permanent residents (with exemption provided on low cost, low-medium and affordable houses with prices below RM200,000) are expected to continue and reduce the rate of growth in the property market with potentially lesser number of property transactions expected to be registered moving forward. Nonetheless, the Malaysian Government has re-introduced the Home Ownership Campaign ("**HOC**") with stamp duty exemption on instruments of transfer and loan agreement for the purchase of residential homes priced between RM300,000 and RM2.5 million. In addition, the current 70% margin financing limit applicable for the 3rd housing loan onwards for property valued at RM600,000 and above is uplifted during the period of the HOC. Meanwhile, the property overhang situation in Malaysia continued to persist although the combined overhang residential, shop and industrial units decreased from 37,968 units in 2019 to 37,879 units in 2020. This development may place property developers in a more difficult position in launching new property projects in the future, leading to lesser demand for construction services.

5.0 Supply Conditions

Figure 10: Supply Conditions Affecting the Construction Industry in Malaysia, 2021-2025

Impact	Supply Conditions	Short-Term	Medium-Term	Long-Term
		2021-2022	**2023-2024**	**2025**
+	CIDB Providing the Necessary Leadership in Spearheading the Development of the Local Construction Industry	High	High	High
+	Activism by Master Builders Association Malaysia ("**MBAM**") Raising Profile and Pushing for the Betterment of the Construction Industry in Malaysia	High	High	High
+	Strengthened Mechanism to Address Payment Disputes and Facilitate Adjudication	Medium	Medium	Medium
-	Labour Shortage and High Dependency on Foreign Workers	High	High	High
-	Challenging Operating Environment Due to the COVID-19 Pandemic and Lockdown Measures	Medium	Low	Low
-	Lack of Traction in the Adoption of Industrialised Building System ("**IBS**") Construction	Medium	Medium	Low

Source: Protégé Associates

On the supply side, both CIDB and MBAM have been working hard to increase the profile and growth of the local construction industry. CIDB has already developed the industry blueprint, Construction Industry Transformation Programme ("**CITP**") that outlines strategic goals and milestones to bring the local construction industry to the next level as highlighted in the 11MP covering the period from 2016 to 2020. MBAM can count on a relatively large pool of industry stakeholders such as contractors and building material suppliers as its members and it is widely considered as the voice of the construction industry in Malaysia. It helps to promote, enhance, protect and safeguard the interests of its members. More importantly, MBAM acts as a single collective voice for the local construction industry when engaging with policy makers and relevant government bodies – leading to an increase in bargaining power. It has been actively conducting dialogues with the Malaysian Government to find ways to resolve various issues faced by the local construction industry. The introduction of the Construction Industry Payment and Adjudication Act 2012 ("**CIPAA**") and the establishment of specialised construction courts in Malaysia have also helped to alleviate the prevalent and pervasive practice of delayed, underpayment and/or non-payment for works carried out under a construction contract in Malaysia.

On the other hand, the labour-intensive local construction industry has continued to grapple with labour shortage. Most locals shun these jobs as they view them as dangerous, dirty and difficult, and they expect higher wages. Therefore, the construction industry has been relying heavily on foreign workers. It does not help that policies on foreign workers have been constantly under close scrutiny and are vulnerable to frequent changes particularly on levy rates and number of foreign workers allowed to work in Malaysia. Due to the COVID-19 pandemic and lockdown measures, local construction industry players already incurred holding costs, losses and expenses for not being able to proceed with construction works. For those that are allowed to operate, they incur additional costs for executing strict health and safety regulations, enhanced sanitisation at the workplace and/or urgent COVID-19 testing for their foreign workers. In addition, there is no new intake of foreign workers allowed into the country, until end of the year. Nonetheless, construction industry players stand to get temporary relief from certain contractual obligation(s) for a certain period as stated in the Temporary Measures for Reducing The Impact of Coronavirus Disease (COVID-19) Act 2020. In addition, for sectors with high reliance on foreign workers such as the construction industry, a special incentive of 60% of monthly wages will be provided whereby 40% will be channelled to the employer while 20% will be channelled as a wage top up to the local worker replacing the foreign worker.

There is also a lack of mass adoption of IBS by the local construction industry. It is hard for construction industry players to obtain meaningful economies of scale that can lead to economic viability. There is also a lack of standardisation of IBS in Malaysia as customised components for one project may not necessarily fit into another project leading to higher costs incurred for new mould and design. Besides that, design consultants are not adequately trained or fully equipped to undertake IBS design related tasks. Furthermore, there is limited number of construction industry players that are ready to fully prepare themselves for an IBS-driven environment.

The adoption of IBS in the local construction industry is still slow. This can be attributed to the lack of economic viability for the adoption of IBS, due to the difficulty in obtaining meaningful economies of scale, low standardisation of components where customised components for one project may not necessarily fit into another project as well as the lack of workers with knowledge in the field.

