12. FINANCIAL INFORMATION

12.1 HISTORICAL AUDITED COMBINED FINANCIAL INFORMATION

The following historical combined financial information of our Group for the FYE 2021, FYE 2022 and FYE 2023 have been extracted from the audited combined financial statements contained in the Accountants' Report set out in Section 13 of this Prospectus.

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

(i) Historical combined statements of comprehensive income

	Audited		
	FYE 2021 RM'000	**FYE 2022 RM'000**	**FYE 2023 RM'000**
Revenue	66,107	90,688	112,311
Cost of sales	(45,318)	(58,174)	(58,894)
GP	**20,789**	**32,514**	**53,417**
Other income	2,016	212	224
Administrative expenses	(9,258)	(9,920)	(13,049)
Selling and distribution expenses	(3,524)	(4,849)	(6,782)
Other expenses	-	(514)	(327)
Net gain /(loss) on impairment of financial assets	3	(340)	33
Profit from operation	**10,026**	**17,103**	**33,516**
Finance costs	(103)	(135)	(395)
PBT	**9,923**	**16,968**	**33,121**
Taxation	(2,146)	(4,226)	(8,191)
PAT/ Total comprehensive income for the financial year	**7,777**	**12,742**	**24,930**
GP margin (1) (%)	31.45	35.85	47.56
PBT margin (2) (%)	15.01	18.71	29.49
PAT margin (3) (%)	11.76	14.05	22.20
Number of Shares in issue			
- After the Acquisitions ('000)	705,000	705,000	705,000
- After the IPO ('000)	860,000	860,000	860,000
Basic EPS (4) (sen)	1.10	1.81	3.54
Diluted EPS (5) (sen)	0.90	1.48	2.90

Notes:-

(1) Computed based on GP divided by revenue.
(2) Computed based on PBT divided by revenue.
(3) Computed based on PAT divided by revenue.
(4) Computed based on PAT divided by the number of Shares in issue of 705,000,000 after the Acquisitions.
(5) Computed based on PAT divided by the number of Shares in issue of 860,000,000 after our IPO.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the financial years under review. The audited financial statements of our Group for the financial years under review were not subject to any qualification or modification.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) Historical audited combined statements of financial position of our Group

	Audited		
	FYE 2021 RM'000	**FYE 2022 RM'000**	**FYE 2023 RM'000**
ASSETS			
Non-current assets			
Property, plant and equipment	2,111	5,956	6,707
Investment properties	596	874	739
Investment in associates	*	*	*
Deferred tax assets	102	173	74
Total non-current assets	**2,809**	**7,003**	**7,520**
Current assets			
Inventories	18,133	20,742	26,133
Trade receivables	17,835	27,725	27,142
Other receivables	2,555	2,011	3,001
Amount due from associates	2,865	50	50
Tax recoverable	1,542	1,715	917
Fixed deposits with a licensed bank	4,504	4,515	5,033
Cash and bank balances	2,961	3,692	7,993
Total current assets	**50,395**	**60,450**	**70,269**
Total assets	**53,204**	**67,453**	**77,789**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	-	-	1
Invested equity	381	381	381
Retained earnings	23,824	32,205	49,919
Total equity	**24,205**	**32,586**	**50,301**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	-	2,579	2,633
Lease liabilities	62	200	397
Deferred tax liabilities	149	149	209
Total non-current liabilities	**211**	**2,928**	**3,239**
Current liabilities			
Loans and borrowings	2,475	6,799	9,531
Lease liabilities	50	73	145
Trade payables	23,730	22,971	10,785
Other payables	1,430	1,387	2,921
Amount due to directors	1,069	709	867
Tax payable	34	-	-
Total current liabilities	**28,788**	**31,939**	**24,249**
Total liabilities	**28,999**	**34,867**	**27,488**
Total equity and liabilities	**53,204**	**67,453**	**77,789**
NA	**24,205**	**32,586**	**50,301**

Note:-

* Denotes less than RM1,000.

12.2 CAPITALISATION AND INDEBTEDNESS

The following table sets out our Group's capitalisation and indebtedness:-

(i) as at 31 January 2024, after taking into account the Acquisitions but before the Public Issue and use of proceeds; and

(ii) after adjusting for the proceeds arising from our Public Issue and use of proceeds from the Public Issue.

	Unaudited as at 31 January 2024	**After the Public Issue and use of proceeds**
	RM'000	**RM'000**
INDEBTEDNESS		
Current		
Secured and guaranteed:		
- Bankers' acceptance	14,349	[•]
- Term loans	92	92
- Lease liabilities	172	172
	14,613	**[•]**
Non-current		
Secured and guaranteed:		
- Term loans	2,585	2,585
- Lease liabilities	517	517
	3,102	3,102
Total borrowings	**17,715**	**[•]**
Corporate guarantees		
Secured and guaranteed:		
- Corporate guarantee given to financial institutions for credit facilities granted to companies in which the Directors have interests	**37,955**	**37,955**
Total Indebtedness (1)	**55,670**	[•]
CAPITALISATION		
Shareholders' equity	65,960	[•]
Total capitalisation and indebtedness	**121,630**	[•]
Gearing ratio (times) (2)	0.27	[•]

Notes:-

(1) Comprises total borrowings and corporate guarantee.
(2) Computed based on total borrowings divided by our shareholders' equity.

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

The following discussion and analysis should be read together with the Accountants' Report as set out in Section 13 of this Prospectus.

The management's discussion and analysis contains data derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. The results may differ significantly from those projected in these forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 9 of this Prospectus.

12.3.1 Overview of our operations

Our Group is principally involved in the marketing, distribution and sale of bathroom and kitchen sanitary wares. We have an extensive range of bathroom and kitchen sanitary ware products under our house brands, namely 'Sorento', which is our flagship brand, 'Mocha', 'Cabana' and 'i-Born'. We are also the appointed distributor for foreign third party brand of bathroom and kitchen sanitary ware products, namely 'Bravat' and 'Infinity'.

We outsource the design and manufacturing of our house brands to approved third party manufacturers. All the products that are manufactured by third party manufacturers are in accordance with our requirements and are labelled under our house brands.

We are responsible for setting the prices of our house brands and determining our distribution strategy and channels, both through our in-house sales and marketing team and through our external distribution network.

(i) Revenue

Our revenue for the Financial Years Under Review was generated from the following business segments:-

(a) Dealers

Dealers comprise wholesalers and retailers. Wholesalers generally purchase in large quantity to be distributed to other retailers or sold through its own retail channels. Retail customers comprise home improvement or hardware retailers and chain store retailers who may sell our products through their physical retail stores and/ or through e-commerce platforms.

Our dealers purchase products outright from us on purchase order basis, to be sold to their customers.

(b) Projects

We supply our products to residential and commercial property projects, including new build, refurbishment and renovation projects. Our project customers include property developers' trading/ purchasing arms, trading companies, contractors and interior designers.

We submit our proposals with recommended products and pricing to project customers, based on the requirements for their projects. Generally, for project sales, we will receive purchase orders from our customers to confirm us as their supplier. Some project customers will issue us letter of award or letter of confirmation as supplier. The purchase orders and letter of award/ letter of confirmation include information on the brand, type and quantity of products to be delivered, as well as the estimated delivery period.

(c) Online

We market and sell our products directly to end-customers through third party e-commerce platforms namely Lazada and Shopee. We adhere to our product pricing guide when setting the retail prices of our products sold on our online stores to prevent sales cannibalisation with our dealers.

(ii) Cost of sales

Our cost of sales comprises mainly purchase of products from our suppliers, and freight, handling charges and sales tax costs relate to freight and forwarding charges, cargo container charges and sales tax for our import of goods and carriage inwards, as well as transport charges for the delivery of goods to our customers.

Our suppliers comprise third party manufacturers and intermediaries such as trading houses in China and Malaysia, suppliers in Malaysia and Singapore, as well as our products principals. We regard our third party manufacturers as our end suppliers as our products are ultimately sourced from them. During the Financial Years Under Review, we sourced all of our house brands from these third party manufacturers in China.

During the Financial Years Under Review, we have increasingly purchased our house brand products directly from our third party manufacturers without going through trading houses at 35.00%, 41.85% and 78.42% of our Group's total purchases respectively.

With on-going business growth, we have gained the relevant supply chain knowledge to manage imports directly and we have also achieved economies of scale and sufficient purchase volume to import goods directly to reduce our purchases from the local trading house. Further, most of our third party manufacturers in China have obtained their respective export licences, which eliminates the need to engage trading houses to handle export logistics. The reduction of purchases through intermediaries has allowed us to reduce our cost.

The major factors affecting our cost of sales, GP and GP margin include, inter alia, the following:-

(a) our pricing strategy and ability to continually source and purchase quality bathroom and kitchen sanitary ware products in bulk at competitive prices;

(b) our ability to maintain long-term relationships with our major suppliers and to continuously secure wider range of bathroom and kitchen sanitary ware products at favourable terms to fulfil the increase in demand from our customers from time to time;

(c) purchase costs from third party manufacturers. Our purchase costs are influenced by the costs of raw materials (such as steel, aluminium and copper) which may fluctuate due to changes in the supply and demand in the global market driven by global economic conditions. Nevertheless, such fluctuation in costs can generally be passed on to the customers; and

(d) our promotional and marketing strategies that leverages on product bundling. This involves combining high margin products like kitchen faucets and accessories, bathroom furniture, bathroom faucets, shower and bidets with lower profit margin products.

