11. FINANCIAL INFORMATION

11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our audited combined financial statements throughout the FYEs 2018 to 2020 have been prepared in accordance with MFRS and IFRS. Our audited combined financial statements for the FYEs 2018 to 2020 under review were not subject to any audit qualifications.

11.1.1 Historical financial information

The following summary should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 11.2 and the Accountants' Report set out in Section 12.

(i) Historical combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2018 to 2020:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Revenue	32,670	31,696	39,373
Cost of sales	(20,861)	(23,572)	(26,958)
GP	11,809	8,124	12,415
Other income	232	200	281
Selling and distribution expenses	(304)	(113)	(310)
Administrative expenses	(3,305)	(4,082)	(4,013)
Other expenses	(404)	(18)	(14)
Finance costs	(604)	(713)	(635)
PBT	7,424	3,398	7,724
Tax expense	(1,918)	(1,135)	(2,088)
PAT	**5,506**	**2,263**	**5,636**
PAT attributable to:			
- Owners of the Company	5,502	2,254	5,636
- Non-controlling interest	4	9	-
	5,506	**2,263**	**5,636**
EBIT (1)	7,960	4,099	8,305
EBITDA (1)	9,213	5,647	9,912
GP margin (%)	36.15	25.63	31.53
PBT margin (%)	22.72	10.72	19.62
PAT margin (%)	16.85	7.14	14.31
Effective tax rate (%)	25.84	33.40	27.03
EPS (sen) (2)	3.64	1.49	3.73
Diluted EPS (sen) (3)	2.22	0.91	2.27

Notes:

(1) EBIT and EBITDA are calculated as follows:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
PAT	5,506	2,263	5,636
Less:			
Interest income	(68)	(12)	(54)
Add:			
Finance costs	604	713	635
Tax expense	1,918	1,135	2,088
EBIT	**7,960**	**4,099**	**8,305**
Add:			
Depreciation and amortisation	1,253	1,548	1,607
EBITDA	**9,213**	**5,647**	**9,912**

(2) Calculated based on the PAT attributable to owners of the Company divided by the share capital of 151,200,000 Shares before the IPO.

(3) Calculated based on the PAT attributable to owners of the Company divided by the enlarged share capital of 247,868,000 Shares after the IPO.

(ii) Historical combined statements of financial position

The following table sets out our historical combined statements of financial position as at 30 June 2018, 2019 and 2020:

	Audited		
	As at 30 June		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
ASSETS			
Non-current assets			
Property, plant and equipment	9,107	9,342	9,009
Investment properties	10,653	10,611	10,568
Intangible asset	-	37	19
Deferred tax asset	11	-	-
Total non-current assets	**19,771**	**19,990**	**19,596**
Current assets			
Inventories	2,382	4,082	4,085
Trade receivables	5,903	4,719	5,262
Other receivables	1,028	1,370	573
Amount due from Directors	959	908	-
Tax recoverable	37	678	160
Short-term deposits with licenced banks	-	-	1,019
Cash and bank balances	1,644	3,745	10,689
Total current assets	**11,953**	**15,502**	**21,788**
TOTAL ASSETS	**31,724**	**35,492**	**41,384**

11. FINANCIAL INFORMATION *(Cont'd)*

	Audited		
	As at 30 June		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	*	*	*
Invested equities	901	933	933
Retained earnings	11,282	13,563	14,199
NA	12,183	14,496	15,132
Non-controlling interest	50	-	-
TOTAL EQUITY	**12,233**	**14,496**	**15,132**
LIABILITIES			
Non-current liabilities			
Borrowings	10,925	10,432	10,380
Lease liabilities	698	808	930
Deferred tax liabilities	30	14	24
Total non-current liabilities	**11,653**	**11,254**	**11,334**
Current liabilities			
Trade payables	2,741	4,104	3,719
Other payables	3,888	3,903	4,200
Dividend payable	-	-	5,000
Borrowings	518	1,348	1,237
Lease liabilities	306	375	424
Tax payable	385	12	338
Total current liabilities	**7,838**	**9,742**	**14,918**
TOTAL LIABILITIES	**19,491**	**20,996**	**26,252**
TOTAL EQUITY AND LIABILITIES	**31,724**	**35,492**	**41,384**

Note:

* Representing RM2 only.

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(iii) Historical audited combined statements of cash flows

The following table sets out our audited combined statements of cash flows for the FYEs 2018 to 2020:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Operating Activities			
PBT	7,424	3,398	7,724
Adjustments for:			
Property, plant and equipment written off	103	-	-
Depreciation of property, plant and equipment	771	902	930
Depreciation of right-of-use assets	470	585	616
Gain on disposal of property, plant and equipment	-	(30)	-
Depreciation of investment properties	12	43	43
Amortisation of intangible asset	-	18	18
Inventories written off	-	*	-
Loss allowance on trade receivables	139	*	14
Reversal of loss allowance on trade receivables	-	(27)	(10)
Bad debts written off	116	-	-
Deposits written off	1	-	-
Unrealised loss/(gain) on foreign exchange	46	11	(87)
Interest income	(68)	(12)	(54)
Interest expenses	604	713	635
Operating profit before working capital changes	**9,618**	**5,601**	**9,829**
Changes in working capital:			
Inventories	(663)	(1,700)	(3)
Receivables	(1,603)	902	246
Payables	(2,759)	1,378	(89)
Cash generated from operations	**4,593**	**6,181**	**9,983**
Tax refunded	80	23	821
Tax paid	(1,701)	(2,178)	(2,055)
Net cash from operating activities	**2,972**	**4,026**	**8,749**
Investing Activities			
Purchase of property, plant and equipment	(809)	(1,051)	(660)
Purchase of investment properties	(2,827)	-	-
Purchase of intangible assets	-	(55)	-
Interest received	68	12	54
Acquisition of non-controlling interest	-	(33)	-
Proceeds from disposal of property, plant and equipment	-	30	-
Net cash used in investing activities	**(3,568)**	**(1,097)**	**(606)**

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Financing Activities			
Interest paid	(604)	(713)	(635)
Repayment of lease liabilities	(459)	(493)	(381)
Net (repayment)/drawdowns of borrowings	(775)	337	(163)
Repayment from/(Advances to) Directors	(22)	51	908
Proceeds from issuance of shares	*	-	-
Net cash used in financing activities	**(1,860)**	**(818)**	**(271)**
Net (decrease)/ increase in cash and cash equivalents			
Net changes	(2,456)	2,111	7,872
Effect of foreign currency translation differences	(46)	(10)	91
Brought forward	4,146	1,644	3,745
Carried forward	**1,644**	**3,745**	**11,708**
Cash and cash equivalents consists of:			
Short-term deposits with licenced banks	-	-	1,019
Cash and bank balances	1,644	3,745	10,689
	1,644	**3,745**	**11,708**

Note:

* Negligible.

11.1.2 Pro forma combined statements of financial position

The following table sets out a summary of the pro forma combined statements of financial position of our Group, to show the effects of the Acquisition of Subsidiaries, Public Issue and utilisation of IPO proceeds.

The pro forma combined statements of financial position are presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Combined Statements of Financial Position as set out in Section 13.

	Orgabio Holdings	**I**	**II**	**III**
	As at 30 June 2020	**After Acquisition of Subsidiaries**	**After I and after Public Issue**	**After II and after utilisation of IPO proceeds**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ASSETS				
Non-current assets				
Property, plant and equipment	-	9,009	9,009	[•]
Investment properties	-	10,568	10,568	10,568
Intangible assets	-	19	19	19
Total non-current assets	**-**	**19,596**	**19,596**	**[•]**

	Orgabio Holdings	I	II	III
	As at 30 June 2020	After Acquisition of Subsidiaries	After I and after Public Issue	After II and after utilisation of IPO proceeds
	RM'000	RM'000	RM'000	RM'000
Current assets				
Inventories	-	4,085	4,085	4,085
Trade receivables	-	5,262	5,262	5,262
Other receivables	-	573	573	573
Tax recoverable	-	160	160	160
Short-term deposits with licenced banks	-	1,019	1,019	1,019
Cash and bank balances	*	3,690	[•]	[•]
Total current assets	*****	**14,789**	**[•]**	**[•]**
TOTAL ASSETS	*****	**34,385**	**[•]**	**[•]**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	*	15,120	[•]	[•]
Merger deficit	-	(14,186)	(14,186)	(14,186)
(Accumulated losses)/Retained earnings	(13)	12,199	12,199	[•]
Total equity	**(13)**	**13,133**	**[•]**	**[•]**
LIABILITIES				
Non-current liabilities				
Borrowings	-	10,380	10,380	10,380
Lease liabilities	-	930	930	930
Deferred tax liabilities	-	24	24	24
Total non-current liabilities	**-**	**11,334**	**11,334**	**11,334**
Current liabilities				
Trade payables	-	3,719	3,719	3,719
Other payables	13	4,200	4,200	4,200
Borrowings	-	1,237	1,237	1,237
Lease liabilities	-	424	424	424
Tax payable	-	338	338	338
Total current liabilities	**13**	**9,918**	**9,918**	**9,918**
TOTAL LIABILITIES	**13**	**21,252**	**21,252**	**21,252**
TOTAL EQUITY AND LIABILITIES	*****	**34,385**	**[•]**	**[•]**
Number of Shares in issue ('000)	^	151,200	247,868	247,868
Net (liabilities)/asset per Share (RM)	(6,575)	0.09	[•]	[•]
Borrowings (All interest bearing debts)	-	12,971	12,971	12,971
Gearing (times) [(1)]	-	0.99	[•]	[•]
Current ratio (times) [(2)]	~	1.49	[•]	[•]

Notes:

* Representing RM2 only.

^ Representing 2 Shares only.

~ Negligible.

(1) Calculated based on the total borrowings (i.e. lease liabilities and borrowings) of our Group divided by the total equity of our Group.

(2) Calculated based on total current assets divided by total current liabilities of our Group.

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

The following discussion and analysis of our Group's financial performance and results of operations should be read in conjunction with the Accountants' Report as set out in Section 12 and the Reporting Accountant's letter on the pro forma combined statements of financial position as set out in Section 13. Our audited financial statements have been prepared in accordance with MFRS and IFRS for the FYEs 2018 to 2020.

11.2.1 Overview of our operations

Orgabio Holdings is an investment holding company and through our subsidiaries, we are principally involved in the provision of instant beverage premix manufacturing services to third party brand owners and manufacturing, sales and marketing of house brand instant beverage premixes.

Our manufacturing services include the following services:

(i) Development of product formulations;

(ii) Sourcing of supplies;

(iii) Manufacturing; and

(iv) Cartoning and delivery.

While our instant beverage premixes are fully customisable, the following is a list of the primary categories of instant beverage premixes that we manufacture:

(a) Coffee premixes – black coffee, regular milk coffee, flavoured coffee and herbal coffee;

(b) Food supplement premixes – colostrum milk, premix oat cereal, instant raw oat, rice bran powder, instant soybean, dietary meal replacement, dietary fruit juice and organic prune extract; and

(c) Other premixes – regular milk tea, green tea, matcha latte, chocolate premixes and creamers.

We also sell our house brand instant beverage premixes comprising coffee premixes and tea premixes under *EveryDay* and *BrogaHill*.