However, the Malaysian Government has strived to accelerate the adoption of IBS as part of the initiatives under the productivity strategic thrusts under the CITP and provision of levy exemptions by CIDB for housing development projects with at least 50% IBS content. Constructions of public buildings are also required to meet the required IBS score, with the mandate being extended to the private developments. These initiatives are starting to show promising results, with increased interests from the private sector exploring the IBS option in their construction needs.

6.0 Prospect and Outlook of the Construction Industry in Malaysia

Factors boosting growth within the construction industry is likely to come from the government-led initiatives and spending particularly those relating to infrastructure and housing development such as the ECRL, MRT 2 the Bandar Malaysia Project as well as provision of incentives to stimulate the property market and financing through the SME-GO Scheme for qualified contractors. A favourable interest rate environment and increased participation from the private sector via funding and investment structures and steady population claims are also expected to support the construction industry. However, stringent policies imposed on the property market by the Malaysian Government and deteriorating property overhang situation are expected to reduce growth in the property market, a key source of demand for construction activities although this is expected to be cushioned by ongoing efforts by the Malaysian Government in providing housing for all such as the HOC with stamp duty exemption on instruments of transfer and loan agreement for the purchase of residential homes.

On the supply side, the industry is expected to be boosted by efforts from industry bodies such as CIDB and MBAM by providing necessary leadership in spearheading the development of the local construction industry as well as raising profile and pushing for the betterment of the construction industry in Malaysia. In addition, the introduction of the CIPAA has also served as a strengthened mechanism to address payment disputes and facilitate adjudication within the industry. However, the Malaysian construction industry is expected to be hampered by labour shortage and high dependency on foreign workers, challenging operating environment due to the COVID-19 pandemic and lockdown measures as well as the lack of traction in the adoption of IBS construction.

Overall, the construction industry in Malaysia is expected to recover in 2021. Protégé Associates projects the size (revenue) of the construction industry to grow at a CAGR of 7.3% from 2021 to 2025, with a market size of RM75.92 billion in 2025.

9. 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.

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 The ongoing Covid-19 pandemic and possible similar future outbreaks may have a significant adverse effect on our Group

From time to time, different regions in the world have experienced outbreaks of various viruses. At this time, a global pandemic known as Covid-19 is taking place and on 11 March 2020, the World Health Organisation declared the Covid-19 outbreak as a pandemic due to its rapid spread across the world. As the virus is relatively new, effective cure and vaccines have yet to be developed.

While Covid-19 is still spreading and its final implications are difficult to estimate at this stage, it is clear that the pandemic will affect a large portion of the global population and bring about significant economic uncertainties globally. At this time, the pandemic has caused varying level of precautionary measures being declared in various cities and countries around the world, travel restrictions and border control being imposed, quarantine or movement control being established and various business being closed or operating under strict operating procedures, Malaysia included.

The ongoing Covid-19 pandemic and any possible future outbreaks of viruses may have a significant adverse effect on our Group. Firstly, a spread of such diseases amongst our employees, as well any quarantines affecting our employees or our offices and project sites, may affect our ability to carry out our business. Secondly, strict operating procedures imposed by the regulatory authorities will also increase our operating costs. Finally, the current pandemic and any possible future outbreaks of viruses may also have an adverse effect on our business partners be it our clients, subcontractors or suppliers, resulting in lesser projects being awarded or slower construction progress or shortage of construction materials necessary for us to carry out our business. All these disruption may ultimately affect our ability to complete projects on time which could potentially lead to the imposition of LAD as detailed in Section 9.1.4.

The imposition of the MCO by the Government to contain the spread of virus has resulted in temporary suspension of our operations at our project sites for 8 to 10 weeks beginning from 18 March 2020. The imposition of the MCO 2.0 and MCO 3.0 did not materially impact our operations as exemption was granted by MITI for us to operate as usual. On 1 June 2021, the Government imposed the FMCO which resulted in temporary suspension of our operations at most of our project sites. As such, no assurance can be given that the prolonged Covid-19 pandemic or any subsequent MCO will not adversely affect our business operations.

Further to the above, we may be adversely affected by the wider macroeconomic effect of the ongoing Covid-19 pandemic and any possible future outbreaks of viruses. While the final effects of the Covid-19 pandemic are difficult to assess at this stage, it is possible that it will have substantial negative effect on the Malaysian economy and property development industry including our Government infrastructure spending. Such effects may also take place in the case of any possible future outbreaks. Any negative effect on the economies and markets where we operate in may decrease the demand for our services and have a material adverse effect on our Group.

