12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

12.1.1 Selected historical consolidated financial information

The historical consolidated financial information for FYEs 31 December 2018, 2019 and 2020 has been extracted from the Accountants' Report included in Section 13 of this Prospectus ("**Consolidated Financial Statements**"). Our Consolidated Financial Statements are prepared in accordance with MFRS and IFRS.

The following selected historical consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Section 12.2 of this Prospectus and the Accountants' Report in Section 13 of this Prospectus.

Selected consolidated statement of comprehensive income

	FYE 31 December		
	Audited		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
Revenue	276,982	512,217	1,218,283
Cost of sales	(247,677)	(450,345)	(554,333)
Gross profit	29,305	61,872	663,950
Other income	3,731	7,647	12,751
	33,036	69,519	676,701
Selling and distribution expenses	(4,879)	(7,907)	(13,540)
Administrative expenses	(9,717)	(15,184)	(20,794)
Other expenses	(3,341)	(1,169)	(4,570)
Finance costs	(4,846)	(10,577)	(10,061)
Net (impairment losses)/reversal of impairment losses on financial assets	(14)	14	-
PBT	10,239	34,696	627,736
Income tax expense	851	2,898	(113,250)
PAT/Total comprehensive income for the financial year	**11,090**	**37,594**	**514,486**
PAT /Total comprehensive income attributable to:			
Owners of the Company	**11,090**	**37,594**	**514,486**

12. FINANCIAL INFORMATION *(Cont'd)*

	FYE 31 December		
	2018	2019	2020
Other selected financial data			
% change in revenue [(1)]	62.5	84.9	137.8
Gross profit margin (%) [(2)]	10.6	12.1	54.5
Depreciation (RM'000) [(3)]	24,532	38,457	41,786
EBITDA	39,617	83,730	679,583
EBITDA margin (%) [(4)]	14.3	16.3	55.8
PBT margin (%) [(5)]	3.7	6.8	51.5
PAT margin (%) [(6)]	4.0	7.3	42.2
Basic and diluted EPS (RM) [(7)]	0.11	0.38	5.14

Notes:

(1) This reflects the percentage change in revenue compared to the prior financial year.

(2) Computed based on gross profit divided by revenue.

(3) Comprises depreciation of property, plant and equipment and depreciation of right-of-use assets.

(4) Computed based on EBITDA divided by revenue.

(5) Computed based on PBT divided by revenue.

(6) Computed based on PAT divided by revenue.

(7) Computed based on PAT attributable to owners of our Company divided by the weighted average number of ordinary shares in each of the respective financial year.

The following table reconciles our PAT to EBITDA and adjusted for the financial year indicated:

	FYE 31 December		
	Audited		
	2018	2019	2020
	RM'000	RM'000	RM'000
PAT	11,090	37,594	514,486
Add/(Less):			
Income tax expense	(851)	(2,898)	113,250
Finance cost	4,846	10,577	10,061
Depreciation of property, plant and equipment	24,532	38,012	41,169
Depreciation of right-of-use assets	-	445	617
EBITDA	**39,617**	**83,730**	**679,583**

We adopted MFRS16 retrospectively from 1 January 2019 and, as permitted under the specific transition provisions, we did not restate the comparative information. We only applied MFRS 16 to contracts entered into or changed on or after 1 January 2019, being contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'. See Section 12.2.4 of this Prospectus for more details.

Selected consolidated statement of financial position

	As at 31 December		
	Audited		
	2018	2019	2020
	RM'000	RM'000	RM'000
Total non-current assets	363,899	393,988	518,007
Total current assets	145,344	215,992	648,144
Total assets	**509,243**	**609,980**	**1,166,151**
Share capital	100,000	100,000	100,000
Retained profits	1,465	39,059	553,545
Total equity	**101,465**	**139,059**	**653,545**
Total non-current liabilities	85,792	97,340	178,751
Total current liabilities	321,986	373,581	333,855
Total liabilities	**407,778**	**470,921**	**512,606**
Net assets	**101,465**	**139,059**	**653,545**

	As at 31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Other selected financial data			
Total borrowings (including lease liabilities)	133,040	176,561	271,385
Net borrowings(1)	120,685	146,325	37,961
Gearing ratio (times)(2)	1.3	1.3	0.4
Net gearing ratio (times)(3)	1.2	1.1	0.1

Notes:

(1) Computed based on total borrowings (including lease liabilities) less deposits with licensed banks, cash and bank balances as at the end of the year.

(2) Computed based on total borrowings (including lease liabilities) over total equity as at the end of the year.

(3) Computed based on net borrowings divided by total equity as at the end of the year.

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

The following discussion and analysis should be read in conjunction with the Accountants' Report included in Section 13 of this Prospectus.

12.2.1 Overview

We are a fast-growing manufacturer and distributor of high-quality nitrile examination gloves. We are based in Malaysia but produce gloves for the global market, with particularly strong customer relationships in the United States. Our gloves meet and exceed international quality standards including the minimum acceptance rate required for distribution in major glove markets around the world, and we focus on innovation and development throughout our production and other business processes.

Our nitrile examination gloves can be used for a variety of applications, including in the medical, food safety and industrial sectors. Our customers are in medical and non-medical industries, and our end-users include hospitals, clinics, laboratories, nursing homes, food industry businesses and industrial workers, as well as frontline workers in a wide range of other industries who are using disposable examination gloves due to increased hygiene requirements in the wake of the COVID-19 pandemic. We sell all of our products under third-party labels, where we have been engaged as an OEM by our customers.

We currently operate one manufacturing facility in Malaysia. As at 31 January 2021, we completed the new expansion of our manufacturing facility, increasing our production lines to 34 and our total annual installed capacity to 11.6 billion gloves.

See Section 7 of this Prospectus for more details on our business.

From FYE 31 December 2018 to FYE 31 December 2020, our revenue increased by a CAGR of 109.7% from RM277.0 million to RM1,218.3 million, our EBITDA increased by a CAGR of 314.3% from RM39.6 million to RM679.6 million, our gross profit increased by a CAGR of 376.0% from RM29.3 million to RM664.0 million and our PAT increased by a CAGR of 580.8% from RM11.1 million to RM514.5 million.

12.2.2 Significant factors affecting our financial condition and results of operations

A number of factors have affected and, we expect, will continue to affect our financial condition and results of operations, including the COVID-19 pandemic and the other factors set out below:

(i) Prices of our products

The selling prices of our products have a direct and significant impact on our results of operations, in particular in the year 2020. The prices of our products, in turn, are affected by general fluctuations in market prices, global supply and demand conditions for gloves, the prices of raw materials that we require for our production, the quality of our products and our customer relationships and strategy, which could have an impact on the demand for our products.

Any increase in the price of raw materials including nitrile latex or chemicals will generally result in an increase in the selling price of our products as we typically pass fluctuations in costs to our customers. Such an increase in the selling price of our products could have an adverse effect on the demand for and competitiveness of our products. Further, our products are primarily affected by supply and demand conditions which can cause the prices of our products to vary due to the volatility in global markets for gloves.

The ongoing COVID-19 pandemic has resulted in an increase in global demand for examination gloves, often exceeding global production output. This increase in global demand has significantly contributed to the increase in the blended average selling prices of our examination gloves during FYE 31 December 2020, as compared to FYE 31 December 2019. We expect prices for examination gloves globally, including our examination gloves, to continue to increase to the extent the COVID-19 pandemic continues and global demand continues to rise and to exceed global production output, though the rate of increase may slow down.

The table below sets out the blended average selling prices of the examination gloves sold by Central Medicare for the financial years indicated:

	FYE 31 December		
	Unaudited		
	2018	**2019**	**2020**
Blended average selling price per thousand gloves (USD)[(1)]	25.11	22.26	39.22

Note:

(1) Computed based on the average of our monthly revenue divided by our monthly sales volumes for the respective financial year.

The table below sets out the blended average selling prices of our examination gloves for the months indicated:

	Blended average selling price per thousand gloves (USD) (1)(2)	
	Unaudited	
	2019	2020
January	24.52	21.63
February	22.42	20.84
March	22.29	21.02
April	23.07	21.61
May	21.69	22.87
June	22.06	26.85
July	21.84	39.63
August	21.81	44.78
September	21.80	52.46
October	21.98	56.56
November	21.79	65.29
December	21.84	77.14

Notes:

(1) Computed based on our revenue for the month divided by our sales volumes for the month.

(2) The monthly blended average selling prices of our examination gloves have been derived from our unaudited consolidated monthly management accounts. Certain procedures, as agreed with our Auditors, have been performed by our Auditors on these monthly blended average selling prices. However, these figures could differ from our actual blended average selling prices had such figures been audited.

The following table demonstrates the sensitivity of our PAT to a 5% change in the blended average selling prices of our examination gloves as at the end of the reporting year, with all other variables assumed to be constant as explained below:

	Increase/(Decrease) in our PAT	
	FYE 31 December	
	2019	2020
	RM'000	
Effects on PAT		
Blended average selling price		
- *Increased by 5%*	19,464	46,295
- *Decreased by 5%*	(19,464)	(46,295)

The above analysis assumes:

(a) all direct costs are passed on to our customers immediately in the year of production; and

(b) an increase in the blended average selling prices of our examination gloves does not lead to a corresponding increase in direct costs or direct overheads.

(ii) Global demand for gloves

Our sales volumes depend largely on global demand for gloves. According to Vital Factor, global demand for disposable examination gloves has experienced steady growth over the past two decades, with the total global export value of gloves (including nitrile and natural rubber gloves) expanding by an estimated CAGR of 27.9% from 2018 to 2020. The sustained long-term drivers of this growth include:

- increased hygiene awareness driven by general economic development and outbreaks of virulent disease including H1N1 and the COVID-19 pandemic, and resulting increases in spending by governments and businesses on healthcare as well as more stringent health regulations and health standards in both medical and non-medical industries;

- improving living standards and better access to healthcare, in particular in developing countries;
- a growing global population, in particular in developing countries; and
- an ageing global population, in particular in developed countries including the United States, Europe and Japan, which will require increased health care services.