11. FINANCIAL INFORMATION *(Cont'd)*

Our revenue is generated from local and overseas market and the currency used in invoicing is in RM, USD and RMB. Approximately 80.98%, 72.89% and 82.68% of our revenues were denominated in RM for FYEs 2018 to 2020 respectively, with the remainder denominated in USD and RMB.

The significant factors affecting our business include the following:

(i) Fluctuation of foreign exchange rate

The breakdown of our Group's revenue segmentation is as follows:

Revenue by principal market	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Local						
Malaysia	26,456	80.98	23,102	72.89	32,553	82.68
Overseas						
Singapore	112	0.34	2,901	9.15	2,325	5.90
China	5,347	16.37	5,063	15.97	1,630	4.14
Papua New Guinea	-	-	95	0.30	1,081	2.75
United Arab Emirates	366	1.12	447	1.41	714	1.81
Hong Kong	81	0.25	-	-	642	1.63
Others	308[(1)]	0.94	88[(2)]	0.28	428[(3)]	1.09
	6,214	19.02	8,594	27.11	6,820	17.32
Total revenue	**32,670**	**100.00**	**31,696**	**100.00**	**39,373**	**100.00**

Notes:

(1) Comprises revenue derived from sales to Japan, Myanmar, Russia and Taiwan.
(2) Comprises revenue derived from sales to India and Russia.
(3) Comprises revenue derived from sales to Australia and Trinidad and Tobago.

For the past 3 FYEs 2018, 2019 and 2020, our export sales contributed 19.02%, 27.11% and 17.32% to our Group's total revenue respectively. The revenue generated from export sales are denominated in USD and RMB. In the FYE 2020, sales denominated in USD amounted to RM5.19 million and sales denominated in RMB amounted to RM1.63 million.

Due to the significant contribution of sales transacted in USD and RMB, any appreciation or depreciation of the USD and RMB against RM will significantly affect our overall revenue.

Our Group is dependent on foreign suppliers for the purchase of food ingredients such as coffee powder and maltodextrin due to the limited availability of coffee powder and maltodextrin manufacturers in Malaysia. Additionally, each supplier has their own profile of coffee powder and therefore, we may not be able to easily source similar coffee powder from local suppliers. This further exposes us to the risk of foreign exchange fluctuations as we need to source for supplies from foreign suppliers.

For the past 3 FYEs 2018 to 2020, our purchase of supplies denominated in the respective currencies are as follows:

	Audited					
	FYE 2018		**FYE 2019**		**FYE 2020**	
Purchases in:	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
RM	14,786	80.61	17,970	84.07	19,867	86.79
USD	3,240	17.66	3,059	14.31	2,602	11.37
RMB	297	1.62	285	1.33	263	1.15
SGD	20	0.11	61	0.29	159	0.69
	18,343	**100.00**	**21,375**	**100.00**	**22,891**	**100.00**

Based on the above, any significant appreciation or depreciation of foreign currencies against RM will significantly affect our cost of supplies.

Our Group does not hedge our exposure to fluctuations in foreign currency exchange rates. As at the LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risks for the revenue from our foreign sales and the purchase of our supplies.

There is a lead time of approximately 30 days between receiving purchase orders from customers and delivery of completed products, depending on the size of the order. This exposes us to foreign exchange fluctuation risks as we are unable to accurately price in all possible future depreciation of RM which may cause our revenue to be less than originally anticipated.

In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher cost of supplies.

(ii) Fluctuation in the prices of our coffee powder, milk powder, creamer, sugar and sachet foils

The prices of coffee powder, milk powder, creamer and sugar are subject to fluctuations according to the global commodity prices. Prices of packaging materials such as sachet foils are also subject to fluctuations. As such, our financial performance may be adversely impacted if we are unable to pass on any increase in cost of supplies to our customers.

Nevertheless, coffee powder, milk powder, creamer and sugar have 24 months of shelf life. For imported coffee powder, we maintain sufficient inventory to cater to at least 1 month of production requirements.

Our suppliers regularly keep us abreast of the supply and demand condition and price trend so we may be prepared for any material price fluctuation.

(iii) Competition from other industry players and new market entrants

Our Group faces competition from other industry players and new market entrants. Whilst we strive to remain competitive, there can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance. We believe that our Group would be able to stay competitive due to our strengths as outlined in Section 6.8.

(iv) We are dependent on our major customers and do not have long term agreements with them

We have not entered into any long-term contracts with our customers as our sales are derived based on purchase orders whereby our customers will purchase our services on an as-needed basis. Thus, we place great emphasis in developing long-term business relationships with our customers as we believe this will ensure our business continuity and growth.

Any loss of major customers and our inability to replace these customers with new customers or with additional orders from existing customers in a timely manner, could result in a loss of revenue and will have an adverse impact on our financial performance. Further, even though we may be able to secure new customers, there is no assurance that we will be able to achieve the same level of sales value and maintain and/or improve our profit margins. If such adverse events occur, our financial performance will be adversely affected.

(v) Interruptions in our business operations

Our business operations could be disrupted or delayed due to unforeseeable circumstances. Such risks include, amongst others, equipment failures, fire or flood as well as environment factors (including natural disaster and outbreak of diseases).

The occurrence of these unexpected events that are beyond our control may cause damage or destruction of all or part of our factory and machinery, resulting in interruptions to or prolonged suspension of our manufacturing activities. Any prolonged interruptions to our manufacturing activities will affect our ability in adhering to our manufacturing schedule, thus causing delays in the delivery of products to our customers. This could adversely impact our relationships with customers, financial performance and industry reputation.

Kindly refer to Sections 6.7.4 and 8.1.1 on the impact of COVID-19 pandemic on our Group.

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11.2.2 Revenue

(i) Revenue by principal activities

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Instant beverage premixes manufacturing services:						
Coffee premixes	26,063	79.77	24,773	78.16	20,892	53.06
Food supplement premixes	2,433	7.45	4,940	15.59	16,101	40.89
Other premixes	3,113	9.53	1,151	3.63	1,872	4.76
	31,609	96.75	30,864	97.38	38,865	98.71
House brands	678	2.08	448	1.41	136	0.35
Sale of aloe vera gel	383	1.17	384	1.21	372	0.94
	32,670	**100.00**	**31,696**	**100.00**	**39,373**	**100.00**

Through Orgabio Manufacturing, we are principally involved in the provision of manufacturing services for instant beverage premixes, for third party brand owners, involving processes of formulating, blending and packing of a variety of instant beverage premixes. Our manufacturing services are provided to local and foreign customers.

For the past 3 FYES 2018 to 2020, our Group does not have any pricing policy in place. The pricing of our products varies from customer to customer as they are based on various factors, including order volume, customisation requirements and type of food ingredient. From FYE 2018 to FYE 2020, we recorded an increase in average selling prices to third party brand owners for instant beverage premixes manufacturing services as follows:

	FYE 2018	FYE 2019	FYE 2020
	RM/unit	RM/unit	RM/unit
Average selling price	0.30	0.31	0.37

Upon the confirmation of purchase, we collect deposit of up to 50% of order value mainly from new customers and overseas customers, subject to the customers' profile, length of relationship and their past payment records.

Revenue is recognised at a point in time, which is typically on delivery. The revenue is recognised net of any rebates, discounts and tax.

We manufacture and sell our own house brands instant beverage premixes, namely *EveryDay* and *BrogaHill*, which comprises coffee premixes and tea premixes. Sale of house brands instant beverage premixes is via Everyday F&B, our wholly-owned subsidiary.

We are also involved in the sale of body care products namely aloe vera gel to 1 customer. We source the ingredients and packaging materials internally and outsource the packaging process to a third party packaging company as we do not have the required machinery to cater to the packaging of products in tube form.

(ii) Revenue by geographical segmentation

Revenue by geographical segmentation	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Local						
Malaysia	26,456	80.98	23,102	72.89	32,553	82.68
Overseas						
Singapore	112	0.34	2,901	9.15	2,325	5.90
China	5,347	16.37	5,063	15.97	1,630	4.14
Papua New Guinea	-	-	95	0.30	1,081	2.75
United Arab Emirates	366	1.12	447	1.41	714	1.81
Hong Kong	81	0.25	-	-	642	1.63
Others	308(1)	0.94	88(2)	0.28	428(3)	1.09
	6,214	19.02	8,594	27.11	6,820	17.32
Total revenue	**32,670**	**100.00**	**31,696**	**100.00**	**39,373**	**100.00**

Notes:

(1) Comprises revenue derived from sales to Japan, Myanmar, Russia and Taiwan.
(2) Comprises revenue derived from sales to India and Russia.
(3) Comprises revenue derived from sales to Australia and Trinidad and Tobago.

(iii) Sales volume by units

	FYE 2018		FYE 2019		FYE 2020	
	'000	%	'000	%	'000	%
Instant beverage premixes manufacturing services:						
Coffee premixes (sachets)	95,354	86.97	88,636	87.94	75,088	70.21
Food supplement premixes						
- (sachets)	1,945	1.77	6,059	6.01	21,166	19.79
- (bottles / cans)	131	0.12	226	0.23	97	0.09
Other premixes (sachets)	9,632	8.79	4,123	4.09	9,446	8.83
	107,062	97.65	99,044	98.27	105,797	98.92
House brands (sachets)	1,633	1.49	810	0.80	205	0.19
Sale of aloe vera gel (tubes)	945	0.86	937	0.93	948	0.89
	109,640	**100.00**	**100,791**	**100.00**	**106,950**	**100.00**

Premixes in sachets form are in sizes of between 2 grams to 40 grams while the food supplement premixes that are packed into bottles / cans are 300 grams and 350 grams. Tubes for aloe vera gel is 75 millilitres.

(iv) Revenue by subsidiaries

Revenue by subsidiaries	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Orgabio Manufacturing	9,484	29.03	12,122	38.24	22,170	56.31
Orgapharma Herbal	-	-	-	-	-	-
Orgapharma Marketing	22,474	68.79	18,705	59.01	16,265	41.31
Everyday F&B	712	2.18	869	2.75	938	2.38
	32,670	**100.00**	**31,696**	**100.00**	**39,373**	**100.00**

Orgabio Manufacturing is our manufacturing arm. Orgabio Manufacturing manufactures the instant beverage premixes for Orgapharma Marketing and Everyday F&B for their onward sales to external customers.

In addition to manufacturing, Orgabio Manufacturing also undertakes export sale of instant beverage premixes.

Orgapharma Marketing undertakes local sale of instant beverage premixes as well as sale of body care products while Everyday F&B undertakes the local and export sale of coffee premixes and house brands instant beverage premixes, namely *EveryDay* and *BrogaHill*.

Orgapharma Herbal is a property investment holding company and did not record any external sales for the past 3 FYEs.

(v) Commentary on revenue

(a) Comparison between FYE 2018 and FYE 2019

Our total revenue decreased by approximately RM0.97 million or 2.97% from RM32.67 million in FYE 2018 to RM31.70 million in FYE 2019, mainly due to lower revenue from other premixes by approximately RM1.96 million or 62.96% as our major customer, Hai-O Enterprise Berhad did not purchase any tea premixes in FYE 2019 (FYE 2018: RM2.33 million) due to lower sales of their tea premixes in FYE 2019.

