

INTERIM REPORT 2020/2021

LINOCRAFT

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LINOCRAFT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8383





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Financial Highlights

- The Group's total revenue amounted to approximately RM128.2 million for the six months ended 28 February 2021, increased by approximately 10.7% as compared to that of the same period in 2020.
- The gross profit amounted to approximately RM25.6 million for the six months ended 28 February 2021, increased by approximately 18.5% as compared to that of the same period in 2020.
- The Group recorded a net profit of approximately RM5.1 million for the six months ended 28 February 2021.
- The Board does not recommend the payment of interim dividends for the six months ended 28 February 2021.



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The board of Directors (the “**Board**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and six months ended 28 February 2021 (the “**Interim Financial Statements**”) together with the comparative figures for the corresponding periods in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 28 February 2021

	Notes	Three months ended		Six months ended	
		28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Revenue	4	55,057	56,587	128,167	115,733
Cost of sales		(44,242)	(46,143)	(102,549)	(94,117)
Gross profit		10,815	10,444	25,618	21,616
Other operating income		(283)	694	74	1,181
Distribution costs		(3,144)	(2,777)	(6,090)	(6,017)
Administrative expenses		(4,583)	(4,389)	(9,619)	(8,270)
Other operating expenses		418	—	(63)	(24)
Profit from operation		3,223	3,972	9,920	8,486
Finance costs		(1,752)	(2,116)	(4,192)	(4,547)
Share of (loss)/profit of a joint venture		—	—	(4)	2
Profit before income tax expense	5	1,471	1,856	5,724	3,941
Income tax expense	7	(273)	(204)	(607)	(447)
Profit for the period		1,198	1,652	5,117	3,494
Other comprehensive income, net of tax					
<i>Items that may be reclassified subsequently to profit or loss</i>					
— Exchange differences on translation to profit or loss		842	(654)	631	(551)
Total comprehensive income for the period		2,040	998	5,748	2,943
		RM	RM	RM	RM
Earnings per share					
Basic and diluted earnings per share	8	0.15 sen	0.21 sen	0.64 sen	0.44 sen



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 28 February 2021

	Notes	As at 28 February 2021 RM'000	As at 31 August 2020 RM'000
Non-current assets			
Property, plant and equipment	9	97,051	95,807
Right-of-use assets		32,451	37,882
Interest in a joint venture		162	163
Rental deposits		545	405
Deferred tax assets		1,441	1,309
Total non-current assets		131,650	135,566
Current assets			
Inventories		60,340	49,856
Trade and other receivables	10	73,596	91,593
Amounts due from a related company		81	30
Cash and cash equivalents		24,009	20,262
Total current assets		158,026	161,741
Current liabilities			
Trade and other payables	11	41,004	41,011
Bank borrowings		96,287	96,598
Amounts due to related companies		1,136	680
Lease liabilities		10,716	10,568
Tax payables		700	357
Total current liabilities		149,843	149,214
Net current assets		8,183	12,527
Total assets less current liabilities		139,833	148,093



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Financial Results (continued)

	Notes	As at 28 February 2021 RM'000	As at 31 August 2020 RM'000
Non-current liabilities			
Bank borrowings		32,539	39,390
Lease liabilities		11,283	18,426
Deferred tax liabilities		2,497	2,511
Total non-current liabilities		46,319	60,327
Net assets		93,514	87,766
Capital and reserves			
Share capital	12	4,304	4,304
Reserves		89,210	83,462
Total equity		93,514	87,766



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 28 February 2021

	Share capital RM'000	Share premium RM'000	Merger reserve RM'000	Exchange reserve RM'000	Retained earnings RM'000	Total RM'000
Balance at 1 September 2019						
(Audited)	4,304	35,967	8,548	(1,145)	37,690	85,364
Profit for the period	—	—	—	—	3,494	3,494
Other comprehensive income	—	—	—	(551)	—	(551)
Total comprehensive income	—	—	—	(551)	3,494	2,943
Balance at 29 February 2020						
(Unaudited)	4,304	35,967	8,548	(1,696)	41,184	88,307
Balance at 1 September 2020						
(Audited)	4,304	35,967	8,548	(1,766)	40,713	87,766
Profit for the period	—	—	—	—	5,117	5,117
Other comprehensive income	—	—	—	631	—	631
Total comprehensive income	—	—	—	631	5,117	5,748
Balance at 28 February 2021						
(Unaudited)	4,304	35,967	8,548	(1,135)	45,830	93,514



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 28 February 2021*

	Six months ended	
	28 February 2021 RM'000	29 February 2020 RM'000
Net cash (used in)/generated from:		
Operating activities	23,394	10,020
Investing activities	(2,506)	(5,121)
Financing activities	(16,416)	(15,471)
Net increase/(decrease) in cash and cash equivalents	4,472	(10,572)
Effects of exchange rate changes on cash and cash equivalents	628	(614)
Cash and cash equivalents at beginning of period	14,746	10,871
Cash and cash equivalents at end of period	19,846	(315)

An analysis of balances of cash and cash equivalents

	Six months ended	
	28 February 2021 RM'000	29 February 2020 RM'000
Bank and cash balances	24,009	9,906
Bank overdrafts	(4,163)	(10,221)
	19,846	(315)



Notes to the Financial Information

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 13 April 2017 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business in Hong Kong and Malaysia are located at Unit 1302, 13/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Central, Hong Kong and Lot 1769, Jalan Belati, Off Jalan Kempas Lama, Taman Perindustrian Maju Jaya, 81300 Johor Bahru, Johor Darul Takzim, Malaysia, respectively.