9.1.2 The continuity of our order book is not assured and certain major clients contribute significantly to our order book

Our principal business is in the construction of buildings and infrastructure. We are normally awarded contracts on a project-to-project basis. There is no assurance of continuity from one project to the next project. In our industry, it is common for jobs to be awarded based on competitive bidding, and as such, we have to bid competitively for every contract that we wish to secure. There is a risk that we may not be able to secure every contract that we tender for. We also face the risk that our existing order book may be reduced due to termination of ongoing projects or reduction in our scope of work which reduces the contract value. Any significant decline in our order book from the current level will have a material adverse effect on our Group.

As at LPD, we have 3 ongoing contracts from Client A in relation to the Railway Project, and 7 ongoing contracts from EXSIM Group for the Scarletz Project, Mossaz and Paxtonz Project, 1 elevated roadworks project at Damansara Perdana, Selangor, 1 rock blasting and other general works project at Damansara Perdana, Selangor, 2 road, drainage and water reticulation work projects at Damansara Perdana, Selangor and 1 rock stabilisation works project at Damansara Perdana, Selangor. For FYE 2020, Client A and EXSIM Group also contributed 32.2% and 34.5% of our revenue, respectively.

The unbilled portion of our contracts with Client A and EXSIM Group represents 7.8% and 46.4% of our order book respectively as at LPD. While we are not dependent on Client A and EXSIM Group for our business continuity as our contracts with them are secured on a contract by contract basis, Client A and EXSIM Group are expected to contribute significantly to our Group's revenue and profit for FYE 2020 up to FYE 2022 due to the timing and progress of their contracts. Our financial performance for FYE 2020 up to FYE 2022 may be materially and adversely affected if we encounter any unexpected delays or disagreements with Client A and EXSIM Group.

9.1.3 Any unanticipated increase in costs associated with our construction projects may impair our financial performance

Our cash flows and profitability are dependent upon our ability to accurately estimate the costs associated with our construction projects. These costs may be affected by a variety of factors, such as lower than anticipated productivity, conditions at the work sites differing materially from what was anticipated at the time we bid for the contract, higher costs of materials and labour, delay in the availability of financing and political or social disruptions, amongst others.

These variations in costs may cause actual gross profit for a project to differ from those originally estimated and, as a result, certain contracts or projects could have lower margins than anticipated, or losses if actual costs for our contracts exceed its estimates, which could have a material adverse effect on our Group.

9.1.4 Our failure to complete our projects within the stipulated contract period could result in our clients imposing LAD on us

The timely completion of projects undertaken by our Group is dependent on many external factors inherent in the construction industry including, inter alia, the timely receipt of requisite licences, permits or regulatory approvals, availability of construction materials, equipment and labour, availability of financing, satisfactory performance of any subcontractors appointed and force majeure event.

Any adverse developments in respect of these factors can lead to interruptions or delays in completing a project, which may result in our clients imposing LAD on us that could have a material adverse effect on our Group. Nonetheless, as at LPD, we have not experienced any situations where our clients imposed LAD on us.

9.1.5 Our operations depend on the availability of an adequate supply of construction materials at competitive prices

We utilise various construction materials such as steel bars and wire mesh, ready-mixed concrete, sanitary wares, tiles, cement, grout and adhesives, timber and plywood, hollow section and galvanised iron pipes, electrical items, bricks, diesel, and quarry products in our construction activities, and are thus dependent on the continuous supply of such materials which we source from a number of suppliers in Malaysia.

Our construction materials are price sensitive, and we face the risk of obtaining sufficient quantities of construction materials at competitive prices. Some of our construction materials such as steel bars are commodities and their prices are subjected to the fluctuation in global market prices. As we have been in the construction industry for a decade, we have experienced construction materials price fluctuation over the years. However, none of such price fluctuations had a material adverse impact on our financial performance. Further, any fluctuation in construction materials prices will affect the entire construction industry as a whole. Nonetheless, any price fluctuations in construction materials caused by shortages and price volatility of construction materials, which are beyond our control, could result in increased costs and have a material adverse effect on our Group.

9.1.6 We are dependent on the services of our subcontractors to complete our contracts

We usually engage subcontractors to carry out different parts of our construction activities particularly those requiring specialised licences such as M&E engineering works, piping and plumbing works, external painting works and water proofing works. In addition, we also engage labour only subcontractors such as bricklayer, plasterer and tiler with the objective to reduce the need for our Group to employ a large workforce to lower our operating costs.

Subcontractors are appointed following the shortlisting of candidates based on the project requirements, assessment of tenders submitted by the candidates, as well as our past working experiences and relationship with the candidates. Upon negotiation of pricing and scope of works or bills of quantities, we will enter into formal contracts with the subcontractors.

As our subcontractors have no direct contractual relationship with our clients, we are subject to risks associated with non-performance, late performance or poor performance by our subcontractors. Subcontractor failures are generally a result of lack of financial resources, quality workforce, quality management team, or they generally produce poor quality work or use substandard materials that do not meet the contract's specifications.