In addition, the revenue from coffee premixes also decreased by approximately RM1.29 million or 4.95%. The number of coffee premixes sachets sold decreased by 6.72 million sachets or 7.05% in FYE 2019 as compared to FYE 2018.

The decrease in revenue generated from the coffee premixes was mainly due to decrease of sales of coffee premixes to our major customers, Hai-O Enterprise Berhad by RM2.08 million to RM14.32 million (FYE 2018: RM16.40 million) and Jinjiang Yeeka Commercial and Trading Co Ltd by RM1.75 million to RM3.37 million (FYE 2018: RM5.12 million).

In FYE 2019, we had a new major customer, Loi Hein (Singapore) Pte Ltd which contributed RM2.52 million or 7.95% of our total revenue from the sales of coffee premixes. Loi Hein (Singapore) Pte Ltd is involved in the manufacturing, marketing, selling and distributing of consumer products. During FYE 2019, they commenced sales of coffee premixes products in Myanmar and had ordered from us.

Nevertheless, we recorded an increase in sales of food supplement premixes which was mainly from TDC Avenue Sdn Bhd (formerly known as Tunas Duta Cemerlang Sdn Bhd) ("TDC Avenue"), a major customer by RM2.25 million or 108.70% to RM4.32 million (FYE 2018: RM2.07 million) as the food supplement premixes we had produced for them had received good response from its direct selling customers. TDC Avenue is involved in the direct selling of consumer products.

The revenue from the sale of our house brand products decreased by approximately RM0.23 million or 33.92%. The number of house brand premixes sachets sold decreased by 0.82 million sachets or 50.21%. The decrease was mainly due to lesser orders from our distributors as a result of lower sales of our house brand products.

In FYE 2019, local sales had decreased by RM3.35 million or 12.66% mainly due to the decrease in orders from our major customer, Hai-O Enterprise Berhad. Nevertheless, we had recorded an increase in export sales of RM2.38 million or 38.30% which was mainly due to sales to Loi Hein (Singapore) Pte Ltd as they had commenced sales of coffee premixes products in Myanmar.

(b) Comparison between FYE 2019 and FYE 2020

Our total revenue increased by approximately RM7.67 million or 24.20% from RM31.70 million in FYE 2019 to RM39.37 million in FYE 2020 mainly due to the increase in revenue from sales of food supplement premixes by approximately RM11.16 million or 225.91%. The number of food supplement premixes sachets sold increased by 15.11 million sachets or 249.38%.

The increase in revenue from the sales of food supplement premixes was mainly due to increase in sales to TDC Avenue by RM10.85 million or 251.12% to RM15.17 million (FYE 2019: RM4.32 million). The food supplement premixes we had produced for them had continued to receive good response from its direct selling customers and TDC Avenue had also increased the promotional activities for these products. The increase in demand for food supplement premixes is also driven mostly by heightened awareness of nutritional products as a result of the COVID-19 pandemic.

In addition, we recorded an increase in sales of other premixes by approximately RM0.72 million or 62.55%. The number of sachets sold increased by 5.32 million sachets or 129.03% and was mainly contributed from the sale of tea and chocolate premixes. Revenue from the sale of tea and chocolate premixes increased by RM0.54 million and RM0.18 million respectively. In FYE 2020, Lotuss Stores (Malaysia) Sdn Bhd (formerly known as Tesco Stores (Malaysia) Sdn Bhd) increased their tea premixes orders by RM0.14 million or 20.74%. Hai-O Enterprise Berhad had also resumed tea premixes orders in FYE 2020 and contributed RM0.11 million to our sale of tea premixes. Chocolate premixes orders were mainly from Golden Best Generation Marketing which increased their chocolate premixes order by RM0.12 million or 82.80%.

The increase in revenue in FYE 2020 was offset by the decrease of revenue from sale of coffee premixes by approximately RM3.88 million or 15.66%. The number of coffee premixes sachets sold reduced in FYE 2020 by 13.55 million or 15.29%. Collectively, Jinjiang Yeeka Commercial and Trading Co Ltd, Loi Hein (Singapore) Pte Ltd and Hai-O Enterprise Berhad had decreased their orders for coffee premixes by RM5.20 million or 25.73%. These major customers had continued to record lower sales of coffee premixes during FYE 2020.

The revenue from the sale of our house brand products had also decreased by approximately RM0.31 million or 69.20% in FYE 2020. The number of house brand premixes sachets sold decreased by 0.61 million sachets or 75.31%. The decrease sale of our house brand was mainly due to lower demand from consumers. During FYE 2020, we began selling our house brand products via online shopping platforms in our effort to further promote our products.

In FYE 2020, we recorded an increase in local sales of approximately RM9.45 million or 40.91% which was mainly due to increase in sales of food supplement premixes to TDC Avenue.

Revenue from our overseas market decreased by RM1.77 million or 20.60% mainly due to decrease in orders from Jinjiang Yeeka Commercial and Trading Co Ltd which is based in China, by approximately RM2.35 million or 69.40%.

We recorded a decrease in sales of coffee premixes to Hai-O Enterprise Berhad in both FYE 2019 and 2020. In addition, revenue contribution from the sale of coffee premixes to third party brand owners and house brands instant beverage premixes had decreased year-on-year. We believe that this is mainly due to the competition within the coffee premixes market where end consumers have a wide variety of coffee premix choices.

In order to improve the sale of coffee premixes, we have undertaken the following efforts:

(a) We had in February 2021 enhanced the formulation for the coffee premix sold to Hai-O Enterprise Berhad by creating a better texture (i.e. mouthfeel). Concurrent with the product enhancement, Hai-O Enterprise Berhad had also redesigned its product packaging. This effort is intended to improve the sale of coffee premixes by Hai-O Enterprise Berhad. Nevertheless, any future improvement in sales of this coffee premix will depend largely on market acceptance; and

(b) We had secured 2 new customers for the sale of coffee premixes subsequent to FYE 2020 where they contributed RM1.40 million during the 6 months financial period ended 31 December 2020. Kindly also refer to Section 6.21 on the list of top 5 new customers secured during the past 3 FYEs.

To further ensure the sustainability of our business and to improve the diversity of our customers, we plan to continue to grow our customer base in the direct selling segment (as set out in Section 6.19.3) and to expand our export sales (as set out in Section 6.19.4).

11.2.3 Cost of sales, GP and GP margin

(i) Analysis of cost of sales by cost items

The components of our cost of sales are as follows:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Supplies	17,681	84.76	19,109	81.07	22,237	82.49
Labour cost	1,069	5.12	1,236	5.24	1,421	5.27
Factory expenses	862	4.13	1,745	7.40	1,795	6.66
Depreciation cost	889	4.26	1,150	4.88	1,190	4.41
Utilities	360	1.73	332	1.41	315	1.17
	20,861	**100.00**	**23,572**	**100.00**	**26,958**	**100.00**

(a) Supplies

Our Group's supplies consist of food ingredients and packaging materials. These supplies are readily available and sourced from both local and foreign suppliers.

The breakdown of our cost of sales (supplies) for the past 3 FYEs are as follows:

		FYE 2018		FYE 2019		FYE 2020	
Category	**Countries**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Food ingredients							
Milk powder	Malaysia	485	2.74	992	5.19	4,122	18.54
Creamer	Malaysia	5,435	30.74	4,962	25.97	3,684	16.57
Colostrum powder	Malaysia	445	2.52	1,079	5.65	3,584	16.12
Coffee powder	Malaysia India, Brazil and Vietnam	4,867	27.53	4,577	23.95	3,490	15.69
Sugar	Malaysia	1,254	7.09	1,198	6.27	1,110	4.99
Calcium powder	Malaysia	53	0.30	97	0.51	372	1.67
Tea powder	Malaysia	170	0.96	205	1.07	356	1.60
Maltodextrin	Malaysia and China	474	2.68	441	2.31	317	1.43
Flavouring	Malaysia and Singapore	271	1.53	303	1.59	354	1.59
Cocoa powder	Malaysia	104	0.59	99	0.52	131	0.59
Stabiliser	Malaysia	100	0.57	28	0.15	36	0.16
Others(1)	Malaysia and USA	174	0.98	219	1.14	277	1.25
		13,832	78.23	14,200	74.32	17,833	80.20
Packaging materials							
Sachet foils	Malaysia and China	2,100	11.88	2,722	14.24	2,019	9.08

Category	Countries	FYE 2018 RM'000	FYE 2018 %	FYE 2019 RM'000	FYE 2019 %	FYE 2020 RM'000	FYE 2020 %
Corrugated boxes[(2)]	Malaysia	715	4.04	965	5.05	1,328	5.97
Packing bags	Malaysia and China	305	1.72	484	2.53	286	1.29
Shrink films and bags/ stretch films	Malaysia	106	0.60	88	0.46	145	0.65
Others[(3)]	Malaysia	337	1.91	337	1.76	423	1.90
		3,563	20.15	4,596	24.04	4,201	18.89
Others							
Aloe vera gels	USA	134	0.76	202	1.06	52	0.23
Subcontracted packing services	Malaysia	152	0.86	111	0.58	151	0.68
		286	1.62	313	1.64	203	0.91
		17,681	**100.00**	**19,109**	**100.00**	**22,237**	**100.00**

Notes:

(1) Comprise of chia seeds, fish collagen, goat milk powder, prune extract, psyllium husk powder, red beet root juice powder, soya bean powder, sweetener, whey powder and whey protein concentrate.

(2) Comprise of packing boxes and cartons.

(3) Comprise of cylinder charges, oxygen absorber, plastic bag/cup/spoon, printing cost, printing ink and stickers.

The percentage breakdown between supplies sourced locally and overseas is as follows:

Source	FYE 2018 %	FYE 2019 %	FYE 2020 %
Local	80.61	84.07	86.79
Overseas	19.39	15.93	13.21

All our suppliers are evaluated in terms of pricing, ability to meet our quality requirements and ability to deliver in a timely manner. Whilst we have maintained long term business relationship with our existing suppliers, we also source for supplies from new suppliers, if the need arises.

Food ingredients are generally readily available and can be easily sourced locally and overseas as there are many alternative suppliers available in the market. Nevertheless, the product profile may differ from one supplier to another supplier. In the event that we are unable to procure from our existing suppliers for certain food ingredients, we are able to replace with other suppliers but we may not be able to achieve the similar taste profile in our instant beverage premixes. Supplies including coffee powder, milk powder, creamer, sugar and sachet foils are subject to price fluctuations.

Please refer to Section 6.22 of this Prospectus for further information on our Group's major suppliers.

(b) Labour cost

Labour cost mainly consist of salaries, bonuses, overtime expenses and staff-related expenses.

(c) Factory expenses

Factory expenses mainly consist of upkeep and maintenance of machinery and factory, workers' accommodation expenses, workers' levy and permits as well as transportation for delivery of goods.

(d) Depreciation cost

Includes depreciation cost for our machinery and equipment used for manufacturing and renovation.

(e) Utilities

Includes electricity and water charges.