The shares of the Company (the "**Shares**") was listed on the GEM on 15 September 2017 by way of share offer (the "**Share Offer**"). The Group is a well-established integrated offset printing and packaging solutions provider based in Malaysia.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared under the historical cost convention.

The functional currency of the Company is Hong Kong dollars ("**HK\$**"), while the unaudited condensed consolidated financial statements are presented in Malaysian Ringgit ("**RM**"), which is the functional currency of the Company's major subsidiaries. The Directors consider that it is more appropriate to adopt RM as the Group's and the Company's presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.



2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The unaudited condensed financial statements do not include all the information and disclosures required in the annual financial statements and thereby should be read in conjunction with the annual financial statements for the year ended 31 August 2020 ("**2020 Financial Statements**") which have been prepared in accordance with the accounting policies which conforms to the HKFRSs.

Adoption of new or revised HKFRSs

In the current period, the Group has applied all of the amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for the Group's financial period beginning on 1 September 2020. The adoption of these amendments to HKFRSs had no material effect on the results and financial position of the Group and/or disclosures set out in these unaudited condensed consolidated financial statements for the current and/or prior accounting periods.



2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

New or revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 3	Reference to be the Conceptual Framework ²
Amendments to HKAS 16	Property, Plant and Equipment Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts Cost of Fulfilling a Contract ²
Annual Improvements to HKFRSs 2018–2020 Cycle	Amendments to HKFRS 1 First-time Adoption of International Financial Reporting Standards, HKFRS 9 Financial Instruments, Illustrative Examples accompanying HKFRS 16 Leases, HKAS 41 Agriculture ²
Amendments to HKAS 1	Presentation of Financial Statements Classification of Liabilities as Current or Non-current ³
HKFRS 17	Insurance Contracts ³

¹ The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.



2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new or revised HKFRSs (Continued)

New or revised HKFRSs that have been issued but are not yet effective (Continued)

The Directors are currently assessing the possible impact of these new or revised standards on the Group's result and financial position in the first year of application.

Accounting estimates and assumptions are used in the preparation of financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. In preparing these unaudited condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2020 Financial Statements.

3. SEGMENT INFORMATION

(a) Business segment

The Group has been operating in one operating and reportable segment, being printing and manufacture of instruction manuals, insert, packaging products and printed paper labels. The chief operating decision maker make decisions based on the historical financial information of the Group prepared in accordance with HKFRS about resources allocation and performance assessment.



3. SEGMENT INFORMATION (Continued)

(b) Geographic information

The following table provides an analysis of the Group's revenue from external customers.

	Three months ended		Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Malaysia	37,064	37,660	87,956	79,229
Singapore	1,604	2,174	3,136	3,783
Philippines	16,389	16,753	37,075	32,721
	55,057	56,587	128,167	115,733

(c) Information about major customers

Revenue from external customers individually contributing 10% or more of the Group's revenue are as follow:

	Three months ended		Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Customer A	14,107	12,718	32,413	28,141
Customer B	5,109	8,019	14,004	15,182
Customer F	16,131	23,371	36,472	32,730



4. REVENUE

An analysis of disaggregation of the Group's revenue from contract with customers are as follows:

	Three months ended		Six Months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Sales of productions products transferred at a point in time:				
— Packaging	34,888	34,262	83,162	65,758
— Insert	11,728	15,435	26,188	35,968
— Instruction manual	8,434	6,871	18,801	13,965
— Label	7	19	16	42
	55,057	56,587	128,167	115,733

The following table provides information about trade receivables from contracts with customers.

	As at 28 February 2021 Unaudited RM'000	As at 31 August 2020 Audited RM'000
Receivable (Note 10)	59,258	78,037

All sales of goods are for periods of one year or less. As permitted under HKFRS15, the transaction price allocated to these unsatisfied contracts is not disclosed.



5. PROFIT BEFORE INCOME TAX EXPENSE

	Three months ended		Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Profit before income tax expense is arrived at after charging:				
Cost of inventories sold*	44,242	46,143	102,549	94,117
Depreciation of property, plant and equipment	1,612	1,512	3,124	2,730
Depreciation of right-of-use assets	1,834	1,852	3,569	3,902
Employee costs	11,191	10,274	22,923	19,392

* For the six months ended 28 February 2021 and 29 February 2020, cost of inventories sold comprise approximately RM22.1 million and RM19.7 million relating to employee benefit expenses and depreciation charges, which are also included in the respective total amounts disclosed separately above.

6. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 28 February 2021 (2020: nil).



7. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of comprehensive income represents:

	Three months ended		Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Current tax — Corporate income tax — charge for the period	273	204	607	447
Deferred tax	—	—	—	—
Income tax expense	273	204	607	447

Hong Kong profits tax is calculated at tiered rates of 8.25% on the first HK\$2 million and 16.5% for the remainder (2019: 16.5%) on the estimated assessable profits of subsidiaries operating in Hong Kong for the six months ended 28 February 2021 and 29 February 2020. Taxes on profits assessable elsewhere have been calculated at the prevailing tax rates in the countries/jurisdictions in which the Group operates.

Corporate income tax in Malaysia is calculated at the statutory rate of 24% (2019: 24%) of the estimated taxable profit for the six months ended 28 February 2021.



7. INCOME TAX EXPENSE (Continued)

Subsidiary located in the Philippines was subject to Philippines income tax at the rate of 30% (2020: 30%) on the estimated taxable income during the six months ended 28 February 2021. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines are required to pay tax equivalent to the higher of 30% (2020: 30%) regular corporate income tax (“**RCIT**”) on taxable income and the 2% (2020: 2%) minimum corporate income tax (“**MCIT**”) on gross income. Gross income is equivalent to revenue less direct costs. Any excess of the MCIT over RCIT can be carried forward and credited against RCIT for three succeeding taxable years.

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings attributable to owners of the Company and the weighted average number of ordinary Shares in issue during the respective periods.



8. EARNINGS PER SHARE (Continued)

The calculation on basic and diluted earnings per share is based on the following information:

	Three months ended		Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Earnings				
Profit for the period attributable to owners of the Company	1,198	1,652	5,117	3,494
	Number of Shares			
Shares				
Weighted average number of Shares in issue during the periods	800,000,000	800,000,000	800,000,000	800,000,000

Diluted earnings per share were the same as the basic earnings per share as the Group had no dilutive potential shares during the six months ended 28 February 2021 and 29 February 2020.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 28 February 2021, the Group acquired items of property, plant and equipment with cost of approximately RM5.4 million (2020: approximately RM7.4 million). Items of plant and machinery with a net book value of RMnil were disposed of during the six months ended 28 February 2021 (2019: RM0.8 million).



10. TRADE AND OTHER RECEIVABLES

Trade receivables are trade debtors (net of impairment losses) with the following aging analysis, based on invoice dates, as at 28 February 2021 and 31 August 2020:

	As at 28 February 2021 Unaudited RM'000	As at 31 August 2020 Audited RM'000
Within 1 month	31,554	32,891
1 to 2 months	20,635	25,270
2 to 3 months	5,591	16,420
Over 3 months	1,478	3,456
	59,258	78,037
Deposit and prepayments	13,277	10,971
Loan and advances	1,061	2,158
GST recoverable	—	427
	73,596	91,593

The Group usually grants credit period ranging from 0 to 90 days (31 August 2020: 0 to 90 days) to its trade customers.

At the end of each of the reporting periods, the Group reviews trade receivables for evidence of impairment on both individual and collective basis. The provision of expected credit losses ("ECL") for receivables is recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. Based on the impairment assessment, no impairment loss has been recognized for the six months ended 28 February 2021 and 2020. The Group did not hold any collateral as security or other credit enhancement over the trade receivables.



11. TRADE AND OTHER PAYABLES

Trade payables are non-interest bearing. The Group is normally granted credit terms ranging from 0 to 90 days from the invoice date.

Included in trade payables are trade creditors with the following aging analysis, based on invoice dates, as at 28 February 2021 and 31 August 2020:

	As at 28 February 2021 RM'000	As at 31 August 2020 RM'000
Current or less than 1 month	16,549	7,482
1 to 3 months	2,324	12,521
More than 3 months but less than 12 months	732	678
More than 12 months	—	73
	19,605	20,754
Other payables, accruals and deposit received	21,399	20,257
	41,004	41,011



12. SHARE CAPITAL

	Number of Shares	Amount RM'000	Amount HK\$'000
Ordinary Shares of HK\$0.01 each			
Authorised:			
At 1 September 2019 and 29 February 2020	5,000,000,000	27,284	50,000
At 1 September 2020 and 28 February 2021	5,000,000,000	27,284	50,000
Issued and fully paid:			
At 1 September 2019 and 29 February 2020	800,000,000	4,304	8,000
As 1 September 2020 and 28 February 2021	800,000,000	4,304	8,000



13. CAPITAL COMMITMENTS

	As at 28 February 2020 RM'000	As at 31 August 2020 RM'000
Commitments for the acquisition of:		
Investment property	1,474	3,067
Property, plant and equipment	720	1,396
	2,194	4,463

