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Creating Winning Business Solutions

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5 May 2021

The Board of Directors
Pekat Group Berhad
3A, 5 and 6, No. 6, Jalan Teknologi 3/4,
Taman Sains Selangor 1, Kota Damansara,
47810 Petaling Jaya, Selangor

Dear Sirs and Madams

Independent Assessment of The Solar Photovoltaic, Earthing and Lightning Protection System and Distribution of Electrical Products Industries in Malaysia

We, Vital Factor Consulting Sdn Bhd (Vital Factor), are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include the development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as the independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above subject for inclusion into the prospectus of Pekat Group Berhad in relation to its proposed listing on the ACE Market of Bursa Securities. We have prepared this report in an independent and objective manner and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Our report includes assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. While such statements are made based on, among others, secondary information, primary market research, and after careful analysis of data and information, the industry is subjected to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results. In light of these and other uncertainties, the inclusion of assessments, opinions and forward-looking statements may differ from actual events.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from The University of New South Wales, Australia and a degree in Master of Business Administration from The New South Wales Institute of Technology (now known as University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and Institute of Managers and Leaders (formerly known as the Australian Institute of Management). He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing on Bursa Securities.

VITAL FACTOR CONSULTING
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INDEPENDENT ASSESSMENT OF THE SOLAR PHOTOVOLTAIC, EARTHING AND LIGHTNING PROTECTION SYSTEM AND DISTRIBUTION OF ELECTRICAL PRODUCTS INDUSTRIES IN MALAYSIA

1. INTRODUCTION

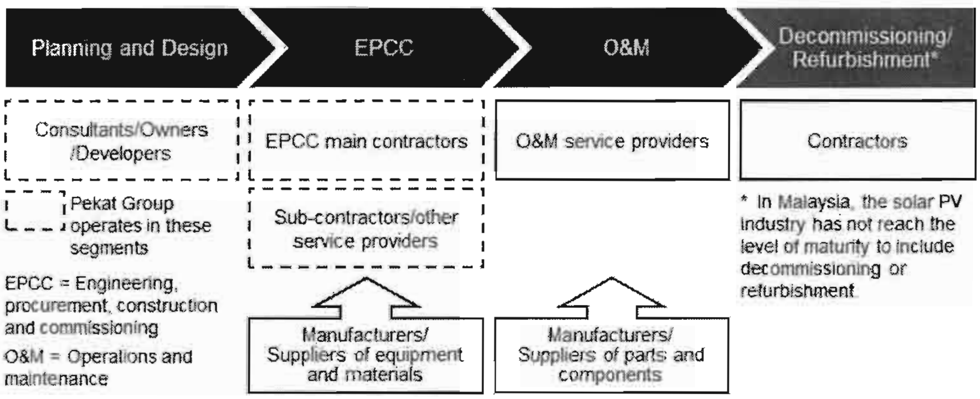
- Pekat Group Berhad and its subsidiaries (Pekat Group) is involved in the design, supply and installation of solar photovoltaic (PV) systems and power plants (solar PV facility), supply and installation of earthing and lightning protection (ELP) systems and distribution of electrical products and accessories in Malaysia, which will be the focus of this report.

2. SOLAR PHOTOVOLTAIC INDUSTRY

- Power generation requires a primary energy source which generally includes renewable, such as solar, and non-renewable sources, such as fossil fuel. Solar PV facility uses solar cells to convert sunlight directly into electricity. Solar PV power competes against other methods of power generation mainly from the perspective of cost and impact on the environment.

2.1 Overview of the Solar PV Industry

- The value chain and lifecycle of the solar PV industry are depicted in the diagram below:

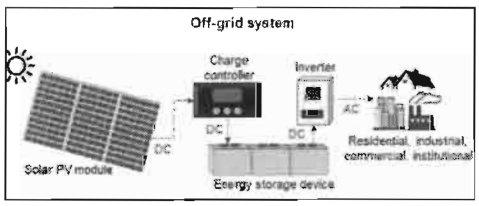


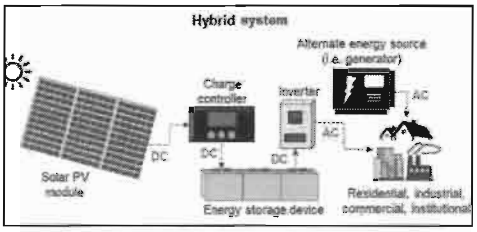
- Globally, solar PV generated power has been growing as a source of renewable energy driven by its rapid deployment in Asia particularly in China, Japan and India. The global cumulative solar PV installed capacity recorded a compound annual growth rate (CAGR) of 28.6%, from 228 Gigawatts (GW) in 2015 to 623 GW in 2019. *(Source: Vital Factor Analysis)*

2.2 Solar PV Facilities

- Solar PV projects are commonly differentiated by installed capacity, where solar PV systems refer to those with power generating capacity of less than 1 megawatt alternate current (MWac), and solar PV power plants with power generating capacity of 1 MWac or more. Generally, solar PV facilities can be categorised into the following:

  - **off-grid system** refers to a solar PV facility that is not connected to the power grid. An off-grid solar PV facility is usually equipped with an electricity storage system to supply electricity when the solar PV facility is not generating electricity.

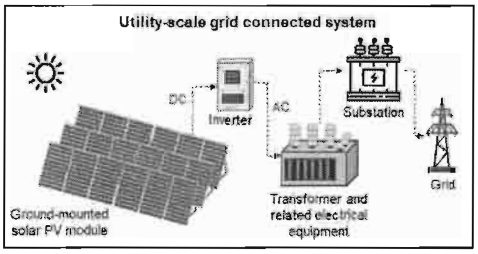




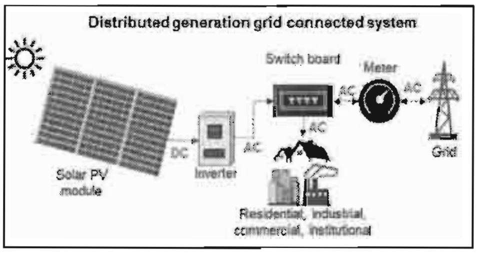
- **on-grid (or grid connected) system** refers to a solar PV facility connected to the power grid where the power generated can be exported or power can be drawn from the power grid.

- **hybrid system** combines electricity generated from a solar PV facility with another power source, such as a diesel power generator set.

- Solar PV projects are also classified as follows:



  - **centralised** (also referred to as utility scale or large scale) solar PV power plants have a capacity of 1 MWac and above. They are usually ground mounted or floated on water and connected to the grid to export power. They may also be off-grid to provide electricity to users in remote areas or for specific localised users and developments.



  - **distributed** solar PV facilities are commonly small-scale systems installed at or near the facilities or premises where the power will be used. They are usually mounted on rooftops or integrated into the building façade. On-grid solar PV facility can export power to the grid, or draw power from the grid when required.

- Pekat Group is involved in both centralised and distributed solar PV facilities, including on-grid, off-grid and hybrid facilities.

2.3 Solar PV Programmes

- One of the main drivers of growth in the solar PV industry in Malaysia is through the establishment of government initiated solar PV programmes. The following are some of the programmes:

Solar Energy Programmes		
Residential/ Commercial/ Industrial/Agricultural	Developer/ Investor/Owner	Government
• FiT • NEM • SELCO	• LSS PV Power Plants	• MySuria • BELB • SARES

FiT and NEM by SEDA; LSS, MySuria and SELCO by Energy Commission
BELB by Ministry of Rural Development; SARES by Sarawak State Government

(a) Residential/Commercial/ Industrial/Agriculture

Feed-in-Tariff (FiT) programme obliges the distribution licensees, including Tenaga Nasional Berhad (TNB) and Sabah Electricity Sdn Bhd (SESB), to buy electricity generated from renewable resources produced by Feed-in approval holders (FiAH) at a pre-determined rate for a specific duration. Renewable resources eligible for the FiT programme are solar PV, biogas, biomass and small hydropower. This programme was first implemented in 2011 and generated 430.51 gigawatt hours (GWh) of solar PV power in 2018. This programme has not had any new quota allocation since 2017, except for 5 MW under the community category. *(Source: SEDA)*

Net Energy Metering (NEM) programme was introduced in November 2016 to replace the FiT programme for solar PV facilities. NEM programme allows consumers to generate solar PV power for their own consumption, and export any excess electricity to the power grid. There was an allocation of a quota of 500 MW under the NEM programme up to the year

2020. Effective from 1 January 2019, the NEM programme was enhanced (NEM 2.0) to offer a one-on-one offset by off-setting every 1 kilowatt hour (kWh) exported with 1 kWh consumed from the grid. The quota under the NEM 2.0 was subscribed by 31 December 2020. On 29 December 2020, a new NEM 3.0 programme was introduced and the total quota allocation is up to 500MW.

With the NEM programme, solar power consumers may purchase power on a pay-per-use basis from solar PV facility owners via power purchase agreements (PPA), or lease solar PV facilities from owners based on solar leasing agreements (SLA). There are two payment arrangements:

- **Supply Agreement for Renewable Energy** (SARE) is a tripartite agreement among the consumer, investor, and TNB where payment is through TNB electricity bills. This is only available to consumers that are registered with TNB in Peninsular Malaysia.

- **Direct Contract** is an arrangement involving the power consumer and investor.

Self-consumption (SELCO) enables power consumers to hedge against the rising cost of electricity by installing solar PV facilities for their own use. Any excess electricity generated under SELCO is not allowed to be exported to the power grid.

(b) Developers/Investors/Owners

Large Scale Solar (LSS) PV power plant programme is for utility grid connected system with a power generation capacity of 1 MWac or more. The LSS programme is based on competitive bidding. Companies awarded are responsible for the full development including, among others, acquisition of land, construction of the solar PV power plant and on completion, operate and maintain the plant. The entity awarded with LSS projects will sign a 21-year PPA with TNB or SESB. *(According to Budget 2020, this PPA will be replaced with an open market system.)*

The LSS programme by the Energy Commission was first launched in 2016 through approvals of fast-track contracts and completed four rounds of competitive biddings (LSS1, LSS2, LSS3 and LSS@MEnTARI).

LSS Programme	LSS Fast Track^	LSS 1*	LSS 2	LSS 3	LSS@ MEnTARI	Total
Number of Projects Awarded	4	18	41	5	30	98
Export Capacity Awarded (MWac)	250	401	562	491	823	2,527

^LSS fast track projects refer to pioneer projects awarded without competitive bidding.
**Excluded a 50 MWac project in Tanjung Malim that was subsequently withdrawn in 2017.*

In May 2020, the Ministry of Energy and Natural Resources announced the LSS@MEnTARI with a solar quota release of 1,000 MWac for Peninsular Malaysia. The bid was opened on 31 May 2020 and bids submitted by 2 September 2020. This LSS@MEnTARI is the largest quota offered for bidding compared to the previous LSS1, LSS2 and LSS3 programmes which ranged between 250 MW and 500 MW.

(c) Government: The federal and state governments, including government-link entities, have also initiated solar PV programmes where they are owners of the solar PV facilities.

(i) **MySuria**, initiated by SEDA and first implemented in 2017, aimed to help low income households to generate additional income by exporting power generated by solar PV systems installed on their premises to the power grid. As of 2018, there were 332 houses with an installed capacity of 0.003 MW each under this programme *(Source: SEDA)*. The Government subsequently discontinued the programme.

(ii) **Rural Electricity Supply Programme (BELB)** is a federal government programme, first implemented in 1982, to provide reliable electricity supply to remote areas in Malaysia, by either developing transmission lines to connect remote areas to the power grid, or developing on-site power generation sources such as hybrid solar PV facilities, diesel power generator systems and diesel-battery hybrid systems. In 2020, RM553.5 million were allocated to finance this programme *(Source: Ministry of Rural Development, Malaysia)*.

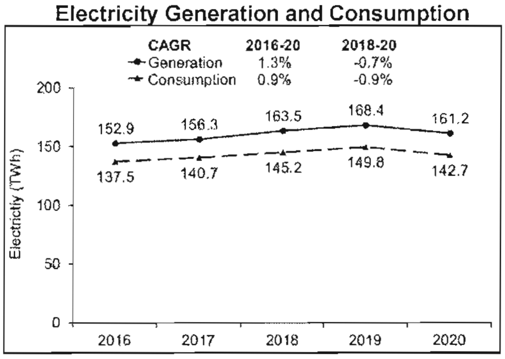
(iii) **Sarawak Alternative Rural Electrification Scheme (SARES)** is a RM500 million electrification programme to provide power to locations that are not feasible to be connected to the power grid. This includes developing standalone solar PV or micro hydropower systems. The programme, first implemented in 2016, has electrified an estimated 6,346 households in 238 villages by 2019. It was estimated that by 2021, SARES would electrify a total of 15,189 households in 560 villages *(Source: Sarawak Energy Bhd)*.

- In addition to the above initiatives, the Malaysian Government had also allocated RM250 million for rural electrification which will benefit over 1,100 rural households as announced in the Budget 2021. Pekat Group has carried out FiT, NEM, SELCO, LSS, SARES, and MySuria programmes.

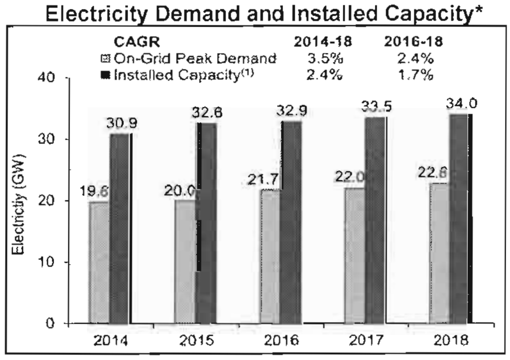
2.4 Overview of the Power Industry in Malaysia

- The solar PV industry falls within the larger electricity and gas industry. Between 2016 and 2020, gross domestic product (GDP) at current prices of the electricity and gas industry recorded a CAGR of 3.8% from RM27.0 billion in 2016 to RM31.3 billion in 2020, and a CAGR of 1.0% between 2018 and 2020 from RM30.1 billion in 2018 to RM31.3 billion in 2020. The GDP at current prices of electricity and gas declined by 3.6% in 2020 as compared to 2019. The decline was mainly due to slower economic activities following measures taken to contain the spread of the coronavirus COVID-19 pandemic.

Electricity Generation and Consumption



Electricity Demand and Installed Capacity*



** Latest available statistics. (1) Includes on-grid and off-grid installed capacity. (Sources: Department of Statistics, Malaysia (DOSM); Energy Commission Malaysia)*

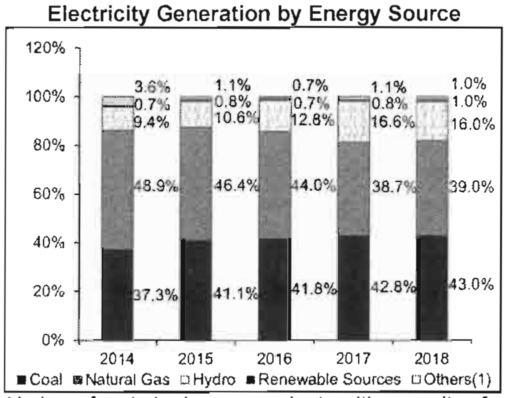
- In 2020, power generation exceeded consumption by 13.0%. The difference between power generation and consumption may be due to several factors including power loss through transmission, theft and unused power which is wasted as it is not stored.

- In 2019, being the latest available statistics, Peninsular Malaysia's electricity reserve margin was 38.0% with the peak electricity demand of 18,566 MW while Sabah and Labuan's electricity reserve margin was 23.0% with the peak electricity demand of 1,001 MW. Based on the latest available information, in 2017, the electricity reserve margin in Sarawak was 41.0% with the peak electricity demand of 3,040 MW. A high reserve margin may reduce the urgency to develop additional power generating facilities. In 2018, four newly awarded independent power producer contracts with a combined total capacity of 2,800 MW were terminated.

2.5 Electricity Generation by Energy Source

- Based on the latest available statistics, in 2018, electricity in Malaysia was mainly generated from coal and natural gas which collectively amounting to 139,014 GWh representing 82.0% of total electricity generated. In 2018, electricity generated from solar energy amounted to 653 GWh, which represented 0.4% of total electricity generated.

Electricity Generation by Energy Source



Hydro refers to hydro power plants with capacity of 100 MW and above. (1) Includes diesel, medium fuel oil, distillate and others (Source: Energy Commission Malaysia)

2.6 Solar PV Installed Capacity

- In 2018, the implementation of the LSS programme boosted the growth of on-grid centralised solar PV facilities (ground mounted) installed capacity by 349.2%. In addition, on-grid distributed solar PV facilities also grew by 31.5% mainly due to the introduction of the NEM programme.

	Solar PV Cumulative Installed Capacity in Malaysia				
	Off-grid (include large hybrid) (MW)	On-Grid Distributed (rooftop) (MW)	On-Grid Centralised (ground mounted) (MW)	Total (MW)	Growth (%)
2015	1.00	139.36	80.67	221.0	29.4
2016	1.00	197.98	86.92	285.9	29.3
2017	8.90	230.19	88.92	328.0	14.7
2018	35.64	302.68	399.42	737.7	124.9
2019	41.53	371.12	715.59	1,128.2	52.9
CAGR (2015-19)	153.9%	27.7%	72.6%	50.3%	
CAGR (2017-19)	116.0%	27.0%	183.7%	85.5%	

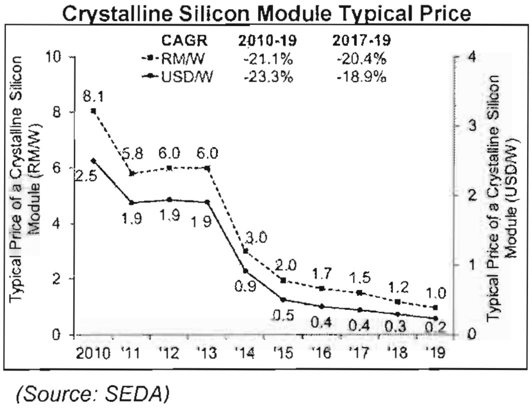
(Source: SEDA)

- Between 2015 and 2019, global cumulative solar PV installed capacity grew by CAGR of 28.6%, while Malaysia grew by 50.3%, albeit from a low base of 1.1 GW compared to countries such as China, USA, and Japan with 205.2 GW, 75.8 GW, and 63.2 GW respectively in 2019 *(Source: Vital Factor analysis)*.

2.7 Solar PV Module Prices

- PV modules are the main component of solar PV facilities. There are various types of PV modules including crystalline silicon (including monocrystalline and polycrystalline) and thin-film PV modules. In 2018, crystalline silicon modules accounted for 97% of the total global production of PV modules, while the remaining 3% were thin-film PV modules. *(Source: Vital Factor analysis)*.

Crystalline Silicon Module Typical Price



(Source: SEDA)

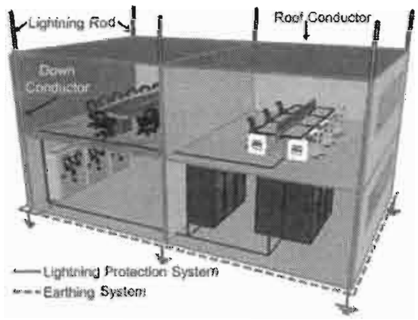
- The average price of crystalline silicon PV modules in Malaysia has declined significantly, with the price in 2019 (latest available) equivalent to only 12.3% of the price of the same type of PV module in 2010. While solar PV module prices may continue to fall, electricity tariffs may not track the price fall of solar PV modules. This is because other costs such as the balance of system (including inverters and transformers), land and construction may not fall in tandem with solar PV module prices, but may instead increase over time. Therefore, there is a limit to the reduction in the price of electricity before solar PV projects become financially unattractive.

3. EARTHING AND LIGHTNING PROTECTION (ELP) SYSTEM

3.1 Industry Structure and position of ELP Systems

- ELP systems are part of mechanical and electrical (M&E) works which falls within the Specialised Construction sector of the overall Construction Industry. As such, ELP is dependent on the overall construction industry. M&E works comprise electrical installation (including ELP systems), plumbing, heat, and air conditioning installation as well as other construction installations such as elevators, escalators, automated and revolving doors, lightning conductors, vacuum cleaning system, and thermal, sound or vibration insulations.

3.2 Overview of ELP System



- An ELP system is designed to channel unintended electricity safely into the earth. Unintended electricity may be caused by several factors including lightning strikes, short circuits or power surges. Unintended electricity may damage electrical equipment connected to the power system and may lead to electric shock to people causing injury or death. ELP systems are installed in buildings or infrastructures to prevent or reduce the risks of these incidences. ELP systems comprise two main inter-connected systems, namely the earthing system and lightning protection system.

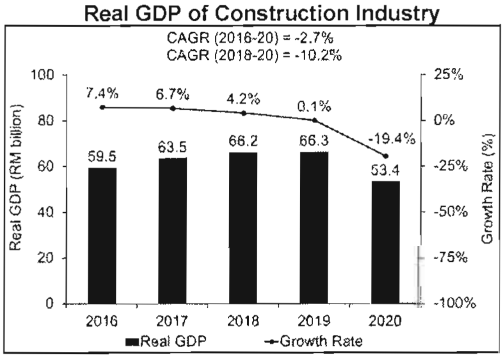
- The earthing system is mainly focused on dissipating unintended electricity caused by short circuits or power surges. The main component of an earthing system is the earth electrode, a conductor buried in the earth where the unintended electricity is safely dissipated.

- The lightning protection system is installed in buildings and structures to intercept lightning to prevent damage to properties and lives. It provides a specific path to channel lightning safely into the ground.

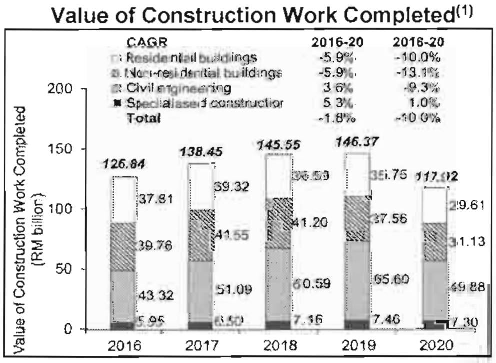
3.3 Performance of the Construction Industry in Malaysia

- As the installation of ELP systems is part of the construction industry, this section analyses the performance of the construction industry in Malaysia.

Real GDP of Construction Industry



Value of Construction Work Completed(1)



CAGR = Compound annual growth rate; p = preliminary. (1) Total may not add up due to rounding; All construction work completed referred to in this section cover all main contractors with project value of RM500,000 and above, and are registered with Construction Industry Development Board (CIDB).
(Sources: Bank Negara Malaysia (BNM); DOSM)

- In 2020, the construction sector experienced a decline of 19.4%, reflecting reduced work capacity in compliance to containment measures, labour shortage due to international border closures, supply chain disruptions and site shutdowns following the COVID-19 pandemic Similarly, the specialised construction sector contracted by 2.1%, mainly due to measures taken to contain the spread of COVID-19. The specialised construction sector accounted for approximately 6.2% of the total value of construction work completed in 2020. *(Source: BNM).*

- In 2020, civil engineering works, non-residential, residential and specialised construction fell by 24.0%, 17.1%, 17.2% and 2.1% respectively. In the second quarter of 2020, almost all activities came to a standstill particularly in March and April. However, activity improved in the second half (2H) of 2020 given better clarity and compliance with operating guidelines, more pervasive COVID-19 testing on workers and extended hours for construction activity. In addition, the rollout of stimulus packages supported many small-scale projects and spurred growth in the special trade subsector in 2H 2020. Activity in the residential and non-residential subsectors benefitted from new housing projects and ramp up in the progress of projects due for completion in the 2H of 2020, while the civil engineering subsector was supported by continued progress in large infrastructure projects.

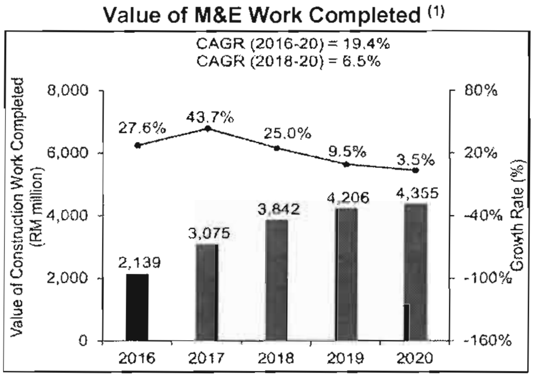
- In 2021, the construction industry is expected to rebound by 13.4%, driven by the resumption of activities across all subsectors. Growth in the special trade subsector is expected to strengthen further with support from solar power projects, wider coverage and better quality of broadband under the Jalinan Digital Negara (JENDELA) programme, small-scale projects under Budget 2021 and the Pemerkasa stimulus package valued at RM20 billion, as well as end-works from the completion of large projects. However, the completion of large commercial projects is expected to weigh down on growth in the non-residential subsector. *(Source: BNM)*

- Pekat Group operates within the specialised construction sector.

3.4 M&E Works

- ELP systems fall within the M&E segment of the Specialised Construction sector. In 2020, M&E works accounted for 3.7% of the total value of construction work completed. In 2020, the M&E works experienced slower growth due to a slowdown in the construction of residential and non-residential buildings resulting from the COVID-19 pandemic.

Value of M&E Work Completed (1)

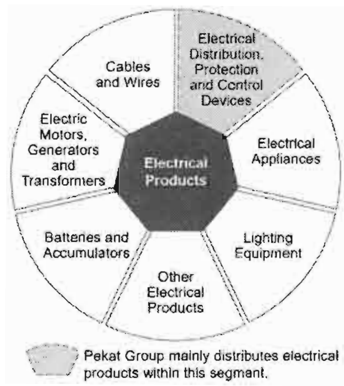


(1) Comprise electrical installation (including ELP systems), plumbing, heat and air conditioning installation, as well as other construction installation. *(Source: DOSM)*

4. DISTRIBUTION OF ELECTRICAL PRODUCTS

4.1 Electrical Products

- Pekat Group operates within the distributive trade industry as a wholesaler. Electrical products are machines, equipment, apparatus, appliances and devices that require electricity for them to function. They also include those that generate, transmit, distribute, control or store electricity. In the context of this report, they also include parts and components that make up the final electrical product. Accessories are various types of hardware and products that may not be electrical in nature but are commonly incorporated when using, installing or fabricating an electrical product or system.



- Electronic products, although they use electricity, are in a special category on their own that is distinct from electrical products. Many electrical products incorporate electronic parts and components to improve efficiency, accuracy, functionality, user interface and aesthetics.

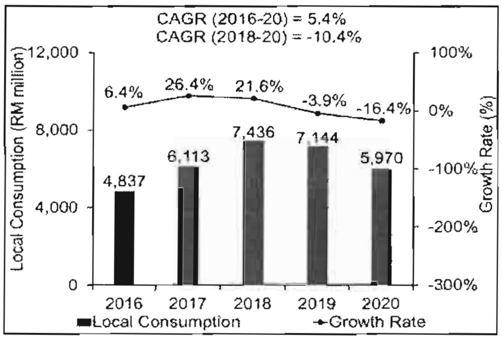
4.2 Apparent Consumption of Electrical Distribution, Protection, and Control Devices

- Apparent consumption measures the amount of a product consumed or used in a country within a given period. It is derived by adding imports to local production and subtracting exports during the period being measured.

- Between 2018 and 2020, the apparent consumption of electrical distribution, protection and control devices declined at an average annual rate of 10.4%.

- In 2020, local production, imports and exports of electrical distribution protection and control devices declined by RM573 million, RM1.615 billion and RM1.015 billion respectively compared to 2019.

Apparent Consumption of Electrical Distribution, Protection and Control Devices



(Sources: DOSM; Vital Factor analysis)

- In 2020, local production, imports and exports of electrical distribution protection and control devices amounted to RM6.449 billion (growth = -8.2%), RM10.880 billion (growth = -12.9%) and RM11.358 billion (growth = -8.2%) respectively. The decrease in apparent consumption was mainly due to lower demand attributed to measures taken to contain the spread of COVID-19.

- Malaysia depends significantly on imports of electrical distribution, protection, and control devices which amounted to RM10.880 billion in 2020, where imports were approximately 1.7 times larger than local production.

5. KEY REGULATIONS GOVERNING THE SOLAR PV, ELP SYSTEMS AND DISTRIBUTION OF ELECTRICAL PRODUCTS INDUSTRIES

- Some of the regulations governing solar PV, ELP systems and distribution of electrical products industries include the following:

  (a) **Energy Commission**, a statutory body responsible for regulating the energy sector in Peninsular Malaysia and Sabah. According to the Electricity Regulation 1994:
  - electrical works for solar PV facility and ELP system can only be undertaken by contractors with valid Certificate of Registration granted by the Energy Commission;
  - solar PV facility is required to be registered with the Energy Commission;
  - Certificate of Approval (CoA) is issued by the Energy Commission for the manufacture, import, display, sale or advertisement of any electrical equipment under the regulated list. Such equipment refers to any domestic or low voltage equipment usually sold directly to the general public or which does not require special skills in its operations. Approved electrical equipment is required to be affixed with safety labels before being sold to the public.

  (b) **Construction Industry Development Board (CIDB)**, a government body to regulate, develop and facilitate the Malaysian construction industry. Those involved in construction and related activities, including solar PV facility and ELP system contractors, are required to hold a valid CIDB certificate of registration when carrying out construction works.

(c) **SEDA**, a statutory body established to promote and administer the deployment of sustainable energy programmes, which requires registration of operators providing solar PV services under FiT and NEM programmes.

6. OPERATORS IN THE INDUSTRY

- As of 5 May 2021, there were 163 SEDA registered solar PV service providers, which is a requirement to carry out projects under the NEM programme; 141 CIDB registered contractors for solar PV facility with a capacity exceeding 72 kW; and 81,314 CIDB registered contractors under the mechanical and electrical engineering category, of which 8,758 were G7 registered contractors. For 2019/2020 there were approximately 540 companies involved in the distribution of electrical products in Malaysia registered as members of The Electrical and Electronics Association of Malaysia (TEEAM) or its affiliated state associations. It should be noted that there are distributors who are not registered with TEEAM.

- Below are some public listed companies or their subsidiaries, as well as private companies involved in the design, supply and installation (DSI) of solar PV facilities and/or ELP systems and/or distribution of electrical products.

Company	Financial Year Ended (1)	Revenue (RM million)(2)	Net Profit (RM million)(2)	Net Profit Margin (%)
Pekat Group	**Dec-20**	**125.6**	**13.6**	**10.8**
Solar PV Service Providers				
Shorefield S/B	Dec-19	508.6	160.8	31.6
Mattan Engineering S/B	Dec-18	282.3	3.6	1.3
Scatec Solar Solutions Malaysia S/B(3)	Dec-19	272.4	99.8	36.6
Solarvest Holdings Berhad(4)	Mar-20	253.4	16.0	6.3
Plus Solar Systems S/B	Mar-20	164.3	21.2	12.9
Samaiden Group Berhad	Jun-20	76.2	7.2	9.5
Pekat Group Solar PV Segment	**Dec-20**	**72.1**	**4.6**	**6.4**
System Protection & Maintenance S/B	Dec-19	60.8	6.3	10.4
Gading Kencana S/B	Dec-19	47.1	1.6	3.4
Helios Photovoltaic S/B	Mar-19	46.5	-3.2	-6.9
Hasilwan (M) S/B	Sept-19	38.2	-0.3	-0.8
Panasonic Life Solutions Malaysia S/B(5)	Mar-19	37.8	3.9	10.3
El Power Technologies S/B(6)	Dec-19	26.6	1.7	6.4
ELP System Service Providers				
Pekat Group ELP Systems Segment	**Dec-20**	**26.4**	**3.1**	**11.7**
Tecsys Product S/B	Jun-18	20.6	0.7	3.4
Tokai Engineering (M) S/B	Dec-19	17.3	2.1	12.1
Global Lightning Technologies (M) S/B	Oct-19	10.2	0.1	1.0
Distributors of Electrical Products				
Pansar Berhad	Mar-20	338.7	7.3	2.2
EITA Resources Bhd	Sept-20	284.1	18.3	6.4
ACO Group Berhad	Feb-20	134.3	7.8	5.8
Pekat Group Distribution Segment	**Dec-20**	**27.0**	**5.7**	**21.1**

S/B = Sdn Bhd Sources: SEDA, published information, annual reports, websites and research.

(1) Latest available from Companies Commission of Malaysia (CCM), annual reports, the prospectus of Samaiden Group Berhad and Pekat Group.

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(2) Revenues and net profit were derived from DSI of solar PV systems and/or power plants as well as other business activities, provision of ELP systems as well as other business activities, or from distribution of electrical products as well as other business activities. For Solar PV service providers, the majority of the companies' revenues were from DSI of solar PV systems and/power plants.
(3) A subsidiary of Scatec Solar ASA, a listed entity on the Oslo Stock Exchange in Norway.
(4) A public listed company on Bursa Securities in Malaysia where its subsidiaries, namely Atlantic Blue S/B, Solarvest Energy S/B, and Powertrack S/B are registered with SEDA under the service provider category.
(5) A subsidiary of Panasonic Corporation, a listed entity on the Tokyo and Nagoya Stock Exchange in Japan.
(6) A subsidiary of OCK Group Berhad, a listed entity on Bursa Securities in Malaysia.

The list above comprises public listed companies and/or their subsidiaries, and private companies. Solar PV service providers were selected based on (a) registered with SEDA under the Service Provider category involved in DSI of solar PV facilities; (b) revenue of RM20 million and above based on latest available financial information. ELP system service providers are CIDB registered contractors and involved in the provision of ELP system. For distributors of electrical products, only public listed companies with subsidiaries involved in the distribution of electrical products were selected.

7. MARKET SIZE AND SHARE

7.1 Solar PV Market

2019 (being the latest available statistics)		
Rough estimation of Malaysia's market size by business value* of installed grid connected solar PV facilities [(a) (1)]	Pekat Group's revenue for the DSI of solar PV systems and power plants [(b)]	Rough estimate of market share of Pekat Group by value [(c)]
RM1,684.8 million	RM58.3 million	3%

(Sources: (a) SEDA; (b) Pekat Group; (c) Vital Factor analysis) * Business value is the DSI cost of installing solar PV systems and power plants covering labour, service, hardware and material costs, excluding land cost. **Notes:** (1) Total installed capacity (distributed grid-connected = 68.44 MW; centralised grid-connected = 316.17 MW) multiplied by average cost (distributed grid-connected = RM6.6/W; centralised grid-connected = RM3.9/W) of constructing solar PV facilities for 2019.

2019 (being the latest available statistics)	
Malaysia's market size by installed capacity of solar PV systems and power plants [(a)]	390.5 MW
Pekat Group's market share [(b)]	5%

(Sources: (a) SEDA; (b) Vital Factor analysis) **Note**: Pekat Group's installed capacity of solar PV systems and power plants for FYE 31 December 2019 was 19.1 MW *(Source: Pekat Group).*

7.2 M&E Market

2020		
Malaysia's market size of M&E work completed [(a)]	Pekat Group's revenue for supply and installation of ELP systems [(b)]	Market share of Pekat Group [(c)]
RM4,355 million	RM26.4 million	Less than 1%

(Source: (a) DOSM; (b) Pekat Group; (c) Vital Factor analysis)

7.3 Electrical distribution, protection and control devices market

2020		
Malaysia's market size for the distribution, protection and control devices [(a) (1)]	Pekat Group's revenue for distribution of electrical products and accessories [(b)]	Pekat Group's Market Share [(a)]
RM5,970 million	RM27.0 million [(2)]	Less than 1%

(Source: (a) Vital Factor analysis; (b) Pekat Group) **Notes**: (1) Market size based on apparent consumption. (2) Revenue from distribution of ELP related products and surge protection devices.

8. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

8.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

8.1.1 Impact of Covid-19 on our business operations and financial performance

The World Health Organisation declared Covid-19 a pandemic on 11 March 2020. Our business and operations were impacted by precautionary measures taken by the Government of Malaysia, particularly the imposition of the MCO.

We experienced disruptions to our Solar Division and ELP Division due to stoppages at our installation sites and reduced installation site staffing levels, as summarised in the following table:

	Solar Division	ELP Division
Work site stoppage	18 March 2020 to 6 May 2020	18 March 2020 to 26 April 2020
Reduction in work site staff levels	7 May 2020 to 9 June 2020	27 April 2020 to 9 June 2020

These disruptions have affected our project implementation and billing schedules for some of our on-going solar PV and ELP projects. The implementation of projects amounting to RM9.8 million and RM2.2 million in revenue for our Solar Division and ELP Division, respectively was deferred from the 1st half of 2020 to the 2nd half of 2020, and consequently the corresponding revenue recognition was also deferred from the 1st half of 2020 to the 2nd half of 2020.

RM3.5 million in revenue for our Solar Division and RM2.2 million in revenue for our ELP Division was deferred from fourth quarter of 2020 to second quarter of 2021.

Whilst we have written to our customers for extension of time to implement on-going projects that have been delayed by the work stoppages and slowdown during the MCO and CMCO periods, we have yet to receive responses from some of our customers. Following the gazetting and coming into force of the Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) Act 2020 on 23 October 2020, if we are unable to complete our projects in time due to the MCO, our customers will not be able to claim liquidated ascertained damages and/or terminate the contract between us. From March 2020 to the LPD, none of our customers have made claims against the Group for delays or failure to complete projects due to Covid-19. We did not experience any material adverse effect on our revenue recognition or claims for liquidated ascertained damages for our Solar Division and ELP Division for FYE 2020 due to the delay caused by work stoppages.

We experienced some disruption to our Trading Division as the business activity was suspended from 18 March 2020 to 5 May 2020, and resumed from 6 May 2020. However, none of the purchase orders that we had received prior to 18 March 2020 were cancelled.

During the MCO when our operations were fully halted, we incurred an estimated total expense of RM3.0 million. Nevertheless, save for the deferment of RM3.5 million in revenue for our Solar Division and RM2.2 million in revenue for our ELP Division from fourth quarter of 2020 to second quarter of 2021, there are no other financial impact for FYE 2020.

On 27 January 2021, we were informed that 2 sales and marketing employees of Pekat Engineering who are based at our head office received positive diagnosis for Covid-19. The measures that we took upon receiving this information included, among others, conducting contact tracing and testing of identified close contacts, following which 1 additional employee received a positive diagnosis for Covid-19 on 28 January 2021. All 3 employees who had tested positive for Covid-19 were instructed to self-quarantine and work from home. They were required to conduct a second Covid-19 diagnostic test on 5 February 2021, and all 3 employees received a negative test result and obtained their Clearance or Discharge Letter from the Ministry of Health Malaysia by 8 February 2021. They were allowed to return to the head office on 18 February 2021.

Identified close contacts were instructed to self-quarantine and work from home for 14 days up to 10 February 2021. Other employees were instructed to work from home, and only allowed to return to the head office on 1 February 2021. We closed our head office and warehouse from 27 January 2021 to 1 February 2021, and disinfected our head office and warehouse on 27 January 2021. This closure of our head office did not result in any material disruption to our business operations.

Notwithstanding that our Group had undertaken necessary precautionary measures and steps in response to the Covid-19 situation, there can be no assurance that neither our workers nor the workers of our subcontractors will not be infected by the Covid-19 virus. Should all or a portion of our employees or our subcontractors' employees be quarantined as a result of potential infection, our business operations may be affected due to a temporary shortage of workers. Further, should the MCO be re-imposed, there can be no assurance that our business operations will not be materially impacted and that we will be able to complete our projects in a timely manner. These disruptions to our business operations will in turn delay our project delivery schedule and our billing schedule, which may consequently result in adverse impact on our financial performance.

Please refer to Section 6.7 for further details relation to how Covid-19 affected our business operations.

8.1.2 Our growth and profitability is dependent on our ability to continuously secure new projects and purchase orders

For past FYEs, our Solar Division and ELP Division which are project-based in nature had collectively accounted for 66.0%, 73.9%, 74.7% and 78.4% of our total revenue respectively.

During the past 4 FYEs and up to the LPD, the contract periods of our solar PV projects were between 3 months to 18 months, while the contract periods of our ELP projects typically require between 12 months to 36 months, depending on the main contractor's work schedule.

As at the LPD, our order book comprised unbilled contracts amounting to a total of RM154.9 million and purchase orders for our Trading Division of RM12.4 million. However, there can be no assurance that we will be able to maintain at least such level of order in the future. In addition, our order book is subject to unexpected project cancellations or scope adjustments which may occur from time to time and which could reduce the value of our order book. Purchase orders secured may also be cancelled.

8.1.3 We are subject to the risk of defect liability, product liability and performance warranty risks

(i) Solar Division

A defect liability period is imposed on us for contracts we secure for Solar Division. The defect liability period is stipulated in the respective customer's contract and is usually for a period of 12 months or 24 months, although for some customers it is for a period of 60 months or 120 months. We are responsible for making good any defects or faults that may occur during the defect liability period.

Some of the solar PV facility components such as solar PV modules, inverters, transformers, solar PV manufacturing system and mounting system are covered against manufacturing defects by their respective product warranties and as a result, the manufacturers or suppliers are responsible for providing suitable replacements. Our solar PV modules also come with a performance warranty from our manufacturers that the power generated by the solar PV modules will not be less than 80.0% of the installed capacity during the commercial operation period of approximately 25 years.

However, we are responsible for the cost of replacing the component, which typically includes the costs of labour, transportation and consumables. If we are unable to claim from the manufacturers due to our negligence or the amounts of the claim cannot be recovered in full or at all from the manufacturers, we may be required to bear some or all the costs of the claims.

(ii) ELP Division

A defect liability period is imposed on us for contracts we secure under ELP Division. The defect liability period is stipulated in the respective contracts and is usually for 24 months. We are responsible for making good any defects or faults that may occur during the defect liability period.

Some of the ELP systems components such as conductors, earth electrodes, leads and joints, lightning rods and surge protection device are covered against manufacturing defects by their respective product warranties and as a result, the manufacturers or suppliers are responsible for providing suitable replacements. We are responsible for our brands of products, which we have back-to-back arrangements with our third party manufacturers.

However, we are responsible for the cost of replacing the component, which typically includes the costs of labour, transportation and consumables. If we are unable to claim from the manufacturers due to our negligence or the amounts of the claim cannot be recovered in full or at all from the manufacturers, we may be required to bear some or all the costs of the claims.

As at the LPD, there have been no material claims in relation to the defect liability period for our ELP division. Nevertheless, there can be no assurance that our ELP division will not receive material claims in relation to defect liability period in the future.

(iii) Trading Division

While our principals and third party manufacturers are likely to be the most directly exposed to the risk of product liability (as the brand owner or party manufacturing the products), we as a distributor may also be exposed to product liability risks. Product liability generally involves, among others, manufacturing defects, design defects or defective warnings or instructions and product mislabelling. Customers claiming damages from these defects may take legal action against us as a distributor, which may impact on our business, as well as create negative publicity that may damage our reputation.

As at the LPD, we also distribute our brands of electrical products and accessories which are used as input materials in the ELP Division such as surge protection devices, ELP conductors and accessories, exothermic welding systems and aviation warning light systems.

We are responsible for our brands of products, which we have back-to-back arrangements with our third party manufacturers. For third party brand products, we have back-to-back arrangement with our principals. For the past FYEs and up to the LPD, we have not had any material claims relating to product warranties for our Trading Division.

8.1.4 We are subject to the risk of claims against solar PV facility minimum power supply guarantees

We provide a minimum power supply guarantee to customers of our Solar Division under the fixed lump sum plus variable periodic payment contract mode of operation for the contract duration period, which is commonly up to 25 years from the date of acceptance of handover. We also provide a minimum power supply guarantee to MFP Solar's solar PV power plants of 15 years and 20 years upon the acceptance of handover under the operations and maintenance contract between Pekat Solar and MFP Solar.

In the event that the solar PV facility does not generate the Performance Guarantee (kWh) as set out in the respective contract, we will have to compensate the customer for the shortfall based on the terms specified in the respective contract (referred to as the "Performance Guarantee Payment") at the applicable tariff rate of TNB.

An example of the calculation for the Performance Guarantee Payment is as follows:

Performance Guarantee (kWh)	Actual Power Generated (kWh)	Shortfall [(1)] (kWh)	Applicable TNB Tariff (RM/kWh)	Performance Guarantee Payment [(2)] (RM)
100,000	80,000	20,000	0.355	7,100

Notes:

(1) 100,000 kWh – 80,000 kWh
(2) RM0.355/kWh x 20,000 kWh

The circumstances that may lead to the solar PV facilities failing to meet the minimum power supply guarantee may include, among others, buildings or structures that cast shadows over the solar PV modules; accumulation of dust or debris on the solar PV modules; excessive performance degradation or malfunction of some of the solar PV modules; occurrence of haze, unusually high rainfall or cloud cover, or other weather conditions; and malfunction or inefficiency of inverters. If we fail to compensate our customers for the shortfall, our customers may terminate the contract and seek any remedy or rights available to them under the contract.

As at the LPD, there have been no past incidences where the minimum power supply guarantees were not met, and consequently there have not been any compensation provided to customers for such shortfalls. However, there can be no assurance that the minimum power supply will continue to be met in the future.

We have purchased insurance to cover any consequential losses in the event we fail to meet the minimum power supply guarantee. The insurance purchased is based on the installed capacity of each solar PV facility. However, there is no assurance that our insurance may be adequate to cover all potential losses.

8.1.5 We face competition from other service providers that serve the solar PV and ELP system industries and competition from other distributors and suppliers of electrical products and accessories

We face competition from other service providers that serve the solar PV and ELP system industries. We compete on, among others, quality of product and service, timeliness of delivery, price competitiveness and value added services.

As at 5 May 2021, there were 163 SEDA registered solar PV service providers, which is a requirement to carry out projects under NEM programme. As at 5 May 2021, there were 141 CIDB registered contractors for solar PV facilities with capacity exceeding 72 kW (Source: IMR Report). Pekat Solar is registered as a solar PV service provider with SEDA and a Grade 7 contractor with CIDB.

As at 5 May 2021, there were 81,314 CIDB registered contractors under the mechanical and electrical engineering category, of which 8,758 were Grade 7 registered contractors (Source: IMR Report). Pekat E&LP is registered as a Grade 7 mechanical and electrical contractor with the CIDB.

We also face competition from other distributors and suppliers of electrical products and accessories. For 2019/2020, being the latest available statistics, there were approximately 540 companies involved in the distribution of electrical products in Malaysia registered as members of The Electrical and Electronics Association of Malaysia (TEEAM) or its affiliated state associations. It should also be noted that there are distributors who are not registered with TEEAM (Source: IMR Report).

If we are unable to compete effectively on pricing, we may need to lower our pricing which will affect our profitability. Alternatively, we may lose out to our competitors based on various factors and not be able to secure sufficient contracts to grow our revenue. As such, there is no assurance that we can compete effectively which may negatively affect our financial performance.

8.1.6 We are dependent on the authorised distributorship for Furse and FurseWeld brands of ELP products and accessories

We are dependent on the authorised distributorship for Furse and FurseWeld brands of ELP products and accessories. Purchases of these products for the past 4 FYEs comprise between 11.2% to 30.7% of our total purchases. As at the LPD, the authorised distributorship for Furse and FurseWeld brands of ELP products and accessories is under ABB Malaysia Sdn Bhd. From 2020 onwards, the authorised distributorship will be under W J Furse & Co Limited's appointed suppliers.