While we may attempt to seek compensation from the relevant subcontractors, we may from time to time, be required to compensate our clients prior to receiving the said compensation. If no corresponding claim can be asserted against a subcontractor, or the amounts of the claim cannot be recovered in full or at all from the subcontractor, we may be required to bear some or all the costs of the claims, in which case our Group could be materially and adversely affected. Nonetheless, as at LPD, we have not experienced any situations where our subcontractors delayed the progress or performed poorly or failed to perform their works, which required us to compensate our clients.

9.1.7 Our cash flow may be affected by delays in collections or non-recoverability of trade receivables

We are exposed to the delays in collections and/or non-recoverability of trade receivables. In addition, we were in net current liabilities position in FYE 2017 and FYE 2018 which exposed us to the risk of not being able to meet our short-term obligations. Any delay and/or non-payment by our clients may have an adverse impact on our financial position and our ability to meet our short term obligations.

The normal credit period granted to our clients is 45 days from the date of progress billings. However, our average trade receivable turnover days (excluding retention sum) during the financial years under review were 223 days, 100 days, 47 days and 68 days respectively, which was higher than our credit period granted to our clients. The slower collection from our clients may have a negative effect on our cash flow position and affect our ability to pay our suppliers and subcontractors as we try to match the timing of payment to our subcontractors with the collections from our clients. As such the delayed collections from our clients may lead to delay payment to our suppliers and subcontractors which may potentially delay the progress of our projects. Nonetheless, we were still able to generate positive operating cash flows for the financial years under review. However, we cannot assure you that we will not experience any delay and/or default in payments by our clients, which may have material adverse effect on our financial position. Please refer to Section 12.3.1 for further details on our working capital.

9.1.8 Our operations are dependent on our ability to obtain adequate financing at competitive rates

We rely on overdraft and trade financing such as factoring facilities to partially finance our working capital. Such credit facilities are callable on demand or have short term repayment tenure.

We also rely on bank guarantees for tender bonds and performance bonds. Such bank guarantees are used for all aspects of the project construction contract life cycle from the start of the tender process to the expiration of our liability towards the client in accordance with the terms of each respective contract. Tenure requirements for these bank guarantees are structured to match the underlying construction contracts with the respective counterparties.

If we are unable to secure adequate credit facilities at competitive rates for the abovementioned requirements, our cash flows, operations, growth and expansion plans will be adversely affected. There is also a risk of (a) simultaneous demand for immediate repayment on our outstanding credit facilities; and (b) calling on the tender bonds and performance bonds by our clients should we fail to meet our contractual obligations.

If any significant calls take place simultaneously, this would have a material adverse effect on our working capital and in turn, have a material and adverse effect on our Group.

As at 31 December 2020, our total bank borrowings and bank guarantees issued for contract works carried out by us amounted to approximately RM76.22 million and RM42.45 million respectively. As at LPD, the amount of unutilised short term financing facilities available for our working capital is RM264.95 million, whilst the unutilised facilities for bank guarantees is RM25.93 million. Any increase in interest rates on our borrowings and fees on our bank guarantees will adversely affect our Group.

9.1.9 We are subject to potential defects liability and warranty claims

We warrant the works that we performed including the work of our subcontractors. Our warranty comprises specific performance warranty such as external paint work and water proofing work which may run for up to 5 and 10 years respectively and defects liability which generally covers a period of between 12 to 27 months. Both our defects liability and warranty period commences from the date of CPC of the project.

The costs associated with any defects and warranty claims shall be borne by us and charged as our costs of sales for the respective projects. If we fail to rectify the defects satisfactorily, our clients may use the retention sums of the project to rectify those defects. In such cases, we may not recover the whole retention sum from our clients. As such, any material defects and warranty claims on our work could have a material adverse effect on our Group.

9.1.10 We are subject to workplace hazards and potential workmen's compensation claims and loss and damage to our machinery and equipment

Our employees and subcontractors are exposed to potential hazards such as bodily injuries and loss of life due to workplace accidents. In addition, we are also exposed to risk of loss and damage to our machinery and equipment arising from amongst others theft, improper usage, fire and explosion. As at LPD, we have not experienced any material workplace accidents.

Although we have taken up workmen compensation insurance up to RM287.66 million which provides insurance coverage to our workers at the construction sites and contractors' all risk insurance up to RM2,073.70 million to manage any losses which may arise at the construction sites, there can be no assurance that our existing insurance coverage is sufficient to compensate for the claims. Further, there can be no assurance that such insurance policies will continue to be available on terms acceptable to us.

Furthermore, the occurrence of workplace accidents and damage to our machinery and equipment could result in significant increase in project costs, or affect our ability to perform our contractual obligations, which could materially and adversely affect our Group.

