The following selected Group financial information should be read in conjunction with the full text of this Offer Document, including the sections entitled "Audited Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Financial Years Ended 31 December 2014, 2015 and 2016" and "Unaudited Interim Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Six-Month Period Ended 30 June 2017" as set out in Appendices A and B of this Offer Document respectively, from which the selected Group financial information has been derived.

OPERATING RESULTS OF OUR GROUP

	Audited			Unaudited	
RM'000	**FY2014**	**FY2015**	**FY2016**	**1H2016**	**1H2017**
Revenue	216,036	313,569	287,379	141,597	166,007
Cost of sales	(180,305)	(225,484)	(212,503)	(103,695)	(126,425)
Gross profit	**35,731**	**88,085**	**74,876**	**37,902**	**39,582**
Interest Income	407	827	570	322	402
Other income	4,401	3,248	5,115	2,265	4,299
Selling and administrative expenses	(16,685)	(20,972)	(22,443)	(12,079)	(11,972)
Finance costs	(1,402)	(1,361)	(710)	(486)	(119)
Other expense	(125)	(2,363)	(1,094)	(4,304)	(3,715)
Profit before tax	**22,327**	**67,464**	**56,314**	**23,620**	**28,477**
Income tax expense	(4,991)	(14,808)	(12,868)	(5,871)	(6,889)
Profit net of tax, representing total comprehensive income for the year/period	**17,336**	**52,656**	**43,446**	**17,749**	**21,588**
Profit attributable to:					
Owners of our Company	**17,336**	**52,656**	**43,446**	**17,749**	**21,588**
EPS (based on pre-Placement share capital) (sen)(1)	4.1	12.3	10.2	4.2	5.1
EPS (based on post-Placement share capital) (sen)(2)	3.5	10.8	8.9	3.6	4.4

Notes:

(1) For comparative purposes, EPS (based on the pre-Placement share capital) for the Period Under Review is computed based on the net profit attributable to Shareholders and the pre-Placement share capital of 426,720,000 Shares. Please refer to the sections entitled "Audited Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Financial Years Ended 31 December 2014, 2015, and 2016" and "Unaudited Interim Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Six-Month Period Ended 30 June 2017" as set out in Appendices A and B of this Offer Document respectively, for more information on EPS computation.

(2) For comparative purposes, EPS (based on the post-Placement share capital) for the Period Under Review is computed based on the net profit attributable to Shareholders and the post-Placement share capital of 489,144,200 Shares.

FINANCIAL POSITION OF OUR GROUP

RM'000	Audited As at 31 December 2014	Audited As at 31 December 2015	Audited As at 31 December 2016	Unaudited As at 30 June 2017
Non-current assets				
Property, plant and equipment	98,943	105,442	102,961	103,976
Leasehold land	11,390	11,138	14,113	13,942
Total non-current assets	**110,333**	**116,580**	**117,074**	**117,918**
Current assets				
Inventories	37,672	38,834	40,810	38,750
Trade and other receivables	12,261	15,476	18,640	17,751
Prepaid operating expense	748	522	2,566	4,906
Cash and short-term deposits	37,138	72,925	49,468	66,666
Total current assets	**87,819**	**127,757**	**111,484**	**128,073**
TOTAL ASSETS	**198,152**	**244,337**	**228,558**	**245,991**
Current liabilities				
Loans and borrowings	11,328	10,758	4,662	7,778
Trade and other payables	19,267	19,288	24,261	24,016
Accrued operating expense	3,996	4,856	6,512	4,084
Dividend payable	–	–	–	30,000
Tax payable	1,711	5,485	4,432	6,046
Derivatives liabilities	2,349	2,012	2,484	802
Total current liabilities	**38,651**	**42,399**	**42,351**	**72,726**
NET CURRENT ASSETS	**49,168**	**85,358**	**69,133**	**55,347**
Non-current liabilities				
Loans and borrowings	23,796	20,979	698	799
Deferred tax liabilities	12,440	13,038	12,142	12,511
Total non-current liabilities	**36,236**	**34,017**	**12,840**	**13,310**
TOTAL LIABILITIES	**74,887**	**76,416**	**55,191**	**86,036**
NET ASSETS	**123,265**	**167,921**	**173,367**	**159,955**
Equity attributable to owners of our Company				
Share capital	–	–	–[(1)]	–[(1)]
Merger reserve	500	500	500	500
Retained earnings	122,765	167,421	172,867	159,455
TOTAL EQUITY	**123,265**	**167,921**	**173,367**	**159,955**
TOTAL EQUITY AND LIABILITIES	**198,152**	**244,337**	**228,558**	**245,991**

Note:

(1) Less than RM1,000.

The following selected Group financial information should be read in conjunction with the full text of this Offer Document, including the sections entitled "Audited Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Financial Years Ended 31 December 2014, 2015 and 2016" and "Unaudited Interim Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Six-Month Period Ended 30 June 2017" as set out in Appendices A and B of this Offer Document respectively, where the selected Group financial information has been derived from.

This discussion contains forward-looking statements that involve risks and uncertainties faced by us. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause our results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Offer Document, particularly in the section entitled "Risk Factors" of this Offer Document. Investors are cautioned not to place undue reliance on these forward-looking statements which apply only as at the date hereof. Please refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements" of this Offer Document for further details.

OVERVIEW

We are one of Malaysia's leading manufacturers and exporters of wooden bedroom furniture.

We are an established ODM principally engaged in the design and manufacture of wooden bedroom furniture and the manufacture of custom wooden bedroom furniture which may be tailored to our customers' specifications and requirements on an OEM basis. The furniture manufactured by us is typically rebranded by our customers for sale. As at the Latest Practicable Date, we operate from 15 factories and warehouses, which we own or lease, occupying a combined built-up area of approximately 1.4 million sq ft.

We specialise in the manufacture of wooden bedroom furniture for the residential furniture industry. Our typical bedroom set consists of a bed which can be supplied in various sizes, nightstand, dresser, drawer chest, media chest, wardrobe, and vanity and television armoire, which are available in various design, colour and material options.

Our wooden bedroom furniture are manufactured based on standard specifications and customised specifications. Standard specification furniture are manufactured based on designs generated by our design and product development team in standard sizes and dimensions. Customised specification furniture are manufactured with adjustments and alterations in dimensions are made according to customers' requirements.

Please refer to the section entitled "General Information on our Group – Business Overview" of this Offer Document for further information.

Revenue

Our revenue is derived principally from the manufacturing and sale of wooden bedroom furniture to the U.S., Malaysia and other regions.

We set out below the breakdown of our revenue by geographical segments (based on the domicile of our customers) for FY2014, FY2015, FY2016, 1H2016 and 1H2017:

	Audited						Unaudited			
	FY2014		FY2015		FY2016		1H2016		1H2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	32,099	14.9	47,255	15.1	38,410	13.4	20,695	14.6	21,886	13.2
United States of America	181,104	83.8	249,743	79.6	221,897	77.2	107,279	75.8	131,095	79.0
Others	2,833	1.3	16,571	5.3	27,072	9.4	13,623	9.6	13,026	7.8
Total	**216,036**	**100.0**	**313,569**	**100.0**	**287,379**	**100.0**	**141,597**	**100.0**	**166,007**	**100.0**

We set out below the number of 40-ft containers sold and the average selling price per 40-ft container for FY2014, FY2015, FY2016, 1H2016 and 1H2017:

	FY2014	FY2015	FY2016	1H2016	1H2017
Number of 40-ft containers sold	**4,905**	**5,923**	**5,637**	**2,746**	**3,146**
Average selling price per 40-ft container (RM'000)	**44**	**53**	**51**	**52**	**53**

Our revenue may be affected by, *inter alia*, the following factors:

(i) **Market demand for our bedroom furniture in countries we sell our products to**

Market demand for our bedroom furniture products is subject to constantly evolving product designs, consumer tastes and preferences. Our success depends largely on our sensitivity to changes in consumer trends as well as our ability to respond promptly and to continually introduce, develop and/or produce new designs and products with commercially viable designs, functionality and quality to meet our customers' changing tastes and preferences.

(ii) **Competition**

The furniture industry is a competitive industry, and we face competition from both existing and potential local and international competitors. We generally compete with our competitors on a variety of factors, such as reputation, innovative product designs, price, delivery times, product range and quality, customer service and relationships with suppliers, customers and key industry participants such as selling agents.

(iii) **The exchange rate between US$ and RM**

Most of the selling prices of our products are denominated in US$. The appreciation of the US$ against the RM may increase our revenue and vice versa.