We believe that these growth drivers are fundamental to the long-term development of the examination glove industry and make the industry resilient to short-term fluctuations in Malaysian, regional and global economic cycles. See Section 7.2.1 of this Prospectus for more details.

Further, we expect the continuing impact of the COVID-19 pandemic to drive global demand for gloves and global glove production volumes for the foreseeable future. According to Vital Factor, glove production globally is expected to grow at a CAGR of 20% from 2020 to 2023, from 327 billion gloves in 2020 to 571 billion gloves in 2023. We expect that both supply and demand will remain above pre-COVID-19 levels after the pandemic, as global health standards and consumer behaviour evolve. See Section 7.2.2 of this Prospectus for more details.

See Section 7.9 of this Prospectus for our sales volumes for FYEs 31 December 2018, 31 December 2019 and 31 December 2020.

(iii) Prices and availability of raw materials

The table below sets out the total cost of raw materials that we used for the production of our products as a percentage of our cost of sales for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**2020**
Total cost of raw materials / total cost of sales (%)[(1)]	56.6	53.0	49.7

Note:

(1) Total cost of raw materials comprises the total cost of nitrile latex and chemicals.

The primary raw material used in our manufacturing process is nitrile latex. Our procurement team assesses and selects our nitrile latex suppliers based on criteria including the quality of the raw materials supplied, pricing, reliability and punctuality of delivery. We source our raw materials from both local and overseas suppliers. The price and availability of nitrile latex are influenced by various factors, including global supply and demand conditions, global and regional economic conditions (including the ongoing COVID-19 pandemic) and negotiations with our suppliers. As we have generally been able to pass through any increases in the price of nitrile latex to our customers in the prices of our products, increases in the price of nitrile latex have historically contributed to increases in both our revenues and our costs. To the extent we are not able to pass any increase in nitrile latex price through to our customers, either in full or in a timely manner, our margins will be affected.

The primary fuel we use in our production process is natural gas. Any significant change in the availability of or any significant increase in the price of natural gas could materially affect our costs of sales. The cost of natural gas is influenced by factors including subsidies, international events, political developments, supply levels and costs of substitute energy sources, domestic and foreign governmental regulations with respect to energy industries in general, weather conditions and seasonality, tax and regulations and overall global, domestic and regional economic conditions driving demand for energy products.

The table below sets out the total cost of fuel that we required for the production of our products as a percentage of our cost of sales for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**2020**
Total cost of fuel / Cost of sales (%)	11.7	15.3	15.7

(iv) **COVID-19 pandemic**

As stated in Section 12.2.2(i) of this Prospectus, the ongoing COVID-19 pandemic has resulted in an increase in global demand for examination gloves, which has significantly contributed to the increase in the blended average selling prices of our examination gloves during FYE 31 December 2020, as compared to FYE 31 December 2019. In addition, as stated in Section 12.2.2(ii) of this Prospectus, our sales volumes depend largely on global demand for gloves, and we expect the continuing impact of the COVID-19 pandemic to drive global demand for gloves and global glove production volumes for the foreseeable future. See also Section 7.18.1 for more details about certain of the effects of the COVID-19 pandemic on Malaysia and on our business in FYE 31 December 2020.

Furthermore, in February and March 2021, we experienced a disruption to our operations at our manufacturing facility due to confirmed cases of COVID-19 among our workers. In response to these cases, we suspended our manufacturing operations from 15 February 2021 to 7 March 2021. This suspension resulted in a reduction in the number of gloves we produced by approximately 628 million pieces, which is approximately 5% of our total annual installed capacity for FYE 31 December 2021. In addition, we incurred remedial costs in an amount of RM6.3 million during this period relating to various responsive measures we took, including hotel costs for housing our employees, costs for a one-time payment to our employees (other than Directors and senior management), and medical costs relating primarily to swab tests. We expect the decrease in production to adversely impact our revenue for FYE 31 December 2021 and the decrease in revenue and increase in remedial costs to adversely impact our PAT for FYE 31 December 2021, although we still expect both revenue and PAT for FYE 31 December 2021 to be higher than FYE 31 December 2020. See Section 7.18.2 for more details about the financial impact of this suspension of our operations on our business.

Future confirmed cases of COVID-19 and resulting suspensions of our manufacturing operations could have a similar adverse (and more material) effect on our revenues and PAT. See Section 5.1.3 for more details about the potential adverse effects of a future outbreak of COVID-19 at our facilities.

(v) **Foreign currency fluctuations**

Fluctuations in foreign currencies may directly impact our financial condition and results of operations by affecting our profit margins where our cost of sales are predominantly denominated in one currency and sales are made in another currency. The primary foreign currency to which our Group is exposed is USD, as almost all of our revenue is denominated in USD and a significant portion of our purchases are denominated in USD while the rest are primarily denominated in RM. As such, a significant appreciation of RM against USD would have an adverse effect on our revenue and results of operations. Conversely, a depreciation of RM against USD would have a favourable impact on our revenue and results of operations.

The table below sets out the percentage exposure of our revenue denominated in the indicated foreign currencies as a proportion of our total revenue for the financial years indicated:

	FYE 31 December		
	2018	2019	2020
	%[1]	%[1]	%[1]
USD	97.5	98.5	96.7
Ringgit Malaysia	2.5	1.5	3.3

Note:

(1) Calculated based on our revenue derived from the indicated foreign currency divided by our total revenue.

See Section 12.2.9(i) below and Note 32.1(a)(i) of the Accountants' Report included in Section 13 of this Prospectus for the sensitivity of our PAT to a 5% change in USD against RM, with all other variables assumed to be constant.

12.2.3 Critical accounting estimates and judgements

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when the financial statements are prepared. However, this does not prevent actual figures differing from estimates:

(i) **Depreciation of property, plant and equipment**

The estimates for the residual values, useful lives and related depreciation charges for property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. We anticipate that the residual values of our property, plant and equipment will be insignificant. As a result, we do not take the residual values into consideration for the computation of the depreciable amount.

We may revise the depreciation charges as changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets.

See Note 5 of the Accountants' Report included in Section 13 of this Prospectus for the carrying amount of our property, plant and equipment.

(ii) Impairment of goodwill

We assess the carrying amount of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. This assessment requires us to estimate the value in use of the cash-generating unit to which the goodwill is allocated. To estimate the value in use amount, we estimate the expected future cash flows from the cash-generating unit and determine a suitable discount rate to calculate the present value of those cash flows. See Note 4 of the Accountants' Report included in Section 13 of this Prospectus for more details on the carrying amount of goodwill.

(iii) Impairment of trade receivables

We use the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. We develop the expected loss rates based on the payment profiles of past sales and the corresponding historical credit losses and adjust for qualitative and quantitative reasonable and supportable forward-looking information. A difference in the expected and estimated loss will impact the carrying amount of our trade receivables. See Note 10 of the Accountants' Report included in Section 13 of this Prospectus for more details on the carrying amount of our trade receivables.

(iv) Income tax

We are subject to income tax in Malaysia.

There are transactions and computations for which the ultimate tax determination may be different from the initial estimate. We recognise tax liabilities based on our understanding of the prevailing tax laws and estimates of whether such tax will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax expense and deferred tax balances in the period in which such determination is made.

12.2.4 New accounting pronouncement applicable in the preparation of the financial statements

We adopted the following new standards and amendments to standards and interpretations in FYE 31 December 2019:

(i) MFRS 16 Leases;

(ii) IC Interpretation 23 Uncertainty Over Income Tax Treatments;

(iii) Amendments to MFRS 9: Prepayment Features with Negative Compensation;

(iv) Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement;

(v) Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures; and

(vi) Annual Improvements to MFRS Standards 2015 – 2017 Cycles.

We adopted MFRS 16 retrospectively from 1 January 2019 and as permitted under the specific transition provisions, we did not restate the comparative information. We only applied MFRS 16 to contracts entered into or changed on or after 1 January 2019, being contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'.

At 1 January 2019, for leases that were classified as finance leases, we recognised the carrying amount of the lease liability immediately before 1 January 2019 as the carrying amount of the right-of-use asset and the lease liability as at the date of initial application. As a result, we did not make any adjustments to our retained profits upon the transition to MFRS 16 at 1 January 2019 other than the reclassification of certain balances in our consolidated statement of financial position on that date.

We also adopted the following new standards and amendments to standards and interpretations beginning 1 January 2020:

(a) Amendments to MFRS 3: Definition of a Business;

(b) Amendments to MFRS 4: Extension of the Temporary Exemption from Applying MFRS 9;

(c) Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform;

(d) Amendments to MFRS 101 and MFRS 108: Definition of Material; and

(e) Amendments to References to the Conceptual Framework in MFRS Standards.

The adoption of these amendments did not have any impact on FYE 31 December 2020 or any prior years and is not likely to affect future years.

We have not applied in advance the following standards and interpretations (including any consequential amendments) that have been issued by the Malaysian Accounting Standards Board but are not yet effective for FYE 31 December 2020:

(A) MFRS 17 Insurance Contracts, which will be effective 1 January 2023;

(B) Amendments to MFRS 3: Reference to the Conceptual Framework, which will be effective 1 January 2022;

(C) Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16: Interest Rate Benchmark Reform – Phase 2, which will be applicable to our Group from FYE 31 December 2021;

(D) Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, the effective date of which has been deferred;

(E) Amendments to MFRS 16: COVID-19 – Related Rent Concessions, which will be applicable to our Group from FYE 31 December 2021;

(F) Amendments to MFRS 17 Insurance Contracts, which will be effective 1 January 2023;

(G) Amendments to MFRS 101: Classification of Liabilities as Current or Non-current, which will be effective 1 January 2023;

(H) Amendments to MFRS 116: Property, Plant and Equipment – Proceeds before Intended Use, which will be effective 1 January 2022;

(I) Amendments to MFRS 137: Onerous Contracts – Cost of Fulfilling a Contract, which will be effective 1 January 2022; and

(J) Annual Improvements to MFRS Standards 2018 – 2020, which will be effective 1 January 2022.