9.1.11 Our continued success requires us to hire and retain qualified personnel

The success of our Group is dependent on the experience, industry knowledge and network, and skills of our Executive Directors. Our Group Managing Director, Datuk Ir. Dr. Lim and Executive Director, Ong Yong Chuan each has approximately 22 years of experience in the construction industry and in-depth knowledge of our operations. In addition, we purchased keyman insurances for Datuk Ir. Dr. Lim and Ong Yong Chuan pursuant to the terms of the banking facilities granted to us for our Kuchai Sentral Project and our project involving provision of flyover and pedestrian bridge works located at Seberang Perai Tengah, Penang in FYE 2020.

We are also dependent on our key senior management team which comprise individuals who each have significant relevant experience in the construction industry.

We believe that our continued and future success largely depends on the continued service of our Group Managing Director and Executive Directors and our continued ability to hire, develop, motivate and retain qualified key senior management to support our construction services and provision of quality services to our clients. The loss of our Group Managing Director, Executive Directors and key senior management (simultaneously or within a short span of time) without timely replacement may materially and adversely affect our Group.

9.1.12 There is no assurance that we will be able to establish the precast IBS facility successfully

We intend to establish and venture into precast IBS by setting up an on-site casting yard to produce precast products such as hollow core slabs, half slabs and precast bathroom units at suitable project sites as described in Section 7.16. The breadth and complexity of our business operations may increase as a result of such venture. The challenges and execution risks that we may encounter in relation to such venture may include failure to operate the casting yard effectively and efficiently or to recruit and retain sufficient skilled and trained personnel required for such venture. We may not be able to obtain sufficient and/or continuous work orders or production volumes to operate the IBS facility efficiently. In addition, our IBS facility may also experience downtime when a project completes, and our IBS facility is pending redeployment to other future projects.

Our IBS facility will be set up on our major client's land which will be leased to us. However, we may have to vacate such land if our lease is terminated for whatever reason and we will incur costs to locate a new premise, dismantle and transport the machineries and equipment and recommence our IBS facility. We may also need to incur additional costs to locate a suitable land to temporarily store the machineries and equipment when it is unutilised.

In such case, our IBS facility may be underutilised and not be able to generate the desired cost and time savings in our project sites or the desired profitability arising from such venture. We may not be able to recover the costs incurred in setting up the IBS facility, which may then have a material and adverse effect on our financial position.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are dependent on the property development industry and Government infrastructure spending in Malaysia

The majority of our clients are local property developers and any adverse changes in the property development industry in Malaysia will affect us. In addition, our infrastructure construction segment is also dependent on our Government infrastructure spending in Malaysia.

The property market and infrastructure spending is subject to Government policies in Malaysia. Any adverse changes in Government policies vis-à-vis the property market and infrastructure spending such as housing, land and development policies as well as policies and stimulus for economic development that drives up spending for construction services could adversely affect the performance of the property industry and construction activities in Malaysia.

In addition, any restrictive policy changes by BNM such as upward changes in the overnight policy rate by BNM, which increases interest rates for housing loans, and reduced loan-to-value ratios will subsequently restrict the purchasing ability of buyers. This would likely have a negative impact on consumer sentiment and purchasing power, and dampen overall demand for properties.

There can be no assurance that any future unfavourable changes in Government policies will not adversely affect our Group in the future.

9.2.2 We face competition in the construction industry, which could adversely affect our business

The construction industry is highly fragmented, and we compete with other companies ranging from small independent firms to larger public listed firms. Our competitors may have greater resources than us or have specialised expertise in certain segments.

Due to the nature of our business, we are actively involved in tendering for building and infrastructure construction projects. We compete on pricing, availability of financial and manpower resources, technical expertise, operating track record and quality of workmanship. If we are unsuccessful in our bid for projects, or if there is intense price competition, our prospects may be adversely affected.

9.2.3 We are dependent on foreign workers to undertake our construction activities

Construction activities are labour intensive and given the shortage of local workers, the construction industry in Malaysia relies heavily on foreign labour.

Our operations are highly dependent on foreign workers which are either under our employment or our subcontractors' employment. As at LPD, we employed a total of 96 foreign workers which represents 24.5% of our total employees. All of our foreign workers are solely utilised for our own projects. In addition, we also depend on foreign workers from our subcontractors, the number of which will depend on each project requirement which may change from time to time.

Hiring of foreign workers in the construction industry is allowed by the Government, subject to certain conditions, which may change from time to time. As a result of restriction imposed on the hiring of foreign workers such as the freezing of hiring foreign workers of a certain nationality, the construction industry is facing a shortage in the supply of foreign workers.