(iv) **Availability of subcontracting services for our products which are of a good standard of quality and reliability**

Our subcontractors provide services and products at different stages of our bedroom furniture production. To ensure that we continue to secure orders from existing or new customers, we have to check and ensure that our subcontractors are reliable in delivering their services and products which are of the standard required.

Please refer to the section entitled "Risk Factors" of this Offer Document for a more comprehensive discussion of the above and on other factors which may affect our business operations, revenue and overall financial performance.

Cost of Sales

For the Period Under Review, the trends for our cost of sales for our business segments were generally in line with our corresponding revenue. Our cost of sales mainly consisted of raw materials purchased, direct labour, subcontractor costs and factory overheads.

Please see below for further discussion on the trends and breakdowns of our cost of sales by raw materials purchased, direct labour, subcontractor costs and factory overheads.

Breakdown of cost of sales by nature

We set out below the breakdown of our cost of sales by nature for FY2014, FY2015, FY2016, 1H2016 and 1H2017:

Cost of sales by nature	Audited						Unaudited			
	FY2014		FY2015		FY2016		1H2016		1H2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Opening inventories	28,027	15.6	37,672	16.7	38,834	18.3	38,834	37.5	40,810	32.3
Raw materials purchased	121,960	67.6	144,345	64.0	144,824	68.1	63,668	61.4	83,515	66.1
Direct labour	21,714	12.0	24,399	10.8	24,693	11.6	11,749	11.3	14,056	11.1
Subcontractor	33,814	18.8	41,077	18.2	27,809	13.1	15,530	15.0	18,164	14.4
Factory overheads	12,462	6.9	16,825	7.5	17,153	8.1	8,707	8.4	8,630	6.8
Closing inventories	(37,672)	(20.9)	(38,834)	(17.2)	(40,810)	(19.2)	(34,793)	(33.6)	(38,750)	(30.7)
Total	**180,305**	**100.0**	**225,484**	**100.0**	**212,503**	**100.0**	**103,695**	**100.0**	**126,425**	**100.0**

(i) Raw materials purchased

Our raw material costs comprise wood/timber raw materials products as well as packaging materials (includes cartons, pads, polyform, etc.) and furniture hardware.

For the Period Under Review, our raw material costs accounted for 67.6%, 64.0%, 68.1%, 61.4% and 66.1% of the total cost of sales in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

(ii) Direct labour

Our direct labour costs comprise employee benefits expenses for both local and foreign employees involved in the production department, including skilled and unskilled workers.

For the Period Under Review, our direct labour costs accounted for 12.0%, 10.8%, 11.6%, 11.3% and 11.1% of the total cost of sales in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

(iii) Subcontractor

Our subcontractor costs comprise mainly of subcontractors' fees.

For the Period Under Review, our subcontractor costs accounted for 18.8%, 18.2%, 13.1%, 15.0% and 14.4% of the total cost of sales in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

(iv) Factory overheads

Our factory overhead costs comprise mainly of factory rental expenses, consumable expenses, utilities, insurance, depreciation of property, plant and equipment and upkeep of machineries, tools and equipment.

For the Period Under Review, our factory overhead costs accounted for 6.9%, 7.5%, 8.1%, 8.4% and 6.8% of the total cost of sales in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

We adopted a periodic inventory system in view of the extensive inventory list arising from our extensive collection of wooden bedroom furniture which comes in various sizes, designs, colours and materials. Under the periodic inventory system, purchases of raw materials, direct labour costs, subcontractor costs and factory overheads are first recorded into our cost of sales, and adjusted subsequently at the end of the relevant recording period by subtracting the value of our closing inventories which include the component costs (comprising mainly raw materials, direct labour, subcontractor costs and factory overheads). We perform physical inventory counts on a periodic basis to update our records of the value of our inventories and correspondingly reduce it from the cost of goods sold.

Our cost of sales amounted to 83.5%, 71.9%, 73.9%, 73.2% and 76.2% of our revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Factors affecting our cost of sales

Our cost of sales may be affected by, *inter alia*, the following factors:

(i) fluctuations in the cost of raw materials which comprise mainly medium density fibreboard, paint, timber, veneer, furniture hardware, furniture parts, chipboard, mirror and glass, mirror frame, packaging materials, etc.; and

(ii) increase in costs of direct labour due to changes in government policies and regulations (such as workers' levy, minimum wages, quota, etc.).

Gross Profit and Gross Profit Margin

The following table provides a breakdown of our gross profit and gross profit margin for FY2014, FY2015, FY2016, 1H2016 and 1H2017:

	← Audited		→	← Unaudited	→
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Gross profit	35,731	88,085	74,876	37,902	39,582

	← Audited		→	← Unaudited	→
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
Gross profit margin	16.5%	28.1%	26.1%	26.8%	23.8%

Our overall gross profit margins were approximately 16.5%, 28.1%, 26.1%, 26.8% and 23.8% in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Interest Income

Interest income relates to interest income from cash at banks and short term deposits.

For the Period Under Review, interest income amounted to approximately RM0.41 million, RM0.83 million, RM0.57 million, RM0.32 million and RM0.40 million and accounted for approximately 0.2%, 0.3%, 0.2%, 0.2% and 0.2% of our total revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Other Income

Other income comprises mainly (i) sales of scrap materials; (ii) gains on the disposal of short term investments; (iii) gains on the disposal of property, plant and equipment; (iv) dividend income; (v) rental income; (vi) net foreign exchange gains; and (vii) net fair value gains on derivatives.

For the Period Under Review, other income amounted to approximately RM4.40 million, RM3.25 million, RM5.12 million, RM2.27 million and RM4.30 million and accounted for approximately 2.0%, 1.0%, 1.8%, 1.6% and 2.6% of our total revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Selling and Administrative Expenses

Our selling and administrative expenses comprise mainly freight cost and handling charges, salaries and staff-related expenses (comprising directors' remuneration, salaries, bonuses and contributions to employees' provident fund ("**EPF**") for the administrative and general operations functions, excluding direct and indirect labour costs captured under cost of sales, and other employee benefits), depreciation of property, plant and equipment, amortisation of leasehold land, maintenance costs (including building, motor vehicle, office equipment and furniture), export credit insurance, insurance expenses, legal and professional fees, travelling expenses, printing, stationery and postage expenses, subscription and donation and office utilities.

For the Period Under Review, selling and administrative expenses amounted to approximately RM16.69 million, RM20.97 million, RM22.44 million, RM12.08 million and RM11.97 million and accounted for approximately 7.7%, 6.7%, 7.8%, 8.5% and 7.2% of our total revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Finance Costs

Finance costs relate mainly to interest expense on bank loans and obligations under finance leases.

For the Period Under Review, our finance costs amounted to approximately RM1.40 million, RM1.36 million, RM0.71 million, RM0.49 million and RM0.12 million and accounted for approximately 0.6%, 0.4%, 0.2%, 0.3% and 0.1% of our total revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Other expenses

Other expenses relate to mainly prepaid operating expense written off, staff loans written off, net foreign exchange loss, net fair value loss on derivatives, loss on disposal of short term investments and write-off of property, plant and equipment.

Changes to the fair value on derivatives are recognised immediately in the profit and loss as a net fair value gain or loss on derivatives. Our derivatives include cross currency interest rate swaps which are used to reduce exposure from adverse fluctuations in foreign currency and interest rates arising from our USD denominated term loans and short term borrowings such as onshore foreign currency loans, and forward contracts to hedge foreign currency risk arising from the Group's sales and purchases denominated in USD for which firm commitments existed at the end of each reporting period. These hedging were based on actual requirements and no speculation was involved.

For the Period Under Review, other expenses amounted to approximately RM0.13 million, RM2.36 million, RM1.09 million, RM4.30 million and RM3.72 million and accounted for approximately 0.1%, 0.8%, 0.4%, 3.0% and 2.2% of our total revenue for FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Income Tax Expense

Income tax expense includes current tax expense and deferred tax expense. Current tax expense is the expected tax payable on the chargeable income. Deferred tax is a result of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and tax purposes.

We are subject to the prevailing tax regulations of Malaysia, in which the applicable corporate income tax rate was 25.0% for FY2014 and FY2015, and 24.0% for FY2016 and 1H2017.

Our Group's effective and statutory tax rates for the Period Under Review are as follows:

	Audited			Unaudited	
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Current tax expense	3,877	14,210	13,764	5,449	6,520
Deferred tax expense	1,114	598	(896)	422	369
Income tax expense	4,991	14,808	12,868	5,871	6,889
Malaysia's statutory tax rate	25.0%	25.0%	24.0%	24.0%	24.0%
Effective tax rate	22.4%	21.9%	22.9%	24.9%	24.2%

The deferred tax expenses were mainly due to origination and reversal of temporary differences.