Our authorised distributorship for Furse and FurseWeld brands of ELP products and accessories is subject to annual renewal. If we fail to renew our authorised distributorship for any reason, or if it is terminated for any reason, we may need to source alternative suppliers.

However, some of our customers may not accept alternative brands, specifications or suppliers. This will adversely affect our business operations and financial performance.

8.1.7 We are dependent on our third party manufacturers for our own brand products

We have our brands of electrical products which we distribute including surge protection devices, ELP related products and accessories, exothermic welding systems and aviation warning lighting systems which are manufactured by third party manufacturers under our specifications and quality control. As such, any product quality problems or interruptions in supply from our third party manufacturers may adversely affect our business operations and financial performance.

For the FYE 2017, FYE 2018, FYE 2019 and FYE 2020, distribution of our brands of products amounted to 23.9%, 23.9%, 22.8% and 28.8% of our revenue from Trading Division. Please refer to Section 6.6.5.4(i) for details of our brands.

For the past 4 FYEs and up to the LPD, we have not experienced any material shortages or interruption of supply of our brands of electrical products from our third party manufacturers.

8.1.8 We are dependent on our Executive Directors and key senior management for continued success and the loss of their continued services may affect our business

We have an experienced management team headed by Chin Soo Mau, our Managing Director, who has approximately 26 years of experience in the supply and installation of ELP systems and 11 years of experience in the solar PV industry. He is supported by our Executive Director, Tai Yee Chee, who has approximately 25 years of experience in supply and installation of ELP systems and approximately 11 years of experience in the solar PV industry and our Executive Director, Wee Chek Aik who brings with him approximately 24 years of experience in the supply and installation of ELP systems and approximately 11 years of experience in the solar PV industry.

Our Executive Directors and key senior management play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group which is vital to maintain the quality of our Group's products and services whilst retaining the business confidence of our customers.

The loss of any of our Executive Directors and key senior management and our inability to find suitable replacements in a timely manner, may create an unfavourable or material impact on our Group's operations and may eventually affect our ability to maintain and/or improve our business performances.

8.1.9 Our business and financial performance may be affected by increases in the cost of implementing our projects and/or supplying our products

Increase in the cost of implementing our projects and/or supplying our products may have a material adverse effect on our business and financial performance. Increases in the cost of implementing our solar PV and ELP projects may arise from, among others, cost of materials including solar PV modules and balance of system, ELP related products, other materials, labour, transportation, subcontractor and overhead costs. Increases in the cost of our Trading Division arise from price increases from our principals for third party brands and our third party manufactures for our brands of products, as well as costs of transportation.

Cost increases will eventually require us to increase our tender or selling prices, which may reduce our competitiveness and thus affect our ability to secure new contracts or purchase orders which may affect our revenue and business growth. Alternatively, if we were to absorb some of these costs to stay competitive, it may reduce our profit margins. We may also face the risk of unanticipated cost increases part way through our implementation of solar PV or ELP projects where we are unable to pass the cost increase to our customers as these project contracts are fixed lump sum contracts.

Main input materials namely conductors used in our ELP Division and for sale at our Trading Division are made of copper and aluminium. As such, the prices of these input materials are subject to fluctuations as a result of global demand and supply conditions. Any material increase in the prices of copper and/or aluminium may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers.

8.1.10 We are dependent on our subcontractors

We are dependent on subcontractors for all installation works of our solar PV facilities and ELP systems. Please refer to Section 6.6.3.15(iv) for details of the installation works carried out by subcontractors for solar PV facilities and Section 6.6.4.9(iv) for details of installation works carried out by subcontractors for ELP systems. For the past 4 FYEs, subcontracted services expenses accounted for 23.2%, 13.1%, 15.6% and 19.5% of our total purchases for the FYE 2017, FYE 2018, FYE 2019 and FYE 2020 respectively.

Although all subcontractors work under our management and supervision, we face the risks that their work may result in defects or faults in the facilities or systems installed. Any defects or faults will need to be rectified which may cause delays in project completion or incur additional costs.

Our subcontractors are required to make good any defective or faulty works that may arise during the defect liability period in the facilities or systems that they install. Our subcontractors provide us with back-to-back defect liability period that is the same as the defect liability period that we provide to our customers.

8.1.11 Some of our subcontractors rely on foreign workers

The subcontractors that we engage to carry out installation works for our ELP Division rely on foreign workers to carry out the installation works. There is a risk that these subcontractors may experience labour shortages that affect their ability to carry out work for us in the event that their foreign workers leave Malaysia and are unable to return legally, experience delays in renewing their work permits, or fail to renew their work permits. On 29 July 2020, the Malaysian government had announced that foreign workers will be limited to work in only three sectors: construction sector; agricultural sector; and the plantation sector to ensure that Malaysians will be employed after the economy was badly hit by the Covid-19 pandemic. Our subcontractors are not affected by this decision as the installation works carried out for us fall under the construction sector.

In contrast, the subcontractors that we engage to carry out installation works for our Solar Division mainly hire Malaysian workers to carry out the installation works and do not rely on foreign workers.

For the past 4 FYEs and up to the LPD, we have not experienced any material delays to our ELP Division due to labour shortages experienced by our subcontractors. Nevertheless, there is no assurance that we will not experience these delays in the future.

8.1.12 Our business and financial performance may be affected if there are delays in completing our projects

The contracts under our Solar Division and ELP Division contain specific timeline for delivery. Any material delays in achieving the milestones set out in the timeline for delivery may result in, among others, cost overruns, negative effect on our reputation and/or expose us to claims for liquidated assessed damages and other claims, penalties and liabilities.

Delay in implementing projects or completing them according to the timeline may arise due to, among others, delays or failure to obtain relevant permits or approvals from authorities, delays in the delivery of materials, shortages in labour, adverse weather conditions and measures implemented by the Government to control the spread of Covid-19 or other epidemics or pandemics in the future.

During the past 4 FYEs and up to the LPD, we have not experienced any material adverse financial impact from delays in implementing or completing projects according to their original contract delivery periods, or extended contract delivery periods as approved by the owner.

Our business, reputation and financial performance may be adversely affected if our projects are delayed in the future.

Nevertheless, some of our contracts under our Solar Division and ELP Division contain force majeure clauses. If the aforesaid events of delay fall within the definition of force majeure in our contracts, our obligations under the contract will be temporarily suspended during the period of the force majeure. However, we face the risk that the contract may be terminated if the force majeure event extends to such period giving our customers the right to terminate the contract.

8.1.13 We are subject to foreign exchange fluctuation risks which may impact the profitability of our Group

Some of the input materials we purchase for our Solar Division, ELP Division and Trading Division are sourced from our principals and third party manufacturers which are based overseas. The prices of these input materials are usually denominated in foreign currencies.

The currency denomination of our purchases during the past 4 FYEs are summarised in the following table:

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
Purchases in:	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	28,100	67.9	43,556	53.7	27,696	41.8	38,731	48.3
USD	11,324	27.3	35,136	43.3	36,751	55.5	37,920	47.3
Others ^	1,972	4.8	2,410	3.0	1,756	2.7	3,542	4.4
Total purchases	**41,396**	**100.0**	**81,102**	**100.0**	**66,203**	**100.0**	**80,193**	**100.0**

Note:

^ Comprising RMB, Euro and CHF.

In the FYE 2017, FYE 2018, FYE 2019 and FYE 2020, our purchases of input materials from our overseas suppliers amounted to RM13.3 million, RM37.5 million, RM38.5 million and RM41.5 million. For illustration, assuming the fluctuation of RM against the foreign currencies is 5% and such foreign exchange fluctuations is not passed on to customers by way of selling price changes, this will result in an increase or decrease in our GP for the FYE 2019 and FYE 2020 by RM1.9 million and RM2.1 million, respectively, depending on the direction of the foreign exchange movement between RM and said currencies.

We had entered into forward currency contracts to hedge our exposure against fluctuations in foreign currency for the purchases of input materials. Kindly refer to Section 11.10.1 for further details.

There can be no assurance that we will not be adversely affected by foreign exchange rate fluctuations in the future.

8.1.14 We face funding risks for our portion of capital investments as a minority shareholder of MFP Solar

As at the LPD, we hold a minority equity interest amounting to 45.0% in MFP Solar. As a shareholder of MFP Solar, we are responsible to contribute our portion of capital investments when MFP Solar carries out its solar PV power plant projects. Depending on the capacity of the solar PV power plant, the total capital required may range from RM3.0 million for small solar PV power plants of 1.0 MWp to RM30.0 million for solar PV power plants of 10.0 MWp. MFP Solar will typically utilise borrowings to part finance the capital requirement.

As an example of our potential capital investment obligations, if MFP Solar carries out a solar PV power plant project a with capacity of 10 MWp that requires total capital of RM30.0 million, our capital investment obligation under such situation is calculated as follows:

	MFP Solar financing		
Total capital required	**Borrowings (1)**	**Remainder (2)**	**Our capital investment obligation (3)**
RM30.0 million	RM24.0 million	RM6.0 million	RM2.7 million

Notes:

(1) RM30.0 million x 80.0%
(2) RM30.0 million x 20.0%
(3) RM6.0 million x 45.0%

As such, there is a risk that we may not have sufficient funds to meet our capital investment obligations, which may result in MFP Solar's inability to take on new projects. If we were to seek borrowings for our portion of the capital investment, it will increase our gearing and we will be subjected to interest payments which will have a negative effect on our financial performance.

8.1.15 We face inherent risks for our investment in MFP Solar

We have a minority interest in MFP Solar which is involved in build, own, operate and transfer of solar PV power plants where the return on investments in building the solar PV power plants is from recurrent revenue based on PPA which typically are for periods ranging from 15 years up to 25 years. As at the LPD, MFP Solar has a PPA with VAT Manufacturing (Malaysia) Sdn Bhd for a period of 20 years and Pekat Solar has a PPA with Perushaan Otomobil Nasional Sdn Bhd for 15 years (Proton PPA). Pekat Solar subsequently novated the Proton PPA to MFP Solar. Kindly refer to Section 6.6.3.14(ii) for further details.

The risks that we face for such long term projects may include, among others, the following:

- long breakeven periods typically up to 8 years;
- low returns on investment or loss of investment due to reimbursement to customer of shortfall for failure to meet minimum power generation guarantee; and
- force majeure events or incidents such as, among others, earthquakes, fires and floods that damage and render the facility not operational.

In the event of delays or failure of customers to pay due to, among others, liquidity problems, bankruptcies, liquidations or business closure, MFP Solar shall have the option to terminate the PPA. Thereafter, the customer is required to purchase the solar PV power plants from MFP Solar at a pre-agreed amount purchase price stipulated in the PPA contract. However, there is no assurance that MFP Solar will be able to collect the full pre-agreed purchase amount due to the customer's insolvency.

The customer may choose to purchase the solar PV facility before the PPA expires, in which case recurring revenue from the sale of power will end. However, the customer will have to pay MFP Solar a pre-agreed amount purchase price stipulated in the PPA contract.

8.1.16 We may be subject to impairment loss or bad debts

Our normal trade terms are cash term and credit terms as follows:

(i) Solar Division - 30 days;
(ii) ELP Division - 30 days to 60 days; and
(iii) Trading Division - 30 days to 120 days.

In the event payment is not received within the credit period or we experience default in payments by our customers, we may provide impairment losses on trade receivables or write off trade receivables as bad debts, which will adversely affect our financial performance.

Our impairment losses on contract assets and trade receivables as well as trade receivables written off for the past 4 FYEs were as follows:

	Audited FYE 2017	**Audited FYE 2018**	**Audited FYE 2019**	**Audited FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impairment loss on contract assets	-	-	284	638
Impairment loss on trade receivables/retention sum	324	988	3,318	176
Written off of trade receivables	15	90	-	*

Note:

* Negligible

Kindly refer to Section 11.2.6 for further details.

8.1.17 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities.

As at the LPD, we have taken up the following insurance policies:

(i) Fire, public liability, burglary, plate glass, employers liability and all risks insurance policies, collectively up to an aggregate sum insured of RM21.8 million;

(ii) Goods in transit up to an aggregate sum insured of RM0.5 million;

(iii) Project insurance, with a sum insured of RM81.0 million; and

(iv) Consequential losses insurance (for power supply guarantee), with a sum insured of RM2.7 million.

However, our insurance may not be adequate to cover all losses or liabilities that might arise in our operations. For example, while we are insured against losses resulting from fires and burglary, we do not maintain insurance against losses at our factory as a result of natural disasters.

Moreover, we will be subjected to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business, financial condition and results of operations.

8.1.18 Our Solar Division is dependent on our customers financing their project and obtaining the relevant approvals from authorities

Our customers for the Solar Division are responsible for providing financing for 100.0% of the contract value under the fixed lump sum contract mode of operation, or 80.0% of the contract value under the fixed lump sum plus variable periodic payment contract mode of operation. In the event that our customer is not able to finance the contract value, we will not be able to proceed with the project.

The solar PV projects are also dependent on obtaining the relevant approvals from authorities to install the solar PV facilities and make interconnection to the power grid (if required). These approvals include, among others, approvals from SEDA, Suruhanjaya Tenaga, TNB and local authorities. As part of our solar PV projects, we are responsible for making the required applications to the authorities on behalf of our customer. We are not allowed to proceed with the installation of the solar PV facility until all of the necessary approvals are obtained. There can be no assurance that the necessary approvals will be granted to allow the project to proceed.

8.1.19 We are dependent on the retention of certain approvals, permits and licences

In order to undertake our solar PV projects, we are required to obtain and hold valid approvals, permits and licences such as Registration of Solar Photovoltaic Service Provider issued by SEDA and others as set out in Section 6.13. We must comply with the restrictions and conditions imposed by the relevant authorities in order to keep such approvals, permits and licences. Our approvals, permits and licences may be suspended or cancelled if we fail to comply with the applicable requirements or any required conditions. Delay or refusal may also occur when renewing such approvals, permits and licences upon their expiry.

Failure to keep or renew the requisite approvals, permits and licences could result in suspension or restriction of our business operations. We will not be able to participate in tenders or carry out our role in the Solar Division, which will adversely affect our business and financial performance.

8.2 RISKS RELATING TO OUR INDUSTRY

8.2.1 Demand for new power generation assets, including solar PV systems and plants, may be reduced due to sufficient power generation and high reserve margin

In 2019, being the latest available statistics, Peninsular Malaysia's electricity reserve margin was 38.0%, with peak on-grid power demand of 18,566 MW , while the Sabah and Labuan's electricity reserve margin was 23% with peak electricity demand of 1,001 MW. Based on the latest available information, in 2017, the electricity reserve margin in Sarawak was 41% with peak electricity demand of 3,040 MW. A high reserve margin may reduce the urgency to develop additional power generating facilities due to excess capacity. In 2018, 4 newly awarded independent power producer contracts with a combined total capacity of 2,800 MW were terminated (Source: IMR Report).

As a result, there can be no assurance that there will be sustained demand to develop new power generation assets in Malaysia, including solar PV systems and plants.

8.2.2 The solar PV industry is subject to its inherent risks

Our Solar Division is subject to risks inherent to the solar PV industry. These risks include, among others, changes in government policies and regulations relating to power generation, transmission and distribution (including potential retail sale of power to consumers and peer-to-peer (P2P) power trading); financial and other incentives provided to encourage new solar PV facilities; and decreases in electricity tariffs. Some of these changes may reduce the attractiveness of purchasing or investing in new solar PV facilities, which may have a materially adverse effect on our business and financial performance. As such, there can be no assurance that our business and financial performance will not be adversely affected by risks inherent in the solar PV industry.

8.2.3 The ELP system sector is dependent on the building and construction industry and as such, is subject to its inherent risks

Our ELP Division is dependent on the building and construction industry and as a result, we are subject to risks inherent to that industry. These inherent risks include, among others, dependence on the property market, infrastructure sector, general economic conditions in Malaysia changes to business conditions such as availability of labour supply, changes in labour and material costs as well as changes in government policies.

As such, there can be no assurance that our business and financial performance will not be adversely affected by any of the factors listed above.

8.2.4 Technological developments in power generation may result in other more cost efficient renewable and environmentally friendly generation methods

Other power generation methods that are renewable and environmentally friendly include using other primary energy sources, such as biomass, biogas, wind, waves, current, water flow, solar thermal and geothermal energy. In Malaysia, solar PV facilities are currently a popular method of generating renewable and environmentally friendly power. However, there is a risk that technological developments in other primary energy sources may result in them becoming more cost efficient compared to the solar PV method. This may result in these methods displacing solar PV facilities as the preferred method of generating renewable and environmentally friendly power, and consequently have a material adverse effect on our financial performance and prospects.

8.2.5 We are subject to risks related to political, social and economic events in Malaysia

The occurrence of adverse political, social and economic events in Malaysia could have a negative effect on our business operations and financial performance. Examples of such events could include, but are not limited to, changes in political leadership, declaration of war, occurrence of civil war or disorder, outbreak of communicable diseases such as Covid-19, trade war between Malaysia and one or more of its trading partners, and significant economic slowdown in Malaysia and its trading partners.

Furthermore, such events occurring in other countries could have a material adverse effect on Malaysia, either directly or indirectly. The occurrence of these events in Malaysia and other countries could adversely affect business sentiments and consumer confidence, leading to reduced business and consumer spending and investment. This, in turn, may cause our customers and prospective customers to delay, reduce, or abandon their plans to engage us. As such, there can be no assurance that political, social and economic events in Malaysia and other countries, which are beyond our control, would not materially affect our business operations and financial performance.

8.3 RISK RELATING TO THE INVESTMENT IN OUR SHARES

8.3.1 There has been no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our historical earnings, our competitive strengths, our business strategies and prospects as well as our financial and operating history. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

The price at which our Shares will trade on the ACE Market may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perceptions of our Group, market and economic conditions.

8.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:

(i) The selected investors fail to subscribe for the IPO Shares;

(ii) Our Underwriter in exercising its rights pursuant to the Underwriting Agreement discharges itself from its obligations therein; and

(iii) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavours to comply with the various regulatory requirements, including, amongst others the public shareholding spread requirement in paragraph (iii) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares can only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

8.3.3 The trading price of our Shares following our Listing may be volatile

The trading price of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

8.4 OTHER RISK

8.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters will collectively hold 53.9% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of our shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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9. RELATED PARTY TRANSACTIONS

9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, we have not entered into any related party transactions with our Directors, substantial shareholders, key senior management personnel and/or persons connected with them for the past 4 FYEs 2017 to 2020 and up to the LPD.

Transacting parties	Interested persons	Nature of transaction	Value of transactions (Expense)/Income FYE 2017 RM'000	FYE 2017 %	FYE 2018 RM'000	FYE 2018 %	FYE 2019 RM'000	FYE 2019 %
Startige and Pekat Group	(i) Chin Soo Mau, our Promoter, substantial shareholder and Managing Director, is also the substantial shareholder and Director of Startige (ii) Tai Yee Chee, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Startige (iii) Wee Chek Aik, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Startige	Rental of the Cubic Space Office paid by Pekat Group to Startige [1] [6]	(1,200)	6.3 [2]	(1,200)	6.2 [2]	(1,236)	5.0 [2]
		Reimbursement of term loan instalment paid by Pekat Teknologi [7]	411	N/A	814	N/A	100	N/A
		Repayment of advances by Startige to Pekat Teknologi [7]	829	N/A	186	N/A	-	N/A
Startige and Pekat Solar		Rental of 1 unit of factory paid by Pekat Solar to Startige [8]	-	-	(13)	0.1 [2]	(38)	0.2 [2]

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Transacting parties	Interested persons	Nature of transaction	Value of transactions (Expense)/Income					
			FYE 2017		FYE 2018		FYE 2019	
			RM'000	%	RM'000	%	RM'000	%
Startige and Pekat Engineering		Rental of 1 unit of factory paid by Pekat Engineering to Startige [8]	-	-	(13)	0.1 [2]	(38)	0.2 [2]
Chin Soo Mau and Pekat Teknologi	Chin Soo Mau	Disposal of 2 motor vehicles by Pekat Teknologi to Chin Soo Mau	600	6.3 [4]	-	-	-	-
		Income received by Pekat Teknologi from Chin Soo Mau [1] [9]	97	5.6 [5]	121	21.3 [5]	104	6.0 [5]
		Acquisition of shares in Pekat LEDsystems by Pekat Teknologi from Chin Soo Mau	-	-	-	-	(49)	N/A
Tai Yee Chee and Pekat Teknologi	Tai Yee Chee	Acquisition of shares in E&LP Engineering by Pekat Teknologi from Tai Yee Chee	(45)	N/A	-	-	-	-
		Disposal of 2 motor vehicles by Pekat Teknologi to Tai Yee Chee	475	5.0 [4]	-	-	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Transacting parties	Interested persons	Nature of transaction	Value of transactions (Expense)/Income					
			FYE 2017		FYE 2018		FYE 2019	
			RM'000	%	RM'000	%	RM'000	%
Wee Chek Aik and Pekat Teknologi	Wee Chek Aik	Acquisition of shares in E&LP Engineering by Pekat Teknologi from Wee Chek Aik	(45)	N/A	-	-	-	-
		Disposal of a motor vehicle by Pekat Teknologi to Wee Chek Aik	440	4.6 (4)	-	-	-	-
Raw Ai Ling, Wong Bee Fong, Chiam Chean Wen and Pekat Teknologi	(i) Chin Soo Mau. Raw Ai Ling is his spouse. (ii) Tai Yee Chee. Wong Bee Fong is his spouse. (iii) Wee Chek Aik. Chiam Chean Wen is his spouse.	Acquisition of shares in Solar Data Systems Sdn Bhd by Pekat Teknologi from Raw Ai Ling, Wong Bee Fong and Chiam Chean Wen (10)	(1)	N/A	-	-	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Transacting parties	Interested persons	Nature of transaction	Value of transactions (Expense)/Income FYE 2020 RM'000	FYE 2020 %	Up to the LPD RM'000	Up to the LPD %
Startige and Pekat Group	(i) Chin Soo Mau, our Promoter, substantial shareholder and Managing Director, is also the substantial shareholder and Director of Startige (ii) Tai Yee Chee, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Startige (iii) Wee Chek Aik, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Startige	Rental of the Cubic Space Office paid by Pekat Group to Startige [1] [6]	(1,047)	5.0 [2]	(405)	5.0 [2]
Chin Soo Mau and Pekat Teknologi	Chin Soo Mau	Income received by Pekat Teknologi from Chin Soo Mau [1] [9]	102	6.1 [5]	35	14.8 [5]
Rubberex Alliance Sdn Bhd and Pekat Solar ("Rubberex Alliance")	Rubberex Alliance is a wholly-owned subsidiary of Rubberex Corporation (M) Berhad, a company listed on Main Market of Bursa Securities. Dato' Ong Choo Meng, our substantial shareholder, is a Non-Independent Non-Executive Director and the controlling shareholder of Rubberex Corporation (M) Berhad.	Design, supply and installation of solar PV power plant by Pekat Solar for Rubberex Alliance [11]	13	0.01 [12]	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

N/A Not applicable.

(1) These related party transactions are expected to recur after the Listing.

(2) Calculated based on our Group's administrative expenses for each of the respective financial years and as at the LPD.

(3) Calculated based on our Group's finance costs for each of the respective financial years and as at the LPD.

(4) Calculated based on our Group's PAT for each of the respective financial years and as at the LPD.

(5) Calculated based on our Group's other income for each of the respective financial years and as at the LPD.

(6) The annual rental for the Cubic Space Office of RM1.2 million per annum from FYE 2017 to FYE 2019 and up to 31 March 2020 is above the market rate and as such was not on arm's length basis. The annual rental was revised to RM972,000 per annum effective 1 April 2020.

(7) Startige is deemed a related party as it is owned by our Promoters. Startige is the registered owner of the Cubic Space Office.

The term loans for Units 3A and 5 of the Cubic Space Office were drawn by our Group and the loan instalments were also paid by our Group, Startige had reimbursed our Group for these loan instalments. In February 2020, the term loans for Units 3A and 5 of the Cubic Space Office were fully refinanced via a term loan drawn by Startige.

In addition, our Group had extended advances and received repayment of advances from Startige in the past FYEs 2017 to 2019. Further details on the advances are set out in Section 9.1.1(ii)(b).

(8) We rented 2 factory units from Startige located at I-PARC, Shah Alam, Selangor from December 2018 to March 2019 to store our inventory.

(9) During 2012, Pekat Teknologi had financed the installation of a solar PV system with an installed capacity of 101.7 kWp on the roof of Units 5 and 6 of the Cubic Space Office. However, the application to SEDA under the FiT programme was made by Chin Soo Mau. As such, the revenue from the sale of electricity to TNB was received by Chin Soo Mau.

On 18 June 2012, Pekat Teknologi and Chin Soo Mau entered into a collaboration agreement whereby it was agreed that all revenue from the sale of electricity to TNB shall accrue to Pekat Teknologi, while all incidental cost and expenses incurred by Chin Soo Mau with respect to

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

the application, installation, maintenance and taxes, if any, shall be reimbursed by Pekat Teknologi accordingly. As such, income was received by Pekat Teknologi from Chin Soo Mau from the sale of electricity to TNB.

The total cost of installing the solar PV system of RM1.4 million was borne by Pekat Teknologi. As at the LPD, the solar PV system has been fully depreciated. On 3 September 2020, Pekat Teknologi and Chin Soo Mau entered into an agreement whereby it was agreed that Chin Soo Mau agrees to acquire the solar PV system from Pekat Teknologi upon Pekat Teknologi relocating from Cubic Space Office to its new head office and operational facility at a purchase consideration equivalent to the market value assessed by an independent registered valuer acceptable to Pekat Teknologi.

(10) During FYE 2017, Pekat Teknologi acquired 100% equity interest in Solar Data Systems Sdn Bhd from the spouses of Chin Soo Mau, Tai Yee Chee and Wee Chek Aik, our Promoters for a total purchase consideration of RM1,000. The intended principal activity of Solar Data Systems Sdn Bhd was trading of solar monitoring systems. This company is inactive and we disposed 100% equity interest in Solar Data Systems Sdn Bhd to a non-related party at a disposal consideration of RM1,000 in 2020.

(11) On 28 August 2020, we received a Letter of Award from Rubberex Alliance for the design, supply and installation of a solar PV power plant for a total contract value of RM5.0 million.

(12) Calculated based on our Group's revenue for each of the respective financial years and as at the LPD.

As at the LPD, there are no related party transactions entered into but not yet effected.

Save as set out in note (6) above, our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders.

Our Group will not provide any loans and advances to or for the benefit of related parties moving forward.

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9. RELATED PARTY TRANSACTIONS *(cont'd)*

Moving forward, if there are potential related party transactions, the related parties must first inform our Audit Committee on their interests in the transaction and the nature of the transaction before the transaction is entered into.

Our Audit Committee is responsible for the review of all related party transactions to ensure that there is no conflict of interest. Our Audit Committee shall deliberate and determine if the related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(i) Recurrent related party transactions

(a) At least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or

(b) In the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(ii) Other related party transactions

(a) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;

(b) The rationale for our Group to enter into the related party transaction and the nature of alternative transactions, if any; and

(c) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the

Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

9.1.1 Other transactions

(i) Transactions which are unusual in their nature or conditions

Save as disclosed below, there were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the financial years under review and up to the LPD.

On 1 January 2019, Pekat Solar (as lender) had entered into a loan agreement with Multi Link Sdn Bhd (as borrower) and Lee Seng (as guarantor) whereby Pekat Solar had extended a loan of RM2.0 million to Multi Link Sdn Bhd. The loan carries an interest rate of 7.0% and is for a period of 6 months. Multi Link Sdn Bhd had requested financing from our Group for its business expansion and working capital purposes. Lee Seng, the shareholder and director of Multi Link Sdn Bhd is a personal friend of our Promoters.

The loan was fully repaid with interests on 15 July 2019. We do not intend to extend such loans in the future.

(ii) Loans and guarantees

Save as disclosed below, there were no loans and guarantees made to/by us to or for the benefit of any related party for the financial years under review and up to the LPD.

(a) Personal guarantees and third party pledge

Our Promoters, Chin Soo Mau, Tai Yee Chee and Wee Chek Aik had extended guarantees for banking facilities extended to our Group as at the LPD. In conjunction with the Listing, the respective banks had agreed to discharge the said personal guarantees upon the completion of the Listing.

Startige had extended a third party pledge for banking facilities extended to our Group during the FYEs 2017, 2018 and 2019. The collateral used for the third party pledge includes Units 3A, 5 and 6 of the Cubic Space Office. The third party pledge was withdrawn during 2020.

As at the LPD, there is no third party pledge for banking facilities extended to our Group.

9. RELATED PARTY TRANSACTIONS *(cont'd)*

(b) Loans and advances to related party

Units 3A, 5 and 6 of the Cubic Space Office are owned by Startige. However, Units 3A and 5 was financed by term loans drawn by our Group. This is recorded as an amount owing by Startige.

The initial loans drawn by our Group for the purchase of Units 3A and 5 of Cubic Space were RM5.3 million and RM4.3 million, respectively.

In addition, our Group had extended advances to Startige in the past FYEs 2017 to 2019. The advances carried an interest rate of 4.0%. Startige's principal activity is in renting of properties and property investment holding. The advances were used to finance Startige's purchase of investment properties and for its working capital.

The amount due from Startige for the past 4 FYEs is as follows:

	FYE 2017	FYE 2018	FYE 2019	FYE 2020	As at LPD
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
• Loans					
- Short-term	760	760	3,784	-	-
- Long-term	8,171	7,611	4,013	-	-
• Advances	1,418	1,327	2,430	-	-
	10,349	**9,698**	**10,227**	**-**	**-**

In February 2020, the term loans for Units 3A and 5 of the Cubic Space Office were fully refinanced via a term loan drawn by Startige. As at the LPD, all advances were repaid.

(iii) Amount due to/from related party/Directors

(a) Amount due from related party

Save for the amount due from Startige as set out in Section 9.1.1(ii)(b) above, there are no other amount due from any related party.

(b) Amount due to related parties

The following were recorded as amount due to related parties:

	FYE 2017	FYE 2018	FYE 2019	FYE 2020	As at LPD
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Amount due to related parties					
• Promoters' spouses [1]	1	-	-	-	-

Note:

[1] Amount due to Promoters' spouses resulting from the acquisition of a subsidiary as set out in Section 9.1 Note (10). The amount due to Promoters' spouses was paid during FYE 2018.

As at the LPD, there is no outstanding amount due to related parties.

9. RELATED PARTY TRANSACTIONS *(cont'd)*

(c) Amount due to/from Directors

	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000	As at LPD RM'000
Amount due to Directors					
• Chin Soo Mau	-	-	[4] 256	-	-
• Tai Yee Chee	[1] 120	[1] 120	[4] 122	-	-
• Wee Chek Aik	[1] 45	[1] 45	[4] 122	-	-
Amount due from Directors					
• Chin Soo Mau	[2] (9)	[2] [3] (18)	-	-	-
• Tai Yee Chee	[2] (17)	[2] (17)	-	-	-
• Wee Chek Aik	[2] (11)	[2] (11)	-	-	-
	128	**119**	**500**	**-**	**-**

Notes:

[1] During 2016, we acquired 15.0% equity interest in E&LP Engineering from Tai Yee Chee for a purchase consideration of RM75,000. During 2017, we acquired 18.0% equity interest in E&LP Engineering from Tai Yee Chee (9.0%) and Wee Chek Aik (9.0%) for a purchase consideration of RM45,000, respectively. As at 31 December 2018, the amount due to Tai Yee Chee and Wee Chek Aik amounts to RM120,000 and RM45,000, respectively. The amount due to Directors was paid in FYE 2019.

[2] During 2017, we disposed motor vehicles amounting to RM1.5 million to Chin Soo Mau (RM0.6 million), Tai Yee Chee (RM0.5 million) and Wee Chek Aik (RM0.4 million). As at 31 December 2017, the amount due from Chin Soo Mau, Tai Yee Chee and Wee Chek Aik amounts to RM8,984, RM17,260 and RM11,158, respectively. The amount due from Directors was received in FYE 2019. The motor vehicles were disposed to reduce the lease liabilities of our Group and were sold at market value.

[3] Including amount drawn by Chin Soo Mau of RM8,984 for personal use. The amount due from Chin Soo Mau was paid to our Group in FYE 2019.

[4] Being dividends declared by our Group in respect of FYE 2019 but not paid as at 31 December 2019. The amount due to Directors was paid in FYE 2020.

(iv) Financial assistance provided for the benefit of a related party

There were no financial assistance provided by us for the benefit of any related party for the financial years under review and up to the LPD.

10. CONFLICT OF INTERESTS

10.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND OUR SUPPLIERS

Save as disclosed below, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations carrying on a similar or related trade or are the customers and/or suppliers of our Group:

(i) Rubberex Corporation (M) Berhad

On 28 August 2020, we received a Letter of Award from Rubberex Alliance Sdn Bhd, a wholly-owned subsidiary of Rubberex Corporation (M) Berhad for the design, supply and installation of a solar PV power plant for a total contract value of RM5.0 million. Rubberex Alliance Sdn Bhd is involved in the manufacturing and sale of disposable gloves.

Dato' Ong Choo Meng, our substantial shareholder, is a Non-Independent Non-Executive Director and the controlling shareholder of Rubberex Corporation (M) Berhad.

In order to mitigate any potential conflict of interest, our Board has reviewed the terms of this transaction and will review all future transactions with Rubberex Corporation (M) Berhad to ensure that all sales will be undertaken on arm's length basis.

Our Directors will declare to our Nomination Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business. If our Directors are involved in similar business as our Group or business of our customers and our suppliers, our Nomination Committee shall inform our Audit Committee of such involvement. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

(a) Immediately inform our Board of the conflict of interest situation after deliberating with the Audit Committee;

(b) Make recommendations to our Board to direct the conflicted Director to:

  (aa) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and

  (bb) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (b) above, the conflicted Director shall abstain from any Board discussion relating to the recommendation of our Nomination Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of the Board, be present at the Board meeting for the purposes of answering any questions.

10.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

(i) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing;

(ii) Messrs Wong Beh & Toh has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;

(iii) Messrs Grant Thornton Malaysia PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and

(iv) Vital Factor has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

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11. FINANCIAL INFORMATION

11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our audited combined financial statements throughout the FYEs 2017 to 2020 have been prepared in accordance with MFRSs and IFRSs. Our audited combined financial statements for the FYEs 2017 to 2020 under review were not subject to any audit qualifications.

11.1.1 Historical financial information

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

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

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2017 to 2020:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	72,830	120,129	119,521	125,562
Cost of sales	(42,145)	(84,436)	(73,127)	(87,440)
GP	30,685	35,693	46,394	38,122
Other income	1,723	567	1,735	1,685
Administrative expenses	(18,913)	(19,394)	(24,537)	(20,738)
Other expenses	(1,031)	(1,212)	(4,345)	(917)
Finance income	717	823	893	380
Finance costs	(1,031)	(1,154)	(1,034)	(887)
Share of (loss)/profit in associates	(57)	21	568	738
PBT	12,093	15,344	19,674	18,383
Tax expense	(2,629)	(4,336)	(4,819)	(4,809)
PAT	**9,464**	**11,008**	**14,855**	**13,574**
PAT attributable to:				
- Owners of the Company	9,361	11,096	14,794	13,576
- Non-controlling interests	103	(88)	61	(2)
	9,464	**11,008**	**14,855**	**13,574**
EBIT [(1)]	12,407	15,675	19,815	18,890
EBITDA [(1)]	13,995	16,561	20,860	19,793
GP margin (%)	42.1	29.7	38.8	30.4
PBT margin (%)	16.6	12.8	16.5	14.6
PAT margin (%)	13.0	9.2	12.4	10.8
Effective tax rate (%)	21.7	28.3	24.5	26.2
EPS (sen) [(2)]	1.8	2.2	2.9	2.7
Diluted EPS (sen) [(3)]	1.5	1.7	2.3	2.1

Notes:

(1) EBIT and EBITDA are calculated as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT	9,464	11,008	14,855	13,574
Less:				
Finance income	(717)	(823)	(893)	(380)
Add:				
Finance costs	1,031	1,154	1,034	887
Tax expense	2,629	4,336	4,819	4,809
EBIT	**12,407**	**15,675**	**19,815**	**18,890**
Add:				
Depreciation and amortisation	1,588	886	1,045	903
EBITDA	**13,995**	**16,561**	**20,860**	**19,793**

(2) Calculated based on our PAT attributable to owners of the Company divided by the share capital of 506,300,200 Shares before our IPO.

(3) Calculated based on our PAT attributable to owners of the Company divided by the enlarged share capital of 644,968,200 Shares after our IPO.

(ii) Historical combined statements of financial position

The following table sets out our historical combined statements of financial position as at 31 December 2017, 2018, 2019 and 2020:

	Audited			
	As at 31 December			
	2017	**2018**	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ASSETS				
Non-current assets				
Property, plant and equipment	1,958	2,041	2,414	20,073
Intangible assets	-	-	787	641
Investment in associates	-	389	1,412	2,149
Other investments	-	47	-	-
Trade receivables	-	733	406	246
Amount due from related parties	8,171	7,611	4,013	-
Total non-current assets	**10,129**	**10,821**	**9,032**	**23,109**
Current assets				
Other investments	-	-	9,507	1,159
Inventories	8,909	10,971	11,406	11,019
Trade receivables	18,421	22,821	23,462	28,921
Other receivables	3,207	2,294	3,128	3,183
Contract assets (1)	9,549	19,343	14,761	23,971
Amount due from associates	400	1,804	4,912	9,240
Amount due from related parties	2,178	2,087	6,214	-
Tax recoverable	663	466	11	-
Fixed deposits with licenced banks	6,882	10,497	7,661	9,135
Cash and bank balances	13,831	7,947	8,235	15,076
Total current assets	**64,040**	**78,230**	**89,297**	**101,704**
TOTAL ASSETS	**74,169**	**89,051**	**98,329**	**124,813**

	Audited			
	As at 31 December			
	2017	**2018**	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	550	550	550	550
Retained earnings	26,683	36,762	50,179	63,256
NA	27,233	37,312	50,729	63,806
Non-controlling interests	(45)	(43)	72	70
TOTAL EQUITY	**27,188**	**37,269**	**50,801**	**63,876**
LIABILITIES				
Non-current liabilities				
Lease liabilities	980	871	597	392
Borrowings	8,809	8,061	4,055	13,331
Deferred tax liabilities	-	93	57	237
Total non-current liabilities	**9,789**	**9,025**	**4,709**	**13,960**
Current liabilities				
Trade payables	4,725	5,521	11,768	20,184
Other payables	5,351	2,646	4,623	2,759
Contract liabilities [(2)]	18,701	19,008	7,506	8,716
Amount due to an associate	-	-	208	-
Amount due to related parties	1	-	-	-
Amount due to Directors	128	119	500	-
Lease liabilities	442	560	606	261
Borrowings	7,005	13,536	15,667	13,718
Tax payable	839	1,367	1,941	1,339
Total current liabilities	**37,192**	**42,757**	**42,819**	**46,977**
TOTAL LIABILITIES	**46,981**	**51,782**	**47,528**	**60,937**
TOTAL EQUITY AND LIABILITIES	**74,169**	**89,051**	**98,329**	**124,813**

Notes:

(1) Contract assets arise when work is done for a project but we are not able to issue billing because the level of work done has not reached a billable milestone as stated in the project contract.

(2) Contract liabilities arise when deposits are received for a project but the work has yet to be carried out and as such we are not able to issue billing and record it as revenue.

(iii) Historical audited combined statements of cash flows

The following table sets out our audited combined statements of cash flows for the FYEs 2017 to 2020:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Operating Activities				
PBT	12,093	15,344	19,674	18,383
Adjustments for:				
Amortisation of intangible assets	-	-	97	180
Bargain purchase on acquisition of a subsidiary	(142)	-	-	-
Depreciation of property, plant and equipment	1,588	886	948	723
Dividend income	-	-	(132)	(120)
Fair value (gain)/loss on other investments	-	(8)	6	(6)
Gain on disposal of an associate	(250)	-	-	*
Gain on disposal of property, plant and equipment	(394)	(77)	-	(2)
Gain on termination of lease	-	-	-	(31)
Impairment loss on contract assets	-	-	284	638
Impairment loss on inventories	218	-	415	-
Impairment loss on trade receivables	324	988	3,318	176
Interest expenses	1,031	1,154	1,034	887
Interest income	(717)	(823)	(893)	(380)
(Gain)/Loss on disposal of a subsidiary	(318)	-	82	(18)
Loss on liquidation of subsidiaries	-	21	-	-
Provision for foreseeable losses	710	2,191	-	-
Reversal of provision for foreseeable losses	-	-	(1,119)	(1,432)
Reversal of impairment loss on contract assets	-	(29)	-	-
Reversal of impairment loss on inventories	-	-	(74)	(179)
Reversal of impairment loss on trade receivables	-	(141)	(1,113)	(349)
Share of loss/(profit) in associates	57	(21)	(568)	(738)
Unrealised (gain)/loss on foreign exchange	(38)	(8)	(137)	66
Waiver of amount due to related parties	(224)	-	-	-
Written down of inventories	47	7	-	-
Written off of contract assets	-	-	12	-
Written off of inventories	-	-	82	-
Written off of other receivables	427	106	-	-
Written off of property, plant and equipment	-	-	4	4
Written off of amount due from an associate	-	-	-	12
Written off of trade receivables	15	90	-	*
Operating profit before working capital changes	**14,427**	**19,680**	**21,920**	**17,814**
Changes in working capital:				
Inventories	(2,177)	(2,069)	(858)	567
Receivables	(3,882)	(5,410)	(3,353)	(5,181)
Payables	(3,539)	(1,901)	8,362	6,493
Contract assets or liabilities	5,369	(11,647)	(6,099)	(7,204)
Associates	(400)	(1,311)	(2,807)	(3,443)
Related parties	157	14	(10)	-
Cash generated from/(used in) operations	**9,955**	**(2,644)**	**17,155**	**9,046**
Interest received	306	302	301	209
Tax refunded	-	131	822	-
Tax paid	(3,046)	(3,649)	(4,648)	(5,210)
Net cash from/(used in) operating activities	**7,215**	**(5,860)**	**13,630**	**4,045**

Investing Activities

11. FINANCIAL INFORMATION *(Cont'd)*

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Acquisition from non-controlling interest in a subsidiary	(90)	-	(49)	-
Acquisition of intangible assets	-	-	(884)	(34)
Acquisition of investment in associates	-	(368)	(454)	-
Acquisition of other investments	-	(40)	(9,375)	(534)
Acquisition of property, plant and equipment	(505)	(495)	(931)	(4,767)
Dividend received	-	-	41	98
Interest received	411	521	592	171
Net inflow on acquisition of a subsidiary	123	-	198	-
Net inflow on incorporation of a subsidiary	-	90	-	-
Net inflow/(outflow) on disposal of a subsidiary	200	-	(280)	1
Net outflow on liquidation of subsidiaries	-	(6)	-	-
Proceeds from disposal of other investments	-	-	-	8,910
Proceeds from disposal of an associate	250	-	-	*
Proceeds from disposal of property, plant and equipment	450	104	-	2
Net cash from/(used in) investing activities	**839**	**(194)**	**(11,142)**	**3,847**
Financing Activities				
Advances to an associate	(5)	(93)	(93)	(1,106)
(Advances to)/Repayments from related parties	(5,073)	635	(519)	10,227
Advances from/(Repayment to) Directors	53	(9)	(119)	-
Dividend paid	-	(1,018)	(774)	(1,000)
Drawdown of fixed deposit pledged with a licenced bank	(187)	(2,584)	(177)	(3,395)
Interest paid	(1,031)	(1,023)	(1,034)	(887)
Drawdown of bankers' acceptances	17,730	27,527	25,038	18,620
Repayments of bankers' acceptances	(15,784)	(20,994)	(26,403)	(16,783)
Drawdown of term loans	5,235	-	-	484
Repayments of term loans	(558)	(749)	(782)	(8,411)
Repayments of lease liabilities	(285)	(492)	(622)	(449)
Proceeds from issuance of shares	-	-	*	-
Net cash from/(used in) financing activities	**95**	**1,200**	**(5,485)**	**(2,700)**
Net increase/(decrease) in cash and cash equivalents				
Net changes	8,149	(4,854)	(2,997)	5,192
Brought forward	9,586	17,735	12,881	9,884
Carried forward	**17,735**	**12,881**	**9,884**	**15,076**
Cash and cash equivalents consists of:				
Cash and bank balances	13,831	7,947	8,235	15,076
Fixed deposits with licenced banks	6,882	10,497	7,661	9,135
Bank overdrafts	-	-	(272)	-
	20,713	18,444	15,624	24,211
Less: Fixed deposits with licenced banks pledged as security for banking facilities	(2,978)	(5,563)	(5,740)	(9,135)
Cash and cash equivalents	**17,735**	**12,881**	**9,884**	**15,076**

Note:

* Negligible

11. FINANCIAL INFORMATION *(Cont'd)*

11.1.2 Pro forma combined statements of financial position

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

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

	Pekat	I	II	III
	As at 31 December 2020	After Acquisition of Pekat Teknologi (1)	After I and after Public Issue	After II and after utilisation of IPO proceeds
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	-	20,073	20,073	38,073
Intangible assets	-	641	641	641
Investment in associates	-	2,149	2,149	2,149
Trade receivables	-	246	246	246
Total non-current assets	**-**	**23,109**	**23,109**	**41,109**
Current assets				
Other investments	-	1,159	1,159	1,159
Inventories	-	11,019	11,019	11,019
Trade receivables	-	28,921	28,921	28,921
Other receivables	6	3,183	3,183	2,040
Contract assets	-	23,971	23,971	23,971
Amount due from associates	-	9,240	9,240	9,240
Fixed deposits with licenced banks	-	9,135	9,135	9,135
Cash and bank balances	*	15,076	59,450	28,693
Total current assets	**6**	**101,704**	**146,078**	**114,178**
TOTAL ASSETS	**6**	**124,813**	**169,187**	**155,287**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	*	50,630	95,004	93,104
Merger deficit	-	(50,080)	(50,080)	(50,080)
Retained earnings	(38)	63,256	63,256	61,256
	(38)	63,806	108,180	104,280
Non-controlling interests	-	70	70	70
TOTAL EQUITY	**(38)**	**63,876**	**108,250**	**104,350**
LIABILITIES				
Non-current liabilities				
Lease liabilities	-	392	392	392
Borrowings	-	13,331	13,331	3,331
Deferred tax liabilities	-	237	237	237
Total non-current liabilities	**-**	**13,960**	**13,960**	**3,960**
Current liabilities				
Trade payables	-	20,184	20,184	20,184
Other payables	44	2,759	2,759	2,759

	Pekat	I	II	III
	As at 31 December 2020	After Acquisition of Pekat Teknologi [(1)]	After I and after Public Issue	After II and after utilisation of IPO proceeds
	RM'000	RM'000	RM'000	RM'000
Contract liabilities	-	8,716	8,716	8,716
Amount due to an associate	-	-	-	-
Amount due to Directors	-	-	-	-
Lease liabilities	-	261	261	261
Borrowings	-	13,718	13,718	13,718
Tax payable	-	1,339	1,339	1,339
Total current liabilities	**44**	**46,977**	**46,977**	**46,977**
TOTAL LIABILITIES	**44**	**60,937**	**60,937**	**50,937**
TOTAL EQUITY AND LIABILITIES	**6**	**124,813**	**169,187**	**155,287**
Number of Shares in issue ('000)	^	506,300	644,968	644,968
Net (liabilities)/asset per share (RM)	(188.84)	0.13	0.17	0.16
Borrowings (All interest bearing debts)	-	27,702	27,702	17,702
Gearing (times) [(2)]	-	0.43	0.26	0.17
Current ratio (times) [(3)]	0.14	2.16	3.11	2.43

Notes:

* Representing RM20.00 only.