At this juncture, we obtain work permits for our foreign workers, which may be renewed on a yearly basis up to 10 years. Any adverse changes to the policies relating to the employment of foreign workers in the construction industry between Malaysia and the countries from which our foreign workers are sourced or any significant increase in labour wages, may adversely affect our Group.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

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

Our Listing may be aborted or delayed should any of the following occurs:

(a) The selected investors fail to subscribe for their portion of our IPO Shares;

(b) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and

(c) We are unable to meet the public shareholding spread requirement set 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.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Application within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and ROC within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial 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.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, 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 of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.4 OTHER RISKS

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

Our Promoters will collectively hold approximately 70.0% 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 shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisitions and as disclosed below, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during FYE 2017 to FYE 2020 and up to LPD:

					Transaction value									
					FYE 2017		FYE 2018		FYE 2019		FYE 2020		1 January 2021 up to LPD	
Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Datuk Ir. Dr. Lim	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder	Lease payment to Datuk Ir. Dr. Lim for the rental of our offices	(30)	(1)0.4	(60)	(1)0.5	(60)	(1)0.5	(60)	(1)0.6	(20)	(1)0.5
				Advances from Datuk Ir. Dr. Lim	2,689	NA	6,721	NA	3,500	NA	-	-	-	-
				Repayment to Datuk Ir. Dr. Lim	(3,586)	NA	(10,150)	NA	(697)	NA	(2)	NA	-	-
Datuk Ir. Dr. Lim	Nestcon Infra	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder	Lease payment to Datuk Ir. Dr. Lim for the rental of meeting room(6)	(9)	(1)0.1	(18)	(1)0.2	(18)	(1)0.2	(18)	(1)0.2	(6)	(1)0.2
				Advances from Datuk Ir. Dr. Lim	2,410	NA	6,000	NA	3,641	NA	-	-	-	-
				Repayment to Datuk Ir. Dr. Lim	(20)	NA	(1,500)	NA	(9,301)	NA	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2017		FYE 2018		FYE 2019		FYE 2020		1 January 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Ong Yong Chuan	Nestcon Builders	Ong Yong Chuan	Ong Yong Chuan is our Director and substantial shareholder	Advances from Ong Yong Chuan	254	NA	-	-	-	-	-	-	-	-
				Repayment to Ong Yong Chuan	(263)	NA	(121)	NA	(417)	NA	(7)	NA	-	-
Nagano Development Sdn Bhd	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Nagano Development Sdn Bhd	Progress billing to Nagano Development Sdn Bhd for Nest Residence Project	58,550	[(2)]30.7	57,864	[(2)]26.6	22,082	[(2)]5.2	-	-	-	-
				Advances to Nagano Development Sdn Bhd	-	-	(2,500)	NA	-	-	-	-	-	-
				Repayment from Nagano Development Sdn Bhd	-	-	-	-	-	-	2,500	NA	-	-
				Expenses paid on behalf by Nagano Development Sdn Bhd	22	NA	9	NA	22	NA	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2017		FYE 2018		FYE 2019		FYE 2020		1 January 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Nagano Development Sdn Bhd	Nestcon Infra	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder on and a director and major shareholder of Nagano Development Sdn Bhd	Expenses paid on behalf by Nagano Development Sdn Bhd	-	-	6	NA	11	NA	-	-	-	-
Nagano Holdings Sdn Bhd	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director of Nagano Holdings Sdn Bhd	Expenses paid on behalf by Nagano Holdings Sdn Bhd	40	NA	-	-	-	-	-	-	-	-
Nestcity Cemerlang Sdn Bhd (formerly known as Nestcon Cemerlang Sdn Bhd)	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Nestcity Cemerlang Sdn Bhd	Advances to Nestcity Cemerlang Sdn Bhd	-	-	(3,394)	NA	-	-	-	-	-	-
				Repayment from Nestcity Cemerlang Sdn Bhd	-	-	-	-	3,394	NA	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value FYE 2017 RM'000	FYE 2017 %	FYE 2018 RM'000	FYE 2018 %	FYE 2019 RM'000	FYE 2019 %	FYE 2020 RM'000	FYE 2020 %	1 January 2021 up to LPD RM'000	1 January 2021 up to LPD %
Nestcity Development Sdn Bhd (formerly known as Nestcon Development Sdn Bhd)	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Nestcity Development Sdn Bhd	Advances to Nestcity Development Sdn Bhd	-	-	-	-	(3,000)	NA	-	-	-	-
				Repayment from Nestcity Development Sdn Bhd	-	-	-	-	-	-	3,000	NA	-	-
Nescaya Etika Sdn Bhd (formerly known as Nestcon Engineering Sdn Bhd)	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Nescaya Etika Sdn Bhd	Contract cost charged by Nescaya Etika Sdn Bhd for Peaks Project	-	-	(2,837)	(3)1.5	(3,741)	(3)1.0	-	-	-	-
				Advances to Nescaya Etika Sdn Bhd	-	-	(2,341)	NA	(1,760)	NA	-	-	-	-
				Repayment from Nescaya Etika Sdn Bhd	-	-	-	-	-	-	1,380	NA	-	-
Nestcon Hailong(4)	Nestcon Infra	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a Director of Nestcon Hailong	Rental income charged to Nestcon Hailong	-	-	110	(2)0.1	-	-	-	-	-	-
				Administrative fee charged to Nestcon Hailong	-	-	-	-	36	(5)2.9	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2017		FYE 2018		FYE 2019		FYE 2020		1 January 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Nestcity Property Sdn Bhd (formerly known as Nestcon Holdings Sdn Bhd)	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Nestcity Property Sdn Bhd	Progress billing to Nestcity Property Sdn Bhd for Peaks Project	-	-	2,638	(2)1.2	3,941	(2)0.9	-	-	-	-
				Expenses paid on behalf by Nestcity Property Sdn Bhd	3	NA	-	-	-	-	-	-	-	-
Jurutera Perunding Pesona Rekabina Sdn Bhd	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Jurutera Perunding Pesona Rekabina Sdn Bhd	Expenses paid on behalf for Jurutera Perunding Pesona Rekabina Sdn Bhd	(46)	NA	(6)	NA	-	-	-	-	-	-
Picoland Sdn Bhd	Nestcon Builders	Datuk Ir. Dr. Lim	Datuk Ir. Dr. Lim is our Director and substantial shareholder and a director and major shareholder of Picoland Sdn Bhd	Advances to Picoland Sdn Bhd	-	-	-	-	(5,000)	NA	-	-	-	-
				Repayment from Picoland Sdn Bhd	-	-	-	-	-	-	5,000	NA	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2017		FYE 2018		FYE 2019		FYE 2020		1 January 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Super Bolt Hardware Sdn Bhd	Nestcon Builders	Ong Yong Chuan	Ong Yong Chuan is our Director and substantial shareholder and a director and major shareholder of Super Bolt Hardware Sdn Bhd	Purchase of materials from Super Bolt Hardware Sdn Bhd	(938)	(3)0.5	(2,117)	(3)1.1	(3,145)	(3)0.8	(2,180)	(3)0.7	(369)	(3)0.3

