....
GOH CHYE HIN
Director

....
KEE HUI LANG
Director

Kuala Lumpur

Date: 24 AUG 2023

SMART ASIA CHEMICAL BHD
Accountants' Report

STATUTORY DECLARATION

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

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

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on

24 AUG 2023

Before me,

PESURUHJAYA SUMPAH
W 761
HADINUR MOHD SYARIF
16.01.2022 - 31.12.2024
MALAYSIA

....
Commissioner for Oaths

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

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SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2020 RM'000	2021 RM'000	2022 RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	5	28,994	27,954	43,549
Intangible asset	6	-	-	190
Other investment	7	385	-	-
Deferred tax assets	8	95	219	136
Total non-current assets		**29,474**	**28,173**	**43,875**
Current assets				
Inventories	9	20,978	25,239	23,744
Current tax assets		142	604	699
Trade and other receivables	10	24,727	19,136	26,264
Contract assets	11	292	48	27
Cash and bank balances	12	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	13	51,875	51,875	51,800
Reorganisation reserve	14	(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**

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Note	As at 31 December 2020 RM'000	2021 RM'000	2022 RM'000
Non-current liabilities				
Loans and borrowings	**15**	7,444	6,610	12,013
Deferred income	**16**	-	-	143
Deferred tax liabilities	**8**	285	330	410
Total non-current liabilities		**7,729**	**6,940**	**12,566**
Current liabilities				
Loans and borrowings	**15**	10,759	1,035	3,736
Current tax liabilities		308	598	317
Trade and other payables	**17**	16,390	14,997	21,365
Contract liabilities	**11**	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**

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

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		← FYE 31 December		→
		2020	**2021**	**2022**
	Note	**RM'000**	**RM'000**	**RM'000**
Revenue	**18**	71,599	79,766	79,218
Cost of sales		(48,812)	(53,048)	(55,683)
Gross profit		**22,787**	**26,718**	**23,535**
Other income	**19**	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	**20**	*	*	-
Finance costs	**21**	(574)	(525)	(520)
Profit before tax	**22**	**9,401**	**13,931**	**11,204**
Income tax expense	**24**	(1,959)	(3,241)	(2,590)
Profit for the financial year, representing total comprehensive income for the financial year		**7,442**	**10,690**	**8,614**
Profit/(loss) attributable to:				
Owners of the 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 the Group		7,489	10,680	8,665
Non-controlling interest		(47)	10	(51)
		7,442	**10,690**	**8,614**
Earning per share (RM)				
- Basic and diluted	**25**	0.14	0.21	0.17

* *Less than 1,000*

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

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY

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

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

		Attributable to owners of the Group					
	Note	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
At 1 January 2021		**51,875**	**(25,783)**	**15,484**	**41,576**	**(63)**	**41,513**
Total comprehensive income for the financial year							
Profit for the financial year, representing total comprehensive income for the financial year		-	-	10,680	10,680	10	10,690
Transactions with owners							
Dividend paid on shares	26	-	-	(650)	(650)	-	(650)
At 31 December 2021		**51,875**	**(25,783)**	**25,514**	**51,606**	**(53)**	**51,553**

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Note	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
		← Attributable to owners of the Group →					
At 1 January 2022		**51,875**	**(25,783)**	**25,514**	**51,606**	**(53)**	**51,553**
Total comprehensive income/(loss) for the financial year							
Profit for the financial year, representing total comprehensive income/(loss) for the financial year		-	-	8,665	8,665	(51)	8,614
Transactions with owners							
Adjustment pursuant to merger accounting	1(a)	(75)	-	-	(75)	-	(75)
Combining entity issue of ordinary shares		-	-	-	-	225	225
Dividend paid on shares	26	-	-	(351)	(351)	-	(351)
Total transactions with owners		(75)	-	(351)	(426)	225	(201)
At 31 December 2022		**51,800**	**(25,783)**	**33,828**	**59,845**	**121**	**59,966**

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

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

	Note	FYE 31 December 2020 RM'000	2021 RM'000	2022 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**
Changes in working capital:				
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**

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	Note	FYE 31 December 2020 RM'000	2021 RM'000	2022 RM'000
Cash flows from investing activities				
Purchase of property, plant and equipment	(a)	(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)**
Cash flows from financing activities	(b)			
Proceeds from issuance of combining entity's shares		-	-	225
Drawdown of term loans		1,000	-	-
Repayment of term loans		(103)	(570)	(668)
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	12	**(4,294)**	**4,217**	**5,056**

* *Less than 1,000*

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

(a) Purchase of property, plant and equipment:

	Note	FYE 31 December 2020 RM'000	2021 RM'000	2022 RM'000
Purchase of property, plant and equipment	5	6,663	1,634	18,364
Financed by term loan arrangements		-	-	(6,480)
Financed by way of lease arrangements		(1,147)	-	(252)
Financed by way of other payable		(200)	-	(6,213)
Cash payments on purchase of property, plant and equipment		5,316	1,634	5,419

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

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

	1.1.2021 RM'000	Cash flows RM'000	Non-cash RM'000	31.12.2021 RM'000
Term loans	7,478	(570)	-	6,908
Lease liabilities	990	(490)	-	500
Hire purchase payables	256	(219)	200	237
Bankers' acceptance	-	-	-	-
Amount owing by a related party	(431)	-	-	(431)
	8,293	(1,279)	200	7,214

SMART ASIA CHEMICAL BHD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

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

	1.1.2022 RM'000	Cash flows RM'000	Non-cash RM'000	31.12.2022 RM'000
Term loans	6,908	(668)	6,480	12,720
Lease liabilities	500	(364)	77	213
Hire purchase payables	237	(123)	-	114
Bankers' acceptance	-	2,702	-	2,702
Amount owing by a related party	(431)	431	-	-
	7,214	1,978	6,557	15,749

(c) Total cash outflows for leases

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

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

SMART ASIA CHEMICAL BHD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

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

The combined financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 August 2023.

(a) Increase in equity interests by Smart Asia

(i) Acquisition of Smart Paints (M)

FYE 31 December 2020

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

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

(ii) Acquisition of Color Breeze

FYE 31 December 2022

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

(b) Non-controlling interest in combining entity

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

Equity interest held by non-controlling interest:

	Ownership interest		
	2020	**2021**	**2022**
Name of company	**(%)**	**(%)**	**(%)**
Color Breeze	25	25	25

Carrying amount of material non-controlling interest:

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

Profit or loss allocated to material non-controlling interest:

	FYE 31 December		
	2020	**2021**	**2022**
Name of company	**RM'000**	**RM'000**	**RM'000**
Color Breeze	(47)	10	(51)

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

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

SMART ASIA CHEMICAL BHD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION

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

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

√ *The combined financial statements of the Group include the financial statements of these combining entities prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and the International Financial Reporting Standards ("IFRSs") for the respective financial years.*

^ *The combined financial statements of the Group for the respective financial years have been prepared based on the audited financial statements which were re-audited by Baker Tilly Monteiro Heng PLT for the purpose of inclusion into the combined financial statements of the Group. The audited financial statements which were lodged with Companies Commission of Malaysia were audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.*

@ *The combined financial statements of the Group for the respective financial year have been prepared based on the audited financial statements which were audited by Baker Tilly Monteiro Heng PLT.*

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

The combined financial statements are prepared under the historical cost convention except otherwise indicated in the summary of significant accounting policies.

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

2.1 Statement of compliance

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

2.2 Changes in accounting policies

The Group has adopted Amendment to MFRS 16 *Leases* which is effective for annual periods beginning on or after 5 June 2020 or/and 6 April 2021.

Amendments to MFRS 16 *Leases*

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective

(a) The Group has not adopted the following new MFRS and amendments/ improvements to MFRSs that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRS		
MFRS 17	Insurance Contracts	1 January 2023
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of MFRSs	1 January 2023#
MFRS 3	Business Combinations	1 January 2023#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2023#
MFRS 7	Financial Instruments: Disclosures	1 January 2023#/ 1 January 2024
MFRS 9	Financial Instruments	1 January 2023#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023#
MFRS 16	Leases	1 January 2024
MFRS 17	Insurance Contracts	1 January 2023
MFRS 101	Presentation of Financial Statements	1 January 2023/ 1 January 2023#/ 1 January 2024
MFRS 107	Statements of Cash Flows	1 January 2023#/ 1 January 2024
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023
MFRS 112	Income Taxes	1 January 2023
MFRS 116	Property, Plant and Equipment	1 January 2023#
MFRS 119	Employee Benefits	1 January 2023#
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023#
MFRS 132	Financial Instruments: Presentation	1 January 2023#
MFRS 136	Impairment of Assets	1 January 2023#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2023#
MFRS 138	Intangible Assets	1 January 2023#
MFRS 140	Investment Property	1 January 2023#

Consequential amendments as a result of MFRS 17 Insurance Contracts

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

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

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

Amendments to MFRS 16 Leases

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

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

Amendments to MFRS 101 Presentation of Financial Statements

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

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

Amendments to MFRS 101 Presentation of Financial Statements (continued)

In other amendments, an entity is required to disclose its material accounting policy information rather than significant accounting policies. The amendments, amongst others, also include examples of circumstances in which an entity is likely to consider an accounting policy information to be material to its financial statements. To support this amendments, MFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy information disclosures. The guidance and examples provided in the MFRS Practice Statement 2 highlight the need to focus on entity-specific information and demonstrate how the four-step materiality process can address standardised (or boilerplate) information and duplication of requirements of MFRSs in the accounting policy information disclosures.