(iii) Other income

Other income mainly comprises interest income, government grant (such as wage subsidy), gain on disposal of property, plant and equipment ("**PPE**") and investment property, realised/ unrealised gains on foreign exchange, bad debts recovered and dividend income.

(iv) Administrative expenses

Administrative expenses mainly consist of staff costs, rental expenses, directors' remuneration, depreciation charges, professional fees, upkeep of PPE, insurance, road tax and inspection fees, security charges and office related expenses.

(v) Selling and distribution expenses

Selling and distribution expenses comprises commissions paid to our sales personnel, dealers, contractors and interior designers, advertising and marketing expenses and travelling and transport expenses.

(vi) Finance costs

Finance costs comprise term loan interests, bankers' acceptance interest and lease liabilities interests.

12.3.2 Review of operations

(i) Revenue

Analysis of contribution to revenue by distribution channels

	FYE 2021		FYE 2022		FYE 2023	
Distribution channels	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Dealers	40,712	61.58	55,738	61.46	70,598	62.86
Project-based sales	25,317	38.30	34,490	38.03	41,216	36.70
Online	78	0.12	460	0.51	497	0.44
Total revenue	**66,107**	**100.00**	**90,688**	**100.00**	**112,311**	**100.00**

Analysis of contribution to revenue by product segments

	FYE 2021		FYE 2022		FYE 2023	
Product segments	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Bathroom sanitary ware	56,702	85.77	75,385	83.13	93,973	83.67
• Wash basin, water closet, jacuzzi and bathtub	24,561	37.15	33,395	36.83	42,122	37.50
• Bathroom furniture	7,130	10.79	10,790	11.90	11,828	10.53
• Bathroom faucets, shower and bidets	19,271	29.15	23,997	26.46	30,663	27.30
• Bathroom accessories	5,740	8.68	7,203	7.94	9,360	8.34
Kitchen sanitary ware	8,636	13.07	14,365	15.84	17,530	15.61
• Kitchen sink	5,594	8.47	9,301	10.26	12,212	10.87
• Kitchen faucets and accessories	3,042	4.60	5,064	5.58	5,318	4.74
Others	769	1.16	938	1.03	808	0.72
Total revenue	**66,107**	**100.00**	**90,688**	**100.00**	**112,311**	**100.00**

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our total revenue increased by RM24.58 million or 37.18% to RM90.69 million (FYE 2021: RM66.11 million).

The increase in our total revenue was mainly due to an increase in sales to our dealers by RM15.03 million or 36.92% to RM55.74 million (FYE 2021: RM40.71 million). This was mainly attributable to an upward revision to the selling price to dealers for certain bathroom and kitchen sanitary ware products during FYE 2022, as well the increasing demand for both bathroom and kitchen sanitary ware products by consumers for their home renovations following the gradual revival of the economy after the COVID-19 pandemic.

Our project-based sales also increased by RM9.17 million or 36.22% to RM34.49 million (FYE 2021: RM25.32 million). The increase in our project-based sales was mainly due to the sales of approximately RM7.22 million derived from 115 new projects as property developers and contractors resumed construction works following the revival of the economy after the COVID-19 pandemic.

Our online sales similarly recorded an increase of RM0.38 million to RM0.46 million in FYE 2022 (FYE 2021: RM0.08 million), mainly due to the increased demand for both bathroom and kitchen sanitary ware products by consumers for their home renovations following the gradual revival of the economy after the COVID-19 pandemic.

The overall increase in sales for the FYE 2022 was also attributable to our continuous marketing campaigns and promotions resulting in an increased market acceptance of our brand of bathroom and kitchen sanitary ware products.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, the total revenue increased by RM21.62 million or 23.84% to RM112.31 million (FYE 2022: RM90.69 million).

For the FYE 2023, our sales to dealers increased by RM14.86 million or 26.66% to RM70.60 million (FYE 2022: RM55.74 million). This was mainly due to the increase in sales to existing dealers as well as an increase in the number of dealers from 240 dealers in FYE 2022 to 315 dealers in FYE 2023.

Our project-based sales also increased by RM6.73 million or 19.51% to RM41.22 million (FYE 2022: RM34.49 million). This increase in our project-based sales was mainly due to the sales of approximately RM6.85 million derived from 167 new projects during the FYE 2023.

Our online sales similarly recorded an increase of RM0.04 million to RM0.50 million in FYE 2023 (FYE 2022: RM0.46 million), mainly due to the continued demand for both bathroom and kitchen sanitary ware products by consumers for their home renovations.

The overall increase in total revenue for the FYE 2023 was also attributable to the following factors:-

(a) the full financial year impact of an upward revision to the selling price to dealers for certain bathroom and kitchen sanitary ware products in FYE 2022; and

(b) continuous marketing campaigns and promotions resulting in a continued increase in the market acceptance of our brand of bathroom and kitchen sanitary ware products.

(ii) Cost of sales, GP and GP margin

Analysis of cost of sales by cost components

Type of cost component	FYE 2021 RM'000	FYE 2021 %	FYE 2022 RM'000	FYE 2022 %	FYE 2023 RM'000	FYE 2023 %
Cost of purchase	39,967	88.19	47,124	81.01	48,767	82.80
Freight, handling charges and sales tax	5,351	11.81	11,050	18.99	10,127	17.20
Total cost of sales	**45,318**	**100.00**	**58,174**	**100.00**	**58,894**	**100.00**

Analysis of cost of sales by distribution channels

Distribution channels	FYE 2021 RM'000	FYE 2021 %	FYE 2022 RM'000	FYE 2022 %	FYE 2023 RM'000	FYE 2023 %
Dealers	26,059	57.50	32,334	55.58	31,938	54.23
Project-based sales	19,239	42.45	25,719	44.21	26,823	45.54
Online	20	0.05	121	0.21	133	0.23
Total cost of sales	**45,318**	**100.00**	**58,174**	**100.00**	**58,894**	**100.00**

Analysis of GP and GP margins by distribution channels

GP	FYE 2021 RM'000	FYE 2021 %	FYE 2022 RM'000	FYE 2022 %	FYE 2023 RM'000	FYE 2023 %
Dealers	14,653	70.48	23,404	71.98	38,660	72.37
Project-based sales	6,078	29.24	8,771	26.98	14,393	26.95
Online	58	0.28	339	1.04	364	0.68
Total GP	**20,789**	**100.00**	**32,514**	**100.00**	**53,417**	**100.00**

GP Margin	FYE 2021 %	FYE 2022 %	FYE 2023 %
Dealers	35.99	41.99	54.76
Project-based sales	24.01	25.43	34.92
Online	74.36	73.70	73.24
Overall GP margin	**31.45**	**35.85**	**47.56**

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our total cost of sales increased by RM12.85 million or 28.35% to RM58.17 million (FYE 2021: RM45.32 million), which was in tandem with the increase in revenue. Correspondingly, our GP increased by RM11.72 million or 56.37% to RM32.51 million (FYE 2021: RM20.79 million) whilst the GP margin increased from 31.45% in FYE 2021 to 35.85% in FYE 2022

The cost of sales for our dealer distribution segment increased by RM6.27 million or 24.06% to RM32.33 million (FYE 2021: RM26.06 million), which was in tandem with the increase in revenue. Correspondingly, the GP increased by RM8.75 million or 59.73% to RM23.40 million (FYE 2021: RM14.65 million). Our GP margin for the dealer distribution segment increased from 35.99% in FYE 2021 to 41.99% in FYE 2022, contributing towards the overall increase in our GP margins for the FYE 2022.

The increase in GP margin in the dealer segment was mainly attributable to the following:-

(a) increase in the selling price to dealers during FYE 2022; and.

(b) lower average purchase costs for the purchase of products from third party manufacturers in China as we were able to negotiate for better terms including lower pricing per unit on the basis of higher purchase volume terms.

The cost of sales for our project-based distribution segment increased by RM6.48 million or 33.68% to RM25.72 million (FYE 2021: RM19.24 million), which was also in tandem with the increase in revenue. Correspondingly, the GP increased by RM2.69 million or 44.24% to RM8.77 million (FYE 2021: RM6.08 million). Our GP margin for project-based distribution segment increased by 1.42% from 24.01% in FYE 2021 to 25.43% in FYE 2022.

The cost of sales for our online distribution segment increased by RM0.10 million to RM0.12 million (FYE 2021: RM0.02 million), which was also in tandem with the increase in revenue. Correspondingly, the GP increased by RM0.28 million to RM0.34 million (FYE 2021: RM0.06 million). Our GP margin for online distribution segment decreased slightly from 74.36% in FYE 2021 to 73.70% in FYE 2022.

<u>Comparison between FYE 2022 and FYE 2023</u>

For the FYE 2023, our costs of sales increased marginally by RM0.72 million or 1.24% to RM58.89 million (FYE 2022: RM58.17 million) despite a 23.84% increase in revenue during the year. The moderate increase in costs was mainly due to our Group's strategy to purchase directly from third party manufacturers in China, resulting the lower cost of purchase for the FYE 2023.