The effective tax rate was 22.4%, 21.9%, 22.9%, 24.9% and 24.2% in FY2014, FY2015, FY2016, 1H2016 and 1H2017 respectively.

Our effective income tax rates were lower than the statutory income tax rates for FY2014, FY2015 and FY2016 due to tax incentives such as deduction for promotion of exports (samples to buyer), deduction of premiums for export credit insurance, deduction of insurance premium for importation of cargo and deduction for participation at an approved international trade fair.

Our effective income tax rates were higher than the statutory income tax rates for 1H2016 and 1H2017 due to lesser tax incentives being claimed.

Inflation

Our financial performance during the Period Under Review was not materially affected by inflation.

REVIEW OF PAST PERFORMANCE

FY2015 VS FY2014

Revenue

Our revenue increased by approximately RM97.53 million, or 45.1%, from approximately RM216.04 million in FY2014 to approximately RM313.57 million in FY2015. This was mainly attributable to:

(i) higher sales volume of approximately 20.8% from 4,905 40-ft containers in FY2014 to 5,923 40-ft containers in FY2015 mainly due to maintaining and strengthening customer relationships through regular contacts and updates, resulting in a net increase of sales to existing customers of approximately RM110.89 million; and

(ii) an increase in the average selling price per 40-ft container from RM44,000 in FY2014 to RM53,000 in FY2015 due mainly to the appreciation of the USD against the RM. The average US$/RM during FY2015 (US$1: RM3.9346) was approximately 19.9% more than the average US$/RM during FY2014 (US$1: RM3.2810).

Cost of Sales

Our cost of sales increased by approximately RM45.17 million, or 25.1%, from approximately RM180.31 million in FY2014 to approximately RM225.48 million in FY2015. This was mainly due to the increase in raw materials purchased by approximately RM22.39 million, or 18.4%, from approximately RM121.96 million in FY2014 to approximately RM144.35 million in FY2015, which is in line with the increase in revenue. Direct labour cost increased by approximately RM2.69 million, or 12.4%, from approximately RM21.71 million in FY2014 to approximately RM24.40 million in FY2015. Subcontractor costs increased by approximately RM7.27 million, or 21.5%, from approximately RM33.81 million in FY2014 to approximately RM41.08 million in FY2015. Factory overheads increased by approximately RM4.37 million, or 35.1%, from approximately RM12.46 million in FY2014 to approximately RM16.83 million in FY2015. The increase in these costs was mainly due to the higher level of production during the year to cater for the production to meet the demand in FY2015.

The increase in cost of sales was being offset by the increase in closing inventories where those costs incurred in manufacturing the work-in-progress and finished goods were being capitalised as cost of inventories. The increase in closing inventories was mainly due to our Group stocking up its inventories to fulfil sales orders due for delivery in FY2016.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RM52.36 million, or 146.5%, from RM35.73 million in FY2014 to RM88.09 million in FY2015.

Our overall gross profit margin increased from approximately 16.5% in FY2014 to approximately 28.1% in FY2015. The increase in gross profit margin is largely due to the appreciation of the USD against the RM. As cost of sales is mainly denominated in RM (compared to our revenue which is mainly denominated in USD), the appreciation of the USD against the RM does not have the same impact on our cost of sales as compared to our revenue, resulting in a higher gross profit margin for FY2015.

Interest Income

Interest income increased by approximately RM0.42 million, or 102.4%, from approximately RM0.41 million in FY2014 to approximately RM0.83 million in FY2015 mainly due to more cash being placed under fixed deposits and overnight deposits.

Other Income

Other income decreased by approximately RM1.15 million, or 26.1%, from approximately RM4.40 million in FY2014 to approximately RM3.25 million in FY2015. The decrease in other income was mainly due to the net foreign exchange gain of RM0.73 million in FY2014 where in FY2015, our Group recorded a net foreign exchange loss of RM2.29 million, and a decrease in the gain on disposal of short term investments from RM0.39 million in FY2014 to RM5,000 in FY2015. Despite the increase in production, our sale of scrap materials decreased as there was no sale of timber that cannot be used in our production in FY2015 as compared to FY2014 where we had to dispose timber that was not suitable for our production.

Selling and Administrative Expenses

Our selling and administrative expenses increased by approximately RM4.28 million, or 25.6%, from approximately RM16.69 million in FY2014 to approximately RM20.97 million in FY2015. The increase in selling and administrative expenses was mainly due to the increase in depreciation as a result of the purchase of computer equipment to cater for our new integrated real-time monitoring and management system, LY-6M system, motor vehicles as well as increased freight costs and handling charges as a result of the increase in production. The increase in selling and administrative expenses was also due to an increase in the directors' remuneration and bonus in FY2015.

Finance Costs

Our finance costs decreased by approximately RM41,000, or 2.9%, from approximately RM1.40 million in FY2014 to approximately RM1.36 million in FY2015 mainly due to the decrease in interest expenses.

Other Expenses

Other expenses increased by approximately RM2.23 million, or 1,715.4% from approximately RM0.13 million in FY2014 to approximately RM2.36 million in FY2015. This was mainly due to the net foreign exchange loss recorded in our books in FY2015 as compared to FY2014 due to the depreciation of RM against US$ as our term loans were denominated in US$. We have written off prepaid operating expenses of approximately RM73,000 made to an Indonesian timber supplier that failed to honour full delivery after advance payments were made. We no longer transact with the said supplier.

Profit before tax

As a result of the foregoing, profit before tax for the year increased by approximately RM45.13 million, or 202.2% from approximately RM22.33 million in FY2014 to approximately RM67.46 million in FY2015.

FY2016 VS FY2015

Revenue

Our revenue decreased by approximately RM26.19 million, or 8.4%, from approximately RM313.57 million in FY2015 to approximately RM287.38 million in FY2016. This was mainly attributable to:

(i) lower sales volume of approximately 4.8% from 5,923 40-ft containers in FY2015 to 5,637 40-ft containers in FY2016 mainly due to lower export sales as there was lower market demand from our Group's customers in the U.S. region. We have generally observed a trend of lower furniture demand during previous U.S. election years; and

(ii) 3.8% decrease in the average selling price per 40-ft container from RM53,000 in FY2015 to RM51,000 in FY2016 mainly due to the discounts given to customers, offset by the appreciation of the USD against the RM. The average US$/RM during FY2016 (US$1: RM4.1443) was approximately 5.3% more than the average US$/RM during FY2015 (US$1: RM3.9346).

Cost of Sales

Our cost of sales decreased by approximately RM12.98 million, or 5.8%, from RM225.48 million in FY2015 to RM212.50 million in FY2016. This was mainly due to the decrease in subcontractor costs by approximately RM13.27 million or 32.3% from approximately RM41.08 million in FY2015 to approximately RM27.81 million in FY2016 as a result of lesser production activities during FY2016 as compared to FY2015. The decrease in cost of sales was also due to the increase in closing inventories where those costs incurred in manufacturing the work-in-progress and finished goods were capitalised as cost of inventories. Closing inventories was higher in FY2016 partially due to slowdown of customers' orders while production continued to take place to stock up the inventories in order to fulfil sales orders due for delivery after the end of the year.

This was partially offset by the slight increase in raw materials by approximately RM0.47 million or 0.3% from approximately RM144.35 million in FY2015 to RM144.82 million in FY2016, largely due to lower discounts received from our suppliers in view that the amount of purchases of wood/timber raw materials products and packaging materials had decreased as a result of lower production. The increase in direct labour costs by approximately RM0.29 million or 1.2% from approximately RM24.40 million in FY2015 to approximately RM24.69 million in FY2016 was mainly due to the increase in the minimum wage to RM1,000 in Malaysia. Factory overhead costs increased by approximately RM0.32 million or 1.9% from approximately RM16.83 million in FY2015 to approximately RM17.15 million in FY2016 mainly due to our decision to bear part of the workers' levy costs whereby the levy per foreign worker has increased by RM600 effective from April 2016.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RM13.21 million, or 15.0%, from approximately RM88.09 million in FY2015 to approximately RM74.88 million in FY2016.

Our overall gross profit margin decreased from approximately 28.1% in FY2015 to approximately 26.1% in FY2016. This was mainly due to the decrease in the selling price of some of our models as a result of the weaker market demand from our customers.

Interest Income

Interest income decreased by approximately RM0.26 million, or 31.3%, from approximately RM0.83 million in FY2015 to approximately RM0.57 million in FY2016. The decrease in interest income was mainly due to less cash being placed under fixed deposits and overnight deposits.