The adoption of these new standards and interpretations (including any consequential amendments) is expected to have no material impact on our consolidated financial statements for the current financial year and any other prior years. See Note 3 of the Accountants' Report included in Section 13 of this Prospectus for a description of accounting standards issued but not yet effective and not early adopted.

12.2.5 Results of operations

The components of our results of operations are as follows:

(i) Revenue

We derive our revenue from the manufacturing and sale of nitrile examination gloves. The following table sets out our revenue for the financial years indicated.

	FYE 31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Revenue	276,982	512,217	1,218,283

We recognise revenue at the point in time when control of our Group over the goods is transferred to our customer. Depending on the terms of the purchase order with our customer, control is transferred (a) either upon delivery or shipment of goods to the specific location agreed with our customer, or the risks of obsolescence and loss have been transferred to our customer, and (b) either our customer has accepted the goods in accordance with the purchase order, the acceptance provisions have lapsed or our Group has objective evidence that all criteria for acceptance have been satisfied.

We sell our products directly to customers in four geographical markets, namely, North America, Asia, Australia and Europe.

Our revenue is mainly denominated in USD and is converted to RM for the purposes of presentation in our financial statements. As such, our revenues would be impacted by fluctuations in USD against RM.

The following table sets out a breakdown of our revenue by geographical markets, in absolute terms in RM and in USD and as a proportion of our total revenue for the financial years indicated:

	FYE 31 December								
	2018			2019			2020		
	RM'000	USD'000[(1)]	%[(2)]	RM'000	USD'000[(1)]	%[(2)]	RM'000	USD'000[(1)]	%[(2)]
Revenue									
North America	220,743	55,466	79.7	398,286	97,065	77.8	984,006	237,878	80.8
Asia	51,408	12,931	18.6	100,523	24,511	19.6	206,177	49,758	16.9
Australia	2,507	634	0.9	13,365	3,247	2.6	24,166	5,823	2.0
Europe	2,324	579	0.8	43	10	*[(3)]	3,727	908	0.3
South America	-	-	-	-	-	-	207	51	*[(3)]
Total	**276,982**	**69,610**	**100.0**	**512,217**	**124,833**	**100.0**	**1,218,283**	**294,419**	**100.0**

Notes:

(1) Represents our sales proceeds denominated in USD. Transactions in USD are then converted into RM on initial recognition, using the exchange rates at the transaction dates.

(2) Calculated based on our revenue in RM for the financial year.

(3) Less than 0.05%.

(ii) Cost of sales

Our cost of sales consists primarily of the cost of raw materials, kernel shell, natural gas, electricity and water, as well as overheads, direct labour costs and other items.

The cost of raw materials comprises the cost of nitrile latex and chemicals. The cost of raw materials make up approximately half of our manufacturing costs.

Fuel cost is mainly related to natural gas and kernel shell, for the boiler and other heating devices used in our glove manufacturing process.

Overheads comprise depreciation of property, plant and equipment which are directly attributable to the production of examination gloves, repair and maintenance, tools and consumables, printing and stationeries, indirect labour costs including salaries for indirect labour, hostel expenses and sundry expenses for foreign labour, other manufacturing expenses and research and development expenses.

Other direct costs include direct labour costs, which comprise employees' salaries, wages, allowances and bonuses.

The following table sets out the components of our cost of sales, in absolute terms and as a proportion of our cost of sales for the financial years indicated:

	FYE 31 December					
	2018		2019		2020	
	RM'000	%	RM'000	%	RM'000	%
Raw materials[(1)]	139,971	56.6	238,697	53.0	275,687	49.7
Fuel	29,008	11.7	69,012	15.3	87,179	15.7
Electricity	18,023	7.3	28,508	6.3	31,073	5.6
Overheads	42,871	17.3	58,913	13.1	72,350	13.1
Other direct costs	17,804	7.2	55,215	12.3	88,044	15.9
Cost of sales	**247,677**	**100.0**	**450,345**	**100.0**	**554,333**	**100.0**

Note:

(1) Total cost of raw materials comprises the total cost of nitrile latex and chemicals.

(iii) Other income

Other income consists primarily of the gain on unrealised foreign exchange and realised foreign exchange, and interest income.

(iv) Selling and distribution expenses

Selling and distribution expenses comprise contract packer costs, shipping and costs related to the handling and delivery of goods (including forwarding charges and customs duty) and other marketing related expenses (including traveling and advertising expenses and bonuses and commissions paid to a sourcing agent engaged for one of our major customers).

(v) Administrative expenses

Administrative expenses primarily comprise directors' remuneration, salaries and allowances not directly attributable to the production of our examination gloves, license fees, registration fees, professional fees, expenses relating to the purchase of computer hardware and software, stamp duty and custom duty.

(vi) **Other expenses**

Other expenses primarily comprise depreciation and impairment loss of property, plant and equipment which are not directly attributable to the production of our examination gloves including motor vehicle and office equipment, loss on foreign exchange and loss on disposal or write-off of property, plant and equipment.

(vii) **Finance costs**

Finance costs primarily comprise interest expenses incurred on our term loans, lease liabilities and hire purchase payables, revolving loan charges, interest on loans against imports and bankers' acceptance interest.

(viii) **Net impairment loss on financial assets**

Impairment loss on financial assets primarily comprise impairment on trade receivables or, as the case may be, a reversal of impairment on financial assets.

(ix) **Income tax expense**

Income tax expense comprises current and deferred tax, as well as tax credits. We calculate income tax at the statutory tax rate in Malaysia of 24% of the estimated assessable profit for the financial year.

Our deferred tax expense or tax credits primarily relate to the utilisation or recognition of unabsorbed capital allowances and unutilised tax losses. The unabsorbed capital allowances do not expire and can be utilised against income from the same business source. We are allowed to carry forward our unutilised tax losses for a maximum period of seven consecutive years. See Notes 8 and 26 of the Accountants' Report included in Section 13 of this Prospectus for more details.

The following table sets out our income tax expense (or credits) for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
Current tax	124	150	80,710
Deferred tax	(975)	(3,048)	32,540
Total income tax expense	**(851)**	**(2,898)**	**113,250**

12.2.6 Review of performance for FYE 31 December 2019 compared to FYE 31 December 2020

The following table presents selected information from our statement of comprehensive income, in absolute terms and as a percentage of total revenue, and the percentage changes for the financial years indicated:

	FYE 31 December				
	2019		2020		
	RM'000	% of revenue	RM'000	% of revenue	% change
Revenue	512,217	100.0	1,218,283	100.0	137.8
Cost of sales	(450,345)	(87.9)	(554,333)	(45.5)	23.1
Gross profit	**61,872**	**12.1**	**663,950**	**54.4**	**973.1**
Other income	7,647	1.5	12,751	1.0	66.7
	69,519	13.6	676,701	55.5	873.4
Selling and distribution expenses	(7,907)	(1.5)	(13,540)	(1.1)	71.2
Administrative expenses	(15,184)	(3.0)	(20,794)	(1.7)	36.9
Other expenses	(1,169)	(0.2)	(4,570)	(0.4)	290.9
Finance costs	(10,577)	(2.1)	(10,061)	(0.8)	(4.9)
Net reversal of impairment losses on financial assets	14	*	-	-	(100.0)
PBT	**34,696**	**6.8**	**627,736**	**51.5**	**1,709.2**
Income tax expense	2,898	0.6	(113,250)	(9.3)	(4,007.9)
PAT for the financial year	**37,594**	**7.3**	**514,486**	**42.2**	**1,268.5**

Note:

* Less than 0.05%

(i) Revenue

The following table set out our revenue by geographical markets and the percentage changes for the financial years indicated:

	FYE 31 December				
	2019		2020		
	RM'000	% of total revenue	RM'000	% of total revenue	% change
Revenue					
North America	398,286	77.8	984,006	80.8	147.1
Asia	100,523	19.6	206,177	16.9	105.1
Australia	13,365	2.6	24,166	2.0	80.8
Europe	43	*	3,727	0.3	8,567.4
South America	-	-	207	*	-
Total	**512,217**	**100.0**	**1,218,283**	**100.0**	**137.8**

Note:

* Less than 0.05%

Our revenue increased by 137.8% from RM512.2 million for FYE 31 December 2019 to RM1,218.3 million for FYE 31 December 2020 primarily due to:

(a) an increase in sales volumes from 5,659 million gloves in FYE 31 December 2019 to 7,229 million gloves in FYE 31 December 2020 primarily due to:

(A) the increased production of gloves in line with the increase in our production capacity due largely to (i) full commissioning of Block E in February 2019, which meant that Block E was operating at full capacity in FYE 31 December 2020 compared to only 11 months in FYE 31 December 2019; (ii) improvements made to the dipping profile on the dipping lines in Block A for FYE 31 December 2020, which allows us to produce a higher amount of examination gloves with the same amount of raw materials; and (iii) eight additional lines in Block F that commenced operations in the second half of FYE 31 December 2020; and

(B) strong demand for our examination gloves which allowed us to sell the incremental production volume; and

(b) an increase in the blended average selling prices from USD22.26 per thousand gloves in FYE 31 December 2019 to USD39.22 per thousand gloves in FYE 31 December 2020 primarily due to:

(A) an increase in global demand for examination gloves, exceeding global production output, primarily due to the ongoing COVID-19 pandemic; and

(B) an increase in the prices of nitrile latex for FYE 31 December 2020, which we fully passed on to customers. The increase in the prices of nitrile latex was primarily due to an increase in demand for nitrile latex due to the ongoing COVID-19 pandemic.