Our GP for the FYE 2023 increased by RM20.91 million or 64.32% to RM53.42 million (FYE 2022: RM32.51 million) mainly due to higher sales from both the dealers and project-based sales segments. Correspondingly our overall GP margin increased from 35.85% in FYE 2022 to 47.56% in FYE 2023.

The cost of sales for our dealer distribution segment decreased marginally by RM0.39 million or 1.21% to RM31.94 million (FYE 2022: RM32.33 million) as a result of cost savings achieved through direct purchases as mentioned above. Correspondingly, the GP increased by RM15.26 million or 65.21% to RM38.66 million (FYE 2022: RM23.40 million). Our GP margin for the dealer distribution segment increased from 41.99% in FYE 2022 to 54.76% in FYE 2023, contributing towards the overall increase in GP margins. This increase in GP margin for the dealer segment was mainly attributable to the following factors:-

(a) in the FYE 2023, our Group had increased its purchases directly with third party manufacturers in China resulting in cost savings for our Group coupled with lower average purchase costs for our kitchen faucets and accessories, and bathroom faucets, shower and bidets products; and

(b) the full financial year impact of an upward revision to the selling price to dealers for certain bathroom and kitchen sanitary ware products in FYE 2022, which resulted in better GP margins for FYE 2023.

The cost of sales for our project-based distribution segment increased by RM1.10 million or 4.28% to RM26.82 million (FYE 2022: RM25.72 million). The increase in cost compared to the increase in sales was due to the cost savings resulting from the direct purchases from third party manufacturers. The GP for project-based sales increased by RM5.62 million or 64.08% to RM14.39 million (FYE 2022: RM8.77 million) while the GP margin increased from 25.43% in FYE 2022 to 34.92% in FYE 2023.

The increase in GP margin was mainly attributable to the following factors:-

(a) in the FYE 2023, our Group had increased its direct purchases from third party manufacturers in China resulting in cost savings for our Group; and

(b) increase in the number of higher margin project-based sales during the FYE 2023.

The cost of sales for our online distribution segment increased by RM0.01 million to RM0.13 million (FYE 2022: RM0.12 million), which was in tandem with the increase in revenue. Correspondingly, the GP increased by RM0.02 million to RM0.36 million (FYE 2022: RM0.34 million). However, our GP margin for online distribution segment decreased slightly from 73.70% in FYE 2022 to 73.24% in FYE 2023, due to the continued promotional price campaign efforts to boost our online sales segment.

(iii) Other income

	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Interest income	90	4.46	77	36.32	202	90.18
Realised foreign exchange gain	369	18.30	-	-	-	-
Unrealised foreign exchange gain	427	21.18	-	-	-	-
Gain on disposal of PPE	-	-	29	13.68	19	8.48
Gain on disposal of investment property	33	1.64	-	-	-	-
Dividend income	446	22.12	-	-	-	-
Discount received	150	7.44	1	0.47	-	-
Bad debts recovered	340	16.87	-	-	-	-
Wages subsidies [(1)]	139	6.90	98	46.23	-	-
Others [(2)]	22	1.09	7	3.30	3	1.34
Total	**2,016**	**100.00**	**212**	**100.00**	**224**	**100.00**

Notes:-

(1) Wage subsidies received from SOCSO under the Wage Subsidy Programme.
(2) Mainly comprise of forfeited customer deposits and unknown receipts.

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded a decrease in other income by RM1.81 million or 89.60% to RM0.21 million (FYE 2021: RM2.02 million). The decrease in other income was mainly due to the following:-

(a) the absence of realised and unrealised foreign exchange gains in FYE 2022 (FYE 2021: RM0.8 million) as the USD appreciated in value against the RM during the FYE 2022;

(b) the dissolution of an associate company in FYE 2022 resulting in no dividend income in FYE 2022 (FYE 2021: RM0.45 million); and

(c) no bad debts recovered in FYE 2022, compared to RM0.34 million recovered in FYE 2021.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, our Group recorded an increase in other income by RM0.01 million or 4.76% to RM0.22 million (FYE 2022: RM0.21 million). The increase in other income was mainly due to the increase in fixed deposit interest income of approximately RM0.12 million to RM0.18 million (FYE 2022: RM0.06 million).

(iv) Administrative expenses

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Professional fees	203	2.19	439	4.42	353	2.70
Depreciation of PPE and investment properties	384	4.15	504	5.08	615	4.71
Rental	1,047	11.31	1,055	10.64	1,339	10.26
Staff costs	5,539	59.83	6,403	64.55	7,942	60.86
Directors remuneration	1,064	11.49	718	7.24	1,641	12.58
Upkeep of PPE	206	2.22	184	1.85	244	1.87
Insurance, road tax and inspection fees	114	1.23	82	0.83	106	0.81
Security charges	183	1.98	111	1.12	130	1.00
Office expenses (1)	333	3.60	167	1.68	267	2.05
Others (2)	185	2.00	257	2.59	412	3.16
Total	**9,258**	**100.00**	**9,920**	**100.00**	**13,049**	**100.00**

Notes:-

(1) Mainly comprise printing and stationery, telephone charges, water and electricity charges, quit rent and assessment and other office related expenses.

(2) Mainly comprise bank charges, entertainment expenses, gifts and donations, licensing fees, renewal and subscriptions, processing and maintenance fees etc.

Commentary:

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded an increase in administrative expenses by RM0.66 million or 7.13% to RM9.92 million (FYE 2021: RM9.26 million).

The increase in administrative expenses during the financial year under review was mainly due to the following factors:-

(a) an increase in professional fees by RM0.24 to RM0.44 million (FYE 2021: RM0.20 million) mainly due to the increase in audit fees resulting from a change in auditors and additional one-off audit fees incurred for the conversion of FYE 2021 audited financial statements to Malaysian Financial Reporting Standards (MFRSs) compliant;

(b) increase in depreciation of PPE and investment properties by RM0.12 million to RM0.50 million (FYE 2021: RM0.38 million) due to the addition of new PPE during the FYE 2022; and

(c) increase in staff costs by RM0.86 million to RM6.40 million (FYE 2021: RM5.54 million) mainly due to salary and wages increments, and the increase in staff bonuses and incentives during the FYE 2022.

However, such increase in the administrative expenses was partly offset by a decrease in the following:-

(a) decrease in directors' remuneration by RM0.34 million to RM0.72 million (FYE 2021: RM1.06 million) mainly due to a decrease in directors salary and the absence of directors fees during the FYE 2022;

(b) decrease in security charges by RM0.07 million to RM0.11 million (FYE 2021: RM0.18 million) due to the cessation of security services employed for a rented warehouse premises which ended during the FYE 2021; and

(c) decrease in office expenses by RM0.16 million to RM0.17 million (FYE 2021: RM0.33 million) mainly due to the absence of administrative fees charged by a related party during the FYE 2022.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, our Group recorded an increase in administrative expenses by RM3.13 million or 31.55% to RM13.05 million (FYE 2022: RM9.92 million).

The increase in administrative expenses during the financial year under review was mainly due to the following factors:-

(a) increase in depreciation of PPE and investment properties by RM0.12 million to RM0.62 million (FYE 2022: RM0.50 million) due to the addition of new PPE during the FYE 2022;

(b) increase in rental by RM0.28 million to RM1.34 million (FYE 2022: RM1.06 million) due to an increase in rental rates for our Bukit Raja warehouse for the FYE 2023;

(c) increase in staff costs by RM1.54 million to RM7.94 million (FYE 2022: RM6.40 million) mainly due to the recruitment of new staff, salary and wages increments, and the increase in staff bonuses and incentives during the FYE 2023;

(d) increase in directors' remuneration by RM0.92 million to RM1.64 million (FYE 2022: RM0.72 million) mainly due to an increase in directors fees during the FYE 2023; and

(e) increase in other expenses by RM0.15 million to RM0.41 million (FYE 2022: RM0.26 million) mainly due to increases in entertainment expenses and gifts during the FYE 2023.

(v) Selling and distribution expenses

	FYE 2021		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Commission	534	15.15	791	16.31	1,562	23.03
Advertising and marketing	2,492	70.72	3,506	72.30	4,164	61.40
Travelling and transport	498	14.13	552	11.39	1,056	15.57
Total	**3,524**	**100.00**	**4,849**	**100.00**	**6,782**	**100.00**

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded an increase in selling and distribution expenses of RM1.33 million or 37.78% to RM4.85 million (FYE 2021: RM3.52 million).

The increase in selling and distribution expenses during the financial year under review was mainly due to the following factors:-

(a) increase in commissions paid to dealers and sales staff by RM0.26 million to RM0.79 million (FYE 2021: RM0.53 million) in tandem with the increase in overall revenue for the FYE 2022; and

(b) increase in advertising and marketing expenses by RM1.02 million to RM3.51 million (FYE 2021: RM2.49 million) due to an increase in advertising and promotional activities during the FYE 2022.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, our Group recorded an increase in selling and distribution expenses of RM1.93 million or 39.79% to RM6.78 million (FYE 2022: RM4.85 million).