Other Income

Other income increased by approximately RM1.87 million, or 57.5%, from approximately RM3.25 million in FY2015 to approximately RM5.12 million in FY2016. The increase in other income was mainly due to a gain on disposal of property, plant and equipment from RM0.14 million in FY2015 to RM1.11 million in FY2016 mainly due to the disposal of two (2) factory buildings, LY8 and LY21. The disposal of LY8 and LY21 was to rationalise the number of properties held by our Group. LY21 has not been used since its acquisition in June 2011 while LY8 has not been used as our Group's production site since December 2014. We also recognised a gain on disposal of leasehold land of RM0.17 million in FY2016. A one-time insurance claim of RM1.12 million was also recognised in FY2016 relating to the pay-out received from the insurance company for a fire which broke out at LY9 during the year as a result of a spark in the spray painting booth exhaust chimney. The increase was partially offset by the decrease in fair value gain on derivatives as there was a net fair value loss on derivatives recorded in FY2016. Rental income decreased by RM0.07 million from RM0.76 million in FY2015 to RM0.69 million in FY2016 due to the disposal of two (2) factory buildings that our Group rented to third parties.

Selling and Administrative Expenses

Our selling and administrative expenses increased by approximately RM1.47 million, or 7.0%, from approximately RM20.97 million in FY2015 to approximately RM22.44 million in FY2016. The increase in selling and administrative expenses was mainly due to the increase in the staff costs (including, but not limited to salary, EPF, social security contribution, staff welfare and training), upkeep of buildings, donations contributed to schools and associations as well as expenses incurred in the disposal of waste (such as sludge of paints and unusable rags).

Finance Costs

Our finance costs decreased by approximately RM0.65 million, or 47.8%, from approximately RM1.36 million in FY2015 to approximately RM0.71 million in FY2016. The decrease in finance costs was mainly due to the settlement of majority of our term loans in the first quarter of 2016.

Other Expenses

Other expenses decreased by approximately RM1.27 million, or 53.8%, from approximately RM2.36 million in FY2015 to approximately RM1.09 million in FY2016. This was mainly due to our Group having recognised a net foreign exchange gain of approximately RM0.17 million in FY2016 as compared to a net foreign exchange loss of RM2.29 million in FY2015. The decrease was partially set off by the recognition of staff loans written off, losses on disposal of short term investments, net fair value losses on derivatives and write off of property, plant and equipment.

Profit before Tax

As a result of the foregoing, our profit before tax decreased by approximately RM11.15 million, or 16.5%, from approximately RM67.46 million in FY2015 to approximately RM56.31 million in FY2016.

1H2017 VS 1H2016

Revenue

Our revenue increased by approximately RM24.41 million, or 17.2%, from approximately RM141.60 million in 1H2016 to approximately RM166.01 million in 1H2017. This was mainly attributable to:

(i) higher sales volume of approximately 14.6% from 2,746 40-ft containers in 1H2016 to 3,146 40-ft containers in 1H2017 mainly due to the increase in sales to existing and new customers; and

(ii) an increase in the average selling price per 40-ft container from RM52,000 in 1H2016 to RM53,000 in 1H2017 mainly due to the discounts given to customers in 1H2016 and the appreciation of the USD against the RM. The average US$/RM during 1H2017 (US$1: RM4.3683) was approximately 6.6% more than the average US$/RM during 1H2016 (US$1: RM4.0986).

Cost of Sales

Our cost of sales increased by approximately RM22.73 million, or 21.9%, from RM103.70 million in 1H2016 to RM126.43 million in 1H2017. This was mainly due to the increase in raw materials purchased by approximately RM19.85 million, or 31.2%, from approximately RM63.67 million in 1H2016 to approximately RM83.52 million in 1H2017, which is in line with the increase in revenue coupled with the average increase in the purchase price of raw materials by approximately 5.0%. Direct labour costs increased by approximately RM2.31 million, or 19.7%, from approximately RM11.75 million in 1H2016 to approximately RM14.06 million in 1H2017. Subcontractor costs increased by approximately RM2.63 million, or 16.9%, from approximately RM15.53 million in 1H2016 to approximately RM18.16 million in 1H2017. The increase in these costs was mainly due to the higher level of production during the period to cater for the production to meet the demand in 1H2017.

Our cost of sales was partially offset by a marginal decrease in factory overheads by approximately RM77,000, or 0.8%, from approximately RM8.71 million in 1H2016 to approximately RM8.63 million in 1H2017. The increase in cost of sales was also being offset by the increase in closing inventories where those costs incurred in manufacturing the work-in-progress and finished goods were being capitalised as cost of inventories. The increase in closing inventories was mainly due to our Group stocking up its inventories to fulfil sales orders due for delivery in the second half of FY2017.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RM1.68 million, or 4.4%, from approximately RM37.90 million in 1H2016 to approximately RM39.58 million in 1H2017.

Our overall gross profit margin decreased from approximately 26.8% in 1H2016 to approximately 23.8% in 1H2017. This was mainly due to the increase in the purchase price of most of the raw materials.

Interest Income

Interest income increased by approximately RM80,000 or 24.8%, from approximately RM0.32 million in 1H2016 to approximately RM0.40 million in 1H2017. The increase in interest income was mainly due to more cash being placed under overnight deposits.

Other Income

Other income increased by approximately RM2.03 million, or 89.4%, from approximately RM2.27 million in 1H2016 to approximately RM4.30 million in 1H2017. The increase in other income was mainly due to the increase in the sale of scrap materials of RM1.60 million as a result of us selling more boards to LP Global Resources Sdn. Bhd. ("**LP Global**") to manufacture front drawers for most of our models (including veneer lamination services) as compared to previously whereby LP Global only provided veneer lamination services. We also recognised a higher net fair value gain on derivatives of RM0.55 million in 1H2017. The increase was partially offset by the decrease in rental income by RM0.15 million due to the disposal of two (2) factory buildings that our Group rented to third parties.

Selling and Administrative Expenses

Our selling and administrative expenses decreased by approximately RM0.11 million, or 0.9%, from approximately RM12.08 million in 1H2016 to approximately RM11.97 million in 1H2017. The decrease in selling and administrative expenses was mainly due to the decrease in the staff welfare, subscription and donation as well as commissions paid.

Finance Costs

Our finance costs decreased by approximately RM0.37 million, or 75.5%, from approximately RM0.49 million in 1H2016 to approximately RM0.12 million in 1H2017. The decrease in finance costs was mainly due to settlement of our term loans in the first half of 2016.

Other Expenses

Other expenses decreased by approximately RM0.58 million, or 13.5%, from approximately RM4.30 million in 1H2016 to approximately RM3.72 million in 1H2017. This was mainly due to the recognition of net foreign exchange loss in 1H2017 being lower than 1H2016. There was no property, plant and equipment being written-off in 1H2017 as compared to 1H2016.

Profit before Tax

As a result of the foregoing, our profit before tax for 1H2017 increased by approximately RM4.86 million, or 20.6%, from approximately RM23.62 million in 1H2016 to approximately RM28.48 million in 1H2017.

REVIEW OF PAST FINANCIAL POSITION

Non-current assets

As at 31 December 2016

Our non-current assets comprised (i) property, plant and equipment and (ii) leasehold land. As at 31 December 2016, our non-current assets amounted to approximately RM117.07 million or 51.2% of our total assets.

Property, plant and equipment

Property, plant and equipment comprising (i) freehold land; (ii) buildings; (iii) machinery and equipment; (iv) office equipment, furniture and fittings; and (v) motor vehicles, amounted to RM102.96 million, accounting for approximately 87.9% of our total non-current assets as at 31 December 2016.

Leasehold land

The leasehold land have an aggregate carrying value of approximately RM14.11 million as at 31 December 2016. Some of the said leasehold land are pledged to financial institutions for bank borrowings. Leasehold land amounted to approximately 12.1% of our total non-current assets as at 31 December 2016.

As at 30 June 2017

Our non-current assets comprised (i) property, plant and equipment and (ii) leasehold land. As at 30 June 2017, our non-current assets amounted to approximately RM117.92 million or 47.9% of our total assets.

Property, plant and equipment

Property, plant and equipment comprising (i) freehold land; (ii) buildings; (iii) machinery and equipment; (iv) office equipment, furniture and fittings; and (v) motor vehicles, amounted to RM103.98 million, accounting for approximately 88.2% of our total non-current assets as at 30 June 2017.