^ Representing 200 Shares only.

(1) The total purchase consideration of RM50,630,000 for the Acquisition of Pekat Teknologi was arrived at after taking into consideration the following:

(i) The audited NA of Pekat Teknologi as at 31 December 2019 of RM50,742,212; and

(ii) The disposals of 4 subsidiaries/associated companies, where our Group recorded total loss on disposal of RM112,001. The disposals were in made as these companies were inactive.

(a) On 29 May 2020, Pekat Teknologi had disposed its 100% equity interest in JP Solar Energy Sdn Bhd (formerly known as Pekat Solartech Sdn Bhd) comprising 100,000 ordinary shares to Chew Huey Foong, at a disposal consideration of RM1;

(b) On 29 May 2020, Pekat Teknologi had disposed its 100% equity interest in Solar Data Systems Sdn Bhd comprising 1,000 ordinary shares to Chew Huey Foong, at a disposal consideration of RM1,000;

(c) On 23 June 2020, Pekat Teknologi had disposed its 30% equity interest in Petra Jaya Energy Sdn Bhd comprising 30 ordinary shares to Chew Huey Foong, at a disposal consideration of RM30; and

(d) On 2 July 2020, Pekat Teknologi had disposed 20% equity interest in Bayangan Sutera Sdn Bhd comprising 2 ordinary shares to Mega First Power Industries Sdn Bhd, a wholly-owned subsidiary of Mega First Corporation Berhad, at a disposal consideration of RM2.

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

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

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

The discussion of our business, financial condition and results of operations for the FYEs 2017 to 2020 refers to the historical audited combined financial information of Pekat Teknologi. Our audited financial statements have been prepared in accordance with MFRSs and IFRSs for the FYEs 2017 to 2020.

The following discussion and analysis of our Group's financial performance and results of operations should be read in conjunction with the Accountant's Report as sets out in Section 12 and the Reporting Accountant's letter on the pro forma combined statements of financial position as set out in Section 13.

11.2.1 Overview of our operations

We operate in 3 distinct business areas, namely:

(i) Solar Division **Design, supply and installation of solar PV systems and power plants**

We carry out the design, supply and installation of on-grid and off-grid solar PV systems and power plants, where we are responsible for the entire scope of work (including testing and commissioning, and in some cases operations and maintenance for projects where we are contracted to do so) and delivering them to our customers. We engage subcontractors to carry out, under our management and supervision, site preparation and earthworks, all installation works, and interconnection to power transmission substations. Solar PV systems and power plants convert sunlight into electricity for use at a facility, supply to the power grid, or storage in a battery pack for later use.

(ii) ELP Division **Supply and installation of ELP systems**

Our supply and installation of ELP systems for buildings, facilities and structures are to protect people, property and equipment from unintended electric current. We are engaged as a specialist subcontractor for ELP systems by main contractors or M&E contractors.

(iii) Trading Division **Distribution of electrical products and accessories**

The distribution of electrical products and accessories involve the sales and marketing of our own brands and third party brands of electrical products and accessories, namely ELP products and accessories, solar PV related products, surge protection devices and aviation warning light systems.

Our revenue is generated from Malaysia and is denominated in RM for the past 4 FYEs.

The significant factors affecting our business include the following:

(i) Continuity of our order book

For past FYEs, our Solar Division and ELP Division which are project-based in nature had collectively accounted for 66.0%, 73.9%, 74.7% and 78.4% of our total revenue respectively. Details on our order book are set out in Section 11.11.

There is a risk that we may not be able to continually secure sufficient projects to replace the ones that we progressively complete to sustain and grow our revenue and profits.

(ii) Unanticipated increase in project cost

Our profitability depends on our ability to accurately estimate project cost and project scheduling at the time of bidding / negotiation for projects. Any adverse developments which result in increase in project cost will lead to cost overruns affecting our cash flows or losses if actual costs for the projects exceed their estimates.

(iii) Potential defects liability and product liability as well as performance guarantee claims

(a) Potential defects liability claim

The defect liability period is imposed on us for a period of 12 months or 24 months (for some customers it is for a period of 60 months or 120 months) for solar PV projects, 24 months for ELP projects. While the solar PV facility components and ELP systems components are covered against manufacturing defects by their respective product warranties, we are responsible for the cost of replacing the component, which typically includes the costs of labour, transportation and consumables. If we are unable to claim from the manufacturers due to our negligence or the amounts of the claim cannot be recovered in full or at all from the manufacturers, we may be required to bear some or all the costs of the claims.

(b) Product liability claim

While our principals and third party manufacturers are likely to be the most directly exposed to the risk of product liability (as the brand owner or party manufacturing the products), we as a distributor may also be exposed to product liability risks. Product liability generally involves, among others, manufacturing defects, design defects or defective warnings or instructions and product mislabelling. Customers claiming damages from these defects may take legal action against us as a distributor, which may impact on our business, as well as create negative publicity that may damage our reputation.

(c) Performance guarantee claim

We provide performance guarantee for the solar PV modules that we install for our customers wherein the power generated by the solar PV modules will not be less than 80.0% of the installed capacity during the commercial operation period of approximately 25 years. The financial performance of our Group may be adversely affected if the solar PV systems provided by us fail to meet the guaranteed solar power generation capacity, as we are required to compensate our client the costs of the performance shortfall.

(iv) Possible delays in completing our projects

Our Group's revenue is dependent on timely completion of our projects. However, the completion of our projects is dependent on many external factors inherent in the solar PV and ELP industries including, *inter-alia*, delays or failure to obtain relevant permits or approvals from authorities, delays in the delivery of materials, shortages in labour, adverse weather conditions and measures implemented by the government to control the spread of Covid-19 or other epidemics or pandemics in the future. Any adverse developments which lead to delay in completing our projects may have a negative impact on our Group's business, reputation and financial performance.

(v) Fluctuation of foreign exchange rate

Some of the input materials we purchase for our Solar Division, ELP Division and Trading Division, are denominated in foreign currencies. In addition, input materials which are sourced from local suppliers are also subject to foreign currency fluctuation as it may be imported by our local suppliers.

	Audited							
	FYE 2017		**FYE 2018**		**FYE 2019**		**FYE 2020**	
Purchases in:	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
RM	28,100	67.9	43,556	53.7	27,696	41.8	38,731	48.3
USD	11,324	27.3	35,136	43.3	36,751	55.5	37,920	47.3
Others ^	1,972	4.8	2,410	3.0	1,756	2.7	3,542	4.4
Total purchases	**41,396**	**100.0**	**81,102**	**100.0**	**66,203**	**100.0**	**80,193**	**100.0**

Note:

^ Comprising RMB, Euro and CHF.

In the FYE 2017, FYE 2018, FYE 2019 and FYE 2020, our purchases of input materials from our overseas suppliers amounted to RM13.3 million or 32.1%, RM37.5 million or 46.3%, RM38.5 million or 58.2% and RM41.5 million or 51.7%. As such, any appreciation or depreciation of the foreign currencies against RM will significantly affect our cost of input materials.

We have entered into forward currency contracts to hedge our exposure against fluctuations in foreign currency for the purchases of input materials. Kindly refer to Section 11.10.1 for further details.

Notwithstanding the above, there is no assurance that any fluctuation in foreign exchange rates would not have an impact on our financial performance.

(vi) Availability and fluctuation in the prices of input materials

We depend on the continuous supply of input materials. Our input materials are price sensitive and we may face the risk of obtaining sufficient quantities of input materials at competitive prices. Price fluctuations in such materials caused by shortages and price volatility of our input materials, which are beyond our control, could result in increased cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers. Detailed list of our input materials are set out in Section 6.10.

Nonetheless, we also distribute our brands of electrical products and accessories which are used as input materials where we maintain a stock level for up to 3 months. In addition, our suppliers regularly keep us abreast of the supply condition and price trend of our raw materials so we may be prepared for any price increase.

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

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

(viii) Interruptions in our business operations

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

Any prolonged interruptions to our business operations due to such factors will affect our ability in adhering to our project timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation.

The World Health Organisation declared Covid-19 a pandemic on 11 March 2020. The Government of Malaysia implemented several measures to reduce and control the spread of Covid-19 in the country, commencing from 18 March 2020.

During the MCO when our operations were fully halted, we incurred a total expense of RM3.0 million. These expenses incurred include Directors and staff salaries (RM2.6 million), rental and upkeep of office (RM0.2 million) and other expenses (RM0.2 million). Nevertheless, save for the deferment of RM3.5 million in revenue for our Solar Division and RM2.2 million in revenue for our ELP Division from 2020 to second quarter of 2021, there are no other financial impact for FYE 2020.

Kindly refer to Sections 6.7 and 8.1.1 on the impact of Covid-19 virus pandemic on our Group.

(ix) Demand and supply condition

Our Trading Division is dependent on the demand and supply condition of the distribution of our electrical products and accessories. The demand for our products and accessories is dependent on the growth of our customers such as the construction and EPCC companies and M&E contractors as well as manufacturers that use our products to be incorporated into their products.

(x) Political, social and economic events in Malaysia

The occurrence of adverse political, social and economic events in Malaysia could have a negative effect on our business operations and financial performance. Examples of such events could include, but are not limited to, changes in political leadership, declaration of war, occurrence of civil war or disorder, outbreak of communicable diseases such as Covid-19, trade war between Malaysia and one or more of its trading partners, and significant economic slowdown in Malaysia and its trading partners.

11.2.2 Revenue

For the past 4 FYEs 2017 to 2020, all our revenue is derived locally. The revenue segmentation of our Group for the past 4 FYEs are set out below.

(i) Revenue by principal activities

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Solar Division	14,937	20.5	54,814	45.6	58,774	49.2	72,107	57.4
ELP Division	33,109	45.5	34,025	28.3	30,459	25.5	26,414	21.0
Trading Division	24,784	34.0	31,290	26.1	30,288	25.3	27,041	21.6
	72,830	**100.0**	**120,129**	**100.0**	**119,521**	**100.0**	**125,562**	**100.0**

(a) Solar Division

Revenue from our Solar Division is derived from the design, supply and installation services for of solar PV systems and power plants (solar PV facilities) for the following customer categories:

- Commercial buildings and facilities, such as shopping complexes, office buildings and hotels;
- Industrial buildings, such as factories;
- Residential for home owners; and
- Others, such as community buildings including schools and places of worship as well as solar farms.

We also derive revenue from the operations and maintenance services for solar PV facilities.

The breakdown of revenue for the past 4 FYEs is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Design, supply and installation:								
- Commercial	4,730	31.7	16,504	30.1	8,338	14.2	9,606	13.3
- Industrial	2,695	18.0	26,458	48.3	17,623	30.0	48,940	67.9
- Residential	6,891	46.2	8,977	16.4	30,173	51.3	12,044	16.7
- Others [(1)]	559	3.7	2,777	5.0	2,138	3.6	1,038	1.4
Operations and maintenance	62	0.4	98	0.2	502	0.9	479	0.7
	14,937	**100.0**	**54,814**	**100.0**	**58,774**	**100.0**	**72,107**	**100.0**

Note:

(1) Includes community buildings and solar farms.

For our design, supply and installation of solar PV facilities for certain non-residential property projects, we have to provide our customers with a retention sum equivalent to 5.0% of the contract fixed price as a performance guarantee. Upon the acceptance of handover of the project and the issuance of the testing and commissioning form, CPC, practical acceptance certificate, or project completion letter, half of the retention sum is released to us. Upon the expiration of the defect liability period, commonly ranging between 12 months and 24 months, the remaining half of the retention sum is then released to us, subject to the issuance of a certificate of making good defects.

For the FYE 2017 and FYE 2019, the majority of revenue contributed by our Solar Division was derived from residential projects while revenue contribution for industrial projects is the largest in FYE 2018 and FYE 2020.

Revenue from design, supply and installation of solar PV projects is recognised by reference to the stage of completion where we progressively bill our clients upon achievement of specified milestones for our services; while revenue from operations and maintenance are recognised when services are rendered.

Pricing varies from customer to customer as they are made to customers' specifications and are generally determined based on factors such as installed capacity as well as the solar PV modules and accessories used.

(b) ELP Division

Revenue from the ELP Division is derived from the supply and installation of ELP systems for following types of buildings and facilities:

- Commercial buildings and facilities, such as shopping complexes, office buildings, hotels, media broadcast centre and data centres;
- Mixed development comprising a combination of residential and commercial buildings within the same development;
- Infrastructure including rail transportation stations and guideways, expressways and highways;
- Industrial buildings, such as refineries and petrochemical plants; and
- Others, such as community buildings and non-projects based supply and installation.

The breakdown of revenue for the past 4 FYEs is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Commercial	11,885	35.9	13,962	41.1	10,711	35.1	7,593	28.7
Mixed development	10,037	30.3	10,549	31.0	8,740	28.7	6,409	24.3
Infrastructure	6,478	19.6	6,406	18.8	7,648	25.1	11,846	44.8
Industrial	2,294	6.9	2,831	8.3	2,580	8.5	46	0.2
Others [(1)]	2,415	7.3	277	0.8	780	2.6	520	2.0
	33,109	**100.0**	**34,025**	**100.0**	**30,459**	**100.0**	**26,414**	**100.0**

Note:

(1) Includes community buildings and non-projects based supply and installation.

The breakdown of number of projects taken by our ELP Division for the past 4 FYEs is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	No. of projects	%	No. of projects	%	No. of projects	%	No. of projects	%
Commercial	103	42.9	126	44.2	122	44.4	105	42.9
Mixed development	120	50.0	131	46.0	119	43.3	100	40.8
Infrastructure	13	5.4	22	7.7	25	9.1	35	14.3
Industrial	3	1.3	4	1.4	4	1.4	1	0.4
Others	1	0.4	2	0.7	5	1.8	4	1.6
	240	**100.0**	**285**	**100.0**	**275**	**100.0**	**245**	**100.0**

For all of our ELP projects, we have to provide our customers with a retention sum equivalent to 5.0% of the contract fixed price as a performance guarantee. Upon the date of issuance of the CPC or final acceptance by the customer, half the retention sum is released to us. Upon the expiration of the defect liability period, the remaining half of the retention sum is then released to us.

For the past 4 FYEs, the largest contributor for ELP Division is from commercial projects while mixed development is the second largest contributor for the revenue under ELP Division.

Revenue from installation of ELP systems is recognised by reference to the stage of completion where we progressively bill our clients upon achievement of specified milestones for our services; while revenue from non-projects based supply and installation are recognised when services are rendered.

The pricing of our services varies from customer to customer as they are made to customers' specifications and are generally determined based on factors such as input materials used, scope of work and size of project.

(c) Trading Division

Revenue from the Trading Division is derived from the distribution of electrical products and accessories, such as ELP products and accessories, solar PV products and accessories, surge protection devices and aviation warning light systems.

Our Trading Division provides synergistic benefits to our Solar Division and ELP Division. This is because the 2 divisions also use some of the electrical products and accessories for their respective projects such as the following:

- for solar PV facilities, we use solar inverters, surge protection devices, solar PV monitoring system, energy storage system and DC circuit breakers; and
- for ELP systems, we use surge protection devices, DC circuit breakers, conductors, connectors, lightning rods and accessories, earth bars and exothermic welding system.

Revenue from Trading Division is recognised at point in time when control of the assets is transferred to the customer, generally on the delivery of the product.

The breakdown of revenue for the past 4 FYEs is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
ELP related products	9,664	39.0	21,900	70.0	17,616	58.2	14,601	54.0
Solar PV related products	9,287	37.5	3,479	11.1	9,195	30.3	7,107	26.3
Surge protection devices	5,111	20.6	5,630	18.0	3,328	11.0	4,789	17.7
Aviation warning light systems	722	2.9	281	0.9	149	0.5	544	2.0
	24,784	**100.0**	**31,290**	**100.0**	**30,288**	**100.0**	**27,041**	**100.0**

(ii) Commentary on revenue

(a) Comparison between FYE 2017 and FYE 2018

Our revenue increased by RM47.3 million or 65.0% from RM72.8 million in the preceding financial year to RM120.1 million in FYE 2018. We recorded increase in revenue from all 3 divisions during FYE 2018. The main contributor for the increase in our revenue for FYE 2018 was from our Solar Division, which was our largest revenue contributor for FYE 2018, having contributed 45.6% of our revenue for FYE 2018.

Solar Division

Revenue from our Solar Division increased by RM39.9 million or 267.8% from RM14.9 million in FYE 2017 to RM54.8 million in FYE 2018 due to the increase in contribution from all project types mainly due to the following:

(i) Our marketing efforts include participating in International Greentech & Eco Product Exhibition & Conference Malaysia 2017 during FYE 2017 and 4th International Sustainable Energy Summit 2018 during FYE 2018.

(ii) The increase in our sales and marketing team for our Solar Division from 2 to 5 personnel during FYE 2018, where we incurred an additional hiring cost of RM0.2 million for FYE 2018.

Our management also believes that the Government initiated solar PV programmes and tax incentive provided for the installation of Solar PV systems have increased the customers' receptiveness towards solar PV facilities, which contributed to the increase in revenue from Solar Division.

The increase in revenue was attributable to the following:

(i) Increase in revenue from industrial projects by 881.5% to RM26.5 million (FYE 2017: RM2.7 million) which was mainly contributed by the following projects:

- MetTube Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Shah Alam, Selangor with an installed capacity of 4.1 MWp (RM7.7 million or 29.1%);

- Metrod (Malaysia) Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Klang, Selangor with an installed capacity of 2.5 MWp (RM4.9 million or 18.5%);

- Kualiti Alam Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located at Bukit Pelandok, Negeri Sembilan with an installed capacity of 1.0 MWp (RM3.5 million or 13.2%);

- NLE Electrical Engineering Sdn Bhd for the design, supply and installation of solar PV systems on an industrial property located at Batu Kawan, Penang with an installed capacity of 1.0 MWp (RM3.5 million or 13.2%); and

- Firstex Knitting Industry Sdn Bhd for the design, supply and installation of solar PV systems on an industrial property located at Kulim, Kedah with an installed capacity of 0.6 MWp (RM2.2 million or 8.3%).

(ii) Increase in revenue from commercial projects by 251.1% to RM16.5 million (FYE 2017: RM4.7 million) which was mainly contributed by the following projects:

- Pacific Trustees Berhad (trustee for the KIP Real Estate Investment Trust) for the design, supply and installation of solar PV systems on 6 shopping complexes with a combined installed capacity of 2.7 MWp (RM6.9 million or 41.8%);

- Cyberview Sdn Bhd for the design, supply and installation of solar PV systems on a commercial building in Cyberjaya with an installed capacity of 1.0 MWp (RM3.9 million or 23.6%); and

- Projek Lebuhraya Usahasama Bhd for the design, supply and installation of solar PV systems on 2 commercial buildings in Petaling Jaya, Selangor and Ayer Hitam, Johor with a combined installed capacity of 0.6 MWp (RM2.4 million or 14.5%).

(iii) Increase in revenue from residential projects by 30.5% to RM9.0 million (FYE 2017: RM6.9 million) which was mainly contributed by the following projects:

- Bekal Hikmat for the design, supply and installation of solar PV systems under the MySuria programme (RM4.3 million or 47.8%); and

- Pekat Energy Sarawak for the design, supply and installation of solar PV systems under the SARES programme (RM3.6 million or 40.0%).

(iv) Increase in revenue from other projects by 366.7% to RM2.8 million (FYE 2017: 0.6 million) which was mainly contributed by Segi University Sdn Bhd for the design, supply and installation of solar PV systems on its campus in Kota Damansara, Selangor with an installed capacity of 0.6 MWp (RM1.8 million or 64.3%).

ELP Division

Revenue from ELP Division increased by RM0.9 million or 2.7% mainly due to the following:

(i) Increase in revenue from commercial projects by RM2.1 million or 17.7% as we undertook 126 projects in FYE 2018 as compared to 103 projects in FYE 2017. Notable projects undertaken during the year includes the Merdeka 118 Tower (RM0.6 million), IKEA Penang (RM0.4 million), Four Seasons Hotel (RM0.4 million) and TM Cyberjaya (RM0.4 million);

(ii) Increase in revenue from mixed development projects by RM0.5 million or 5.0% as we undertook 131 projects in FYE 2018 as compared to 120 projects in FYE 2017; and

(iii) Increase in revenue from industrial projects by RM0.5 million or 21.8%. Revenue from industrial projects was mainly contributed from WCT Construction Sdn Bhd for Pengerang Integrated Complex (RM2.6 million).

During FYE 2018, revenue from infrastructure projects amounted to RM6.4 million mainly contributed by MRT 2 related work amounting to RM4.1 million and LRT 3 related work amounting to RM2.2 million.

The increase in revenue from our ELP Division was offset by the decrease in revenue from community buildings and non-projects based supply and installation work by RM2.2 million or 91.1% during the FYE 2018.

Trading Division

We recorded an increase in revenue from our Trading Division by RM6.5 million or 26.2% from RM24.8 million in FYE 2017 to RM31.3 million in FYE 2018 mainly due to increase in sale of ELP related products (by RM12.2 million) and surge protection devices (by RM0.5 million). However, we recorded a decrease in sale of solar PV related products (by RM5.8 million).

(b) Comparison between FYE 2018 and FYE 2019

Our revenue decreased marginally by RM0.6 million or 0.5% from RM120.1 million in the preceding financial year to RM119.5 million in FYE 2019. Revenue from Solar Division remains the main contributor in our revenue in FYE 2019, having contributed 49.2% of our revenue for FYE 2019.

Solar Division

For FYE 2019, our revenue from Solar Division increased by RM4.0 million or 7.3% from RM54.8 million in FYE 2018 to RM58.8 million in FYE 2019, mainly due to the increase in contribution from residential projects by RM21.2 million or 236.2%.

Revenue from residential projects for FYE 2019 was mainly contributed by the following projects:

(i) Bekal Hikmat where we collected RM18.7 million for the design, supply and installation of solar PV systems (RM0.7 million) and sale of inventory (comprising solar PV modules, inverters and accessories) that we purchased for the MySuria programme (RM18.0 million) (FYE 2018: RM4.3 million).

The MySuria programme was discontinued by the Government at the end of 2018. At that point in time, we had already purchased the inventory for the implementation of the MySuria project. After further discussions between Bekal Hikmat and representatives from SEDA, it was agreed that all of the inventory will be purchased by the Government.

Moving forward, we expect to recognise another RM2.2 million in revenue from the MySuria contract after FYE 2019 comprising retention sum of RM1.8 million and progress claims of RM0.4 million. The retention sum is expected to be received in financial year ending 2021.

Kindly refer to Section 6.6.3.13(i) for further details; and

(ii) Pekat Energy Sarawak for the design, supply and installation of solar PV systems under the SARES programme (RM11.1 million) (FYE 2018: RM3.6 million).

The increase in revenue from residential projects was offset by the decrease in revenue from commercial projects, industrial projects and other projects.

The decrease in revenue from commercial projects by RM8.2 million or 49.7% was mainly due to the project completion for the design, supply and installation of solar PV systems for 6 shopping complexes for Pacific Trustees Berhad (trustee for the KIP Real Estate Investment Trust).

Revenue from commercial projects for FYE 2019 was mainly contributed by the following projects:

(i) EconSave Cash & Carry Sdn Bhd for the design, supply and installation of solar PV systems on a commercial building in Senai, Johor with an installed capacity of 0.7 MWp (RM2.1 million); and

(ii) Cahaya Serijaya Sdn Bhd for the design, supply and installation of solar PV systems on a commercial building in Sepang, Selangor with an installed capacity of 1.0 MWp (RM2.6 million).

We recorded a decrease in revenue from industrial projects by RM8.8 million or 33.3% after the completion of the majority of installation work for MetTube Sdn Bhd where we collected RM1.4 million (FYE 2018: RM7.7 million) and Metrod (Malaysia) Sdn Bhd where we collected RM0.7 million (FYE 2018: RM4.9 million).

Revenue from industrial projects for FYE 2019 was mainly contributed by the following projects:

(i) Advent Packaging Sdn Bhd for the design, supply and installation of solar PV systems on an industrial property located in Klang, Selangor with an installed capacity of 0.8 MWp (RM1.2 million);

(ii) PWF Feeds Sdn Bhd for the design, supply and installation of solar PV systems on an industrial property located in Bukit Mertajam, Penang with an installed capacity of 0.8 MWp (RM3.0 million);

(iii) Teh Ah Yau Rubber Factory Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Bedong, Kedah with an installed capacity of 1.0 MWp (RM2.3 million);

(iv) Ideal Quality Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Klang, Selangor with an installed capacity of 2.6 MWp (RM2.6 million); and

(v) CTRM Aero Composites Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Batu Berendam, Melaka with an installed capacity of 1.9 MWp (RM3.7 million).

Revenue from other projects was mainly contributed by IRM Solar Sdn Bhd for the replacement of inverters at its solar farm located in Padang Besar, Perlis (RM1.4 million).

ELP Division

We recorded a decrease in revenue from ELP Division by RM3.6 million or 10.6% and as compared to the preceding year.

The decrease in revenue from ELP Division was due to:

(i) Decrease in revenue from commercial projects by RM3.3 million or 23.6%. We undertook 122 projects in FYE 2019 as compared to 126 projects in FYE 2018. Notable projects undertaken during the year includes the Merdeka 118 Tower (RM0.7 million), Toppen Shopping Centre (RM0.5 million) and Mitsui Outlet Park KLIA (RM0.4 million);

(ii) Decrease in revenue from mixed development projects by RM1.8 million or 17.1%. We undertook 119 projects in FYE 2019 as compared to 131 projects in FYE 2018; and

(iii) Decrease in revenue from industrial projects by RM0.3 million or 10.6%. Revenue from industrial projects was mainly contributed from WCT Construction Sdn Bhd for Pengerang Integrated Complex amounting to RM2.5 million (FYE 2018: RM2.6 million). We recorded lower revenue from WCT Construction Sdn Bhd as the Pengerang Integrated Complex was at its final construction phases.

The decrease in revenue was offset by the increase in revenue from infrastructure projects. During FYE 2019, revenue from infrastructure projects increased by RM1.2 million or 18.7% to RM7.6 million mainly contributed by MRT 2 related work amounting to RM5.4 million (FYE 2018: RM4.1 million) and LRT 3 related work amounting to RM1.9 million (FYE 2018: RM2.2 million). We recorded higher revenue from MRT 2 related work as we have carried out work at more sites as compared to FYE 2018.

Revenue from community buildings and non-projects based supply and installation work increased by RM0.5 million or 180.5% during the FYE 2019.

Trading Division

We recorded a decrease in revenue from our Trading Division by RM1.0 million or 3.2% from RM31.3 million in FYE 2018 to RM30.3 million in FYE 2019 mainly due to decrease in sale of ELP products (by RM4.3 million) and surge protection devices (by RM2.3 million). The decrease in sale of ELP products and surge protection devices was due to lower sales volume of orders from our customers. However, we recorded an increase in sale of solar PV related products (by RM5.7 million).

(c) Comparison between FYE 2019 and FYE 2020

Our revenue increased by RM6.1 million or 5.1% from RM119.5 million in the preceding financial year to RM125.6 million in FYE 2020. Revenue from Solar Division remains the main contributor in our revenue in FYE 2020, having contributed 57.4% of our revenue for FYE 2020.

Solar Division

For FYE 2020, our revenue from Solar Division increased by RM13.3 million or 22.6% from RM58.8 million in FYE 2019 to RM72.1 million in FYE 2020.

The increase in revenue was mainly due to the increase in contribution from the following:

(i) Increase in revenue from industrial projects by RM31.3 million or 177.8% (FYE 2019: RM17.6 million) which was mainly contributed by the following projects:

- MFP Solar for the design, supply and installation of solar PV power plant on 2 industrial properties located in Tanjung Malim, Perak with an installed capacity of 12.1 MWp (RM15.2 million) and Batu Kawan, Penang with an installed capacity of 1.5 MWp (RM3.8 million);

- Ideal Quality Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Klang, Selangor with an installed capacity of 2.6 MWp (RM5.3 million);

- Hong Seng Assembly Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Butterworth, Penang with an installed capacity of 1.3 MWp (RM4.8 million); and

- Yeo Aik Wood Sdn Bhd for the design, supply and installation of solar PV power plant on an industrial property located in Sungai Rambai and Merlimau, Melaka with an installed capacity of 1.1 MWp (RM2.9 million).

(ii) Increase in revenue from commercial project by RM1.3 million or 15.7% (FYE 2019: RM8.3 million) which was contributed by the following projects:

- UTeM Holdings Sdn Bhd for the design, supply and installation of solar PV power plant on a university located in

Ayer Keroh, Melaka with a combined installed capacity of 2.2 MWp (RM4.1 million); and

- Projek Lebuhraya Usahasama Bhd for the design, supply and installation of solar PV power plant on 6 selected rest areas along the North South Expressway with a combined installed capacity of 2.1 MWp (RM3.2 million).

The increase in revenue from industrial and commercial projects was offset by the decrease in revenue from residential projects and other projects.

The decrease in revenue from residential projects by RM18.1 million or 59.9% (FYE 2019: RM30.2 million) was mainly due to the discontinuation of MySuria programme where we collected RM18.7 million in FYE 2019. Our revenue from residential projects was mainly contributed by Pekat Energy Sarawak for the design, supply and installation of solar PV systems under the SARES programme (RM11.6 million).

Revenue from other projects was contributed by the design, supply and installation of an on-grid solar PV power system at a school located at Bukit Mertajam, Penang (under NEM programme) with installed capacity of 392 kWp (RM0.8 milllion).

ELP Division

We recorded a decrease in revenue from ELP Division by RM4.0 million or 13.1% and as compared to the preceding year.

The decrease in revenue from ELP Division was due to:

(i) Decrease in revenue from commercial projects by RM3.1 million or 28.9%. We undertook 105 projects in FYE 2020 as compared to 122 projects in FYE 2019. Notable projects undertaken during the year includes the installation of ELP systems on data centres located at Cyberjaya (collectively RM0.8 million), a factory located at Shah Alam, Selangor (RM0.7 million) and Merdeka 118 Tower (RM0.5 million);

(ii) Decrease in revenue from mixed development projects by RM2.3 million or 26.3%. We undertook 100 projects in FYE 2020 as compared to 119 projects in FYE 2019;

(iii) Decrease in revenue from industrial projects by RM2.5 million or 96.9% as we completed the Pengerang Integrated Complex in FYE 2019 and did not undertake any major industrial projects during FYE 2020; and

(iv) Decrease in revenue from community buildings and non-projects based supply and installation work by RM0.3 million or 38.5% during the FYE 2020.

The decrease in revenue was offset by the increase in revenue from infrastructure projects. During FYE 2020, revenue from infrastructure projects increased by RM4.2 million or 54.9% to RM11.8 million mainly due to LRT 3 related work amounting to RM6.0 million (FYE 2019: RM1.9 million). We recorded higher revenue from LRT 3 related work as we have carried out work at more sites as compared to FYE 2019.

Trading Division

We recorded a decrease in revenue from our Trading Division by RM3.2 million or 10.6%, mainly due to decrease in sale of ELP products (by RM3.0 million) and solar PV related products (by RM2.1 million). The decrease in sale of ELP products and solar PV related products was due to lower sales volume of orders from our customers.

The decrease is offset by an increase in sale of surge protection devices (by RM1.5 million) and aviation warning light systems (RM0.4 million).

11.2.3 Cost of sales, GP and GP margin

(i) Analysis of cost of sales by cost items

The components of our cost of sales are as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Input materials	29,783	70.7	68,400	81.0	55,436	75.8	64,630	73.9
- Solar Division	5,056	12.0	34,823	41.2	25,543	34.9	33,434	38.2
- ELP Division	11,335	26.9	12,726	15.1	10,814	14.8	14,080	16.1
- Trading Division	13,392	31.8	20,851	24.7	19,079	26.1	17,116	19.6
Subcontractor costs	9,598	22.8	10,639	12.6	10,331	14.1	15,648	17.9
Project expenses	1,636	3.9	3,728	4.4	4,720	6.5	5,111	5.9
Sales tax and import duty	563	1.3	645	0.8	1,444	2.0	946	1.1
Transportation costs	317	0.7	652	0.8	738	1.0	554	0.6
Rental of equipment	248	0.6	372	0.4	458	0.6	551	0.6
	42,145	**100.0**	**84,436**	**100.0**	**73,127**	**100.0**	**87,440**	**100.0**

(a) Input materials

Input materials for the past 4 FYEs are as follows:

Input materials and services	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Input materials								
Solar PV projects	5,056	17.0	34,823	50.9	25,543	46.1	33,434	51.7
- Solar PV modules	2,913	9.8	22,347	32.7	11,086	20.0	20,417	31.6
- Inverters	624	2.1	3,623	5.3	4,186	7.5	3,416	5.3
- Energy storage systems	2	*	1,333	1.9	4,689	8.5	3,129	4.8
- Others [(1)]	1,517	5.1	7,520	11.0	5,582	10.1	6,472	10.0
ELP projects	11,335	38.0	12,726	18.6	10,814	19.5	14,080	21.8
- Conductors	5,100	17.1	6,129	9.0	5,385	9.7	5,972	9.2
- Cables	2,624	8.8	2,546	3.7	3,207	5.8	3,463	5.4
- Others [(2)]	3,611	12.1	4,051	5.9	2,222	4.0	4,645	7.2

Input materials and services	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Trading	13,392	45.0	20,851	30.5	19,079	34.4	17,116	26.5
ELP related products	5,719	19.2	15,111	22.1	11,128	20.1	9,630	14.9
Solar related products	4,594	15.5	2,372	3.5	6,041	10.9	4,616	7.1
Surge protection devices	2,717	9.1	3,202	4.7	1,821	3.3	2,560	4.0
Aviation warning light systems	362	1.2	166	0.2	89	0.1	310	0.5
Cost of sales (input materials)	**29,783**	**100.0**	**68,400**	**100.0**	**55,436**	**100.0**	**64,630**	**100.0**

Notes:

* Negligible

(1) Balance of system comprising accessories, cables, mounting structures and solar PV monitoring systems.

(2) Comprises accessories, ELP products and accessories include lightning rods, exothermic welding systems and earth enhancing compound.

We source our input materials based on the following:

(a) For our Solar Division and ELP Division, we generally purchase our input materials based on our projects' requirements and are selected based on the pricing, availability and lead time for delivery; and

(b) For our Trading Division, input materials are sourced from brand owners or principals where we are the authorised distributor or third party manufacturers who produce these products for us based on our specifications and quality control.

Main input materials namely conductors used in our ELP Division and for sale at our Trading Division are made of copper and aluminium. As such, the price of these input materials is affected by global prices and foreign exchange fluctuations.

(b) Subcontractor costs

We engage subcontractors to carry out all installation works for both solar PV projects and ELP projects under our project management and supervision. This is to ensure that technical specifications are met and that work is carried out in accordance with our work and safety procedures and practices.

(c) Project expenses

Project expenses include preliminary project costs, processing fees, purchase of consumables and other direct costs relating to our projects.

In addition, the project expenses include costs incurred from the operations and maintenance services for solar PV facilities.

(d) Sales tax and import duties

We incur sales tax and import duties for the import of input materials from overseas.

(e) Transportation costs

Transportation costs consist largely of logistic expenses to transport the input materials to project sites.

(f) Rental of equipment

We rent equipment for use in our projects, such as cranes, skylifts, excavators and boom lifts.

The main components of our cost of sales are input materials which ranged from 70.7% to 81.0% of our cost of sales for FYEs 2017 to FYE 2020.

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

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

	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	72,830	120,129	119,521	125,562
Cost of sales	(42,145)	(84,436)	(73,127)	(87,440)
GP	30,685	35,693	46,394	38,122
GP margin (%)	42.1	29.7	38.8	30.4

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

	FYE 2017		**FYE 2018**		**FYE 2019**		**FYE 2020**	
	GP	**GP margin**	**GP**	**GP margin**	**GP**	**GP margin**	**GP**	**GP margin**
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Solar Division	5,475	36.7	12,809	23.4	23,469	39.9	20,822	28.9
ELP Division	14,658	44.3	13,323	39.2	13,557	44.5	9,140	34.6
Trading Division	10,552	42.6	9,561	30.6	9,368	30.9	8,160	30.2
	30,685	**42.1**	**35,693**	**29.7**	**46,394**	**38.8**	**38,122**	**30.4**

(a) Solar Division

The breakdown of GP and GP margin generated by our Solar Division by project type for the past 4 FYEs are as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Design, supply and installation:								
- Commercial	2,112	44.7	4,012	24.3	3,037	36.4	3,061	31.9
- Industrial	1,085	40.3	6,074	23.0	6,278	35.6	14,792	30.2
- Residential	2,148	31.2	1,897	21.1	13,452	44.6	2,669	22.2
- Others [(1)]	115	20.6	802	28.9	577	27.0	180	17.3
Operations and maintenance	15	24.2	24	24.5	125	24.9	120	25.1
	5,475	**36.7**	**12,809**	**23.4**	**23,469**	**39.9**	**20,822**	**28.9**

Note:

[(1)] Includes community buildings and solar farms.

(b) ELP Division

The breakdown of GP and GP margin generated by our ELP Division by project type for the past 4 FYEs are as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Commercial	5,521	46.5	6,083	43.6	4,840	45.2	2,492	32.8
Mixed development	4,472	44.6	4,744	45.0	4,243	48.5	2,228	34.8
Infrastructure	3,282	50.7	2,274	35.5	3,008	39.3	4,195	35.4
Industrial	90	3.9	114	4.0	1,147	44.5	11	23.9
Others [(1)]	1,293	53.5	108	39.0	319	40.9	214	41.2
	14,658	**44.3**	**13,323**	**39.2**	**13,557**	**44.5**	**9,140**	**34.6**

Note:

[(1)] Includes community buildings and non-projects based supply and installation.

(c) **Trading Division**

The breakdown of GP and GP margin generated by our Trading Division by types of products sold for the past 4 FYEs are as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
ELP related products	3,587	37.1	6,153	28.1	5,414	30.7	3,969	27.2
Solar PV related products	4,404	47.4	1,007	28.9	2,571	28.0	2,023	28.5
Surge protection devices	2,223	43.5	2,293	40.7	1,332	40.0	1,965	41.0
Aviation warning light systems	338	46.8	108	38.4	51	34.2	203	37.3
	10,552	**42.6**	**9,561**	**30.6**	**9,368**	**30.9**	**8,160**	**30.2**

(iii) **Commentary on cost of sales, GP and GP margin**

(a) **Comparison between FYE 2017 and FYE 2018**

Our cost of sales increased by RM42.3 million or 100.5% from RM42.1 million in FYE 2017 to RM84.4 million in FYE 2018. We recorded an increase in all components of our cost or sales, comprising mainly purchase of input materials by RM38.6 million or 129.6%.

The increase in cost of sales of input materials was due to:

(i) Increase in cost of sales for:

- Solar Division by RM29.8 million or 589.4% comprising mainly solar PV modules (RM19.4 million) and inverters (RM3.0 million); and

- Trading Division by RM7.5 million or 56.0% comprising mainly ELP related products (RM9.4 million),

which is in line with the increase in revenue for our Solar and Trading Divisions; and

(ii) Increase in project expenses by RM2.1 million or 128.4% mainly due to the increase in preliminary project costs and purchase of consumables to cater to increase in our solar PV projects and ELP projects implemented during FYE 2018.

During FYE 2018, our GP increased by RM5.0 million or 16.3% to RM35.7 million (FYE 2017: RM30.7 million), which was mainly due to increase in GP from the Solar Division by RM7.3 million or 132.7%. Notwithstanding the increase in GP, we recorded lower GP margin at 29.7% (FYE 2017: 42.1%), which was mainly due to lower GP margin from the Solar Division of 23.4% (FYE 2017: 36.7%). This was due to lower average GP margin for projects carried out under the fixed lump sum plus variable periodic payments mode of operation of 13.3% after taking into consideration the 20.0% waiver from the contract sum.

Solar Division

We recorded an increase in GP from our Solar Division by RM7.3 million or 132.7% from RM5.5 million in FYE 2017 to RM12.8 million in FYE 2018. The increase was mainly from:

(i) Commercial projects which were mainly contributed by projects undertaken for Pacific Trustees Berhad (trustee for the KIP Real Estate Investment Trust) (RM1.4 million), Projek Lebuhraya Usahasama Bhd (RM0.6 million) and Cyberview Sdn Bhd (RM0.9 million);

(ii) Industrial projects which were mainly contributed by projects undertaken for NLE Electrical Engineering Sdn Bhd (RM1.1 million), Kualiti Alam Sdn Bhd (RM1.0 million) and Firstex Knitting Industry Sdn Bhd (RM1.0 million); and

(iii) Residential projects which were mainly contributed by the project under MySuria programme undertaken for Bekal Hikmat (RM1.1 million).

Notwithstanding the increase in GP, our GP margin from Solar Division decreased from 36.7% in FYE 2017 to 23.4% in FYE 2018 mainly due to the lower GP margin from commercial solar PV projects (24.3%) and industrial solar PV projects (23.0%) undertaken for Pacific Trustees Berhad (trustee for the KIP Real Estate Investment Trust) (2.7 MWp), MetTube Sdn Bhd (4.1 MWp) and Metrod (Malaysia) Sdn Bhd (2.5 MWp).

These projects were carried out under the fixed lump sum plus variable periodic payments mode of operation where the contract fixed lump sum payable to us is equivalent to 80.0% of the contract sum stated in the Letter of Award while the remaining 20.0% of the contract sum is waived which results in us recording lower GP margins.

Nevertheless, we shall be paid a variable periodic payment based on the amount of power generated by the installed solar PV facility. The amount payable to us is 30.0% of the cost of power generated based on the appropriate prevailing published tariff rate by the utility company such as TNB. The variable payment is paid monthly starting from the 6th year from the date of commercial operation and terminates at the end of the commercial duration. Prior to FYE 2018, all of our solar PV projects were carried out under fixed lump sum payments mode of operation.

We recorded lower GP margin from residential projects of 21.1% mainly due to the low GP margin recorded for sales to Pekat Energy Sarawak under the SARES programme. Solar PV facilities under the SARES programme are not connected to the power grid and are located in rural areas. We recorded lower GP margin due to the high project implementation costs including project expenses and transportation costs as the project sites are located in rural areas.

ELP Division

We recorded a decrease in GP from our ELP Division by RM1.4 million from RM14.7 million in FYE 2017 to RM13.3 million in FYE 2018. Our GP margin decreased from 44.3% in FYE 2017 to 39.2% in FYE 2018.

The main input material for ELP projects are conductors which are made of copper or aluminium. We recorded an increase in cost of copper conductors by 25.7% from an average of USD6.57/kg in FYE 2017 to an average of USD8.26/kg in FYE 2018, which is in line with global copper prices.

Resulting from the increase in copper prices, we recorded a lower GP margin of 35.5% from infrastructure projects in FYE 2018 as compared to 50.7% recorded for FYE 2017. This is because infrastructure projects namely MRT 2 and LRT 3 requires a high volume of copper conductors which runs through the length of the guideway (train track). Copper conductors are used as it is the specification set by the project owners.

We did not successfully pass on the increase in price of conductors to our customers which resulted in us recording a lower GP margin.

Notwithstanding the above, the increase in copper prices did not materially affect the GP margin for commercial and mixed development projects as these projects may use either copper or aluminium conductors and does not require such high volume of conductors. Building owners generally prefers the use of aluminium conductors which is more cost effective as compared to copper conductors.

Trading Division

Our GP for Trading Division was lower at RM9.6 million in FYE 2018 as compared to RM10.6 million in FYE 2017 while the GP margin was lower at 30.6% as compared to 42.6% in FYE 2017.

The decrease in GP and GP margin was due to:

(i) Increase in cost of copper conductors in line with the increase in global copper prices which decreased GP margin for ELP related products from 37.1% to 28.1%; and

(ii) Depreciation of the RM against the USD from USD1:RM4.0620 in FYE 2017 to USD1:RM4.1385 in FYE 2018 which resulted in the increase in cost for most products under the Trading Division.

We did not pass on the increase in cost to our customers in order to maintain our price competitiveness and to retain customers.

(b) Comparison between FYE 2018 and FYE 2019

Our cost of sales decreased by RM11.3 million or 13.4% from RM84.4 million in FYE 2018 to RM73.1 million in FYE 2019.

The decrease in cost of sales was mainly due to decrease in input material purchases by RM13.0 million or 19.0% mainly due to decrease in purchase of solar PV modules under our Solar Division by RM11.3 million attributable to lower volume of solar PV modules purchased as well as the lower selling prices offered by our suppliers, in line with the decrease in prices of solar PV modules globally. During FYE 2019, the price of solar PV modules had reduced from RM1,250/kWp in FYE 2018 to RM1,100/kWp in 2019. Despite the lower number of solar PV modules purchased, our revenue for Solar

Division had increased due to the higher GP margin secured from the sale of inventory (comprising solar PV modules, inverters and accessories) that we purchased for the MySuria programme (RM18.0 million) (FYE 2018: RM4.3 million).

During FYE 2019, our GP increased by RM10.7 million or 30.0% to RM46.4 million (FYE 2018: RM35.7 million), which was mainly due to increase in GP from the Solar Division by RM10.7 million or 83.6%. In FYE 2019, we recorded higher GP margin at 38.8% (FYE 2018: 29.7%), which was mainly due to higher GP margin from the Solar Division of 39.9% (FYE 2018: 23.4%).

Solar Division

We recorded an increase in GP from Solar Division by RM10.7 million or 83.6% from RM12.8 million in FYE 2018 to RM23.5 million in FYE 2019. The increase was mainly from:

(i) Commercial projects which were mainly contributed by projects undertaken for Pacific Trustees Berhad (trustee for the KIP Real Estate Investment Trust) (RM0.5 million), EconSave Cash & Carry Sdn Bhd (RM0.7 million) and Cahaya Serijaya Sdn Bhd (RM0.8 million);

(ii) Industrial projects which were mainly contributed by projects undertaken for MetTube Sdn Bhd (RM1.0 million), Metrod (Malaysia) Sdn Bhd (RM0.5 million), Advent Packaging Sdn Bhd (RM0.7 million), PWF Feeds Sdn Bhd (RM1.1 million), Teh Ah Yau Rubber Factory Sdn Bhd (RM0.5 million), Ideal Quality Sdn Bhd (RM0.8 million) and CTRM Aero Composites Sdn Bhd (RM0.6 million); and

(iii) Residential projects which were mainly contributed by Bekal Hikmat under MySuria programme (RM11.3 million). Other residential projects were for Pekat Energy Sarawak under the SARES programme (RM2.5 million).