(ii) Cost of sales by principal activities

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Instant beverage premixes manufacturing services:						
Coffee premixes	17,981	86.19	19,197	81.44	15,638	58.01
Food supplement premixes	1,059	5.08	2,854	12.11	9,398	34.86
Other premixes	1,356	6.50	1,037	4.40	1,684	6.25
	20,396	97.77	23,088	97.95	26,720	99.12
House brands	238	1.14	184	0.78	59	0.22
Sale of aloe vera gel	227	1.09	300	1.27	179	0.66
	20,861	**100.00**	**23,572**	**100.00**	**26,958**	**100.00**

(iii) Analysis of GP and GP margin by principal activities

Our GP and GP margin for the financial years under review are set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Revenue	32,670	31,696	39,373
Cost of sales	(20,861)	(23,572)	(26,958)
GP	11,809	8,124	12,415
GP margin (%)	36.15	25.63	31.53

Our GP and GP margin for the FYEs under review by principal activities is set out below:

11. FINANCIAL INFORMATION *(Cont'd)*

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%
Instant beverage premixes manufacturing services:						
Coffee premixes	8,082	31.01	5,576	22.51	5,254	25.15
Food supplement premixes	1,374	56.47	2,086	42.23	6,703	41.63
Other premixes	1,757	56.44	114	9.90	188	10.04
	11,213	35.47	7,777	25.19	12,145	31.25
House brands	440	64.90	264	58.93	77	56.62
Sale of aloe vera gel	156	40.73	84	21.88	193	51.88
	11,809	**36.15**	**8,124**	**25.63**	**12,415**	**31.53**

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

(a) Comparison between FYE 2018 and FYE 2019

Cost of sales

Our total cost of sales increased by approximately RM2.71 million or 12.99% from RM20.86 million in FYE 2018 to RM23.57 million in FYE 2019.

The increase is mainly due to the increase in the cost of sales (supplies) by RM1.43 million or 8.09% mainly attributable to the increase in purchase of colostrum powder by RM0.63 million or 141.57% and increase in purchase of sachet foils by RM0.62 million or 29.52%.

During FYE 2019, in line with the increase in sales of food supplement premixes by 103.04%, cost of sales for food supplement premixes increased by RM1.80 million or 169.97% mainly due to increase in purchases of colostrum powder and increase in cost of sachet foils which is used for the packing of food supplement premixes.

Notwithstanding the decrease in the revenue for coffee premixes by 4.95%, we recorded an increase in cost of sales for coffee premixes by approximately RM1.22 million or 6.79% from RM17.98 million in FYE 2018 to RM19.20 million in FYE 2019. This was mainly due to the increase in cost of sachet foils used for the packing of coffee premixes.

We recorded a decrease of cost of sales for other premixes by approximately RM0.32 million or 23.60% in line with lower sales of other premixes by 62.96%.

Labour cost increased by approximately RM0.17 million or 15.89% from RM1.07 million in FYE 2018 to RM1.24 million in FYE 2019 mainly due to the increase in average number of manufacturing employees from 51 employees in FYE 2018 to 59 employees in FYE 2019.
Our factory expenses and depreciation costs increased by RM0.88 million and RM0.26 million respectively in line with the increase in our manufacturing capacity.

GP and GP margin

During FYE 2019, we recorded an overall decrease in GP of RM3.69 million or 31.25% and a reduction in GP margin from 36.15% to 25.63%.

This was mainly due to the decrease in GP from sale of coffee premixes where we recorded a decrease in GP by RM2.51 million or 31.06% and a reduction in GP margin for coffee premixes from 31.01% to 22.51%. The decrease in GP for coffee premixes was mainly due to a reduction in orders from major customers including Hai-O Enterprise Berhad and Jinjiang Yeeka Commercial and Trading Co Ltd. The decrease in GP margin was mainly due to the increase in cost of sachet foils used for the packing of all the instant beverage premixes.

In addition, we recorded a decrease in GP from other premixes by RM1.64 million or 93.34% as Hai-O Enterprise Berhad did not purchase any tea premixes in FYE 2019. Tea premixes sold to Hai-O Enterprise Berhad carries a higher GP margin as the main food ingredient for tea premixes were provided by Hai-O Enterprise Berhad. The selling price of the coffee premixes and tea premixes to Hai-O Enterprise Berhad are priced similarly as we managed to secure favourable margin for the tea premixes. However, in comparison with the production of coffee premixes, the cost of tea premixes produced is lower as it is not inclusive of the main food ingredient, being tea powder. Hence, the production of tea premixes yields higher margin. Notwithstanding that the main ingredient is provided by Hai-O Enterprise Berhad, we had maintained our selling price to be consistent with pricing of coffee premixes sold to Hai-O Enterprise Berhad. However, in comparison with the production of coffee premixes, the cost of tea premixes produced is lower as it is not inclusive of the main food ingredient, being tea powder. Hence, the production of tea premixes yields higher margin. As such, we recorded a reduction in GP margin from 56.44% to 9.90%. We will continue to source the main food ingredient for tea premixes from Hai-O Enterprise Berhad.

Nevertheless, we recorded an increase in GP from food supplement premixes by RM0.71 million or 51.67% which was mainly due to the increase in orders by TDC Avenue. However, the GP margin for food supplement premixes had decreased from 56.47% to 42.23% due to the increase in the price of colostrum powder which is the main food ingredient in food supplement premixes. We did not pass on the increase in the price of colostrum powder to our customer as we wanted to maintain a good and long term working relationship with our customer. Furthermore, the GP margin recorded for food supplement premixes supplied to TDC Avenue at 42.23% is substantially higher than the GP margin for other products.

We recorded a decrease in GP margin for our house brands from 64.90% to 58.93% which was mainly due to the increase in cost of sachet foils. GP margin for sale of aloe vera gel had decreased due to the increase in the cost of main raw ingredient namely aloe vera gels. We did not pass on the increase of these costs to our customer as the sale volume for this product does not contribute substantially to our revenue. In addition, the increase in cost of aloe vera gels is temporary and has reduced during the subsequent FYE 2020.

(b) Comparison between FYE 2019 and FYE 2020

Cost of sales

Our total cost of sales increased by approximately RM3.39 million or 14.38% from RM23.57 million in FYE 2019 to RM26.96 million in FYE 2020.

The increase is mainly due to the increase in cost of sales (supplies) by RM3.13 million or 16.38% mainly attributable to the increase in use of colostrum powder and milk powder which increased by RM2.51 million and RM3.13 million, respectively. These are the main food ingredients used in the manufacturing of food supplement premixes for our major customer, TDC Avenue. This increase is in line with the increase of revenue from sale of food supplement premixes by 225.93% during FYE 2020.

The increase of cost of sales in FYE 2020 was offset with the decrease of cost of sales for coffee premixes by RM3.56 million or 18.54% which is in line with the decrease of the revenue of coffee premixes by 15.66%. Cost of sales for house brand instant beverage premixes decreased by approximately RM0.13 million or 70.65% due to decrease in sales of RM0.31 million or 69.20%.

Labour cost increased by approximately RM0.18 million or 14.52% from RM1.24 million in FYE 2019 to RM1.42 million in FYE 2020 mainly due to annual salary increments as well as the increase in average number of manufacturing employees from 59 employees in FYE 2019 to 68 employees in FYE 2020. We did not record any material changes to our factory expenses, depreciation cost and utilities expenses during FYE 2020.

GP and GP margin

In FYE 2020, we recorded an overall increase in GP of RM4.29 million or 52.81% and an increase in GP margin from 25.63% in FYE 2019 to 31.53%.

This was mainly due to the increase of GP from our food supplement premixes by RM4.62 million or 221.48% which is in line with the increase of revenue from sale of food supplement premixes in FYE 2020 by 225.93%. We did not record any material fluctuation in the GP margin for our food supplement premixes of 41.63% during FYE 2020 (FYE 2019: 42.23%).

We recorded an increase in GP from other premixes comprising tea/chocolate premixes and creamers by RM0.07 million or 61.40% in FYE 2020 which is in line with the increase of revenue of other premixes by RM0.72 million or 62.55%. Hai-O Enterprise Berhad had resumed ordering tea premixes in FYE 2020 and contributed to 8.38% of the total sales of other premixes. Nevertheless, we did not record any material fluctuation in our GP margin for other premixes for FYE 2020.

The increase of our GP in FYE 2020 was offset with the decrease of GP from coffee premixes by RM0.32 million or 5.74% which is in line with the decrease of revenue from coffee premixes.

Notwithstanding the decrease in GP from coffee premixes, our overall GP margin had increased from 25.63% in FYE 2019 to 31.53% in the FYE 2020 and this was mainly due to the decrease in cost of sachet foils by RM0.70 million or 25.72%. Sachet foils are the main packaging material used in the packing of instant beverage premixes and the decrease in cost of sachet foils has reduced our overall packaging costs and improved our overall GP margin.

The decrease of revenue from sale of house brands during FYE 2020 resulted in a decrease in GP for house brands of 70.83%. We did not record any material fluctuation in the GP margin for house brands products of 56.62% during FYE 2020 (FYE 2019: 58.93%).

Despite recording a decrease in revenue for the sale of aloe vera gel of RM0.01 million or 2.60%, we recorded an increase in GP of RM0.11 million or 130.95% and a higher GP margin of 51.88% (FYE 2019: 21.88%) due to the decrease in price of the main ingredient used namely aloe vera gels.

11.2.4 Other income

	Audited					
	FYE 2018		**FYE 2019**		**FYE 2020**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Reversal of loss allowance on trade receivables	-	-	27	13.50	10	3.56
Realised gain on foreign exchange	4	1.72	-	-	16	5.69
Unrealised gain on foreign exchange	-	-	-	-	87	30.96
Finance income (1)	68	29.31	12	6.00	54	19.22
Rental income (2)	38	16.38	120	60.00	114	40.57
Sundry income	122	52.59	11	5.50	*	*
Gain from disposal of property, plant and equipment	-	-	30	15.00	-	-
	232	**100.00**	**200**	**100.00**	**281**	**100.00**

Notes:

* Negligible.

(1) Finance income comprised of interest earned from our deposits.

(2) Rental income is from the rental for our Semenyih Land to a third party tenant for the storage of machinery with a monthly rental of RM0.01 million per month from May 2018 to November 2020.

Comparison between FYE 2018 and FYE 2019

Our Group's other income decreased by approximately RM0.03 million or 13.04% from RM0.23 million in FYE 2018 to RM0.20 million in FYE 2019. This was mainly due to decrease of sundry income by RM0.11 million. The sundry income of RM0.12 million in FYE 2018 was due to an insurance claim for a passenger car that was involved in an accident.

The decrease of other income was offset with the increase of rental income by RM0.08 million. The tenancy agreement was effective on May 2018. During FYE 2019, we recorded a full year rental with a monthly rental of RM0.01 million per month. Gain from disposal of property, plant and equipment in FYE 2019 was due to the gain from the sale of a passenger car.

We recorded a reversal of loss allowance on trade receivables of RM0.03 million due to the lower expected credit loss provided during FYE 2019. Expected credit loss is provided under MFRS 9 - Financial Instruments, which is calculated based on the probability on the amount that may be collected after taking into consideration the number of average credit term for each financial year, the number of average trade receivable age band, gross amount of each trade receivable age band and the prevailing interest rates.

Comparison between FYE 2019 and FYE 2020

Our Group's other income increased by approximately RM0.08 million or 40.00% from RM0.20 million in FYE 2019 to RM0.28 million in FYE 2020. The increase was mainly due to realised and unrealised gain on foreign exchange of RM0.02 million and RM0.09 million respectively as a consequence of appreciation of USD against RM in FYE 2020 (USD1: RM4.28) as compared to FYE 2019 (USD1: RM4.13).