Leasehold land

The leasehold land have an aggregate carrying value of approximately RM13.94 million as at 30 June 2017. Some of the said leasehold land are pledged to financial institutions for bank borrowings. Leasehold land amounted to approximately 11.8% of our total non-current assets as at 30 June 2017.

Current assets

As at 31 December 2016

Our current assets comprised (i) inventories; (ii) trade and other receivables; (iii) prepaid operating expenses; and (iv) cash and short-term deposits. Our current assets amounted to approximately RM111.48 million, accounting for approximately 48.8% of our total assets as at 31 December 2016.

Inventories

Inventories comprising mainly raw materials, work-in-progress and finished products, amounted to approximately RM40.81 million, accounting for approximately 36.6% of our total current assets as at 31 December 2016.

Trade and other receivables

Trade and other receivables which consist of trade receivables, receivables from related parties, deposit and other receivables, amounted to approximately RM18.64 million, accounting for approximately 16.7% of our total current assets as at 31 December 2016.

Prepaid operating expense

Prepaid operating expense amounted to approximately RM2.57 million, accounting for approximately 2.3% of our total current assets as at 31 December 2016.

Cash and short-term deposits

Cash and short-term deposits which consist of cash on hand and at banks, amounted to approximately RM49.47 million, accounting for approximately 44.4% of our total current assets as at 31 December 2016.

As at 30 June 2017

Our current assets comprised (i) inventories; (ii) trade and other receivables; (iii) prepaid operating expenses; and (iv) cash and short-term deposits. Our current assets amounted to approximately RM128.07 million, accounting for approximately 52.1% of our total assets as at 30 June 2017.

Inventories

Inventories comprising mainly raw materials, work-in-progress and finished products, amounted to approximately RM38.75 million, accounting for approximately 30.3% of our total current assets as at 30 June 2017.

Trade and other receivables

Trade and other receivables which consist of trade receivables, receivables from related parties, deposit and other receivables, amounted to approximately RM17.75 million, accounting for approximately 13.9% of our total current assets as at 30 June 2017.

Prepaid operating expense

Prepaid operating expense amounted to approximately RM4.91 million, accounting for approximately 3.8% of our total current assets as at 30 June 2017.

Cash and short-term deposits

Cash and short-term deposits which consist of cash on hand and at banks, and amounted to approximately RM66.67 million, accounting for approximately 52.0% of our total current assets as at 30 June 2017.

Current liabilities

As at 31 December 2016

Our current liabilities comprised (i) loans and borrowings; (ii) trade and other payables; (iii) accrued operating expense; (iv) tax payable; and (v) derivative liabilities. Our current liabilities amounted to approximately RM42.35 million and accounted for approximately 76.7% of our total liabilities as at 31 December 2016.

Loans and borrowings

Loans and borrowings which consist of bankers' acceptance, term loans and obligations under finance leases, amounted to approximately RM4.66 million, accounting for approximately 11.0% of our total current liabilities as at 31 December 2016.

Trade and other payables

Trade and other payables which consist of trade payables, amount due to related parties and sundry payables, amounted to approximately RM24.26 million, accounting for approximately 57.3% of our total current liabilities as at 31 December 2016. The amount due to related parties of RM415,000 as at 31 December 2016 has been fully settled as at the Latest Practicable Date.

Accrued operating expense

Accrued operating expense which consist of accruals for audit fees, bonuses and staff salaries, amounted to approximately RM6.51 million, accounting for approximately 15.4% of our total current liabilities as at 31 December 2016.

Tax payable

Income tax payable amounted to approximately RM4.43 million, accounting for approximately 10.5% of our total current liabilities as at 31 December 2016.

Derivative liabilities

Derivative liabilities which consist of forward currency contracts and cross currency interest rate swaps, amounted to approximately RM2.48 million, accounting for approximately 5.9% of our total current liabilities as at 31 December 2016.

As at 30 June 2017

Our current liabilities comprised (i) loans and borrowings; (ii) trade and other payables; (iii) dividend payable; (iv) accrued operating expense; (v) tax payable; and (vi) derivative liabilities. Our current liabilities amounted to approximately RM72.73 million and accounted for approximately 84.5% of our total liabilities as at 30 June 2017.

Loans and borrowings

Loans and borrowings which consist of obligations under finance leases and onshore foreign currency loan, amounted to approximately RM7.78 million, accounting for approximately 10.7% of our total current liabilities as at 30 June 2017.

Trade and other payables

Trade and other payables which consist of trade payables, amount due to related parties and sundry payables, amounted to approximately RM24.02 million, accounting for approximately 33.0% of our total current liabilities as at 30 June 2017. The amount due to related parties of RM1.19 million as at 30 June 2017 has been fully settled as at the Latest Practicable Date.

Dividend payable

Dividend payable which consist of dividend declared but yet to be paid amounted to RM30.00 million, accounting for approximately 41.3% of our total current liabilities as at 30 June 2017.

Accrued operating expense

Accrued operating expense which consist of accruals for audit fees, bonuses and staff salaries, amounted to approximately RM4.08 million, accounting for approximately 5.6% of our total current liabilities as at 30 June 2017.

Tax payable

Income tax payable amounted to approximately RM6.05 million, accounting for approximately 8.3% of our total current liabilities as at 30 June 2017.

Derivative liabilities

Derivative liabilities which consist of forward currency contracts and cross currency interest rate swaps, amounted to approximately RM0.80 million, accounting for approximately 1.1% of our total current liabilities as at 30 June 2017.

Non-current liabilities

As at 31 December 2016

Our non-current liabilities comprised (i) loans and borrowings; and (ii) deferred tax liabilities. Our non-current liabilities amounted to approximately RM12.84 million, accounting for approximately 23.3% of our total liabilities as at 31 December 2016.

Loans and borrowings

Loans and borrowings which consist of obligations under finance leases, amounted to approximately RM0.70 million, accounting for approximately 5.5% of our total non-current liabilities as at 31 December 2016.

Deferred tax liabilities

Deferred tax liabilities amounted to approximately RM12.14 million, accounting for approximately 94.5% of our total non-current liabilities as at 31 December 2016.

As at 30 June 2017

Our non-current liabilities comprised (i) loans and borrowings; and (ii) deferred tax liabilities. Our non-current liabilities amounted to approximately RM13.31 million, accounting for approximately 15.5% of our total liabilities as at 30 June 2017.

Loans and borrowings

Loans and borrowings which consist of obligations under finance leases, amounted to approximately RM0.80 million, accounting for approximately 6.0% of our total non-current liabilities as at 30 June 2017.

Deferred tax liabilities

Deferred tax liabilities amounted to approximately RM12.51 million, accounting for approximately 94.0% of our total non-current liabilities as at 30 June 2017.

Equity attributable to owners of our Company

As at 31 December 2016

As at 31 December 2016, equity attributable to the owners of our Company amounted to approximately RM173.37 million and comprised (i) merger reserves of approximately RM0.50 million; and (ii) retained earnings of approximately RM172.87 million.

As at 30 June 2017

As at 30 June 2017, equity attributable to the owners of our Company amounted to approximately RM159.96 million and comprised (i) merger reserves of approximately RM0.50 million; and (ii) retained earnings of approximately RM159.46 million.

LIQUIDITY AND CAPITAL RESOURCES

For the Period Under Review, our growth and operations have been funded by a combination of internal and external sources of funds. Internal sources of funds comprise mainly cash generated from our operations and our cash and cash equivalents while external sources comprise mainly bank borrowings.

The principal uses of these funds are mainly to finance working capital requirements, capital expenditures, repayment of credit facilities as well as the expansion of our Group's business operations.

We generated cash flow from operating activities of approximately RM43.11 million and RM21.80 million in FY2016 and 1H2017 respectively. As at 31 December 2016 and 30 June 2017, our Group's cash and bank balances amounted to approximately RM49.47 million and RM66.67 million respectively and its working capital amounted to approximately RM69.13 million and RM55.35 million respectively. Our Group's gearing ratio (defined as total indebtedness over total equity) was 0.03 times and 0.05 times as at 31 December 2016 and 30 June 2017 respectively.

Please refer to the section entitled "Capitalisation and Indebtedness" of this Offer Document for details of our latest available credit facilities, cash and cash equivalents and level of borrowings.

To the best of our Directors' knowledge, as at the Latest Practicable Date, we are not in breach of any of the terms and conditions or covenants associated with any bank borrowing or our financial arrangements which could materially affect our financial position and results of business operations, or the investment of our Shareholders.