14. RELATED PARTY TRANSACTIONS

- (a) The remuneration of executive Directors during the periods were as follows:

	Six months ended	
	28 February 2021 RM'000	29 February 2020 RM'000
Wages and salaries	2,378	1,964
Contribution to retirement benefits schemes	160	139
	2,538	2,013



14. RELATED PARTY TRANSACTIONS (Continued)

- (b) During the periods, the Group entered into the following transactions with related parties:

Related party relationship	Common director	Interest	Name/ Company name	Type of transaction	Six months ended	
					28 February 2021 RM'000	29 February 2020 RM'000
An entity controlled by Mr. Ong Yoong Nyock ("Mr. Ong")	Mr. Ong	84%	TIONG NAM LOGISTICS SOLUTIONS SDN BHD	(a) Transportation fees paid to a related company	1,583	1,383
An entity controlled by Chua Sui Keng, a director of Linocraft Printers Sdn. Bhd	Chua Sui Keng	25%	GF EQUIPMENT RENTAL SDN BHD	(b) Rental expenses of equipments paid to related companies	526	331
Joint venture	Tan Woon Chay	50% hold by Linocraft Printers Sdn. Bhd.	Linocraft Singapore Pte. Ltd.	(c) Purchases from the Group	972	1,000

15. EVENTS AFTER THE REPORTING PERIOD

The COVID-19 pandemic (the "Pandemic") since early 2020 has impacted the global business and economic environment. The overall financial effect on the Group in the coming financial year cannot be reasonably estimated for the time being as the pandemic is still continuing. The Group will be watchful of the development and continue to evaluate its impacts on the business, financial position, cash flows and financial performance of the Group.



BUSINESS REVIEW

Our Group is a well-established integrated offset printing and packaging solutions provider in Malaysia with more than 48 years of experience. Moreover, the Group has also set foot in the Philippines in June 2016 to set up our printing and packaging production line to better serve our customers in the region. We principally provide offset printing services and packaging boxes, instruction manuals and inserts to our customers. We continue to focus on strengthening our market position in the offset printing and packaging industry.

Our Group offers a wide range of packaging products to meet our customers' packaging needs. These products can be broadly categorised into (i) packaging; (ii) inserts; (iii) instruction manuals; and (iv) labels.

The following table sets forth the details of our Group's revenue by types of products for the six months ended 28 February 2021 and 29 February 2020:

	Six months ended			
	28 February 2021 (Unaudited)		29 February 2020 (Unaudited)	
	RM'000	%	RM'000	%
Sales of production products:				
— Packaging	83,162	64.9	65,758	56.8
— Insert	26,188	20.4	35,968	31.1
— Instruction manual	18,801	14.6	13,965	12.0
— Labels	16	0.1	42	0.1
	128,167	100.0	115,733	100.0

Our Group's total revenue amounted to approximately RM128.2 million and RM115.7 million for the six months ended 28 February 2021 and 29 February 2020 respectively. Approximate 68.6% (2020: 68.5%) of our revenue was attributable to our customers in Malaysia, with the remaining from Singapore and the Philippines during the reporting periods.



Packaging

Packaging accounts for our largest business segment of our Group's business. Packaging includes the manufacturing of packaging boxes and rigid boxes. Our packaging boxes and rigid boxes are produced with multi-colour sheetfed offset printed materials and manufactured using technologically advanced machines and colour management system of international standards such as Ugra/Fogra Media Wedge CMYK V3.0 to match the requirements of our customers. Our packaging not only serves as a marketing tool but most importantly as a protection for our customers' products. Our Group also provides product development services to customers who require packaging design for their products. Furthermore, our Group also has the capability to create prototype based on the design that was provided to us or created by our team. We have an industrial cutting machine that can produce such prototype to help customers visualise the packaging before mass production.

Our revenue from the production of packaging were approximately RM83.2 million and RM65.8 million for the six months ended 28 February 2021 and 29 February 2020 respectively, representing approximately 64.9% and 56.8% of our total revenue, respectively.

Inserts

The production of inserts is our second largest business segment. Inserts are protective packaging used inside boxes to partition and protect products from damage. It is used to keep the products and accessories in position so that they will be neatly presented to the end consumers. Our Group is involved in designing and die-cutting of corrugated boards into desired shapes to fit and protect the customers' products in the packaging boxes.

Our revenue from the production of inserts were approximately RM26.2 million and RM36.0 million for the six months ended 28 February 2021 and 29 February 2020 respectively, representing approximately 20.4% and 31.1% of our total revenue, respectively.



Instruction Manuals

The production of instruction manuals is the third largest segment. Our Group also provides kitting services by packing related printed materials to be grouped together with instruction manuals into a package. This service provides convenience to our customers by enabling them to liaise with one single party for their packaging needs.