(ii) Cost of sales

Our cost of sales increased by 23.1% from RM450.3 million for FYE 31 December 2019 to RM554.3 million for FYE 31 December 2020 primarily due to:

(a) an increase in our usage of raw materials by RM37.0 million primarily due to an increase in production volumes from 5,924 million gloves in FYE 31 December 2019 to 7,368 million gloves in FYE 31 December 2020, largely due to:

(A) an increase in installed capacity arising largely from (i) full commissioning of Block E in February 2019, which meant that Block E was operating at full capacity in FYE 31 December 2020 compared to only 11 months in FYE 31 December 2019; (ii) improvements made to the dipping profile on the dipping lines in Block A for FYE 31 December 2020; and (iii) eight additional lines in Block F that commenced operations in the second half of FYE 31 December 2020; and

(B) an increase in the cost of nitrile latex primarily due to an increase in global demand for nitrile latex;

(b) an increase in other direct costs by RM32.8 million primarily due to an increase in direct labour cost arising from an increase in foreign workers employed for FYE 31 December 2020 ahead of the commencement of operations in Block F; and

(c) an increase in fuel costs by RM18.2 million and an increase in overheads (including depreciation of property, plant and equipment and repair and maintenance) by RM13.4 million. The increases were due to an increase in production volumes from 5,924 million gloves for FYE 31 December 2019 to 7,368 million gloves for FYE 31 December 2020, largely due the reasons set out in Section 12.2.6(ii)(a) above.

(iii) **Gross profit**

The following table sets out our gross profit and gross profit margin and the percentage changes for the financial years indicated:

	FYE 31 December		
	2019	**2020**	**% change**
Gross profit (RM'000)	61,872	663,950	973.1
Gross profit margin (%)	12.1	54.5	350.4

As a result of the foregoing, our gross profit increased by 973.1% from RM61.9 million for FYE 31 December 2019 to RM664.0 million for FYE 31 December 2020.

Our gross profit margin increased from 12.1% for FYE 31 December 2019 to 54.5% for FYE 31 December 2020 largely due to:

(a) the economies of scale achieved with (i) full commissioning of Block E in February 2019, which meant that Block E was operating at full capacity in FYE 31 December 2020 as compared to only 11 months in FYE 31 December 2019; (ii) improvements made to the dipping profile on the dipping lines in Block A for FYE 31 December 2020; and (iii) eight additional lines in Block F that commenced operations in the second half of FYE 31 December 2020; and

(b) substantial increase in the blended average selling prices of our examination gloves for FYE 31 December 2020 despite the corresponding increase in cost of sales components.

(iv) **Other income**

Our other income increased by 66.7% from RM7.6 million for FYE 31 December 2019 to RM12.8 million for FYE 31 December 2020. This was primarily due to an increase in realised gain on foreign exchange.

(v) **Selling and distribution expenses**

Our selling and distribution expenses increased by 71.2% from RM7.9 million for FYE 31 December 2019 to RM13.5 million for FYE 31 December 2020. This was primarily due to an increase in contract packer cost, export forwarding charges, customs duty in line with the increase in sales volume for FYE 31 December 2020, and bonuses and commissions of RM1.2 million paid to a sourcing agent engaged for one of our major customers.

(vi) **Administrative expenses**

Our administrative expenses increased by 36.9% from RM15.2 million for FYE 31 December 2019 to RM20.8 million for FYE 31 December 2020. This was primarily due to an increase in salary, bonuses and allowances arising largely from an increase in the number of administrative staff as well as the growth of our revenue and operations.

(vii) **Other expenses**

Our other expenses increased by 290.9% from RM1.2 million for FYE 31 December 2019 to RM4.6 million for FYE 31 December 2020. This was primarily due to an increase in unrealised loss on foreign exchange of RM3.2 million for FYE 31 December 2020.

(viii) **Finance costs**

Our finance costs decreased by 4.9% from RM10.6 million for FYE 31 December 2019 to RM10.1 million for FYE 31 December 2020. This was primarily due to a decrease in bank commitment fees and lower interest on our bankers' acceptance and term loans arising largely from the lower base lending rate for FYE 31 December 2020.

(ix) **PBT**

Our PBT increased by 1,709.2% from RM34.7 million for FYE 31 December 2019 to RM627.7 million for FYE 31 December 2020. This was largely due to an increase in revenue and other income, which was primarily a result of the increase in production of our gloves and the increase in the blended average selling prices of our gloves arising from the increase in demand for our examination gloves during FYE 31 December 2020 for the reasons described above.

Our PBT margin increased from 6.8% for FYE 31 December 2019 to 51.5% for FYE 31 December 2020 primarily due to the increase in gross profit margin for the reasons stated in Section 12.2.6(iii) of this Prospectus.

(x) **Income tax expense**

Our taxation increased from a RM2.9 million tax credit in FYE 31 December 2019 to RM113.3 million in tax expense for FYE 31 December 2020 largely due to the increase in our PBT for FYE 31 December 2020 and the recognition of deferred tax liabilities for FYE 31 December 2020.

(xi) **PAT for the financial year**

As a result of the foregoing, our PAT increased by 1,268.5% from RM37.6 million for FYE 31 December 2019 to RM514.5 million for FYE 31 December 2020. Our PAT margin also improved from 7.3% for FYE 31 December 2019 to 42.2% for FYE 31 December 2020.

12.2.7 Review of performance for FYE 31 December 2018 compared to FYE 31 December 2019

The following table presents selected information from our statement of comprehensive income, in absolute terms and as a percentage of total revenue, and the percentage changes for the financial years indicated:

	FYE 31 December				
	2018		2019		
	RM'000	% of revenue	RM'000	% of revenue	% change
Revenue	276,982	100.0	512,217	100.0	84.9
Cost of sales	(247,677)	(89.4)	(450,345)	(87.9)	81.8
Gross profit	**29,305**	**10.6**	**61,872**	**12.1**	**111.1**
Other income	3,731	1.3	7,647	1.5	105.0
	33,036	11.9	69,519	13.6	110.4
Selling and distribution expenses	(4,879)	(1.8)	(7,907)	(1.5)	62.1
Administrative expenses	(9,717)	(3.5)	(15,184)	(3.0)	56.3
Other expenses	(3,341)	(1.2)	(1,169)	(0.2)	(65.0)
Finance costs	(4,846)	(1.7)	(10,577)	(2.1)	118.3
Net reversal of impairment losses/(impairment losses) on financial assets	(14)	(*)	14	*	(200.0)
PBT	**10,239**	**3.7**	**34,696**	**6.8**	**238.9**
Income tax credit	851	0.3	2,898	0.6	240.5
PAT for the financial year	**11,090**	**4.0**	**37,594**	**7.3**	**239.0**

Note:

* Less than 0.05%

(i) Revenue

The following tables set out our revenue by geographical markets and the percentage changes for the financial years indicated:

	FYE 31 December				
	2018		2019		
	RM'000	% of total revenue	RM'000	% of total revenue	% change
Revenue					
North America	220,743	79.7	398,286	77.8	80.4
Asia	51,408	18.6	100,523	19.6	95.5
Australia	2,507	0.9	13,365	2.6	433.1
Europe	2,324	0.8	43	*	(98.1)
Total	**276,982**	**100.0**	**512,217**	**100.0**	**84.9**

Note:

* Less than 0.05%

Our revenue increased by 84.9% from RM277.0 million for FYE 31 December 2018 to RM512.2 million for FYE 31 December 2019.

The increase in revenue was primarily due to an increase in sales volumes from 2,783 million gloves for FYE 31 December 2018 to 5,659 million gloves for FYE 31 December 2019. The increase in sales volumes was primarily due to:

(a) the increased production of gloves in line with the increase in our production capacity arising largely from the full commissioning of Block E in February 2019; and

(b) strong demand for our examination gloves which allowed us to sell the incremental production volume.

The increase in revenue was partially offset by a decrease in blended average selling prices from USD25.11 per thousand gloves in FYE 31 December 2018 to USD22.26 per thousand gloves in FYE 31 December 2019, largely due to competitive pricing pressures in the international market for gloves.

(ii) Cost of sales

Our cost of sales increased by 81.8% from RM247.7 million for FYE 31 December 2018 to RM450.3 million for FYE 31 December 2019. This was primarily due to:

(a) an increase in our usage of raw materials by RM98.7 million primarily due to an increase in production volumes from 2,985 million gloves for FYE 31 December 2018 to 5,924 million gloves for FYE 31 December 2019 arising largely from the full commissioning of Block E in February 2019. The increase in usage of raw materials was partially offset by a decrease in the cost of nitrile latex primarily due to a decrease in the price of crude oil per barrel;

(b) an increase in fuel costs by RM40.0 million, primarily due to an increase in the cost of gas and an increase in the production of gloves; and

(c) an increase in electricity costs by RM10.5 million, an increase in overheads by RM16.0 million and an increase in other direct costs by RM37.4 million, each primarily due to the increased production arising from the full commissioning of Block E in February 2019.

(iii) **Gross profit**

The following table sets out our gross profit and gross profit margin and the percentage changes for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**% change**
Gross profit (RM'000)	29,305	61,872	111.1
Gross profit margin (%)	10.6	12.1	14.2

Our gross profit margin increased from 10.6% for FYE 31 December 2018 to 12.1% for FYE 31 December 2019 primarily due to the increase in production efficiencies as a result of:

(a) the economies of scale achieved with the full commissioning of Block E and higher utilisation rate of Block A and Block B for FYE 31 December 2019; and

(b) full conversion of all production lines in Block B from kernel shell to gas.

(iv) **Other income**

Our other income increased by 105.0% from RM3.7 million for FYE 31 December 2018 to RM7.6 million for FYE 31 December 2019. This was primarily due to a RM3.4 million increase in realised foreign exchange gain for FYE 31 December 2019, as USD appreciated against the RM.

(v) **Selling and distribution expenses**

Our selling and distribution expenses increased by 62.1% from RM 4.9 million for FYE 31 December 2018 to RM7.9 million for FYE 31 December 2019. This was primarily due to an increase in contract packer and forwarding charges in line with the increase in production volumes for FYE 31 December 2019.