Our Directors are of the opinion that, after having made due and careful enquiries and after taking into account the cash flow generated from our operations, our credit facilities and our existing cash and cash equivalents, the working capital available to our Group as at the date of lodgement of this Offer Document is sufficient to meet our present working capital requirements and for at least 12 months after the admission of our Company to Catalist.

The Sponsor is of the opinion, that after having made due and careful enquiries and after taking into account the cash flow generated from our Group's operations, our Group's credit facilities and our Group's existing cash and cash equivalents, the working capital available to our Group as at the date of lodgement of this Offer Document is sufficient to meet present working capital requirements and for at least 12 months after the admission of our Company to Catalist.

SUMMARY OF COMBINED STATEMENTS OF CASH FLOWS

We set out below a summary of our net cash flows for FY2014, FY2015, FY2016 and 1H2017:

	Audited			Unaudited
RM'000	**FY2014**	**FY2015**	**FY2016**	**1H2017**
Net cash generated from operating activities	18,533	61,195	43,110	21,795
Net cash used in investing activities	(13,491)	(9,991)	(3,195)	(2,670)
Net cash used in financing activities	(12,168)	(15,656)	(64,447)	(2,103)
Net (decrease)/increase in cash and cash equivalents	**(7,126)**	**35,548**	**(24,532)**	**17,022**
Effect of exchange rate changes on cash and cash equivalents	527	239	1,075	176
Cash and cash equivalents at beginning of year/period	43,737	37,138	72,925	49,468
Cash and cash equivalents at end of year/period	**37,138**	**72,925**	**49,468**	**66,666**

FY2014

Net cash generated from operating activities

In FY2014, we recorded net cash inflow from operating activities of approximately RM18.53 million, which comprised operating profit before changes in working capital of approximately RM28.13 million, adjusted for net working capital outflow of approximately RM5.86 million, interest paid of approximately RM1.40 million and tax paid of approximately RM2.34 million. The net working capital outflow was mainly due to (i) an increase in inventories of approximately RM9.65 million in anticipation of a higher sales volume in FY2015; and (ii) an increase in prepaid operating expense of approximately RM0.31 million mainly due to payment in advance for flight tickets. This was partially offset by (i) an increase in trade and other payables of approximately RM2.47 million mainly due to the increase in purchases from both trade and non-trade suppliers towards the end of FY2014; (ii) a decrease in trade and other receivables of approximately RM0.65 million mainly due to the lower trade receivables in FY2014 as a result of earlier payment by our Group's customers; and (iii) an increase in accrued operating expenses of approximately RM0.98 million mainly due to the increase in the accrued staff costs for the month of December in FY2014 as compared to the month of December in FY2013.

Net cash used in investing activities

In FY2014, we recorded a net cash outflow from investing activities of approximately RM13.49 million. This was mainly due to (i) the purchase of new and additional better featured machineries of approximately RM13.69 million; and (ii) the purchase of leasehold land of approximately RM2.43 million. This was partially offset by (i) the proceeds from the disposal of short term investments of approximately RM1.83 million; (ii) proceeds from the disposal of property, plant and equipment of approximately RM0.38 million; (iii) interest received of approximately RM0.41 million and (iv) dividend received from short term investment of approximately RM0.01 million.

Net cash used in financing activities

In FY2014, we recorded a net cash outflow from financing activities of approximately RM12.17 million. This was mainly due to (i) the repayment of loans and borrowings of approximately RM77.49 million; (ii) payment of dividends of RM5.00 million; and (iii) the repayment of obligations under finance leases of RM0.48 million. This was partially offset by the proceeds from loans and borrowings of approximately RM70.80 million.

As at 31 December 2014, our cash and cash equivalents amounted to approximately RM37.14 million.

FY2015

Net cash generated from operating activities

In FY2015, we recorded net cash inflow from operating activities of approximately RM61.20 million, which comprised operating profit before changes in working capital of approximately RM76.15 million, adjusted for net working capital outflow of approximately RM3.16 million, interest paid of approximately RM1.36 million and tax paid of approximately RM10.44 million. The net working capital outflow was due to (i) an increase in trade and other receivables of approximately RM0.54 million mainly as a result of higher sales towards the end of FY2015 as compared to FY2014; (ii) a decrease in trade and other payables of approximately RM2.54 million mainly due to the payment made to both trade and non-trade suppliers towards the year end; and (iii) an increase in inventories of approximately RM1.16 million mainly due to our Group stocking up its inventories to fulfil sales orders due for delivery in FY2016. This was partially offset by (i) an increase in accrued operating expenses of approximately RM0.86 million mainly due to the increase in accrued staff costs for the month of December in FY2015 as compared to the month of December in FY2014; and (ii) a decrease in prepaid operating expenses of approximately RM0.22 million mainly due to the reversal of the payment in advance for flight tickets purchased in FY2014.

Net cash used in investing activities

In FY2015, we recorded a net cash outflow from investing activities of approximately RM9.99 million. This was mainly due to the purchase of property, plant and equipment of approximately RM11.35 million attributable to the construction of our newly extended building structure in one of our existing factories as well as to modify our existing production line from one (1) to two (2) lines in the same building. This was partially offset by (i) the proceeds from the disposal of property, plant and equipment of approximately RM0.46 million; (ii) dividend income from short-term investments of approximately RM0.07 million; and (iii) interest received of approximately RM0.83 million.

Net cash used in financing activities

In FY2015, we recorded a net cash outflow from financing activities of approximately RM15.66 million. This was mainly due to (i) the repayment of loans and borrowings of approximately RM78.03 million; (ii) dividends paid of RM8.00 million; and (iii) the repayment of obligations under finance leases of approximately RM0.34 million. This was partially offset by the proceeds from loans and borrowings of approximately RM70.71 million.

As at 31 December 2015, our cash and cash equivalents amounted to approximately RM72.93 million.

FY2016

Net cash from operating activities

In FY2016, we recorded net cash inflow from operating activities of approximately RM43.11 million, which comprised operating profit before changes in working capital of approximately RM60.29 million, adjusted for net working capital outflow of approximately RM1.65 million, and interest paid of approximately RM0.71 million and tax paid of approximately RM14.82 million. The net working capital outflow was mainly due to (i) an increase in trade and other receivables of approximately RM3.08 million mainly as a result of more goods being shipped to our customers towards the year end; (ii) an increase in inventories of approximately RM1.98 million mainly due to the stocking up of inventories towards the end of FY2016 in order to fulfil sales orders due for delivery after the year end; and (iii) an increase in prepaid operating expenses of RM2.04 million mainly due to the prepayment of professional fees relating to the listing which will be either capitalised or expensed off upon the completion of the listing exercise. This was partially offset by (i) an increase in trade and other payables of approximately RM4.96 million mainly due to the increase in purchases from both trade and non-trade suppliers towards the end of FY2016; and (ii) an increase in accrued operating expenses of approximately RM0.49 million mainly due to an increase in accrued staff costs for the month of December in FY2016 as compared to the month of December in FY2015.

Net cash used in investing activities

In FY2016, we recorded a net cash outflow from investing activities of approximately RM3.20 million. This was mainly due to (i) the purchase of property, plant and equipment of approximately RM8.78 million attributable to the purchase of an industrial building and machineries; (ii) the purchase of a piece of leasehold land of approximately RM4.51 million; and (iii) the purchase of short term investments of RM2.01 million. This was partially offset by (i) dividend income of RM0.06 million from short term investments; (ii) proceeds from the disposal of property, plant and equipment of RM8.11 million; (iii) proceeds from the sale of leasehold land of RM1.38 million; (iv) interest received of approximately RM0.57 million; and (v) proceeds from the disposal of short term investments of RM1.99 million.

Net cash used in financing activities

In FY2016, we recorded a net cash outflow from financing activities of approximately RM64.45 million. This was mainly due to (i) dividends paid of RM38.00 million; (ii) the repayment of loans and borrowings of RM78.26 million; and (iii) the repayment of obligations under finance leases of RM0.45 million. This was partially offset by proceeds from loans and borrowings of approximately RM52.27 million.

As at 31 December 2016, our cash and cash equivalents amounted to approximately RM49.47 million.

1H2017

Net cash from operating activities

In 1H2017, we recorded net cash inflow from operating activities of approximately RM21.80 million, which comprised operating profit before changes in working capital of approximately RM28.83 million, adjusted for net working capital outflow of approximately RM2.01 million, and interest paid of approximately RM0.12 million and tax paid of approximately RM4.91 million. The net working capital outflow was mainly due to (i) a decrease in trade and other payables of approximately RM0.24 million mainly due to the decrease in purchases from both trade and non-trade suppliers towards the end of 1H2017; (ii) a decrease in accrued operating expenses of approximately RM2.43 million mainly due to a decrease in accrued staff costs for the month of June 2017 as compared to the month of June 2016; and (iii) an increase in prepaid operating expenses of RM2.34 million mainly due to the prepayment of professional fees relating to the Listing which will be either capitalised or expensed off upon the completion of the Listing. This was partially offset by (i) a decrease in trade and other receivables of approximately RM0.94 million mainly due to the prompt refund of goods and services tax from the authority; and (ii) a decrease in inventories of approximately RM2.06 million mainly due to lesser work in progress and finished products being stocked up towards the end of 1H2017.