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

Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments revise the definition of accounting estimates to clarify how an entity should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because the changes in accounting estimates are applied prospectively to transactions, other events, or conditions from the date of that change, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to MFRS 112 Income Taxes

The amendments specify how an entity should account for deferred tax on transactions such as leases and decommissioning obligation.

In specified circumstances, MFRS 112 exempts an entity from recognising deferred tax when it recognises assets or liabilities for the first time. There had been some uncertainties about whether the exemption from recognising deferred tax applied to transactions such as leases and decommissioning obligations – transactions for which an entity recognises both an asset and a liability. The amendments clarify that the exemption does not apply and that entity is required to recognise deferred tax on such transactions.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

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

Amendments to MFRS 112 Income Taxes (continued)

In another amendments, it gives entities temporary relief from recognising and disclosing accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's ("OECD") international tax reform; and introduces targeted disclosure requirements to help investors better understand an entity's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

Applying the temporary relief, entities neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. The relief will help to ensure consistency in the financial statements while easing into the implementation of the rules by allowing time for entities to assess how they are affected.

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

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

2.3 Functional and presentation currency

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

2.4 Basis of measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of combination

The combined financial statements comprise the financial statements of the Company and its combining entities. The financial statements of the combining entities used in the preparation of the combined financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(a) Subsidiaries and business combination

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the combined financial statements from the date the Group obtains control of the acquirees until the date the Group losses control of the acquirees.

The Group applies the merger method of accounting.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination (continued)

(a) Subsidiaries and business combination (continued)

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

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination (continued)

(a) Subsidiaries and business combination (continued)

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, a joint venture or a financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Non-controlling interests

Non-controlling interests represent the equity in combining entities not attributable, directly or indirectly, to owners of the Company and are presented separately in the combined statements of financial position within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination (continued)

(c) Transactions eliminated on combination

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the combined financial statements.

3.2 Foreign currency transactions

Translation of foreign currency transactions

Foreign currency transactions are translated to the functional currency of the Group using the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3.3 Financial instruments

Financial instruments are recognised in the combined statements of financial position when, and only when, the Group becomes a party to the contract provisions of the financial instruments.

Except for the trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15 *Revenue from Contracts with Customers*.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract; it is a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured as FVPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

(a) Subsequent measurement

The Group categorises the financial instruments as follows:

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income ("FVOCI") with recycling of cumulative gains and losses upon derecognition
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at FVPL

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group reclassifies financial assets when and only when its business models for managing those assets change.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows: (continued)

(i) Financial assets (continued)

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost**
  Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment is in accordance with Note 3.10(a). Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

- **FVOCI**
  Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. The policy for the recognition and measurement of impairment is in accordance with Note 3.10(a). Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows: (continued)

(i) Financial assets (continued)

Debt instruments (continued)

- **FVPL**
  Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at FVPL are carried in the combined statements of financial position at fair value with net changes in fair value recognised in the profit or loss.

Equity instruments
The Group subsequently measures all equity investments at fair value. Upon initial recognition, the Group can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows: (continued)

(ii) Financial liabilities

The Group classifies its financial liabilities in the following measurement categories:

- Financial liabilities at FVPL
- Financial liabilities at amortised cost

Financial liabilities at FVPL
Financial liabilities at FVPL include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at FVPL are measured at fair value with the gain or loss recognised in profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in MFRS 9 *Financial instruments* are satisfied. The Group has not designated any financial liability as at FVPL.

Financial liabilities at amortised cost
Subsequent to initial recognition, other financial liabilities are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the financial liablities are derecognised and through the amortisation process.

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 *Financial Instruments* and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15 *Revenue from Contracts with Customers*.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets shall be recognised and derecognised as applicable, using trade date accounting (i.e. the date the Group commits itself to purchase or sell an asset).

Trade date accounting refers to:
(i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
(ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when:
(i) the contractual rights to receive cash flows from the financial asset expire; or
(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either
  (a) the Group has transferred substantially all the risks and rewards of the asset; or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(d) Derecognition (continued)

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the combined statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

3.4 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(b).

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.16.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment (continued)

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

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

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

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

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

(d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in profit or loss.

3.5 Leases

(a) Definition of lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(b) Lessee accounting

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

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

Right-of-use asset

The right-of-use asset is initially recognised at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjust for any remeasurement of the lease liabilities. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the Group expects to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts from the commencement date of the underlying asset. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(b).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(b) Lessee accounting (continued)

Lease liability (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administrative expenses" in the combined statements of comprehensive income.

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

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value assets. The Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(c) Lessor accounting

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

When the Group is intermediate lessors, they account for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described in Note 3.5(b), then it classifies the sub-lease as an operating lease.

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statements of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

When a contract includes lease and non-lease components, the Group applies MFRS 15 *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Intangible assets

(a) Patents

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(b) Amortisation

Intangible assets with indefinite useful life are not amortised but are tested for impairment annually and wherenever there is an indication that they may be impaired.

Other intangible assets are amortised from the date they are available for use. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:
- raw materials: purchase costs on a first-in first-out basis.
- finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3.8 Contract assets/(liabilities)

Contract asset is the right to consideration for goods or services transferred to the customers when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a).

Contract liability is the obligation to transfer goods or services to customer for which the Group has received the consideration or has billed the customer.

3.9 Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash in hand and bank balances. Cash and cash equivalents are presented net of bank overdrafts.

3.10 Impairment of assets

(a) Impairment of financial assets and contract assets

Financial assets measured at amortised cost, financial assets measured at FVOCI, lease receivables, contract assets or a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 *Financial Instruments* which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of assets (continued)

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

The Group measures loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:
- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables and contract assets, the Group applies the simplified approach permitted by MFRS 9 *Financial Instruments* to measure the loss allowance at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than the credit term.

The Group considers a financial asset to be in default when:
- the borrower is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
- the contractual payment of the financial asset is more than the credit term unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of assets (continued)

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

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one lor more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of impairment losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss. For financial assets measured at FVOCI, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the combined statements of financial position.

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedure for recovery of amounts due.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of assets (continued)

(b) Impairment of non-financial assets

The carrying amount of non-financial assets (except for inventories, contract assets and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group makes an estimate of the assets' recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset of a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceeds the recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in other comprehensive income. In the latter case, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Invested equity

Ordinary shares

An equity instrument is a contract that evidence a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.12 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

(b) Defined contribution plans

As required by law, the Group contributes to the Employees Provident Fund, the national defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Revenue and other income

The Group recognises revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue recognition of the Group is applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer). For practical expedient, the Group applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if the Group reasonably expects that the effects on the combined financial statements would not differ materially from recognising revenue on the individual contracts (or performance obligations) within that portfolio.

The Group measures revenue from sale of good or services at its transaction price, being the amount of consideration to which the Group expects to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as sales and services tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, the Group estimates it by using the adjusted market assessment approach.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group has assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

Financing components

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Revenue and other income (continued)

(a) Sale of goods

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

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.

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

(b) Rendering of services

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

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

(c) Interest income

Interest income is recognised using the effective interest method.

(d) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Where the grant relates to an asset, it is recognised as deferred income in the statements of financial position and transferred to profit or loss over the expected useful life of the related asset. Where the grant relates to an expense item, it is recognised in profit or loss, under the heading of "other income", on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The benefit derived from a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.16 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The Group begins capitalising borrowing costs when the Group has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the combined statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Income tax (continued)

(b) Deferred tax (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

(c) Sales and services tax

Revenue, expenses and assets are recognised net of the amount of sales and services tax except:

- where the sales and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statements of financial position.

3.18 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.19 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3.21 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:

(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities and assets are not recognised in the combined statements of financial position.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

As disclosed in Note 3.4, the Group reviews the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and therefore, future depreciation charges could be revised.