Correspondingly, the GP margin from Solar Division increased from 23.4% in FYE 2018 to 39.9% in FYE 2019. The increase in GP margin was due to:

(i) Decrease in solar PV module prices by approximately 20.0% which lowered our cost of sales. The decrease in solar PV module prices was due to the lower selling prices offered by our suppliers; and

(ii) In FYE 2019, we recorded a 73.8% decrease in revenue from the implementation of fixed lump sum plus variable periodic payments mode of operation of RM5.1 million (from 4 projects) as compared to RM19.5 million (from 3 projects) recorded in FYE 2018.

    Projects carried out under the fixed lump sum plus variable periodic payments mode of operation where the contract fixed lump sum payable to us is equivalent to 80.0% of the contract sum stated in the Letter of Award while the remaining 20.0% of the contract sum is waived.

    As 20.0% of the contract sum is waived by us, we recorded lower GP margins from these projects. Due to the decrease in contribution from projects under fixed lump sum plus variable periodic payments mode of operation in FYE 2019 as compared to FYE 2018, our GP margin increased.

ELP Division

We recorded increase in GP from ELP Division from RM13.3 million in FYE 2018 to RM13.5 million in FYE 2019.

We recorded lower GP from commercial and mixed development projects due to the lower number of projects undertaken. In FYE 2019, we undertook 122 commercial projects (FYE 2018: 126 projects) and 119 mixed development projects (FYE 2018: 131 projects).

We recorded an increase in GP for both infrastructure and industrial projects. GP recorded for both infrastructure and industrial projects in FYE 2019 was mainly from MRT 2 (RM2.2 million), LRT 3 (RM0.7 million) and WCT Construction Sdn Bhd for Pengerang Integrated Complex (RM1.1 million).

We recorded a further increase in cost of copper conductors by 5.9% from an average of USD8.26/kg in FYE 2018 to an average of USD8.75/kg in FYE 2019, in line with global copper prices.

Notwithstanding the increase in our cost of copper, we were able to record an increase in GP margin from 39.2% in FYE 2018 to 44.5% in FYE 2019 as we had successfully secured higher contract prices for new projects during FYE 2019 after taking into consideration copper conductor price increases. With higher contract prices secured, we effectively passed on the increase in our cost of copper to our customers.

Trading Division

We recorded a marginal decrease in GP of RM0.2 million from our Trading Division and a marginal increase in GP margin from 30.6% in FYE 2018 to 30.9% in FYE 2019.

During FYE 2019, we recorded a decrease in GP for sales of ELP related products (by RM0.7 million) and surge protection devices (by RM1.0 million). The decrease was offset by increase in GP from solar PV related products by RM1.6 million.

Overall, we did not record any material fluctuation in our GP margin for our Trading Division.

(c) Comparison between FYE 2019 and FYE 2020

Our cost of sales increased by RM14.3 million or 19.6% from RM73.1 million in FYE 2019 to RM87.4 million in FYE 2020. The increase in our cost of sales was mainly due to the following:

(i) Increase in purchase of solar PV modules under our Solar Division by RM9.3 million or 83.9% due to higher volume of solar PV purchased to support the increase in solar PV projects implemented during FYE 2020; and

(ii) Increase in subcontractor costs by RM5.3 million or 51.3% mainly due to higher subcontractor incurred for an industrial property located in Tanjung Malim, Perak undertaken for MFP Solar as it has higher subcontractor cost due to the large installed capacity of 12.1 MWp.

Notwithstanding the increase in revenue in FYE 2020, we recorded lower GP by RM8.3 million or 17.9% (FYE 2019: RM46.4 million) as we recorded lower GP margin for all 3 divisions. The overall decrease in GP margin is mainly due to increasing competition within the solar PV and ELP industries. In order to secure contracts, we had reduced our pricing in order to remain competitive and be in line with prices offered by our competitors.

Solar Division

We recorded a decrease in GP from Solar Division by RM2.7 million or 11.5% from RM23.5 million in FYE 2019 to RM20.8 million in FYE 2020. The decrease was mainly due to the decrease in GP from residential projects by RM10.8 million where we recorded lower GP margin of 22.2% (FYE 2019: 44.6%). Subsequent to the discontinuation of the MySuria programme, GP margin from residential projects normalised to 22.2%. This has resulted in a lower GP margin for our Solar Division during FYE 2020 at 28.9% (FYE 2019: 39.9%). The GP recorded under the MySuria programme only comprised sale of inventory and did not involve any implementation costs. As such, the GP margin for MySuria programme is higher at 50.1%

The decrease in GP from Solar Division was offset by the increase in GP from industrial projects by RM8.5 million, mainly contributed by projects undertaken for MFP Solar (RM5.0 million), Ideal Quality Sdn Bhd (RM2.1 million) and Hong Seng Assembly Sdn Bhd (RM1.7 million). The GP margin for industrial projects was lower at 30.2% (FYE 2019: 35.6%) due to lower GP margin recorded for an industrial property located in Tanjung Malim, Perak undertaken for MFP Solar as it has higher subcontractor cost due to the large installed capacity of 12.1 MWp. In addition, projects with large installed capacity will generally have a lower GP margin as we will submit a lower bid in order to remain competitive and be in line with market contract value for projects of such sizes. Nevertheless, due to the large contract value, the GP for large projects is high notwithstanding the lower GP margin.

The GP from commercial projects were consistent at RM3.1 million (FYE 2019: RM3.0 million). The GP margin was however lower due to lower GP margin recorded for the project undertaken for UTeM Holdings Sdn Bhd as it has required higher implementation cost as the solar panels are installed at multiple buildings with irregular roof profiles.

As part of our Group's corporate social responsibility initiatives, we undertook the design, supply and installation of an on-grid solar PV power system at a school located at Bukit Mertajam, Penang at nominal GP margin, which resulted in lower GP margin of 17.3% (FYE 2019: 27.0%) under other projects.

ELP Division

We recorded a decrease in GP from our ELP Division by RM4.5 million or 33.1% from RM13.6 million in FYE 2019 to RM9.1 million in FYE 2020. Our GP margin decreased from 44.5% in FYE 2019 to 34.6% in FYE 2020.

We recorded lower GP from commercial and mixed development projects due to the lower number of projects undertaken. In FYE 2020, we undertook 105 commercial projects (FYE 2019: 122 projects) and 100 mixed development projects (FYE 2019: 119 projects).

We recorded a lower overall GP margin of 34.6% (FYE 2019: 44.5%) due to lower GP margin secured for all project types. We had lowered our pricing in order to secure contracts and remain competitive.

Trading Division

We recorded a decrease in GP of RM1.2 million from our Trading Division and a marginal decrease in GP margin from 30.9% in FYE 2019 to 30.2% in FYE 2020.

During FYE 2020, we recorded a decrease in GP for sales of ELP related products (by RM1.4 million) and solar PV related products (by RM0.5 million). The decrease was offset by increase in GP from surge protection devices by RM0.6 million.

Overall, we did not record any material fluctuation in our GP margin for our Trading Division.

11.2.4 Other income

The breakdown of our other income is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Dividend income	-	-	-	-	132	7.6	120	7.1
Foreign exchange:								
- Realised gain on foreign exchange	192	11.2	144	25.4	-	-	-	-
- Unrealised gain on foreign exchange	38	2.2	8	1.4	137	7.9	-	-
Gain on disposal of a subsidiary	318	18.5	-	-	-	-	18	1.1
Gain on disposal of an associate	250	14.5	-	-	-	-	*	*
Bargain purchase on acquisition of a subsidiary	142	8.2	-	-	-	-	-	-
Gain on disposal of property, plant and equipment	394	22.9	77	13.6	-	-	2	0.1
Sale of solar energy generated to TNB	97	5.6	121	21.3	104	6.0	102	6.1
Reversal of impairment loss on trade receivable	-	-	141	24.9	1,113	64.1	349	20.7
Waiver of amount due to related parties	224	13.0	-	-	-	-	-	-
Subsidy from Government	-	-	-	-	-	-	449	26.7

11. FINANCIAL INFORMATION *(Cont'd)*

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Management income from associated company	-	-	-	-	-	-	277	16.4
Others[(1)]	68	3.9	76	13.4	249	14.4	368	21.8
	1,723	**100.0**	**567**	**100**	**1,735**	**100.0**	**1,685**	**100.0**

Notes:

* Negligible

(1) Comprising fair value gain on other investment, reversal of impairment loss on contract assets, reversal of impairment loss on inventories, insurance claim, rental income of equipment and bad debts recovered.

Comparison between FYE 2017 and FYE 2018

In FYE 2017, we recorded other income of RM1.7 million which comprises mainly the following:

(i) Realised gain on foreign exchange of RM0.2 million;

(ii) Gain on disposal of a subsidiary of RM0.3 million*;

(iii) Gain on disposal of an associated company of RM0.3 million*;

(iv) Gain on acquisition of RM0.1 million as we acquired 100.0% equity interest in Solar Data Systems Sdn Bhd at a cash consideration of RM1,000. The net assets of Solar Data Systems Sdn Bhd as at 31 December 2017 was RM0.1 million;

(v) Gain on disposal of property, plant and equipment of RM0.4 million for the disposal of 6 motor vehicles to Directors and an employee; and

(vi) In 2017, we disposed 51.0% equity interest in Enersave Lighting Sdn Bhd. At the point of disposal, there is an amount owing by Pekat Teknologi to Enersave Lighting Sdn Bhd of RM0.2 million. This amount was subsequently waived and hence, we recorded an income of RM0.2 million.

Note:

* In preparation for our Listing, we disposed the following inactive subsidiary and associated company to non-related parties:

Date of Disposal	Company name	Equity interest	Disposal consideration RM'000	Gain from disposal RM'000
27 December 2017	Enersave Lighting Sdn Bhd	51.0%	204	318
29 December 2017	LTI Teltek Sdn Bhd	50.0%	250	250
				568

Enersave Lighting Sdn Bhd was incorporated on 5 February 2010. It started operations in February 2010 and was involved in trading of LED products. In January 2016, Enersave Lighting Sdn Bhd ceased operations due to the intense competition we faced in the supply of the LED products.

LTI Teltek Sdn Bhd was incorporated on 4 May 2009. It started operations in June 2009 and was involved in the supply and installation of tele-communication infrastructure. In August 2015, LTI Teltek Sdn Bhd ceased operations as we had decided to focus on growing our Solar Division, ELP Division and Trading Division.

In FYE 2018, we recorded a decrease in other income by RM1.1 million or 64.7% to RM0.6 million. Other income in FYE 2018 was mainly contributed by realised gain on foreign exchange of RM0.1 million and reversal of impairment loss on trade receivables of RM0.1 million as we managed to collect overdue payments from our customers for which the trade receivables were impaired in prior financial years.

Comparison between FYE 2018 and FYE 2019

In FYE 2019, other income increased to RM1.7 million in FYE 2019, mainly due to the following:

(i) Dividend income of RM0.1 million from our investment in asset management funds;

(ii) Unrealised gain on foreign exchange by RM0.1 million; and

(iii) Increase in reversal of impairment loss on trade receivable by RM1.0 million arising from collection of overdue payments from customers for which the trade receivables were impaired in prior financial years.

Comparison between FYE 2019 and FYE 2020

In FYE 2020, other income decreased marginally by RM0.05 million in FYE 2020.

We recorded a decrease in reversal of impairment loss on trade receivable by RM0.8 million to RM0.3 million (FYE 2019: RM1.1 million) due to lower collection of overdue payments from customers as compared to the preceding financial year.

The decrease in other income was offset by the following:

(i) Wage subsidy amounting to RM0.4 million received from the Government under the Wage Subsidy Programme implemented by the Government due to Covid-19 pandemic; and

(ii) Management fees received from our associated company, Pekat Energy Sarawak of RM0.3 million.

11.2.5 Administrative expenses

The breakdown of our administrative expenses is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Staff cost [(1)]	10,135	53.6	11,071	57.1	12,916	52.6	11,173	53.9
Directors' remuneration	1,501	7.9	2,076	10.7	3,003	12.2	2,745	13.2

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Depreciation and amortisation	1,588	8.4	886	4.6	1,045	4.3	903	4.4
Rental (2)	1,273	6.7	1,250	6.4	1,261	5.1	1,210	5.8
Professional fees (3)	511	2.7	365	1.9	669	2.7	966	4.7
Insurance	415	2.2	250	1.3	291	1.2	229	1.1
Travelling expenses	681	3.6	725	3.7	775	3.2	545	2.6
Sales and marketing expenses	1,602	8.5	1,620	8.3	2,446	10.0	1,814	8.8
Authorities related expenses (4)	511	2.7	367	1.9	1,050	4.3	-	-
Office supplies and stationery	228	1.2	229	1.2	314	1.3	300	1.4
Maintenance of office assets	326	1.7	322	1.7	518	2.1	557	2.7
Utility	94	0.5	184	0.9	195	0.8	224	1.1
Bank charges	48	0.3	49	0.2	54	0.2	72	0.3
	18,913	**100.0**	**19,394**	**100.0**	**24,537**	**100.0**	**20,738**	**100.0**

Notes:

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

(2) Includes rental of offices, warehouse and staff accommodation.

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

(4) Including filing fees, licence fees, stamp duties and other miscellaneous expenses paid to the authorities.

Comparison between FYE 2017 and FYE 2018

For FYE 2018, administrative expenses increased by RM0.5 million or 2.6% as compared to the preceding financial year. The increase was mainly due to the following:

(i) Increase in staff cost by RM0.9 million due to the annual increment for the existing employees;

(ii) Increase in Directors' remuneration by RM0.6 million due to the increase in Directors' fees and annual increment of Directors' salaries. This is in line with the increase in our financial performance; and

The increase in administrative expenses was partially offset by the decrease in depreciation cost by RM0.7 million in FYE 2018 after the disposal of 6 motor vehicles to Directors and an employee.

Comparison between FYE 2018 and FYE 2019

For FYE 2018, administrative expenses increased by RM5.1 million or 26.3% as compared to the preceding financial year. The increase was mainly due to the following:

(i) Increase in staff costs by RM1.8 million due to the addition of 8 managerial level employees (including 2 from sales and marketing team for our Solar Division) and annual increment of the existing employees;

(ii) Increase in Directors' remuneration by RM0.9 million due to increase in Directors' fees and annual increment of Directors' salaries;

(iii) Increase in professional fees by RM0.3 million for the fees paid to our professionals in preparation for our Listing;

(iv) Increase in sales and marketing expenses by RM0.8 million which was mainly due to our sponsorship for the MPIA Solar Roadshow 2019 and participation in ASEAN Super 8 (ASEAN M&E 2019) and International Greentech & Eco Product Exhibition & Conference Malaysia 2019; and

(v) Increase in authorities related expenses by RM0.7 million mainly due to the stamp duty paid for the acquisition of Elmina Land.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, administrative expenses decreased by RM3.8 million or 15.5% as compared to the preceding financial year. The decrease was mainly due to the following:

(i) Decrease in Directors' remuneration and staff costs by RM2.0 million as we did not pay any bonus to our employees in order to preserve our cash as a result of the Covid-19 pandemic. This is part of our efforts to reduce our expenses; and

(ii) Decrease in sales and marketing expenses by RM0.6 million as well as travelling expenses by RM0.2 million as the Government has imposed travel ban during the implementation of MCOs as result of the Covid-19 pandemic.

11.2.6 Other expenses

The breakdown of other expenses is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Impairment loss on contract assets	-	-	-	-	284	6.5	638	69.6
Impairment loss on trade receivables/retention sum	324	31.4	988	81.5	3,318	76.4	176	19.2
Impairment loss on inventories	218	21.1	-	-	415	9.5	-	-
Loss on disposal of a subsidiary	-	-	-	-	82	1.9	-	-
Realised loss on foreign exchange	-	-	-	-	142	3.3	21	2.3
Unrealised loss on foreign exchange	-	-	-	-	-	-	66	7.2
Written off of other receivables	427	41.4	106	8.8	-	-	-	-
Written off of trade receivables	15	1.5	90	7.4	-	-	*	*
Written off of inventories	-	-	-	-	82	1.9	-	-
Written down of inventories	47	4.6	7	0.6	-	-	-	-

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Others	-	-	21	1.7	22	0.5	16	1.7
	1,031	**100.0**	**1,212**	**100.0**	**4,345**	**100.0**	**917**	**100.0**

Note:

* Negligible

Comparison between FYE 2017 and FYE 2018

For FYE 2018, other expenses increased by RM0.2 million or 19.4% as compared to the preceding financial year. The increase was mainly due to the increase in impairment loss on trade receivables of RM0.7 million. In FYE 2018, impairment loss on trade receivables of RM1.0 million was provided for ELP Division of RM0.7 million and Trading Division of RM0.3 million for trade receivables that are past due and no subsequent collection were received. We have issued reminder letters and demand letters to recover these amounts.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, other expenses increased by RM3.1 million or 255.8% as compared to the preceding financial year. The increase was mainly due to the following:

(i) Impairment loss on contract assets of RM0.3 million due to the long delay by main contractors in issuing the progress certificate for work done and as such, we were not able to bill for work done for 43 ELP projects as at 31 December 2019;

(ii) Increase in impairment loss by RM2.3 million to RM3.3 million due to:

    (a) Impairment loss for retention sum under ELP Division of RM2.0 million for 138 ELP projects where the defect liability period has passed but no final certificate of making good defects was issued by the main contractor. Certificate of making good defects is issued at the end of the defect liability period and thereafter, all retention sums are released. Efforts by us to recover these sum include issuing reminder letters and demand letters; and

    (b) Impairment loss on trade receivables provided for Solar Division of RM0.6 million, ELP Division of RM0.5 million and Trading Division of RM0.2 million for trade receivables that are past due and no subsequent collection were received. We have issued reminder letters and demand letters to recover these amounts;

(iii) Impairment loss on inventories of RM0.4 million due to slow moving stock comprising mainly ELP products and accessories, surge protection devices, solar PV inverters and monitoring systems;

(iv) Loss on disposal of 51.0% equity interest in Pekat Solar VN Co Ltd, a subsidiary incorporated in Vietnam which was inactive. Pekat Solar VN Co Ltd was incorporated to undertake solar PV projects in Vietnam. However, it has not commenced any operations since its incorporation and as such was disposed to a non-related party. At this juncture, we have no intention of undertaking any solar PV projects outside of Malaysia; and

(v) Realised loss on foreign exchange recorded of RM0.1 million.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, other expenses decreased by RM3.4 million or 78.3% as compared to the preceding financial year. The decrease was mainly due to the decrease in impairment loss on trade receivables/retention sum by RM3.1 million to RM0.2 million in FYE 2020 (FYE 2019: RM3.3 million).

The decrease was offset by the increase in impairment loss on contract assets by RM0.4 million. We recorded impairment loss on contract assets of RM0.6 million due to the long delay by main contractors in issuing the progress certificate for work done and as such, we were not able to bill for work done for 47 ELP projects as at 31 December 2020.

Progress claims are submitted by us to the main contractor for ELP work done for each section/parcel of the project. However, the main contractors may not inspect each section/parcel immediately in accordance to the billable milestone stated in the project contract and may wait for more sections/parcels to be completed before commencing any inspection work. This will result in a delay in issuing the progress certificate for work done.

As such, pursuant to MFRS 136, impairment losses on contract assets were provided on those uncertified completed works done that exceed the completion date as stated in the Letter off Award for each project contract.

11.2.7 Finance income

The breakdown of our finance income is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Finance income from:								
Fixed deposits	306	42.7	302	36.7	301	33.7	210	55.3
Related party [(1)]	411	57.3	521	63.3	509	57.0	121	31.8
Others [(2)]	-	-	-	-	83	9.3	49	12.9
	717	**100.0**	**823**	**100.0**	**893**	**100.0**	**380**	**100.0**

Notes:

(1) The related party is Startige which is owned by our Promoters. Startige is the registered owner of the Cubic Space Office. However, the acquisition of Units 3A and 5 of Cubic Space Office by Startige was financed by term loans drawn by our Group.

As the term loans for Units 3A and 5 of Cubic Space Office were drawn by our Group and the loan instalments were also paid by our Group, Startige had reimbursed our Group for these loan instalments. The interest portion of the instalment received is recorded as finance income. Kindly refer to Section 9.1.1 for additional information.

(2) Others comprising:

(a) On 1 January 2019, Pekat Solar (as lender) had entered into a loan agreement with Multi Link Sdn Bhd (as borrower) and Lee Seng (as guarantor) whereby Pekat Solar had extended a loan of RM2.0 million to Multi Link Sdn Bhd. The loan carries an interest rate of 7.0% and is for a tenure of 6 months. Multi Link Sdn Bhd had requested financing from our Group for its business expansion and working capital purposes. Lee Seng, the shareholder and director of Multi Link Sdn Bhd is a personal friend of our Promoters. The loan was fully repaid with interests on 15 July 2019.

Interest income of RM70,000 was recorded from Multi Link Sdn Bhd.

(b) In 2018, we undertook the design, supply and installation of solar PV power systems on an industrial property located in Kulim, Kedah for Firstex Knitting Industry Sdn Bhd ("Firstex") with a contract value of RM2.2 million and the project was completed in the same year. As at 31 December 2019, the amount owing from Firstex was RM2.0 million.

As at the LPD, we received payment of RM1.8 million and the balance shall be paid via monthly instalments up till June 2022 as per a revised payment schedule.

Discount on trade receivables of RM0.1 million was provided for the instalment payments due from Firstex. Under MFRS 9, trade receivables with contractual repayment terms of more than 12 months requires the application of a discount to the future repayments to arrive at a present value at the date of recognition.

The discounted amount will be unwinded throughout the repayment period until full repayment. As such, we recorded unwinding of discount on trade receivables totalling RM13,000 in FYE 2019 due to the discounting of trade receivables to its present value during the financial year.

Comparison between FYE 2017 and FYE 2018

In FYE 2018, we recorded an increase in finance income by RM0.1 million as compared to the preceding financial year due to higher finance income received from Startige.

Comparison between FYE 2018 and FYE 2019

In FYE 2019, we recorded an increase in finance income by RM0.1 million as compared to the preceding financial year due to interest income of RM70,000 recorded from Multi Link Sdn Bhd and unwinding of discount on trade receivables totalling RM13,000.

Comparison between FYE 2019 and FYE 2020

In FYE 2020, we recorded a decrease in finance income by RM0.5 million as compared to the preceding financial year due to lower finance income received from Startige. In February 2020, the term loans for Units 3A and 5 of the Cubic Space Office were fully refinanced via a term loan drawn by Startige. As such, the finance income from Startige has reduced from RM0.5 million to RM0.1 million.

In addition, we recorded lower interest income received due to lower effective interest rates from fixed deposits of 2.1% (FYE 2019: 3.3%).

11.2.8 Finance costs

The breakdown of our finance costs is as follows:

	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses from:								
Term loan	490	47.5	513	44.5	468	45.3	330	37.2
Bankers' acceptance	186	18.0	219	19.0	445	43.0	407	45.9
Lease liabilities	168	16.3	86	7.4	75	7.2	46	5.2
Bank guarantees	181	17.6	21	1.8	27	2.6	37	4.2
Bank overdrafts	4	0.4	112	9.7	7	0.7	5	0.6
Letter of credit	-	-	72	6.2	6	0.6	27	3.0
Forward contract	2	0.2	-	-	6	0.6	-	-
Discount on trade receivables	-	-	131	11.4	-	-	35	3.9
	1,031	**100.0**	**1,154**	**100.0**	**1,034**	**100.0**	**887**	**100.0**

Comparison between FYE 2017 and FYE 2018

In FYE 2018, finance costs increased by RM0.1 million as compared to the preceding financial year. The increase was mainly due to:

(i) Increase in interest expenses charged on bank overdrafts increased by RM0.1 million as we utilised higher bank overdrafts during the FYE 2018 to finance our working capital;

(ii) Discount on trade receivables of RM0.1 million was provided for the instalment payments of more than 12 months due from Firstex; and

(iii) Interest from letter of credit incurred in FYE 2018 amounting to RM0.1 million which are used to finance the import of input materials from overseas.

The increase in finance cost was offset by the decrease in bank guarantees charges by RM0.2 million due to lower tender bonds and performance bonds provided for the financial year. We also recorded a decrease in lease liabilities as we disposed 6 motor vehicles to Directors and an employee.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, finance costs decreased by RM0.1 million as compared to the preceding financial year. We recorded an increase of RM0.2 million in interest expenses charged on bankers' acceptances which were used to finance our working capital. We had utilised more bankers' acceptance during FYE 2019 instead of bank overdrafts to finance our working capital.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, finance costs decreased by RM0.1 million as compared to the preceding financial year. The decreased was mainly due to the decrease in interest expenses from term loan by RM0.1 million. From February 2020 onwards, the term loans for Units 3A and 5 of the Cubic Space Office were fully refinanced via a term loan drawn by Startige, hence we recorded lower term loan expenses for the Cubic Space Office of RM0.1 million. Notwithstanding this, we incurred interest expenses from term loan for Elmina Land amounting to RM0.2 million during FYE 2020.

11.2.9 Tax expense, PBT and PAT

The following tables sets out the comparison between the statutory tax rates and our effective tax rates for the financial years under review:

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	%	%	%	%
Statutory tax rate:				
- on the first RM500,000	18	18	17	17
- balance of chargeable income	24	24	24	24
Tax expense (RM'000)	2,629	4,336	4,819	4,809
Effective tax rate	21.7	28.3	24.5	26.2

The following tables sets out the PBT, PBT margin, PAT and PAT margin for the financial years under review:

	FYE 2017	FYE 2018	FYE 2019	FYE 2020
PBT (RM'000)	12,093	15,344	19,674	18,383
PBT margin (%)	16.6	12.8	16.5	14.6
PAT (RM'000)	9,464	11,008	14,855	13,574
PAT margin (%)	13.0	9.2	12.4	10.8

Comparison between FYE 2017 and FYE 2018

The Government had in Budget 2017 provided a tax incentive for small and medium enterprise wherein the company is able to enjoy a lower tax in the event the company records more than 5% increase in its chargeable income of first RM500,000 for FYE 2017 as compared to the preceding financial year ended 2016. The tax incentive is effective from 1 January 2017 to 31 December 2018. Resulting from the incentive from Government, our Group enjoyed a tax savings amounting to RM0.2 million and our effective tax rate of 21.7% for FYE 2017 is lower than the statutory tax rate.

For FYE 2018, our PBT improved from RM12.1 million for FYE 2017 to RM15.3 million for FYE 2018. Corresponding to the increase in PBT, our PAT increased to RM11.0 million. The effective tax rate increased to 28.3% in FYE 2018 from 21.7% in FYE 2017 due to increase in expenses that are not tax deductible such as impairment loss on trade receivables amounting to RM1.0 million.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, our PBT improved from RM15.3 million for FYE 2018 to RM19.7 million for FYE 2019. Corresponding to the increase in PBT, our PAT increased to RM14.9 million. The effective tax rate normalised to 24.5% in FYE 2019 which is consistent with the statutory tax rate. During FYE 2019, we recorded lower effective tax rate due to reversal of overprovision of tax expense of RM0.6 million.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, our PBT decreased from RM19.7 million for FYE 2019 to RM18.4 million for FYE 2020. Corresponding to the decrease in PBT, our PAT decreased to RM13.6 million. The effective tax rate increased to 26.2% from 24.5% recorded in FYE 2019 due to recognition of under provision of deferred tax liabilities in preceding year of RM0.1 million and non-recognition of deferred tax asset of RM0.2 million in FYE 2020.

11.2.10 Review of financial position

(a) Assets

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

	Audited			
	As at 31 December			
	2017	2018	2019	2020
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	1,958	2,041	2,414	20,073
Intangible assets	-	-	787	641
Investment in associates	-	389	1,412	2,149
Other investments	-	47	-	-
Trade receivables	-	733	406	246
Amount due from related parties	8,171	7,611	4,013	-
Total non-current assets	**10,129**	**10,821**	**9,032**	**23,109**
Current assets				
Other investments	-	-	9,507	1,159
Inventories	8,909	10,971	11,406	11,019
Trade receivables	18,421	22,821	23,462	28,921
Other receivables	3,207	2,294	3,128	3,183
Contract assets	9,549	19,343	14,761	23,971
Amount due from associates	400	1,804	4,912	9,240
Amount due from related parties	2,178	2,087	6,214	-
Tax recoverable	663	466	11	-
Fixed deposits with licenced banks	6,882	10,497	7,661	9,135
Cash and bank balances	13,831	7,947	8,235	15,076
Total current assets	**64,040**	**78,230**	**89,297**	**101,704**
TOTAL ASSETS	**74,169**	**89,051**	**98,329**	**124,813**

FYE 2018

Non-current assets

Our non-current assets increased by RM0.7 million or 6.9% mainly due to the following:

(i) Increase in investment in associates resulting from our acquisition of 49.0% equity interest in Pekat Energy Sarawak; and

(ii) Increase in trade receivables by RM0.7 million arising from the instalment payment due from Firstex.

In 2018, we undertook the design, supply and installation of solar PV power systems on an industrial property located in Kulim, Kedah for Firstex with a contract value of RM2.2 million and the project was completed in the same year. As at 31 December 2019, the amount owing from Firstex was RM2.0 million.

As at the LPD, we received payment of RM1.8 million and the balance shall be paid via monthly instalments up till June 2022 as per a revised payment schedule. Instalment payments due after 12 months are recorded as trade receivables under non-current assets.

The increase in non-current asset was partially offset by lower amount due from Startige of RM0.6 million, which comprises term loans drawn by our Group to finance the acquisition of Units 3A and 5 of Cubic Space Office by Startige. The amount due from Startige has been collected as at the LPD.

Current assets

Our current assets increased by RM14.2 million or 22.2% mainly due to the following:

(i) Increase in inventories by RM2.1 million which was due to purchase of solar PV systems for the MySuria programme under Bekal Hikmat;

(ii) Increase in trade receivables by RM4.4 million mainly due to increase in revenue FYE 2018 of RM47.3 million;

(iii) Increase in contract assets by RM9.8 million mainly due to 2 solar PV projects from MetTube Sdn Bhd and Metrod (Malaysia) Sdn Bhd where the contract assets recorded under these 2 projects amounted to RM8.2 million as at 31 December 2018;

(iv) Increase in amount due from Pekat Energy Sarawak, our associated company of RM1.4 million for work done under the SARES programme but not collected from Pekat Energy Sarawak. The amount owing from Pekat Energy Sarawak was due to the pending final testing and commissioning by Sarawak Energy Berhad. Upon completion of the testing and commissioning, Pekat Energy Sarawak then billed Sarawak Energy Berhad. The amount has since been collected; and

(v) Increase in fixed deposits placed with licenced banks of RM3.6 million.

Our cash and bank balances reduced by RM5.9 million due to the placement of fixed deposits (RM3.6 million) and used for working capital purposes (RM2.3 million).

FYE 2019

Non-current assets

Our non-current assets decreased by RM1.8 million or 16.6% mainly due to reclassification of amount owing from Startige from non-current assets to current assets as RM3.0 million was reclassified to be payable within 1 year. The amount relates to the term loans drawn for Units 3A and 5 of Cubic Space Office.

The decrease in non-current assets was partially offset by:

(i) Intangible assets of RM0.8 million recorded from the acquisition of an accounting system by Pekat Teknologi (RM0.6 million) and the development of energy management system by Pnexsoft (RM0.2 million); and

(ii) Increase in the investment in associates by RM1.0 million which was due to the acquisition of 45% equity interest in MFP Solar (RM0.5 million) and share of NA from the our associated companies, namely Pekat Energy Sarawak (RM0.3 million) and Sunway Pekat Solar (RM0.2 million).

Current assets

Our current assets increased by RM11.1 million or 14.2% mainly due to the following:

(i) Investment in asset management funds of RM9.4 million and dividend of RM0.1 million from the said investment;

(ii) Increase in amount due from Pekat Energy Sarawak, our associated company of RM3.1 million for work done under the SARES programme but not collected from Pekat Energy Sarawak. The amount owing from Pekat Energy Sarawak was due to the pending final testing and commissioning by Sarawak Energy Berhad. Upon completion of the testing and commissioning, Pekat Energy Sarawak then billed Sarawak Energy Berhad. The amount has since been collected; and

(iii) Increase in amount due from Startige mainly due to reclassification of amount owing from Startige from non-current assets to current assets as RM3.0 million was reclassified to be payable within 1 year. The amount due from Startige has been collected as at the LPD.

The increase in current assets was partially offset by:

(i) Decrease in contract assets of RM4.6 million was mainly due to billing raised to Bekal Hikmat in FYE 2019 after the discontinuation of the MySuria programme; and

(ii) Withdrawal of RM2.8 million in fixed deposits with licenced banks for the deposit of RM1.7 million paid for the acquisition of Elmina Land and the balance was to finance our working capital.

FYE 2020

Non-current assets

Our non-current assets increased by RM14.1 million or 156.1% mainly due to following:

(i) Increase in property, plant and equipment by RM17.7 million mainly due to the acquisition of Elmina Land; and

(ii) Increase in the investment in associates by RM0.7 million which was mainly due to increase in share of NA from our associated companies, namely Pekat Energy Sarawak (RM0.1 million) and Sunway Pekat Solar (RM0.6 million).

The increase in non-current assets was partially offset by the repayment of amount owing from Startige amounting to RM4.0 million in FYE 2020.

Current assets

Our current assets increased by RM12.4 million or 13.9% mainly due to the following:

(i) Increase in trade receivables by RM5.5 million mainly due to increase in revenue in FYE 2020 of RM6.0 million;

(ii) Increase in contract assets by RM9.2 million mainly due to contract assets recorded for 3 solar PV projects from Projek Lebuhraya Usahasama Bhd, ENGIE Services Sdn Bhd and MFP Solar (totalling RM7.1 million) and 2 ELP projects from Sunway Construction Sdn Bhd and Wah Loon (M) Sdn Bhd (totalling RM1.7 million) as at 31 December 2020;

(iii) Increase in amount due from associates of RM4.3 million mainly due to the increase in amount due from:

(aa) Pekat Energy Sarawak of RM1.0 million for work done under the SARES programme but not collected from Pekat Energy Sarawak as at 31 December 2020. As at the LPD, the amount due from Pekat Energy Sarawak is RM0.8 million and this amount is expected to be collected upon completion of the testing and commissioning by Sarawak Energy Berhad; and

(bb) MFP Solar for advances (RM1.2 million) and work done under VAT PPA and Proton PPA (collectively RM1.7 million) as at 31 December 2020. The amount due from MFP Solar has been collected as at the LPD.

(iv) Increase in cash and bank balances of RM6.8 million and increase in fixed deposits of RM1.5 million mainly due to the proceeds received from net disposal of investment in asset management funds of RM8.3 million in FYE 2020.

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

(i) Net disposal of investment in asset management funds of RM8.3 million; and

(ii) Repayment of amount owing from Startige amounting to RM6.0 million in FYE 2020.

(b) Liabilities

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

	Audited			
	As at 31 December			
	2017	2018	2019	2020
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Lease liabilities	980	871	597	392
Borrowings	8,809	8,061	4,055	13,331
Deferred tax liabilities	-	93	57	237
Total non-current liabilities	**9,789**	**9,025**	**4,709**	**13,960**

	Audited			
	As at 31 December			
	2017	2018	2019	2020
	RM'000	RM'000	RM'000	RM'000
Current liabilities				
Trade payables	4,725	5,521	11,768	20,184
Other payables	5,351	2,646	4,623	2,759
Contract liabilities	18,701	19,008	7,506	8,716
Amount due to an associate	-	-	208	-
Amount due to related parties	1	-	-	-
Amount due to Directors	128	119	500	-
Lease liabilities	442	560	606	261
Borrowings	7,005	13,536	15,667	13,718
Tax payable	839	1,367	1,941	1,339
Total current liabilities	**37,192**	**42,757**	**42,819**	**46,977**
TOTAL LIABILITIES	**46,981**	**51,782**	**47,528**	**60,937**

FYE 2018

Non-current liabilities

Our non-current liabilities decreased by RM0.8 million or 8.2% mainly due to repayment of borrowings of RM0.8 million.

Current liabilities

Our current liabilities increased by RM5.6 million or 15.1% mainly due to the following:

(i) Increase in borrowings of RM6.5 million mainly due to drawdown of bankers' acceptance for the purchase of input materials to support our increase in sales; and

(ii) Increase in trade payables of RM0.8 million which is in line with the increase in inventories to cater to our increase in sales.

The increase in current liabilities was partially offset by decrease of RM2.7 million in other payables mainly due to:

(i) Decrease in other payables by RM2.1 million as we had paid accrued Directors' fees during FYE 2018; and

(ii) Settlement of GST payable of RM0.6 million.

FYE 2019

Non-current liabilities

Our non-current liabilities decreased by RM4.3 million or 47.6% mainly due to reclassification of term loans drawn by our Group to finance the acquisition of Units 3A and 5 of Cubic Space Office to current liabilities (RM3.3 million) and repayment of term loans (RM1.0 million).

Current liabilities

Our current liabilities increased by RM0.1 million or 0.2% mainly due to the following:

(i) Increase in trade payables of RM6.3 million mainly due to increase in purchases in the 4th quarter of FYE 2019 to support the implementation of projects in FYE 2020;

(ii) Increase in other payables of RM2.0 million consisting stamp duty payable for Elmina Land (RM0.6 million), dividend payable (RM0.5 million) and increase in accrued expenses for staff costs (RM0.6 million) as well as for purchases of input materials (RM0.3 million); and

(iii) Increase in borrowings of RM2.1 million mainly due to reclassification of term loans drawn by our Group to finance the acquisition of Units 3A and 5 of Cubic Space Office by Startige to current liabilities. The increase in borrowings was offset by the repayment of bankers' acceptances of RM1.4 million.

During the year, we recorded a decrease in contract liabilities of RM11.5 million mainly due to the sale of inventory to Bekal Hikmat after the discontinuation of the MySuria programme.

FYE 2020

Non-current liabilities

Our non-current liabilities increased by RM9.3 million or 197.5% mainly due to drawdown of term loan amounting to RM13.3 million for the acquisition of Elmina Land.

The increase in non-current liabilities was offset by the repayment of term loan drawn for Units 3A and 5 of Cubic Space Office amounting to RM4.0 million.

Current liabilities

Our current liabilities increased by RM4.2 million or 9.8% mainly due to increase in trade payables of RM8.4 million which is in line with the increase in purchase of input materials in FYE 2020.

The increase in current liabilities was partially offset by:

(i) Decrease in other payables by RM1.9 million mainly due to decrease in accrued expenses for staff costs in FYE 2020 by RM1.7 million; and

(ii) Decrease in borrowings of RM1.9 million was mainly due to repayment of term loans for Units 3A and 5 of Cubic Space Office of RM4.0 million. The decrease in borrowings was offset by the drawdown of term loan for the acquisition of Elmina Land (RM0.4 million) and net drawdown of bankers' acceptances for purchase of input materials (RM1.8 million) to support the increase in our sales.

11.2.11 Recent developments

There are no significant events subsequent to our Group's audited financial statements for FYE 2020.

11.3 LIQUIDITY AND CAPITAL RESOURCES

11.3.1 Working capital

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans, bank overdrafts, letter of credit and trade facilities such as bankers' acceptance as well as lease liabilities. As at 31 December 2020, we have:

(i) cash and bank balances of RM15.1 million; and

(ii) banking facilities (excluding lease liabilities) up to a limit of RM54.5 million, of which RM27.0 million has been utilised.

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

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

Based on the pro forma combined statements of financial position of our Group as at 31 December 2020 (after the Acquisition of Pekat Teknologi but before the Public Issue), our NA position stood at RM63.9 million and our gearing level is 0.43 times. Our NA position and gearing level after the Acquisition of Pekat Teknologi and Public Issue (and utilisation of proceeds) are RM104.6 million and 0.17 times respectively.

As at the LPD, we have cash and bank balances of RM13.1 million and unutilised credit facilities of RM49.8 million. Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group and that our operations were not materially affected throughout the period of MCO, conditional MCO and recovery MCO, our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus. Kindly refer to Section 6.7 for further details.

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

11.3.2 Review of cash flows

(i) Cash flow summary

The table below sets out the summary of our Group's historical audited combined statements of cash flows for FYEs 2017 to 2020.

	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Net cash from/(used in) operating activities	7,215	(5,860)	13,630	4,045
Net cash from/(used in) investing activities	839	(194)	(11,142)	3,847
Net cash from/(used in) financing activities	95	1,200	(5,485)	(2,700)
Net increase/(decrease) in cash and cash equivalents	**8,149**	**(4,854)**	**(2,997)**	**5,192**

(ii) Commentary of cash flows

FYE 2017

Net cash from operating activities

In FYE 2017, we recorded net operating cash from operating activities of RM7.2 million. We collected RM74.4 million from our customers which was offset by cash payments of RM64.5 million. Such cash payments were mainly due to:

(i) RM47.2 million paid to trade suppliers and subcontractors;

(ii) RM11.7 million paid for employees and Directors' remuneration; and

(iii) RM5.6 million paid for operating expenses.

Net cash from investing activities

We recorded a net cash inflow of RM0.8 million from our investing activities in FYE 2017, mainly due to:

(i) Disposal of 6 motor vehicles to Directors and an employee for RM0.5 million;

(ii) Interest received from Startige in FYE 2017 of RM0.4 million; and

(iii) Disposal of subsidiary/associated company and acquisition of subsidiary as a result of our internal reorganisation of RM0.6 million. Kindly refer to 11.2.4 for further details.

The cash inflow was offset by the purchase of motor vehicles amounting to RM0.5 million.

Net cash from financing activities

In FYE 2017, the net cash from financing activities amounted to RM0.1 million. During FYE 2017, we recorded net drawdown of bank bankers' acceptance of RM1.9 million utilised for our working capital. We had also drawn term loans of RM5.2 million used to finance the acquisition of Units 3A and 5 of Cubic Space Office by Startige. The cash inflow was offset by:

(i) Net advances to Startige amounting to RM5.1 million;

(ii) Interest payment of RM1.0 million mainly for bankers' acceptance and term loans; and

(iii) Increase in fixed deposits pledged to financial institution of RM0.2 million.

FYE 2018

Net cash used in operating activities

In FYE 2018, we recorded net operating cash outflow of RM5.9 million as compared to net operating cash inflow of RM7.2 million recorded in FYE 2017. We collected RM102.1 million from our customers which was offset by cash payments of RM104.7 million. Such cash payments were mainly due to:

(i) RM86.2 million paid to trade suppliers and subcontractors;

(ii) RM12.8 million paid for employees and Directors' remuneration; and

(iii) RM5.7 million paid for operating expenses.

During FYE 2018, we recorded negative operating cash flow of RM5.9 million mainly due to the increase in contract assets by RM9.8 million from RM9.5 million as at 31 December 2017 to RM19.3 million as at 31 December 2018.

Contract assets arise when work is done for a project but we are not able to issue billing because the level of work done has not reached a billable milestone as stated in the project contract.

During FYE 2018, we secured 2 solar PV projects from MetTube Sdn Bhd and Metrod (Malaysia) Sdn Bhd with a combined contract value of RM18.3 million. These projects were carried out under the fixed lump sum plus variable periodic payments mode of operation where the contract fixed lump sum payable to us is equivalent to 80.0% of the contract sum stated in the Letter of Award while the remaining 20.0% of the contract sum is waived.

The sum payable by these 2 customers amount to RM14.6 million (being 80% of the contract value) and was paid based on the following stages:

Stage 1: 30% upon issuance of Letter of Award (RM4.4 million); and

Stage 2: 70% upon testing and commissioning of the solar PV power plant (RM10.2 million).

RM4.4 million under Stage 1 was billed and collected as installation works commenced during FYE 2018. As at 31 December 2018, a sizable portion of installation work was done but we were not able to issue the billing for Stage 2 as the project has not reached the completion of Stage 2. As such, work done but not billed is recorded under contract assets. Contract assets recorded under these 2 projects amounted to RM8.2 million as at 31 December 2018.

In FYE 2019, both projects were completed and final billing under Stage 2 was issued and collected. In order to prevent such situation for future financial years, all new project contracts issued subsequent to FYE 2018 comprised additional billable stages that match the level of work done. An example of the additional billable stages is set out below:

Stage 1: 30% upon issuance of Letter of Award;

Stage 2: 30% upon delivery of all materials;

Stage 3: 20% upon completion of installation of PV systems and power plants;

Stage 4: 18% upon testing and commissioning of the solar PV power; and

Stage 5: 2% upon approval from authorities.

Net cash used in investing activities

We recorded a net cash outflow of RM0.2 million from our investing activities in FYE 2018 as compared to net cash inflow of RM0.8 million recorded in FYE 2017. The net cash outflow in FYE 2018 was mainly due to:

(i) Purchase of property, plant and equipment of RM0.5 million which comprises acquisition of an office unit in Klang, Selangor for investment purposes (RM0.2 million), office equipment (RM0.2 million) and motor vehicles (RM0.1 million), which was paid via internally generated funds; and

(ii) Acquisition of 49.0% equity interest in Pekat Energy Sarawak, our associated company for RM0.4 million, which was funded via internally generated funds.

The cash outflow was offset by the interest received from Startige amounting to RM0.5 million and disposal of 2 passenger cars for RM0.1 million.

Net cash from financing activities

In FYE 2018, the net cash inflow in financing activities of RM1.2 million which represents an increase in RM1.1 million or 1,100.0% as compared to net cash inflow of RM0.1 million recorded in FYE 2017. The net cash inflow in FYE 2018 was mainly due to:

(i) Net drawdown of bankers' acceptance of RM6.5 million; and

(ii) Net repayment of advances from Startige of RM0.6 million.

The cash inflow in financing activities was offset by the following:

(i) Increase in fixed deposits pledged to financial institution of RM2.6 million;

(ii) Dividend declared in respect of FYE 2018 which was paid to shareholders of RM1.0 million;

(iii) Interest payment of RM1.0 million mainly for bankers' acceptance and term loans;

(iv) Repayment of term loans of RM0.8 million; and

(v) Repayment of lease liabilities of RM0.5 million.

FYE 2019

Net cash from operating activities

In FYE 2019, we recorded net operating cash from operating activities of RM13.6 million as compared to net operating cash outflow of RM5.9 million recorded in FYE 2018. We collected RM107.5 million from our customers which was offset by cash payments of RM90.4 million. Such cash payments were mainly due to:

(i) RM66.9 million paid to trade suppliers and subcontractors;

(ii) RM16.2 million paid for employees and Directors' remuneration; and

(iii) RM7.2 million paid for operating expenses.

During FYE 2019, we recorded net operating cash flow of RM13.6 million mainly due to increase in trade payables of RM6.3 million attributable to the increase in purchases in the 4th quarter of FYE 2019 to support the implementation of projects in FYE 2020 as well as increase in other payables of RM2.0 million consisting stamp duty payable for Elmina Land (RM0.6 million), dividend payable (RM0.5 million) and increase in accrued expenses for staff costs (RM0.6 million) as well as for purchases of input materials (RM0.3 million).

In addition, we recorded a decrease in contract asset by RM4.6 million in FYE 2019 as compared to an increase in contract asset by RM9.8 million in FYE 2018, as a result of increase in additional billable stages to match the level of work done as stated above.