Our revenue from the production of instruction manuals were approximately RM18.8 million and RM14.0 million for the six months ended 28 February 2021 and 29 February 2020 respectively, representing approximately 14.6% and 12.0% of our total revenue, respectively.

Labels

The production of paper-based labels is a small segment of our Group's business, primarily for food and beverage sector. Such labels are mainly used for branding of canned/bottled products. The printing of labels has become a smaller business segment of our Group due to our Group's expansion into other business segments.

Our revenue from the production of labels were approximately RM0.01 million and RM0.1 million for the six months ended 28 February 2021 and 29 February 2020 respectively, representing approximately 0.1% and 0.1% of our total revenue, respectively.

FUTURE PROSPECTS AND OUTLOOK

Our Group continues to focus strengthening its market position in the offset printing and packaging industry as well as approaching reputable international brands from different industries to grow our business in Malaysia and the Philippines.

At the time of writing, there remains significant uncertainty on the extent of the impact from Pandemic, which depends on multiple factors including the path and mutation of the disease, efficacy of containment efforts, successful development of vaccines, and government fiscal and monetary policies.



Management Discussion and Analysis (continued)

The implementation of the Movement Control Order in certain States in Malaysia, including the State of Johor, has been extended until 12 April 2021. As per the regulations, our plant is allowed to continue operations whilst awaiting further details from the Government of Malaysia at the time of writing. Whereas the General Control Quarantine in Metro Manila will be extended until 15 May 2021, but this will not affect our Philippines operation since the factory is operating under Philippines Economic Zone Authority.

Against this backdrop, we expect the current financial year of 2021 to be extremely challenging for the Group due to the ongoing Pandemic. The Directors are staying positive to the business of the Company and striving to create long term sustainable value for our Company and Shareholders in spite of the Pandemic.

FINANCIAL REVIEW

Revenue

Despite the business disruptions and control measures adopted in Malaysia and the Philippines for the ongoing Pandemic, our management has strived to develop new customers and maintain a close working relationship with existing customers in order to minimize the adverse impact on the operations of the Group. In addition, the demand from our existing customers which are involved in the field of innovative healthcare products surged, which resulted in an increase the Group's revenue and gross profit.

During the six months ended 28 February 2021, the revenue increased by approximately 10.7% or RM12.4 million as compared to that of the previous period in 2020. The increase in revenue was mainly due to the increase in sales of packaging and instruction manuals, where there was an increase in demand derived from major customers, which was partially offset by the decrease in sales of inserts. The revenue contributed by the top five customers increased from approximately RM94.9 million for the six months ended 29 February 2020 to RM101.3 million for the six months ended 28 February 2021, which accounted for 82.0% and 79.0% of our total revenue for the corresponding periods, respectively.



Cost of Sales

	Six months ended	
	28 February 2021 (Unaudited) RM'000	29 February 2020 (Unaudited) RM'000
Material costs	68,197	63,268
Direct labour	15,865	13,481
Manufacturing overhead	18,487	17,368
	102,549	94,117

Cost of sales comprises mainly (i) material costs (paper, facer, glue, chemical and plates); (ii) direct labor; and (iii) manufacturing overheads (utilities costs, depreciations and amortization of right-of-use assets, subcontracting fee and repair and maintenance costs).

In line with the increase in revenue, the cost of sales for the six months ended 28 February 2021 increased by approximately 9.0% or RM8.4 million as compared to that of the previous period in 2020. The increase in cost of sales was due to the increase in material costs, labour costs and subcontracting fees.

Gross Profit and Gross Profit Margin

Our gross profit increased about 18.5% from RM21.6 million for the six months ended 29 February 2020 to RM25.6 million for the six months ended 28 February 2021. Our overall gross profit margin increased by 1.3% from approximately 18.7% for the six months ended 29 February 2020 to approximately 20.0% for the six months ended 28 February 2021.



Distribution Costs

Our distribution expenses mainly consist of (i) salary expenses and staff benefit which mainly represents the expenses in salary and staff benefits payable to our marketing department; (ii) sales commission; (iii) entertainment and promotional expenses; and (iv) travelling and transport expenses. Our distribution expenses increased about 1.2% from RM6.0 million for the six months ended 29 February 2020 to RM6.1 million for the six months ended 28 February 2021. The overall distribution costs maintained at a stable level mainly due to transportation of products to fulfill orders of the contract manufacturer in the Philippines were lower than the previous period.

Administrative Expenses

The administrative expenses were approximately RM9.6 million for the six months ended 28 February 2021 (2020: RM8.3 million). Our administrative expenses mainly consist of (i) salary expenses and staff benefits which mainly represents the expenses in salary and staff benefits payable to our administrative staff including our Directors; (ii) professional and consultant fees; and (iii) others such as repair and maintenance for office equipment, bank charges and depreciation which mainly represents the depreciation expenses for the property, plant and equipment as well as the depreciation of right-of-use assets. The increase in administrative expenses was mainly due to the increase in employee costs.