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

(b) Impairment of financial assets and contract assets

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

(c) Measurement of income taxes

Significant judgement is required in determining the Group's estimation for current and deferred taxes because the ultimate tax liability for the Group as a whole is uncertain. When the final outcome of the tax payable is determined with the tax authorities, the amounts might be different from the initial estimates of the taxes payables. Such differences may impact the current and deferred taxes in the period when such determination is made. The Group will make adjustments for current or deferred taxes in respect of prior years in the current period on those differences arise.

The income tax expense of the Group are disclosed in Note 24.

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

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

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

(e) Impairment of non-financial assets

The Group assesses impairment of non-financial assets whenever the events or changes in circumstances indicate that the carrying amount of an asset may be irrecoverable i.e. the carrying amount of the asset is more than the recoverable amount.

Recoverable amount is measured at the higher of the fair value less cost of disposal for that asset and its value-in-use. The Group uses fair value less cost to sell as the recoverable amount. Fair values are arrived at using comparison method and valuation technique method to suit the assets characteristic of the Group.

The carrying amounts of the non-financial assets are disclosed in Notes 5 and 6.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Assets pledged as security

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

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

(b) Right-of-use assets

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

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

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

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

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

The Group also leases plant and machinery for its operation. The leases for plant and machinery generally have lease term of 3 years.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

6. INTANGIBLE ASSET

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

Amortisation

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

7. OTHER INVESTMENT

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

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

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

Details of the associate is as follows:

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

Disposal of PT Smartindo

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

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax relates to the following:

	As at 1 January 2020 RM'000	Recognised in profit or loss (Note 24) RM'000	As at 31 December 2020 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(267)	(18)	(285)
Deferred tax assets:			
Impairment loss on trade receivables	82	12	94
Lease liabilities	-	1	1
	82	13	95
	(185)	(5)	(190)

	As at 1 January 2021 RM'000	Recognised in profit or loss (Note 24) RM'000	As at 31 December 2021 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(285)	(45)	(330)
Deferred tax assets:			
Property, plant and equipment	-	5	5
Impairment loss on trade receivables	94	57	151
Impairment loss on inventories	-	61	61
Lease liabilities	1	1	2
	95	124	219
	(190)	79	(111)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred tax relates to the following: (continued)

	As at 1 January 2022 RM'000	Recognised in profit or loss (Note 24) RM'000	As at 31 December 2022 RM'000
Deferred tax liabilities:			
Property, plant and equipment	(330)	(80)	(410)
Deferred tax assets:			
Property, plant and equipment	5	(3)	2
Impairment loss on trade receivables	151	(76)	75
Impairment loss on inventories	61	(2)	59
Lease liabilities	2	(2)	*
	219	(83)	136
	(111)	(163)	(274)

* *Less than 1,000*

Unrecognised deferred tax assets

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	As at 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
2028	95	-	-
2029	43	-	-
2030	175	150	150
2032	-	-	192
	313	150	342

9. INVENTORIES

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

(a) The cost of inventories of the Group recognised as an expense in cost of sales during the financial year was RM37,558,811 (2021: RM36,129,064 and 2020: RM34,889,089).

(b) The cost of inventories of the Group recognised as an expense in cost of sales during the financial year in respect of write-down of inventories to net realisable value was RM125,432 (2021: RM252,753 and 2020: RMNil).

(c) During the financial year, the Group reversed the previous inventories written down value of RM82,510 (2021 and 2020: RMNil). The amount of reversal was included in cost of sales.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES

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

(a) Trade receivables

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

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

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

(b) Amount owing by a related party

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

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

11. CONTRACT ASSETS/(LIABILITIES)

	As at 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Contract assets relating to rendering of services	292	48	27
Contract liabilties relating to sales of goods	4,099	2,294	1,715

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

11. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(a) Significant changes in contract balances

	FYE 31 December 2020		FYE 31 December 2021		FYE 31 December 2022	
	Contract assets Increase/ (decrease) RM'000	Contract liabilities Decrease/ (increase) RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities Decrease/ (increase) RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities Decrease/ (increase) RM'000
Revenue recognised that was included in contract liability at the beginning of the financial year	-	3,171	-	2,455	-	1,500
Increase due to invoice billed in advance to customer, but revenue not recognised	-	(1,493)	-	(650)	-	(921)
Increase as a result of changes in the measure of progress	244	-	-	-	27	-
Transfers from contract assets recognised at the beginning of the financial year to receivables	-	-	(244)	-	(48)	-

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

11. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(b) Revenue recognised in relation to contract balances

	FYE 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Revenue recognised that was included in contract liability at the beginning of the financial year	3,171	2,455	1,500

Revenue recognised that was included in the contract liability balance at the beginning of the financial year represented primarily revenue from the sales of goods and rendering of services.

12. CASH AND BANK BALANCES

	As at 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Cash and bank balances	5,185	4,217	5,056

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise of the following:

	As at 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Cash and bank balances	5,185	4,217	5,056
Bank overdrafts	(9,479)	-	-
	(4,294)	4,217	5,056

13. INVESTED EQUITY

	Number of ordinary shares			Amounts		
	2020 Unit'000	**2021 Unit'000**	**2022 Unit'000**	**2020 RM'000**	**2021 RM'000**	**2022 RM'000**
Issued and fully paid-up (no par value):						
At 1 January	52,075	51,875	51,875	52,075	51,875	51,875
Adjustment pursuant to merger accounting	(200)	-	(75)	(200)	-	(75)
At 31 December	51,875	51,875	51,800	51,875	51,875	51,800

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

13. INVESTED EQUITY (CONTINUED)

For the purpose of this report, the invested equity as at 31 December 2020 and 31 December 2021 represent the aggregate number of issued share capital of all combining entities within the Group eliminated against the investment in subsidiaries, the share capital of Smart Paint Manufacturing and Smart Paints (M) had been eliminated against the investment in subsidiaries of Smart Asia. As at 31 December 2022, the invested equity represent the aggregate number of issued share capital of all combining entities within the Group eliminated against the investment in subsidiaries, the share capital of Smart Paint Manufacturing, Smart Paints (M) and Color Breeze had been eliminated against the investment in subsidiaries of Smart Asia.

14. REORGANISATION RESERVE

The reorganisation reserve arose from the differences between the carrying amount of the investment and the nominal value of the share of the subsidiaries upon consolidation using the merger accounting principles.

15. LOANS AND BORROWINGS

		As at 31 December		
	Note	2020 RM'000	2021 RM'000	2022 RM'000
Non-current:				
Term loans	(a)	6,865	6,334	11,870
Lease liabilities	(b)	500	159	90
Hire purchase payables	(c)	79	117	53
		7,444	6,610	12,013
Current:				
Term loans	(a)	613	574	850
Lease liabilities	(b)	490	341	123
Hire purchase payables	(c)	177	120	61
Bankers' acceptance	(d)	-	-	2,702
Bank overdrafts	(e)	9,479	-	-
		10,759	1,035	3,736
Total loans and borrowings				
Term loans	(a)	7,478	6,908	12,720
Lease liabilities	(b)	990	500	213
Hire purchase payables	(c)	256	237	114
Bankers' acceptance	(d)	-	-	2,702
Bank overdrafts	(e)	9,479	-	-
		18,203	7,645	15,749

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(a) Term loans

Term loan 1 of the Group of RM2,981,220 (2021: RM3,295,553 and 2020: RM3,618,004) bears interest at Base Lending Rate ("BLR") minus 2.10% per annum and is repayable by monthly instalments of RM36,169 over 180 months commencing from the day of first drawdown and is secured and supported as follows:
(i) Legal charge over freehold land and building of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

Term loan 2 of the Group of RM2,592,904 (2021: RM2,732,018, 2020: RM2,859,437) bears interest at Base Financing Rate ("BFR") minus 2.40% per annum and is repayable by monthly instalments of RM19,159 over 240 months commencing from the day of first drawdown and is secured and supported as follows:
(i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

Term loan 3 of the Group of RM689,881 (2021: RM880,412 and 2020: RM1,000,000) bears interest at Base Negara Malaysia Funding Rate under special relief facility of 3.50% per annum and is repayable by monthly instalments of RM18,192 over 60 months commencing from the day of first drawdown and is secured and supported as follows:
(i) Joint and several guarantee by certain directors of the Group; and
(ii) Corporate guarantee by a third party under the special relief facility scheme for 80% of the principal and interest outstanding.