The increase in selling and distribution expenses during the financial year under review was mainly due to the following factors:-

(a) increase in commission paid to dealers and sales staff by RM0.77 million to RM1.56 million (FYE 2022: RM0.79 million) in tandem with the continued increase in the overall revenue for the FYE 2023;

(b) increase in advertising and marketing expenses by RM0.65 million to RM4.16 million (FYE 2022: RM3.51 million) with the continued increase in advertising and promotional activities during the FYE 2023; and

(c) increase in travelling and transport expenses by RM0.51 million to RM1.06 million (FYE 2022: RM0.55 million) due to the expenses incurred to service our new dealers as well as the renting of additional forklifts following the disposal of our obsolete forklifts in FYE 2022.

(vi) Other expenses

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Unrealised loss on foreign exchange	-	-	118	22.96	171	52.30
Realised loss on foreign exchange	-	-	227	44.16	97	29.66
Bad debts written off	-	-	169	32.88	7	2.14
Loss on disposal of PPE	-	-	-	-	52	15.90
Total	**-**	**-**	**514**	**100.00**	**327**	**100.00**

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded other expenses of RM0.51 million. The incurrence of other expenses during the financial year under review comprised of the following:-

(a) the unrealised and realised loss on foreign exchange amounting to an aggregate of RM0.35 million recorded for the FYE 2022 for the settlement of purchases made in USD and RMB due to the weaker RM against USD and RMB in the FYE 2022; and

(b) bad debts written off of RM0.17 million due to the closure of business customer.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, our Group recorded a decrease in other expenses of RM0.18 million or 35.29% to RM0.33 million (FYE 2022: RM0.51 million).

The decrease in other expenses during the financial year under review was mainly due to the decrease in realised loss on foreign exchange by RM0.13 million to RM0.10 million (FYE 2022: RM0.23 million) due to the strengthening of the RM against USD and RMB.

(vii) Finance costs

	FYE 2021		FYE 2022		FYE 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Term loans	22	21.36	22	16.29	109	27.60
Bankers' acceptance	78	75.73	103	76.30	269	68.10
Lease liabilities	3	2.91	10	7.41	17	4.30
Total	**103**	**100.00**	**135**	**100.00**	**395**	**100.00**

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded an increase in finance costs of RM0.04 million or 40.00% to RM0.14 million (FYE 2021: RM0.10 million). The increase in the finance costs was mainly due to the increased drawdown and utilisation of bankers' acceptance for the purchase of inventories.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, our Group recorded an increase in finance costs of RM0.26 million or 185.71% to RM0.40 million (FYE 2022: RM0.14 million). The increase in the finance costs was mainly due to the following factors:-

(a) increase in term loan interest by RM0.09 million to RM0.11 million (FYE 2022: RM0.02 million) resulting from the drawdown of a new term loan facility for the purchase of our Penang Facility in FYE 2023; and

(b) increase in bankers' acceptance charges by RM0.17 million to RM0.27 million (FYE 2022: RM0.10 million) due to the increased drawdown and utilisation of bankers' acceptance for the purchase of inventories during the FYE 2023.

(viii) Income tax expense

	FYE 2021	**FYE 2022**	**FYE 2023**
Group tax expense (RM'000)	2,146	4,226	8,191
Group effective tax rate (%)	21.63	24.91	24.73
Statutory tax rate (%)	24.00	24.00	24.00

Our effective tax rate for the FYE 2021 was 2.37% lesser than the statutory tax rate mainly due to the following:-

(a) tax saving on the first tranche of chargeable income of RM0.99 million at tax rate of 17.00% for three of our subsidiaries, namely, BBSB, IBSB and NSSB, as their issued share capital is not more than RM2.50 million; and

(b) non-taxable income in respect of the gain on disposal of investment property and dividend income received from an associate company.

(ix) PBT/ PAT and PBT/ PAT margin

	FYE 2021	FYE 2022	FYE 2023
PBT (RM'000)	9,923	16,968	33,121
PAT (RM'000)	7,777	12,742	24,930
PBT margin (%)	15.01	18.71	29.49
PAT margin (%)	11.76	14.05	22.20

Commentary:-

Comparison between FYE 2021 and FYE 2022

For the FYE 2022, our Group recorded an increase in PBT by RM7.05 million or 71.07% to RM16.97 million (FYE 2021: RM9.92 million) and an increase in PAT by RM4.96 million or 63.75% to RM12.74 million (FYE 2021: RM7.78 million). The increase in both PBT and PAT was mainly due to higher GP recorded in the financial year.

Our Group's PBT margin improved from 15.01% in the FYE 2021 to 18.71% in the FYE 2022. The PAT margin also improved from 11.76% in the FYE 2021 to 14.05% in the FYE 2022. The increase in the margins were mainly due to higher GP margin recorded in FYE 2022.

Comparison between FYE 2022 and FYE 2023

For the FYE 2023, the Group recorded an increase in PBT by RM16.15 million or 95.17% to RM33.12 million (FYE 2022: RM16.97 million) and an increase in PAT by RM12.19 million or 95.68% to RM24.93 million (FYE 2022: RM12.74 million). The increase was mainly due to higher GP recorded for the FYE 2022.

The Group's PBT margin improved from 18.71% for the FYE 2022 to 29.49% for the FYE 2023. The Group's PAT margin also improved from 14.05% for the FYE 2022 to 22.20% for the FYE 2023. The increase in the PBT margin and PAT margin was mainly due to higher GP margin recorded for the FYE 2023.

12.3.3 Significant factors materially affecting our operations and financial results

Our business operations and financial conditions have been and will continue to be affected by factors including, but not limited to, the following:-

(i) Demand and supply conditions

Our business, performance and results of operations are dependent on the demand and supply conditions for bathroom and kitchen sanitary ware products in Malaysia. The demand for our bathroom and kitchen sanitary ware products and accessories is closely associated with the growth of end-user industries such as the construction industry as well as the housing industry, in particular the secondary market residential property market as these property developers and contractors are the major buyers of bathroom and kitchen sanitary ware products.

The supply of bathroom and kitchen sanitary ware products are sourced from a wide pool of both local and oversea third party manufacturers and/ or suppliers offering a diverse range of products in terms of quality, pricing and specifications. Our future performance, to a certain extent, depends on our ability to maintain long-term arrangements or relationships with our major suppliers and continually source quality bathroom and kitchen sanitary ware products at competitive prices and terms which meet the requirements of our customers.

Please refer to Sections 8 and 9 of this Prospectus for further details on the demand and supply conditions in relation to the distribution of bathroom and kitchen sanitary ware products in Malaysia and the risk factors.

(ii) Product sales mix and distribution channels

We adopt a multi-channel distribution strategy comprising dealers, projects and our online platforms, to have a wide network of distribution reach and diverse customer base of B2B and B2C customers to sell our bathroom and kitchen sanitary ware products. We generally command higher GP margin for the sales via dealers as compared to the sales via projects. Any significant change in our product sales mix and composition of sales via different mode of distribution channel may impact our revenue and GP margin, and as a result will affect our overall financial performance.

(iii) Competition

Our Group is operating in the distribution of bathroom and kitchen sanitary ware products where the market is relatively fragmented and thus we are subject to competition from other operators that are involved in the sales and distribution of bathroom and kitchen sanitary ware products in terms of pricing, range and quality of products offered, outlet location, customer service and others. Nevertheless, our competitive advantages and key strengths have enabled us to compete effectively in the industry that we are operating in.

We will continue to take measures to maintain our competitiveness through our competitive strengths set out in Section 7.5 of this Prospectus. However, there is no assurance that our business, performance and results of operations will not be materially and adversely affected if we are unable to do so. Please refer to Sections 8 and 9.2.1 of this Prospectus for further details on the competitive analysis on the distribution of bathroom and kitchen sanitary ware products in Malaysia and the risk factors relating to the competition from other brands of bathroom and kitchen sanitary wares.

(iv) Fluctuations in costs of purchase

Costs of purchase for our bathroom and kitchen sanitary ware products is the main component of our cost of sales, representing more than 80% of our total cost of sales for the Financial Years Under Review.

Fluctuations in the pricing of bathroom and kitchen sanitary ware products in the industry are affected by supply conditions which may be caused by various factors including, among others, natural causes such as weather conditions, pests and natural disasters including floods, supply chain disruptions, availability of labour and trade barriers. Hence, any fluctuations in the cost of purchase of our products for distribution would affect our cost of sales as well as our financial performance.

Nevertheless, we constantly plan ahead for our procurement decision and pricing strategy to ensure consistent and uninterrupted supply of our products to meet and sustain the continuous demand from our customers. Please refer to Section 9 of this Prospectus for further details on the risk factor.

(v) Impact of interest rates

We incurred minimal finance costs for the Financial Years Under Review given our low outstanding borrowings position over the same period. Therefore, there was no material impact arising from fluctuation of interest rates on our operations and financial results for the Financial Years Under Review. However, any major increase in interest rates would raise the cost of our future borrowings and our finance costs, if incurred, which may have an adverse impact on the financial performance of our Group.

(vi) Impact of foreign exchange

Our purchases are mostly denominated in RMB and USD whilst our sales are transacted primarily in RM. As such, we are exposed to foreign currency risk and any unfavourable foreign currency exchange rate fluctuation may materially affect our business operations and financial performance.