Net cash used in investing activities

We recorded a net cash outflow of RM11.1 million from our investing activities in FYE 2019, which represents increase in RM10.9 million or 545.0% from net cash outflow of RM0.2 million recorded in FYE 2018. The net cash outflow in FYE 2019 was mainly due to:

(i) Investments of RM9.4 million in asset management funds; and

(ii) Acquisition of intangible assets of RM0.9 million comprising an accounting system by Pekat Teknologi and development of energy management system by Pnexsoft.

Net cash used in financing activities

In FYE 2019, the cash outflow in financing activities of RM5.5 million as compared to cash inflow of RM1.2 million. The cash outflow in FYE 2019 was mainly due to:

(i) Dividend declared in respect of FYE 2019 which was paid to shareholders of RM0.8 million;

(ii) Net repayment of bankers' acceptance of RM1.4 million;

(iii) Repayment of term loans and lease liabilities of a total of RM1.4 million;

(iv) Interest payment of RM1.0 million mainly for bankers' acceptance and term loans; and

(v) Net advances to Startige amounting to RM0.5 million. As at LPD, all amount owing by Startige to our Group has been repaid. Kindly refer to Section 9.1.1(ii) for further details.

FYE 2020

Net cash from operating activities

In FYE 2020, we recorded net operating cash from operating activities of RM4.0 million as compared to net operating cash inflow of RM13.6 million recorded in FYE 2019. We collected RM110.9 million from our customers which was offset by cash payments of RM101.7 million. Such cash payments were mainly due to:

(i) RM81.7 million paid to trade suppliers and subcontractors;

(ii) RM14.1 million paid for employees and Directors' remuneration; and

(iii) RM5.9 million paid for operating expenses.

We also recorded an increase in contract assets mainly due to contract assets recorded for 3 solar PV projects from Projek Lebuhraya Usahasama Bhd, ENGIE Services Sdn Bhd and MFP Solar (totalling RM7.1 million) and 2 ELP projects from Sunway Construction Sdn Bhd and Wah Loon (M) Sdn Bhd (totalling RM1.7 million).

Net cash from investing activities

We recorded a net cash inflow of RM3.8 million from our investing activities in FYE 2020 as compared to net cash outflow of RM11.1 million recorded in FYE 2019. The net cash inflow in FYE 2020 was mainly due to net disposal of investment in asset management funds of RM8.3 million.

The net cash inflow was offset by the increase in property, plant and equipment of RM4.8 million which mainly due to deposit paid for Elmina Land (RM3.4 million), stamp duty paid for the acquisition of Elmina Land (RM0.7 million), purchase of office equipment (RM0.4 million) and purchase of 1 unit of roll forming machine (RM0.3 million). We utilise the roll forming machine to form support structures for installation of solar PV panels. Prior to this, we purchase ready-made support structure from third party manufacturers.

Net cash used in financing activities

In FYE 2020, we recorded cash outflow in financing activities of RM2.7 million as compared to cash outflow of RM5.5 million in FYE 2019. The cash outflow in FYE 2020 was mainly due to:

(i) Advances to an associate, MFP Solar of RM1.1 million for working capital purposes;

(ii) Dividends paid to shareholders of RM1.0 million during FYE 2020;

(iii) Increase in fixed deposits pledged to financial institution of RM3.4 million; and

(iv) Net repayment of term loans (RM7.9 million) and repayment of lease liabilities (RM0.4 million).

The cash outflow in financing activities was offset by the following:

(i) Receipt of amount owing from Startige amounting to RM10.2 million; and

(ii) Net drawdown of bankers' acceptance of RM1.8 million.

11.4 BORROWINGS

Our total outstanding bank borrowings as at 31 December 2020 stood at RM27.7 million, details of which are set out below. All our bank borrowings are interest-bearing and denominated in RM.

	Purpose	Tenure	Interest rate	As at 31 December 2020
			% per annum	RM'000
Interest bearing short-term borrowings, payable within 1 year:				
Bankers' acceptances	Working capital	1 - 6 months	3.51 – 7.07	13,225
Term loans	To finance the acquisition of Elmina Land	239 months	3.37 – 5.72	493
Lease liabilities	Purchase of motor vehicles	1 – 53 months	4.18 – 6.82	261
			Sub-total	**13,979**
Interest bearing long-term borrowings, payable after 1 year:				
Term loans	To finance the acquisition of Elmina Land	239 months	3.37 – 5.72	13,331
Lease liabilities	Purchase of motor vehicles	1 – 53 months	4.18 – 6.82	392
			Sub-total	13,723
			Total borrowings	**27,702**

Pro forma gearing (times)	
After Acquisition of Pekat Teknologi before the Public Issue [(1)]	0.43
After the Public Issue and utilisation of proceeds [(2)]	0.17

Notes:

(1) Computed based on the pro forma combined statements of financial position after the Acquisition of Pekat Teknologi before the Public Issue.

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

Our pro forma gearing ratio is expected to decrease from 0.43 times (before the Public Issue) to 0.26 times (after the Public Issue) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue. Thereafter, the gearing ratio will increase to 0.17 times (after utilisation of proceeds) as we intend to utilise RM10.0 million from our IPO proceeds to repay bank borrowings drawn for the acquisition of the Elmina Land.

Our bank borrowings carry the following interest rates for the FYEs 2017 to 2020:

	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	% per annum			
Bankers' acceptances	4.71 – 8.10	4.87 – 6.17	4.87 – 6.17	3.51 – 7.07
Term loans	5.10 – 8.20	5.12 – 8.20	5.08 – 8.20	3.37 – 5.72
Lease liabilities	4.18 – 6.55	2.66 – 6.82	2.20 – 6.82	4.18 – 6.82
Bank overdrafts	-	-	7.82 – 7.89	-

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

	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	RM'000			
Bank borrowings				
Within the next 12 months	7,005	13,536	15,667	13,718
After the next 12 months	8,809	8,061	4,055	13,331
Lease liabilities				
Within the next 12 months	442	560	606	261
After the next 12 months	980	871	597	392

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2017 to 2020 as well as the subsequent financial period up to LPD.

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

From FYEs 2017 to 2020, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at the LPD, save for our bank borrowings as disclosed in Section 11.4 and forward currency contracts as disclosed in Section 11.10.1, we do not utilise any other financial instruments.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings as at 31 December 2020 are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

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

11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY

11.6.1 Material capital commitments

As at the LPD, our Group does not have any material capital commitment.

11.6.2 Material litigation

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

11.6.3 Contingent liability

Save as disclosed below, there are no other contingent liabilities incurred by us or our subsidiary, which upon becoming enforceable, may have a material effect on our financial position or our subsidiary as at the LPD:

(i) As at the LPD, we hold a minority equity interest amounting to 45.0% in MFP Solar. MFP Solar obtains bank financing to finance its solar PV power plant projects and as a minority shareholder, we are required to provide a corporate guarantee in proportion of our equity interest in MFP Solar. As at the LPD, MFP Solar has drawn bank borrowings amounting to RM16.3 million. We have provided a corporate guarantee amounting to RM7.3 million, which was proportionate to our 45.0% equity interest in MFP Solar for bank financing drawn.

11.7 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYEs 2017 to 2020 are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade receivable turnover (days) (1)	60	43	53	64
Trade payable turnover (days) (2)	44	22	43	66
Inventory turnover (days) (3)	68	42	55	46
Current ratio (times) (4)	1.7	1.8	2.1	2.2
Gearing ratio (times) (5)	0.6	0.6	0.4	0.4

11. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) Computed based on the average trade receivables (excluding allowance for impairment loss and retention sum) over revenue multiplied by 365 days:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade receivables	11,896	12,211	16,366	18,578
Closing trade receivables (excluding retention sum and allowance for impairment loss)	12,211	16,366	18,578	26,113
Revenue	72,830	120,129	119,521	125,562
Average trade receivables turnover period (days)	60	43	53	64

(2) Computed based on the average trade payables over cost of sales multiplied by 365 days:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade payables	5,592	4,725	5,521	11,768
Closing trade payables	4,725	5,521	11,768	20,184
Cost of sales	42,145	84,436	73,127	87,440
Average trade payable turnover period (days)	44	22	43	66

(3) Computed based on the average inventories over cost of sales multiplied by 365 days:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening inventories	6,894	8,909	10,971	11,406
Closing inventories	8,909	10,971	11,406	11,019
Cost of sales	42,145	84,436	73,127	87,440
Inventory turnover period (days)	68	42	55	46

(4) Computed based on current assets over current liabilities as at year end for each of the FYEs 2017 to 2020.

(5) Computed based on the total interest bearing debt (including lease liabilities) over total equity as at year end for each of the FYEs 2017 to 2020.

11. FINANCIAL INFORMATION *(Cont'd)*

11.7.1 Trade receivables turnover

The ageing analysis of our trade receivables as at 31 December 2020 is as follows:

	Trade receivables as at 31 December 2020		Amount collected subsequent to 31 December 2020 up to the LPD		Trade receivables net of subsequent collections	
	RM'000	Percentage of trade receivables	RM'000	Percentage collected	RM'000	Percentage of trade receivables net of subsequent collections
	(a)	(a)/ total of (a)	(b)	(b) /total of (b)	(c)	(c) /total of (c)
Neither past due nor impaired	7,102	24.3%	5,268	27.8%	1,834	17.9%
Past due but not impaired:						
• 1 to 30 days	12,382	42.5%	10,206	53.9%	2,176	21.3%
• 31 to 60 days	3,357	11.5%	900	4.8%	2,457	24.0%
• 61 to 90 days	2,012	6.9%	1,663	8.8%	349	3.4%
• More than 90 days	3,207	11.0%	896	4.7%	2,311	22.6%
	20,958	**71.9%**	**13,665**	**72.2%**	**7,293**	**71.3%**
Allowances for impairment losses	(1) (1,947)	(6.7%)	-	-	(1,947)	(19.0%)
Trade receivables (excluding retention sum and allowance for impairment loss)	**26,113**	**89.5%**	**18,933**	**100.0%**	**7,180**	**70.2%**
Retention sum	(2) 4,742	16.3%	-	-	4,742	46.3%
Retention sum impaired	(1) (1,688)	(5.8%)	-	-	(1,688)	(16.5%)
Total	**29,167**	**100.0%**	**18,933**	**100.0%**	**10,234**	**100.0%**

11. FINANCIAL INFORMATION

Notes:

(1) We recorded an allowance for impairment loss for trade receivables of RM1.9 million and impairment on retention sum of RM1.7 million in FYE 2020.

(i) Impairment loss for retention sum under ELP Division of RM1.7 million for 139 ELP projects where the defect liability period has passed but no final certificate of making good defects was issued by the main contractor. Certificate of making good defects is issued at the end of the defect liability period and thereafter, all retention sums are released. Efforts by us to recover these sum include issuing reminder letters and demand letters; and

(ii) Impairment loss on trade receivables are provided for trade receivables which are past due and no subsequent collection were received, as follows:

(a) Solar Division of RM0.4 million, due the amount owing by 5 customers;

(b) ELP Division of RM0.7 million for 14 ELP customers; and

(c) Trading Division of RM0.2 million for 10 customers.

We have issued reminder letters and demand letters to recover these amounts.

(2) Includes retention sum under ELP Division of RM0.8 million for 38 ELP projects where defect liability period has passed but no impairment was made. We believe that this sum is recoverable as we have been receiving payments from these customers. Therefore, no impairment was made for this retention sum.

Our normal trade terms are cash term and credit terms as follows:

(i) Solar Division - 30 days;
(ii) ELP Division - 30 days to 60 days; and
(iii) Trading Division - 30 days to 120 days.

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

Our Group will assess the collectability of trade receivables on an individual customer basis and impairment will be made for those customers where recoverability is uncertain.

Our average trade receivables turnover period as at FYE 2017, FYE 2018, FYE 2019 and FYE 2020 were 60 days, 43 days, 53 days and 64 days.

The trade receivables turnover period in FYE 2017 was higher due to the higher revenue contribution from ELP Division (45.5%) and Trading Division (34.0%), which has a higher credit term of up to 60 days and 120 days, respectively. Solar Division, which contributed 20.5% of revenue has a credit term of 30 days.

Trade receivables turnover period decreased from approximately 60 days in FYE 2017 to approximately 43 days in FYE 2018, due to the increase in revenue contribution from our Solar Division of 45.6%. As the credit term for Solar Division is 30 days, our average trade receivables turnover period decreased.

Trade receivables turnover period increased from approximately 43 days in FYE 2018 to approximately 53 days in FYE 2019 due to the amount owing by Firstex as at 31 December 2019 of RM2.0 million. As at the LPD, we received payment of RM1.8 million and the balance shall be paid via monthly instalments up till June 2022 as per a revised payment schedule.

Trade receivables turnover period increased from approximately 53 days in FYE 2019 to approximately 64 days in FYE 2020 mainly due to increase in amount due from Hong Seng Assembly Sdn Bhd of RM5.0 million (FYE 2019: RM0.8 million) and UTeM Holdings Sdn Bhd of RM3.4 million (FYE 2019: nil). Subsequent to FYE 2020, Hong Seng Assembly Sdn Bhd has fully repaid the amount outstanding. The solar PV project that we are implementing for UTeM Holdings Sdn Bhd is currently undergoing rectification works and the outstanding amount shall be paid upon full completion of the project. As at the LPD, the amount due from UTeM Holdings Sdn Bhd is still outstanding. The full amount due from UTeM Holdings Sdn Bhd for this solar PV project is expected to be received during June 2021, being 1 month after the expected completion of the solar PV project in May 2021.

Our Group has not encountered any major disputes with our debtors. We have made allowance for impairment loss in respect of our doubtful debts.

As at the LPD, RM7.2 million of outstanding trade receivables (excluding retention sum and allowance for impairment loss) as at 31 December 2020 has yet to be collected, including RM5.3 million which is past due but not impaired as we have been receiving continuing subsequent payments from these customers and our management is confident that this amount is collectible.

11.7.2 Trade payables turnover

The ageing analysis of our trade payables as at 31 December 2020 is as follows:

		Exceeding credit period				
	Within credit term	**1 to 30 days past due**	**31 to 60 days past due**	**61 - 90 days past due**	**More than 90 days past due**	**Total**
Trade payables (RM'000)	12,731	4,520	1,778	394	761	20,184
% of total trade payables (%)	63.1	22.4	8.8	1.9	3.8	100.0
Subsequent payments up to the LPD (RM'000)	11,555	4,336	1,778	392	585	18,646
Trade payables net of subsequent payments (RM'000)	1,176	184	-	2	176	1,538
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	76.5	12.0	-	0.1	11.4	100.0
Turnover period (Days)	-	-	-	-	-	66

The normal credit terms granted to our Group by our suppliers ranged from 30 to 90 days from the date of invoice.

Our trade payables turnover days from FYE 2017 to FYE 2019 ranged between 22 days and 44 days, within the credit period given. Trade payable turnover days in FYE 2018 fell to 22 days from 44 days in FYE 2017 mainly due to a surge in import of solar PV modules and inverters for our Solar Division which is financed via bankers' acceptances.

Subsequently, we were able to negotiate and secured credit terms from our overseas solar PV module and inverter suppliers in FYE 2019. Hence, we reduced the usage of bankers' acceptance and increase the use of credit terms granted by suppliers which resulted in higher trade payable turnover of 43 days in FYE 2019.

The trade payable turnover period increase from 43 days in FYE 2019 to 66 days in FYE 2020 as we further reduced the usage of bankers' acceptance and increase the use of credit terms by suppliers.

As at the LPD, 92.4% of our trade payables has been paid. The remaining amount payable of RM0.4 million (which was past due) was not paid as the suppliers are carrying out rectification works. The amount will be paid upon the completion of the rectification works.

11.7.3 Inventories

The table below sets out a summary of our Group's inventories for the financial years under review:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening inventories	6,894	8,909	10,971	11,406
Closing inventories	8,909	10,971	11,406	11,019
Cost of sales	42,145	84,436	73,127	87,440
Average inventory turnover period (days)	68	42	55	46

Our Group practices weighted average basis in computing the cost of inventories in the preparation of our accounting report. The costs are generally computed based on the weighted average cost of the inventories and includes value of goods purchased and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

We maintain a stock level for up to 3 months. A monthly management meeting is conducted to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

We assess whether inventories should be impaired by identifying slow moving inventories during periodic stock count, obsolete inventories will be written down to their net realisable value while damaged/stolen inventories will be written off.

Our impairment on slow moving stocks, written down of inventories and written off of inventories for the past 4 FYEs are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impairment on slow moving stocks [(1)]	218	-	415	-
Written down of inventories [(2)]	47	7	-	-
Written off of inventories [(3)]	-	-	82	-

Notes:

(1) FYE 2017

Comprising exothermic welding systems (RM0.1 million), solar PV inverters (RM0.1 million) and aviation warning light systems (RM0.02 million).

FYE 2019

Comprising ELP products and accessories such as cables and surge protection devices (RM0.38 million) and solar PV inverters and monitoring systems (RM0.04 million).

These products were identified as slow moving products as it has not been sold for more than 3 years.

(2) Comprising solar PV modules, surge protection devices and aviation warning light systems (FYE 2017) and solar PV accessories (FYE 2018) which were obsolete and hence written down to its net realisable value.

(3) Comprising cables and ELP accessories which were stolen and written off. We have successfully claimed our insurance for this sum.

For the past 4 FYEs, our average inventory turnover period ranged from 42 days to 68 days.

Our inventory turnover period fell from 68 days in FYE 2017 to 42 days in FYE 2018 due to the surge in revenue for our Solar Division which has shorter project implementation duration, where the project implementation for Solar Division is between 3 months to 18 months as compared to ELP Division, where the project implementation for ELP Division is between 12 months to 36 months.

In FYE 2019, we recorded a decrease in cost of sales resulting from decrease in cost of solar PV modules by approximately 20.0% due to the lower selling prices offered by our solar PV modules suppliers, in line with the decrease in prices of solar PV modules globally. During FYE 2019, the price of solar PV modules had reduced from RM1,250/kWp in FYE 2018 to RM1,100/kWp in 2019. In addition, we had increased the purchase of inventory towards the end of FYE 2019 in anticipation of higher sales during FYE 2020. This has resulted in an increase of our inventory turnover period to 55 days.

Our inventory turnover period decreased from 55 days in FYE 2019 to 46 days in FYE 2020 due to the surge in revenue for our Solar Division which has shorter project implementation duration of between 3 months to 18 months as compared to ELP Division of between 12 months to 36 months.

11.7.4 Current ratio

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

	Audited			
	As at 31 December			
	2017	**2018**	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	64,040	78,230	89,297	101,704
(Current liabilities)	(37,192)	(42,757)	(42,819)	(46,977)
Net current assets	**26,848**	**35,473**	**46,478**	**54,727**
Current ratio (times)	1.7	1.8	2.1	2.2

Our current ratio ranged from 1.7 times to 2.2 times for the financial years under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

Our current ratio increased from 1.7 times as at 31 December 2017 to 1.8 times as at 31 December 2018 to 2.1 times as at 31 December 2019 due to increase in our current assets arising from our business growth where we recorded PAT of RM14.9 million during FYE 2019 which represents an increase in PAT of 34.9% as compared to FYE 2018. Resulting from the increase in PAT, our cash equivalent comprising investment in asset management funds, fixed deposits with licenced banks as well as cash and bank balances had increased to RM25.4 million thereby improving our current assets. Our current ratio further increased to 2.2 times as at 31 December 2020 due to increase in our current assets arising from our business growth where we recorded PAT of RM13.6 million in FYE 2020.

11.7.5 Gearing ratio

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

	Audited			
	As at 31 December			
	2017	**2018**	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total borrowings (including lease liabilities)	17,236	23,028	20,925	27,702
Total equity	27,188	37,269	50,801	63,876
Gearing ratio (times)	0.6	0.6	0.4	0.4

Our Group's gearing ratio ranged from 0.4 times to 0.6 times for the FYEs under review. Our gearing ratio improved from 0.6 times as at 31 December 2018 to 0.4 times as at 31 December 2019 due to the increase in total equity arising from PAT recorded in FYE 2019. Our gearing ratio remains consistent at 0.4 times as at 31 December 2020 as compared to 31 December 2019.

11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

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

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

11.9 IMPACT OF INFLATION

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

11.10 IMPACT OF FOREIGN EXCHANGE RATES AND/OR INTEREST RATES

11.10.1 Impact of foreign exchange rates

For the past 4 FYEs 2017 to 2020, we are exposed to transactional currency exposure as a substantial amount of our input materials purchased are denominated in foreign currencies, such as USD. The following is our Group's breakdown of purchases between RM and other currencies made during the 4 FYEs:

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
Purchases in:	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	28,100	67.9	43,556	53.7	27,696	41.8	38,731	48.3
USD	11,324	27.3	35,136	43.3	36,751	55.5	37,920	47.3
Others ^	1,972	4.8	2,410	3.0	1,756	2.7	3,542	4.4
Total purchases	**41,396**	**100.0**	**81,102**	**100.0**	**66,203**	**100.0**	**80,193**	**100.0**

Note:

^ Comprising RMB, Euro and CHF.

Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher cost of input materials.

For the past 4 FYEs 2017 to 2020, our gain and losses from the foreign exchange fluctuations are as follows:

	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000	RM'000
Realised foreign exchange gain/(loss) (1)	192	144	(142)	(21)
Unrealised foreign exchange gain/(loss) (2)	38	8	137	(66)
Net gain/(loss)	**230**	**152**	**(5)**	**(87)**

Notes:

(1) Realised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our invoice as compared to the foreign exchange rate when the payment for the invoice is received.

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

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

In addition to the above, we had entered into forward currency contracts to hedge our exposure against fluctuations in foreign currency for the purchases of input materials. The forward currency contracts entered into as at 31 December 2017, 2018, 2019 and 2020 are as follows:

	FYE 2017		FYE 2018			FYE 2019	
	USD'000	RM'000	USD'000	RMB'000	RM'000	USD'000	RM'000
USD / RMB denominated forward contracts	296	1,224	300	79	1,306	-	-

	FYE 2020	
	USD'000	RM'000
USD / RMB denominated forward contracts	-	-

The fair value gain/(loss) from the fluctuations in foreign exchange from the forward contracts that we entered into is immaterial and as such, was not recorded in our financial statements.

11.10.2 Impact of interest rates

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

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000	RM'000
Total borrowings (including lease liabilities)	17,236	23,028	20,925	27,702
EBIT	12,407	15,675	19,815	18,890
Finance costs	1,031	1,154	1,034	887
Interest coverage ratio (times) (1)	12.0	13.6	19.2	21.3

Note:

(1) Computed based on EBIT over finance costs.

Our interest coverage ratio of between 12.0 to 21.3 times for the FYEs 2017 to 2020 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations.

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

11.11 ORDER BOOK

As at the LPD, we have secured total order book amounting to RM198.9 million. RM44.0 million of the secured total order book has been billed as at the LPD and RM154.9 million has not been billed.

	Total order book as at the LPD	Billed as at the LPD	Unbilled amount as at the LPD
	RM'000	RM'000	RM'000
Solar Division			
Design, supply and installation for:			
- Commercial	21,928	4,348	17,580
- Industrial	99,358	27,032	72,326
- Residential	1,221	204	1,017
- Others	2,002	85	1,917
Operations and maintenance	111	111	-
ELP Division			
Commercial	18,391	3,281	15,110
Mixed development	21,399	2,514	18,885
Infrastructure	32,923	5,586	27,337
Industrial	1,331	808	523
Others	226	-	226
	198,890	**43,969**	(1) **154,921**

Note:

(1) RM117.2 million is expected to be billed for the financial year ending 31 December 2021. RM24.8 million and RM11.5 million is expected to be billed for the financial years ending 31 December 2022 and 2023, respectively. The remaining RM1.4 million is expected to be billed subsequent to 2023.

In addition to the above, purchase orders as at the LPD for our Trading Division amounts to RM12.4 million.

11.12 TREND INFORMATION

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

(i) More than 60% of our revenue was derived from implementing projects under our Solar Division and ELP Division. We expect project based revenue to continue contributing significantly to our revenue in the future;

(ii) All of our revenue is derived locally. We expect this trend to continue;

(iii) The main components of our cost of sales are input materials and subcontractor costs which consistently constitute more than 70% and 10% of our total cost of sales, respectively. We expect this trend to continue; and

(iv) We achieved a GP margin of between 29.7% to 42.1% for the past 4 FYEs. Moving forward, our GP margin would depend on the level of competition and our continued ability to manage our costs efficiently and price our services/products competitively.

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

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

(b) Material commitments for capital expenditure;

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

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

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

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

11.13 DIVIDENDS

As our Company is an investment holding company, our income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from the financiers of our Group as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Moving forward, the payment of dividends or other distributions by our subsidiaries will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

Our Group presently does not have any formal dividend policy, the declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. It is our intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

In respect of FYEs 2017 to 2020, dividends declared by our subsidiary, Pekat Teknologi were as follows:

	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Dividends declared	-	1,018	1,274	500

Notes:

FYE 2018

RM1.0 million was declared and paid on 5 September 2018. The dividends paid of RM1.0 million represent 9.2% of our PAT attributable to owners of the Company.

FYE 2019

- RM0.5 million was declared on 21 May 2019 and paid on 23 May 2019;
- RM0.3 million was declared on 4 November 2019 and paid on 11 November 2019; and
- RM0.5 million was declared on 31 December 2019 and paid on 13 January 2020.

The total dividends paid of RM1.3 million represent 8.6% of our PAT attributable to owners of the Company.

FYE 2020

RM0.5 million was declared on 16 March 2020 and paid on 18 March 2020. The dividends paid of RM0.5 million represent 3.7% of our PAT attributable to owners of the Company.

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

11. FINANCIAL INFORMATION *(Cont'd)*

11.14 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 3 April 2021 and after adjusting for the effects of the Acquisition of Pekat Teknologi and Public Issue including the utilisation of proceeds from the Public Issue.

	Pekat	I	II	III
	As at 3 April 2021	After Acquisition of Pekat Teknologi	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(38)	68,133	112,507	108,807
Total capitalisation	**(38)**	**68,133**	**112,507**	**108,807**
Indebtedness [(1)]				
Current				
Lease liabilities	-	210	210	210
Bankers' acceptance	-	13,146	13,146	13,146
Term loans	-	595	595	595
Non-current	-			
Lease liabilities		295	295	295
Term loans	-	13,177	13,177	3,177
Total indebtedness	-	**27,423**	**27,423**	**17,423**
Total capitalisation and indebtedness	**(38)**	**95,556**	**139,930**	**126,230**
Gearing ratio (times) [(2)]	-	**0.40**	**0.24**	**0.16**

Notes:

(1) All of our indebtedness are secured and guaranteed.

(2) Calculated based on the total indebtedness divided by the total capitalisation.

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PEKAT GROUP BERHAD
(Registration No: 201901011563 (1320891-U))
(Incorporated in Malaysia)

ACCOUNTANTS' REPORT FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 2019, 2018 AND 2017

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member of Grant Thornton International Ltd

GrantThornton

Date: 3 May 2021

The Board of Directors
Pekat Group Berhad
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Dear Sirs,

Reporting Accountants' Opinion On The Financial Information Contained In The Accountants' Report of Pekat Group Berhad ("the combining entities" or "Pekat Group")

Opinion

We have audited the accompanying combined financial statements ("Financial Information") of Pekat Group Berhad ("the Company") and of its subsidiaries (collectively known as "the combining entities" or "Pekat Group") which comprises the combined statement of financial position of the combining entities as at 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and the combined statement of profit or loss and other comprehensive income, combined statement of changes in equity and combined statement of cash flows of the combining entities for the financial years ended 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 92. This historical Financial Information has been prepared for inclusion in the prospectus for Pekat Group.

In our opinion, the accompanying Financial Information give a true and fair view of the combined financial position of the combining entities as at 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and of their combined financial performance and combined cash flows for the financial years then ended in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and Paragraph 10.05 of Chapter 10, Part II Division 1, Equity of the Prospectus Guidelines as issued by the Securities Commission.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Financial Information* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and Other Ethical Responsibilities

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

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Responsibilities of the Directors for the Financial Information

The Directors of the combining entities are responsible for the preparation of the Financial Information of the combining entities that give a true and fair view in accordance with the MFRSs and IFRSs. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of Financial Information of the combining entities that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Information of the combining entities, the Directors are responsible for assessing the combining entities' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the combining entities or cease operations, or have no realistic alternative but to do so.

Reporting Accountants' Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the Financial Information of the combining entities as a whole are free from material misstatement, whether due to fraud or error, and to issue a reporting accountants' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Information.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the Financial Information of the combining entities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the combining entities' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the combining entities' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the Financial Information of the combining entities or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the combining entities to cease to continue as a going concern.

Grant Thornton

Reporting Accountants' Responsibilities for the Audit of the Financial Information (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (cont'd):-

- Evaluate the overall presentation, structure and content of the Financial Information of the combining entities, including the disclosures, and whether the Financial Information of the combining entities represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the combining entities to express an opinion on the Financial Information of the combining entities. We are responsible for the direction, supervision and performance of the combining entities audit. We remain solely responsible for our audit opinion.

We have communicated with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Other Reporting Responsibility

In accordance with Paragraph 10.05 of Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the Securities Commission, we report that the significant subsequent events identified by the combining entities since 31 December 2020, the reporting date of the most recent audited Financial Information to the date of this report, are as disclosed in Note 41 to the Financial Information.

Restriction on Distribution and Use

This report is made solely to the Company and for inclusion in the prospectus of Pekat Group to be issued in relation to the proposed listing of and quotation for the entire enlarged issued share capital of Pekat Group on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

GRANT THORNTON MALAYSIA PLT
(201906003682 & LLP0022494-LCA)
CHARTERED ACCOUNTANTS (AF 0737)

OOI POH LIM
(NO: 03087/10/2021 J)
CHARTERED ACCOUNTANT
PARTNER

Kuala Lumpur
3 May 2021

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

	Note	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
ASSETS					
Non-current assets					
Property, plant and equipment	4	20,072,877	2,414,583	2,040,632	1,958,001
Intangible assets	5	640,408	786,968	-	-
Investment in associates	6	2,149,479	1,411,647	388,780	-
Other investments	7	-	-	47,546	-
Trade receivables	9	245,953	406,543	733,242	-
Amount due from related parties	13	-	4,013,118	7,610,849	8,170,633
Total non-current assets		23,108,717	9,032,859	10,821,049	10,128,634
Current assets					
Other investments	7	1,158,588	9,507,538	-	-
Inventories	8	11,018,942	11,406,167	10,970,866	8,908,556
Trade receivables	9	28,920,735	23,461,874	22,821,016	18,421,092
Other receivables	10	3,183,179	3,127,943	2,293,865	3,207,067
Contract assets	11	23,970,695	14,760,753	19,342,858	9,549,544
Amount due from associates	12	9,240,536	4,911,737	1,803,756	399,717
Amount due from related parties	13	-	6,213,801	2,086,681	2,177,644
Tax recoverable		-	10,838	466,227	663,196
Fixed deposits with licensed banks	14	9,135,078	7,661,134	10,497,302	6,882,228
Cash and bank balances		15,076,049	8,234,644	7,946,584	13,831,111
Total current assets		101,703,802	89,296,429	78,229,155	64,040,155
TOTAL ASSETS		124,812,519	98,329,288	89,050,204	74,168,789
EQUITY AND LIABILITIES					
EQUITY					
Equity attributable to owners of the combining entities:-					
Share capital	15	550,040	550,040	550,020	550,020
Retained earnings		63,255,619	50,179,447	36,762,395	26,683,497
		63,805,659	50,729,487	37,312,415	27,233,517
Non-controlling interests ("NCI")	16(b)	70,097	72,035	(43,066)	(45,113)
TOTAL EQUITY		63,875,756	50,801,522	37,269,349	27,188,404
LIABILITIES					
Non-current liabilities					
Lease liabilities	17	391,984	596,884	870,679	979,960
Borrowings	18	13,330,885	4,055,466	8,060,700	8,808,501
Deferred tax liabilities	19	237,000	57,000	93,000	-
Total non-current liabilities		13,959,869	4,709,350	9,024,379	9,788,461
Current liabilities					
Trade payables	20	20,184,381	11,768,025	5,520,700	4,725,098
Other payables	21	2,758,656	4,622,992	2,645,843	5,350,789
Contract liabilities	11	8,716,278	7,505,558	19,007,966	18,700,545
Amount due to an associate	12	-	207,855	-	-
Amount due to related parties	13	-	-	-	1,000
Amount due to Directors	22	-	500,000	118,614	127,598
Lease liabilities	17	260,795	605,966	560,013	442,006
Borrowings	18	13,718,231	15,667,346	13,536,379	7,005,458
Tax payable		1,338,553	1,940,674	1,366,961	839,430
Total current liabilities		46,976,894	42,818,416	42,756,476	37,191,924
TOTAL LIABILITIES		60,936,763	47,527,766	51,780,855	46,980,385
TOTAL EQUITY AND LIABILITIES		124,812,519	98,329,288	89,050,204	74,168,789

The accompanying notes form an integral part of the combined financial statements.

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

	Note	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Revenue	23	125,561,856	119,520,675	120,128,660	72,829,763
Cost of sales		(87,439,495)	(73,127,114)	(84,435,411)	(42,144,809)
Gross profit		38,122,361	46,393,561	35,693,249	30,684,954
Other income	24	1,685,190	1,735,113	566,757	1,722,771
Administrative expenses		(20,738,178)	(24,537,333)	(19,393,698)	(18,912,548)
Other expenses	25	(916,967)	(4,345,038)	(1,212,323)	(1,031,042)
Operating profit		18,152,406	19,246,303	15,653,985	12,464,135
Finance income	26	380,137	893,812	823,191	716,629
Finance costs	27	(887,474)	(1,034,417)	(1,154,393)	(1,030,540)
Share of profit/(loss) in associates		737,832	568,812	21,250	(57,367)
Profit before tax	28	18,382,901	19,674,510	15,344,033	12,092,857
Tax expense	29	(4,808,667)	(4,819,357)	(4,335,551)	(2,629,023)
Net profit for the financial years		13,574,234	14,855,153	11,008,482	9,463,834
Other comprehensive income for the financial years, net of tax		-	-	-	-
Total comprehensive income for the financial years		13,574,234	14,855,153	11,008,482	9,463,834
Profit for the financial years attributable to:-					
Owners of the combining entities		13,576,172	14,793,750	11,096,435	9,360,499
NCI		(1,938)	61,403	(87,953)	103,335
		13,574,234	14,855,153	11,008,482	9,463,834
Total comprehensive income for the financial years attributable to:-					
Owners of the combining entities		13,576,172	14,793,750	11,096,435	9,360,499
NCI		(1,938)	61,403	(87,953)	103,335
		13,574,234	14,855,153	11,008,482	9,463,834
Earnings per share					
Basic earnings per share	30	2,467	2,689	2,017	1,702
Diluted earnings per share	30	-	-	-	-

The accompanying notes form an integral part of the combined financial statements.

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

	Note	Share capital RM	Retained earnings RM	Total RM	NCI RM	Total equity RM
Balance at 1 January 2017		550,020	17,053,399	17,603,419	101,294	17,704,713
Total comprehensive income for the financial year		-	9,360,499	9,360,499	103,335	9,463,834
Transactions with owners of the combining entities:-						
Increased in shareholding of a subsidiary		-	269,599	269,599	(359,599)	(90,000)
Disposal of a subsidiary		-	-	-	109,857	109,857
Balance at 31 December 2017		550,020	26,683,497	27,233,517	(45,113)	27,188,404
Total comprehensive income for the financial year		-	11,096,435	11,096,435	(87,953)	11,008,482
Transactions with owners of the combining entities:-						
Dividend paid to owners of the combining entities	31	-	(1,017,537)	(1,017,537)	-	(1,017,537)
Incorporation of a subsidiary		-	-	-	90,000	90,000
Balance at 31 December 2018		550,020	36,762,395	37,312,415	(43,066)	37,269,349
Total comprehensive income for the financial year		-	14,793,750	14,793,750	61,403	14,855,153
Transactions with owners of the combining entities:-						
Incorporation of the Company	15	20	-	20	-	20
Dividend paid to owners of the combining entities	31	-	(1,274,000)	(1,274,000)	-	(1,274,000)
Increased in shareholding of a subsidiary		-	(102,698)	(102,698)	53,698	(49,000)
Acquistion of a subsidiary		-	-	-	198,235	198,235
Disposal of a subsidiary		-	-	-	(198,235)	(198,235)
Balance at 31 December 2019		550,040	50,179,447	50,729,487	72,035	50,801,522
Total comprehensive income for the financial year		-	13,576,172	13,576,172	(1,938)	13,574,234
Transaction with owners of the combining entities:-						
Dividend paid to owners of the combining entities	31	-	(500,000)	(500,000)	-	(500,000)
Balance at 31 December 2020		550,040	63,255,619	63,805,659	70,097	63,875,756

The accompanying notes form an integral part of the combined financial statements.

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

	Note	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
OPERATING ACTIVITIES					
Profit before tax		18,382,901	19,674,510	15,344,033	12,092,857
Adjustments for:-					
Amortisation of intangible assets		179,937	96,809	-	-
Bargain purchase on acquisition of a subsidiary		-	-	-	(142,372)
Depreciation of property, plant and equipment		723,079	947,721	886,409	1,588,583
Dividend income		(119,629)	(131,794)	-	-
Fair value (gain)/loss on other investments		(5,608)	6,332	(7,546)	-
Gain on disposal of an associate		(32)	-	-	(250,000)
Gain on disposal of property, plant and equipment		(2,000)	-	(77,297)	(393,995)
Gain on termination of lease		(31,206)	-	-	-
Impairment loss on contract assets		637,598	283,715	-	-
Impairment loss on inventories		-	414,529	-	218,063
Impairment loss on trade receivables		175,651	3,317,425	987,522	323,635
Interest expenses		887,474	1,034,417	1,154,393	1,030,540
Interest income		(380,137)	(893,812)	(823,191)	(716,629)
(Gain)/Loss on disposal of subsidiaries		(18,160)	82,326	-	(318,341)
Loss on liquidation of subsidiaries		-	-	21,985	-
Provision for foreseeable losses		-	-	2,190,537	710,574
Reversal of provision for foreseeable losses		(1,432,315)	(1,117,655)	-	-
Reversal of impairment loss on contract assets		-	-	(29,498)	-
Reversal of impairment loss on inventories		(179,397)	(74,290)	-	-
Reversal of impairment loss on trade receivables		(348,933)	(1,113,086)	(140,768)	-
Share of (profit)/loss in associates		(737,832)	(568,812)	(21,250)	57,367
Unrealised loss/(gain) on foreign exchange		66,212	(137,258)	(8,469)	(38,173)
Waiver of amount due to related parties		-	-	-	(223,958)
Written down of inventories		-	-	6,987	46,915
Written off of contract assets		-	12,529	-	-
Written off of inventories		-	82,365	-	-
Written off of other receivables		-	-	105,940	427,481
Written off of property, plant and equipment		3,585	4,114	-	-
Written off of amount due from an associate		12,385	-	-	-
Written off of trade receivables		286	-	89,889	14,948
Operating profit before working capital changes		17,813,859	21,920,085	19,679,676	14,427,495
Changes in working capital:-					
Inventories		566,622	(857,905)	(2,069,297)	(2,176,648)
Receivables		(5,180,511)	(3,352,576)	(5,409,622)	(3,882,431)
Payables		6,493,124	8,361,732	(1,901,244)	(3,538,919)
Contract assets or liabilities		(7,204,505)	(6,098,892)	(11,646,932)	5,368,908
Associates		(3,442,638)	(2,806,680)	(1,311,283)	(399,717)
Related parties		-	(10,462)	14,389	157,009
Cash generated from/(used in) operations		9,045,951	17,155,302	(2,644,313)	9,955,697
Interest received		209,467	301,205	302,306	306,040
Tax refund		-	821,564	130,924	-
Tax paid		(5,210,107)	(4,647,819)	(3,648,975)	(3,046,499)
Net cash from/(used in) operating activities		4,045,311	13,630,252	(5,860,058)	7,215,238

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017 (CONT'D)

	Note	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
INVESTING ACTIVITIES					
Acquisition from NCI in a subsidiary		-	(49,000)	-	(90,000)
Acquisition of intangible assets		(33,377)	(883,777)	-	-
Acquisition of investment in associates		-	(454,055)	(367,530)	-
Acquisition of other investment		(533,966)	(9,375,361)	(40,000)	-
Acquisition of property, plant and equipment	B	(4,766,896)	(931,382)	(494,643)	(505,079)
Dividend received		98,153	40,831	-	-
Interest received		170,670	592,607	520,885	410,589
Net inflow on acquistion of a subsidiary		-	198,235	-	123,083
Net inflow on incorporation of a subsidiary		-	-	90,000	-
Net inflow/(outflow) on disposal of subsidiaries		1,001	(280,561)	-	200,407
Net outflow on liquidation of subsidiaries		-	-	(6,085)	-
Proceeds from disposal of other investments		8,910,000	-	-	-
Proceeds from disposal of an associate		32	-	-	250,000
Proceeds from disposal of property, plant and equipment	C	2,000	-	103,900	450,247
Net cash from/(used in) investing activities		3,847,617	(11,142,463)	(193,473)	839,247
FINANCING ACTIVITIES					
Advances to an associate		(1,106,401)	(93,446)	(92,756)	(4,949)
Repayments from/(Advances to) related parties		10,226,919	(518,927)	635,358	(5,073,007)
(Repayments to)/Advances from Directors		-	(118,614)	(8,984)	52,598
Dividend paid		(1,000,000)	(774,000)	(1,017,537)	-
Drawdowns of fixed deposit pledged with licensed bank		(3,394,912)	(177,418)	(2,584,394)	(187,152)
Interest paid		(887,474)	(1,034,417)	(1,022,849)	(1,030,540)
Drawdowns of bankers' acceptances		18,620,276	25,038,083	27,526,784	17,729,497
Repayments of bankers' acceptances		(16,783,004)	(26,402,803)	(20,994,046)	(15,783,510)
Drawdowns of term loans		483,867	-	-	5,234,500
Repayments of term loans		(8,410,723)	(781,659)	(749,618)	(557,947)
Repayments of lease liabilities	D	(448,927)	(622,246)	(492,274)	(284,603)
Proceeds from issuance of shares		-	20	-	-
Net cash (used in)/from financing activities		(2,700,379)	(5,485,427)	1,199,684	94,887
CASH AND CASH EQUIVALENTS					
Net changes		5,192,549	(2,997,638)	(4,853,847)	8,149,372
Brought forward		9,883,500	12,881,138	17,734,985	9,585,613
Carried forward	A	15,076,049	9,883,500	12,881,138	17,734,985

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017 (CONT'D)

NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

A. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the combined statement of cash flows comprise the followings:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Cash and bank balances	15,076,049	8,234,644	7,946,584	13,831,111
Fixed deposits with licensed banks	9,135,078	7,661,134	10,497,302	6,882,228
Overdrafts	-	(272,112)	-	-
	24,211,127	15,623,666	18,443,886	20,713,339
Less: Fixed deposits with licensed banks pledged as security for banking facilities	(9,135,078)	(5,740,166)	(5,562,748)	(2,978,354)
Cash and cash equivalents	15,076,049	9,883,500	12,881,138	17,734,985

B. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Total purchase of property, plant and equipment	18,524,896	1,325,786	995,643	1,545,337
Less: Acquisition by means of lease liabilities	(70,000)	(394,404)	(501,000)	(1,040,258)
Acquisition by means of bank borrowings	(13,688,000)	-	-	-
Total cash paid	4,766,896	931,382	494,643	505,079

C. PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Total proceeds received from disposal of property, plant and equipment	2,000	-	103,900	1,531,600
Less: Disposal by means of transfer out lease liabilities	-	-	-	(1,081,353)
Total cash received	2,000	-	103,900	450,247

D. CASH OUTFLOWS FOR LEASES AS A LESSEE

	Note	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Included in net cash from operating activities:-					
Payment relating to short-term leases	17	1,403,844	1,259,334	1,249,942	1,290,486
Payment relating to leases of low-value assets	17	-	1,680	-	-
Included in net cash from financing activities:-					
Payment of lease liabilities		448,927	622,246	492,274	284,603
Payment on interest of lease liabilities		45,737	75,223	86,357	167,687
Total cash outflows for leases		1,898,508	1,958,483	1,828,573	1,742,776

PEKAT GROUP BERHAD
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COMBINED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017 (CONT'D)

NOTES TO THE COMBINED STATEMENT OF CASH FLOWS (CONT'D)

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1.1.2020 RM	Drawdown RM	Repayments RM	Disposal RM	Termination RM	31.12.2020 RM
Lease liabilities	1,202,850	70,000	(448,927)	-	(171,144)	652,779
Bankers' acceptances	11,388,005	18,620,276	(16,783,004)	-	-	13,225,277
Term loans	8,062,695	14,171,867	(8,410,723)	-	-	13,823,839
	20,653,550	32,862,143	(25,642,654)	-	(171,144)	27,701,895

	1.1.2019 RM	Drawdown RM	Repayments RM	Disposal RM	Termination RM	31.12.2019 RM
Lease liabilities	1,430,692	394,404	(622,246)	-	-	1,202,850
Bankers' acceptances	12,752,725	25,038,083	(26,402,803)	-	-	11,388,005
Term loans	8,844,354	-	(781,659)	-	-	8,062,695
	23,027,771	25,432,487	(27,806,708)	-	-	20,653,550

	1.1.2018 RM	Drawdown RM	Repayments RM	Disposal RM	Termination RM	31.12.2018 RM
Lease liabilities	1,421,966	501,000	(492,274)	-	-	1,430,692
Bankers' acceptances	6,219,987	27,526,784	(20,994,046)	-	-	12,752,725
Term loans	9,593,972	-	(749,618)	-	-	8,844,354
	17,235,925	28,027,784	(22,235,938)	-	-	23,027,771

	1.1.2017 RM	Drawdown RM	Repayments RM	Disposal RM	Termination RM	31.12.2017 RM
Lease liabilities	1,747,664	1,040,258	(284,603)	(1,081,353)	-	1,421,966
Bankers' acceptances	4,274,000	17,729,497	(15,783,510)	-	-	6,219,987
Term loans	4,917,419	5,234,500	(557,947)	-	-	9,593,972
	10,939,083	24,004,255	(16,626,060)	(1,081,353)	-	17,235,925

The accompanying notes form an integral part of the combined financial statements.

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Introduction

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Pekat Group Berhad ("the Company" or "Pekat Group") in connection with the listing of and quotation for the entire enlarged issued share capital of Pekat Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing") and should not be relied upon for any other purposes.

1.2 Background

The Company was incorporated on 5 April 2019 as a public limited liability company and domiciled in Malaysia. The registered office is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur. The principal place of business of the Company is located at 3A, 5&6 Teknologi Kubik, No. 6, Jalan Teknologi 3/4 Taman Sains Selangor 1, Kota Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan.

1.3 Principal activities

The Company's principal activity is investment holding.