Term loan 4 of the Group of RM6,455,734 (2021 and 2020: RMNil) bears interest at BLR minus 2.40% per annum and is repayable by monthly instalments of RM36,170 over 240 months commencing from the day of first drawdown and is secured and supported as follows:
(i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(b) Lease liabilities

Future minimum lease payments together with the present value of net minimum lease payments are as follows:

	As at 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Minimum lease payments:			
- Not later than one year	518	351	131
- Later than one year and not later than five years	514	163	92
	1,032	514	223
Less: Future finance charges	(42)	(14)	(10)
Present value of minimum lease payments	990	500	213
Present value of minimum lease payments:			
- Not later than one year	490	341	123
- Later than one year and not later than five years	500	159	90
	990	500	213
Less: Amount due within twelve months	(490)	(341)	(123)
Amount due after twelve months	500	159	90

(c) Hire purchase payables

Hire purchase payables of the Group of RM113,943 (2021: RM236,764 and 2020: RM256,512) bear interest ranging from 4.10% to 6.64% (2021 and 2020: 3.60% to 6.64%) per annum and are secured by the Group's motor vehicles under hire purchase arrangements as disclosed in Note 5(a).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(d) Bankers' acceptance

Bankers' acceptance bears effective interests at rates ranging from 4.22% to 5.19% (31.12.2021 and 31.12.2020: Nil%) per annum and is secured and supported as follows:
(i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

(e) Bank overdrafts

Bank overdraft 1 of the Group of RMNil (2021: RMNil and 2020: RM1,918,256) bears interest at BLR minus 1.00% per annum and is secured and supported as follows:
(i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

Bank overdraft 2 of the Group of RMNil (2021: RMNil and 2020: RM2,703,537) bears interest at BLR add 0.50% per annum and is secured and supported as follows:
(i) Legal charge over certain directors' properties; and
(ii) Joint and several guarantee by certain directors of the Group.

Bank overdraft 3 of the Group of RMNil (2021: RMNil and 2020: RM4,856,637) bears interest at BFR add 0.30% per annum and is secured and supported as follows:
(i) Legal charge over freehold lands and buildings of the Group as disclosed in Note 5; and
(ii) Joint and several guarantee by certain directors of the Group.

16. DEFERRED INCOME

	Note	2020 RM'000	2021 RM'000	2022 RM'000
Non-current				
Governtment grants				
At 1 January		-	-	-
Received during the financial year	(a)	-	-	143
At 31 December		-	-	143

(a) Government grants relates to assets

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

17. TRADE AND OTHER PAYABLES

		As at 31 December		
	Note	2020 RM'000	2021 RM'000	2022 RM'000
Trade				
Trade payables	(a)			
- Third parties		7,380	7,468	9,624
- Related parties		224	557	97
Accruals		442	85	63
		8,046	8,110	9,784
Non-trade				
Other payables		3,813	2,408	8,283
Accruals		4,373	4,275	3,172
Deposits		158	204	126
		8,344	6,887	11,581
Total trade and other payables		16,390	14,997	21,365

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 30 to 90 days (2021 and 2020: 30 to 90 days).

For explanations on the Group's liquidity risk management processes, refer to Note 27(b)(ii).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

18. REVENUE

	FYE 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Revenue from contract with customers:			
Over time			
Rendering of services	933	58	160
At a point in time			
Sale of goods	70,666	79,708	79,058
	71,599	79,766	79,218

19. OTHER INCOME

	FYE 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Gain on disposal of property, plant and equipment	57	40	55
Management fee	36	12	1
Net realised foreign exchange gain	-	128	-
Net unrealised foreign exchange gain	-	23	83
Reversal of impairment loss on trade receivables	-	34	334
Gain on lease modification	2	-	6
Rental income	3	3	4
Government subsidy	389	206	230
Miscellaneous	27	2	36
	514	448	749

20. FINANCE INCOME

	FYE 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Interest income	*	*	-

* *Less than 1,000*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

21. FINANCE COSTS

	FYE 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Interest expense on:			
- Term loans	229	258	355
- Lease liabilities	17	27	12
- Hire purchase	13	19	12
- Bankers' acceptance	58	10	82
- Bank overdrafts	256	211	59
- Advances from a related party	1	-	-
	574	525	520

22. PROFIT BEFORE TAX

Other than disclosed elsewhere in the combined financial statements, the following items have been (credited)/charged in arriving at profit before tax:

		FYE 31 December		
	Note	2020 RM'000	2021 RM'000	2022 RM'000
Auditors' remuneration:				
- current year		70	79	105
- prior year		(*)	-	(4)
Depreciation of property, plant and equipment	**5**	2,166	2,496	2,482
Property, plant and equipment written off		3	178	-
Amortisation of intangible asset	**6**	-	-	10
Inventories written down		-	253	125
Reversal of inventories written down		-	-	(83)
Impairment loss on trade receivables	**10**	48	175	14
Bad debts written off		24	27	259
Rental expense on:				
- premises		80	81	37
- office equipment		96	106	110
Loss on disposal of other investment	**7**	-	355	-
Net realised foreign exchange loss		40	-	118
Net unrealised foreign exchange loss		22	-	-
Employee benefits expense	**23**	8,857	10,000	9,978

* *Less than 1,000*

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

23. EMPLOYEE BENEFITS EXPENSE

	FYE 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Salaries, wages, allowances and bonuses	7,351	8,359	8,393
Defined contribution plans	813	901	915
Other staff related benefits	693	740	670
	8,857	10,000	9,978
Included in employee benefits expense are:			
- Directors' remuneration	629	628	643
- Directors' defined contribution plans	77	77	75
- Directors' other emoluments	4	4	4
	710	709	722

24. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022 are as follows:

	FYE 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Combined statement of comprehensive income			
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 (Note 8):			
- Origination/(Reversal) of temporary differences	39	(147)	168
- Adjustment in respect of prior year	(34)	68	(5)
	5	(79)	163
Income tax expense recognised in profit or loss	1,959	3,241	2,590

* *Less than 1,000*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

24. INCOME TAX EXPENSE (CONTINUED)

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% of the estimated assessable profit for the financial years.

The income tax rate applicable to small and medium scale enterprise ("SME") incorporated in Malaysia with paid-up capital of RM2,500,000 and below and annual sales less than RM50,000,000 (2021 and 2020: RM50,000,000) is subject to the statutory income tax rate of 17% (2021 and 2020: 17%) on chargeable income up to RM600,000 (2021 and 2020: RM600,000). For chargeable income excess of RM600,000 (2021 and 2020: RM600,000), statutory income tax rate of 24% (2021 and 2020: 24%) is still applicable.

The reconciliations from the tax amount at the statutory income tax rate to the Group's tax expense are as follows:

	FYE 31 December		
	2020	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**
Profit before tax	9,401	13,931	11,204
Tax at Malaysian statutory income tax rate of 24%	2,256	3,343	2,689
SME tax savings	(84)	(61)	(68)
Adjustments:			
- Income not subject to tax	(275)	(125)	(93)
- Reinvestment allowance	(112)	(128)	(114)
- Non-deductible expenses	216	214	135
- Deferred tax not recognised on tax losses and temporary differences	42	-	46
- Adjustment in respect of current income tax of prior year	(26)	*	-
- Utilisation of previously unrecognised tax losses and capital allowances	(24)	(70)	-
- Adjustment in respect of deferred tax of prior year	(34)	68	(5)
Income tax expense	1,959	3,241	2,590

* *Less than 1,000*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. EARNINGS PER SHARE

Basic earnings per ordinary share and diluted earnings per ordinary share

Basic earnings per ordinary share are based on the profit for the financial years attributable to owner of the Group and the weighted average number of ordinary shares outstanding during the financial years.

Diluted earnings per ordinary share are based on the profit for the financial years attributable to owner of the Group and the weighted average number of ordinary shares outstanding during the financial years plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The basic and diluted earnings per ordinary share are computed as follow:

	FYE 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Profit attributable to owners of the Group	7,489	10,680	8,665
Weighted average number of ordinary shares for basic and diluted earnings per share^	51,875	51,875	51,800
Basic and diluted earnings per share (RM)	0.14	0.21	0.17

^ *For the purpose of this report, the weighted average number of ordinary shares is the invested equity of the Group.*

26. DIVIDENDS

	FYE 31 December		
	2020 RM'000	**2021 RM'000**	**2022 RM'000**
Recognised during the financial year:			
Dividends on ordinary shares:			
- Single-tier interim dividend for the FYE 31 December 2021: RM0.54 per ordinary share, paid on 26 January 2022	-	-	351
- Single-tier interim dividend for the FYE 31 December 2021: RM1.00 per ordinary share, paid on 21 December 2021	-	650	-
	-	650	351

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned:

	Carrying amount RM'000	Amortised cost RM'000
At 31 December 2020		
Financial assets		
Other investment	385	385
Trade and other receivables, less prepayments	24,640	24,640
Cash and bank balances	5,185	5,185
	30,210	30,210
Financial liabilities		
Loans and borrowings	(18,203)	(18,203)
Trade and other payables	(16,390)	(16,390)
	(34,593)	(34,593)
At 31 December 2021		
Financial assets		
Trade and other receivables, less prepayments	19,042	19,042
Cash and bank balances	4,217	4,217
	23,259	23,259
Financial liabilities		
Loans and borrowings	(7,645)	(7,645)
Trade and other payables	(14,997)	(14,997)
	(22,642)	(22,642)
At 31 December 2022		
Financial assets		
Trade and other receivables, less prepayments	25,494	25,494
Cash and bank balances	5,056	5,056
	30,550	30,550
Financial liabilities		
Loans and borrowings	(15,749)	(15,749)
Trade and other payables	(21,365)	(21,365)
	(37,114)	(37,114)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders. The Group does not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management.