For information purposes, the breakdown of our purchases transacted in RM and other currencies for the Financial Years Under Review are summarised as follows:-

	FYE 2021		FYE 2022		FYE 2023	
Purchases denominated in:	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
USD	22,136	45.03	27,537	55.44	23,721	43.84
RMB	88	0.18	-	-	24,653	45.55
RM	26,728	54.37	22,113	44.53	5,737	10.60
Others*	207	0.42	13	0.03	7	0.01
Total purchases	**49,159**	**100.00**	**49,663**	**100.00**	**54,118**	**100.00**

Note:-

* Others comprise Singapore Dollar and Euro Dollar.

For illustration purposes, for the FYE 2023, assuming the fluctuation of the RM against the USD, RMB, Singapore Dollar and Euro Dollar is 1.00%, this will result in an increase or decrease in our GP by RM0.466 million, depending on the direction of the foreign exchange movement between RM and said currencies. As our Group continues to expand, any fluctuation in foreign exchange rates may have a material impact on our financial performance.

The impact of foreign exchange fluctuations on our financial performance, which arose due to timing differences between our suppliers' invoices and actual payments to our suppliers, are as follows:-

	FYE 2021	FYE 2022	FYE 2023
Net gain/ (loss) on foreign exchange (RM'000)	796	(345)	(268)
As a percentage of PBT (%)	8.02	(2.03)	(0.81)

We closely monitor the movement of the USD against RM to manage our foreign exchange currency risks and if the need arises, we may enter into hedging arrangement to minimise the impact of such risk.

We have not incurred any material losses arising from foreign currency translation for the Financial Years Under Review.

(vii) Impact of inflation

Our business, financial condition or results of operations for the Financial Years Under Review were not materially affected by the impact of inflation. Nonetheless, there can be no assurance that future inflation, such as future increases in purchased materials, subcontractor cost and labour cost, would not have any impact on our business operations and financial performance.

(viii) Impact of government/ economic/ fiscal/ monetary policies

Any unfavourable change in government, economic, fiscal or monetary policies may materially affect our business operations and financial performance. For the Financial Years Under Review, our results were not adversely affected by any unfavourable changes relating to these policies. Nonetheless, there is no assurance that our financial performance will not be adversely affected by the impact of changes in government, economic, fiscal or monetary policies in the future.

12.3.4 Liquidity and capital resources

Our operations are funded through cash generated from our operating activities, credit extended by our suppliers, credit facilities granted by financial institutions as well as our existing cash and bank balances.

As at 30 June 2023, our Group has cash and fixed deposits of RM13.02 million, available credit facilities of RM15.50 million, of which RM6.05 million has yet to be utilised and working capital of RM46.02 million, being the difference between current assets of RM70.27 million and current liabilities of RM24.25 million.

Based on the above and after taking into consideration of our funding requirements for our committed capital expenditure, existing level of cash and bank balances, expected cash flows to be generated from our operations, credit facilities available and the estimated net proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for a period of 12 months from the date of this Prospectus.

Cash flow

	FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000
Net cash (used in) / from operating activities	(2,600)	254	10,619
Net cash from / (used in) investing activities	103	(4,303)	(999)
Net cash (used in) / from financing activities	(1,708)	4,790	(4,765)
Net (decrease) / increase in cash and cash equivalents	**(4,205)**	**741**	**4,855**
Cash and cash equivalents at the beginning of the financial years	**11,670**	**7,465**	**8,207**
Effect of exchange translation differences on cash and cash equivalents	*	1	(36)
Cash and cash equivalents at the end of the financial years	**7,465**	**8,207**	**13,026**

Note:-

* Denotes less then RM1,000

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

Commentary:-

Net cash (used in)/ from operating activities

FYE 2021

For the FYE 2021, our operating cash flows before working capital changes was RM9.56 million. After adjusting for the following key items, our net cash used in our operating activities was RM2.60 million:-

(i) increase in inventories of RM9.37 million;

(ii) increase in receivables of RM2.43 million was mainly due to the increase in trade receivables increased by RM2.80 million resulting from the slower collection of our receivables during the FYE 2021;

(iii) increase in payables of RM2.13 million was mainly due to the increase in trade payables by RM2.48 million resulting from the higher purchases made in June 2021;

(iv) net income tax payment of RM2.50 million; and

(v) interest income received of RM0.01 million.

FYE 2022

For the FYE 2022, our operating cash flows before working capital changes was RM18.22 million. After adjusting for the following key items, our net cash from our operating activities was RM0.25 million:-

(i) increase in inventories of RM2.70 million;

(ii) increase in receivables of RM9.83 million of which trade receivables increased by RM10.40 million mainly due to higher sales recorded in during the fourth quarter of FYE 2022 while other receivables decreased by RM0.57 million mainly due to the payment received from a related party;

(iii) decrease in payables of RM 0.95 million of which trade payables decreased by RM0.90 million mainly due to higher repayment to suppliers while other payables decreased by RM0.05 million mainly due to the lower accruals for staff salaries and related statutory contributions;

(iv) income tax payment of RM4.50 million; and

(v) interest income received of RM0.02 million.

FYE 2023

For the FYE 2023, our operating cash flows before working capital changes were RM33.90 million. After adjusting for the following key items, our net cash from our operating activities was RM10.62 million:-

(i) increase in inventories of RM5.19 million;

(ii) increase in receivables of RM0.11 million of which trade receivables decreased by RM0.61 million mainly due to higher collection from our dealers while other receivables increased by RM0.72 million mainly due to advances paid to suppliers for the orders of products;

(iii) decrease in payables of RM10.77 million of which trade payables decreased by RM12.31 million mainly due to higher repayment to suppliers while other payables increased by RM1.54 million mainly due to the recognition of inventories in transit;

(iv) net income tax payment of RM7.23 million; and

(v) interest income received of RM0.02 million.

Net cash from/ (used in) investing activities

FYE 2021

Our Group generated net cash from investing activities of RM0.10 million for the FYE 2021. This was mainly attributed to the following:

(i) net cash payment on purchase of PPE of RM1.50 million which include amongst others, office equipment, furniture and equipment, computer and software, renovation and motor vehicles;

(ii) net cash payment on purchase of investment property of RM0.43 million, comprising of a single storey semi-detached house in Marang, Terengganu and the partial scheduled payments for the purchase of two apartment units located in Kenwingston Platz, Setapak and The Birch, Jalan Ipoh;

(iii) proceeds from the disposal of an investment property of RM1.50 million;

(iv) interest received of RM0.08 million; and

(v) dividends received from an associate company of RM0.45 million.

FYE 2022

Our Group recorded net cash used in investing activities of RM4.30 million for the FYE 2022. This was mainly attributed to the following:-

(i) net cash payment on purchase of PPE of RM4.15 million which include amongst others, our Penang Facility, office equipment, furniture and equipment, computer and software, renovation, motor vehicles, signboards and capital work in progress for an ERP software;

(ii) net cash payment on purchase of investment property of RM0.28 million, being the partial scheduled payments for the purchase of two apartment units located in Kenwingston Platz, Setapak and The Birch, Jalan Ipoh;

(iii) proceeds from the disposal of PPE of RM0.07 million; and

(iv) interest received of RM0.06 million.

FYE 2023

Our Group recorded net cash used in investing activities of RM1.00 million for the FYE 2023. This was mainly attributed to the following:-

(i) net cash payment on purchase of PPE of RM0.98 million which include amongst others, office equipment, furniture and equipment, computer and software, renovation, motor vehicles, signboards and capital work in progress for an ERP software;

(ii) net cash payment on purchase of investment property of RM0.23 million, being the partial scheduled payments for the purchase of two apartment units located in Kenwingston Platz, Setapak and The Birch, Jalan Ipoh;

(iii) proceeds from the disposal of PPE of RM0.02 million;

(iv) proceeds from the disposal of an investment property of RM0.01 million; and

(v) interest received of RM0.18 million.

Net cash from/ (used in) financing activities

FYE 2021

Our Group recorded net cash used in financing activities of RM1.71 million mainly for the repayment of term loans, bankers' acceptance and lease liabilities of RM5.40 million, interest payment of RM0.10 million and dividend payment of RM4.23 million. The outflow was partly offset by the drawdown of bankers' acceptance of RM5.86 million, the advances from a director of RM0.66 million, repayment from associates of RM1.47 million and proceeds received from issue of share capital of RM0.03 million.

FYE 2022

Our Group recorded net cash from financing activities of RM4.79 million mainly for the repayment of term loans, bankers' acceptance and lease liabilities of RM6.41 million, the repayment to a director of RM0.36, interest payment of RM0.14 million and dividend payment of RM4.36 million. The outflow was partly offset by the drawdown of bankers' acceptance and term loan of RM13.25 million and repayment from associates of RM2.81 million.

FYE 2023

Our Group recorded net cash used in financing activities of RM4.77 million mainly for the repayment of term loans, bankers' acceptance and lease liabilities totalling to RM16.85 million, interest payment of RM0.39 million and dividend payment of RM7.22 million. The outflow was partly offset by the drawdown of bankers' acceptance and term loan totalling to RM19.53 million and advances from a director of RM0.16 million.

12.3.5 Borrowings

Type of borrowings	Tenure	Interest rates (per annum)	Payable within 12 months RM'000	Payable after 12 months RM'000	Total RM'000
Lease liabilities	3 to 5 years	2.40% to 4.11%	145	397	542
Bankers' acceptance	117 to 150 days	2.95% to 4.42%	9,445	-	9,445
Term loans	20 to 25 years	2.95% to 4.42%	86	2,633	2,719
Total borrowings			**9,676**	**3,030**	**12,706**

Gearing ratio as at 30 June 2023 (times)*	0.25

Note:-

* Computed based on total borrowings over our pro forma shareholders' equity (after the Acquisitions but before the Public Issue and use of proceeds) as at 30 June 2023 of RM50.30 million.