Notes:

(1) Calculated based on our Group's total administrative expenses for each of the respective financial years/period.

(2) Calculated based on our Group's revenue for each of the respective financial years/period.

(3) Calculated based on our Group's cost of sales for each of the respective financial years/period.

(4) Moving forward, there will be no more transaction with Nestcon Hailong as it has ceased operations since 2019. On 24 December 2020, Nestcon Hailong, being an associate previously held by Nestcon Infra has been struck off from the register of the ROC.

(5) Calculated based on our Group's other income for the financial year.

(6) We rent the meeting room located at No. 1-10, Jalan Kenari 13B, Bandar Puchong Jaya, 47170 Puchong, Selangor from Datuk Ir. Dr. Lim for our usage from time to time and there was no written tenancy signed previously. However moving forward, we will rent the entire office unit located at No. 1-10, Jalan Kenari 13B, Bandar Puchong Jaya, 47170 Puchong, Selangor which will be formalised via a tenancy agreement with Datuk Ir. Dr. Lim.

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

Save for the rental of our offices from Datuk Ir. Dr. Lim, there are no subsisting agreements with related parties after our Listing. The total rental expense from such rental is less than RM0.10 million per annum and the tenancy will expire on 31 December 2021. Further details on the rental are set out in Section 6.9.2. Our Audit Committee has reviewed the current rental terms for the rental of our offices from Datuk Ir. Dr. Lim and is of the opinion that it is fair, reasonable and on normal commercial terms and not detrimental to the interest of the non-interested shareholders of our Group and is in the best interest to our Group.

The renewal terms of such rental will be reviewed by our Audit Committee and our Board shall seek the relevant approval from our shareholders to enter into such recurrent related party transaction at a general meeting.

The Nest Residence Project and Peaks Project were directly awarded to us by Nagano Development Sdn Bhd and Nestcity Property Sdn Bhd respectively, where the value of the contracts were derived by us based on competitive cost-plus method. For the Nest Residence Project, we were able to earn a GP margin of 15.4% due to our proposed value engineering which reduced construction cost and resulted in higher profit earned.

Save as disclosed below, our Directors are of the view that all our related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties.

The transactions in relation to expenses paid on behalf of our related parties or by our related parties on our behalf, advances from our Directors and advances given to our related parties were not conducted on arm's length basis as they were interest free. However, all such payments on behalf and advances have been fully settled by the related parties as at the date of this Prospectus, and moving forward, we will no longer pay on behalf or receive payments on our behalf and provide or receive any advances to or from our related parties.

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

Moving forward, in order to ensure that related party transactions are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

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

(ii) If quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by other 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 a general meeting. 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.

(b) Other related party transactions

(i) 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;

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

(iii) 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 the 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.