(i) Credit risk

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

Trade receivables and contract assets

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables and contract assets are represented by their carrying amounts in the combined statements of financial position.

The carrying amount of trade receivables and contract assets are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile
At the end of the reporting period, the Group does not have any significant exposure to its individual customer.

The Group applies the simplified approach to provide for impairment losses prescribed by MFRS 9 *Financial Instruments*, which permits the use of the lifetime expected losses provision for all trade receivables and contract assets. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impairment losses also incorporate forward looking information.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows:

		Trade receivables								
	Contract assets	**Current**	**1 to 30 days past due**	**31 to 60 days past due**	**61 to 90 days past due**	**91 to 120 days past due**	**121 to 150 days past due**	**151 to 180 days past due**	**> 180 days past due**	**Total**
At 31 December 2020										
Expected credit loss rate	0.0%	0.0%	0.0%	0.1%	0.3%	0.9%	2.1%	2.4%	9.5%	2.0%
Gross carrying amount at default (RM'000)	292	14,033	3,232	1,103	378	117	94	165	4,973	24,095
Impairment losses (RM'000)	-	4	1	1	1	1	2	4	470	484

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows: (continued)

		Trade receivables								
	Contract assets	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	Total
At 31 December 2021										
Expected credit loss rate	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	3.8%	0.2%	19.2%	3.4%
Gross carrying amount at default (RM'000)	48	10,751	3,049	832	169	128	198	50	3,189	18,366
Impairment losses (RM'000)	-	2	1	1	*	1	7	*	613	625

* *Less than 1,000*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using provision matrix are as follows: (continued)

		Trade receivables								
	Contract assets	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	151 to 180 days past due	> 180 days past due	Total
At 31 December 2022										
Expected credit loss rate	0.0%	0.0%	0.1%	60.0%	0.4%	1.1%	3.7%	13.4%	11.5%	1.2%
Gross carrying amount at default (RM'000)	27	19,803	1,172	460	770	596	487	238	2,026	25,552
Impairment losses (RM'000)	-	8	1	3	3	6	18	32	234	305

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables and other financial assets

For other receivables and other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other financial assets is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than the credit term in making a contractual payment.

Intercompany loans between related entities are repayable on demand. For loans that are repayable on demand, impairment losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the debtor does not have sufficient highly liquid resources when the loan is demanded, the Group will consider the expected manner of recovery and recovery period of the intercompany loan.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables and other financial assets (continued)

As at the end of the reporting date, the Group considers the other receivables and other financial assets as low credit risk and any loss allowance would be negligible. Refer to Note 3.10(a) for the Group's other accounting policies for impairment of financial assets.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arise primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arise principally from trade and other payables and loans and borrowings.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group uses a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost on borrowed funds. The Group's finance department also ensure that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis

The maturity analysis of the Group 's financial liabilities by its relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows:

		← Contractual cash flows →			
	Carrying amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2020					
Trade and other payables	16,390	16,390	-	-	16,390
Term loans	7,478	828	4,284	3,980	9,092
Lease liabilities	990	518	514	-	1,032
Hire purchase payables	256	192	88	-	280
Bank overdrafts	9,479	9,479	-	-	9,479
	34,593	27,407	4,886	3,980	36,273

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

Maturity analysis (continued)
The maturity analysis of the Group 's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows: (continued)

		← Contractual cash flows			→
	Carrying amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2021					
Trade and other payables	14,997	14,997	-	-	14,997
Term loans	6,908	882	4,066	3,316	8,264
Lease liabilities	500	351	163	-	514
Hire purchase payables	237	130	125	-	255
	22,642	16,360	4,354	3,316	24,030
At 31 December 2022					
Trade and other payables	21,365	21,365	-	-	21,365
Term loans	12,720	1,364	5,098	10,706	17,168
Lease liabilities	213	131	92	-	223
Hire purchase payables	114	68	53	-	121
Bankers' acceptance	2,702	2,702	-	-	2,702
	37,114	25,630	5,243	10,706	41,579

(iii) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when sales and purchases that are denominated in a foreign currency).

The foreign currencies in which these transactions are denominated are United States Dollar ("USD"), Singapore Dollar ("SGD") and Chinese Renminbi ("RMB").

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Foreign currency risk (continued)

The Group's unhedged financial assets and liabilities that are not denominated in its functional currencies are as follows:

	As at 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Trade receivables			
USD	1,482	693	1,586
SGD	466	499	797
	1,948	1,192	2,383
Bank balances			
USD	98	396	177
Trade payables			
USD	1,733	761	1,815
SGD	420	274	33
RMB	-	43	-
	2,153	1,078	1,848

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Foreign currency risk (continued)

Sensitivity analysis for foreign currency risk
The Group's principal foreign currency exposure mainly relates to USD, SGD and RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, SGD and RMB, with all other variables held constant on the Group's total equity and profit for the financial years.

	Change in rate %	Effect on profit and equity for the financial year RM'000
At 31 December 2020		
USD	+15	17
	-15	(17)
SGD	+15	(5)
	-15	5
At 31 December 2021		
USD	+15	(37)
	-15	37
SGD	+15	(26)
	-15	26
RMB	+15	5
	-15	(5)
At 31 December 2022		
USD	+15	6
	-15	(6)
SGD	+15	(87)
	-15	87

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iv) interest rate risk

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its loans and borrowings with floating interest rates.

Sensitivity analysis for interest rate risk
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial years:

	Carrying amount RM'000	Change in basis points	Effect on profit and equity for the financial year RM'000
At 31 December 2020			
Term loans	7,478	+50	(28)
		-50	28
Bank overdrafts	9,479	+50	(36)
		-50	36
At 31 December 2021			
Term loans	6,908	+50	(26)
		-50	26
At 31 December 2022			
Term loans	12,720	+50	(48)
		-50	48
Bankers' acceptance	2,702	+50	(10)
		-50	10

(c) Fair value measurement

The carrying amount of cash and cash equivalents, short-term receivables and payables and short-term loans and borrowings reasonably approximate to its fair values due to the relatively short-term nature of these financial instruments.

There have been no transfers between Level 1 and Level 2 during the financial years (2021 and 2020: no transfer in either direction).

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

27. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement (continued)

The following table provide the fair value measurement hierarchy of the Group's financial instruments:

	Carrying amount Total RM'000	Fair value of financial instruments not carried at fair value — Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2020					
Financial liability					
Non-current					
Term loans	6,865	-	-	5,433	5,433
At 31 December 2021					
Financial liability					
Non-current					
Term loans	6,334	-	-	5,119	5,119
At 31 December 2022					
Financial liability					
Non-current					
Term loans	11,870	-	-	9,528	9,528

Level 3 fair value

Fair value of financial instruments not carried at fair value
The fair value of liability component of term loans is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate of similar liabilities.

28. COMMITMENTS

The Group has made commitments for the following's capital expenditures:

	As at 31 December 2020 RM'000	2021 RM'000	2022 RM'000
Approved and contracted for:			
- Construction of factory building	-	-	23,556
- Purchase and commissioning of automated paint production system	8,717	9,038	9,526
- Implementation of software	-	358	274
	8,717	9,396	33,356

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

29. RELATED PARTIES

(a) Identity of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:
(i) Entity in which person connected to a director has interests;
(ii) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows:

	FYE 31 December		
	2020 RM'000	2021 RM'000	2022 RM'000
Purchase of property, plant and equipment			
- Entity in which person connected to a director has interest	230	-	-
Purchase of intangible asset			
- Entity in which person connected to a director has interest	-	-	200
Disposal of property, plant and equipment			
- Entity in which person connected to a director has interest	-	-	30
Sales of goods			
- Entities in which person connected to a director has interest	6,953	7,592	7,284
Purchase of goods			
- Entities in which person connected to a director has interest	5,294	2,752	702

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

29. RELATED PARTIES (CONTINUED)

(b) Significant related party transactions (continued)

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows: (continued)

	FYE 31 December		
	2020	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**
Rental charged to			
- Entity in which person connected to a director has interest	3	4	4
Rental charged by			
- A director	42	42	21
Management fee charged by			
- Entity in which person connected to a director has interest	36	12	1
Maintenance services charged to			
- Entity in which person connected to a director has interest	-	-	5
Transportation costs charged by			
- Entities in which person connected to a director has interest	8	-	12
Advances to			
- Entities in which person connected to a director has interest	126	-	-
Payment of sinking funds and maintenance fees			
- A director	10	6	6
Interest charged by			
- Entity in which person connected to a director has interest	1	-	-

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

29. RELATED PARTIES (CONTINUED)

(c) Compensation of key management personnel

Key management personnel include personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group.