Net cash used in investing activities

In 1H2017, we recorded a net cash outflow from investing activities of approximately RM2.67 million. This was mainly due to the purchase of new and additional better featured machineries and refurbishment of LY3 of approximately RM3.22 million. This was partially offset by (i) the proceeds from the disposal of property, plant and equipment of approximately RM0.15 million; and (iii) interest received of approximately RM0.40 million.

Net cash used in financing activities

In 1H2017, we recorded a net cash outflow from financing activities of approximately RM2.10 million. This was mainly due to (i) the repayment of loans and borrowings of approximately RM4.26 million; (ii) payment of dividends of RM5.00 million; and (iii) the repayment of obligations under finance leases of approximately RM0.14 million. This was partially offset by the proceeds from loans and borrowings of approximately RM7.30 million.

As at 30 June 2017, our cash and cash equivalents amounted to approximately RM66.67 million.

CAPITAL EXPENDITURES AND DIVESTMENTS

The capital expenditures made by our Group for FY2014, FY2015, FY2016, 1H2017 and for the period from 1 July 2017 up to the Latest Practicable Date were as follows:

RM'000	Audited			Unaudited	
	FY2014	FY2015	FY2016	1H2017	From 1 July 2017 to the Latest Practicable Date
Leasehold land[(1)]	3,625	–	4,512	–	–
Buildings[(2)]	8,717	2,171	4,771	–	401
Machinery and equipment[(3)]	4,145	5,888	2,941	1,251	4,016
Capital in progress[(4)]	–	463	1,993	1,808	6,936
Office equipment, furniture and fittings[(5)]	332	2,740	151	64	288
Motor vehicles	1,533	564	158	420	526
Total	**18,352**	**11,826**	**14,526**	**3,543**	**12,167**

The divestments made by our Group for FY2014, FY2015, FY2016 and 1H2017 and for the period from 1 July 2017 up to the Latest Practicable Date were as follows:

RM'000	Audited			Unaudited	
	FY2014	FY2015	FY2016	1H2017	From 1 July 2017 to the Latest Practicable Date
Leasehold land[(1)]	–	–	1,370	–	–
Buildings[(2)]	–	–	8,239	–	–
Machinery[(3)] and equipment	425	1,642	3,388	75	1,804
Capital in progress	–	–	–	–	–
Office equipment, furniture and fittings[(5)]	–	–	1,043	37	317
Motor vehicles	511	473	10	395	–
Total	**936**	**2,115**	**14,050**	**507**	**2,121**

Notes:

(1) This refers to the acquisition of leasehold land with LY3 erected thereon in FY2014 and the acquisition of leasehold land with LY12 erected thereon in FY2016. There are also disposals of leasehold land with LY8 and LY21 erected thereon in FY2016 which relate to factories previously rented out.

(2) This refers to the acquisition of LY3 in FY2014, acquisition of LY12 in FY2016, refurbishment of LY13 in FY2015 to increase its capacity, as well as renovations being carried out at the factory buildings of LY9 and LY15. There are also disposals of LY8 and LY21 in FY2016 which relate to factories previously rented out.

(3) This refers to the machinery and equipment used in our factories as well as replacements used in our other production facilities.

(4) This refers to the prepayment for LY13's renovations, construction of the new manufacturing facility at LY3 and machineries.

(5) This refers to new office equipment, furniture and fittings as well as replacements used in our offices.

The above capital expenditures were funded by internally generated funds and hire purchase financing.

COMMITMENTS

(a) CAPITAL COMMITMENTS

As at the Latest Practicable Date, our Group has capital commitments in respect of property, plant and equipment of approximately RM10,268,000.

(b) OPERATING LEASE COMMITMENTS

As at the Latest Practicable Date, our Group has operating lease commitments for the use or rent of land and buildings. These leases have an average tenure of between one (1) and two (2) years with no renewal or purchase option included in the contracts. There are no restrictions placed upon us by entering into these leases. The operating lease commitments are as follows:

Operating lease commitments – as lessee

RM'000	Audited as at 31 December 2016	Unaudited as at 30 June 2017	As at the Latest Practicable Date
Not later than 1 year	119	28	17
Later than 1 year but not later than 2 years	8	7	3
Total	127	35	20

Save as disclosed above and in the section entitled "Prospects, Trends, Business Strategies and Future Plans" of this Offer Document, we do not have other material plans on capital expenditures, divestments and commitments as at the Latest Practicable Date.

Operating lease commitments – as lessor

RM'000	Audited as at 31 December 2016	Unaudited as at 30 June 2017	As at the Latest Practicable Date
Not later than 1 year	35	5	–

We intend to finance the above commitments through internally generated funds and/or bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Our business operations are mostly carried out in Malaysia and our reporting currency is in RM. During the Period Under Review, the majority of our sales and some of our purchases were denominated in USD. Our books and records are maintained in RM.

The proportions of our revenue, cost of sales and other expenses denominated in various foreign currencies, presented in RM equivalent to derive the percentage for FY2014, FY2015, FY2016, 1H2016 and 1H2017 are as follows:

Percentage of revenue denominated in	**<— Audited**		**—>**	**<— Unaudited**	**—>**
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
US$	99.7	99.8	99.8	99.8	99.9
RM	0.3	0.2	0.2	0.2	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Percentage of cost of sales denominated in	**<— Audited**		**—>**	**<— Unaudited**	**—>**
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
US$	15.6	15.8	21.5	13.0	16.0
RM	84.4	84.2	78.5	87.0	84.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Percentage of other expenses denominated in	**<— Audited**		**—>**	**<— Unaudited**	**—>**
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
RM	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

To the extent that our revenue, cost of sales and expenses are not naturally matched in the same currency and to the extent that there are timing differences between invoicing and collection/payment, we may be exposed to foreign exchange fluctuations which may adversely affect our financial results. Please refer to the section entitled "Risk Factors – We are subject to foreign exchange risks" of this Offer Document for more details.

The net foreign exchange loss was due to transactional foreign currency exposures arising from the Group's sales and purchases which are denominated in USD. At present, we do not have any formal policy for hedging against foreign exchange exposure. We have used forward currency contracts and cross currency interest rate swaps for hedging purposes as and when it is appropriate, cost-efficient and based on actual requirements during the Period Under Review and from 1 July 2017 up to the Latest Practicable Date. We will continue to monitor our foreign exchange exposure and may employ hedging instruments to manage our foreign exchange exposure should the need arise. We are in the process of formulating a formal hedging policy and will seek the approval of our Board on the policy and put in place adequate procedures which shall be reviewed and approved by our Audit Committee. Thereafter, all hedging transactions entered into by our Group will be in accordance with the set policies and procedures. We expect to adopt such hedging policy within six (6) months after our listing on Catalist.

Our net foreign exchange exposure for FY2014, FY2015, FY2016, 1H2016 and 1H2017 are as follows:

RM'000	**Audited**			**Unaudited**	
	FY2014	**FY2015**	**FY2016**	**1H2016**	**1H2017**
Net foreign exchange gain/(loss)	730	(2,288)	169	(4,194)	(3,715)
As a percentage of revenue	0.3	(0.7)	0.1	(3.0)	(2.2)
As a percentage of profit before tax	3.3	(3.4)	0.3	(17.8)	(13.0)

CHANGES IN ACCOUNTING POLICIES

The accounting policies have been consistently applied by our Group during the Period Under Review. There has been no significant change in the accounting policies for our Group during the Period Under Review. Please refer to the sections entitled "Audited Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Financial Years Ended 31 December 2014, 2015 and 2016" and "Unaudited Interim Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Six-Month Period Ended 30 June 2017" as set out in Appendices A and B to this Offer Document respectively, and the related notes elsewhere in this Offer Document for more details on our accounting policies.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, our Group does not have any contingent liabilities.

CREDIT MANAGEMENT

For the Period Under Review, we typically grant credit terms of 14 days commencing from the date of shipping to our customers. However, the credit period for each customer may vary from customer to customer, depending on factors such as their payment track record, financial background and the length of our business relationship. The credit terms and changes to the credit terms are approved by our management and are subject to annual review.