Finance Costs

Finance costs represented interest on bank overdraft, bank borrowings and lease liabilities. For the six months ended 28 February 2021 and 29 February 2020, financial cost amounted to approximately RM4.2 million and RM4.5 million, respectively.

Share of (Loss)/Profit of a Joint Venture

Our Group has 50% equity interest in Linocraft Singapore Pte. Ltd, which engages in trading business for packaging and printing related products. The share of loss of a joint venture was RM4,000 for the six months ended 28 February 2021 (2020: profit of RM2,000).



Net Profit and Earnings per Share

As a result of the foregoing, our Group's net profit was RM5.1 million for the six months ended 28 February 2021 (2020: RM3.5 million). The Group's earnings per share for the six months ended 28 February 2021 was RM0.64 sen (2020: RM0.44 sen).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 28 February 2021,

- (a) the Group's net current assets was approximately RM8.2 million (31 August 2020: RM12.5 million) and the Group had cash and cash equivalents of approximately RM24.0 million (31 August 2020: RM20.3 million), most of cash and cash equivalents were denominated in RM and HK\$;
- (b) the Group had bank borrowings and lease liabilities of approximately RM128.8 million (31 August 2020: RM136.0 million) and RM22.0 million (31 August 2020: RM29.0 million); most of bank borrowings, lease liabilities were denominated in RM and HK\$;
- (c) the Group's current ratio was approximately 1.1 times (31 August 2020: 1.1 times). The gearing ratio is calculated based on the net debt divided by the adjusted capital plus net debt as the respective periods end. The Group's gearing ratio was approximately 65.0% (31 August 2020: 68.0%); and
- (d) the Group's total equity attributable to owners of the Company amounted to RM93.5 million (31 August 2020: RM87.8 million). The capital of the Company mainly comprises share capital and reserves.

DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 28 February 2021 (2020: nil).



SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group has no significant investments, material acquisitions or disposal of subsidiaries and associated companies for the six months ended 28 February 2021.

CAPITAL COMMITMENTS

As at 28 February 2021, the capital commitments of the Group are related to purchase of property, plant and equipment of approximately RM2.2 million (31 August 2020: RM4.5 million).

PLEDGE OF ASSETS

At the 28 February 2021, certain of the Group's right-of-use assets and property, plant and equipment with net carrying amount of RM28.5 million and RM51.6 million (31 August 2020: RM29.5 million and RM50.4 million) were held under finance leases and/or pledged as security for borrowings.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in section headed "Comparison of business objectives and strategies with actual business progress" of this report and the prospectus of the Company dated 31 August 2017 (the "**Prospectus**"), the Group does not have any concrete plan for material investments or capital assets for the coming year.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 28 February 2021 and 31 August 2020.



FOREIGN CURRENCY RISK

The Group operates mainly in Malaysia, and is exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD, Pesos and SGD. The Group derives majority of our revenue in RM and a portion of that in USD, Pesos and SGD, as some of our customers are companies headquartered in the US and Singapore, who prefer to use their local currencies to settle payment. Most of our Group's major customers are contract manufacturers based in Malaysia and the Philippines and settles payment in RM and Pesos. Quotations from suppliers and payments made to them are generally in RM, Pesos and USD. There is no assurance that the foreign exchange rate will go in the direction that is favourable to our Group and may result in foreign exchange loss and negatively affect our Group's results of operations and other comprehensive income.

The management will monitor foreign currency exposure of the Group and will consider undertaking foreign exchange hedging activities to reduce the impact of foreign exchange rate movements on the Group's operating result. As at 28 February 2021 and 31 August 2020, our Group had no opened derivative financial instrument.

EMPLOYEES AND REMUNERATION POLICY

As at 28 February 2021, the Group had a total of 894 (31 August 2020: 864) employees. The Group recognises that our success in the printing and packaging industry is dependent on our employees. Our Group recruits our employees based on their working attitude, industry experience, educational background and interpersonal skills. The Group generally pays our employees a fixed salary and discretionary performance-based bonus that is paid yearly, subject to individual performance. Certain level of our staff qualify for sales target-based monthly incentives. For the six months ended 28 February 2021, the Group's staff costs, including Directors' emoluments, were approximately RM22.9 million (29 February 2020: RM19.4 million, respectively). The Group reviews the performance of our employees and such review results will be taken into account during the annual salary review and promotion appraisal period.



COMPARISON OF BUSINESS OBJECTIVES AND STRATEGIES WITH ACTUAL BUSINESS PROGRESS

As set out in the Prospectus, the business objectives and strategies of the Group are (i) diversified customer industry; (ii) product line expansion; (iii) geographical expansion; (iv) repayment of bank loan; and (v) general working capital.