There is no compensation of key management personnel other than as disclosed in Note 23.

Significant outstanding balances with related parties at the end of the reporting periods are disclosed in Notes 10 and 17.

30. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022.

The Group monitors capital using gearing ratio. The gearing ratio is calculated as total debts divided by total equity. The gearing ratio as at 31 December 2020, 31 December 2021 and 31 December 2022 are as follows:

		As at 31 December		
		2020	2021	2022
		RM'000	RM'000	RM'000
	Note			
Loans and borrowings/total debts	15	18,203	7,645	15,749
Total equity		41,513	51,553	59,966
Gearing ratio (times)		0.44	0.15	0.26

There were no changes in the Group's approach to capital management during the financial years under review.

The Group is not subject to externally imposed capital requirements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

31. SIGNIFICANT EVENT DURING THE FINANCIAL YEARS

COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak as a pandemic in recognition of its rapid spread across the globe. Many countries including the Malaysian Government imposed the Movement Control Order to curb the spread of the COVID-19 pandemic. The COVID-19 pandemic also resulted in travel restriction, lockdown and other precautionary measures imposed in various countries. The emergence of the COVID-19 pandemic since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group operates.

The Group has performed an assessment of the overall impact of the situation on the Group's operations and financial implications, including the recoverability of the carrying amount of assets and subsequent measurements of assets and liabilities and concluded that there was no material adverse effect on the financial statements for the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022.

32. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

(a) Share Split

The Company has undertaken the share split involving the subdivision of 50,900,002 existing ordinary share into 254,500,010 ordinary shares, which was completed on 12 May 2023.

(b) Smart Paint (Selangor) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paint (Selangor) comprising 650,000 ordinary shares from Goh Chye Hin, Chu Teck, Kee Hui Lang, Goh Chye Leng and Lim Kok Beng for a total purchase consideration of RM3,771,645, to be fully satisfied by the issuance of 18,858,225 new ordinary shares at an issue price of RM0.20 per share.

The Smart Paint (Selangor) Acquisition is pending completion as it is conditional upon the fulfilment of conditions precedent which includes amongst others, the approval from Bursa Securities for the listing of and quotation for the enlarged share capital of Smart Asia on the ACE Market of Bursa Securities ("Listing"). Upon completion, Smart Paint (Selangor) shall become wholly-owned subsidiary of the Company.

(b) Smart Paints (Sabah) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paints (Sabah) comprising 250,000 ordinary shares from Goh Chye Hin, Kee Hui Lang and Wong Kui Ming for a total purchase consideration of RM598,437, to be fully satisfied by the issuance of 2,992,185 new ordinary shares at an issue price of RM0.20 per share.

The Smart Paints (Sabah) Acquisition is pending completion as it is conditional upon the fulfilment of conditions precedent which includes amongst others, the approval from Bursa Securities for the Listing. Upon completion, Smart Paints (Sabah) shall become wholly-owned subsidiary of the Company.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENT INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by directors for the purpose of making decisions about resource allocation and performance assessment.

The three reportable operating segments are as follow:

Segments	**Product and services**
Manufacturing	Development, manufacturing, distribution and sale of decorative paints, and protective coatings for household and industrial application and related products which includes colourant and binding and coating machines and provision of original design manufacturers ("ODM") services of decorative paints, protective coating as well as binding and coating chemicals for third party brand owners.
Sale and Trading	Sale and trading of painting tools and accessories, aerosol spray paints and other related products which mainly include raw materials such as resin, pigments and additives, and face masks.
Others	Provision of painting services and selling of disinfectant products and sales and maintenance services of Smart Colour POS Tinting Machine.

Inter-segment pricing is determined on negotiated basis.

<u>Segment profit</u>

Segment performance is used to measure performance as Group's Managing Director believes that such information is the most relevant in evaluating the results of certain segment relative to other entities that operate within these industries.

<u>Segment assets and liabilities</u>

Segment assets and liabilities information are neither included in the internal management reports nor provided regularly to the Managing Director. Hence, no disclosure is made on segments assets.

SMART ASIA CHEMICAL BHD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENT INFORMATION (CONTINUED)

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2020				
Revenue:				
Revenue from external customers	55,783	8,763	7,053	71,599
Segment profit	17,194	2,350	3,243	22,787
Other income				514
Unallocated expenses				(13,326)
Finance income				*
Finance costs				(574)
Income tax expense				(1,959)
Profit for the financial year				**7,442**
Results:				
Included in the measure of segment profit are:				
Depreciation of property, plant and equipment				2,166
Employee benefits expense				8,857

* *Less than 1,000*

SMART ASIA CHEMICAL BHD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENT INFORMATION (CONTINUED)

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2021				
Revenue:				
Revenue from external customers	67,007	7,691	5,068	79,766
Segment profit	22,315	1,792	2,611	26,718
Other income				448
Unallocated expenses				(12,710)
Finance income				*
Finance costs				(525)
Income tax expense				(3,241)
Profit for the financial year				**10,690**
Results:				
Included in the measure of segment profit is:				
Depreciation of property, plant and equipment				2,496
Loss on disposal of other investment				355
Employee benefits expense				10,000

* *Less than 1,000*

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENT INFORMATION (CONTINUED)

	Manufacturing RM'000	Sale and Trading RM'000	Others RM'000	Total RM'000
At 31 December 2022				
Revenue:				
Revenue from external customers	70,086	7,981	1,151	79,218
Segment profit	20,688	2,496	351	23,535
Other income				749
Unallocated expenses				(12,560)
Finance income				-
Finance costs				(520)
Income tax expense				(2,590)
Profit for the financial year				**8,614**
Results:				
Included in the measure of segment profit is:				
Depreciation of property, plant and equipment				2,482
Amortisation of intangible asset				10
Employee benefits expense				9,978

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. SEGMENT INFORMATION (CONTINUED)

Geographical information
Revenue assets information based on the geographical location of customers are as follows:

	Revenue RM'000
At 31 December 2020	
Local	57,976
Overseas	13,623
	71,599
At 31 December 2021	
Local	65,907
Overseas	13,859
	79,766
At 31 December 2022	
Local	64,539
Overseas	14,679
	79,218

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24 August 2023

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

Dear Sirs,

SMART ASIA CHEMICAL BHD ("Smart Asia" or the "Company")

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma combined statements of financial position of Smart Asia Chemical Bhd ("Smart Asia" or the "Company") and the combining entities, namely Smart Paint Manufacturing Sdn. Bhd., Smart Paints (M) Sdn. Bhd., Smart Paints (Sabah) Sdn. Bhd., Smart Paint (Selangor) Sdn. Bhd. and Color Breeze Sdn. Bhd. (collectively referred to as "Group") for which the directors of Smart Asia are solely responsible. The pro forma combined statements of financial position consist of the pro forma combined statements of financial position as at 31 December 2022 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Smart Asia have compiled the pro forma combined statements of financial position are as described in Note 2 to the pro forma combined statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma combined statements of financial position of the Group has been compiled by the directors of Smart Asia, for illustrative purposes only, for inclusion in the prospectus of Smart Asia ("Prospectus") in connection with the listing of and quotation for the entire enlarged issued share capital of Smart Asia on the ACE Market of Bursa Malaysia Securities Berhad ("Listing") comprising public issue of 93,500,000 initial public offering shares ("IPO"), after making certain assumptions and such adjustments to show the effects on the pro forma combined statements of financial position of the Group as at 31 December 2022 adjusted for the Pre-Listing or Internal Restructuring Exercise, IPO and utilisation of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

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SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES
Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 December 2022 Included in a Prospectus

As part of this process, information about the Group's pro forma combined statements of financial position has been extracted by the directors of Smart Asia from the audited combined financial statements of the Group for the Financial Year Ended ("FYE") 31 December 2022, on which a reporting accountants' report dated 24 August 2023 has been issued.

The audited combined financial statements of the Group for the FYE 31 December 2022 were reported by us to the members without any modifications.