(vi) **Administrative expenses**

Our administrative expenses increased by 56.3% from RM9.7 million for FYE 31 December 2018 to RM15.2 million for FYE 31 December 2019. This was primarily due to license fee paid on our water abstraction licence that we obtained for FYE 31 December 2019, additional office supplies and increased rental expenses incurred on our headquarters office ("**HQ Office**") and, the arrangement fee and stamp duty on the term loan that we drew down for FYE 31 December 2019. The primary purposes of the drawdown were to fund the construction of Block E and Block F, for working capital purposes and for the purchase of our HQ Office.

(vii) **Other expenses**

Our other expenses decreased by 65.0% from RM3.3 million for FYE 31 December 2018 to RM1.2 million for FYE 31 December 2019. This was primarily due to:

(a) a decrease of RM1.8 million in impairment loss on property, plant and equipment which are not directly attributable to the production of examination gloves from FYE 31 December 2018. This is due largely to the full impairment of the assets of New Era Medicare recognised for FYE 31 December 2018 following the cessation of manufacturing and processing operations of New Era Medicare in July 2017 due to commercial reasons; and

(b) an unrealised loss on foreign exchange of RM0.1 million for FYE 31 December 2019 compared to an unrealised loss on foreign exchange of RM0.5 million for FYE 31 December 2018.

(viii) **Finance costs**

Our finance costs increased by 118.3% from RM4.8 million for FYE 31 December 2018 to RM10.6 million for FYE 31 December 2019. This was primarily due to higher interest on our term loans, bankers' acceptance, foreign currency trade finance, loans against imports and revolving loans.

(ix) **Net impairment loss on financial assets**

We reversed the impairment loss on trade receivables of RM0.01 million for FYE 31 December 2019.

(x) **PBT**

Our PBT increased by 238.9% from RM10.2 million for FYE 31 December 2018 to RM34.7 million for FYE 31 December 2019. This was largely due to an increase in our revenue and other income, which was primarily a result of the increase in production of gloves arising largely from the full commissioning of Block E and strong demand for our examination gloves during the financial year for the reasons described above.

Our PBT margin increased from 3.7% for FYE 31 December 2018 to 6.8% for FYE 31 December 2019 primarily due to the increase in gross profit margin for the reasons stated in Section 12.2.7(iii) of this Prospectus.

(xi) **Income tax credit**

Our income tax credit increased by 240.5% from a RM0.9 million tax credit in FYE 31 December 2018 to a RM2.9 million tax credit in FYE 31 December 2019 primarily due to RM14.0 million utilisation of deferred tax assets in FYE 31 December 2019 arising from unabsorbed allowances carried forward from previous years and over-provision of RM0.2 million for FYE 31 December 2018.

(xii) **PAT for the financial year**

As a result of the foregoing, our PAT increased by 239.0% from RM11.1 million for FYE 31 December 2018 to RM37.6 million for FYE 31 December 2019. Our PAT margin also improved from 4.0% for FYE 31 December 2018 to 7.3% for FYE 31 December 2019.

12.2.8 Liquidity and capital resources

(i) **Working capital**

Our principal sources of liquidity are our deposits with licensed banks, cash and bank balances, cash generated from our operations, borrowings from financial institutions and advances from our shareholders and directors. Following our Listing, we expect to use the same principal sources of liquidity (excluding advances from our shareholders and directors) to fund our working capital needs. Many factors, including our results of operations and financial position and the conditions in the Malaysian and international financial markets, could affect our ability to rely on these sources of funding.

As at 31 December 2020, we had deposits with licensed banks and cash and bank balances of RM233.4 million and multi-currency trade facilities comprising term loan facilities, revolving credit facilities, overdraft facilities and other trade financings with a combined limit of RM379.8 million, of which RM320.9 million was drawn and RM58.9 million was undrawn.

As at 31 December 2020, our working capital, calculated as current assets minus current liabilities, was RM314.3 million.

Based on the above and taking into consideration our funding requirements for our committed capital expenditure and contractual obligations, expected cash flows from operations, deposits with licensed banks, cash and bank balances, bank borrowings and facilities, our Board believes that we will have sufficient working capital for a period of 12 months from the date of this Prospectus.

(ii) **Cash flows**

The following table sets out a summary of our consolidated statements of cash flows for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
Net cash (used in) / generated from operating activities	(33,061)	51,308	499,616
Net cash used in investing activities	(141,143)	(68,567)	(167,890)
Net cash generated from / (used in) financing activities	172,737	33,185	(128,548)
Net movement	(1,467)	15,926	203,178
Effect of foreign exchange translation	(162)	(107)	(1,052)
Cash and cash equivalents at beginning of the financial year	11,565	9,936	25,755
Cash and cash equivalents at end of the financial year	**9,936**	**25,755**	**227,881**

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

Net cash generated from/(used in) operating activities

FYE 31 December 2020

For FYE 31 December 2020, our net cash generated from operating activities was RM499.6 million. Our PBT was RM627.7 million, which was adjusted upward for net non-cash and other items of RM52.3 million and further adjusted downward for net working capital changes of RM110.3 million, which consisted primarily of a RM174.8 million increase in trade and other receivables and a RM55.1 million increase in inventories primarily due to an increase in production arising largely from the full commissioning of Block E, improvements made to the dipping profile on the dipping lines in Block A and eight additional lines in Block F that commenced operations the second half of FYE 31 December 2020. These amounts were partially offset by a RM119.6 million increase in trade and other payables primarily due to an increase in advances received from customers at the end of FYE 31 December 2020.

For FYE 31 December 2020, we paid income tax of RM70.2 million.

FYE 31 December 2019

For FYE 31 December 2019, our net cash generated from operating activities was RM51.3 million. Our PBT was RM34.7 million, which was adjusted upward for net non-cash and other items of RM47.1 million and further adjusted downward for net working capital changes of RM31.4 million which consisted primarily of a RM40.0 million increase in trade and other receivables and a RM12.4 million increase in inventories primarily due to the increase in production arising from the full commissioning of Block E and increase in utilisation rate of Block A and Block B. These amounts were partially offset by a RM21.0 million increase in trade and other payables. This was primarily due to increased purchase of raw materials largely as a result of the full commissioning of Block E.

For FYE 31 December 2019, we paid income tax of RM0.4 million. We also received an income tax refund of RM1.2 million primarily due to the utilisation of deferred tax assets arising from the unabsorbed losses carried forward from previous years.

FYE 31 December 2018

For FYE 31 December 2018, our net cash used in operating activities was RM33.1 million. Our PBT was RM10.2 million, which was adjusted upward for net non-cash and other items of RM31.4 million and further adjusted downward for net working capital changes of RM74.1 million, which consisted primarily of a RM18.8 million increase in trade and other receivables and a RM29.3 million increase in inventories primarily due to the increase in production arising from the full commissioning of Block B and the gradual commissioning of Block E in FYE 31 December 2018 as well as a RM26.1 million decrease in trade and other payables primarily due to (i) the repayment of trade payables with internal funds and moneys drawn down from a bank facility and advances from shareholder, and (ii) repayment of other payables with the additional advances from shareholders in FYE 31 December 2018 to fund the expansion of our operations.

For FYE 31 December 2018, we paid income tax of RM0.6 million.

Net cash used in investing activities

FYE 31 December 2020

Net cash used in investing activities was RM167.9 million for FYE 31 December 2020, which primarily comprised:

(a) purchases of property, plant and equipment of RM167.4 million primarily due to the additional eight lines, in Block F, which commenced operations in second half of FYE 31 December 2020; and

(b) a RM2.5 million placement of fixed deposits with tenure of more than three months.

These amounts were partially offset by a RM1.5 million decrease in fixed deposits pledged to licensed banks.

FYE 31 December 2019

Net cash used in investing activities was RM68.6 million for FYE 31 December 2019, which primarily comprised:

(a) purchases of property, plant and equipment of RM66.7 million primarily due to the additional production lines at Block E; and

(b) a RM2.1 million increase in fixed deposits pledged to licensed banks in line with the additional trade line facilities obtained in FYE 31 December 2019.

FYE 31 December 2018

Net cash used in investing activities was RM141.1 million for FYE 31 December 2018, which consisted primarily of purchases of property, plant and equipment of RM143.8 million primarily due to the expansion of Block E, which was partially offset by a RM2.4 million decrease in fixed deposits pledged to licensed banks primarily due to interest rate movements and the replacement of a facility which was previously under fixed deposits with a term loan facility.

Net cash generated from/(used in) financing activities

FYE 31 December 2020

Net cash used in financing activities was RM128.5 million for FYE 31 December 2020, which primarily comprised:

(a) repayment of RM208.3 million to our directors;

(b) payment of interest charges of RM10.0 million; and

(c) payment of other payables of RM4.0 million comprising amount owing to a related party,

partially funded by:

(i) net drawdown of term loans of RM63.8 million primarily for the construction of Block F; and

(ii) net drawdown of bills payable of RM30.3 million primarily for the purchase of raw materials.

FYE 31 December 2019

Net cash generated from financing activities was RM33.2 million for FYE 31 December 2019, which primarily comprised:

(a) net drawdown of bills payable of RM26.3 million primarily for the purchase of raw materials; and

(b) net drawdown of term loans of RM18.4 million primarily for the construction of Blocks E and F, for working capital purposes and for the purchase of our HQ Office,

partially used for:

(i) payment of interest charges of RM10.3 million; and

(ii) payment of other payables of RM1.0 million comprising amount owing to a related party.

FYE 31 December 2018

Net cash generated from financing activities was RM172.7 million for FYE 31 December 2018, which primarily comprised:

(a) net drawdown of term loans of RM98.1 million primarily for the construction of Block E;

(b) advances from shareholders of RM32.8 million;

(c) net drawdown of bills payable of RM30.3 million primarily for the purchase of raw materials; and

(d) advances from directors of RM16.5 million,

partially used for payment of interest charges of RM4.8 million.