Finance income increased by RM0.04 million mainly due to the placement of short-term deposits with licenced banks as at 30 June 2020.

We recorded a reversal of loss allowance on trade receivables of RM0.01 million due to the lower expected credit loss provided during FYE 2020.

11.2.5 Administrative expenses

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Depreciation	364	11.01	380	9.31	399	9.94
Directors' remuneration	579	17.52	693	16.96	662	16.50
Staff cost (1)	1,336	40.42	1,819	44.57	1,719	42.84
Insurance	134	4.06	152	3.72	118	2.94
Marketing expenses	86	2.60	142	3.48	128	3.19
Professional fees (2)	148	4.48	137	3.36	194	4.84
Stamp duty	1	0.03	71	1.74	6	0.15
Travelling	180	5.45	133	3.26	129	3.21
Upkeep of motor vehicles	88	2.66	77	1.89	68	1.69
Upkeep of office and building	56	1.69	83	2.03	134	3.34
Utilities	39	1.18	48	1.18	51	1.27
Others (3)	294	8.90	347	8.50	405	10.09
	3,305	**100.00**	**4,082**	**100.00**	**4,013**	**100.00**

Notes:

(1) Includes salaries, bonuses, incentives, employees' provident fund contributions, allowances, medical expenses and other staff-related expenses.

(2) Includes fees paid to company secretaries, auditors, lawyers, tax agent and other professional consultants.

(3) Includes courier charges, SST, printing and stationery, quit rent, assessment and training costs.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, administrative expenses increased by approximately RM0.78 million or 23.64% from RM3.30 million in FYE 2018 to RM4.08 million in FYE 2019. The increase was mainly due to the following:

(i) Increase of Directors' remuneration by approximately RM0.11 million or 19.00% mainly due to yearly increment of salary to Directors and increase of bonus by RM0.08 million in FYE 2019 to our Directors;

(ii) Increase of staff cost by approximately RM0.48 million or 35.93% mainly due to yearly increment of salary and the increase of average number of administrative employees from 17 employees in FYE 2018 to 21 employees in FYE 2019. We had recruited 2 new employees for our accounting department, 1 for our quality assurance and quality control department and 1 for human resource department; and

(iii) Increase of marketing expenses by approximately RM0.06 million or 69.77% mainly due a trade fair/exhibition that we participated in China, namely, China-ASEAN Exposition Fair in September 2018.

Comparison between FYE 2019 and FYE 2020

During FYE 2020, we recorded a decrease in administrative expenses of RM0.07 million or 1.71% which was mainly due to the decrease of Directors' remuneration and staff cost as we had reduced the bonus paid during FYE 2020.

Marketing expenses of RM0.13 million were due the trade fair/exhibition we participated in, namely the China International Import Expo 2019 (November 2019) and 2019 Shanghai Private Label Fair (December 2019).

11.2.6 Selling and distribution expenses

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Referral fees	304	100.00	113	100.00	310	100.00

Referral fees are paid to independent agents who had introduced sales to us and are paid based on a percentage of sales secured.

Comparison between FYE 2018 and FYE 2019

Referral fees paid during FYE 2018 of RM0.30 million was for the sale of coffee premixes. During FYE 2019, we reduced the payment of referral fees for coffee premixes as these customers had reduced coffee premixes orders from us. Referral fees of RM0.11 million paid during FYE 2019 was mainly from the sale of food supplement premixes.

Comparison between FYE 2019 and FYE 2020

Referral fees paid during FYE 2020 was mainly from the sale of food supplement premixes which had increased to RM0.31 million in line with the increase in sale of food supplement premixes during FYE 2020.

11. FINANCIAL INFORMATION *(Cont'd)*

11.2.7 Other expenses

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Loss allowance on trade receivables	139	34.40	*	*	14	100.00
Unrealised loss on foreign exchange	46	11.39	11	61.11	-	-
Realised loss on foreign exchange	-	-	7	38.89	-	-
Bad debts written off	116	28.71	-	-	-	-
Property, plant and equipment written off	103	25.50	-	-	-	-
	404	**100.00**	**18**	**100.00**	**14**	**100.00**

Note:

* Negligible.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, other expenses decreased by approximately RM0.38 million or 95.00% from RM0.40 million in FYE 2018 to RM0.02 million in FYE 2019.

During FYE 2019, we recorded loss allowance on trade receivables of RM598 (FYE 2018: RM0.14 million). The loss allowance on trade receivables is provided due to the application of MFRS 9 - Financial Instruments.

The decrease was due to lower unrealised loss on foreign exchange by RM0.04 million in FYE 2019 as a consequence of lower appreciation of USD against RM in FYE 2019 (USD1: RM4.13) as compared to FYE 2018 (USD1: RM4.04).

The bad debts written off in FYE 2018 of RM0.12 million were due to outstanding amount due from 1 customer. The sum was written off as we are unable to reconcile the amount owing and as such we had taken the position not to pursue this amount. The property, plant and equipment written off in FYE 2018 was a passenger car that was involved in an accident. We had received an insurance claim of RM0.12 million.

Comparison between FYE 2019 and FYE 2020

During FYE 2020, we had provided a loss allowance on trade receivables of RM0.01 million due to the long overdue amount owing from 2 customers. The amount outstanding from these 2 customers has yet to be collected as at the LPD.

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11.2.8 Finance costs

The breakdown of our finance costs is as follows:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Lease liabilities interest	57	9.44	76	10.66	80	12.60
Bankers' acceptance interest	22	3.64	29	4.07	28	4.41
Term loan interest	525	86.92	608	85.27	527	82.99
	604	**100.00**	**713**	**100.00**	**635**	**100.00**

We utilised bankers' acceptance to partially finance our working capital which includes purchase of supplies, term loan to finance acquisition of our properties as set out in Section 6.17.1. Lease liabilities are utilised for the purchase of motor vehicles and machinery.

Comparison between FYE 2018 and FYE 2019

During FYE 2019, finance costs increased by approximately RM0.11 million mainly due to the term loan drawn for the acquisition of 1 unit of terrace house used as workers' hostel. The increase in lease liabilities interest was due to the purchase of 1 unit of pick-up truck and 1 unit of filling machine during FYE 2019.

Comparison between FYE 2019 and FYE 2020

During FYE 2020, finance costs decreased by approximately RM0.08 million mainly due to lower effective interest rate of 6.45% (FPE 2019: 6.70%) during the year. No additional term loans were utilised during FYE 2020.

11.2.9 Tax expense, PBT and PAT

The following table sets out our PBT, PAT as well as the comparison between the statutory tax rate and our effective tax rate for the FYEs under review:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
PBT (RM'000)	7,424	3,398	7,724
Tax expense (RM'000)	(1,918)	(1,135)	(2,088)
PAT (RM'000)	**5,506**	**2,263**	**5,636**
PBT margin (%)	22.72	10.72	19.62
PAT margin (%)	16.85	7.14	14.31
Effective tax rate (%)	25.84	33.40	27.03
Statutory tax rate (%)	24.00	24.00	24.00

Comparison between FYE 2018 and FYE 2019

For FYE 2018, as a result of decrease in revenue and GP, our PBT decreased from RM7.42 million in FYE 2018 to RM3.40 million in FYE 2019. Our PBT margin decreased from 22.72% in FYE 2018 to 10.72% in FYE 2019 mainly due to the increase in cost of sachet foils used for the packing of instant beverage premixes which had decreased our overall GP margin. In addition, we recorded higher administrative expenses due to the hiring of additional employees which had also decreased our overall PBT margin.

In line with the decreased of our PBT and PBT margin, our PAT and PAT margin for FYE 2019 have also decreased. Our PAT decreased from RM5.51 million in FYE 2018 to RM2.26 million in FYE 2019. Our PAT margin decreased from 16.85% in FYE 2018 to 7.14% in FYE 2019.

The effective tax rate in FYE 2018 was 25.84% which is 1.83% higher than the statutory tax rate and this was mainly due to RM0.32 million of expenses not deductible for tax purposes such as depreciation, bad debts and property, plant and equipment written off and restriction on tax deductible interest expense. The restriction on tax deductible interest expense refers to the interest restriction on the interest expenses on the term loan of our Group which are disallowable by the Inland Revenue Board of Malaysia as such interest expenses incurred for our Semenyih Land and our investment property (shoplot), which did not generate any business income.

Our effective tax rate increased to 33.40% in FYE 2019 from 25.84% in FYE 2018 and is 9.40% higher than the statutory tax rate and this was mainly due to RM0.42 million of expenses not deductible for tax purposes including depreciation and restriction on tax deductible interest expense.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, as a result of increase in revenue and GP, our PBT improved from RM3.40 million in FYE 2019 to RM7.72 million in FYE 2020. Our PBT margin have improved from 10.72% in FYE 2019 to 19.62% in FYE 2020 mainly due to the increase in sales of food supplement premixes which has a higher GP margin as compared to sale of coffee premixes.

In line with our increase in PBT, our PAT increased from RM2.26 million in FYE 2019 to RM5.64 million in FYE 2020. Our PAT margin has also increased from 7.14% in FYE 2019 to 14.31% in FYE 2020.

Our effective tax rate decreased to 27.03% in FYE 2020 from 33.40% in FYE 2019 and is 3.03% higher than the statutory tax rate. This was mainly due to RM0.32 million of expenses that are non-tax deductible including depreciation and restriction on tax deductible interest expense.

11.2.10 Review of financial position

(i) Assets

Our assets for the financial years under review comprise the following:

	Audited		
	30 June		
	2018	2019	2020
	RM'000	RM'000	RM'000
Non-current assets			
Property, plant and equipment	9,107	9,342	9,009
Investment properties	10,653	10,611	10,568
Intangible asset	-	37	19
Deferred tax assets	11	-	-
Total non-current assets	**19,771**	**19,990**	**19,596**
Current assets			
Inventories	2,382	4,082	4,085
Trade receivables	5,903	4,719	5,262
Other receivables	1,028	1,370	573

	Audited		
	30 June		
	2018	2019	2020
	RM'000	RM'000	RM'000
Amount due from Directors	959	908	-
Tax recoverable	37	678	160
Short-term deposits with licenced banks	-	-	1,019
Cash and bank balances	1,644	3,745	10,689
Total current assets	**11,953**	**15,502**	**21,788**
TOTAL ASSETS	**31,724**	**35,492**	**41,384**

Comparison between as at 30 June 2018 and 30 June 2019

Non-current assets

Our non-current assets increased by RM0.22 million or 1.11% mainly due an increase in property, plant and equipment of RM0.24 million which includes:

(a) Purchase of machinery of RM1.11 million for our operations;

(b) Purchase of 1 unit of pick-up truck for RM0.14 million; and

(c) Progress claim for enterprise resource planning software (RM0.05 million) and installation of air condition ducting for Beranang Factory (RM0.13 million).

The above increase was however offset by the depreciation in property, plant and equipment of RM1.49 million for FYE 2019.