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

The directors of Smart Asia are responsible for compiling the pro forma combined statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma combined statements of financial position has been compiled, in all material respects, by the directors of Smart Asia based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Smart Asia have compiled, in all material respects, the pro forma combined statements of financial position based on the Applicable Criteria.

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SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES
Reporting Accountants' Report on the Compilation of the
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Reporting Accountants' Responsibilities (Continued)

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma combined statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma combined statements of financial position.

The purpose of the pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Smart Asia in the compilation of the pro forma combined statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to Listing Scheme as described in Note 1.2 to the pro forma combined statements of financial position, and to obtain sufficient appropriate evidence about whether:

(a) The pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited combined financial statements of the Group for the FYE 31 December 2022, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its audited financial statements for the FYE 31 December 2022; and

(b) Each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma combined statements of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma combined statements of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES
Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 December 2022 Included in a Prospectus

Opinion

In our opinion:

(a) the pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited financial statements of the Group for the FYE 31 December 2022 and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its financial statements for the FYE 31 December 2022; and

(b) each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

Other matter

This report has been prepared for inclusion in the Prospectus of Smart Asia in connection with the Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

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

Paul Tan Hong
No. 03459/11/2023 J
Chartered Accountant

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

1. INTRODUCTION

The pro forma combined statements of financial position of Smart Asia Chemical Bhd ("Smart Asia" or the "Company") and its combining entities, namely Smart Paint Manufacturing Sdn. Bhd. ("Smart Paint Manufacturing"), Smart Paints (M) Sdn. Bhd. ("Smart Paints (M)"), Smart Paints (Sabah) Sdn. Bhd. ("Smart Paints (Sabah)"), Smart Paint (Selangor) Sdn. Bhd. ("Smart Paint (Selangor)") and Color Breeze Sdn. Bhd. ("Color Breeze") (hereinafter collectively referred to as the "Group") has been compiled by the directors of Smart Asia, for illustrative purposes only, for inclusion in the prospectus of Smart Asia in connection with the listing of and quotation for the entire enlarged issued share capital of 369,850,420 ordinary shares in Smart Asia ("Share(s)") on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

1.1 In conjunction with the admission of Smart Asia to the Official List of the ACE Market of Bursa Securities and Listing, Smart Asia had undertaken the following transactions:

1.2 Listing Scheme

1.2.1 Pre-Listing or Internal Restructuring Exercise

In conjunction with Listing, the Company has undertaken the Share Split and Acquisitions as described in Notes 1.2.1.1 and 1.2.1.2 respectively.

1.2.1.1 Share Split

The Company has undertaken the share split involving the subdivision of 50,900,002 existing Shares into 254,500,010 Shares, which was completed on 12 May 2023.

1.2.1.2 Acquisitions

Smart Paint (Selangor) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paint (Selangor) comprising 650,000 ordinary shares from Goh Chye Hin, Chu Teck, Kee Hui Lang, Goh Chye Leng and Lim Kok Beng for a total purchase consideration of RM3,771,645, to be fully satisfied by the issuance of 18,858,225 new Shares at an issue price of RM0.20 per Share.

The purchase consideration for the Smart Paint (Selangor) Acquisition of RM3,771,645 was arrived at based on a "willing-buyer willing-seller" basis after taking into consideration the audited net assets ("NA") of Smart Paint (Selangor) as at 31 December 2022 of RM3,771,645.

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

1. (Continued)

1.2 (Continued)

1.2.1 (Continued)

1.2.1.2 **Acquisitions (Continued)**

Smart Paint (Selangor) Acquisition (Continued)

The Smart Paint (Selangor) Acquisition is pending completion as it is conditional upon the fulfilment of conditions precedent which includes amongst others, the approval from Bursa Securities for the Listing. Upon completion, Smart Paint (Selangor) shall become wholly-owned subsidiary of the Company.

Smart Paints (Sabah) Acquisition

On 19 June 2023, Smart Asia entered into a conditional share sale agreement to acquire the entire equity interest in Smart Paints (Sabah) comprising 250,000 ordinary shares from Goh Chye Hin, Kee Hui Lang and Wong Kui Ming for a total purchase consideration of RM598,437, to be fully satisfied by the issuance of 2,992,185 new Shares at an issue price of RM0.20 per Share.

The purchase consideration for the Smart Paints (Sabah) Acquisition of RM598,437 was arrived at based on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of Smart Paints (Sabah) as at 31 December 2022 of RM598,437.

The Smart Paints (Sabah) Acquisition is pending completion as it is conditional upon the fulfilment of conditions precedent which includes amongst others, the approval from Bursa Securities for the Listing. Upon completion, Smart Paints (Sabah) shall become wholly-owned subsidiary of the Company.

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

1. (Continued)

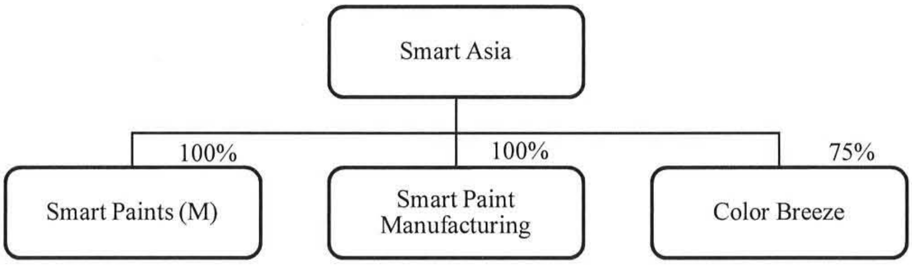
1.2 (Continued)

1.2.1 (Continued)

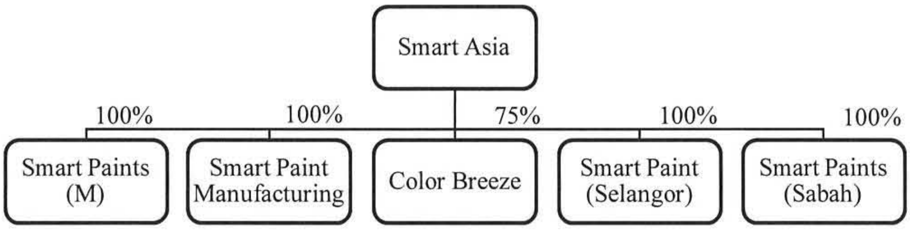
1.2.1.2 **Acquisitions (Continued)**

The Group structure before and after the Acquisitions are as below:

As at 31 December 2022



After the Acquisitions



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SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

1. (Continued)

1.2 (Continued)

1.2.2 **IPO**

A total of 93,500,000 IPO Shares, representing approximately 25.28% of the enlarged issued Shares of Smart Asia are offered at RM[●] per IPO Share ("IPO Price"), will be allocated in the following manner:

(i) 18,492,600 IPO Shares, representing 5.00% of enlarged issued Shares, will be made available for application by the Malaysian Public by way of balloting, of which at least 50% will be set aside to Bumiputera public investors; and

(ii) 12,100,000 IPO Shares, representing 3.27% of enlarged issued Shares, will be reserved for application by the eligible Directors, employees of the Group and persons who have contributed to the success of the Group; and

(iii) 62,907,400 IPO Shares, representing 17.01% of enlarged issued Shares, have been reserved for application by way of private placement in the following manner:

(a) 46,231,400 IPO Shares, representing 12.50% of enlarged issued Shares, made available for selected Bumiputera investors approved by Ministry of Investment, Trade and Industry of Malaysia; and

(b) 16,676,000 IPO Shares, representing approximately 4.51% of our enlarged issued Shares, made available for selected investors.

(Collectively hereinafter referred to as "IPO").

1.2.3 **Listing**

Upon completion of the IPO, Smart Asia's entire enlarged issued Shares of RM[●] comprising 369,850,420 Shares will be listed on the ACE Market of Bursa Securities.

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2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

2.1 The pro forma combined statements of financial position have been prepared to illustrate the pro forma combined financial position of the Group as at 31 December 2022, adjusted for the Pre-Listing or Internal Restructuring Exercise, IPO and utilisation of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

2.2 The pro forma combined statements of financial position have been prepared based on the audited combined financial statements of the Group for the financial year ended ("FYE") 31 December 2022.

2.3 The audited combined financial statements of the Group for the FYE 31 December 2022 were reported by the auditors to the members without any modifications.