As at the LPD, all our bank borrowings are secured, interest bearing and denominated in RM. Our credit facilities are secured by a charge over certain PPE of a related party and joint and several guarantee by certain Directors. We have not defaulted on any payment of either principal sum and/ or interest in relation to our borrowings during the financial years under review and up to the LPD. We also do not encounter any seasonality in our borrowings trend and there is no restriction on our committed borrowing facilities.

The short-term banking facilities available to our Group include bankers' acceptance which are generally used for working capital purposes. The long-term banking facilities of our Group include lease liabilities and term loans, which are used for the purchase of PPE including land and buildings, investment properties and motor vehicles.

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

12.3.6 Type of financial instruments used

As at the LPD, save for bank borrowings as disclosed in Section 12.3.5 of this Prospectus, we do not use any other financial instruments.

For clarity purposes, the financial instruments of our Group which are used in the ordinary course of business, from an accounting perspective, may include financial assets such as cash and cash equivalents, and trade and other receivables, as well as financial liabilities such as borrowings, lease obligations and trade and other payables. These are shown in the combined statements of financial position of our Group.

As at the LPD, we do not use any financial instrument for hedging purposes.

12.3.7 Treasury policies and objectives

We finance our operations through internally generated funds as well as external sources of funds, such as shareholders' funds, credit term from suppliers as well as short-term and long-term bank borrowings.

The primary objective of our financial management and treasury policies is to maintain sufficient working capital at all times and ensure our ability to support and grow our business in order to maximise shareholders' value. We review and manage our capital structure to maintain its debt-to-equity ratio at an optimal level based on the business requirements and prevailing economic conditions.

Our Group has not entered into any interest rate swap to hedge against fluctuations in interest rates. Our Group manage its exposure to interest rate movements by maintaining a combination of both fixed-rate and floating-rate borrowings.

12.3.8 Material commitment

As at the LPD, save as disclosed below, our Board, after having made all reasonable enquiries, confirm that there are no other material commitment which upon becoming enforceable, may have a material impact on the financial position of our Group:-

	Amount
	RM'000
Approved and contracted for:	
Two units of forklifts	438
Enterprise resource planning system	159
Total	**597**

The above capital commitment will be financed through internally generated funds and/ or bank borrowings. Further details on the use of proceeds are set out in Section 4.4 of this Prospectus.

12.3.9 Material contingent liabilities

As at the LPD, our Board is not aware of any contingent liabilities, which upon becoming enforceable may have a material impact on the financial performance and position of our Group.

12.4 KEY FINANCIAL RATIOS

	FYE 2021	FYE 2022	FYE 2023
Average trade receivables turnover period (days)	91	92	89
Average trade payables turnover period (days)	183	147	105
Average inventories turnover period (days)	109	122	145
Current ratio (times)	1.75	1.89	2.90
Gearing ratio (times)	0.11	0.30	0.25

Trade receivables

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Revenue	66,107	90,688	112,311
Average trade receivables [(1)]	16,433	22,780	27,433
Average trade receivables turnover period (days) [(2)]	**91**	**92**	**89**

Notes:-

(1) Average trade receivables was derived based on the average sum of the opening balances and closing balances of trade receivables of the respective financial years.

(2) Computed based on average trade receivables of the respective financial years over the revenue of the respective financial years, multiplied by 365 days.

The credit period granted to our customers is from 30 days to 90 days from the date of invoice. Other credit terms to our customers are assessed and approved on a case-by-case basis by taking into consideration various factors such as the business relationship with our customers, the customers' payment history and creditworthiness as well as transaction volume while new customers are subject to our credit verification and assessment process.

Our average trade receivables turnover period increased slightly from 91 days in the FYE 2021 to 92 days in the FYE 2022 and subsequently improved to 89 days in the FYE 2023. This was mainly attributable to our continuous efforts to improve the collection from our customers.

The ageing analysis in respect of trade receivables is as follows:-

		Exceed credit period by				
	Within credit period	1 – 30 days	31 – 60 days	61 – 90 days	> 90 days	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	19,706	3,136	1,470	1,333	1,636	27,281
Less: Impairment losses	(2)	(1)	(1)	(1)	(134)	(139)
Net trade receivables	**19,704**	**3,135**	**1,469**	**1,332**	**1,502**	**27,142**
% of total trade receivables	72.60	11.55	5.41	4.91	5.53	100.00
Subsequent collections up to the LPD	19,185	3,133	1,450	1,293	1,258	26,319
Outstanding net trade receivables	**519**	**2**	**19**	**39**	**244**	**823**

Up to the LPD, we have collected RM26.32 million or 96.98% of the total trade receivables outstanding as at 30 June 2023. We are in the process of collecting the remaining amount of RM0.82 million.

As part of our credit control policy, we closely monitor our aging report and assess the collectability of trade receivables on an individual customer basis regularly. For any trade receivables which have exceeded the normal credit period granted, we will follow up with calls and send reminders and where appropriate, provide for specific impairment on those trade receivables where recoverability are uncertain based on our dealings with the customers.

Notwithstanding the above, our Board is of the opinion that the remaining amount of RM0.82 million is recoverable and no further impairment of trade receivables is required after taking into consideration these customers' credentials, payment track record as well as our relationship with them.

Trade payables

	FYE 2021	FYE 2022	FYE 2023
	RM'000	**RM'000**	**RM'000**
Cost of sales	45,318	58,174	58,894
Average trade payables [(1)]	22,703	23,351	16,878
Average trade payables turnover period (days) [(2)]	**183**	**147**	**105**

Notes:-

(1) Average trade payables was derived based on the average sum of the opening balances and closing balances of trade payables of the respective financial years.

(2) Computed based on average trade payables of the respective financial years over the cost of sales of the respective financial years, multiplied by 365 days.

The normal credit period extended by our suppliers is 60 days. Our average trade payables turnover period exceeded the normal credit period during the Financial Years Under Review due to an extended credit period negotiated with and granted by one of our major suppliers.

Our average trade payables turnover period improved from 183 days in the FYE 2021 to 147 days in the FYE 2022 and subsequently improved to 105 days in the FYE 2023. This was mainly attributable to our concerted efforts to repay our suppliers earlier to facilitate our negotiations for lower product pricing. It is our practice to make prompt payments to our suppliers with the aim to strengthen our business relationship with suppliers in order to safeguard the continuity of suppliers at more favourable terms and pricing.

As at 30 June 2023, the trade payables of our Group amounted to RM10.79 million, the ageing of which are analysed as follows:-

	Within credit period	Exceed credit period by				
		1 – 30 days	**31 – 60 days**	**61 – 90 days**	**> 90 days**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	1,183	1,061	840	596	7,105	10,785
% of total trade payables	10.97	9.84	7.79	5.52	65.88	100.00
Subsequent payments up to the LPD	1,183	1,061	840	596	7,105	10,785
Outstanding trade payables	**-**	**-**	**-**	**-**	**-**	**-**

Up to the LPD, we have settled all of our outstanding trade payables. As at the LPD, there is no dispute in respect of our trade payables and no legal action has been initiated by our suppliers to demand for payment from us during the financial years under review.

Inventories

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Cost of sales	45,318	58,174	58,894
Average inventories [(1)]	13,522	19,438	23,438
Average inventories turnover period (days) [(2)]	**109**	**122**	**145**

Notes:-

(1) Average inventories was derived based on the average sum of the opening balances and closing balances of inventories of the respective financial years.

(2) Computed based on average inventories of the respective financial years over the cost of sales of the respective financial years, multiplied by 365 days.

Our inventories comprise bathroom and kitchen sanitary ware products and are measured at the lower of cost and net realisable value. Due to the nature of our business, it is important for us to maintain a certain level of inventories to ensure availability of stocks and varieties of products to meet our customers' demand and delivery lead time requirements.

Our average inventories turnover period for the FYE 2021 was 109 days which increased to 122 days in the FYE 2022 and further increased to 145 days in the FYE 2023. These were mainly attributable to the increase in our purchases in line with the increase in our sales during the financial years under review. As part of our business growth strategy, we have rented and relocated our operations to our Bandar Bukit Raja Facility in 2020, acquired our Penang Facility during the FYE 2022 and further rented our Jalan Meru Facility during the FYE 2023, to expand our operations, where we have larger storage space to cater for the increase in inventories to meet the demands of our customers.

Our bathroom and kitchen sanitary ware products have long shelf life and the trend and model do not change frequently. In addition, we perform quarterly physical stock count on selected products as well as a full stock count annually to identify inconsistency in terms of quantity to the inventory system and slow-moving inventories. Damaged and/ or non-sellable inventories are written-off in accordance with our inventory management policy.

Current ratio

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Current assets	50,395	60,450	70,269
Current liabilities	28,788	31,939	24,249
Current ratio (times)	**1.75**	**1.89**	**2.90**

Current ratio measures the liquidity position of our Group to meet our short-term obligations. The liquidity position of our Group has been manageable as reflected in the current ratio for the financial years under review which has been fairly strong ranging between 1.75 times and 2.90 times.