(iii) **Borrowings**

As at 31 December 2020, we had total outstanding loans and borrowings of approximately RM271.4 million as set out in the table below:

	RM'000
Non-current	
Secured:	
Term loans	147,383
Lease liabilities	1,531
	148,914
Current	
Secured:	
Bills payable	89,053
Term loans	32,911
Lease liabilities	507
	122,471
Total borrowings	**271,385**

Our bills payable as at 31 December 2020 were secured by fixed deposits with licensed banks, and joint and several guarantee granted by certain of our Directors and related parties of our Group.

Our term loans as at 31 December 2020 are secured by:

(a) a legal charge over our leasehold land, land work, buildings and capital work-in-progress;

(b) fixed deposits with licensed banks;

(c) debenture over all present and future assets;

(d) corporate guarantee of the Company; and

(e) joint and several guarantee granted by certain of our Directors and related parties of our Group.

On 10 March 2021, our Group entered into a facility agreement for a new syndicated facility, part of the proceeds of which will be used to refinance our term loans. Pursuant to the terms of the new syndicated facility, (i) the joint and several guarantees granted by certain of our Directors and related parties of our Group with respect to our bills payable and term loans will be removed upon the submission of confirmation for registration of this Prospectus to the SC, and (ii) the debenture with respect to our term loans will be removed upon completion of our IPO.

Our lease liabilities are secured by our motor vehicles under finance leases and by certain of our plant and machinery.

The maturity profile of our borrowings as at 31 December 2020 is set out below:

	On demand or within one year	**Within one year to 5 years**	**Over five years**	**Total**
		RM'000		
Bills payable	89,053	-	-	89,053
Term loans	32,911	147,383	-	180,294
Lease liabilities	507	1,515	16	2,038
Total	122,471	148,898	16	**271,385**

As at 31 December 2020, all our outstanding term loans and lease liabilities are denominated in RM and our bills payable are denominated in RM and USD. Our outstanding bills payables denominated in USD as at 31 December 2020 is USD18.8 million, representing RM75.7 million. Our bills payable and lease liabilities have fixed interest rates and our term loans have floating interest rate terms. The effective interest rate of our bills payable ranges from 1.7% to 4.1%. The effective interest rate of our term loans ranges from 3.8% to 4.7%. The effective interest rate of our lease liabilities ranges from 4.2% to 7.2%.

For more information on our borrowings, see Notes 14, 15, 20 and 21 of the Accountants' Report included in Section 13 of this Prospectus.

We have not defaulted on interest or profit rate payments or principal amounts on any of our borrowings for FYE 31 December 2020 and up to the LPD. As at the LPD, we are not in breach of any terms and conditions or covenants associated with our borrowings which can materially affect our financial position and results or business operations or the investments in our Shares.

(iv) Key financial ratios

The following table sets out certain of our key financial ratios for the financial years indicated:

	FYE 31 December		
	2018	**2019**	**2020**
Average trade receivables turnover (days)(1)	53	51	54
Average trade payables turnover (days)(2)	33	29	30
Average inventory turnover (days)(3)	82	62	73
Current ratio (times)(4)	0.5	0.6	1.9
Gearing ratio (times)(5)	1.3	1.3	0.4

Notes:

(1) Computed as an average of the opening and closing trade receivables for the financial year divided by revenue during the financial year, multiplied by the number of days in the financial year.

(2) Computed as an average of the opening and closing trade payables for the financial year divided by the cost of sales during the financial year, multiplied by the number of days in the financial year.

(3) Computed as an average of the opening and closing inventory for the financial year divided by the cost of sales during the financial year, multiplied by the number of days in the financial year.

(4) Computed based on current assets over current liabilities as at the end of the financial year.

(5) Computed based on total borrowings (including lease liabilities) over total equity as at the end of the financial year.

(a) Trade receivables

The credit period that we typically extend to our customers range from 30 to 60 days. We assess and approve other credit terms on a case by case basis depending on, among other things, the financial position and credit history of our customer. Our average trade receivables turnover for FYEs 31 December 2018, 31 December 2019 ano 31 December 2020 have remained within the normal credit terms that we extend to our customers.

Our average trade receivables turnover decreased from 53 days for FYE 31 December 2018 and to 51 days for FYE 31 December 2019 primarily due to better control on our trade receivables. This includes strengthening our collection practice by emphasising better follow-up action on receivables.

Our average trade receivables turnover increased from 51 days for FYE 31 December 2019 to 54 days for FYE 31 December 2020 primarily due to the substantial increase in sales volumes in the latter part of FYE 31 December 2020, which resulted in a higher closing balance of trade receivables.

The aging analysis for trade receivables as at 31 December 2020 and the trade receivables collected and outstanding as at the LPD are as follows:

		Past Due				
	Current	**1-30 days**	**31-60 days**	**61-90 days**	**More than 90 days**	**Total**
	(RM'000, except percentages)					
Trade receivables as at 31 December 2020	252,599	13,553	3	17	92	266,264
Impairment	-	-	-	-	-	-
Trade receivables (net)	252,599	13,553	3	17	92	266,264
% of total trade receivables	94.9	5.1	*	*	*	100.0
As at the LPD:						
- Trade receivables collected (net)	235,203	13,053	3	1	17	248,277
- Trade receivables collected (% of total trade receivables (net))	88.3	4.9	*	*	*	93.2
- Trade receivables outstanding (net)	17,396	500	-	16	74	17,987

Note:
* Less than 0.05%

(b) **Trade payables**

The normal credit periods given by our trade creditors generally range from 30 to 60 days and our average trade payables turnover for FYE 31 December 2018 and 31 December 2020 have remained within the normal credit period that our trade creditors extend to us. Our average trade payables turnover for FYE 31 December 2019 was slightly lower than the normal credit period that our trade creditors extend to us largely due to the reasons set out below.

Our average trade payables turnover decreased from 33 days for FYE 31 December 2018 to 29 days for FYE 31 December 2019 primarily due the repayment of trade payables with internal funds and moneys drawn down from a bank facility and advances from shareholders.

Our average trade payables turnover increased slightly from 29 days for FYE 31 December 2019 to 30 days for FYE 31 December 2020 primarily due to higher balances of trade payables at period end due to the general growth of our business.

The aging analysis for trade payables as at 31 December 2020 and the trade payables settled and outstanding as at the LPD are as follows:

		Past Due				
	Current	**1-30 days**	**31-60 days**	**61-90 days**	**More than 90 days**	**Total**
	RM'000, except percentages					
Trade payables as at 31 December 2020	29,898	9,283	5,365	146	-	44,692
% of total trade payables	66.9	20.8	12.0	0.3	-	100.0
As at the LPD:						
- Trade payables settled	27,744	9,283	5,365	146	-	42,538

	Current	Past Due 1-30 days	31-60 days	61-90 days	More than 90 days	Total
	RM'000, except percentages					
- Trade payables settled (% of total trade payables)	62.1	20.8	12.0	0.3	-	95.2
- Trade payables outstanding (RM million)	2,154	-	-	-	-	2,154

(c) **Inventories**

The table below sets out a summary breakdown of our inventories for the financial years indicated:

	FYE 31 December 2018	2019	2020
	RM'000		
Opening inventory	41,106	70,404	82,813
Closing inventory	70,404	82,813	137,897
Average inventory turnover (days)[(1)]	82	62	73

Note:

(1) Computed as an average of the opening and closing inventory for the financial year divided by the cost of sales during the financial year, multiplied by the number of days in the financial year.

Generally, our inventory turnover period will depend on the expected demand from our customers for the type of products and also the value of the inventories during the period.

Our average inventory turnover period decreased from 82 days for FYE 31 December 2018 to 62 days for FYE 31 December 2019 primarily due to better management of our inventory and shipment.

Our average inventory turnover period increased from 62 days for FYE 31 December 2019 to 73 days for FYE 31 December 2020 primarily due to delays in the arrival of vessels as a result of, among other reasons, lockdowns imposed due to the COVID-19 pandemic which affected the movement of finished goods.

(d) **Current ratio**

Our current ratio increased from 0.5 times as at 31 December 2018 to 0.6 times as at 31 December 2019 primarily due to an increase in inventories in line with the expansion of our operations and increase in production capacities, an increase in deposits with licensed banks, an increase in trade receivables and cash and bank balances and a decrease in other payables and accruals, partially offset by an increase in trade payables and a decrease in other receivables, deposits and prepayments.

Our current ratio increased from 0.6 times as at 31 December 2019 to 1.9 times as at 31 December 2020 primarily due to an increase in cash and bank balances as a result of the increase in our PAT for FYE 31 December 2020.

(e) **Gearing ratio**

Our gearing ratio remained stable at 1.3 times as at 31 December 2018 and 31 December 2019.

Our gearing ratio decreased from 1.3 times as at 31 December 2019 to 0.4 times as at 31 December 2020 primarily due to the increase in total equity in line with the increase in our PAT for FYE 31 December 2020.

(v) Capital expenditure

The following table sets out our capital expenditures for the financial years indicated:

	FYE 31 December			1 January 2021 up to the LPD
	2018	2019	2020	
	RM'000	RM'000	RM'000	RM'000
Land and building	1,052	1,345	7,275	-
Landwork	5,110	97	4	-
Plant and machinery	14,843	14,400	14,154	2,225
Factory equipment	1,711	1,814	3,359	52
Motor vehicles	941	-	1,576	448
Furniture and fittings	1,074	1,457	5,314	235
Office equipment	349	838	807	133
Tar road	607	373	381	-
Capital work-in-progress	118,935	46,373	136,135	16,972
Total	**144,622**	**66,697**	**169,005**	**20,065**

Planned capital expenditure

The following table sets out our planned capital expenditures for the financial years indicated:

	FYE 31 December	
	2021	2022
	RM'000	RM'000
Leasehold land	204,500	-
Building	60,500	80,500
Landwork	20,500	3,000
Plant and machinery	69,461	89,025
Factory equipment	750	1,500
Motor vehicles	800	800
Furniture and fittings	29,906	31,050
Office equipment	3,216	2,425
Tar road	1,750	1,500
Office renovation	15,000	10,000
Capital work-in-progress	25,918	-
Total	**432,300**	**219,800**

Our actual capital expenditures may vary from projected amounts due to various factors, including changes in market conditions, our ability to obtain adequate financing for these planned capital expenditures, government policies regarding the industry in which we operate as well as the conditions in Malaysia where we operate or the countries where we sell our products to and the global economy. In addition, our planned capital expenditures do not include any expenditure for potential acquisitions or investments that we may evaluate from time to time. We intend to fund these planned capital expenditures with cash and cash equivalents, cash generated from our operations and financing activities.