The details of the subsidiaries of Pekat Group as of the date of this report is as follows:-

Name of company	Effective ownership 2020	2019	2018	2017	Principal activities	Date of incorporation	Country of incorporation
Pekat Teknologi Sdn. Bhd.	100%	100%	-	-	Investment holding of companies involved in design, supply and installation of solar PV systems and power plants, supply and installation of ELP systems as well as distribution of electrical products and accessories	5 August 1999	Malaysia
Subsidiaries of Pekat Teknologi Sdn. Bhd.							
Pekat Solar Sdn. Bhd.	100%	100%	100%	100%	Design, supply and installation of solar PV systems and power plants and related services.	22 November 2010	Malaysia
Pekat Engineering Sdn. Bhd.	100%	100%	100%	100%	Distribution of electrical products and accessories.	22 November 2010	Malaysia
Pekat E&LP Sdn. Bhd.	100%	100%	100%	100%	Supply and installation of ELP systems.	22 November 2010	Malaysia

1. GENERAL INFORMATION (CONT'D)

1.3 Principal activities (cont'd)

The details of the subsidiaries of Pekat Group as of the date of this report is as follows (cont'd):-

Name of company	Effective ownership 2020	2019	2018	2017	Principal activities	Date of incorporation	Country of incorporation
Subsidiaries of Pekat Teknologi Sdn. Bhd. (cont'd)							
E&LP Engineering Sdn. Bhd.	100%	100%	100%	100%	Distribution of electrical products and accessories.	19 July 2007	Malaysia
Solar Data Systems Sdn. Bhd.	-	100%	100%	100%	Trading of solar equipment.	3 January 2012	Malaysia
JP Solar Energy Sdn. Bhd. (F.K.A. Pekat Solartech Sdn. Bhd.)	-	100%	100%	100%	Consultant for solar or renewable green energy.	1 July 2016	Malaysia
Pnexsoft Sdn. Bhd.	70%	70%	70%	-	Development and distribution of software applications.	18 September 2018	Malaysia
Pekat Ledsystems Sdn. Bhd.	100%	100%	51%	51%	Agents, importers, exporters and suppliers of electrical goods.	11 January 2006	Malaysia
Enersave Lighting Sdn. Bhd.	-	-	-	51%	Agents, importers, exporters and supplier of electrical goods.	5 February 2010	Malaysia
True Sovereign Holdings Sdn. Bhd.	-	-	-	100%	Investment holding.	20 October 2010	Malaysia
Proven Solid Holdings Sdn. Bhd.	-	-	-	100%	Investment holding.	25 November 2010	Malaysia
Booming Achievement Sdn. Bhd.	-	-	-	100%	Investment holding.	25 November 2010	Malaysia

1. GENERAL INFORMATION (CONT'D)

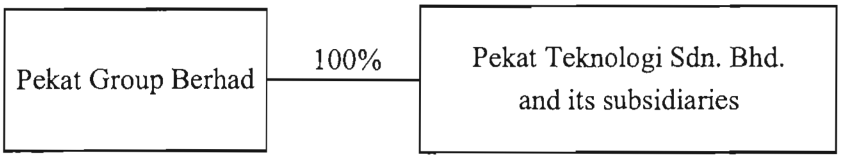
1.4 The acquisitions

Pekat Group will be formed pursuant to the incorporation of Pekat Group Berhad and completion of the acquisition of Pekat Teknologi Sdn. Bhd. and its subsidiaries, prior to the listing and quotation on the ACE Market of Bursa Malaysia Securities Berhad.

Pekat Group acquired the entire issued share capital of Pekat Teknologi Sdn. Bhd. and its subsidiaries comprising 550,020 ordinary shares ("Acquisition").

The aggregate purchase consideration for the above Acquisition was RM50,630,000 satisfied by the issuance of 506,300,000 new shares at its indicative value of approximately RM0.10 per share.

Following the completion of the incorporation and the acquisition at 17 March 2021, the combining entities adopted the current structure as follows:-



1.5 Auditors

The combined financial statements of combining entities reflect the financial information of Pekat Group Berhad, Pekat Teknologi Sdn. Bhd. and its subsidiaries.

The relevant financial period/years of the audited financial statements used for the purpose of the combined financial statements ("Relevant Financial Period/Years") and the auditors are as follows:-

Companies	Relevant Financial Period/Years	Auditors
Pekat Group Berhad	FYE 31 December 2020	Grant Thornton Malaysia PLT
	FPE 31 December 2019	Grant Thornton Malaysia PLT
Pekat Teknologi Sdn. Bhd. and its subsidiaries	FYE 31 December 2020	Grant Thornton Malaysia PLT
	FYE 31 December 2019	Grant Thornton Malaysia PLT
	FYE 31 December 2018	Grant Thornton Malaysia PLT
	FYE 31 December 2017	Grant Thornton Malaysia PLT

* FPE - Financial period ended
FYE - Financial year ended

The audited financial statements of Pekat Group Berhad, Pekat Teknologi Sdn. Bhd. and its subsidiaries for the relevant financial period/years reported above were not subject to any qualification or modification.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The combined financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") based on the Guidance Note on 'Combined financial statements' issued by the Malaysian Institute of Accountants in relation to the Listing.

The combined financial statements consist of the financial statements of combining entities as disclosed in Note 1.5 to this report, which were under common control throughout the reporting years by virtue of common controlling shareholders.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting years.

The financial information as presented in the combined financial statements do not correspond to the consolidated financial statements of the combining entities, as the combined financial statements reflect business combinations under common control for the purpose of the Listing. Consequently, the financial information from the combined financial statements do not purport to predict the financial position, results of operations and cash flows of the combining entities during the reporting years.

2.2 Basis of measurement

The combined financial statements of the combining entities are prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the combining entities.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial market takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The combining entities use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure for value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. BASIS OF PREPARATION (CONT'D)

2.2 Basis of measurement (cont'd)

All assets and liabilities for which fair value is measured or disclosed in the combined financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:-

Level 1	-	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	-	Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
Level 3	-	Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the combined financial statements on a recurring basis, the combining entities determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to their fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the combining entities had determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

2.3 Functional and presentation currency

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the combining entities' functional currency and all values are rounded to the nearest RM except when otherwise stated.

2.4 Adoption of new standards/amendments/improvements to MFRSs

The combining entities have consistently applied the accounting policies set out in Note 3 to all years presented in the combined financial statements.

At the beginning of the current financial year, the combining entities adopted new standards/amendments/improvements to MFRSs which are mandatory for the financial periods beginning on or after 1 January 2020.

Initial application of new standards/amendments/improvements to the standards did not have significant material impact to the financial statements.

2.5 Standards issued but not yet effective

At the date of authorisation of these combined financial statements, Malaysia Accounting Standard Board ("MASB") has approved new standards, amendments and interpretations to existing standards which are not yet effective, and have not been early adopted by the combining entities.

The management anticipates that all of the relevant pronouncements will be adopted in the combining entities' accounting policies in the first period beginning after the effective date of the pronouncement.

The initial application of the new standards, amendments and interpretations are not expected to have any material impacts to the combined financial statements of the combining entities.

2. BASIS OF PREPARATION (CONT'D)

2.6 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the combined financial statements. They affect the application of the combining entities' accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

2.6.1 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of depreciable assets and amortisation asset

The management estimates the useful lives of the property, plant and equipment and intangible assets to be 3 to 50 years and reviews the useful lives of depreciable assets at each reporting date. The management assesses that the useful lives represent the expected utility of the assets to the combining entities. Actual results, however, may vary due to changes in the expected level of usage and developments, resulting in adjustment to the combining entities' assets.

The management expects that the expected useful lives of the property, plant and equipment would not have material difference from the management's estimation hence it would not result in material variance in the combining entities' profit for the financial year.

The carrying amount of the combining entities' property, plant and equipment and intangible assets at the reporting date are disclosed in Notes 4 and 5 to the combined financial statements.

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. The actual results may vary, and may cause significant adjustments to the combining entities' assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

2. BASIS OF PREPARATION (CONT'D)

2.6 Significant accounting estimates and judgements (cont'd)

2.6.1 Estimation uncertainty (cont'd)

Provision for expected credit losses ("ECL") of receivables and contract assets

The combining entities use a provision matrix to calculate ECL for receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the combining entities' historical observed default rates. The combining entities will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial products and services sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The combining entities' historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the combining entities' trade receivables and contract assets are disclosed in Note 35.1 (a) to the combined financial statements.

Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The realisation of these inventories may be affected by market-driven changes that may occur in the future.

The management reviews inventories to identify damaged, obsolete and slow-moving inventories which require judgement and changes in such estimates could result in revision to the valuation of inventories.

The carrying amount of the combining entities' inventories at the reporting date is disclosed in Note 8 to the combined financial statements.

Income taxes

Significant estimation is involved in determining the combining entities' provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The combining entities recognise liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which all the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2. BASIS OF PREPARATION (CONT'D)

2.6 Significant accounting estimates and judgements (cont'd)

2.6.1 Estimation uncertainty (cont'd)

Leases

As a lessee, the combining entities are subject to increases in rental throughout the lease period, as imposed by the landlord. The management uses all available information to develop an estimate of the expected increase in rental, and reflects such estimates within the right of use asset and lease liability calculations. If a reliable estimate is not available, the management analyses historical increases in rental, and prudently assumes that the rental will continue to increase at such a rate.

2.6.2 Significant management judgement

The following are significant management judgements in applying the accounting policies of the combining entities that have the most significant effect on the combined financial statements:-

Leases

In applying MFRS 16, management uses judgement in determining the rate to discount the lease payments and assess whether a right-of-use asset is impaired. Furthermore, the combining entities estimate the lease term and reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances.

In most cases, determining the appropriate discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In assessing the lease term and the likelihood of any extensions or early terminations, the management monitors the cash inflows from each right-of-use asset and evaluates whether such extensions or early terminations would lead to economic benefits for the combining entities.

Revenue from contracts with customers

The combining entities applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:-

Identifying performance obligations in a contract of installation, engineering, maintenance services and sales of solar equipment, earthing and lightning protection equipment

The combining entities determine that the installation, maintenance, testing and commissioning for on-grid and off-grid photovoltaic systems, and earthing and lightning protection systems are not capable of being distinct. This is due to the contracts are negotiated as a package with a single commercial objective. In addition, the equipment systems and installation services are highly interrelated as the combining entities do not provide independent installation services. Thus, a project with one distinct customer of involving from engineering, installation and after-sales maintenance are included under one single performance obligation unless after sales maintenance is separate and distinct performance obligation.

Determining the timing of satisfaction of installation services

The combining entities concluded that the revenue for installation services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the combining entities. The combining entities recognise revenue over time by measuring progress towards complete satisfaction of that performance obligation. The combining entities determined percentage of completion by using actual cost relative to the total expected cost of completion.

3. SIGNIFICANT ACCOUNTING POLICIES

The combining entities apply significant accounting policies, as summarised below, consistently throughout all years presented in the combined financial statements, unless otherwise stated.

3.1 Consolidation

3.1.1 Common control business combination outside the scope of MFRS 3

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. A business combination involving common control entities, and accordingly the accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the combined financial statements.

In applying merger accounting, combined financial statements items of the combining entities or businesses for the reporting years in which the common control combination occurs, and for any comparative years disclosed, are included in the financial statements of the entity as if the combination had occurred from the date when the combining entities first came under the control of the controlling party or parties prior to the common control combination.

A single uniform set of accounting policies is adopted by the entity. Therefore, the entity recognised the assets, liabilities and equity of the combining entities or business at the carrying amounts in the combined financial statements of the controlling party or parties to the common control combination.

The carrying amounts are included as if such combined financial statements had been prepared by the controlling party, including adjustments required for conforming the entity's accounting policies and applying those policies to all years presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the combined financial statements of the entity.

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities are accounted for based on the carrying amounts from the perspective of the common control shareholders at the date of transfer. On combination, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in merger reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Consolidation (cont'd)

3.1.2 Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the combining entities. Control exists when the Pekat Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. Besides, the Pekat Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investment in subsidiaries is stated at cost less any impairment losses in the combining entities' combined statement of financial position unless the investment is held for sale or distribution.

Upon the disposal of investment in a subsidiary, the difference between the net disposal proceeds and its carrying amount is included in profit or loss.

3.1.3 Basis of consolidation

The combining entities' combined financial statements consolidates the audited combined financial statements of the combining entities, which have been prepared in accordance with the combining entities' accounting policies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the combining entities. The combined financial statements of the combining entities are all drawn up to the same reporting date.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the combining entities (profits or losses resulting from intragroup transactions that are recognised in asset, such as inventory and property, plant and equipment) are eliminated in full in preparing the combined financial statements. Intragroup losses may indicate an impairment that requires recognition in the combined financial statements. Temporary differences arising from the elimination of profits and losses resulting from intragroup transactions will be treated in accordance to Note 19 of the combined financial statements.

Subsidiaries are combined from the date on which control is transferred to the combining entities and are no longer combined from the date that control ceases.

Changes in the combining entities owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and NCI are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the combining entities.

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

3.1 **Consolidation (cont'd)**

3.1.4 **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured fair value at acquisition date and the amount of any NCI in the acquiree. For each business combination, the combining entities elect whether it measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the combining entities acquire a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquire.

If business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 9, it is measured in accordance with the appropriate MFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the combining entities' cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.1.5 **NCI**

NCI at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the combining entities, are presented in the combined statement of financial position and combined statement of changes in equity within equity, separately from equity attributable to the owners of the combining entities. NCI in the results of the combining entities is presented in the combined statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the financial year between NCI and the owners of the combining entities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Consolidation (cont'd)

3.1.5 NCI (cont'd)

Losses applicable to the NCI in a subsidiary are allocated to the NCI even if that results in a deficit balance.

3.1.6 Loss of control

Upon the loss of control of a subsidiary, the combining entities derecognise the assets and liabilities of the subsidiary, any NCI and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

If the combining entities retain any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3.1.7 Associates

Associates are entities in which the combining entities have significant influence, but no control, over their financial and operating policies.

The combining entities' investments in its associates are accounted for using the equity method. Under the equity method, investment in an associate carried in the statement of financial position at cost plus post acquisition changes in the combining entities' share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The share of the result of an associate is reflected in profit or loss. Any change in other comprehensive income of those investees is presented as part of the combining entities' other comprehensive income. In addition, where there has been a change recognised directly in the equity of an associate, the combining entities recognise its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the combining entities and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the combining entities' share of profit or loss of an associate is shown on the face of the combined statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate.

When the combining entities' share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investment is reduced to zero, and the recognition of further losses is discontinued except to the extent that the combining entities has an obligation or has made payments on behalf of the associate.

The financial statements of the associates are prepared as of the same reporting period as the combining entities. Where necessary, adjustments are made to bring the accounting policies of the associates in line with those of the combining entities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Consolidation (cont'd)

3.1.7 Associates (cont'd)

After application of the equity method, the combining entities determines whether it is necessary to recognise an additional impairment loss on the combining entities' investments in its associates. The combining entities determine at each end of the reporting period whether there is any objective evidence that the investments in the associates is impaired. If there is such evidence, the combining entities calculate the amount of impairment as the difference between the recoverable amount of the associates and their carrying value, then recognises the amount in the "share of profit of investments accounted for using the equity method" in profit or loss.

3.2 Property, plant and equipment

All property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the combining entities and the cost of the item can be measured reliably.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bring the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised on the straight-line method in order to write off the cost of each asset over its estimated useful lives but leasehold building shall be amortised over the lease period. Freehold land with an infinite life is not depreciated. Property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:-

Office buildings	3-6 years
Leasehold building	50 years
Solar systems	5 years
Furniture and fittings	5 years
Office equipment	5 years
Plant and machinery	5 years
Renovations	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss in the financial year in which the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit or loss in the period in which it incurred.

The useful life of intangible assets is assessed to be either finite or indefinite. Intangible assets with finite life are amortised on straight-line basis over the estimated economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by charging the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful life is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful life are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gain or losses arising from derecognition of an intangible assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Software licences

Software licence that are embedded in computer-controlled equipment, including operating system that cannot operate without that specific software is an integral part of the related hardware and is treated as property, plant and equipment.

Application software that is being used on a computer that is generally easily replaced and is not an integral part of the related hardware is classified as intangible asset.

Due to the risk of technological changes, the useful lives of all software licences are generally assessed to be finite. Software licences that are classified as intangible assets are amortised on a straight-line basis over their estimated useful life of 5 years.

3.4 Leases

At inception of a contract, the combining entities assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Leases (cont'd)

To assess whether a contract conveys the right to control the use of an identified asset, the combining entities assess whether:-

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the combining entities have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the combining entities have the right to direct the use of the asset. The combining entities have this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the combining entities has the right to direct the use of the asset if either:-
  - the combining entities have the right to operate the asset; or
  - the combining entities designed the asset in a way that predetermines how and for what purpose it will be used.

<u>As a lessee</u>

The combining entities recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the combining entities' incremental borrowing rate. Generally, the combining entities use its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the combining entities' estimate of the amount expected to be payable under a residual value guarantee or if the combining entities changes its assessment of whether it will exercise a purchase, extension or termination option.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administration expenses" in the combined statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Leases (cont'd)

As a lessee (cont'd)

As a practical expedient, MFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The combining entities has used this practical expedient.

At the commencement date of the lease, the combining entities recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the combining entities and payments of penalties for terminating the lease, if the lease term reflects the combining entities exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the combining entities use their incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

As a lessor

Leases in which the combining entities does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the combined statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.5 Financial instruments

3.5.1 Initial recognition and derecognition

Financial assets and financial liabilities are recognised when the combining entities become a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

3.5 **Financial instruments (cont'd)**

3.5.2 **Classification and initial measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with MFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:-

- amortised cost;
- fair value through profit or loss ("FVTPL"); and
- fair value through other comprehensive income ("FVOCI").

In the periods presented, the combining entities do not have any financial assets categorised as FVOCI.

The classification is determined by both:-

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

3.5.3 **Subsequent measurement of financial assets**

<u>Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):-

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The combining entities' trade and most of the other receivables, amount due from associates, amount due from related parties, fixed deposits with licensed banks, and cash and bank balances fall into this category of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

3.5.3 Subsequent measurement of financial assets (cont'd)

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The fair value was determined in line with the requirements of MFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

3.5.4 Classification and measurement of financial liabilities

The combining entities' financial liabilities include trade and most of the other payables, amount due to an associate, amount due to related parties, amount due to Directors and borrowings. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the combining entities designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

3.5.5 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivatives designated as hedging instrument, and if so, the nature of the item being hedged.

The combining entities designates the derivative as follows:-

<u>Derivative financial instruments</u>

The combining entities hold derivative financial instruments to hedge its foreign currency exposures.

Forward foreign exchange contracts used are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as those arising from the related assets, liabilities or net position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

3.5.5 Derivative financial instruments (cont'd)

The combining entities designates the derivative as follows (cont'd):-

Derivative financial instruments (cont'd)

Exchange gains or losses on contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

The fair value of foreign currency forward contract is determined using the forward exchange market rates at the reporting date.

3.5.6 Derecognition

A financial asset or part of it is derecognised, when and only when the contractual rights to the cash flows from the financial asset has expired or control of the asset is not retained or substantially all of the risk and rewards of ownership of the financial asset are transferred to another party. If the combining entities neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the combining entities recognise its retained interest in the asset and associated liability for amounts it may have to pay. If the combining entities retain substantially all the risks and rewards of ownership of transferred assets, the combining entities continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

The combining entities derecognise a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liability assumed, is recognised in profit or loss.

3.5.7 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the combined statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

3.6 **Impairment of non-financial assets**

At each reporting date, the combining entities review carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Non-financial assets are tested for impairment annually at year end or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level.

If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount of the asset or a cash-generating unit is less than its carrying amount. Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An impairment loss is recognised as an expense in profit or loss immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

All reversals of impairment losses are recognised as income immediately in profit or loss. After such a reversal, depreciation charge is adjusted in future periods to allocate the revised carrying amount of the asset, less any residual value, on a systematic basis over its remaining useful life.

3.7 **Impairment of financial assets**

The combining entities recognise an allowance for ECL on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets, and lease receivables. ECL is a probability-weighted estimate of credit loss.

The combining entities measure loss allowances at an amount equal to lifetime ECL, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECL. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the combining entities consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the combining entities' historical experience and informed credit assessment and including forward-looking information, where available.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 Impairment of financial assets (cont'd)

Lifetime ECL are the ECL that result from all possible default events over the expected life of the asset, while 12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating ECL is the maximum contractual period over which the combining entities are exposed to credit risk.

The combining entities estimate the ECL on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the combining entities assess whether the financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the combining entities determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the combining entities's procedures for recovery amounts due.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value after adequate write down has been made for derivated, obsolete and slow-moving inventories.

The cost of inventories is based on a weighted average basis and includes value of goods purchased and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, bank balances and fixed deposits with licensed banks which are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the combined statement of financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the reporting date are classified as non-current assets.

3.10 Equity, reserves and dividends

An equity instrument is any contract that evidences a residual interest in the assets of the combining entities after deducting all of its liabilities. Ordinary shares are equity instruments.

Retained earnings include all current and prior financial years' profits.

Interim dividends are simultaneously proposed and declared, because the articles of association of the combining entities grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Final dividends proposed by the Directors are not accounted for in shareholder's equity as an appropriation of retained earnings, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

All transactions with owners of the combining entities are recorded separately within equity.

3.11 Tax expense

Tax expense comprises current tax and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

3.11.1 Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable or recoverable in respect of previous years.

3.11.2 Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the combined statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Tax expense (cont'd)

3.11.2 Deferred tax (cont'd)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.11.3 Sale tax

Expenses and assets are recognised net of the amount of sales tax, except:-

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statement of financial position.

3.12 Provisions

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the combining entities can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time of money is material, provision is discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.13 Contingencies

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the combined statement of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

3.14 Employee benefits

3.14.1 Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees of the combining entities. Short-term accumulating compensated absences such as paid annual leave is recognised when services are rendered by the employees that increase their entitlement to future compensated absences and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

3.14.2 Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the combining entities pay fixed contributions into independent entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, the combining entities make such contributions to the Employees Provident Fund ("EPF").

3.15 Revenue recognition

The combining entities recognise revenue from contracts with customers for services based on the five-step model as set out in this Standards:-

i. Identify contracts with a customer. A contract is defined as an arrangement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

ii. Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

iii. Determine the transaction price. The transaction price is the amount of consideration to which the combining entities expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Revenue recognition (cont'd)

The combining entities recognise revenue from contracts with customers for services based on the five-step model as set out in this Standards (cont'd):-

iv. Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the combining entities allocate transaction price to each performance obligation in an amount that depicts the amount of consideration to which the combining entities expect to be entitled in exchange for satisfying each performance obligation.

v. Recognise revenue when (or as) the combining entities satisfy a performance obligation. An asset is transferred when (or as) the customer obtains control of the asset.

The combining entities satisfy a performance obligation and recognise revenue over time if the combining entities' performance:-

i. Do not create an asset with an alternative use to the combining entities and have an enforceable right to payment for performance completed to-date; or

ii. Create or enhance an asset that the customer controls as the asset is created or enhanced; or

iii. Provide benefits that the customer simultaneously receives and consumes as the combining entities perform.

For performance obligations where any one of the above conditions not met, revenue is recognised at a point of time at which the performance obligation is satisfied.

When the combining entities satisfy a performance obligation by delivering the promised goods or service, it creates a contract based on asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gave rise to a contract liability.

Revenue is measured at fair value of consideration received or receivable. The followings describe the performance obligation in contracts with customers:-

3.15.1 Installation services

Revenue from the installation of photovoltaic systems and earthing and lightning equipment system is recognised by reference to the stage of completion. Stage of completion is measured by reference to actual cost incurred to date as a percentage of total budgeted cost for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.15 Revenue recognition (cont'd)

3.15.2 Sales of equipment

Revenue from sales of equipment is recognised at the point in time when control of the assets is transferred to the customer, generally on the delivery of the equipment. The normal credit term is 30 to 90 days upon delivery. The combining entities consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (eg. warranties, customer loyalty points). In determining the transaction price of the sale of equipment, the combining entities consider the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer.

3.15.3 Other sources of revenue

3.15.3.1 Interest income

Interest income is recognised in the profit or loss on time proportion basis taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the combining entities.

3.15.3.2 Dividend income

Dividend income and other income from investments are recognised in profit or loss when the right to receive payment is established.

3.15.4 Significant financing component

The combining entities granted credit term to its customers. Using practical expedient in MFRS 15, the combining entities do not adjust the promised amount of consideration for the effects of a significant financing components if it expects, at contract inception, the period between transfer of the promised good or service to the customer and when the customer pays for that good or services will be on one year or less.

The combining entities also provide financing components via installation service of solar equipment to customers in which customers elected to pay transaction price by instalments after the performance obligations have been delivered. The total consideration received were discounted using an internal rate of return of the combining entities. The carrying amount of trade receivables disclosed in Note 9 to the combined financial statements.

3.15.5 Contract balance

Contract assets

A contract asset is the right to consideration in exchange for goods and service transferred to the customer. If the combining entities perform by transferring good and services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

3.15 **Revenue recognition (cont'd)**

3.15.5 **Contract balance (cont'd)**

Trade receivables

A receivable represents the combining entities' right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 3.5 under Financial instruments: initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the combining entities have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the combining entities transfer goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the combining entities perform under the contract.

3.16 **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3.17 **Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the combining entities incurred in connection with the borrowing of funds.

3.18 **Operating segments**

An operating segment is a component of the combining entities that engage in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the combining entities' other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.19 Earnings per share

(a) Basic

The combining entities present basic and diluted earnings per share ("EPS") date for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the combining entities by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(b) Diluted

Diluted earnings per share is calculated by dividing the net profit for the financial period/year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the combining entities do not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

3.20 Related parties

A related party is a person or entity that is related to the combining entities. A related party transaction is a transfer of resources, services or obligations between the combining entities and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the combining entities if that person:-

- (i) has control or joint control over the combining entities; or
- (ii) has significant influence over the combining entities; or
- (iii) is a member of the key management personnel of the holding company or the combining entities.

(b) An entity is related to the combining entities if any of the following conditions applies:-

- (i) The entity and the combining entities are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity.
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefits of employees of either the combining entities or an entity related to the combining entities.
- (vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
- (vii) A person identified in (a) (i) above has significant influence over the combining entities or is a member of the key management personnel of the holding company or the combining entities.
- (viii) The entity or any member of an entity of which it is a party, provides key management personnel services to the combining entities or to the parent of the combining entities.

4. **PROPERTY, PLANT AND EQUIPMENT**

	Freehold land RM	Office buildings RM	Leasehold building RM	Solar systems RM	Furniture and fittings RM	Office equipment RM	Plant and Machinery RM	Renovations RM	Motor vehicles RM	Total RM
Cost										
At 1.1.2017	-	-	-	1,422,871	521,318	1,018,206	-	2,734,057	3,864,916	9,561,368
Additions	-	830,258	-	-	36,110	82,372	-	108,758	487,839	1,545,337
Disposals	-	-	-	-	-	-	-	-	(2,398,661)	(2,398,661)
At 31.12.2017	-	830,258	-	1,422,871	557,428	1,100,578	-	2,842,815	1,954,094	8,708,044
Additions	-	-	160,000	-	-	223,810	-	-	611,833	995,643
Disposals	-	-	-	-	-	(27,025)	-	-	(242,253)	(269,278)
At 31.12.2018	-	830,258	160,000	1,422,871	557,428	1,297,363	-	2,842,815	2,323,674	9,434,409
Additions	-	287,104	-	131,843	57,531	410,653	-	331,355	107,300	1,325,786
Written off	-	-	-	-	(42,248)	(71,921)	-	-	-	(114,169)
At 31.12.2019	-	1,117,362	160,000	1,554,714	572,711	1,636,095	-	3,174,170	2,430,974	10,646,026
Additions	17,821,681	-	-	-	-	351,749	250,321	24,252	76,893	18,524,896
Disposals	-	-	-	-	-	-	-	-	(76,950)	(76,950)
Written off	-	-	-	-	(187,650)	(407,135)	-	-	-	(594,785)
Termination of lease contracts	-	(852,890)	-	-	-	-	-	-	-	(852,890)
At 31.12.2020	17,821,681	264,472	160,000	1,554,714	385,061	1,580,709	250,321	3,198,422	2,430,917	27,646,297
Accumulated depreciation										
At 1.1.2017	-	-	-	1,138,297	422,278	651,969	-	2,099,725	2,110,247	6,422,516
Charge for the financial year	-	67,111	-	284,574	82,893	173,379	-	512,769	467,857	1,588,583
Disposals	-	-	-	-	-	-	-	-	(1,261,056)	(1,261,056)
At 31.12.2017	-	67,111	-	1,422,871	505,171	825,348	-	2,612,494	1,317,048	6,750,043
Charge for the financial year	-	279,522	-	-	19,308	127,212	-	133,122	327,245	886,409
Disposals	-	-	-	-	-	(422)	-	-	(242,253)	(242,675)
At 31.12.2018	-	346,633	-	1,422,871	524,479	952,138	-	2,745,616	1,402,040	7,393,777
Charge for the financial year	-	321,896	3,200	1,458	20,945	165,879	-	104,846	329,497	947,721
Written off	-	-	-	-	(41,239)	(68,816)	-	-	-	(110,055)
At 31.12.2019	-	668,529	3,200	1,424,329	504,185	1,049,201	-	2,850,462	1,731,537	8,231,443
Charge for the financial year	-	127,101	3,200	5,274	20,935	201,429	6,400	94,625	264,115	723,079
Disposal	-	-	-	-	-	-	-	-	(76,950)	(76,950)
Written off	-	-	-	-	(187,650)	(403,550)	-	-	-	(591,200)
Termination of lease contracts	-	(712,952)	-	-	-	-	-	-	-	(712,952)
At 31.12.2020	-	82,678	6,400	1,429,603	337,470	847,080	6,400	2,945,087	1,918,702	7,573,420
Net carrying amount										
At 31.12.2020	17,821,681	181,794	153,600	125,111	47,591	733,629	243,921	253,335	512,215	20,072,877
At 31.12.2019	-	448,833	156,800	130,385	68,526	586,894	-	323,708	699,437	2,414,583
At 31.12.2018	-	483,625	160,000	-	32,949	345,225	-	97,199	921,634	2,040,632
At 31.12.2017	-	763,147	-	-	52,257	275,230	-	230,321	637,046	1,958,001

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Included in the net carrying amount of property, plant and equipment are under lease arrangement as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Office buildings	181,794	448,833	483,625	763,147
Motor vehicles	496,921	664,491	866,320	576,535

5. INTANGIBLE ASSETS

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Software licences				
At cost:-				
At 1 January	883,777	-	-	-
Additions	33,377	883,777	-	-
At 31 December	917,154	883,777	-	-
Amortisation				
At 1 January	96,809	-	-	-
Charge for the financial year	179,937	96,809	-	-
At 31 December	276,746	96,809	-	-
Net carrying amount	640,408	786,968	-	-

The recoverable amount of the intangible assets is assessed based on value-in-use and compared to the carrying amount of the intangible assets to determine whether any impairment exists.

6. INVESTMENT IN ASSOCIATES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Unquoted shares, at cost:-				
At 1 January	821,585	367,530	-	385,900
Addition	-	454,055	367,530	-
Written off	-	-	-	(135,900)
Disposal	(32)	-	-	(250,000)
At 31 December	821,553	821,585	367,530	-
Share of post-acquisition profit/(loss)				
At 1 January	590,062	21,250	-	(192,633)
Addition	737,832	568,812	21,250	(57,367)
Disposal	32	-	-	250,000
At 31 December	1,327,926	590,062	21,250	-
Impairment losses				
At 1 January	-	-	-	(135,900)
Written off	-	-	-	135,900
At 31 December	-	-	-	-
Unquoted shares, net	2,149,479	1,411,647	388,780	-

Details of the associates are as follows:-

Name of company	Country of incorporation	Effective interest 2020 %	2019 %	2018 %	2017 %	Principal activities
Pekat Energy (Sarawak) Sdn. Bhd.	Malaysia	49	49	49	-	Design, supply and installation of solar PV systems and power plants in Sarawak
Petra Jaya Energy Sdn. Bhd.	Malaysia	-	30	30	-	Dormant.
Sunway Pekat Solar Sdn. Bhd.*	Malaysia	40	40	-	-	Design, supply and installation of solar PV systems and power plants for Sunway group of companies.
J8K Energy Sdn. Bhd.*	Malaysia	49	49	-	-	Dormant.
Bayangan Sutera Sdn. Bhd.*	Malaysia	-	20	-	-	Dormant.
MFP Solar Sdn. Bhd.*	Malaysia	45	45	-	-	Build, own and operate solar PV power plants.

* Not audited by Grant Thornton Malaysia PLT

6. **INVESTMENTS IN ASSOCIATES (CONT'D)**

The summary of financial information of the material associates are as follows:-

	Pekat Energy (Sarawak) Sdn. Bhd. RM	Petra Jaya Energy Sdn. Bhd. RM	Sunway Pekat Solar Sdn. Bhd. RM	J8K Energy Sdn. Bhd. RM	Bayangan Sutera Sdn. Bhd. RM	MFP Solar Sdn. Bhd. RM	Total RM
31 December 2020							
Summary of financial position							
Non-current assets	1,082,604	-	-	-	-	15,176,773	16,259,377
Current assets	7,698,913	-	3,688,728	3,092	-	740,194	12,130,927
Non-current liabilities	(657,328)	-	-	-	-	(2,202,900)	(2,860,288)
Current liabilities	(6,340,517)	-	(1,650,398)	(17,296)	-	(12,691,519)	(20,699,730)
Net assets/(liabilities)	1,783,672	-	2,038,330	(14,204)	-	1,022,548	4,830,346
Summary of financial performance							
Revenue	14,478,722	-	9,050,259	-	-	247,707	23,776,688
Profit/(Loss) for the financial year/Total comprehensive income for the financial year	317,959	-	1,427,865	(14,304)	-	24,191	1,755,711
Pekat Group's share of profit for the financial year/Total comprehensive income for the financial year	155,800	-	571,146	-	-	10,886	737,832
Reconciliation of net assets to carrying amount							
Pekat Group's share of net assets at beginning of the financial year	718,200	-	244,186	-	-	449,261	1,411,647
Disposal during the financial year	-	(30)	-	-	(2)	-	(32)
Gain on disposal of investment in associates	-	30	-	-	2	-	32
Pekat Group's share of profit for the financial year	155,800	-	571,146	-	-	10,886	737,832
Carrying amount in the combined statement of financial position	874,000	-	815,332	-	-	460,147	2,149,479

6. INVESTMENTS IN ASSOCIATES (CONT'D)

The summary of financial information of the material associates are as follows:-

31 December 2019	Pekat Energy (Sarawak) Sdn. Bhd. RM	Petra Jaya Energy Sdn. Bhd. RM	Sunway Pekat Solar Sdn. Bhd. RM	J8K Energy Sdn. Bhd. RM	Bayangan Sutera Sdn. Bhd. RM	MFP Solar Sdn. Bhd. RM	Total RM
Summary of financial position							
Non-current assets	202,577	-	-	-	-	-	202,577
Current assets	6,874,347	100	801,082	3,093	438,271	1,059,367	9,176,260
Non-current liabilities	(138,759)	-	-	-	-	-	(138,759)
Current liabilities	(5,472,452)	(11,982)	(190,617)	(7,505)	(583,348)	(61,010)	(6,326,914)
Net assets/(liabilities)	1,465,713	(11,882)	610,465	(4,412)	(145,077)	998,357	2,913,164
Summary of financial performance							
Revenue	15,685,662	-	7,950,475	-	-	-	23,636,137
Profit/(Loss) for the financial year/Total comprehensive income/(loss) for the financial year	672,285	(4,512)	600,455	(4,513)	(6,572)	(1,643)	1,255,500
Pekat Group's share of profit/(loss) for the financial year/Total comprehensive income/(loss) for the financial year	329,420	-	240,182	(49)	(2)	(739)	568,812
Reconciliation of net assets to carrying amount							
Pekat Group's share of net assets at beginning of the financial year	388,780	-	-	-	-	-	388,780
Acquisition during the financial year	-	-	4,004	49	2	450,000	454,055
Pekat Group's share of profit/(loss) for the financial year	329,420	-	240,182	(49)	(2)	(739)	568,812
Carrying amount in the combined statement of financial position	718,200	-	244,186	-	-	449,261	1,411,647

6. INVESTMENTS IN ASSOCIATES (CONT'D)

The summary of financial information of the material associates are as follows (cont'd):-

	Pekat Energy (Sarawak) Sdn. Bhd. RM	Petra Jaya Energy Sdn. Bhd. RM	Total RM
31 December 2018			
Summary of financial position			
Current assets	2,662,582	100	2,662,682
Current liabilities	(1,869,154)	(7,470)	(1,876,624)
Net assets/(liabilities)	793,428	(7,370)	786,058
Summary of financial performance			
Revenue	4,141,458	-	4,141,458
Profit/(Loss) for the financial year/Total comprehensive income/(loss) for the financial year	43,428	(7,470)	35,958
Pekat Group's share of profit/(loss) for the financial year/Total comprehensive income/(loss) for the financial year	21,280	(30)	21,250
Reconciliation of net assets to carrying amount			
Pekat Group's share of net assets at beginning of the financial year	-	-	-
Acquisition during the financial year	367,500	30	367,530
Pekat Group's share of profit/(loss) for the financial year	21,280	(30)	21,250
Carrying amount in the combined statement of financial position	388,780	-	388,780

6. INVESTMENTS IN ASSOCIATES (CONT'D)

The summary of financial information of the material associates are as follows (cont'd):-

	LTI Teltek Sdn. Bhd. RM	PT Pekat Teknologi Indonesia RM	Total RM
31 December 2017			
Summary of financial position			
Current assets	-	-	-
Current liabilities	-	-	-
Net assets	-	-	-
Summary of financial performance			
Revenue	-	115,540	115,540
Loss for the financial year/Total comprehensive loss for the financial year	(129,616)	(29,159)	(158,775)
Pekat Group's share of loss for the financial year/Total comprehensive loss for the financial year	(57,367)	-	(57,367)
Reconciliation of net assets to carrying amount			
Pekat Group's share of net assets at beginning of the year	57,367	-	57,367
Pekat Group's share of loss for the financial year	(57,367)	-	(57,367)
Carrying amount in the combined statement of financial position	-	-	-

7. OTHER INVESTMENTS

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Equity instrument designated at fair value through profit or loss				
Non-current				
- Listed equity investment	-	-	47,546	-
Current				
- Listed equity investment	1,158,588	9,507,538	-	-

Financial assets at fair value through profit or loss include investments in listed equity shares. Fair values of these equity shares are determined by reference to published price quotations in an active market.

8. INVENTORIES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Input materials	11,018,942	11,406,167	10,970,866	8,908,556
Recognised in profit or loss:-				
Inventories recognised as cost of sales	45,726,448	51,268,427	66,261,407	22,538,738
Reversal of impairment loss on inventories	(179,397)	(74,290)	-	-
Impairment loss on inventories	-	414,529	-	218,063
Written down of inventories	-	-	6,987	46,915
Written off of inventories	-	82,365	-	-

The inventories written off, written down and impairment loss are made when the related inventories were obsoleted.

The reversal of impairment loss on slow moving inventories was made during the financial year when the related inventories were sold above their carrying amounts.

9. TRADE RECEIVABLES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Non-current assets				
Trade receivables	245,953	406,543	733,242	-
Current assets				
Trade receivables	27,814,444	19,977,936	17,447,281	13,143,108
Less: Allowances for impairment losses	(1,947,249)	(1,806,663)	(1,814,940)	(931,869)
	25,867,195	18,171,273	15,632,341	12,211,239
Retention sums	4,741,428	7,327,422	7,224,038	6,281,533
Less: Allowances for impairment losses	(1,687,888)	(2,036,821)	(35,363)	(71,680)
	3,053,540	5,290,601	7,188,675	6,209,853
	28,920,735	23,461,874	22,821,016	18,421,092

(a) Trade receivables are unsecured, non-interest bearing and the normal trade credit terms granted to customers by the combining entities are ranged from 0 to 180 (31.12.2019: 30 to 120, 31.12.2018: 30 to 120 and 31.12.2017: 30 to 120) days. They are recognised at their original invoiced amount which represent their fair values on initial recognition.

9. **TRADE RECEIVABLES (CONT'D)**

(b) The movements in the allowance for impairment losses in respect of trade receivables during the financial years were as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Brought forward	1,806,663	1,814,940	931,869	613,955
Charge for the financial year	175,651	1,315,967	987,522	317,914
Reversal of impairment losses	-	(1,113,086)	(104,451)	-
Written off	(35,065)	(211,158)	-	-
Carried forward	1,947,249	1,806,663	1,814,940	931,869

(c) The movements in the allowance for impairment losses in respect of retention sums during the financial years were as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Brought forward	2,036,821	35,363	71,680	65,959
Charge for the financial year	-	2,001,458	-	5,721
Reversal of impairment losses	(348,933)	-	(36,317)	-
Carried forward	1,687,888	2,036,821	35,363	71,680

(d) Information on credit risk of trade receivables is disclosed in Note 35 to the combined financial statements.

10. **OTHER RECEIVABLES**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Non-trade receivables	1,192,317	385,062	1,055,797	2,053,566
Prepayments	189,445	160,221	206,011	58,802
Staff advance	48,095	29,445	32,300	16,676
Deposits	548,689	530,572	606,418	884,981
Deposit to acquire of land	-	1,711,000	-	-
Prepayment for initial public offering expenses	1,143,317	226,020	93,150	-
GST recoverable	61,316	85,623	300,189	193,042
	3,183,179	3,127,943	2,293,865	3,207,067

The non-trade receivables are unsecured, non-interest bearing and repayable on demand.

11. **CONTRACT ASSETS/(LIABILITIES)**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Contract cost incurred to date	223,130,042	179,324,296	151,352,590	113,355,151
Attributable profits	96,929,452	86,390,724	73,630,081	54,150,494
Less: Provision for foreseeable losses	(646,428)	(2,078,743)	(3,196,398)	(1,005,861)
	319,413,066	263,636,277	221,786,273	166,499,784
Less: Progress billings	(303,234,344)	(256,094,375)	(221,448,389)	(175,618,295)
	16,178,722	7,541,902	337,884	(9,118,511)
Presented as:-				
Contract assets	24,895,000	15,047,460	19,345,850	9,582,034
Less: Allowance for impairment losses	(924,305)	(286,707)	(2,992)	(32,490)
	23,970,695	14,760,753	19,342,858	9,549,544
Contract liabilities	(8,716,278)	(7,505,558)	(19,007,966)	(18,700,545)

The movements in the allowance for impairment losses in respect of contract assets during the financial years were as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Brought forward	286,707	2,992	32,490	32,490
Charge for the financial year	637,598	283,715	-	-
Reversal of impairment losses	-	-	(29,498)	-
Carried forward	924,305	286,707	2,992	32,490

Information on credit risk of contract assets is disclosed in Note 35 to the combined financial statements.

12. AMOUNT DUE FROM/(TO) ASSOCIATES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Amount due from associates:-				
- Trade	7,960,318	4,517,680	1,711,000	399,717
- Non-trade	1,280,218	394,057	92,756	-
	9,240,536	4,911,737	1,803,756	399,717
Amount due to an associate:-				
- Non-trade	-	207,855	-	-

The amount due from/(to) associates are unsecured, non-interest bearing and the normal credit terms granted are 30 (31.12.2019: 30, 31.12.2018: 30 and 31.12.2017: 30) days and repayable on demand except for non-trade of RM1,200,000 bears interest at 2.60% (31.12.2019: Nil, 31.12.2018: Nil and 31.12.2017: Nil) per annum.

Information on financial risk of amount due from associates are disclosed in Note 35 to the combined financial statements.

13. AMOUNT DUE FROM/(TO) RELATED PARTIES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Amount due from related parties:-				
Non-current				
Loan balance	-	4,013,118	7,610,849	8,170,633
Current				
Trade	-	-	(10,462)	3,927
Less: Allowance for impairment losses				
Brought forward	-	-	-	(252,871)
Written off	-	-	-	252,871
Carried forward	-	-	-	-
	-	-	(10,462)	3,927

13. AMOUNT DUE FROM/(TO) RELATED PARTIES (CONT'D)

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Amount due from related parties (cont'd):-				
Current (cont'd)				
Non-trade	-	2,430,001	1,346,888	1,423,462
Less: Allowance for impairment losses				
Brought forward	-	(10,000)	(10,000)	(10,000)
Written off	-	10,000	-	-
Carried forward	-	-	(10,000)	(10,000)
	-	2,430,001	1,336,888	1,413,462
Loan balance	-	3,783,800	760,255	760,255
	-	6,213,801	2,086,681	2,177,644
Amount due to related parties:-				
Current				
Non-trade	-	-	-	1,000

Trade balances are unsecured, non-interest bearing and the normal credit terms granted are 60 (31.12.2019: 60, 31.12.2018: 60 and 31.12.2017: 60) days and repayable on demand.

Non-trade balances are unsecured, bears interest at 4% (31.12.2019: 4%, 31.12.2018: 4% and 31.12.2017: 4%) per annum and repayable on demand.

The loan balance from a related party amounting to RM Nil (31.12.2019: RM7,796,918, 31.12.2018: RM8,371,104 and 31.12.2017: RM8,930,888) is charged with interest at Nil (31.12.2019: ranged from 5.08% to 5.79%, 31.12.2018: ranged from 5.54% to 5.79% and 31.12.2017: at 5.54%) per annum.

Information on financial risk of amount due from related parties are disclosed in Note 35 to the combined financial statements.

14. **FIXED DEPOSITS WITH LICENSED BANKS**

The interest rate of deposits of the combining entities during the financial year ranged from 1.20% to 3.35% (31.12.2019: 2.05% to 3.35%, 31.12.2018: 2.80% to 3.20% and 31.12.2017: 2.55% to 4.00%) per annum. The maturities of deposits at the end of the financial year were ranged from 1 month to 12 months (31.12.2019: 1 month to 12 months, 31.12.2018: 1 month to 12 months and 31.12.2017: 1 month to 12 months).

The interest rate of repo of the combining entities during the financial year ranged from 1.83% to 2.85% (31.12.2019: at 2.80%, 31.12.2018: ranged from 2.30% to 4.43% and 31.12.2017: ranged from 2.85% to 3.02%) per annum. The maturities of deposits at the end of the financial year were ranged from 1 day to 1 month (31.12.2019: 1 day to 1 month, 31.12.2018: 1 day to 1 month and 31.12.2017: 1 day to 1 month).

Included in fixed deposits with licensed banks of the combining entities are RM9,135,078 (31.12.2019: RM5,740,166, 31.12.2018: RM5,562,748 and 31.12.2017: RM2,978,354) pledged for bank facilities granted to the combining entities.

15. **SHARE CAPITAL**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Issued and fully paid with no par value:-				
Pekat Group Berhad				
200 ordinary shares				
At date of incorporation/Carried forward	20	20	-	-
Pekat Teknologi Sdn. Bhd.				
550,020 ordinary shares				
Brought forward/Carried forward	550,020	550,020	550,020	550,020
	550,040	550,040	550,020	550,020

As at the date of incorporation, Pekat Group Berhad has issued 200 ordinary shares of RM0.10 each as subscribers' shares.

The holders of ordinary shares are entitled to receive dividends as and when declared by Pekat Group Berhad, Pekat Teknologi Sdn. Bhd. and its subsidiaries. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the combining entities' residual assets.