Current assets

Our current assets increased by RM3.55 million or 29.70% mainly due to:

(a) Increase of RM1.70 million in inventories as we had increased the stocking of supplies as at 30 June 2019 to cater for the increase in orders for food supplement premixes due for delivery during FYE 2020. The order for food supplement premixes were delivered during FYE 2020;

(b) Increase of RM0.34 million in other receivables mainly due to deposit of RM0.32 million paid to for the purchase of new machinery;

(c) Increase in tax recoverable of RM0.64 million mainly due to over payment of monthly tax instalment during FYE 2019; and

(d) Increase of RM2.10 million in cash and bank balances.

The increase was offset by a decrease in trade receivables of RM1.18 million in line with the decrease in revenue recorded for FYE 2019.

Comparison between 30 June 2019 and 30 June 2020

Non-current assets

Our non-current assets decreased by RM0.39 million or 1.95% mainly due to depreciation of property, plant and equipment of RM1.55 million.

The decrease was offset by the following:

(a) Purchase of machinery of RM0.88 million for our operations;

(b) Deposit paid for 1 unit of terrace house used as workers' hostel of RM0.14 million; and

(c) Progress claim for enterprise resource planning software (RM0.04 million) and installation of air condition ducting for Beranang Factory (RM0.08 million).

Current assets

Our current assets increased by RM6.29 million or 40.58% mainly due to:

(a) Increase of RM0.54 million in trade receivables in line with higher revenue recorded in FYE 2020;

(b) A new placement of short-term deposits with licenced banks of RM1.02 million; and

(c) Increase in cash and bank balances by RM6.94 million due the increase in our PAT during FYE 2020 and receipt of amount due from Directors of RM0.91 million.

The increase in our current assets was offset by the following:

(a) Decrease in other receivables by RM0.80 million mainly due to reversal of RM0.32 million in deposits paid to our machinery supplier after we had received the machinery purchased and GST refund of RM0.45 million from the purchase of the Semenyih Land resulting from the abolishment of GST by the Government;

(b) Receipt of amount due from Directors of RM0.91 million; and

(c) Decrease in tax recoverable by RM0.52 million mainly due to the refund of corporate tax of RM0.82 million.

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11. FINANCIAL INFORMATION *(Cont'd)*

(ii) Liabilities

Our liabilities for the financial years under review comprise the following:

	Audited		
	30 June		
	2018	2019	2020
	RM'000	RM'000	RM'000
Non-current liabilities			
Borrowings	10,925	10,432	10,380
Lease liabilities	698	808	930
Deferred tax liabilities	30	14	24
Total non-current liabilities	**11,653**	**11,254**	**11,334**
Current liabilities			
Trade payables	2,741	4,104	3,719
Other payables	3,888	3,903	4,200
Dividend payable	-	-	5,000
Borrowings	518	1,348	1,237
Lease liabilities	306	375	424
Tax payable	385	12	338
Total current liabilities	**7,838**	**9,742**	**14,918**
TOTAL LIABILITIES	**19,491**	**20,996**	**26,252**

Comparison between 30 June 2018 and 30 June 2019

Non-current liabilities

Our non-current liabilities decreased by RM0.40 million or 3.43% mainly due to the reclassification of RM0.49 million of bank borrowings to current liabilities.

The decrease of our non-current liabilities was offset with increase of lease liabilities by RM0.11 million or 15.76% due to the addition of 1 unit of pick-up truck and 1 unit of filling machine during FYE 2019.

Current liabilities

Our current liabilities increased by RM1.90 million or 24.24% mainly due to:

(a) Increase in trade payables by RM1.36 million due to the increase in purchase of supplies to cater for the increase in orders for food supplement premixes due for delivery during FYE 2020. The order for food supplement premixes were delivered during FYE 2020; and

(b) Increase in bank borrowings by RM0.83 million mainly due to increase in drawdown of bankers' acceptance to finance the purchase of supplies to cater for increase in orders for food supplement premixes due for delivery during FYE 2020. The order for food supplement premixes were delivered during FYE 2020.

The increase was offset by the decrease in tax payable by RM0.37 million due to lower PBT recorded during FYE 2019.

Comparison between 30 June 2019 and 30 June 2020

Non-current liabilities

Our non-current liabilities increased by RM0.08 million or 0.71% mainly due to the increase in lease liabilities of RM0.12 million resulting from the addition of 1 unit of filling machine during FYE 2020.

The increase was offset by a decrease in borrowings of RM0.05 million arising from the reclassification of bank borrowings to current liabilities.

Current liabilities

Our current liabilities increased by RM5.18 million or 53.17% mainly due to the following:

(a) Increase in other payables by RM0.30 million mainly due to increase in deposits received from TDC Avenue, our major customer, who had increased their orders from us during FYE 2020;

(b) Dividend declared but not paid as at 30 June 2020 of RM5.00 million; and

(c) Increase in tax payable by RM0.33 million due to higher PBT recorded during FYE 2020.

The increase was offset by a decrease in trade payables of RM0.39 million which was mainly due to a decrease in cost of sachet foils, the main packaging material used in the packing of instant beverage premixes.

11.2.11 Recent developments

Save as disclosed below, there are no significant events subsequent to our Group's audited financial statements for FYE 2020:

(i) We had on 12 March 2021 entered into the conditional share sale agreement for the Acquisition of Subsidiaries. Further details are set out in Section 6.2.2 of this Prospectus; and

(ii) Orgabio Manufacturing had on 20 January 2021 secured a term loan of RM8.33 million to finance the construction of our new factory. We target to commence drawdown of this term loan in October 2021.

11.3 LIQUIDITY AND CAPITAL RESOURCES

11.3.1 Working capital

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans and bankers' acceptance as well as lease liabilities.

As at 30 June 2020, we have:

(i) Cash and bank balances and short-term deposits of approximately RM11.71 million; and

(ii) Banking facilities (excluding lease liabilities) up to a limit of RM1.96 million which we have not utilised.

The interest rate of our borrowings is based on prevailing market rates. Currently, the principal use of our borrowings is for our Group's business growth and operations, for the acquisition of properties, plant and equipment, as well as for working capital purposes.

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

Based on the pro forma combined statements of financial position of our Group as at 30 June 2020 (after the Acquisition of Subsidiaries but before the Public Issue), our NA position stood at RM13.13 million and our gearing level is 0.99 times. Our NA position and gearing level (after the Acquisition of Subsidiaries, Public Issue and utilisation of proceeds) are RM[•] million and [•] times respectively.

As at the LPD, we have cash and bank balances of RM7.60 million and unutilised credit facilities of RM10.29 million. Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group and that our operations were not materially affected throughout the period of MCO, conditional MCO and recovery MCO, our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus. Kindly refer to Section 6.7.4 for more details.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. Our finance personnel work together closely with our sales and marketing staff for the collection of these outstanding balances on a monthly basis. This measure has proven to be effective while maintaining a cordial relationship with our customers.

11.3.2 Review of cash flows

(i) Cash flow summary

The table below sets out the summary of our Group's historical audited combined statements of cash flows for the past 3 FYEs.

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Net cash from operating activities	2,972	4,026	8,749
Net cash used in investing activities	(3,568)	(1,097)	(606)
Net cash used in financing activities	(1,860)	(818)	(271)
Net (decrease) / increase in cash and cash equivalents	**(2,456)**	**2,111**	**7,872**

(ii) Commentary of cash flows

FYE 2018

Net cash for operating activities

For FYE 2018, we recorded net operating cash of RM2.97 million. We collected approximately RM29.90 million from our customers which was offset by cash payments of RM27.44 million. Such cash payments were mainly due to:

(a) Approximately RM22.81 million paid to suppliers for purchase of supplies;

(b) Approximately RM2.35 million paid for employees' benefit including salary;

(c) Approximately RM0.58 million paid for Directors' remuneration; and

(d) Approximately RM1.70 million paid for income tax.

Net cash used in investing activities

We recorded a net cash of RM3.57 million used in our investing activities in FYE 2018, mainly due to the following:

(a) The purchase of property, plant and equipment of RM0.81 million including 1 unit of folding machine (RM0.06 million), 1 unit of wrapping machine (RM0.06 million), 2 units of passenger cars (totaling RM0.36 million) as well as renovation works carried out on our Beranang Factory (RM0.39 million); and

(b) The purchase of investment properties of RM2.83 million including cash portion for the acquisition of Semenyih Land and related transaction cost (RM2.76 million) as well as the acquisition of 1 unit of shoplot at Semenyih (RM0.07 million).

Net cash used in financing activities

In FYE 2018, the net cash for financing activities of RM1.86 million was mainly due to:

(a) Repayment of borrowings (for banker's acceptance and term loans) of RM0.78 million;

(b) Repayment of lease liabilities of RM0.46 million;

(c) Interest paid for our borrowings (for banker's acceptance and term loans) of RM0.60 million; and

(d) Advances to Directors of RM0.02 million.

FYE 2019

Net cash from operating activities

For FYE 2019, we recorded net operating cash of RM4.03 million. We collected approximately RM32.88 million from our customers which was offset by cash payments of RM28.85 million. Such cash payments were mainly due to:

(a) Approximately RM23.11 million paid to suppliers for purchase of supplies;

(b) Approximately RM2.87 million paid for employees' benefit including salary;

(c) Approximately RM0.69 million paid for Directors' remuneration; and

(d) Approximately RM2.18 million paid for income tax.

Net cash used in investing activities

We recorded a net cash of RM1.10 million for our investing activities in FYE 2019, mainly due to the following:

(a) The purchase of property, plant and equipment of RM1.05 million mainly includes 3 units of mixer (RM0.13 million), 1 unit of sealing machine (RM0.04 million), 1 unit of forklift (RM0.05 million), 7 units of coding machine (RM0.12 million), parts and components of machinery (RM0.24 million), renovation cost for our Beranang Factory (RM0.10 million), progress payment for enterprise resource planning software (RM0.05 million), installation of air condition ducting for Beranang Factory (RM0.13 million) and purchase of office equipment (RM0.17 million); and

(b) Intangible assets for website design of RM0.06 million.

Net cash used in financing activities

In FYE 2019, the net cash used in financing activities of RM0.82 million was mainly due to:

(a) Repayment of lease liabilities of RM0.49 million; and

(b) Interest paid for our borrowings (for banker's acceptance and term loans) of RM0.71 million.

The net cash used in financing activities was offset by the net drawdown of borrowings of RM0.34 million mainly due to the drawdown of bankers' acceptances of RM0.84 million to finance purchase of supplies and repayment of term loan of RM0.51 million. We also received a repayment of advances from Directors of RM0.05 million.

FYE 2020

Net cash from operating activities

For FYE 2020, we recorded net operating cash of RM8.75 million. We collected approximately RM38.82 million from our customers which was offset by cash payments of RM31.29 million. Such cash payments were mainly due to:

(a) Approximately RM25.57 million paid to suppliers for purchase of supplies;

(b) Approximately RM3.00 million paid for employees' benefit including salary;

(c) Approximately RM0.66 million paid for Directors' remuneration; and

(d) Approximately RM2.06 million paid for income tax.