Our current ratio increased from 1.75 times as at 30 June 2021 to 1.89 times as at 30 June 2022. This was mainly attributable to the increase in our current assets position in particular the higher trade receivables balances as a result of the increase in revenue for the FYE 2022.

Our current ratio increased from 1.89 times as at 30 June 2022 to 2.90 times as at 30 June 2023. This was mainly attributable to the increase in our current assets position in particular the higher inventories in line with the increase in our purchases to ensure availability of stocks and varieties of products to meet our customers' demand and delivery lead time requirements.

Gearing ratio

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
Total loans and borrowings	2,587	9,651	12,706
Shareholders' equity	24,205	32,586	50,301
Gearing ratio (times)	**0.11**	**0.30**	**0.25**

Our gearing ratio increased from 0.11 times as at 30 June 2021 to 0.30 times as at 30 June 2022 mainly due to the increase in our total loans and borrowings. The increase in loans and borrowings were mainly utilised to finance the purchase of our Penang Facility and inventories.

Our gearing ratio decreased from 0.30 times as at 30 June 2022 to 0.25 times as at 30 June 2023 despite an increase in our total loans and borrowings mainly due to the increase in our shareholders' equity arising from the increase in profits for the FYE 2023.

12.5 TREND INFORMATION

As at the LPD, to the best of the knowledge and belief of our Board, the financial conditions and operations of our Group have not been and are not expected to be affected by any of the following:-

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those discussed in this section and in Sections 7, 8 and 9 of this Prospectus;

(ii) material commitment for capital expenditure save as disclosed in Section 12.3.8 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save for those that had been disclosed in this section and in Section 9 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/ or profits, save for those that had been discussed in this section and in Section 9 of this Prospectus.

(v) known circumstances, trends, demands, commitments, events or uncertainties that are reasonably likely to make the historical financial statements not indicative of the future financial performance and position, save for those that had been disclosed in this section and in Section 9 of this Prospectus.

12.6 ORDER BOOK

Due to the nature of our business of marketing, distribution and sale of bathroom and kitchen sanitary wares, our Group does not maintain an order book.

12.7 SIGNIFICANT CHANGES

There are no significant changes that have occurred, which may have a material effect on our financial position and results subsequent to the FYE 2023 and up to the LPD.

12.8 DIVIDEND POLICY

It is our Directors' policy to allow our shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

During the FYE 2021 to FYE 2023, we declared and paid the following dividends:-

	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000
PAT	7,777	12,742	24,930
Dividends declared and paid	4,233	4,361	7,216
Dividend payout ratio (%)	54.43	34.23	28.95

In addition, our Group had declared and paid total dividends amounting to approximately RM2.00 million for the FYE 2024. Further, we intend to declare an additional interim dividend of approximately RM7.00 million for the FYE 2024. The dividend will be funded via internally generated funds and is expected to be declared and paid in the fourth quarter of FYE 2024, prior to our Listing. The dividend to be declared and paid are not expected to affect the execution and implementation of our future plans or strategies moving forward.

Notwithstanding the above, our Group presently does not have a fixed dividend policy. Our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for working capital of our business. Our Directors will take into consideration, among others, the following factors when recommending dividends for approval by our shareholders or when declaring any dividend:-

(i) the availability of adequate reserves and cash flows. As an investment holding company, our income, and therefore our ability to pay dividends, depends on the dividends or other distributions received from our subsidiaries;

(ii) our operating cash flow requirements and financing commitments;

(iii) our anticipated future operating conditions, as well as future expansion, capital expenditure and investment plans;

(iv) our Company is solvent as the Act requires;

(v) any material impact of tax laws and other regulatory requirements; and

(vi) prior written consent from financial institutions, where required.

However, investors should note that the intention to recommend dividends should not be treated as a legal obligation on our Company to do so. The level of dividends should also not be treated as an indication of our Company's future dividend policy. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future. In determining dividends in respect of subsequent financial years, consideration will be given to maximising shareholders' value. There is no dividend restriction being imposed on our Group currently.

In addition, our ability to declare and pay interim dividends as well as to recommend final dividends are subject to the discretion of our Board. We will also need to obtain our shareholders' approval for any final dividend for the year.

No inference should or can be made from any of the statements above as to our actual future profitability and our ability to pay dividends in the future.

12.9 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

SORENTO CAPITAL BERHAD
[Registration No.: 202301018305 (1512227-W)]
(Incorporated in Malaysia)

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023

TGS TW PLT

CHARTERED ACCOUNTANTS

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants
Unit E-16-2B, Level 16, ICON Tower (East)
No.1, Jalan 1/68F, Jalan Tun Razak
50400 Kuala Lumpur
Tel: +603 9771 4326
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Email: tgsaudit@tgs-tw.com
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The Board of Directors
Sorento Capital Berhad
No. 5, Jalan Astana 2/KU2
Bandar Bukit Raja
41050 Klang
Selangor Darul Ehsan

Dear Sirs,

SORENTO CAPITAL BERHAD ("SORENTO CAPITAL GROUP" OR "THE COMPANY") REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of Sorento Capital Berhad and of its subsidiaries (collectively known as "the combining entities" or "Sorento Capital Group") as at 30 June 2023.

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors based on the applicable criteria as specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in the notes as set out in Basis of Preparation of Pro Forma Combined Statements of Financial Position ("Applicable Criteria").

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors for illustrative purposes only and for inclusion into the prospectus of the Group in connection with the listing of and quotation for the entire enlarged issued share capital of the Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing").

As part of this process, information about the combining entities' combined financial position has been extracted by the Directors from the audited statements of financial position of the combining entities as at 30 June 2023, on which was reported by us to the members of the combining entities on 26 March 2024 without any modification.

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

The Board of Directors is solely responsible for compiling the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

Our Independence and Quality Control

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

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

Our Responsibility

Our responsibility is to express an opinion as required by the Prospectus Guidelines, about whether the Pro Forma Combined Statements of Financial Position have been properly compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

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

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Combined Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Combined Statements of Financial Position.

The purpose of the Pro Forma Combined Statements of Financial Position included in the Prospectus is solely to illustrate the impact of a significant event or transaction or unadjusted financial information on the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Board of Directors of the Company in the compilation of the Pro Forma Combined Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:-

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Combined Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

Our Responsibility (Cont'd)

The procedures selected depend on our judgement, having regard to our understanding of the nature of the combining entities, the event or transaction 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.

Opinion

In our opinion, the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria.

Other Matters

This report has been prepared solely for the purpose of inclusion in the Prospectus of Sorento Capital Berhad in connection with the Listing. It is not intended to be used for any other purposes. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants

OOI POH LIM
3087/10/2025 J
Chartered Accountant

Kuala Lumpur
26 March 2024

SORENTO CAPITAL BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023

The Pro Forma Combined Statements of Financial Position of the Group as at 30 June 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 June 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position.

	Note	At the date of incorporation	Adjustments for Proposed Acquisition	Proforma I After Proposed Acquisition	Adjustments for Proposed Public Issue	Proforma II After Proposed Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
ASSETS								
Non-current assets								
Property, plant and equipment	3.01	-	6,706,912	6,706,912	-	6,706,912	-	6,706,912
Investment properties	3.02	-	739,169	739,169	-	739,169	-	739,169
Investment in associates	3.03	-	350	350	-	350	-	350
Deferred tax assets	3.04	-	74,000	74,000	-	74,000	-	74,000
Total non-current assets		-		7,520,431		7,520,431		7,520,431
Current assets								
Inventories	3.05	-	26,132,822	26,132,822	-	26,132,822	-	26,132,822
Trade receivables	3.06	-	27,141,901	27,141,901	-	27,141,901	-	27,141,901
Other receivables	3.07	-	3,000,658	3,000,658	-	3,000,658	-	3,000,658
Amount due from associates	3.08	-	50,000	50,000	-	50,000	-	50,000
Tax recoverable	3.09	-	916,999	916,999	-	916,999	-	916,999
Fixed deposits with a licensed bank	3.10	-	5,032,635	5,032,635	-	5,032,635	-	5,032,635
Cash and bank balances	3.11	1,000	7,992,344	7,993,344	[.]	[.]	[.]	[.]
Total current assets		1,000		70,268,359		[.]		[.]
Total assets		1,000		77,788,790		[.]		[.]