16. **SUBSIDIARIES**

(a) **Acquisition / Disposal of subsidiaries**

31 December 2020

Disposal of subsidiaries

On 29 May 2020, Pekat Teknologi Sdn. Bhd. disposed of its 100% equity interest in JP Solar Energy Sdn. Bhd. and Solar Data Systems Sdn. Bhd. for cash consideration of RM1 and RM1,000 respectively. The disposal of subsidiaries gave rise to total gain of RM18,160 in the financial statements.

	JP Solar Energy Sdn. Bhd. RM	Solar Data Systems Sdn. Bhd. RM	Total RM
Fair value recognised on disposal date			
Other payable	2,316	5,000	7,316
Tax payable	-	9,843	9,843
Total identifiable net liabilities at fair value	2,316	14,843	17,159
Consideration received	1	1,000	1,001
Gain on disposal of subsidiaries	2,317	15,843	18,160
Net cash flows on disposal date			
Proceeds from disposal of subsidiaries	1	1,000	1,001

31 December 2019

Acquisition of a subsidiary

On 4 April 2019, Pekat Teknologi Sdn. Bhd. acquired 51% equity interest in Pekat Solar VN Co Limited for a total cash consideration of RM206,326. The net assets of Pekat Solar VN Co Limited as at acquisition date is as follow:-

	Total RM
Fair value recognised on acquisition date	
Total identifiable net assets at fair value on acquisition date	
Cash and bank balances	404,561
Equity attributable to owners of the parent	206,326
NCI	198,235
	404,561
Cash flows on acquisition date	
Net cash acquired from a subsidiary	404,561
Consideration paid	(206,326)
Net cash flow on acquisition of a subsidiary	198,235

16. **SUBSIDIARIES (CONT'D)**

(a) **Acquisition / Disposal of subsidiaries (cont'd)**

31 December 2019 (cont'd)

Disposal of a subsidiary

On 30 April 2019, Pekat Teknologi Sdn. Bhd. disposed of its 51% equity interest in Pekat Solar VN Co Limited for a cash consideration of RM124,000. The disposal of Pekat Solar VN Co Limited gave rise to a loss of RM82,326 in the combined financial statements.

	Total RM
Fair value recognised on disposal date	
Total identifiable net assets at fair value on disposal date	
Cash and bank balances	404,561
Consideration received	124,000
Equity attributable to owners of the parent	(206,326)
Loss on disposal of a subsidiary	(82,326)
Cash flows on incorporation date	
Consideration received	124,000
Net cash disposed of a subsidiary	(404,561)
Net cash flow on disposal of a subsidiary	(280,561)

Increase in stake of a subsidiary

On 31 December 2019, Pekat Teknologi Sdn. Bhd. acquired additional 49% equity interest in Pekat Ledsystems Sdn. Bhd. for a total cash consideration of RM49,000. The net assets of Pekat Ledsystems Sdn. Bhd. as at acquisition date is RM109,587 as at acquisition date, the carrying amount of RM53,698 is acquired from NCI.

16. **SUBSIDIARIES (CONT'D)**

(a) **Acquisition / Disposal of subsidiaries (cont'd)**

31 December 2018

Incorporation of a subsidiary

On 18 September 2018, Pekat Teknologi Sdn. Bhd. subscribed to 210,000 ordinary shares, representing 70% equity interest in Pnexsoft Sdn. Bhd. for a total cash consideration of RM210,000. The subsidiary was incorporated on the same day. The net assets of Pnexsoft Sdn.Bhd. as at subscription date is same as cash consideration.

	Total RM
Fair value recognised on incorporation date	
Total identifiable net assets at fair value on incorporation date	
Cash and bank balances	300,000
Equity attributable to owners of the parent	210,000
NCI	90,000
	300,000
Cash flows on incorporation date	
Net cash acquired from a subsidiary	300,000
Consideration paid	(210,000)
Net cash flow on incorporation of a subsidiary	90,000

16. **SUBSIDIARIES (CONT'D)**

(a) **Acquisition / Disposal of subsidiaries (cont'd)**

31 December 2018 (cont'd)

Liquidation of subsidiaries

During the financial year, Pekat Teknologi Sdn. Bhd. has written off 100% equity interest in True Sovereign Holdings Sdn. Bhd., Proven Solid Holdings Sdn. Bhd. and Booming Achievement Sdn. Bhd. as the companies were voluntary liquidated during the financial year.

	True Sovereign Holdings Sdn. Bhd.	Proven Solid Holdings Sdn. Bhd.	Booming Achievement Sdn. Bhd.	Total
	RM	RM	RM	RM
Fair value recognised on liquidation date				
Assets				
Receivables	8,000	8,000	8,000	24,000
Cash and bank balances	1,854	2,197	2,034	6,085
	9,854	10,197	10,034	30,085
Liability				
Payables	(2,700)	(2,700)	(2,700)	(8,100)
Total identifiable net assets at fair value	7,154	7,497	7,334	21,985
Loss on liquidation of subsidiaries	7,154	7,497	7,334	21,985
Cash flows on liquidation date				
Net cash liquidated of the subsidiaries	(1,854)	(2,197)	(2,034)	(6,085)

31 December 2017

Increase in stake of subsidiaries

On 17 October 2017, Pekat Teknologi Sdn. Bhd. acquired additional 18% equity interest in E&LP Engineering Sdn. Bhd. for a total cash consideration of RM90,000. The net assets of E&LP Engineering Sdn. Bhd. as at acquisition date is RM1,997,771 as at acquisition date, the carrying amount of RM359,599 is acquired from NCI.

On 1 August 2017, Pekat Teknologi Sdn. Bhd. acquired 20% equity interest in Pekat Solar Sdn. Bhd. from Booming Achievement Sdn. Bhd. for a total cash consideration of RM240,000. The acquisition did not result in any change of the combining entities' equity interest in Pekat Solar Sdn. Bhd..

On 1 August 2017, Pekat Teknologi Sdn. Bhd. acquired 20% equity interest in Pekat Engineering Sdn. Bhd. from Proven Solid Holdings Sdn. Bhd. for a total cash consideration of RM30,000. The acquisition did not result in any change of the combining entities' equity interest in Pekat Engineering Sdn. Bhd..

16. **SUBSIDIARIES (CONT'D)**

(a) **Acquisition / Disposal of subsidiaries (cont'd)**

31 December 2017 (cont'd)

Increase in stake of subsidiaries (cont'd)

On 1 August 2017, Pekat Teknologi Sdn. Bhd. acquired 20% equity interest in Pekat E&LP Sdn. Bhd. from True Sovereign Holdings Sdn. Bhd. for a total cash consideration of RM100,000. The acquisition did not result in any change of the combining entities' equity interest in Pekat E&LP Sdn. Bhd..

Acquisition of a subsidiary

On 27 December 2017, Pekat Teknologi Sdn. Bhd. acquired 100% equity interest in Solar Data Systems Sdn. Bhd. for a total cash consideration of RM1,000. The net assets of Solar Data Systems Sdn. Bhd. as at acquisition date is as follow:-

	Total RM
Fair value recognised on acquisition date	
Assets	
Inventories	103,064
Receivables	125,770
Tax recoverable	46,259
Cash and bank balances	124,083
	399,176
Liability	
Payables	(255,804)
Total identifiable net assets at fair value	143,372
Consideration paid	(1,000)
Bargain purchase arising on acquisition of a subsidiary	142,372
Cash flows on incorporation date	
Net cash acquired from a subsidiary	124,083
Consideration paid	(1,000)
Net cash flow on acquisition of a subsidiary	123,083

16. **SUBSIDIARIES (CONT'D)**

(a) **Acquisition / Disposal of subsidiaries (cont'd)**

31 December 2017 (cont'd)

Disposal of a subsidiary

On 27 December 2017, Pekat Teknologi Sdn. Bhd. disposed of its 51% equity interest in Enersave Lighting Sdn. Bhd. for a cash consideration of RM204,000. The disposal of Enersave Lighting Sdn. Bhd. gave rise to a gain of RM318,341 in the combined financial statements.

	Total RM
Fair value recognised on disposal date	
Assets	
Cash and bank balances	3,593
Liabilities	
Payables	(227,791)
Total identifiable net liabilities at fair value	(224,198)
Consideration received	204,000
Equity attributable to owners of the parent	114,341
Gain on disposal of a subsidiary	318,341
Cash flows on incorporation date	
Consideration received	204,000
Net cash disposed of a subsidiary	(3,593)
Net cash flow on disposal of a subsidiary	200,407

16. **SUBSIDIARIES (CONT'D)**

(b) **NCI**

The combining entities' subsidiaries that has material NCI are as follow:-

	Percentage of ownership interest and voting interest	Carrying amount of NCI RM	(Loss)/Profit allocated to NCI RM
31 December 2020			
Pnexsoft Sdn. Bhd.	30%	70,097	(1,938)
31 December 2019			
Pekat Ledsystems Sdn. Bhd.	-	-	(1,352)
Pnexsoft Sdn. Bhd.	30%	72,035	62,755
Total		72,035	61,403
31 December 2018			
Pekat Ledsystems Sdn. Bhd.	49%	(52,346)	(7,233)
Pnexsoft Sdn. Bhd.	30%	9,280	(80,720)
Total		(43,066)	(87,953)
31 December 2017			
Pekat Ledsystems Sdn. Bhd.	49%	(45,113)	(1,730)
Enersave Lighting Sdn. Bhd.	-	-	105,065
E&LP Engineering Sdn. Bhd.	-	-	-
Total		(45,113)	103,335

16. **SUBSIDIARIES (CONT'D)**

(b) **NCI (cont'd)**

The summary of financial information before intra-group elimination for the combining entities' subsidiaries that has material NCI is as below:-

	31.12.2020	31.12.2019		31.12.2018		31.12.2017		
	Pnexsoft Sdn. Bhd.	Pekat Ledsystems Sdn. Bhd.	Pnexsoft Sdn. Bhd.	Pekat Ledsystems Sdn. Bhd.	Pnexsoft Sdn. Bhd.	Pekat Ledsystems Sdn. Bhd.	Enersave Lighting Sdn. Bhd.	E&LP Engineering Sdn. Bhd.
	RM	RM	RM	RM	RM	RM	RM	RM
Summary of financial position								
Non-current assets	150,054	-	212,000	-	-	-	-	-
Current assets	159,496	-	82,613	968	30,942	1,089	-	-
Current liabilities	(75,894)	-	(54,497)	(107,796)	(10)	(93,156)	-	-
Net assets/(liabilities)	233,656	-	240,116	(106,828)	30,932	(92,067)	-	-
Summary of financial performance								
Revenue	326,025	-	211,400	-	-	-	-	14,592,845
(Loss)/Profit for the financial year/Total comprehensive (loss)/income for the financial year	(6,460)	(2,759)	209,184	(14,761)	(269,068)	(3,531)	214,418	154,485
Summary of cash flows								
Net cash flows from/(used in) operating activities	58,086	(5,080)	240,270	(13,311)	(269,058)	(40,801)	(11)	1,320,047
Net cash flows (used in)/from investing activities	(5,378)	-	(264,999)	-	-	-	-	47
Net cash flows (used in)/from financing activities	(13,450)	4,970	-	13,190	300,000	40,801	-	(1,232,983)
Net cash flows	39,258	(110)	(24,729)	(121)	30,942	-	(11)	87,111

17. LEASE LIABILITIES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Minimum lease payments				
- Within 1 year	286,872	653,222	621,180	506,339
- Between 2 to 5 years	419,284	643,690	918,334	1,043,802
	706,156	1,296,912	1,539,514	1,550,141
Less: Future finance charges on lease liabilities	(53,377)	(94,062)	(108,822)	(128,175)
Present value of lease liabilities	652,779	1,202,850	1,430,692	1,421,966
Present value of lease liabilities				
- Within 1 year	260,795	605,966	560,013	442,006
- Between 2 to 5 years	391,984	596,884	870,679	979,960
	652,779	1,202,850	1,430,692	1,421,966

The lease liabilities of the combining entities are secured by means of the following:-

(a) Guarantee from a Director; and
(b) Motor vehicles as disclosed in Note 4 to the combined financial statements.

Interest charged on lease lilabilities of the combining entities ranged from 4.18% to 6.82% (31.12.2019: 2.20% to 6.82%, 31.12.2018: 2.66% to 6.82% and 31.12.2017: 4.18% to 6.55%) per annum.

The expenses related to payments not included in the measurement of lease liabilities is as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Short-term leases	1,403,844	1,259,334	1,249,942	1,290,486
Low-value assets	-	1,680	-	-

18. BORROWINGS

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Current				
Secured:-				
Bankers' acceptances	13,225,277	11,388,005	12,752,725	6,219,987
Term loans	492,954	4,007,229	783,654	785,471
Bank overdraft	-	272,112	-	-
	13,718,231	15,667,346	13,536,379	7,005,458
Non-current				
Secured:-				
Term loans	13,330,885	4,055,466	8,060,700	8,808,501

18. **BORROWINGS (CONT'D)**

The borrowings of the combining entities are secured by means of the following:-

(a) Guarantee by Credit Guarantee Corporation Malaysia Berhad;
(b) Corporate guarantees executed by subsidiaries;
(c) Jointly and severally guaranteed by Directors of the combining entities;
(d) Third party all money first party legal charge over the three storey detached factory;
(e) Pledge of fixed deposits with licensed banks as disclosed in Note 14 to the combined financial statements; and
(f) Pledge of freehold land with a licensed bank as disclosed in Note 4 to the combined financial statements.

The effective interest of borrowings of the combining entities is as follow:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Bankers' acceptances	3.51-7.07%	4.87%-6.17%	4.87%-6.17%	4.71%-8.10%
Term loans	3.37-5.72%	5.08%-8.20%	5.12%-8.20%	5.10%-8.20%
Bank overdraft	-	7.82%-7.89%	-	-

The borrowings' of the combining entities is repayable by as follow:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Bankers' acceptances	1-6 months	1 - 6 months	1 - 6 months	1 - 6 months
Term loans	238 months	12-150 months	24-162 months	36-174 months
Bank overdraft	-	ROD*	-	-

*ROD – Repayable on demand

19. **DEFERRED TAX LIABILITIES**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
At 1 January	57,000	93,000	-	22,247
Recognised in profit or loss (Note 29)	46,000	(4,000)	58,000	(73,669)
Under/(Over) provision in prior year	134,000	(32,000)	35,000	51,422
At 31 December	237,000	57,000	93,000	-

Deferred tax liabilities are made up of tax effect on temporary differences arising from:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Property, plant and equipment	182,000	57,000	93,000	-
Others	55,000	-	-	-
	237,000	57,000	93,000	-

20. TRADE PAYABLES

Trade payables of the combining entities are unsecured, non-interest bearing and the normal credit term granted by the suppliers ranged from 0 to 90 (31.12.2019: 30 to 90, 31.12.2018: 30 to 90 and 31.12.2017: 30 to 90) days.

21. OTHER PAYABLES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Non-trade payables	1,246,958	1,423,889	381,585	390,709
Accrual of expenses	1,511,698	3,199,103	2,233,941	4,337,975
GST payable	-	-	30,317	622,105
	2,758,656	4,622,992	2,645,843	5,350,789

22. AMOUNT DUE TO DIRECTORS

The amount due to Directors represents non-trade transactions, which is unsecured, non-interest bearing and repayable on demand.

23. REVENUE

23.1 Disaggregated revenue information

As disclosed in Note 37 to the combined financial statements.

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Types of good and services				
Geographical market				
Malaysia	125,561,856	119,520,675	120,128,660	72,829,763
Timing of recognition				
Goods transferred at a point in time	28,163,868	32,662,247	31,789,111	30,090,503
Services transferred over time	97,397,988	86,858,428	88,339,549	42,739,260
	125,561,856	119,520,675	120,128,660	72,829,763

23.2 Contract balances

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Trade receivables (Note 9)	29,166,688	23,868,417	23,554,258	18,421,092
Contract assets (Note 11)	23,970,695	14,760,753	19,342,858	9,549,544
Contract liabilities (Note 11)	(8,716,278)	(7,505,558)	(19,007,966)	(18,700,545)
Total revenue from contract with customers	44,421,105	31,123,612	23,889,150	9,270,091

23. REVENUE (CONT'D)

23.2 Contract balances (cont'd)

The contract assets relate to the combining entities' rights to consideration for work completed but not billed at the reporting date on installation services for photovoltaic systems and earthing and lightning equipment. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the combining entities issue an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers for installation services for photovoltaic systems and earthing and lightning equipment. The revenue will be subsequently recognised when the performance obligations had been satisfied and invoice has been issued to the customer.

23.3 Performance obligations

Installation of on-grid and off-grid photovoltaic systems

The combining entities design, engineer, install, testing and provide maintenance of the photovoltaic systems for constructions customers. The timeline for each project usually ranges from 3 to 6 months, depends on the complexity of the design and area covered by the projects. The performance obligations are satisfied over time as the customers simultaneously receives and consumes the benefits provided by the combining entities.

Installation of earthing and lightning protection equipment on premises

The combining entities supply, design, engineer, install, testing and provide maintenance of the earthing and lightning protection equipment for constructions customers. The timeline for each project usually ranged from 3 to 24 months, depends on the complexity of the design, area covered by the projects and progress of the main contractor. The performance obligations are satisfied over time as the customers simultaneously receives and consumes the benefits provided by the combining entities.

Sales of solar equipment and lightning and surge protection equipment

The performance obligations is satisfied upon delivery of the equipment. The payment is generally due within 14 to 90 days from delivery.

The combining entities expect revenue from unsatisfied performance obligation to be recognised in the following financial years as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Financial years ending 31 December				
- 2018	-	-	-	66,224,471
- 2019	-	-	90,334,237	-
- 2020	-	71,184,946	-	-
- 2021	163,263,124	-	-	-

24. **OTHER INCOME**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Bad debts recovered	-	81,513	-	-
Bargain purchase on acquisition of a subsidiary	-	-	-	142,372
Dividend income	119,629	131,794	-	-
Fair value gain on other investments	5,608	-	7,546	-
Gain on disposal of subsidiaries	18,160	-	-	318,341
Gain on disposal of an associate	32	-	-	250,000
Gain on disposal of property, plant and equipment	2,000	-	77,297	393,995
Gain on termination of lease contracts	31,206	-	-	-
Insurance claimed	76,530	51,634	-	24,276
Management fee	277,180	-	-	-
PERKESO wages subsidy*	448,800	-	-	-
Realised gain on foreign exchange	-	-	144,083	192,406
Rental income of office	1,800	-	-	-
Rental income of equipment	-	-	-	12,000
Reversal of impairment loss on contract assets	-	-	29,498	-
Reversal of impairment loss on trade receivables	348,933	1,113,086	140,768	-
Reversal of impairment loss on inventories	179,397	74,290	-	-
Solar energy income	101,671	104,210	120,539	96,798
Unrealised gain on foreign exchange	-	137,258	8,469	38,173
Waiver of amount due to related parties	-	-	-	223,958

* PERKESO wage subsidy is under Pelan Jana Semula ("PENJANA") to assist employer which were affected with COVID-19.

25. OTHER EXPENSES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Fair value loss on other investments	-	6,332	-	-
Impairment loss on contract assets	637,598	283,715	-	-
Impairment loss on trade receivables	175,651	3,317,425	987,522	323,635
Impairment loss on inventories	-	414,529	-	218,063
Loss on disposal of a subsidiary	-	82,326	-	-
Loss on liquidation of subsidiaries	-	-	21,985	-
Realised loss on foreign exchange	21,250	141,703	-	-
Unrealised loss on foreign exchange	66,212	-	-	-
Written down of inventories	-	-	6,987	46,915
Written off of amount due from an associate	12,385	-	-	-
Written off of contract assets	-	12,529	-	-
Written off of inventories	-	82,365	-	-
Written off of trade receivables	286	-	89,889	14,948
Written off of other receivable	-	-	105,940	427,481
Written off of property, plant and equipment	3,585	4,114	-	-

26. FINANCE INCOME

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Interest income				
- fixed deposits	209,467	301,205	302,306	306,040
- an associate	8,198	-	-	-
- related parties	121,376	509,485	520,885	410,589
- unwinding of discount on trade receivables	41,096	13,122	-	-
- non-trade receivables	-	70,000	-	-

27. **FINANCE COSTS**

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Interest expenses				
- bankers' acceptances	406,922	445,486	218,605	186,364
- bank guarantees	37,546	26,600	21,156	180,664
- bank overdraft	5,087	6,923	111,812	3,906
- forward contract	-	6,050	-	1,496
- lease liabilities	45,737	75,223	86,357	167,687
- letter of credit charges	27,086	6,372	71,448	-
- related parties	-	-	175	-
- term loans	330,149	467,763	513,296	490,423
- discount on trade receivables	34,947	-	131,544	-

28. **PROFIT BEFORE TAX**

Profit before tax has been determined after charging/(crediting) amongst other items, the following:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Charging the following:-				
Auditors' remuneration:-				
- current year	99,500	114,000	103,750	86,775
- predecessor auditor	-	-	9,180	-
- others	8,000	13,000	-	-
- (over)/under provision in prior year	-	(8,000)	688	2,000
Amortisation of intangible assets	179,937	96,809	-	-
Depreciation of property, plant and equipment	723,079	947,721	886,409	1,588,583
Directors' fee	204,000	1,024,000	324,000	324,000
Rental of equipment	-	1,680	-	17,583
Rental of office	1,183,280	960,000	960,000	1,140,000
Rental of staff hostel	13,400	43,450	57,350	108,087
Rental of warehouse	207,164	255,884	232,592	24,816
Provision for foreseeable loss	-	-	2,190,537	710,574
Share of loss in associates	-	-	-	57,367

28. PROFIT BEFORE TAX (CONT'D)

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Crediting the following:-				
Reversal of provision for foreseeable loss	1,432,315	1,117,655	-	-
Share of profit in associates	737,832	568,812	21,250	-

29. TAX EXPENSE

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Current financial year provision	4,687,726	5,439,386	4,289,760	2,664,086
Over provision in prior year	(59,059)	(584,029)	(47,209)	(12,816)
	4,628,667	4,855,357	4,242,551	2,651,270
Deferred tax (Note 19)				
- current year	46,000	(4,000)	58,000	(73,669)
- under/(over) provision in prior year	134,000	(32,000)	35,000	51,422
	180,000	(36,000)	93,000	(22,247)
	4,808,667	4,819,357	4,335,551	2,629,023

29. **TAX EXPENSE (CONT'D)**

A reconciliation of tax expense applicable to profit before tax at the statutory tax rate to tax expense at the effective tax rate of the combining entities are as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Profit before tax	18,382,901	19,674,510	15,344,033	12,092,857
At Malaysian statutory tax rate of 24% (31.12.2019: 24%, 31.12.2018: 24% and 31.12.2017: 24%)	4,411,896	4,721,882	3,682,568	2,902,286
Tax effects in respect of:-				
Changes in tax rate for the first tranche of chargeable income	(144,828)	(170,814)	(136,839)	(115,000)
Expenses not deductible for tax purposes	480,508	1,519,659	941,097	178,903
Income not subject to tax	(181,760)	(635,341)	(139,066)	(379,324)
Movement of deferred tax assets not recognised	167,910	-	-	3,552
Over provision of tax expense in prior year	(59,059)	(584,029)	(47,209)	(12,816)
Under/(Over) provision of deferred tax in prior year	134,000	(32,000)	35,000	51,422
Total tax expense	4,808,667	4,819,357	4,335,551	2,629,023

Deferred tax assets have not been recognised in respect of the following items (stated at gross) for certain subsidiaries due to uncertainty of future taxable income of the subsidiaries. However, the deductible temporary differences, unabsorbed business loss, unabsorbed capital allowances are available for offset against future taxable profits of the respective subsidiaries.

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Unabsorbed business losses	699,623	-	-	13,323
Other deductible temporary differences	-	-	-	1,475

Effective Year of Assessment 2019 as announced in the Annual Budget 2019, the unused tax losses of the combining entities as of 31 December 2020 and thereafter will only be available for carry forward for a period of 7 consecutive years. Upon expiry of the 7 years, the unabsorbed tax losses will be disregarded.

The expiry of unabsorbed business losses are as follows:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Year of assessment 2026	-	-	-	13,323
Year of assessment 2027	699,623	-	-	-

30. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share amounts are calculated by dividing profit net of tax for the financial year attributable to ordinary equity holders of combining entities by the weighted average number of ordinary shares in issue during the financial years.

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Profit attributable to owners of the combining entities	13,576,172	14,793,750	11,096,435	9,360,499
Weighted average number of ordinary shares for basic earnings per share	550,220	550,220	550,020	550,020
Basic earnings per share	2,467	2,689	2,017	1,702

Diluted earnings per shares

For the purpose of calculating diluted earnings per share, the profit for the financial year attributable to ordinary equity holders of the combining entities and the weighted average number of ordinary shares in issue during the financial years have been adjusted for the dilutive effects of all potential ordinary shares.

There are no diluted earnings per shares presented for the financial years 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017 as the combining entities do not have options and convertible shares.

31. **DIVIDENDS**

During the financial year, the following dividends have been paid by the combining entities to the owners of the combining entities:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
In respect of the financial years ended: -				
A interim tax exempt dividend of RM1,017,537 declared and paid on 5 September 2018	-	-	1,017,537	-
A interim tax exempt dividend of RM474,000 declared on 21 May 2019 and paid on 23 May 2019	-	474,000	-	-
A interim tax exempt dividend of RM300,000 declared on 4 November 2019 and paid on 11 November 2019	-	300,000	-	-
A interim tax exempt dividend of RM500,000 declared on 31 December 2019 and paid on 13 January 2020	-	500,000	-	-
An interim tax exempt dividend of RM500,000 declared on 16 March 2020 and paid on 18 March 2020	500,000	-	-	-
	500,000	1,274,000	1,017,537	-

32. EMPLOYEE BENEFIT EXPENSES

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Salaries, wages and other emoluments	11,405,973	12,500,405	10,912,907	9,047,156
Social security contributions	114,035	111,040	93,451	76,277
Defined contribution plans	1,494,184	1,568,873	1,367,827	1,139,177
Other benefits	903,967	1,738,379	772,856	1,372,699
	13,918,159	15,918,697	13,147,041	11,635,309

Included in the employee benefit expenses is the Directors' remuneration as below:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Directors' emolument				
Salaries and other emoluments	2,145,123	1,731,362	1,572,182	1,014,057
Fee	204,000	1,024,000	324,000	324,000
Defined contribution plans	396,325	247,426	179,907	162,643
	2,745,448	3,002,788	2,076,089	1,500,700

Included in the employee benefit expenses is the key management personnel as below:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Key management personnel				
Salaries and other emoluments	687,310	853,747	327,313	205,406
Defined contribution plans	111,386	88,465	41,220	25,735
	798,696	942,212	368,533	231,141

33. RELATED PARTY DISCLOSURES

(a) Related party transactions:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Sales to an associate	12,763,194	11,875,786	2,941,851	321,442
Interest income from associates	8,198	-	-	-
Interest income from related parties	121,376	509,485	520,885	410,589
Interest expenses paid to a related party	-	-	(175)	-
Management fee from an associate	(277,180)	-	-	-
Rental expenses from a related party	(1,047,000)	(1,236,000)	(1,200,000)	(1,200,000)
Rental of factory from a related party	-	(75,900)	(25,300)	-
Solar energy income from a Director	101,671	104,210	120,539	96,798
Disposal of motor vehicles to Directors	-	-	-	1,515,000

(b) The outstanding balances arising from related party transactions at the reporting date was disclosed in Notes 12, 13 and 22 to the combined financial statements.

(c) Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the combining entities either directly or indirectly provides key management personnel to the combining entities.

The key management personnel includes all the Directors of the combining entities and certain member of senior management of the combining entities.

The remuneration of key management personnel is disclosed in Note 32 to the combined financial statements.

34. COMMITMENTS

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Capital expenditure authorised and contracted for:-				
- Property, plant and equipment	-	15,399,000	-	-

35. **FINANCIAL INSTRUMENTS**

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:-

(a) Financial assets measured at amortised cost ("FA");
(b) Fair value through profit or loss ("FVTPL"); and
(c) Other financial liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FA RM	FVTPL RM	OFL RM
31.12.2020				
Financial assets				
Other investments	1,158,588	-	1,158,588	-
Trade receivables	29,166,688	29,166,688	-	-
Other receivables	1,789,101	1,789,101	-	-
Amount due from associate	9,240,536	9,240,536	-	-
Fixed deposits with licensed banks	9,135,078	9,135,078	-	-
Cash and bank balances	15,076,049	15,076,049	-	-
	65,566,040	64,407,452	1,158,588	-
Financial liabilities				
Borrowings	27,049,116	-	-	27,049,116
Trade payables	20,184,381	-	-	20,184,381
Other payables	2,758,656	-	-	2,758,656
	49,992,153	-	-	49,992,153
31.12.2019				
Financial assets				
Other investments	9,507,538	-	9,507,538	-
Trade receivables	23,868,417	23,868,417	-	-
Other receivables	2,656,079	2,656,079	-	-
Amount due from associate	4,911,737	4,911,737	-	-
Amount due from related parties	10,226,919	10,226,919	-	-
Fixed deposits with licensed banks	7,661,134	7,661,134	-	-
Cash and bank balances	8,234,644	8,234,644	-	-
	67,066,468	57,558,930	9,507,538	-
Financial liabilities				
Borrowings	19,722,812	-	-	19,722,812
Trade payables	11,768,025	-	-	11,768,025
Other payables	4,622,992	-	-	4,622,992
Amount due to an associate	207,855	-	-	207,855
Amount due to Directors	500,000	-	-	500,000
	36,821,684	-	-	36,821,684

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

(a) Financial assets measured at amortised cost ("FA");
(b) Fair value through profit or loss ("FVTPL"); and
(c) Other financial liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FA RM	FVTPL RM	OFL RM
31.12.2018				
Financial assets				
Other investments	47,546	-	47,546	-
Trade receivables	23,554,258	23,554,258	-	-
Other receivables	1,694,515	1,694,515	-	-
Amount due from associates	1,803,756	1,803,756	-	-
Amount due from related parties	9,697,530	9,697,530	-	-
Fixed deposits with licensed banks	10,497,302	10,497,302	-	-
Cash and bank balances	7,946,584	7,946,584	-	-
	55,241,491	55,193,945	47,546	-
Financial liabilities				
Borrowings	21,597,079	-	-	21,597,079
Trade payables	5,520,700	-	-	5,520,700
Other payables	2,615,526	-	-	2,615,526
Amount due to Directors	118,614	-	-	118,614
	29,851,919	-	-	29,851,919
31.12.2017				
Financial assets				
Trade receivables	18,421,092	18,421,092	-	-
Other receivables	2,955,223	2,955,223	-	-
Amount due from associates	399,717	399,717	-	-
Amount due from related parties	10,348,277	10,348,277	-	-
Fixed deposits with licensed banks	6,882,228	6,882,228	-	-
Cash and bank balances	13,831,111	13,831,111	-	-
	52,837,648	52,837,648	-	-
Financial liabilities				
Borrowings	15,813,959	-	-	15,813,959
Trade payables	4,725,098	-	-	4,725,098
Other payables	4,728,684	-	-	4,728,684
Amount due to related parties	1,000	-	-	1,000
Amount due to Directors	127,598	-	-	127,598
	25,396,339	-	-	25,396,339

35. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management objectives and policies

35.1 Financial risk

The combining entities are exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policy is established to ensure that adequate resources are available for the development of the combining entities' business whilst managing its risk, liquidity risk, interest risk, foreign currency risk and market rate risk. The combining entities operate within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process. The combining entities have not actively engage in the trading of financial assets for speculative purposes nor do they write options.

The main areas of financial risks faced by the combining entities and the policies in respect of the major areas of treasury activity are set out as follows:-

(a) **Credit risk**

Credit risk is the risk of a financial loss to the combining entities if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is controlled by the application of credit evaluation and approvals, credit limits and monitoring procedures.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Trade receivables and contract assets

An impairment analysis performed at each reporting date using a provision of matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance).

Set out below is the information about the credit risk exposure and ECLs on the combining entities' trade receivables and contract assets which are grouped together as they are expected to have similar risk nature:-

	31.12.2020			31.12.2019		
	Gross carrying amount RM	Loss allowance RM	Net balances RM	Gross carrying amount RM	Loss allowance RM	Net balances RM
Current (Not past due)	11,844,007	(1,719,414)	10,124,593	15,590,729	(2,092,758)	13,497,971
1-30 days past due	12,382,304	(104,812)	12,277,492	4,521,135	(8,620)	4,512,515
31-60 days past due	3,356,725	(36,070)	3,320,655	1,525,367	(3,944)	1,521,423
61-90 days past due	2,011,452	(29,777)	1,981,675	816,809	(2,124)	814,685
More than 90 days past due	3,207,337	(1,745,064)	1,462,273	5,257,861	(1,736,038)	3,521,823
	32,801,825	(3,635,137)	29,166,688	27,711,901	(3,843,484)	23,868,417
Trade receivables	32,801,825	(3,635,137)	29,166,688	27,711,901	(3,843,484)	23,868,417
Contract assets	24,895,000	(924,305)	23,970,695	15,047,460	(286,707)	14,760,753
	57,696,825	(4,559,442)	53,137,383	42,759,361	(4,130,191)	38,629,170

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(a) **Credit risk (cont'd)**

Trade receivables and contract assets (cont'd)

Set out below is the information about the credit risk exposure and ECLs on the combining entities' trade receivables and contract assets which are grouped together as they are expected to have similar risk nature (cont'd):-

	31.12.2018			31.12.2017		
	Gross carrying amount RM	Loss allowance RM	Net balances RM	Gross carrying amount RM	Loss allowance RM	Net balances RM
Current (Not past due)	12,953,143	(35,928)	12,917,215	12,079,033	(71,680)	12,007,353
1-30 days past due	6,159,224	(19,167)	6,140,057	1,932,476	-	1,932,476
31-60 days past due	1,229,304	(11,894)	1,217,410	1,811,302	(91,468)	1,719,834
61-90 days past due	1,182,004	(17,302)	1,164,702	1,210,356	(46,183)	1,164,173
More than 90 days past due	3,880,886	(1,766,012)	2,114,874	2,391,474	(794,218)	1,597,256
	25,404,561	(1,850,303)	23,554,258	19,424,641	(1,003,549)	18,421,092
Trade receivables	25,404,561	(1,850,303)	23,554,258	19,424,641	(1,003,549)	18,421,092
Contract assets	19,345,850	(2,992)	19,342,858	9,582,034	(32,490)	9,549,544
	44,750,411	(1,853,295)	42,897,116	29,006,675	(1,036,039)	27,970,636

The movement in the allowance of impairment losses in respect of the trade receivables and contract assets were disclosed in Notes 9 and 11 to the combined financial statements.

Cash and cash equivalent

The combining entities are exposed to significant concentration of credit risk with 77% (31.12.2019: 92%, 31.12.2018: 84% and 31.12.2017: 98%) as the deposits with banks are placed in only one (31.12.2019: one, 31.12.2018: four and 31.12.2017: five) banks.

As at the reporting date, there is no indication that bank balance is not recoverable since the counterparty is a reputable bank with high quality external credit rating.

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(a) **Credit risk (cont'd)**

Intercompany advances

The maximum exposure to credit risk is represented by their carrying amounts in the combined statement of financial position.

The combining entities provide unsecured advances to associates/related parties and monitors the result of associates/related parties regularly.

As at the end of the reporting period, there was no indicator that the advances to associates /related parties are not recoverable.

(b) **Liquidity risk**

Liquidity risk is the risk that the combining entities will not be able to meet its financial obligations as they fall due to shortage of funds.

In managing its exposures to liquidity risk arising principally from its various payables, the combining entities maintain a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The combining entities aim at maintaining a balance of sufficient cash and deposits and flexibility in funding by keeping sources of committed and uncommitted credit facilities from various banks.

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below:-

			Current	← **Non-current** →	
	Carrying amount RM	Contractual cash flows RM	Within 1 year RM	2 to 5 years RM	More than 5 years RM
31.12.2020					
Financial liabilities					
Trade payables	20,184,381	20,184,381	20,184,381	-	-
Other payables	2,758,656	2,758,656	2,758,656	-	-
Borrowings	27,049,116	31,616,275	14,100,147	4,199,376	13,316,752
Lease liabilities	652,779	706,156	286,872	419,284	-
	50,644,932	55,265,468	37,330,056	4,618,660	13,316,752

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(a) **Liquidity risk (cont'd)**

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below (cont'd):-

	Carrying amount RM	Contractual cash flows RM	**Current** Within 1 year RM	**Non-current** 2 to 5 years RM	More than 5 years RM
31.12.2019					
Financial liabilities					
Trade payables	11,768,025	11,768,025	11,768,025	-	-
Other payables	4,622,992	4,622,992	4,622,992	-	-
Amount due to an associate	207,855	207,855	207,855	-	-
Amount due to Directors	500,000	500,000	500,000	-	-
Borrowings	19,722,812	21,483,499	16,093,437	2,693,915	2,696,147
Lease liabilities	1,202,850	1,296,912	653,222	643,690	-
	38,024,534	39,879,283	33,845,531	3,337,605	2,696,147
31.12.2018					
Financial liabilities					
Trade payables	5,520,700	5,520,700	5,520,700	-	-
Other payables	2,615,526	2,615,526	2,615,526	-	-
Amount due to a Director	118,614	118,614	118,614	-	-
Borrowings	21,597,079	23,849,486	14,013,468	6,644,158	3,191,860
Lease liabilities	1,430,692	1,539,514	621,180	918,334	-
	31,282,611	33,643,840	22,889,488	7,562,492	3,191,860

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(b) **Liquidity risk (cont'd)**

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below:-

	Carrying amount RM	Contractual cash flows RM	**Current** Within 1 year RM	← **Non-current** 2 to 5 years RM	→ More than 5 years RM
31.12.2017					
Financial liabilities					
Trade payables	4,725,098	4,725,098	4,725,098	-	-
Other payables	4,728,684	4,728,684	4,728,684	-	-
Amount due to related parties	1,000	1,000	1,000	-	-
Amount due to a Director	127,598	127,598	127,598	-	-
Borrowings	15,813,959	18,535,159	7,498,028	7,376,895	3,660,236
Lease liabilities	1,421,966	1,550,141	506,339	1,043,802	-
	26,818,305	29,667,680	17,586,747	8,420,697	3,660,236

(c) **Interest rate risk**

Interest rate risk is caused by changes in market interest rate resulting in fluctuation in fair value or future cash flow of financial instruments of the combining entities. The combining entities' interest rate management objective is to manage interest expenses consistent with maintaining an acceptable level of exposure to interest rate fluctuation.

The combining entities' borrowings at variable interest rates are exposed to the risk of change in cash flow due to changes in interest rate. Investment short-term deposits does not significantly expose to interest rate risk.

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(c) **Interest rate risk (cont'd)**

Interest rate sensitivity analysis

The combining entities are exposed to changes in market interest rates through bank borrowings at variable interest rates. The following is interest rate profile of the significant interest-bearing financial instruments, based on carrying amounts as at the reporting date:-

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
Fixed rate instruments				
Financial assets				
Amount due from associates	1,200,000	-	-	-
Amount due from related parties	-	2,430,001	1,336,888	1,413,462
Fixed deposits with licensed banks	9,135,078	7,661,134	10,497,302	6,882,228
Financial liabilities				
Bankers' acceptances	(13,225,277)	(11,388,055)	(12,752,725)	(6,219,987)
Amount due to related parties	-	-	-	(1,000)
	(2,890,199)	(1,296,920)	(918,535)	2,074,703
Floating rate instruments				
Financial asset				
Amount due from related parties	-	7,796,918	8,371,104	8,930,888
Financial liability				
Term loans	(13,823,839)	(8,062,695)	(8,844,354)	(9,593,972)
Bank overdraft	-	(272,112)	-	-
	(13,823,839)	(537,889)	(473,250)	(663,084)

The following illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/-25 (31.12.2019: +/-25, 31.12.2018: +/-25 and 31.12.2017: +/-25) basis points ("bp"). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

35. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(c) **Interest rate risk (cont'd)**

Interest rate sensitivity analysis (cont'd)

	Effect on profit for the financial years	
	RM	RM
31.12.2020 (+/- 25bp)	(34,556)	34,556
31.12.2019 (+/- 25bp)	(1,345)	1,345
31.12.2018 (+/- 25bp)	(1,183)	1,183
31.12.2017 (+/- 25bp)	(1,658)	1,658

(d) **Foreign currency risk**

The combining entities are exposed to foreign currency risk on sales and purchases transactions denominated in currency other than functional currencies of the combining entities' respective entities. The currencies giving rise to this risk are primarily Euro ("EURO"), United States Dollar ("USD"), Renminbi ("RMB") and Swiss Franc ("CHF").

Carrying amounts of the combining entities' exposure to foreign currency risk are as follows:-

	EURO	USD	RMB	CHF
	RM	RM	RM	RM
31.12.2020				
Financial assets				
Trade receivables	-	38,477	-	-
Other receivables	1,069	1,127,893	-	1,357
Cash and bank balances	-	4,834	-	-
Financial liabilities				
Trade payables	(42,858)	(8,586,877)	(413,791)	-
Net exposure	(41,789)	(7,415,673)	(413,791)	1,357
31.12.2019				
Financial assets				
Trade receivables	-	586,611	-	-
Other receivables	1,014	320,411	-	-
Cash and bank balances	-	4,930	-	-
Financial liabilities				
Trade payables	(1,881)	(5,700,852)	(633,200)	-
Other payables	-	(87,485)	-	
Net exposure	(867)	(4,876,385)	(633,200)	-

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(d) **Foreign currency risk (cont'd)**

Carrying amounts of the combining entities' exposure to foreign currency risk are as follows (cont'd):-

	EURO RM	USD RM	RMB RM
31.12.2018			
Financial asset			
Other receivables	-	924,299	-
Financial liability			
Trade payables	(9,584)	(404,935)	-
Net exposure	(9,584)	519,364	-
31.12.2017			
Financial asset			
Other receivables	292	1,580,713	-
Financial liability			
Trade payables	(51,775)	(1,027,377)	(247,796)
Net exposure	(51,483)	553,336	(247,796)

Foreign currency sensitivity analysis

The following table illustrates the sensitivity of profit or loss with regards to the combining entities' net financial assets/liabilities and the RM/EURO exchange rate, RM/USD exchange rate, RM/RMB and RM/CHF exchange rate and assuming all other things being equal.

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
RM/EURO				
Strengthened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	(418)	(9)	(96)	(515)
Weakened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	418	9	96	515

35. **FINANCIAL INSTRUMENTS (CONT'D)**

Financial risk management objectives and policies (cont'd)

35.1 **Financial risk (cont'd)**

(d) **Foreign currency risk (cont'd)**

Foreign currency sensitivity analysis (cont'd)

	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM
RM/USD				
Strengthened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	(74,157)	(48,764)	5,194	5,533
Weakened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	74,157	48,764	(5,194)	(5,533)
RM/RMB				
Strengthened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	(4,138)	(6,332)	-	(2,478)
Weakened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	4,138	6,332	-	2,478
RM/CHF				
Strengthened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	14	-	-	-
Weakened 1% (31.12.2019: 1%, 31.12.2018: 1% and 31.12.2017: 1%)	(14)	-	-	-

35. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management objectives and policies (cont'd)

35.1 Financial risk (cont'd)

(e) **Market rate risk**

Market price risk is the risk that the fair value or future cash flows of the combining entities' financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The combining entities are exposed to equity price risk arising from its investment in quoted instruments. These investments are managed by UOB Asset Management (Malaysia) Berhad and are fair value through profit or loss or financial assets measure at fair value through other comprehensive income.

The combining entities do not expect any material impact on its combined financial statements.

36. FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial assets and financial liabilities of the combining entities as at the end of the reporting period approximate their fair values due to their short-term nature, or that they are floating rate instruments that are re-priced to market interest rate on or near the end of the reporting period.

The combining entities enter into forward exchange contracts to manage its exposure to sales and purchases transactions that are denominated in USD. The fair value of the foreign currency forward contract have not been recognised in the combined financial statements due to its immateriality as at the end of the reporting period. The notional value of foreign currency forward contracts as the financial year end are as follows:-

	31.12.2020	31.12.2019	31.12.2018	31.12.2017
	RM	RM	RM	RM
Foreign currency hedging contracts				
Notional value of contracts*	-	-	1,305,779	1,223,878

* Equivalent to Nil (31.12.2019: Nil, 31.12.2018: USD300,000 and RMB 79,000 and 31.12.2017: USD295,551).

37. OPERATING SEGMENT

For the management purposes, the combining entities are organised into business units based on their products and services, which comprises the following:-

Segment I	:	Design, supply and installation of on-grid and off-grid solar photovoltaic systems and power plants which also includes the entire scope of work up to delivering of system or plant to customers. Solar photovoltaic systems and power plants convert sunlight into electricity for use at a facility, supply to the power grid, or storage in a battery pack for later use.
Segment II	:	Supply and installation of earthing and lightning protection systems for buildings, facilities and structures to protect people, property and equipment from unintended electric current as well as providing specialist subcontractors for earthing and lightning protection systems to main contractors or mechanical and electrical contractors.
Segment III	:	Distribution of electrical products and accessories which includes sales and marketing of Pekat own brand and other third party brands electrical products and accessories, namely for earthing and lightning related products, solar photovoltaic related products, surge protection devices, and aviation warning light systems.

Performance is measured based on segment profit before tax, interest, depreciation. Segment profit is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operates within these industries.

Transfer prices between operating segments are on a negotiated basis in a similar manner to transactions with third parties.