(vi) Capital commitments and contractual obligations

Our capital commitments as at 31 December 2020 and the LPD are as follows:

	As at 31 December 2020	As at the LPD
	RM'000	RM'000
Approved and contracted for	86,488	86,280
Total	86,488	86,280

Our capital commitments as at the LPD primarily comprise RM13.7 million for Block F, RM65.6 million for Block G and Block H, RM4.6 million for hostel buildings and RM1.5 million for formers and other building enhancement for other blocks. We expect to meet our planned capital commitments through our cash and cash equivalents, cash generated from our operations and financing activities.

Save as disclosed above, as at the LPD, there are no material capital commitments incurred or known to be incurred by us that may have a material adverse effect on our results of operations or financial position.

(vii) Contingent liabilities and off-balance sheet arrangements

As at the LPD, we are not aware of any contingent liabilities that, upon becoming enforceable, may have a material adverse effect on our results of operations or financial position.

(viii) Material divestitures

We have not undertaken any material divestitures during FYEs 31 December 2018, 31 December 2019 and 31 December 2020 and up to the LPD.

12.2.9 Financial risk management

We are exposed to markets risks arising from our operations and use of financial instruments. Our overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to foreign currency risk on transactions and balances that are denominated in a currency other than RM. The currency giving rise to this risk is primarily USD.

Transactions in foreign currencies are measured and recorded on initial recognition in RM at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

We do not have a formal hedging policy with respect to foreign exchange exposure. Rather, we monitor foreign exchange exposure on an on-going basis and endeavour to keep net exposures to an acceptable level. If determined as necessary due to prevailing and anticipated conditions, we may enter into forward foreign exchange contracts to hedge foreign currency risk. For example, we have entered into foreign exchange option contracts and forward currency contracts to hedge our sales proceeds denominated in USD.

The following table demonstrates the sensitivity of our PAT to a 5% change in USD as at the end of the reporting year, with all other variables, in particular interest rates, held constant:

	Increase/(decrease)		
	As at 31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Effects on PAT/Equity			
USD			
- Strengthened by 5%	765	(10)	8,358
- Weakened 5%	(765)	10	(8,358)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market interest rates. Our exposure to interest rate risk arises mainly from our interest-bearing borrowings.

Our fixed rate borrowings and fixed deposits with licensed banks are carried at amortised cost. Therefore, they are not subject to interest rate risk as defined in MFRS 7 since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

Our policy is to obtain the most favourable interest rates available. We enter into interest rate swaps to achieve an appropriate mix of fixed and floating interest rate exposure.

The following table demonstrates the sensitivity of our PBT to a 100 basis point change in interest rates at the end of the reporting year, with all other variables, in particular foreign currency rates, held constant:

	Increase/(decrease) As at 31 December		
	2018	2019	2020
	RM'000	RM'000	RM'000
Effects on PBT/Equity			
Increase of 100 basis points	(581)	(810)	(1,510)
Decrease of 100 basis points	581	810	1,510

(iii) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. Our exposure to credit risk arises mainly from trade and other receivables. We manage our exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets, cash and bank balances and derivatives, we minimise credit risk by dealing exclusively with high credit rating counterparties.

As at 31 December 2020, we do not expect to incur material credit losses on our financial assets or other financial instruments.

(iv) Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting financial obligations due to shortages of funds. Our exposure to liquidity risk arises primarily from general funding and business activities.

We practise prudent risk management by maintaining sufficient cash balances and availability of funding through certain committed credit facilities. We also maintain sufficient cash balances to support our daily operations.

As at 31 December 2020, we had RM231.0 million in undiscounted financial liabilities due on demand or within one year.

12.2.10 Inflation

Inflation has not had a material impact on our results of operations in FYE 31 December 2018, FYE 31 December 2019 and FYE 31 December 2020.

12.2.11 Order book

As at the LPD, we had over 35 customers globally, who are primarily located in North America, Asia and Australia. See Section 7.9 of this Prospectus for the breakdown of our sales volumes by geographical markets for FYEs 31 December 2018, 2019 and 2020.

Our customers generally place purchase orders with us one to two months ahead, and we continually adjust pricing and other terms over time and generally on a monthly basis. Our major customers negotiate the expected quantity of gloves they expect to order from us for the coming 12 months. However, such indicative quantities are non-binding and are largely designed to help us plan for future capacity expansion. As a result, due to the nature of our business, we do not typically maintain an order book.

See Section 7.10 of this Prospectus for more details on the nature of our business.

12.2.12 Prospects and trends

Save as disclosed in this section and in Section 5 of this Prospectus, and to the best of our Board's knowledge and belief, there are no other known factors, trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our business, financial condition and results of operations.

12.2.13 Significant changes

Save as disclosed in this Prospectus, no significant changes have occurred since 31 December 2020 that we expect to have a material effect on our financial position and results of operations.

See Section 7.18 of this Prospectus for more details on the effects of the COVID-19 pandemic on our business, including the suspension of our operations at our manufacturing facility from 15 February 2021 to 7 March 2021.

12.2.14 Impact of government, economics, fiscal and monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business operations, financial performance and prospects.

For FYE 31 December 2018, FYE 31 December 2019 and FYE 31 December 2020 and up to the LPD, our results were not materially and adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

For information on any government, economic, fiscal or monetary policies or factors which could materially affect our operations, see Section 5 of this Prospectus.

12.2.15 Accounting standards issued but not yet effective and not early adopted

For a description of accounting standards issued but not yet effective and not early adopted, see Section 12.2.4 of this Prospectus and Note 3 of the Accountants' Report included in Section 13 of this Prospectus.

12.2.16 Accounting policies which are peculiar to our Group

We have not adopted any accounting policies which are peculiar to our Group because of the nature of our business or the industry in which we operate.

12.2.17 Treasury policies and objectives

One of the main treasury responsibilities is to ensure that we have the liquidity and cash to meet our obligations as they fall due. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations and borrowings from financial institutions. Using appropriate governance and policies, it is the responsibility of treasury to identify, quantify, monitor and control the risks (liquidity, interest, currency, credit, legal and regulatory) associated with these activities, using appropriate mitigation and hedging techniques.

We are exposed to currency exchange risk on transactions and bank balances that are denominated in a currency other than RM. The currency giving rise to this risk is primarily USD.

12.3 CAPITALISATION AND INDEBTEDNESS

The table below presents our capitalisation and indebtedness as at 31 January 2021 and as adjusted as if our IPO and Listing had occurred on 31 January 2021. The "as adjusted" financial information in the table does not represent our actual capitalisation and indebtedness as at 31 January 2021 and is provided for illustrative purposes only.

	Actual As at 31 January 2021 Unaudited	As adjusted for our IPO and Listing Unaudited
	RM'000	RM'000
Indebtedness		
Loans, borrowings and lease liabilities		
Current		
Secured		
Bills payable	78,666	78,666
Term loans	34,510	34,510
Lease liabilities	584	584
Non-current		
Secured		
Term loans	154,304	154,304
Lase liabilities	1,823	1,823
Total indebtedness	**269,887**	**269,887**
Equity attributable to owners of the Company[1]	**410,944**	**400,444**
Total capitalisation and indebtedness	**680,831**	**670,331**

Note:

(1) The total listing expenses to be borne by us is estimated to be RM10.5 million, of which RM1.0 million has been prepaid by our Group as at 31 December 2020.

12.4 REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
Level 16, Tower C, Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia
Main +6 03 2788 9999
Fax +6 03 2788 9998
www.crowe.my

Date: 18 March 2021

The Board of Directors
HARPS Holdings Bhd
K03-08-01, Tower 3,
UOA Business Park,
No. 1 Jalan Pengaturcara U1/51A, Sek. U1
40150 Shah Alam, Malaysia.

Dear Sirs

HARPS HOLDINGS BHD ("HARPS" or "the Company")
REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of pro forma consolidated statements of financial position of HARPS and its subsidiaries (collectively known as "the Group") as at 31 December 2020 ("Pro Forma Consolidated Statements of Financial Position"). The Pro Forma Consolidated Statements of Financial Position and the related notes (as set out in Appendix A for which we have stamped for the purpose of identification) have been prepared by the Board of Directors of the Company ("the Directors") for inclusion in the prospectus of the Company ("the Prospectus") in connection with the listing of and quotation for the entire issued share capital of HARPS on the Main Market of Bursa Malaysia Securities Berhad ("the Listing").

The applicable criteria on the basis of which the Directors have compiled the Pro Forma Consolidated Statements of Financial Position are described in the notes thereon to the Pro Forma Consolidated Statements of Financial Position and are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines").

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Directors to illustrate the impact of the events or transactions as set out in the notes thereon to the Pro Forma Consolidated Statements of Financial Position as if the events have occurred or the transactions have been undertaken on 31 December 2020. As part of this process, information about the Group's financial position have been extracted by the Directors from the Group's audited consolidated statements of financial position as at 31 December 2020.