SORENTO CAPITAL BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

The Pro Forma Combined Statements of Financial Position of the Group as at 30 June 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 June 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position. (Cont'd)

	Note	At the date of incorporation	Adjustments for Proposed Acquisition	Proforma I After Proposed Acquisition	Adjustments for Proposed Public Issue	Proforma II After Proposed Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES								
EQUITY								
Equity attributable to owners of Sorento Capital Berhad:-								
Share capital	3.12	1,000	42,299,940	42,300,940	[.]	[.]	[.]	[.]
Merger deficit	3.13	-	(41,918,940)	(41,918,940)	-	(41,918,940)	-	(41,918,940)
Retained earnings	3.14	-	49,918,985	49,918,985	-	49,918,985	[.]	[.]
Total equity		1,000		50,300,985		[.]		[.]
LIABILITIES								
Non-current liabilities								
Loans and borrowings	3.15	-	2,633,017	2,633,017	-	2,633,017	-	2,633,017
Lease liabilities	3.16	-	396,654	396,654	-	396,654	-	396,654
Deferred tax liabilities	3.17	-	209,011	209,011	-	209,011	-	209,011
Total non-current liabilities		-		3,238,682		3,238,682		3,238,682

TGS TW PLT * For Identification Purposes Only

SORENTO CAPITAL BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

The Pro Forma Combined Statements of Financial Position of the Group as at 30 June 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 June 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position. (Cont'd)

	Note	At the date of incorporation	Adjustments for Proposed Acquisition	Proforma I After Proposed Acquisition	Adjustments for Proposed Public Issue	Proforma II After Proposed Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES (CONT'D)								
LIABILITIES (CONT'D)								
Current liabilities								
Loans and borrowings	3.15	-	9,530,842	9,530,842	-	9,530,842	[.]	[.]
Lease liabilities	3.16	-	145,479	145,479	-	145,479	-	145,479
Trade payables	3.18	-	10,784,810	10,784,810	-	10,784,810	-	10,784,810
Other payables	3.19	-	2,921,444	2,921,444	-	2,921,444	-	2,921,444
Amount due to Directors	3.20	-	866,548	866,548	-	866,548	-	866,548
Total current liabilities		-		24,249,123		24,249,123		[.]
Total liabilities		-		27,487,805		27,487,805		[.]
Total equity and liabilities		1,000		77,788,790		[.]		[.]
Issued ordinary share capital (Unit)	3.12	1,000	704,999,000	705,000,000	155,000,000	860,000,000	-	860,000,000
Net assets per share attributable to owners of Sorento Capital Berhad (RM)		1.00		0.07		[.]		[.]

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023

1. BASIS OF PREPARATION

The Pro Forma Combined Statements of Financial Position of the Group has been prepared for illustrative purposes and on the assumptions that all the transactions mentioned as per Note 2 to the Pro Forma Combined Statements of Financial Position had taken place on 30 June 2023.

The Pro Forma Combined Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited combined financial statements of the combining entities for the financial year ended 30 June 2023 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:

Merger method of accounting

The Pro Forma Combined Statements of Financial Position are combined using the merger method as these companies are under the common control by the same party both before and after the acquisition of Sorento Sdn. Bhd. ("SSB"), Nautical Sanitaryware Sdn. Bhd. ("NSSB"), Beyond Bath Sdn. Bhd. ("BBSB") and Ideal Bath Sdn. Bhd. ("IBSB"). When the merger method is used, the difference between the cost of investment recorded by the Group and the share capital of the subsidiary are accounted for as merger deficit in the Pro Forma Combined Statements of Financial Position.

SSB, NSSB, BBSB and IBSB are regarded as a continuing entity resulting from the reorganisation exercise because the management of SSB, NSSB, BBSB and IBSB, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

2. LISTING SCHEME

(i) Pro Forma I: Acquisitions

The Acquisitions entails acquiring the entire equity interest of SSB, NSSB, BBSB and IBSB, for total purchase consideration of RM42,299,940 to be satisfied via the issuance of 704,999,000 new shares at an issue price of RM0.06 per share based on the net assets of SSB, NSSB, BBSB and IBSB as at 30 June 2023 and adjusted for dividend declared by SSB amounting to RM8,000,000.

(ii) Pro Forma II: Public Issue

The Public Issue involves a public issue of 155,000,000 new ordinary shares in Sorento Capital Berhad at an IPO of RM[.] per share.

In conjunction with the IPO, the Company would list and quote its entire enlarged issued share capital comprising 860,000,000 ordinary shares in Sorento Capital Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

2. **LISTING SCHEME (CONT'D)**

(iii) **Pro Forma III: Proposed Utilisation of Proceeds**

Gross proceeds from the Public Issue of RM[.] are expected to be utilised as follows:

Details of use of proceeds	**Estimated timeframe for the use of proceeds upon Proposed Listing**	**RM**	**% of total gross proceeds from the Proposed Public Issue**
Branding promotion	36 months (1)	[.]	[.]
Dealers network expansion	36 months (1)	[.]	[.]
Loans and borrowings	12 months (1)	[.]	[.]
General working capital^	24 months (1)	[.]	[.]
Estimated listing expenses*	1 month (1)	[.]	[.]
Total estimated proceeds		[.]	[.]

(1) From the date of listing of the shares.

\# If the actual proceeds are higher than budgeted above, the excess will be used for working capital. Conversely, if the actual proceeds are lower than budgeted above, the proceeds allocated for working capital will be reduced accordingly.

^ The Group intends to utilise RM[.] from the gross proceeds from the Proposed Public Issue to fund the working capital of the Group's daily operation by purchasing the inventories.

* The listing expenses are estimated at RM[.] and will be set off against the share capital and profit or loss accordingly. The apportionment is disclosed in Notes 3.12 and 3.14.

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

3.01 **PROPERTY, PLANT AND EQUIPMENT**

The movements in property, plant and equipment are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	6,706,912
As per Pro Forma I to III	6,706,912

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.02 **INVESTMENT PROPERTIES**

The movements in investment properties are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	739,169
As per Pro Forma I to III	739,169

3.03 **INVESTMENT IN ASSOCIATES**

The movements in investment in associates are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	350
As per Pro Forma I to III	350

3.04 **DEFERRED TAX ASSETS**

The movements in deferred tax assets are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	74,000
As per Pro Forma I to III	74,000

3.05 **INVENTORIES**

The movements in inventories are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	26,132,822
As per Pro Forma I to III	26,132,822

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.06 **TRADE RECEIVABLES**

The movements in trade receivables are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	27,141,901
As per Pro Forma I to III	27,141,901

3.07 **OTHER RECEIVABLES**

The movements in other receivables are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	3,000,658
As per Pro Forma I to III	3,000,658

3.08 **AMOUNT DUE FROM ASSOCIATES**

The movements in amount due from associates are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	50,000
As per Pro Forma I to III	50,000

3.09 **TAX RECOVERABLE**

The movements in tax recoverable are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	916,999
As per Pro Forma I to III	916,999

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.10 **FIXED DEPOSITS WITH A LICENSED BANK**

The movements in fixed deposits with a licensed bank are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	5,032,635
As per Pro Forma I to III	5,032,635

3.11 **CASH AND BANK BALANCES**

The movements in cash and bank balances are as follows:

	RM
At the date of incorporation	1,000
Pursuant to Proposed Acquisition	7,992,344
As per Pro Forma I	7,993,344
Pursuant to Proposed Public Issue	[.]
As per Pro Forma II	[.]
Pursuant to Proposed Utilisation of Proceeds	
- Loans and borrowings	[.]
- Estimated listing expenses	[.]
As per Pro Forma III	[.]

TCS TW PLT * For Identification Purposes Only

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.12 **SHARE CAPITAL**

The movements in share capital are as follows:

	RM
At the date of incorporation	1,000
Pursuant to Proposed Acquisition	42,299,940
As per Pro Forma I	42,300,940
Pursuant to Proposed Public Issue	[.]
As per Pro Forma II	[.]
Pursuant to Proposed Utilisation of Proceeds	
Less: Estimated listing expenses*	[.]
As per Pro Forma III	[.]

* The estimated listing expenses of RM[.] directly attributable to the Proposed Public Issue will be offset against share capital and the remaining estimated listing expenses of RM[.] that is attributable to the Proposed Listing will be expensed off to profit and loss.

3.13 **MERGER DEFICIT**

The movements in merger deficit are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	(41,918,940)
As per Pro Forma I to III	(41,918,940)

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NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.14 **RETAINED EARNINGS**

The movements in retained earnings are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	49,918,985
As per Pro Forma I to II	49,918,985
Pursuant to Proposed Utilisation of Proceeds	
- Estimated listing expenses*	[.]
As per Pro Forma III	[.]

* The estimated listing expenses of RM[.] directly attributable to the Proposed Public Issue will be offset against share capital and the remaining estimated listing expenses of RM[.] that is attributable to the Proposed Listing will be expensed off to profit and loss.

3.15 **LOANS AND BORROWINGS**

The movements in loans and borrowings are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	
- Non-current liabilities	2,633,017
- Current liabilities	9,530,842
As per Pro Forma I to II	12,163,859
Pursuant to Proposed Utilisation of Proceeds	
- Loans and borrowings	[.]
As per Pro Forma III	[.]

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NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.16 LEASE LIABILITIES

The movements in lease liabilities are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	
- Non-current liabilities	396,654
- Current liabilities	145,479
As per Pro Forma I to III	542,133

3.17 DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	209,011
As per Pro Forma I to III	209,011

3.18 TRADE PAYABLES

The movements in trade payables are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	10,784,810
As per Pro Forma I to III	10,784,810

SORENTO CAPITAL BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 (CONT'D)

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.19 **OTHER PAYABLES**

The movements in other payables are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	2,921,444
As per Pro Forma I to III	2,921,444

3.20 **AMOUNT DUE TO DIRECTORS**

The movements in amount due to Directors are as follows:

	RM
At the date of incorporation	-
Pursuant to Proposed Acquisition	866,548
As per Pro Forma I to III	866,548

SORENTO CAPITAL BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 26 March 2024.

On behalf of the Board of Directors

Loo Chai Lai Director	Loo Jing Kai Director