2.4 The pro forma combined statements of financial position of the Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.

2.5 The pro forma combined statements of financial position of the Group have been properly prepared on the basis set out in the accompanying notes to the pro forma combined statements of financial position based on the audited combined financial statements of the Group for FYE 31 December 2022, which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP

3.1 The pro forma combined statements of financial position of the Group as set out below, for which the directors of Smart Asia are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited combined statement of financial position of the Group as at 31 December 2022, had the transactions as described in Note 1.2 and utilisation of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Combined Statements of Financial Position as at 31 December 2022# RM'000	Pro Forma I After the Pre-Listing or Internal Restructuring Exercise RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the utilisation of proceeds RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	43,549	43,549	43,549	43,549
Intangible asset	190	190	190	190
Deferred tax assets	136	136	136	136
Total non-current assets	**43,875**	**43,875**	**43,875**	**43,875**
Current assets				
Inventories	23,744	23,744	23,744	23,744
Current tax assets	699	699	699	699
Trade and other receivables	26,264	26,264	26,264	[•]
Contract assets	27	27	27	27
Cash and bank balances	5,056	5,056	[•]	[•]
Total current assets	**55,790**	**55,790**	[•]	[•]
TOTAL ASSETS	**99,665**	**99,665**	[•]	[•]
EQUITY AND LIABILITIES				
Equity attributable to owners of the Group				
Invested equity/Share capital	51,800	55,270	[•]	[•]
Reorganisation reserve	(25,783)	(29,253)	(29,253)	(29,253)
Retained earnings	33,828	33,828	33,828	[•]
	59,845	59,845	[•]	[•]
Non-controlling interest	121	121	121	121
TOTAL EQUITY	**59,966**	**59,966**	[•]	[•]

SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.1 (Continued)

	Combined Statements of Financial Position as at 31 December 2022# RM'000	Pro Forma I After the Pre-Listing or Internal Restructuring Exercise RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the utilisation of proceeds RM'000
Non-current liabilities				
Loans and borrowings	12,013	12,013	12,013	12,013
Deferred income	143	143	143	143
Deferred tax liabilities	410	410	410	410
Total non-current liabilities	**12,566**	**12,566**	**12,566**	**12,566**
Current liabilities				
Loans and borrowings	3,736	3,736	3,736	3,736
Current tax liabilities	317	317	317	317
Trade and other payables	21,365	21,365	21,365	21,365
Contract liabilities	1,715	1,715	1,715	1,715
Total current liabilities	**27,133**	**27,133**	**27,133**	**27,133**
TOTAL LIABILITIES	**39,699**	**39,699**	**39,699**	**39,699**
TOTAL EQUITY AND LIABILITIES	**99,665**	**99,665**	[•]	[•]
Number of ordinary shares assumed to be in issue ('000)	51,800*	276,350	369,850	369,850

NA^ (RM'000)	59,845	59,845	[•]	[•]
NA per ordinary share (RM)	1.1553	0.2166	[•]	[•]

^ attributable to owners of the Group
* represent the aggregate number of issued Shares of Smart Asia, Smart Paint (Selangor) and Smart Paints (Sabah)

\# *Extracted from Group's audited combined financial statements for the FYE 31 December 2022.*

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 Notes to the pro forma combined statements of financial position are as follows:

3.2.1 The pro forma combined statements of financial position of the Group, for which the directors of Smart Asia are solely responsible, have been prepared for illustrative purposes only, to show the effects on the combined audited statements of financial position of the Group as at 31 December 2022, had the transactions as described in Note 1.2 and utilisation of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the IPO would be used in the following manner:

Details of use of proceeds	RM'000	%	Estimated timeframe for utilisation from the date of listing
Not reflected in pro forma combined statements of financial position			
Establishment of Perak Plant:			
(i) Construction of Perak Plant (1)	[•]	[•]	Within 12 months
(ii) Purchase and commissioning of automated paint production system (1)	[•]	[•]	Within 12 months
Purchase of 250 units of Smart Colour POS Tinting Machine (2)	[•]	[•]	Within 36 months
Working capital	[•]	[•]	Within 12 months
Reflected in pro forma combined statements of financial position			
Estimated listing expenses	[•]	[•]	Within 1 month
Gross proceeds	[•]	[•]	

(1) As at 31 December 2022, the Group has yet to drawdown the banking facilities to part finance the construction of Perak Plant and purchase and commissioning of the automated paint production system for the Perak Plant. Accordingly, the utilisation of proceeds earmarked for the repayment of banking facilities to part finance the Establishment of Perak Plant are not reflected in the pro forma combined statements of financial position.

(2) As at the latest practicable date, the Group has yet to issue any purchase order in relation to the purchase of 250 units of Smart Colour POS Tinting Machine. Accordingly, the utilisation of proceeds earmarked for the purchase of 250 units of Smart Colour POS Tinting Machine are not reflected in the pro forma combined statements of financial position.

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 The pro forma combined statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

Pro Forma I incorporate the effects of the Pre-Listing or Internal Restructuring Exercise as described in Note 1.2.1 on the audited combined statements of financial position of the Group as at 31 December 2022.

Smart Paint (Selangor) Acquisition

The reorganisation reserve arising from the Smart Paint (Selangor) Acquisition are as below:

	RM'000
Purchase consideration	3,772
Less: Share capital of Smart Paint (Selangor)	(650)
Reorganisation reserve	3,122

Smart Paints (Sabah) Acquisition

The reorganisation reserve arising from the Smart Paints (Sabah) Acquisition are as below:

	RM'000
Purchase consideration	598
Less: Share capital of Smart Paints (Sabah)	(250)
Reorganisation reserve	348

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

(a) **Pro Forma I (Continued)**

The Pre-Listing or Internal Restructuring Exercise will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2022:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Invested equity/Share capital	-	3,470
Reorganisation reserve	-	(3,470)
	-	-

(b) **Pro Forma II**

Pro Forma II incorporates the cumulative effects of Pro Forma I and IPO as described in Note 1.2.2.

The IPO will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2022:

	Increase	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Cash and bank balances	[•]	-
Invested equity/Share capital	-	[•]
	[•]	[•]

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3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

(c) **Pro Forma III**

Pro Forma III incorporates the cumulative effects of Pro Forma II and the utilisation of proceeds from the IPO of RM[●]million after netting off RM[●]million of estimated listing expenses.

The remaining proceeds expected from the IPO of RM[●]million will be used in the manner as described in Note 3.2.2.

The proceeds arising from the IPO earmarked for the Establishment of Perak Plant and purchase of 250 units of Smart Colour POS Tinting Machine and Group's working capital purposes of RM[●]million will be included in the Cash and Bank balances Account.

As at 31 December 2022, out of the RM[●]million for listing expenses, RM0.66 million has been incurred and recognised as prepayment. The RM0.66 million is recognised as prepayment as this is direct attributable expenses relating to the new issuance of Shares which will be capitalised as Invested Equity/Share Capital Account upon Listing.

Out of the remaining estimated listing expense to be incurred of RM[●]million, RM[●]million will be charged to Retained Earnings Account and RM[●]million is recognised in Invested Equity/Share Capital Account as this is directly attributable expenses relating to the new issuance of Shares. Together with the amount previously recorded as prepayment of RM0.66 million, a total of RM[●]million will be capitalised under Invested Equity/Share Capital Account.

The utilisation of proceeds will have the following impact on the pro forma combined statements of financial position of the Group as at 31 December 2022:

	Decrease	
	Effects on Total Assets RM'000	**Effects on Total Equity RM'000**
Trade and other receivables	(657)	-
Cash and bank balances	[●]	-
Invested equity/Share capital	-	[●]
Retained earnings	-	[●]
	[●]	[●]

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Invested equity/ Share capital RM'000	Reorganisation reserve RM'000	Retained earnings RM'000
Combined statements of financial position of the Group as at 31 December 2022	51,800	(25,783)	33,828
Arising from the Pre-Listing or Internal Restructuring Exercise	3,470	(3,470)	-
Per Pro Forma I	55,270	(29,253)	33,828
Arising from the IPO	[•]	-	-
Per Pro Forma II	[•]	(29,253)	33,828
Arising from the defrayment of estimated listing expenses in relation to the Listing	[•]	-	[•]
Per Pro Forma III	[•]	(29,253)	[•]

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and bank balances are as follows:

	RM'000
Combined statements of financial position of the Group as at 31 December 2022	5,056
Arising from the Pre-Listing or Internal Restructuring Exercise	-
Per Pro Forma I	5,056
Arising from the IPO	[●]
Per Pro Forma II	[●]
Arising from the defrayment of estimated listing expenses in relation to the Listing	[●]
Per Pro Forma III	[●]

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SMART ASIA CHEMICAL BHD AND ITS COMBINING ENTITIES

APPROVAL BY BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Smart Asia Chemical Bhd in accordance with a resolution dated 24 AUG 2023

………………………………………	………………………………………
Goh Chye Hin	**Kee Hui Lang**
Director	**Director**