37. OPERATING SEGMENT (CONT'D)

31.12.2020	Note	Segment I RM	Segment II RM	Segment III RM	Eliminations RM	Total RM
Revenue						
External revenue		72,106,910	26,414,434	27,040,512	-	125,561,856
Inter-company revenue	A	26,646	108,774	23,723,157	(23,858,577)	-
Total revenue		72,133,556	26,523,208	50,763,669		125,561,856
Results						
Segment results		6,322,493	4,360,140	8,126,415	(656,642)	18,152,406
Finance income		151,472	60,776	235,440	(67,551)	380,137
Finance costs		(355,104)	(33,550)	(568,882)	70,062	(887,474)
Share of profit in associates		-	-	-	737,832	737,832
Profit before tax		6,118,861	4,387,366	7,792,973		18,382,901
Tax expense		(1,510,110)	(1,248,532)	(2,050,025)	-	(4,808,667)
Profit for the financial year		4,608,751	3,138,834	5,742,948		13,574,234
Assets						
Segment assets		51,082,897	25,087,634	63,261,597	(16,769,088)	122,663,040
Investment in associates		-	-	821,553	1,327,926	2,149,479
Total assets		51,082,897	25,087,634	64,083,150		124,812,519
Liabilities						
Segment liabilities		34,927,449	10,860,295	29,364,098	(15,790,632)	59,361,210
Deferred tax liabilities		60,000	65,000	112,000	-	237,000
Tax payable		680,963	199,371	458,219	-	1,338,553
Total liabilities		35,668,412	11,124,666	29,934,317		60,936,763
Other information						
Addition to non-current assets*		191,648	53,031	18,280,217	-	18,524,896
Amortisation		-	-	179,937	-	179,937
Depreciation		241,067	148,580	387,864	(54,432)	723,079
Non-cash (income)/expenses other than depreciation and amortisation	B	(102,266)	(1,304,509)	(565,385)	730,597	(1,241,563)

* Property, plant and equipment

37. OPERATING SEGMENT (CONT'D)

31.12.2019	Note	Segment I RM	Segment II RM	Segment III RM	Eliminations RM	Total RM
Revenue						
External revenue		58,773,607	30,458,900	30,288,168	-	119,520,675
Inter-company revenue	A	37,199	100,686	24,962,439	(25,100,324)	-
Total revenue		58,810,806	30,559,586	55,250,607		119,520,675
Results						
Segment results		8,584,325	4,579,175	7,832,277	(1,749,474)	19,246,303
Finance income		465,294	39,359	683,724	(294,565)	893,812
Finance costs		(565,507)	(33,546)	(748,573)	313,209	(1,034,417)
Share of profit in associates		-	-	-	568,812	568,812
Profit before tax		8,484,112	4,584,988	7,767,428		19,674,510
Tax expense		(1,777,421)	(1,334,000)	(1,707,936)	-	(4,819,357)
Profit for the financial year		6,706,691	3,250,988	6,059,492		14,855,153
Assets						
Segment assets		38,055,465	22,999,332	55,890,664	(20,038,658)	96,906,803
Tax recoverable		-	-	10,838	-	10,838
Investment in associates		-	-	821,585	590,062	1,411,647
Total assets		38,055,465	22,999,332	56,723,087		98,329,288
Liabilities						
Segment liabilities		26,047,932	11,300,318	27,160,082	(18,978,240)	45,530,092
Deferred tax liabilities		30,000	-	27,000	-	57,000
Tax payable		1,021,799	524,880	393,995	-	1,940,674
Total liabilities		27,099,731	11,825,198	27,581,077		47,527,766
Other information						
Addition to non-current assets*		649,586	117,185	559,015	-	1,325,786
Amortisation		-	-	96,809	-	96,809
Depreciation		251,112	258,676	655,658	(217,725)	947,721
Non-cash expenses/(income) other than depreciation and amortisation	B	572,424	882,466	(375,143)	549,505	1,629,252

* Property, plant and equipment

37. OPERATING SEGMENT (CONT'D)

31.12.2018	Note	Segment I RM	Segment II RM	Segment III RM	Eliminations RM	Total RM
Revenue						
External revenue		54,814,104	34,024,975	31,289,581	-	120,128,660
Inter-company revenue	A	306,864	943,157	27,168,649	(28,418,670)	-
Total revenue		55,120,968	34,968,132	58,458,230		120,128,660
Results						
Segment results		2,756,540	4,206,463	8,981,880	(290,898)	15,653,985
Finance income		364,863	126,025	642,828	(310,525)	823,191
Finance costs		(590,322)	(49,773)	(854,682)	340,384	(1,154,393)
Share of profit in associates		-	-	-	21,250	21,250
Profit before tax		2,531,081	4,282,715	8,770,026		15,344,033
Tax expense		(846,352)	(1,117,859)	(2,371,340)	-	(4,335,551)
Profit for the financial year		1,684,729	3,164,856	6,398,686		11,008,482
Assets						
Segment assets		35,963,692	21,361,752	43,006,913	(12,137,160)	88,195,197
Tax recoverable		362,075	-	104,152	-	466,227
Investment in associates		-	-	367,530	21,250	388,780
Total assets		36,325,767	21,361,752	43,478,595		89,050,204
Liabilities						
Segment liabilities		31,731,724	12,652,523	18,143,219	(12,206,572)	50,320,894
Deferred tax liabilities		45,000	-	48,000	-	93,000
Tax payable		-	436,083	930,878	-	1,366,961
Total liabilities		31,776,724	13,088,606	19,122,097		51,780,855
Other information						
Addition to non-current assets*		422,810	233,716	339,117	-	995,643
Depreciation		226,948	288,420	588,766	(217,725)	886,409
Non-cash expenses/(income) other than depreciation and amortisation	B	(1,482)	2,963,187	215,592	(38,015)	3,139,282

* Property, plant and equipment

37. OPERATING SEGMENT (CONT'D)

31.12.2017	Note	Segment I RM	Segment I RM	Segment III RM	Eliminations RM	Total RM
Revenue						
External revenue		14,936,665	33,108,835	24,784,263	-	72,829,763
Inter-company revenue	A	703,488	1,460,806	27,565,651	(29,729,945)	-
Total revenue		15,640,153	34,569,641	52,349,914		72,829,763
Results		14,936,665	33,108,835	24,698,830		
Segment results		490,272	4,895,450	6,979,399	99,014	12,464,135
Finance income		205,634	72,374	619,365	(180,744)	716,629
Finance costs		(452,818)	(22,122)	(745,440)	189,840	(1,030,540)
Share of loss in associates		-	-	-	(57,367)	(57,367)
Profit before tax		243,088	4,945,702	6,853,324		12,092,857
Tax expense		(97,433)	(824,747)	(1,706,843)	-	(2,629,023)
Profit for the financial year		145,655	4,120,955	5,146,481		9,463,834
Assets						
Segment assets		20,835,862	20,141,376	46,924,158	(14,395,803)	73,505,593
Tax recoverable		539,104	-	124,092	-	663,196
Total assets		21,374,966	20,141,376	47,048,250		74,168,789
Liabilities						
Segment liabilities		18,633,135	14,874,469	27,624,073	(14,990,722)	46,140,955
Tax payable		-	112,587	726,843	-	839,430
Total liabilities		18,633,135	14,987,056	28,350,916		46,980,385
Other information						
Addition to non-current assets*		56,611	90,606	1,398,120	-	1,545,337
Depreciation		160,155	259,100	1,223,760	(54,432)	1,588,583
Non-cash expenses/(income) other than depreciation and amortisation	B	123,265	918,473	(440,248)	(226,713)	374,777

* Property, plant and equipment

37. **OPERATING SEGMENT (CONT'D)**

Notes to the nature of adjustments and eliminations to arrive at amounts reported in the combined financial statements.

A. Intersegment revenues are eliminated on combined financial statements.

B. Other material non-cash (income)/expenses consist of the following items as presented in the respective notes to the combined financial statements:-

	31.12.2020	31.12.2019	31.12.2018	31.12.2017
	RM	RM	RM	RM
Bargain purchase on acquisition of a subsidiary	-	-	-	(142,372)
Dividend income	(119,629)	(131,794)	-	-
Fair value (gain)/loss on other investment	(5,608)	6,332	(7,546)	-
Gain on disposal of an associate	(32)	-	-	(250,000)
(Gain)/ Loss on disposal of a subsidiary	(18,160)	82,326	-	(318,341)
Gain on disposal of property, plant and equipment	(2,000)	-	(77,297)	(393,995)
Gain on termination of lease contracts	(31,206)	-	-	-
Impairment loss on contract assets	637,598	283,715	-	-
Impairment loss on trade receivables	175,651	3,317,425	987,522	323,635
Impairment loss on inventories	-	414,529	-	218,063
Loss on liquidation of subsidiaries	-	-	21,985	-
Provision for foreseeable losses	-	-	2,190,537	710,574
Reversal of provision for foreseeable losses	(1,432,315)	(1,117,655)	-	-
Reversal of impairment loss on contract assets	-	-	(29,498)	-
Reversal of impairment loss on trade receivables	(348,933)	(1,113,086)	(140,768)	-
Reversal of impairment loss on inventories	(179,397)	(74,290)	-	-
Unrealised loss/(gain) on foreign exchange	66,212	(137,258)	(8,469)	(38,173)
Waiver of amount due to related parties	-	-	-	(223,958)
Written off of amount due from an associate	12,385	-	-	-
Written off of contract assets	-	12,529	-	-
Written off of inventories	-	82,365	-	-
Written off of trade receivables	286	-	89,889	14,948
Written off of other receivables	-	-	105,940	427,481
Written off of property, plant and equipment	3,585	4,114	-	-
Written down of inventories	-	-	6,987	46,915
	(1,241,563)	1,629,252	3,139,282	374,777

37. **OPERATING SEGMENT (CONT'D)**

Geographical information

Revenue are all derived from Malaysia.

Non-current assets are all based in Malaysia.

Major customer

There is one (31.12.2019: one, 31.12.2018: Nil and 31.12.2017: Nil) major customer contributing to ten percent (10%) or more of total revenue of the combining entities.

38. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table summarises the methods used in determining the fair value of financial asset on a recurring basis as at 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017:-

Financial asset	**Fair value as at**				**Fair value hierarchy**	**Valuation techniques and key inputs**
	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM	31.12.2017 RM		
Other investments	Asset 1,158,588	Asset 9,507,538	Asset 47,546	Asset -	Level 2	The fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

There were no transfers between Level 1, Level 2 and Level 3 in financial years 2020, 2019, 2018 and 2017.

39. **FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS**

As at the end of the reporting date, the combining entities has no financial instruments that are measured subsequent to initial recognition at fair value and hence fair value hierarchy is not presented other than disclosed in Note 38 to the combined financial statements.

40. **CAPITAL MANAGEMENT**

The primary objective of the combining entities' capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value.

The combining entities manage its capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the combining entities may adjust the dividend payment to shareholders, return capital to shareholders or issue new share capital. No changes were made in the objective, policies or processes during the financial years ended 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017.

41. **SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR**

Coronavirus Disease 2019

The recent outbreak of Coronavirus Disease 2019 ("COVID-19") since end 2019 has seen significant cases increased worldwide which prompted the World Health Organisation to declare it as a pandemic on 11 March 2020. A series of precautionary and control measures have been and continued to be implemented across the world. The Malaysia Government imposed the Movement Control Order ("MCO"), Conditional Movement Control Order ("CMCO") and Recovery Movement Control Order ("RMCO") at various stages in various states from 18 March 2020 up to the date of this report. Consequently, these restrictions are expected to have material adverse effects on Malaysia's economy for 2020. The deterioration of world economy has also created additional uncertainties to the business of the combining entities in 2020.

As at the date of this report, the management of the combining entities have assessed the overall impact of the situation on the combining entities' operations and financial position, and it is concluded that there are no material effects on the financial statements for the financial year ended 31 December 2020. The management is unable to reliably estimate the financial impact of COVID-19 on the combining entities' financial results for the financial year ending 31 December 2021 as the pandemic has yet to run its full course hence the current situation is still fluid. The Directors shall continuously assess the impact of COVID-19 on its operations as well as the financial position for the financial year ending 31 December 2021.

PEKAT GROUP BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, the undersigned, being the Directors of the combining entities, do hereby state that, in our opinion, the accompanying combined financial statements set out on pages 4 to 92 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position as at 31 December 2020, 31 December 2019, 31 December 2018, and 31 December 2017, and of its combined financial performance and cash flows for the financial years ended 31 December 2020, 31 December 2019, 31 December 2018, and 31 December 2017.

....
CHIN SOO MAU

....
WEE CHEK AIK

....
TAI YEE CHEE

Kuala Lumpur
3 May 2021

PEKAT GROUP BERHAD
(Registration No: 201901011563 (1320891-U))
(Incorporated in Malaysia)

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd.

GrantThornton

REPORTING ACCOUNTANTS' ASSURANCE REPORT ON COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

Grant Thornton Malaysia PLT
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

T +603 2692 4022
F +603 2691 5229

Date: 3 May 2021

The Board of Directors
Pekat Group Berhad
3A, 5 & 6 Teknologi Kubik
No. 6, Jalan Teknologi 3/4
Taman Sains Selangor 1
Kota Damansara
47810 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of Pekat Group Berhad and of its subsidiaries (collectively known as "the combining entities" or "Pekat Group") as at 31 December 2020.

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

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

As part of this process, information about the combining entities' combined financial position has been extracted by the Directors from the audited consolidated statement of financial position of Pekat Teknologi Sdn. Bhd. and its subsidiaries ("Pekat Holding") as at 31 December 2020, on which was reported by us to the members of Pekat Holding on 19 April 2021 without any modification.

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

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

GrantThornton

Our Independence and Quality Control

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

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

Our Responsibility

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

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

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

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

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

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

GrantThornton

Our Responsibility (cont'd)

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

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

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

Opinion

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

Other Matters

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

Yours faithfully,

GRANT THORNTON MALAYSIA PLT
(201906003682 & LLP0022494-LCA)
CHARTERED ACCOUNTANTS (AF 0737)

OOI POH LIM
(NO: 03087/10/2021(J))
CHARTERED ACCOUNTANT
PARTNER

Kuala Lumpur
3 May 2021

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION *(Cont'd)*

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

The Pro Forma Combined Statements of Financial Position of Pekat Group as at 31 December 2020 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 December 2020, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position.

		As at 31 December 2020	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Proposed Public Issue ("IPO")	Proforma II After Proposed Public Issue ("IPO")	Adjustments for Proposed Utilisation of Proceeds from IPO	Proforma III After Proposed Utilisation of Proceeds from IPO
		RM	RM	RM	RM	RM	RM	RM
ASSETS								
Non-current assets								
Property, plant and equipment	3.01	-	20,072,877	20,072,877	-	20,072,877	18,000,000	38,072,877
Intangible assets	3.02	-	640,408	640,408	-	640,408	-	640,408
Investment in associates	3.03	-	2,149,479	2,149,479	-	2,149,479	-	2,149,479
Trade receivables	3.04	-	245,953	245,953	-	245,953	-	245,953
Total non-current assets		-		23,108,717		23,108,717		41,108,717
Current assets								
Other investments	3.05	-	1,158,588	1,158,588	-	1,158,588	-	1,158,588
Inventories	3.06	-	11,018,942	11,018,942	-	11,018,942	-	11,018,942
Trade receivables	3.04	-	28,920,735	28,920,735	-	28,920,735	-	28,920,735
Other receivables	3.07	6,360	3,176,819	3,183,179	-	3,183,179	(1,143,317)	2,039,862
Contract assets	3.08	-	23,970,695	23,970,695	-	23,970,695	-	23,970,695
Amount due from associates	3.09	-	9,240,536	9,240,536	-	9,240,536	-	9,240,536
Fixed deposits with licensed banks	3.10	-	9,135,078	9,135,078	-	9,135,078	-	9,135,078
Cash and bank balances	3.11	20	15,076,029	15,076,049	44,373,760	59,449,809	(30,756,683)	28,693,126
Total current assets		6,380		101,703,802		146,077,562		114,177,562
Total assets		6,380		124,812,519		169,186,279		155,286,279

Stamped for the purpose of identification on:
03 MAY 2021
GRANT THORNTON MALAYSIA PLT

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION *(Cont'd)*

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 (CONT'D)

The Pro Forma Combined Statements of Financial Position of Pekat Group as at 31 December 2020 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 December 2020, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position (cont'd).

		As at 31 December 2020	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Proposed Public Issue ("IPO")	Proforma II After Proposed Public Issue ("IPO")	Adjustments for Proposed Utilisation of Proceeds from IPO	Proforma III After Proposed Utilisation of Proceeds from IPO
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES								
EQUITY								
Equity attributable to owners of Pekat Group Berhad:-								
Share capital	3.12	20	50,630,000	50,630,020	44,373,760	95,003,780	(1,900,000)	93,103,780
Merger deficit	3.13	-	(50,079,980)	(50,079,980)	-	(50,079,980)	-	(50,079,980)
Retained earnings/(Accumulated losses)	3.14	(37,787)	63,293,406	63,255,619	-	63,255,619	(2,000,000)	61,255,619
		(37,767)		63,805,659		108,179,419		104,279,419
Non-controlling interests	3.15	-	70,097	70,097	-	70,097	-	70,097
Total equity		(37,767)		63,875,756		108,249,516		104,349,516
LIABILITIES								
Non-current liabilities								
Lease liabilities	3.16	-	391,984	391,984	-	391,984	-	391,984
Borrowings	3.17	-	13,330,885	13,330,885	-	13,330,885	(10,000,000)	3,330,885
Deferred tax liabilities	3.18	-	237,000	237,000	-	237,000	-	237,000
Total non-current liabilities		-		13,959,869		13,959,869		3,959,869

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION *(Cont'd)*

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 (CONT'D)

The Pro Forma Combined Statements of Financial Position of Pekat Group as at 31 December 2020 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 December 2020, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position (cont'd).

		As at 31 December 2020	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Proposed Public Issue ("IPO")	Proforma II After Proposed Public Issue ("IPO")	Adjustments for Proposed Utilisation of Proceeds from IPO	Proforma III After Proposed Utilisation of Proceeds from IPO
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES (CONT'D)								
LIABILITIES (CONT'D)								
Current liabilities								
Trade payables	3.19	-	20,184,381	20,184,381	-	20,184,381	-	20,184,381
Other payables	3.20	44,147	2,714,509	2,758,656	-	2,758,656	-	2,758,656
Contract liabilities	3.21	-	8,716,278	8,716,278	-	8,716,278	-	8,716,278
Lease liabilities	3.16	-	260,795	260,795	-	260,795	-	260,795
Borrowings	3.17	-	13,718,231	13,718,231	-	13,718,231	-	13,718,231
Tax payable	3.22	-	1,338,553	1,338,553	-	1,338,553	-	1,338,553
Total current liabilities		44,147		46,976,894		46,976,894		46,976,894
Total liabilities		44,147		60,936,763		60,936,763		50,936,763
Total equity and liabilities		6,380		124,812,519		169,186,279		155,286,279
Issued ordinary share capital (Unit)	3.12	200	506,300,000	506,300,200	138,668,000	644,968,200	-	644,968,200
Net (liabilities)/assets per share attributable to owners of Pekat Group Berhad (RM)		(188.84)		0.13		0.17		0.16
Lease liabilities and Borrowings		-		27,701,895		27,701,895		17,701,895
Gearing ratio (times)		-		0.43		0.26		0.17

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

1. BASIS OF PREPARATION

The Pro Forma Combined Statements of Financial Position of Pekat Group have been prepared for illustrative purposes and on the assumptions that all the transactions mentioned as per Note 2 to the Pro Forma Combined Statements of Financial Position had taken place on 31 December 2020.

The Pro Forma Combined Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited consolidated financial statements of Pekat Teknologi Sdn. Bhd. and its subsidiaries ("Pekat Holding") for the financial year ended 31 December 2020 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:-

Merger method of accounting

The Pro Forma Combined Statements of Financial Position are combined using the merger method as these companies are under the common control by the same party both before and after the acquisition of Pekat Holding. When the merger method is used, the difference between the cost of investment recorded by Pekat Group and the share capital of the subsidiary are accounted for as merger deficit in the Pro Forma Combined Statements of Financial Position.

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

2. LISTING SCHEME

(i) Pro Forma I: Acquisition of Pekat Holding ("Acquisition")

Acquisition

The Acquisition entails acquiring the entire equity interest of Pekat Holding, for total purchase consideration of RM50,630,000 to be satisfied via the issuance of 506,300,000 new shares at an issue price of RM0.10 per share based on the consolidated net assets of Pekat Holding as at 31 December 2019.

The acquisition was completed on 17 March 2021.

(ii) Pro Forma II: Proposed Public Issue ("IPO")

The IPO involves a public issue of 138,668,000 new ordinary shares in Pekat Group at an indicative issue/offer price of RM0.32 per share.

In conjunction with the IPO, Pekat Group shall seek the listing and quotation of its entire enlarged issued share capital comprising 644,968,200 ordinary shares in Pekat Group on the ACE Market of Bursa Malaysia Securities Berhad.

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PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

2. LISTING SCHEME (CONT'D)

(iii) Pro Forma III: Proposed Utilisation of Proceeds from IPO

Gross proceeds from the IPO of RM44,373,760 are expected to be utilised as follows:-

Details of use of proceeds	Estimated timeframe for the use of proceeds upon Listing	RM	% of total gross proceeds from the Public Issue
Capital expenditures			
- Construction of new head office and operational facility	March 2023	18,000,000	40.56
Repayment of bank borrowings*	3 months [(1)]	10,000,000	22.54
Working capital	12 months [(1)]	12,673,760	28.56
Estimated listing expenses#	1 month [(1)]	3,700,000	8.34
Total estimated proceeds		**44,373,760**	**100.00**

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

Notes:

* After IPO, Pekat Group will early repay the said bank borrowings by IPO proceeds of RM10,000,000. As a result of the early partial settlement, a penalty of RM200,000 will be incurred.

\# If actual listing expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for working capital requirements. Conversely, if actual listing expenses are lower than the amount budgeted, the excess will be utilised for working capital requirements.

The listing expenses are estimated at RM3,700,000 in which RM1,143,317 has been paid as prepayment and recognised in other receivables. The said prepayment will be subsequently set off against share capital and the remaining of RM2,556,683 are settled by utilisation of proceeds from IPO. The apportionment of estimated listing expenses between the share capital and profit or loss is disclosed in Notes 3.13 and 3.15 to the Pro Forma Combined Statements of Financial Position.

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

3.01 PROPERTY, PLANT AND EQUIPMENT

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

	RM
As at 31 December 2020	-
Pursuant to Acquisition	20,072,877
As per Pro Forma I to II	20,072,877
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Capital expenditure	18,000,000
As per Pro Forma III	38,072,877

3.02 INTANGIBLE ASSETS

The movements in intangible assets are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	640,408
As per Pro Forma I to III	640,408

3.03 INVESTMENT IN ASSOCIATES

The movements in investment in associates are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	2,149,479
As per Pro Forma I to III	2,149,479

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.04 TRADE RECEIVABLES

The movements in trade receivables are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	
- Non-current assets	245,953
- Current assets	28,920,735
As per Pro Forma I to III	29,166,688

3.05 OTHER INVESTMENTS

The movements in other investments are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	1,158,588
As per Pro Forma I to III	1,158,588

3.06 INVENTORIES

The movements in inventories are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	11,018,942
As per Pro Forma I to III	11,018,942

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.07 OTHER RECEIVABLES

The movements in other receivables are as follows:-

	RM
As at 31 December 2020	6,360
Pursuant to Acquisition	3,176,819
As per Pro Forma I to II	3,183,179
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Listing expenses	(1,143,317)
As per Pro Forma III	2,039,862

3.08 CONTRACT ASSETS

The movements in contract assets are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	23,970,695
As per Pro Forma I to III	23,970,695

3.09 AMOUNT DUE FROM ASSOCIATES

The movements in amount due from associates are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	9,240,536
As per Pro Forma I to III	9,240,536

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PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.10 FIXED DEPOSITS WITH LICENSED BANKS

The movements in fixed deposits with licensed banks are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	9,135,078
As per Pro Forma I to III	9,135,078

3.11 CASH AND BANK BALANCES

The movements in cash and bank balances are as follows:-

	RM
As at 31 December 2020	20
Pursuant to Acquisition	15,076,029
As per Pro Forma I	15,076,049
Pursuant to Proposed Public Issue (IPO)	44,373,760
As per Pro Forma II	59,449,809
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Capital expenditure	(18,000,000)
- Repayment of bank borrowings	(10,000,000)
- Penalty of early settlement of bank borrowings	(200,000)
- Listing expenses	(2,556,683)
As per Pro Forma III	28,693,126

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.12 SHARE CAPITAL

The movements in share capital are as follows:-

	RM
As at 31 December 2020	20
Pursuant to Acquisition	50,630,000
As per Pro Forma I	50,630,020
Pursuant to Proposed Public Issue (IPO)	44,373,760
As per Pro Forma II	95,003,780
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Listing expenses	(1,900,000)
As per Pro Forma III	93,103,780

The apportionment of listing expenses are estimated at RM1,900,000 and will be set off against the share capital accordingly, which comprise of incremental costs that are directly attributable to issuing of new shares and apportionment of cost that are relates to shares issuance and listing on the proportion of new shares issued to the total number of enlarged share capital after IPO.

3.13 MERGER DEFICIT

The movements in merger deficit are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	(50,079,980)
As per Pro Forma I to III	(50,079,980)

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.14 RETAINED EARNINGS/(ACCUMULATED LOSSES)

The movements in retained earnings/(accumulated losses) are as follows:-

	RM
As at 31 December 2020	(37,787)
Pursuant to Acquisition	63,293,406
As per Pro Forma I to II	63,255,619
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Penalty of early settlement of bank borrowings	(200,000)
- Listing expenses	(1,800,000)
As per Pro Forma III	61,255,619

The apportionment of listing expenses are estimated at RM1,800,000 and will be set off against the retained earnings accordingly, which comprise of cost that relate to stock market listing which are neither incremental nor directly attributable to issuing of new shares.

3.15 NON-CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	70,097
As per Pro Forma I to III	70,097

3.16 LEASE LIABILITIES

The movements in lease liabilities are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	
- Non-current liabilities	391,984
- Current liabilities	260,795
As per Pro Forma I to III	652,779

PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.17 BORROWINGS

The movements in borrowings are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	
- Non-current liabilities	13,330,885
- Current liabilities	13,718,231
As per Pro Forma I to II	27,049,116
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Repayment of bank borrowings	(10,000,000)
As per Pro Forma III	17,049,116

3.18 DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	237,000
As per Pro Forma I to III	237,000

3.19 TRADE PAYABLES

The movements in trade payables are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	20,184,381
As per Pro Forma I to III	20,184,381

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PEKAT GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.20 OTHER PAYABLES

The movements in other payables are as follows:-

	RM
As at 31 December 2020	44,147
Pursuant to Acquisition	2,714,509
As per Pro Forma I to III	2,758,656

3.21 CONTRACT LIABILITIES

The movements in contract liabilities are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	8,716,278
As per Pro Forma I to III	8,716,278

3.22 TAX PAYABLE

The movements in tax payable are as follows:-

	RM
As at 31 December 2020	-
Pursuant to Acquisition	1,338,553
As per Pro Forma I to III	1,338,553

14. STATUTORY AND OTHER INFORMATION

14.1 SHARE CAPITAL

(i) As at the date of this Prospectus, we only have 1 class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.

(ii) Save for 5,143,000 Shares under the Pink Form Allocations as disclosed in Section 4.4.2(ii),

  (a) no Director, employee or business associate of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiaries; and

  (b) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.

(iii) Save for the new Shares issued and to be issued pursuant to the Acquisition of Pekat Teknologi, the Public Issue and as disclosed in Sections 6.2.2 and 4.4.2 respectively and the 200 Shares subscribed by Chin Pay Yee and Ting Pei Jing, no shares of our Company or our subsidiary have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.

(iv) Other than our Public Issue as disclosed in Section 4.4.2, there is no intention on the part of our Directors to further issue any Shares.

(v) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

14.2 CONSTITUTION

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the current Listing Requirements and the Act.

(1) Remuneration, voting and borrowing power of Directors

The provisions in our Constitution dealing with remuneration, voting and borrowing power of Directors are as follows:

Clause 91 - Chairman's casting vote

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman shall be entitled to a casting vote in addition to any other vote he may have.

Clause 110 - Remuneration of Directors

Subject to this Constitution, the fees and benefits of the Directors shall be annually determined by the Company in general meeting PROVIDED ALWAYS that:

(1) Directors' fees and benefits payable to Directors not holding any executive office in the Company shall be a fixed sum and shall not be payable by a commission on or percentage of profits or turnover;

(2) Salaries payable to Directors holding any executive office pursuant to a contract of service need not be determined by the Company in general meeting but such salaries may not include a commission on or a percentage of turnover;

(3) All remuneration payable to Directors shall be deemed to accrue from day to day;

(4) Fees and benefits payable to Directors shall not be increased except pursuant to a resolution passed by the Company in general meeting, where notice of the proposed increase has been given in the notice convening the meeting; and

(5) Any fee and benefit paid to an alternate Director shall be agreed between him and his appointor and shall be deducted from his appointor's remuneration.

Clause 111 - Expenses

The Directors may be paid all travelling, hotel and other reasonable expenses, properly and reasonably incurred by them in the execution of their duties including any such expenses incurred in connection with attending and returning from meetings of the Directors or any committee of Directors or general or other meetings of the Company or in connection with the business of the Company in the course of the performance of their duties as Directors.

Clause 112 - Special remuneration

The Directors may grant special remuneration to any Director who (on request by the Directors) is willing to:

(1) render any special or extra services to the Company; or

(2) to go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.

Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum or by way of salary, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.

Clause 145 - Right to regulate proceedings

Subject to this Constitution, the Directors may meet together for the despatch of business at such date, time and place, adjourn and otherwise regulate their meetings and proceedings as they think fit. A Director may, and the Secretary at the request of a Director shall, call a meeting of the Directors. Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the Chairman of the meeting shall (subject to Clause 149) have a second or casting vote.

Clause 149 - Where no casting vote

When 2 Directors form a quorum, the chairman of a meeting at which only such a quorum is present, or at which only 2 Directors are competent to vote on the question at issue, shall not have a casting vote. Otherwise in the case of an equality of votes the Chairman shall have a second or casting vote.

Clause 152 - Directors' resolution in writing

A resolution in writing signed by a majority of the Directors for the time being or their alternates not being less than 2 Directors shall be as valid and effectual as if it had been passed by a meeting of Directors duly called and constituted. Any such resolution may consist of several documents in like form each signed by 1 or more Directors. Any such document, may be accepted as sufficiently signed by a Director if transmitted to the Company by telex, telegram, cable, facsimile or other electrical or digital written message purporting to include a signature of a Director but a resolution signed by an alternate Director need not also be signed by his appointor and, if it is signed by a Director who has appointed an alternate Director, it need not be signed by the alternate Director in that capacity. A signed Directors' Circular Resolution transmitted by facsimile (fax) or any other electronic means shall be deemed to be an original.

Clause 153 - Disqualification from voting

Except as otherwise provided by this Constitution, a Director shall not vote at a meeting of Directors or of a committee of Directors on any resolution concerning any contract, proposed contract, arrangement or other matter in which he has, directly or indirectly, a personal interest or duty which is material and which conflicts or may conflict with the interests of the Company unless his interest or duty arises only because the case falls within one or more of the following paragraphs:

(1) in a case where the contract or proposed contract relates to any loan to the company that he has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan; or

(2) in a case where the contract or proposed contract has been or will be made with or for the benefit of or on behalf of a Related Corporation - that he is a director of that corporation.

For avoidance of doubt, a Director shall be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

Clause 154 - Separation of resolutions

Where proposals under consideration are concerning or relating to the terms of employment, consultancy or other services of or to be provided by Directors to or with the Company or any body corporate in which the Company is interested or other related matters, the proposals may be divided and considered in relation to each Director separately and (provided he is not for another reason precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own.

Clause 155 - Questions on right to vote

If a question arises at a meeting of Directors or of a committee of Directors as to the right of a Director to vote, the question may, before the conclusion of the meeting, be referred to the Chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive.

Clause 125 - General borrowing powers

Except as provided by Clause 126, the Directors may exercise all the powers of the Company to borrow money of any sum or sums from any person, bank, firm or company and to mortgage or charge its undertaking, property and uncalled capital, and any part thereof and to issue debentures and other securities, whether as primary or collateral security for any debt, liability or obligation of the Company, its subsidiaries or any other party. The Directors may guarantee the whole or any part of the loans or debts raised or incurred by or on behalf of the Company or any interest payable thereon with power to the Directors to indemnify the guarantors from or against liability under their guarantees by means of a mortgage or hypothecation of or charge upon any property and asset of the Company or otherwise. The Directors may exercise all the powers of the Company to guarantee and give guarantees or indemnities for payment of money, the performance of contracts or obligations or for the benefit or interest of the Company or its Subsidiaries.

Clause 126 - Restrictions on borrowing

The Directors shall not borrow any money or mortgage or charge any of the Company's or its subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

(2) Changes to share capital

Clause 66 - Consolidation, division and cancellation

The Company may by special resolution:

(1) consolidate and divide all or any of its share capital;

(2) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and/or

(3) subdivide its shares or any of the shares, whatever is in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided shares is derived.

Anything done in pursuance of this Clause shall be done in such manner provided and subject to any conditions imposed by the Act, so far as they shall be applicable, and, so far as they shall not be applicable, in accordance with the terms of the resolution authorising the same, and, so far as such resolution shall not be applicable, in such manner as the Directors deem most expedient.

Clause 69 - Reduction of capital

The Company may by special resolution in accordance with Section 115 of the Act reduce its share capital in the manner as authorised by law. The Company shall give notice to the Registrar in accordance with the Act of such alteration in capital.

Clause 70 - Resolution to increase capital

Without prejudice to the rights attached to any existing shares or class of shares, the Company in general meeting may by ordinary resolution increase its capital by the allotment of shares carrying such rights and restrictions, as the resolution specifies provided that where the capital of the Company consists of shares of different voting rights (if specified in such resolution) shall be prescribed in such a manner that a unit of capital in each class, shall carry such different voting power when such right is exercisable.

(3) Transfer of securities

Clause 40 - Transfer of securities

The transfer of any listed securities or class of listed securities of the Company shall be made by way of book entry by the Depository in accordance with the Depository Rules and, notwithstanding Sections 105, 106 and 110 of the Act, but subject to subsection 148(2) of the Act and any exemption that may be made from compliance with subsection 148(1) of the Act, the Company shall not be required to register or effect any transfer of the listed securities.

Clause 41 - Execution requirements

The instrument of transfer lodged with the Company shall be executed by or on behalf of the transferor and the transferee and the transferor shall be deemed to remain the holder of the share until the transferee's name is entered in the Register as the holder of that share and/or the Record of Depositors, as the case may be.

Clause 4 - Directors' right to decline registration

The Directors may decline to register any instrument of transfer of shares which are not fully paid (whether these are quoted or otherwise) to a person whom they do not approve. Subject to the Act, the Listing Requirements, the Central Depositories Act and the Depository Rules, if the Directors refuse to register a transfer they shall send to the transferee written notice of the refusal and reasons therefore.

Clause 43 - Depository's' right to refuse transfer

The Depository may, in its absolute discretion, refuse to register any transfer that does not comply with the Central Depositories Act and the Depository Rules.

Clause 44 - Transfer fully paid securities

Subject to the Central Depositories Act and the Depository Rules, any Member may transfer all or any of its securities by instrument in writing in the form prescribed and approved by the Exchange and the Registrar (as the case may be). Subject to this Constitution, there shall be no restriction on the transfer of fully paid-up shares except where required by law. The instruments shall be executed by or on behalf of the transferor and the transferor shall remain the holder of the shares transferred until the transfer is registered and the name of the transferee is entered in the Register and/or Record of Depositors as the case may be, in respect thereof. All transfers of deposited securities shall be effected by way of book entry by the Depository in accordance with the Depository Rules and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

(4) Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights

Clause 7 - Classes of Shares

The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special rights, privilege, conditions or restriction as to dividends, capital, voting or otherwise.

Clause 8 - Variation of class rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may (subject to Section 90 of the Act and whether or not the Company is being wound up) be varied or abrogated in accordance with Section 91 of the Act.

Clause 11 - No deemed variation

Subject to Section 91 of the Act, the rights attached to any class shall not (unless otherwise provided by the terms of issue of such shares) be deemed to be varied by the creation or issue of further shares ranking in any respect *pari passu* with that class.

Clause 12 - Issue of securities

Subject to the Act and this Constitution, the Directors may offer, issue, allot (with or without conferring a right of renunciation) shares of the Company (whether forming part of the original or any increased capital), grant options over, grant any right or rights to subscribe for such shares or any right or rights to convert any Security into such shares, or otherwise deal with or dispose of them to such persons at such times and on such terms and conditions as they may determine.

Clause 13 - Restrictions on issue

(1) The Company shall not offer, issue, allot, grant options over shares, grant any right or right to subscribe for shares or any right or rights to convert any security into shares or otherwise deal with or dispose of shares which will or may have the effect of transferring a controlling interest in the Company without the prior approval of the Members in general meeting;

(2) No Director shall participate in a Share issuance scheme unless the Members in general meeting have approved the specific allotment to such Director; and

(3) The rights attached to shares of a class other than ordinary shares shall be expressed in the resolution creating them.

Clause 14 - Rights attached to shares

Subject to the Act and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or as the Directors (subject to them being duly authorised to do so by an ordinary resolution of the Company) may determine.

Clause 21 - Redeemable preference shares

Subject to the Act and this Constitution, any preference shares may with the sanction of an ordinary resolution of shareholders in general meeting be issued on terms that they are, or at the option of the Company are liable to be redeemed on such terms and in such manner as may be provided for by this Constitution as the Board may think fit.

Clause 23 - Rights of preference shares

Preference shareholders shall have:

(1) the same rights as ordinary shareholders as regards:

   (a) receiving notices, reports and audited accounts; and

   (b) attending general meetings of the Company; and

(2) the right to vote at any meeting convened for the purposes of reducing the capital, or to wind up the Company and during the winding up of the Company, or disposing the whole of the Company's property, business and undertaking or on a proposal directly affecting the rights and privileges attached to the preference shares or when the dividend or part of the dividend on the preference shares is in arrears for more than 6 months,

unless determined otherwise by shareholders of the Company in general meeting.

Clause 24 - Repayment of preference capital

The repayment of any preference capital other than redeemable preference capital or any other alteration of preference shareholders' rights, may only be made pursuant to a special resolution of the preference shareholders concerned provided always that where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing if obtained from the holders of three-fourths of the preference capital concerned within 2 months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

Clause 95 – Vote of members

Subject to Clause 74 or to any special rights or restrictions for the time being attached to any class or classes of shares, at meetings of Members or classes of Members, on a show of hands, every Member or a holder of preference shares who:

(1) being an individual, is present in person or by proxy or attorney; or

(2) being a corporation, is present by a duly authorised representative or by proxy or attorney,

and on a show of hands every eligible Member or a holder of preference shares shall have 1 vote except where he has been appointed by more than one member entitled to vote on the resolution and he has been instructed:-

(a) by one or more of those Members to vote for the motion and by one or more of those members to vote against the motion; or

(b) by one or more of those Members to vote in the same way on the motion (whether for or against) and one or more of those Members has given him the discretion as to how to vote

in which case, he shall have 1 vote for and 1 vote against the motion and on a poll every Member shall have 1 vote for every share of which he is the holder. On a poll, votes may be given either personally or by proxy or by attorney or by a duly authorised representative of a corporate Member. A proxy shall be entitled to vote on a show of hands on any question at any general meeting.

Clause 97 - No vote unless calls paid

No Member shall vote at any general meeting or at any separate meeting of the holders of any class of shares in the Company, either in person or by proxy or attorney, in respect of any share held by him unless all calls and other moneys presently payable by him in respect of that share have been paid.

Clause 169 - Proportionality

Unless otherwise provided by the rights attached to shares or the terms of their issue, all dividends shall be declared and paid proportionately to the capital paid-up on the shares on which the dividend is paid, but if any shares are issued on terms providing that they shall rank for dividend as from a specified date or to a specified extent, they shall rank for dividend accordingly. Any dividend may be expressed to be payable on a specified date to persons registered on some earlier date as the holders of the shares in respect of which the dividend is declared, notwithstanding that such persons may not be so registered on the date of the declaration or payment.

Clause 197 - Application of balance of assets

On a winding up of the Company, the balance of the assets available for distribution among the Members shall (subject to any special rights attaching to any class of shares) be applied in repaying to the Members the amounts of any surplus assets belonging to the holders of any issued ordinary shares according to the respective numbers of shares held by them or, if there are no issued ordinary shares, to the holders of any issued unclassified shares according to the respective numbers of shares held by them.

Clause 198 - Division in specie

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide among the Members in specie the whole or any part of the assets of the Company (whether they consist of property of the same kind or not) and may, for that purpose, value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees on such trusts for the benefit of the Members as he with the like sanction determines, but no Member shall be compelled to accept any assets on which there is a liability.

14.3 GENERAL INFORMATION

(i) Save for the purchase consideration paid to the shareholders of our subsidiary pursuant to the Acquisition of Pekat Teknologi as disclosed in Section 6.2.2, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.13, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoter, Director or substantial shareholder.

(ii) Save as disclosed in Section 9.1, none of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.

(iii) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the procedures for application of our Shares are set out in Section 15.

(iv) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

14.4 CHANGES IN SHARE CAPITAL

As at the LPD, our share capital is RM50,630,020 comprising 506,300,200 Shares. The movements in our share capital since the date of our incorporation are set out below:

Date of allotment	No. of Shares allotted	Consideration RM	Cumulative share capital RM
5 April 2019	200	20.00	20.00
17 March 2021	506,300,000	50,630,000.00	50,630,020.00

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will be increased to RM95,003,780 comprising 644,968,200 Shares from the issuance of 138,668,000 Issue Shares.

The share capital of our subsidiaries is as follows.

14.4.1 Pekat Teknologi

As at the LPD, Pekat Teknologi's share capital is RM550,020 comprising 550,020 ordinary shares.

The changes in the share capital of Pekat Teknologi since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
5 August 1999	2	2.00	2.00
27 September 1999	20,000	20,000.00	20,002.00
6 November 2000	30,000	30,000.00	50,002.00
21 June 2004	5,000	5,000.00	55,002.00
25 June 2004	495,018	495,018.00	550,020.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat Teknologi. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Details of the subsidiaries and associated companies of Pekat Teknologi are set out below.

14.4.2 Pekat Solar

As at the LPD, Pekat Solar's share capital is RM1,200,000 comprising 1,200,000 ordinary shares.

The changes in the share capital of Pekat Solar since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
22 November 2010	2,000	2,000.00	2,000.00
1 February 2011	48,000	48,000.00	50,000.00
28 February 2012	100,000	100,000.00	150,000.00
30 December 2013	350,000	350,000.00	500,000.00
1 November 2016	700,000	700,000.00	1,200,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat Solar. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.3 Pekat E&LP

As at the LPD, Pekat E&LP's share capital is RM1,000,000 comprising 1,000,000 ordinary shares.

The changes in the share capital of Pekat E&LP since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
22 November 2010	2,000	2,000.00	2,000.00
1 February 2011	48,000	48,000.00	50,000.00
28 February 2012	100,000	100,000.00	150,000.00
1 May 2016	350,000	350,000.00	500,000.00
15 October 2017	500,000	500,000.00	1,000,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat E&LP. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.4 Pekat Engineering

As at the LPD, Pekat Engineering's share capital is RM150,000 comprising 150,000 ordinary shares.

The changes in the share capital of Pekat Engineering since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
22 November 2010	2,000	2,000.00	2,000.00
1 February 2011	48,000	48,000.00	50,000.00
28 February 2012	100,000	100,000.00	150,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat Engineering. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.5 E&LP Engineering

As at the LPD, E&LP Engineering's share capital is RM500,000 comprising 500,000 ordinary shares.

The changes in the share capital of E&LP Engineering since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
19 July 2007	1,000	1,000.00	1,000.00
18 February 2014	499,000	499,000.00	500,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in E&LP Engineering. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.6 Pnexsoft

As at the LPD, Pnexsoft's share capital is RM300,000 comprising 300,000 ordinary shares.

The changes in the share capital of Pnexsoft since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
18 September 2018	300,000	300,000.00	300,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pnexsoft. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.7 Pekat LEDSystems

As at the LPD, Pekat LEDSystems' share capital is RM100,000 comprising 100,000 ordinary shares.

The changes in the share capital of Pekat LEDSystems since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
11 January 2006	3	3.00	3.00
31 March 2009	99,997	99,997.00	100,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat LEDSystems. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.8 Pekat Energy Sarawak

As at the LPD, Pekat Energy Sarawak's share capital is RM750,000 comprising 750,000 ordinary shares.

The changes in the share capital of Pekat Energy Sarawak since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
8 September 2016	3	3.00	3.00
22 March 2017	49,997	49,997.00	50,000.00

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
10 November 2017	200,000	200,000.00	250,000.00
25 May 2018	250,000	250,000.00	500,000.00
3 December 2018	250,000	250,000.00	750,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pekat Energy Sarawak. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.9 MFP Solar

As at the LPD, MFP Solar's share capital is RM8,000,000 comprising 8,000,000 ordinary shares.

The changes in the share capital of MFP Solar since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
29 August 2019	2	2.00	2.00
1 October 2019	999,998	999,998.00	1,000,000.00
26 February 2021	7,000,000	7,000,000.00	8,000,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in MFP Solar. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.10 Sunway Pekat Solar

As at the LPD, Sunway Pekat Solar's share capital is RM1,010,010 comprising 1,010,010 ordinary shares.

The changes in the share capital of Sunway Pekat Solar since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
27 June 2019	10	10.00	10.00
26 December 2019	10,000	10,000.00	10,010.00
8 May 2020	1,000,000	1,000,000.00	1,010,010.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Sunway Pekat Solar. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.11 J8K Energy

As at the LPD, J8K Energy's share capital is RM100 comprising 100 ordinary shares.

The changes in the share capital of J8K Energy since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
31 May 2019	100	100.00	100.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in J8K Energy. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.5 CONSENTS

(i) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretaries and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;

(ii) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letter relating to the Pro forma Combined Financial Information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and

(iii) The written consent of the IMR to the inclusion in this Prospectus of its name and the IMR Report titled "Independent Assessment of the Solar Photovoltaic, Earthing and Lightning Protection System and Distribution of Electrical Products Industries in Malaysia", in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

14.6 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

(i) Constitution of our Company;

(ii) The audited financial statements of the Pekat Group for the FYEs 2017, 2018, 2019 and 2020;

(iii) The Accountants' Report as set out in Section 12;

(iv) The Reporting Accountants' reports relating to our pro forma combined statements of financial information as set out in Section 13;

(v) The IMR Report as set out in Section 7;

(vi) The material contracts as set out in Section 6.16; and

(vii) The letters of consent as set out in Section 14.5.

14.7 RESPONSIBILITY STATEMENTS

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

15.1 OPENING AND CLOSING OF APPLICATION

OPENING OF THE APPLICATION PERIOD: 10.00 A.M. ON 2 JUNE 2021

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M. ON 10 JUNE 2021

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

Late Applications will not be accepted.

15.2 METHODS OF APPLICATIONS

15.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

Types of Application and category of investors	Application Method
Applications by our eligible Directors and employees as well as persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(i) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(ii) Non-Individuals	White Application Form only

15.2.2 Placement

Types of Application		Application Method
Applications by:		
(i)	Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(ii)	Bumiputera Investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera Investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

15.3 ELIGIBILITY

15.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

(i) You must be one of the following:

(a) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

(b) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(ii) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

(iii) You must submit Applications by using only one of the following methods:

(a) White Application Form;

(b) Electronic Share Application; or

(c) Internet Share Application.

15.3.3 Application by our eligible Directors, employees as well as persons who have contributed to the success of our Group

Our eligible Directors and employees as well as persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

15.4 APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.32 for each IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NUMBER 702"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(i) Despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(ii) **DELIVER BY HAND AND DEPOSIT** in the drop-in box provided at the following address:

Customer Service Centre
Unit G-3, Ground Floor
Vertical Podium, Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 10 June 2021 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

(i) Reject Applications which:

(a) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

(b) are illegible, incomplete or inaccurate; or

(c) are accompanied by an improperly drawn up, or improper form of, remittance; or

(ii) Reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(iii) Bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 8 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

15.8 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful / partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

15.8.1 For applications by way of Application Forms

(i) The application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.

(ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (i) and (ii) above (as the case may be).

(iv) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

15.8.2 For applications by way of Electronic Share Application and Internet Share Application

(i) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.

(ii) You may check your account on the 5^{th} Market Day from the balloting date.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

15.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

(i) Our IPO Shares allotted to you will be credited into your CDS account.

(ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(iv) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

15.10 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	Issuing House Enquiry Services at telephone no. 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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