An analysis comparing the future plans and use of proceeds contained in the Prospectus with the Group's actual business progress for the period from the date of Listing to 28 February 2021 (the "Relevant Period") is set out below:

Business strategy	Implementation activities	Actual business progress during the Relevant Period
1. Diversified customer industry — continue to expand business in other industries such as fast moving consumer goods, medical & cosmetics and food & beverage	<ul style="list-style-type: none"> — Recruitment of brand manager in Malaysia — Additional warehouse for Malaysia operations (Phase 1) — Additional warehouse for Malaysia operations (Phase 2) — Expansion of design and solutions and quality assurance facilities in Malaysia 	<p>The Group has recruited the brand manager during mid of June 2018.</p> <p>The Phase 1 construction of additional warehouse was completed in September 2019.</p> <p>The Phase 2 construction of additional warehouse was completed in September 2019.</p> <p>The relocation of quality assurance office is in the pipeline and target to complete by third quarter of 2021.</p>



Business strategy	Implementation activities	Actual business progress during the Relevant Period
<p>2. Product line expansion — develop new products/ services to increase revenue stream</p>	<ul style="list-style-type: none"> — Development of new product line — adhesive labels in Malaysia — Setting up of low dust facilities in Malaysia for medical and emcosmetics, and food and beverage packaging products (phase 1) — Renovation and improvement of factory in Malaysia — Setting up of low dust facilities in Malaysia for medical and cosmetics, and food and beverage packaging products (phase 2) — Setting up of sample show room in Malaysia — Replacement of equipment for Malaysia operations — Purchase of new printing machines — Expansion of rigid box assembly line in Malaysia 	<p>The Group is in the midst of sourcing the adhesive labels machine.</p> <p>The setup has been completed.</p> <p>The renovation and improvement have been completed.</p> <p>The low dust facilities are in the midst of renovation and target to complete by third quarter of 2021.</p> <p>Yet to commence.</p> <p>The Company has acquired a new stitching machine to replace the old machine.</p> <p>The Company has acquired the printing machine and it's up and running now.</p> <p>Already completed.</p>



Management Discussion and Analysis (continued)

Business strategy	Implementation activities	Actual business progress during the Relevant Period
<p>3. Geographical expansion — gain access to new markets</p>	<ul style="list-style-type: none"> — Setting up full production facilities at Production Plant 2 — Renovation of Production Plant 2 at Light Industry & Science Park III in the Philippines — Balance payment for VVLF offset printing press for Philippines operations — Purchase of lorries for Philippines operations — Recruitment of staff for Philippines team — Hostel for Philippines team — Setting up of plant in northern part of Malaysia, with post-press production facilities (finishing only) 	<p>The full production facilities at Production Plant 2 are being set up.</p> <p>Renovation of Production Plant 2 at Light Industry & Science Park III has been completed.</p> <p>Balance of the payment has been paid.</p> <p>The lorry has been acquired in September 2018.</p> <p>Additional 6 staff have been recruited.</p> <p>The hostel has been rented for Philippines team.</p> <p>Yet to commence.</p>



USE OF PROCEEDS

As disclosed in the Prospectus, the net proceeds from the Share Offer were approximately HK\$61.0 million, after deducting the listing related expenses. As at 28 February 2021, all of the unutilized proceeds (the “**Unutilized Proceeds**”) were deposited in the licensed bank in Hong Kong or Malaysia. During the Relevant Period, the net proceeds from the Share Offer has been applied as follows:

	Planned use of net proceeds as stated in the Prospectus during the Relevant Period		Actual use of proceeds during the Relevant Period HK\$ million	Balance of Unutilized Proceeds as at 31 August 2020 HK\$ million	Balance of Unutilized Proceeds as at 28 February 2021 HK\$ million	Expected timeline for Unutilized Proceeds
	%	HK\$ million				
Diversified customer industry — expansion into other industries	10.1	6.0	5.0	1.0	1.0	31 August 2021
Product line expansion	23.3	14.2	10.1	4.1	4.1	31 August 2021
Geographical expansion	45.8	28.1	23.1	5.0	5.0	31 August 2021
Repayment of bank loan	11.7	7.1	7.1	—	—	
General working capital	9.1	5.6	5.6	—	—	
	100.0	61.0	50.9	10.1	10.1	



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 28 February 2021, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules ("**Model Code**") relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in the Company

Name of Directors	Nature of interest	Number of Shares held ⁽¹⁾	Percentage of shareholding
Mr. Ong ⁽²⁾	Interest of a controlled corporation	408,000,000 (L)	51.00%
Mr. Tan Woon Chay	Beneficial owner	1,500,000 (L)	0.19%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Mr. Ong beneficially owns 50% of Charlecote Sdn. Bhd. ("**Charlecote**") which in turn owns 70% of the issued share capital of Linocraft Investment Pte Limited ("**Linocraft Investment**"). Linocraft Investment owns 51% of the issued share capital of our Company. By virtue of the SFO, Mr. Ong is deemed to be interested in the Shares held by Linocraft Investment.