Crowe

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis as described in the notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

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

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

REPORTING ACCOUNTANTS' RESPONSIBILITIES

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

We conducted our engagement in accordance with the International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in the notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

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

Crowe

REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONTINUED)

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

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

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

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

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

OPINION

In our opinion, Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in the notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Crowe

OTHER MATTER

This letter has been prepared solely for the purpose stated above, in connection with the Listing and should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Elvina Tay Choon Choon
03329/10/2021 J
Chartered Accountant

Kuala Lumpur

Initialed For Identification Purposes Only

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	Audited As At 31.12.2020 RM'000	Pro Forma I After Other Material Transactions RM'000	Pro Forma II After Pro Forma I and Pre-IPO Exercise RM'000	Pro Forma III After Pro Forma I, II and Proposals RM'000
ASSETS					
NON-CURRENT ASSETS					
Goodwill		28,791	28,791	28,791	28,791
Property, plant and equipment		475,428	475,428	475,428	475,428
Right-of-use assets		13,788	13,788	13,788	13,788
		518,007	518,007	518,007	518,007
CURRENT ASSETS					
Inventories		137,897	137,897	137,897	137,897
Trade receivables		266,264	266,264	266,264	266,264
Other receivables, deposits and prepayments	7.1	7,606	7,606	7,606	6,606
Current tax assets		206	206	206	206
Derivative assets		2,747	2,747	2,747	2,747
Deposits with licensed banks		33,848	33,848	33,848	33,848
Cash and bank balances	7.2	199,576	199,576	199,576	190,076
		648,144	648,144	648,144	637,644
TOTAL ASSETS		1,166,151	1,166,151	1,166,151	1,155,651

Initialed For Identification Purposes Only

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	As At 31.12.2020 RM'000	Pro Forma I After Other Material Transactions RM'000	Pro Forma II After Pro Forma I and Pre-IPO Exercise RM'000	Pro Forma III After Pro Forma I, II and Proposals RM'000
EQUITY AND LIABILITIES					
EQUITY					
Share capital		100,000	100,000	100,000	100,000
Retained profits	7.3	553,545	37,536	37,536	27,036
TOTAL EQUITY		653,545	137,536	137,536	127,036
NON-CURRENT LIABILITIES					
Long-term borrowings		147,383	147,383	147,383	147,383
Lease liabilities		1,531	1,531	1,531	1,531
Deferred tax liabilities		29,837	29,837	29,837	29,837
		178,751	178,751	178,751	178,751
CURRENT LIABILITIES					
Trade payables		44,692	44,692	44,692	44,692
Other payables and accruals		155,982	155,982	155,982	155,982
Short-term borrowings		121,964	121,964	121,964	121,964
Lease liabilities		507	507	507	507
Dividend payable	7.4	-	516,009	516,009	516,009
Current tax liabilities		10,710	10,710	10,710	10,710
		333,855	849,864	849,864	849,864
TOTAL LIABILITIES		512,606	1,028,615	1,028,615	1,028,615
TOTAL EQUITY AND LIABILITIES		1,166,151	1,166,151	1,166,151	1,155,651
Number of ordinary shares ('000)		100,000	100,000	10,000,000	10,000,000
Net assets per ordinary share (RM)		6.54	1.38	[(1)]0.01	[(2)]0.01

Notes:-

(1) 1.38 sen

(2) 1.27 sen

Initialed For Identification Purposes Only

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

1. INTRODUCTION

The pro forma consolidated statements of financial position of HARPS Holdings Bhd ("HARPS" or "the Company") and its subsidiaries (collectively known as "the Group") as at 31 December 2020 ("the Pro Forma Consolidated Statements of Financial Position") together with the notes thereon, for which the board of directors of the Company ("the Directors") are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the prospectus to be issued by the Company in connection with the listing of and quotation for the entire issued share capital of HARPS on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

2. BASIS OF PREPARATION

The Pro Forma Consolidated Statements of Financial Position have been prepared based on the audited consolidated statements of financial position of the Group as at 31 December 2020, which was prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with the format of the financial statements and accounting policies of the Group.

The Pro Forma Consolidated Statements of Financial Position together with the related notes thereon, have been prepared solely to illustrate the impact of the events and transactions set out in Notes 3, 4 and 5 to the Pro Forma Consolidated Statements of Financial Position had the events occurred or transactions been undertaken on 31 December 2020. The Pro Forma Consolidated Statements of Financial Position are not necessary indicative of the financial position that would have been attained had the Listing actually occurred at the respective dates.

Initialed For Identification Purposes Only

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. OTHER MATERIAL TRANSACTION

Distribution of Dividends

The Company declared a first special interim dividend of RM450,000,000 on 14 January 2021 and a second interim dividend of RM66,009,082 on 5 March 2021 in respect of the financial year ended 31 December 2020. The distribution of the abovementioned dividends are illustrated in the Pro Forma Consolidated Statements of Financial Position to show the effects of this transaction had the transaction been effected on 31 December 2020.

4. PRE-INITIAL PUBLIC OFFERING ("IPO") EXERCISE

Share Split

In conjunction with the Listing, the Company will subdivide the existing 100,000,000 ordinary shares in HARPS ("HARPS Shares") in issue into 10,000,000,000 HARPS Shares.

5. THE PROPOSALS

5.1 IPO

The Company will undertake an offer for sale of up to 2,600,000,000 existing ordinary shares in the Company ("Offer for Sale"), representing 26.00% of the Company's issued share capital at an indicative price of RM [•] per share.

5.2 Listing

Upon completion of the IPO, the Company will seek admission into the Official List of Bursa Malaysia Securities Berhad and the entire issued share capital of RM100,000,000 comprising 10,000,000,000 ordinary shares in the Company will be listed and quoted on the Main Market of Bursa Malaysia Securities Berhad.

The estimated expenses relating to the Listing are RM10.5 million of which these estimated expenses are to be borne by the Company and are to be settled in cash. The estimated expenses are recognised to the profit or loss account.

Initialed For Identification Purposes Only

Crowe

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

5. THE PROPOSALS (CONT'D)

5.3 EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

In conjunction with the Listing, the Company will establish the ESOS, which involves the granting of ESOS options to the eligible directors and employees of the Group.

The ESOS shall be administered by the ESOS committee to be appointed by the Directors and governed by the By-Laws governing the ESOS.

The ESOS is not illustrated in the Pro Forma Consolidated Statements of Financial Position as the ESOS options under the ESOS have yet to be granted as of the date of this report.

6. PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

6.1 Pro Forma I

Pro Forma I incorporates the effects of other material transaction as set out in Note 3 to the Pro Forma Consolidated Statements of Financial Position.

6.2 Pro Forma II

Pro Forma II incorporates the effects of Pro Forma I and pre-IPO exercise as set out in Note 4 to the Pro Forma Consolidated Statements of Financial Position.

6.3 Pro Forma III

Pro Forma III incorporates the effects of Pro Forma I, II and the Proposals as set out in Note 5 to the Pro Forma Consolidated Statements of Financial Position.

Initialed For Identification Purposes Only
Crowe
Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

7. EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

7.1 Other receivables, deposits and prepayments

	RM'000
As at 31 December 2020/As per Pro Forma I and II	7,606
Less: Prepaid listing expenses	(1,000)
As per Pro Forma III	6,606

7.2 Cash and bank balances

	RM'000
As at 31 December 2020/As per Pro Forma I and II	199,576
Less: Remaining estimated listing expenses ^	(9,500)
As per Pro Forma III	190,076

Note:-
^ - RM1,000,000 of the estimated listing expenses have been paid in advance by the Group.

7.3 Retained profits

	RM'000
As at 31 December 2020	553,545
Less: Distribution of Dividend	(516,009)
As per Pro Forma I and II	37,536
Less: Estimated listing expenses	(10,500)
As per Pro Forma III	27,036

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

7. EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

7.4 Dividend payable

	RM'000
As at 31 December 2020	-
Less: Distribution of Dividend	516,009
As per Pro Forma I, II and III	516,009

Initialed For Identification Purposes Only
Crowe
Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

APPENDIX A

HARPS HOLDINGS BHD
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 18 MAR 2021

On behalf of the Board of Directors,

Haziq Bin Zairel Oh **Chen Ghee Wen**

12.5 DIVIDEND POLICY

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

The actual dividend that our Board may recommend or declare in any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by our Board. In considering the level of dividend payments, if any, upon recommendation by our Board, we intend to consider various factors including:

(i) the level of our cash, gearing, return on equity and retained earnings;

(ii) our projected levels of capital expenditure and other growth/investment plans; and

(iii) applicable restrictive covenants under our financing documents.

As our Company is a holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends that we receive from our subsidiaries. Distributions by our subsidiaries will depend upon their operating results, earnings, capital requirements, general financial condition and other relevant factors including exchange controls.

We target a payout ratio of up to 35% of our PATAMI of each financial year on a consolidated basis after taking into account working capital and maintenance capital requirements, subject to any applicable law, licence conditions and contractual obligations and provided that such distribution will not be detrimental to our Group's cash requirements or any plans approved by our Board.

There are no dividend restrictions imposed on our subsidiaries as at the LPD.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our future dividends which are subject to modification (including non-declaration thereof) at our Board's discretion. We cannot assure you that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that future dividends declared by our Board, if any, will not differ materially from historical dividend levels. See Section 5 of this Prospectus for the factors which may affect or restrict our ability to pay dividends.

On 14 January 2021, we declared a special interim dividend of RM450.0 million for FYE 31 December 2020. On 5 March 2021, we declared a second special interim dividend of RM66.0 million for FYE 31 December 2020. We paid RM200.0 million of dividends on 19 March 2021 and intend to complete the dividend payment prior to the submission of confirmation for registration of this Prospectus to the SC. These dividends will be funded solely by internal funds sourced from our cash and bank balances, subject to such dividends not exceeding our retained profits for FYE 31 December 2020. The dividends will not affect the execution and implementation of our future plans or strategies.

Save as mentioned above, we have not declared or paid dividends to our shareholders for the past three financial years and up to the LPD.