Net cash used in investing activities

We recorded a net cash of RM0.61 million for our investing activities in FYE 2020, mainly due to purchase of property, plant and equipment of RM0.66 million mainly includes 2 units of coding machine (RM0.07 million), 3 units of mixer (RM0.17 million), 1 unit of wrapping machine (RM0.03 million), 1 unit of high-speed crushing machine (RM0.02 million) and parts and components of machinery (RM0.06 million), progress payment for enterprise resource planning software (RM0.04 million), installation of air condition ducting for Beranang Factory (RM0.08 million), purchase of office equipment (RM0.05 million) and deposit paid for 1 unit of terrace house used as workers' hostels (RM0.14 million).

The net cash used in investing activities was offset by the interest received of RM0.05 million.

Net cash used in financing activities

In FYE 2020, the net cash for financing activities of RM0.27 million was mainly due to:

(a) Net repayment of borrowings (for banker's acceptance and term loans) of RM0.16 million;

(b) Repayment of lease liabilities of RM0.38 million; and

(c) Interest paid for our borrowings (for banker's acceptance and term loans) of RM0.64 million.

During FYE 2020, we received a repayment of advances from Directors of RM0.91 million.

11.4 BORROWINGS AND LEASE LIABILITIES

We utilise credit facilities such as bankers' acceptance to partially finance our working capital and term loans to finance the acquisition of our properties. In addition, we also utilise lease liabilities to finance the purchases of motor vehicles and machinery.

Our total outstanding bank borrowings (including lease liabilities) as at 30 June 2020 stood at RM12.97 million, details of which are set out below. All our bank borrowings and lease liabilities are interest-bearing and denominated in RM.

	Purpose	Tenure	Interest rate	Audited as at 30 June 2020
			% per annum	RM'000
Interest bearing short-term borrowings, payable within 1 year:				
Bankers' acceptance	Working capital	60 to 180 days	3.85 – 4.55	948
Term loans	To part finance the acquisition of our properties	15 to 25 years	3.62 – 7.65	289
Subtotal				1,237

11. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Tenure	Interest rate	Audited as at 30 June 2020
			% per annum	RM'000
Lease liabilities	Financing for the purchase of machinery and motor vehicles as well as rental commitments (1)	2 to 5 years	2.40 – 4.81	424
			Sub-total	**1,661**
Interest bearing long-term borrowings, payable after 1 year:				
Term loans	To part finance the acquisition of our properties	15 to 25 years	3.62 – 7.65	10,380
Lease liabilities	Financing for the purchase of machinery and motor vehicles as well as rental commitments (1)	2 to 5 years	2.40 – 4.81	930
			Sub-total	**11,310**
			Total borrowings	**12,971**

Pro forma gearing (times)	
After Acquisition of Subsidiaries before the Public Issue(2)	0.99
After the Public Issue(3)	[•]

Notes:

(1) Application of MFRS 16 for leases entered into by our Group for tenure of more than 1 year.

(2) Computed based on the pro forma combined statements of financial position after the Acquisition of Subsidiaries before the Public Issue.

(3) Computed based on the pro forma combined statements of financial position after the Acquisition of Subsidiaries and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to decrease from 0.99 times (before the Public Issue) to [•] times (after the Public Issue) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue. Thereafter, the gearing ratio will decrease to [•] times (after utilisation of proceeds) as we intend to utilise RM[•] million from our IPO proceeds to repay bank borrowings to be drawn for the construction of our new factory on the Semenyih Land.

Our bank borrowings and lease liabilities carry the following effective interest rates for the FYEs 2018 to 2020:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
		% per annum	
Bankers' acceptance	5.44 – 5.71	5.08 – 5.73	3.85 – 4.55
Term loans	4.40 – 7.65	4.40 – 7.65	3.62 – 7.65
Lease liabilities	2.40 – 4.81	2.40 – 4.81	2.40 – 4.81

The following table sets out the maturities of our bank borrowings and lease liabilities:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
Bank borrowings			
Within the next 12 months	518	1,348	1,237
After the next 12 months	10,925	10,432	10,380
Lease liabilities			
Within the next 12 months	306	375	424
After the next 12 months	698	808	930

As at the LPD, we do not have any borrowings which are non-interest bearing. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2018 to 2020 as well as the subsequent financial period up to LPD.

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

From FYE 2018 to FYE 2020, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at the LPD, save for our bank borrowings as disclosed in Section 11.4, we do not utilise any other financial instruments. We maintain foreign currency accounts to receive proceeds of our sales in USD and RMB.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

The principal usages of these banking facilities are for working capital, purchase of supplies and purchase of property, plant and equipment.

11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY

11.6.1 Material capital commitments

Material capital commitments authorised and contracted for as at the LPD are set out below:

Material capital commitments	RM'000
Purchase of enterprise resource planning software used for our manufacturing and administration functions	140

The material capital commitment above shall be funded via our internally generated funds.

11.6.2 Material litigation and contingent liability

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there are no proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

There are no contingent liabilities incurred by us or our subsidiary, which upon becoming enforceable, may have a material effect on our financial position or our subsidiary as at the LPD.

11.7 KEY FINANCIAL RATIOS

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Trade receivables turnover period (days) (1)	51	61	46
Trade payables turnover period (days) (2)	53	53	52
Inventories turnover period (days) (3)	35	50	55
Current ratio (times) (4)	1.53	1.59	1.46
Gearing ratio (times) (5)	1.02	0.89	0.86

Notes:

(1) Computed based on the average closing balance of trade receivables divided by the revenue for the respective FYEs multiplied by the number of days in the respective FYEs being 365 days for the financial years under review.

(2) Computed based on the average closing balance of trade payables divided by cost of sales for the respective FYEs multiplied by number of days in the respective FYEs being 365 days for the financial years under review.

(3) Computed based on the average closing balance of inventories divided by cost of sales for the respective FYEs multiplied by number of days in the respective FYEs being 365 days for the financial years under review.

(4) Computed based on total current assets over total current liabilities as at the respective FYEs.

(5) Computed based on bank borrowings over total equity as at the respective FYEs.

11. FINANCIAL INFORMATION *(Cont'd)*

11.7.1 Trade receivables turnover period

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Opening trade receivables	3,264	5,903	4,719
Closing trade receivables	5,903	4,719	5,262
Average trade receivables	4,584	5,311	4,991
Revenue	32,670	31,696	39,373
Average trade receivables turnover period (days)	51	61	46

The ageing analysis of our trade receivables as at 30 June 2020 are as follows:

		Exceeding credit period				
	Within credit term	**1 to 30 days past due**	**31 to 60 days past due**	**61 - 90 days past due**	**More than 90 days past due**	**Total**
Estimated total gross carrying amount (RM'000)	2,311	1,731	974	26	336	5,378
Loss allowance on trade receivables (RM'000)	(33)	(15)	(20)	(21)	(27)	(116)
Trade receivables (RM'000)	2,278	1,716	954	5	309	5,262
% of total trade receivables (%)	43.29	32.61	18.13	0.10	5.87	100.00
Subsequent collections up to the LPD (RM'000)	2,311	1,731	974	26	184	5,226
Trade receivables net of subsequent collections (RM'000)	-	-	-	-	125	125
% of trade receivables net of subsequent collections to total trade receivables net of subsequent collections (%)	-	-	-	-	100.00	100.00

As at the LPD, RM0.13 million of the outstanding trade receivables as at 30 June 2020 has yet to be collected. All the total trade receivables net of subsequent collections as at LPD of RM0.13 million have exceeded the credit period. The overdue payment is from Jinjiang Yeeka Commercial and Trading Co Ltd. As at the LPD, our Board is of the view that the probability of collection is low and as such, an impairment was provided on this amount in FYE 2020 and we have stopped receiving orders from this customer.

Our normal trade terms are cash term and credit terms of up to 60 days. Our credit terms to customers are assessed and approved on a case-to-case basis taking into consideration various factors such as relationship with customers, customers' payment history, credit worthiness, transaction volume, financial background, market reputation as well as the reason for the customers' inability to pay within the normal credit period. We use ageing analysis to monitor the credit quality of our trade receivables.

Our average trade receivables turnover period as at FYE 2018, FYE 2019 and FYE 2020 were 51 days, 61 days and 46 days respectively.

Trade receivables turnover period increased from approximately 51 days in FYE 2018 to approximately 61 days in FYE 2019 mainly due to delay in payment from our major customers, Hai-O Enterprise Berhad of RM2.92 million and Jinjiang Yeeka Commercial and Trading Co Ltd of RM0.71 million during FYE 2019. The amount outstanding was collected during FYE 2020.

The specific credit term granted to Hai-O Enterprise Berhad and Jinjiang Yeeka Commercial and Trading Co Ltd is 60 days and 30 days respectively. We believe that delay in payment from Hai-O Enterprise Berhad was due to an oversight in issuing payments and delay from Jinjiang Yeeka Commercial and Trading Co Ltd was due to their internal financial disposition.

Trade receivables turnover period decreased from approximately 61 days in FYE 2019 to approximately 46 days in FYE 2020 which were within our credit terms. The decrease in trade receivables turnover period from approximately 61 days in FYE 2019 to 46 days in FYE 2020 was mainly due to improvement in collections from our major customers, Hai-O Enterprise Berhad and Jinjiang Yeeka Commercial and Trading Co Ltd.

Our Group will assess the collectability of trade receivables on an individual customer basis and impairment will be made for those customers where recoverability is uncertain based on our past dealings with customers. We will closely monitor payments from our customers in order to avoid future delays in payments.

We provided a loss allowance on trade receivables of RM0.14 million and RM0.01 million in FYE 2018 and FYE 2020, respectively, due to the application of MFRS 9 – Financial Instruments.

11.7.2 Trade payables turnover period

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Opening trade payables	3,323	2,741	4,104
Closing trade payables	2,741	4,104	3,719
Average trade payables	3,032	3,423	3,912
Cost of sales	20,861	23,572	26,958
Average trade payables turnover period (days)	53	53	52

The ageing analysis of our trade payables as at 30 June 2020 are as follows:

		Exceeding credit period				
	Within credit term	**1 to 30 days past due**	**31 to 60 days past due**	**61 - 90 days past due**	**More than 90 days past due**	**Total**
Trade payables (RM'000)	1,706	1,944	69	-	-	3,719
% of total trade payables (%)	45.87	52.27	1.86	-	-	100.00
Subsequent payments up to the LPD (RM'000)	1,706	1,944	69	-	-	3,719

	Within credit term	Exceeding credit period				
		1 to 30 days past due	**31 to 60 days past due**	**61 - 90 days past due**	**More than 90 days past due**	**Total**
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-	-
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	-	-	-	-	-	-

As at the LPD, all of the outstanding trade payables as at 30 June 2020 have been paid. The normal trade terms granted to our Group by our suppliers are cash term and credit terms of up to 60 days.

Our average trade payables turnover period was between 52 days to 53 days for the past 3 FYEs and is within the credit terms granted to our Group by our suppliers.

As at the LPD, there is no dispute in respect of trade payables and no legal action initiated by our suppliers to demand for payment.

11.7.3 Inventories turnover period

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Opening inventories	1,719	2,382	4,082
Closing inventories	2,382	4,082	4,085
Average inventories	2,051	3,232	4,084
Cost of sales	20,861	23,572	26,958
Average inventories turnover period (days)	35	50	55

Our average inventories turnover period is approximately 35 to 55 days. Save for imported coffee powder, we stock up our inventories upon receiving purchase orders. For imported coffee powder, we maintain sufficient inventory to cater to at least 1 month of production requirements. Upon receiving purchase orders, we stock up inventory to cater to at least 1 month of production requirements for colostrum powder and milk powder, and at least 2 weeks of production requirements for other raw materials. Our Group stocks up the sachet foils upon receiving purchase orders.