(ii) Interests in associated corporation of our Company

Name of Directors	Name of associated corporation	Capacity	Number of Shares	Percentage of shareholding
Mr. Ong ⁽¹⁾	Linocraft Investment	Beneficial owner and interest of a controlled corporation	8,050	80.50%
	Charlecote	Beneficial owner	2	100.00%
Mr. Tan Woon Chay	Linocraft Investment	Beneficial owner	1,950	19.50%

Note:

- (1) Charlecote, which holds 70% of Linocraft Investment, is held as to 50% by Mr. Ong and 50% by Ms. Yong Kwee Lian (“**Mrs. Ong**”). By virtue of the SFO, Mr. Ong is deemed to be interested in all the shares in Charlecote and the shares of Linocraft Investment held by Charlecote.

Save as disclosed above, as at 28 February 2021, none of the Directors or chief executives of the Company had, or was deemed to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Model Code.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 28 February 2021, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Nature of interest	Interests in Shares ⁽¹⁾	Percentage of shareholding
Linocraft Investment Charlecote ⁽²⁾	Beneficial owner	408,000,000 (L)	51.00%
	Interest of controlled corporation	408,000,000 (L)	51.00%
Mrs. Ong ⁽³⁾	Interest of spouse	408,000,000 (L)	51.00%
Stan Cam Holdings Limited ("Stan Cam")	Beneficial owner	120,000,000 (L)	15.00%
Ralex Investment Holdings Limited ⁽⁴⁾	Interest of a controlled corporation	120,000,000 (L)	15.00%
Mr. Gan Ker Wei ("Mr. Gan") ⁽⁵⁾	Interest of a controlled corporation	120,000,000 (L)	15.00%
Mrs. Amy Ong Lai Fong ⁽⁶⁾	Interest of spouse	120,000,000 (L)	15.00%



Notes:

- (1) The letter "L" denotes long position in the Shares.
- (2) Charlecote holds 70% of the issued share capital of Linocraft Investment, which in turn owns 51% of our Company. By virtue of the SFO, Charlecote is deemed to be interested in the Shares held by Linocraft Investment.
- (3) Mrs. Ong is the spouse of Mr. Ong. By virtue of the SFO, Mrs. Ong is deemed to be interested in the Shares held by Charlecote Bhd. and Mr. Ong.
- (4) Stan Cam is owned as to 75% by Ralex Investment Holdings Limited. By virtue of the SFO, Ralex Investment Holdings Limited is deemed to be interested in the Shares held by Stan Cam.
- (5) Stan Cam is owned as to 75% by Ralex Investment Holdings Limited. Ralex Investment Holdings Limited is wholly-owned by Mr. Gan. By virtue of the SFO, Mr. Gan is deemed to be interested in the Shares held by Stan Cam.
- (6) Mrs. Amy Ong Lai Fong is the spouse of Mr. Gan. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Gan.

Save as disclosed above, as at 28 February 2021, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.



SHARE OPTION SCHEME

The Company has not adopted any share option scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 28 February 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.



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COMPETING INTERESTS

As confirmed by the Directors, the Controlling Shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of the Group, which competes or is likely to compete, directly or indirectly, with the business of the Group during the six months ended 28 February 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the six months ended 28 February 2021.



CORPORATE GOVERNANCE CODE

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**") and in relation to, among others, our Directors, Chairman and Chief Executive Officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with the shareholders of the Company (the "**Shareholders**").

To the best knowledge of the Board, save for the deviation from the code provision E.1.2 as explained below, the Company had complied with the code provisions in the CG Code during the six months ended 28 February 2021.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the Board (the "**Chairman**") should attend the annual general meeting (the "**AGM**"). However, Mr. Ong Yoong Nyock, being the Chairman, was unable to attend the AGM held on 14 January 2021 due to his other prior engagement. Mr. Ong invited Mr. Liew Weng Keat, an independent non-executive Director to chair and answer questions from Shareholders at the AGM.



AUDIT COMMITTEE

Our Company established an Audit Committee pursuant to a resolution of our Directors passed on 25 August 2017 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and relationship with external auditors, and arrangements to enable employees of the Company to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters of the Company and performing the Company's corporate governance functions.

The Audit Committee consists of three members who are Mr. Liew Weng Keat, Mr. Teoh Cheng Tun and Mr. Choy Wing Keung David. Mr. Choy Wing Keung David is the chairman of the Audit Committee. The Interim Financial Statements have not been audited by the Company's auditor, but have been reviewed by the Audit Committee.

By order of the Board
Linocraft Holdings Limited
Tan Woon Chay
Executive Director

Hong Kong, 13 April 2021

As at the date of this report, the executive Directors are Mr. Ong Yoong Nyock and Mr. Tan Woon Chay and the independent non-executive Directors are Mr. Choy Wing Keung David, Mr. Liew Weng Keat and Mr. Teoh Cheng Tun.