Our average trade receivables' turnover days during the Period Under Review were as follows:

	FY2014[(1)]	FY2015[(1)]	FY2016[(1)]	1H2017[(2)]
Average trade receivables' turnover days	14.8	12.3	17.8	16.2

Notes:

(1) Trade receivables turnover = (Average trade receivables/revenue) X 365 days, where "Average trade receivables" is defined as the average of the opening and closing trade receivables of the relevant financial year.

(2) Trade receivables turnover = (Average trade receivables/revenue) X 180 days, where "Average trade receivables" is defined as the average of the opening and closing trade receivables of the relevant financial period.

We invoice our customers when the products are being delivered to the port from our factories. However, our customers typically make payment for such invoices within 14 days from the shipping date.

Trade receivables' turnover days decreased from 14.8 days in FY2014 to 12.3 days in FY2015 as a result of better collection from our customers. Trade receivables' turnover days increased from 12.3 days in FY2015 to 17.8 days in FY2016 as a result of more goods being shipped to our customers towards the year end. Trade receivable' turnover days decreased from 17.8 days in FY2016 to 16.2 days in 1H2017 as a result of better collection from our customers.

We did not have any bad debts by our customers during the Period Under Review. Nevertheless, we have a policy whereby provision for impairment of trade receivables for customers with payments outstanding for more than 180 days will usually be made on a case-by-case basis, depending on the creditworthiness of the customer at the relevant time.

There were no bad debts written off or allowance for doubtful receivables during the Period Under Review.

Aging Analysis

The aging schedule for the net trade receivables as at 30 June 2017 is as follows:

	As at 30 June 2017	
	RM'000	%
Current and not past due	10,933	74.3
Within 30 days	3,763	25.6
31 to 90 days	14	0.1
91 to 120 days	–	–
More than 120 days	3	0.0
Net trade receivables	14,713	100.0
Amount collected as at the Latest Practicable Date	14,713	100.0

Credit Terms from Suppliers

Generally, our suppliers grant credit terms of 30 to 120 days from the date of invoice.

Our average trade payables' turnover days during the Period Under Review were as follows:

	FY2014[(1)]	FY2015[(1)]	FY2016[(1)]	1H2017[(2)]
Average trade payables' turnover days	39.6	35.9	43.4	42.0

Notes:

(1) Trade payables turnover = (Average trade payables/purchases) X 365 days, where "Average trade payables" is defined as the average of the opening and closing amount of trade payables of the relevant financial year.

(2) Trade payables turnover = (Average trade payables/purchases) X 180 days, where "Average trade payables" is defined as the average of the opening and closing trade payables of the relevant financial period.

We typically process payment to our suppliers based on their credit terms.

Average trade payables' turnover days decreased from 39.6 days in FY2014 to 35.9 days in FY2015 due to prompt payment by us to our suppliers. Average trade payables' turnover days increased from 35.9 days in FY2015 to 43.4 days in FY2016 due to the increase in the purchases towards the end of FY2016 which were not due as at the end of the year. Average trade payables' turnover days decreased from 43.4 days in FY2016 to 42.0 days in 1H2017 due to prompt payment by us to our suppliers.

INVENTORY MANAGEMENT

Our inventories consist of raw materials, work-in-progress and finished goods. We maintain an inventory of commonly used raw materials such as furniture hardware (such as handles, drawer glides, screws, etc.) medium density fibreboard, paint, plywood, timber and carton. Given the nature of our inventories which have a relatively long useful life, reviews on stock obsolescence and stock take are conducted on a yearly basis, as part of the inventory control and monitoring practice observed by the warehouse department as well as the respective heads of factories to ensure it has sufficient stock to meet all sales orders.

Our inventory levels were approximately RM37.67 million, RM38.83 million, RM40.81 million and 38.75 million as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017 respectively.

Our average inventory turnover days for the Period Under Review were as follows:

	FY2014[(1)]	FY2015[(1)]	FY2016[(1)]	1H2017[(2)]
Average inventory turnover days	66.5	61.9	68.4	56.6

Notes:

(1) Inventory turnover = (Average inventory/cost of sales) X 365 days,where "Average inventory" is defined as the average of the opening and closing amount of inventory of the relevant financial year.

(2) Trade payables turnover = (Average inventory/cost of sales) X 180 days, where "Average inventory" is defined as the average of the opening and closing amount of inventory of the relevant financial period.

Average inventory turnover days decreased from 66.5 days in FY2014 to 61.9 days in FY2015 due to an improvement in tracking our inventories in order not to hold inventories excessively. Average inventory turnover days increased from 61.9 days in FY2015 to 68.4 days in FY2016 due to higher purchases made towards the end of the year in anticipation of the increasing demand from our customers. Average inventory turnover days decreased from 68.4 days in FY2016 to 56.6 days in 1H2017 due to fewer work-in-progress and finished products being stocked up towards the end of 1H2017.

SEASONALITY

Generally, our business is not subject to any significant seasonal fluctuations that will affect our business and operations. However, our revenue is generally higher in the second half of the year due to festive seasons in the U.S.

CAPITALISATION AND INDEBTEDNESS

The following table shows the cash and cash equivalents as well as the capitalisation and indebtedness of our Group as at 30 November 2017, being a date no earlier than 60 days before the date of lodgement of this Offer Document, (a) based on the management accounts of our Group as at 30 November 2017; and (b) as adjusted for the net proceeds from the issue of the New Shares.

You should read this table in conjunction with the sections entitled "Audited Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Financial Years Ended 31 December 2014, 2015 and 2016" and "Unaudited Interim Combined Financial Statements of LY Corporation Limited and its Subsidiary for the Six-Month Period Ended 30 June 2017" as set out in Appendices A and B of this Offer Document respectively, and the section entitled "Management's Discussion and Analysis of Results of Operations and Financial Position" of this Offer Document.

(RM'000)	**As at 30 June 2017**	**As at 30 November 2017**	**As adjusted for the net proceeds from the issue of the New Shares**
Cash and cash equivalents	66,666	50,351	89,851[(1)]
Indebtedness			
Current			
Secured and guaranteed	7,778	6,859	6,859
Secured and non-guaranteed	–	–	–
Unsecured and guaranteed	–	–	–
Unsecured and non-guaranteed	–	–	–
Non-current			
Secured and guaranteed	799	1,013	1,013
Secured and non-guaranteed	–	–	–
Unsecured and guaranteed	–	–	–
Unsecured and non-guaranteed	–	–	–
Total indebtedness	8,577	7,872	7,872
Total shareholders' equity	159,955	190,996	230,496[(2)]
Total capitalisation and indebtedness	168,532	198,868	238,368[(2)]

Notes:

(1) Adjusted to include the net proceeds from the Placement of approximately S$13.0 million, based on the exchange rate of S$1.00: RM3.0349 as at the Latest Practicable Date of RM39.5 million.

(2) This does not take into account the capitalisation of estimated expenses incurred in connection with the Placement of approximately S$0.8 million.

Save as disclosed above, there has been no material change in our Group's capitalisation and indebtedness from 30 November 2017 up to Latest Practicable Date.

Bank Borrowings

As at the Latest Practicable Date, our bank borrowings (utilised and unutilised) were as follows:

Financial institution	Type of facilities	Amount of facilities granted (RM'000)	Amount utilised (RM'000)	Amount unutilised (RM'000)	Interest rates per annum	Maturity profile
OCBC Bank (Malaysia) Berhad	Letters of Credit ("**LC**"), Trust Receipts ("**TR**"), Bankers' Acceptance ("**BA**"), Export Credit Refinancing ("**ECR**"), Shipping Guarantees "(**SG**"), Letters Of Guarantee ("**LG**"), Local Bill Purchased, Onshore Foreign Currency Loan ("**OFCL**")	14,350	4,477 (LG)	9,873	0.1% (LG)	9 December 2017 to 16 November 2018 (LG)
	FOREX Line	73,000	–	73,000	–	–
AmBank (M) Berhad	LC, TR, BA, ECR, Outward Bill Purchased, Credits Bill Negotiation, SG, Bank Guarantee ("**BG**"), OFCL	10,000	7,758 (OFCL)	2,242	2.00% (OFCL)	2 January 2018 to 8 January 2018 (OFCL)
	FOREX Line	33,000	–	33,000	–	–

To the best of our Directors' knowledge, as at the Latest Practicable Date, we are not in breach of any of the terms and conditions or covenants associated with any bank borrowing or our financial arrangements which could materially affect our financial position and results or business operations, or the investments of our Shareholders.