Our Group's inventories consist of supplies and finished goods. Supplies mainly consist of food ingredients and packaging materials. Finished goods consist of manufactured instant beverage premixes that are ready to be delivered to our customers.

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Closing inventories			
- Supplies	1,700	3,285	3,090
- Finished goods	682	797	995
	2,382	**4,082**	**4,085**

11. FINANCIAL INFORMATION *(Cont'd)*

As at 30 June 2019, we recorded an increase in the closing inventories of supplies from RM1.70 million to RM3.29 million which is mainly due to the increase in stocking of supplies to cater for the increase in orders for food supplement premixes due for delivery during FYE 2020. The order for food supplement premixes were delivered during FYE 2020. This resulted in an increase in our average inventories turnover period from 35 days to 50 days for FYE 2019.

Our average inventories turnover period continued to increase from 50 days to 55 days for FYE 2020 mainly due to the higher average inventories of RM4.1 million (FYE 2019: RM3.2 million). This was due to the increase in stocking of colostrum powder and milk powder which are the main ingredients used in the manufacturing of food supplement premixes for our major customer, TDC Avenue. This increase is in line with the increase of revenue from sale of food supplement premixes by 225.93% during FYE 2020.

We conduct a monthly management meeting to review the stockholding level. Approval is required from authorised personnel at management level for replenishment of supplies.

Our Group practices first-in-first-out basis in computing the cost of inventories and finished goods. The costs of supplies include invoices value of goods purchased and expenditure incurred in acquiring the inventories. The cost of finished goods comprises supplies, labour cost and an appropriate proportion of factory expenses.

We review the shelf life of our inventory on a monthly basis and will write off expired food ingredients. During the past 3 FYEs, we did not record any write-off of expired food ingredients. As at the LPD, there are no expired food ingredients in our inventory.

11.7.4 Current ratio

Our current ratio, current assets and current liabilities for the financial years under review are as follows:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Current assets	11,953	15,502	21,788
Current liabilities	7,838	9,742	14,918
Net current assets	**4,115**	**5,760**	**6,870**
Current ratio (times)	1.53	1.59	1.46

Our current ratio ranged from 1.46 times to 1.59 times for the past 3 FYEs under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

Our current ratio increased from approximately 1.53 times as at 30 June 2018 to approximately 1.59 times as at 30 June 2019 due to the following:

(i) Increase in stocking of supplies as at 30 June 2019 to cater for the increase in orders for food supplement premixes due for delivery during FYE 2020. The order for food supplement premixes were delivered during FYE 2020; and

(ii) Increase in cash and bank balances by RM2.10 million.

During FYE 2020, we recorded an increase in our current assets from RM15.50 million to RM21.79 million which was mainly due to the increase in our cash and bank balances of RM6.94 million, increase in short-term deposits with licenced banks of RM1.02 million and repayment advances from Directors of RM0.91 million. However, we had also recorded an increase in our current liabilities which was mainly due to the dividends declared (but not paid as at 30 June 2020) of RM5.00 million. Resulting from this, our current ratio had decreased to 1.46 times as at 30 June 2020.

11.7.5 Gearing ratio

Our gearing ratio throughout the financial years under review is as follows:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
Total borrowings (including lease liabilities) (RM'000)	12,447	12,963	12,971
Total equity (RM'000)	12,233	14,496	15,132
Gearing ratio (times)	1.02	0.89	0.86

For the FYEs under review, our gearing ratio has decreased from 1.02 times in FYE 2018 to 0.86 times in FYE 2020 which was due to the increase in our total equity as a result of the PAT recorded for the past FYEs.

11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years under review.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 8.

11.9 IMPACT OF INFLATION

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

11.10 IMPACT OF FOREIGN EXCHANGE RATES AND/OR INTEREST RATES

11.10.1 Impact of foreign exchange rates

We are exposed to transactional currency exposure as approximately 19.02%, 27.11% and 17.32% of our total revenue were denominated in USD and RMB for the past 3 FYEs 2018 to 2020 respectively. Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation.

11. FINANCIAL INFORMATION *(Cont'd)*

Further, some of our supplies such as coffee powder, flavouring, maltodextrin, and aloe vera gels are sourced from overseas and are denominated in USD, RMB and SGD are also subject to foreign currency fluctuation.

For the past 3 FYEs 2018 to 2020, our gain and losses from the foreign exchange fluctuations are as follows:

	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Realised gain/(loss) on foreign exchange [(1)]	4	(7)	16
Unrealised (loss)/gain on foreign exchange [(2)]	(46)	(11)	87
Net gain/(loss)	**(42)**	**(18)**	**103**

Notes:

[(1)] Realised gain/(loss) on foreign exchange is due to the following:

(i) The difference in the foreign exchange rate as at the date of our sales invoice as compared to the foreign exchange rate when the payment for the sales invoice is received.

If the foreign exchange rate as at the date of our sales invoice is higher as compared to the rate when the payment for the sales invoice is received, we will record a realised loss on foreign exchange. Conversely, if the foreign exchange rate as at the date of our sales invoice is lower as compared to the rate when the payment for the sales invoice is received, we will record a realised gain on foreign exchange.

(ii) The difference in the foreign exchange rate as at the date of our purchase invoice of supplies as compared to the foreign exchange rate when the payment for the supplies is made.

If the foreign exchange rate as at the date of our purchase invoice is lower as compared to the rate when the payment for the supplies is made, we will record a realised loss on foreign exchange. Conversely, if the foreign exchange rate as at the date of our purchase invoice is higher as compared to the rate when the payment for the supplies is made, we will record a realised gain on foreign exchange.

[(2)] Unrealised gain/(loss) on foreign exchange represents the difference in the foreign exchange rate as at the date of our sales invoice/purchase invoice as compared to the foreign closing spot rates as at respective FYE.

Our Group does not hedge our exposure to fluctuations in foreign currency exchange rates. As at the LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales. A depreciation of the RM against the foreign currencies will lead to higher costs of supplies for our Group. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performance may be adversely affected due to the reduced GP margin from higher cost of supplies.

11.10.2 Impact of interest rates

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. The interest coverage ratio for the past financial years under review is as follows:

	Audited		
	FYE 2018	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**
Total borrowings (including lease liabilities)	12,447	12,963	12,971
EBIT	7,960	4,099	8,305
Finance costs	604	713	635
Interest coverage ratio (times)[(1)]	13.18	5.75	13.08

Note:

(1) Computed based on EBIT over finance costs.

Our interest coverage ratio of between 5.75 to 13.18 times for FYE 2018 to FYE 2020 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations. Our interest coverage ratio decreased to 5.75 times in FYE 2019 due to the decrease in PAT recorded for the financial year. Subsequently, our interest coverage ratio improved to 13.08 times in FYE 2020 due to higher PAT recorded.

Our Group's financial results for the financial years under review were not materially affected by fluctuations in interest rates. However, major increase in interest rates would raise the cost of borrowings and our finance costs for our purchases of supplies, which may have an adverse effect on the performance of our Group.

11.11 ORDER BOOK

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

We believe that our revenue/business operations are sustainable in the absence of long-term agreements premised on the following:

(i) We keep the premix formulations of the instant beverage premixes confidential from our customers. This is to safeguard our interest as the product formulator and to ensure that our customers will continue to engage our services as a similar product profile may not be easily replicated by another manufacturer. In addition, we also work hand in hand with our customers to introduce enhanced premix formulations in order to improve their products;

(ii) We have maintained long-term relationships with our customers and we believe that this relationship has allowed us to secure orders from them in the past, and will allow us to continue securing orders from them in the future. Our long-term relationships with customers have allowed us to develop our reputation in the instant beverage premix industry; and

(iii) Based on the IMR Report, our Group is among the top 5 companies in Malaysia (by revenue) involved in the provision of instant beverage premix manufacturing services to third party brand owners. Our market position is expected to aid in enhancing our credibility to market our services to potential customers which may in turn contribute positively to our Group's financial performance and continue to propel us forward as our business expands.

11.12 TREND INFORMATION

Based on our track record for the past financial years under review, including our segmental analysis of revenue and profitability, the following trends are expected to continue:

(i) More than 50% of our revenue was derived from the sale of coffee premixes. We expect the sale of coffee premixes to continue contributing significantly to our revenue in the future;

(ii) More than 70% of our revenue is derived locally. We expect the main contributor for our revenue to be from the local market. Nevertheless, we plan to continue to grow our overseas market;

(iii) The main components of our cost of sales are supplies which consistently constitute more than 80% of our total cost of sales. We expect this trend to continue; and

(iv) Our top 5 major customers contributed more than 80% of our Group's revenue. We expect this trend to continue.

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

(a) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those discussed in Sections 11.2 and 11.10;

(b) Material commitments for capital expenditure save as disclosed in Section 11.6;

(c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 11.2 and 11.10;

(d) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discussed in Sections 11.2 and 11.10; and

(e) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 11.2 and 11.10.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths set out in Section 6.8 and our Group's intention to implement the business strategies as set out in Section 6.19.

11. FINANCIAL INFORMATION *(Cont'd)*

11.13 DIVIDENDS

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from our financiers as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiaries to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as prescribed in the respective facility agreement.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

In respect of FYEs 2018 to 2020, dividends declared by our subsidiaries, Orgabio Manufacturing and Orgapharma Marketing were as follows:

	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Dividends declared	-	-	(1) 5,000

Note:

(1) Declared on 30 June 2020 and paid on 28 August 2020.

Subsequent to FYE 2020, our subsidiary, Orgabio Manufacturing had on 4 January 2021 declared a dividend of RM2.00 million in respect of financial year ending 30 June 2021. The dividend was paid on 5 January 2021.

The dividends paid are funded via internally generated funds. Our Board does not foresee that dividends paid subsequent to FYE 2020 would affect the execution and implementation of our future plans or strategies moving forward.

11.14 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 January 2021 and after adjusting for the effects of the Acquisition of Subsidiaries and Public Issue including the utilisation of proceeds from the Public Issue.

	Orgabio Holdings	I	II	III
	As at 31 January 2021	Upon the completion of Acquisition of Subsidiaries	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(32)	17,565	[•]	[•]
Total capitalisation	**(32)**	**17,565**	**[•]**	**[•]**

11. FINANCIAL INFORMATION *(Cont'd)*

	Orgabio Holdings	I	II	III
	As at 31 January 2021	Upon the completion of Acquisition of Subsidiaries	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Indebtedness[1]				
Current				
Term loans	-	533	533	533
Lease liabilities	-	502	502	502
Non-current				
Term loans	-	10,094	10,094	10,094
Lease liabilities	-	622	622	622
Total indebtedness	**-**	**11,751**	**11,751**	**11,751**
Total capitalisation and indebtedness	**(32)**	**29,316**	**[•]**	**[•]**
Gearing ratio[2](times)	**-**	**0.67**	**[•]**	**[•]**

Notes:

[1] All of our indebtedness are secured.

[2] Calculated based on the total indebtedness divided by the total capitalisation.

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