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

For related party transactions that require shareholders' approval, the Directors, major shareholders and/or persons connected with such Director or major shareholder, 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 transactions, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings. Such interested Directors and/or major shareholders will also undertake that he shall ensure that the persons connected with him will abstain from voting on the resolution approving the proposed related party transaction at the general meeting. The relevant directors who are deemed interested or conflicted in such transactions shall also abstain from our Board deliberations and voting on the Board resolutions relating to these transactions.

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. If a member of our Audit Committee has an interest in any related party transaction, he is to abstain from participating in the review and approval process in relation to that transaction. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any related party transaction entered into by us.

10.2 OTHER TRANSACTIONS

10.2.1 Transactions entered into that are unusual in their nature or conditions

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 for FYE 2017 to FYE 2020 and up to LPD.

10.2.2 Outstanding loans (including guarantees of any kind)

(a) Outstanding loans and/or balances

As at the date of this Prospectus, there are no outstanding loans made by our Group to/for the benefit of a related party or granted by the related parties for the benefit of our Group.

(b) Guarantees

(i) Our Directors, namely Datuk Ir. Dr. Lim and Ong Yong Chuan have jointly and severally provided personal guarantees for the banking and leasing facilities extended by Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Factorlease Berhad, MBSB Bank Berhad, OCBC Bank (Malaysia) Berhad, Hap Seng Credit Sdn Bhd, Malayan Banking Berhad, OCBC AL-Amin Bank Berhad, Orix Leasing Malaysia Berhad, United Overseas Bank (Malaysia) Berhad, Caterpillar Financial Services Malaysia Sdn Bhd, BMW Credit (Malaysia) Sdn Bhd and Public Bank Berhad ("**Financiers**").

In conjunction with the Listing, we have applied to the Financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the Financiers. Until such release and/or discharge are obtained from the respective Financiers, our Directors will continue to guarantee the banking facilities extended to our Group.

As at the date of this Prospectus, we have received conditional approvals from CIMB Factorlease Berhad, OCBC Bank (Malaysia) Berhad, OCBC AL-Amin Bank Berhad, United Overseas Bank (Malaysia) Berhad, Caterpillar Financial Services Malaysia Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad, AmBank (M) Berhad, BMW Credit (Malaysia) Sdn Bhd, MBSB Bank Berhad, Hong Leong Bank Berhad, Hap Seng Credit Sdn Bhd and Orix Leasing Malaysia Berhad to discharge the above guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financial institutions.

Since our request to discharge our Directors' personal guarantees from Alliance Bank Malaysia Berhad remains pending as at LPD, we had on 10 May 2021 informed the said bank of our intention to fully settle the outstanding amount of approximately RM0.68 million as at LPD and discharge all securities. We undertake to settle the outstanding amount prior to our Listing subject to receiving the redemption statement. Moving forward, we will not undertake any credit facilities which require personal guarantees of our Directors and/or our shareholders.

(ii) Nestcon Builders had provided corporate guarantee for the banking facilities extended by Malayan Banking Berhad to Picoland Sdn Bhd, a company where our Group Managing Director, Datuk Ir. Dr. Lim is also a director and substantial shareholder.

In conjunction with the Listing, we have applied to obtain a release and/or discharge of the corporate guarantee provided and Malayan Banking Berhad had vide its letter dated 22 October 2020, consented to discharge the corporate guarantee provided subject to our Listing by 18 October 2021. Our Promoter, Datuk Ir. Dr. Lim has undertaken to procure Picoland Sdn Bhd to obtain a release and/or discharge of the corporate guarantee provided subject to our Listing.

10.2.3 Promotions of any material assets acquired/to be acquired within 4 financial years preceding the date of this Prospectus

None of our Directors or substantial shareholders had any interest, direct or indirect, in the promotion of or in any material assets which had been, within FYE 2017 to FYE 2020, acquired, disposed or leased or proposed to be acquired, disposed or leased to/by us.

10.2.4 Transactions entered into with M&A Securities

Save as disclosed below, we have not entered into any transactions with M&A Securities who is the Adviser, Sponsor, Underwriter and Placement Agent for our Listing:

(a) Agreement dated 10 March 2020 between Nestcon Builders and M&A Securities for the appointment of M&A Securities as Adviser, Placement Agent and Sponsor for our Listing; and

(b) Underwriting Agreement dated 3 May 2021 entered into between our Company and M&A Securities for the underwriting of 64,384,000 Issue Shares.

11. CONFLICT OF INTEREST

11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CLIENTS AND SUPPLIERS

As at LPD, none of our Directors and substantial shareholders have any interest, direct or indirect, in other businesses and corporations which are carrying on a similar trade as our Group.

Save as disclosed below, none of our Directors and/or substantial shareholders have interest in the business of our clients and/or suppliers as at LPD:

Name of company	Principal activities	Nature of interest
Nagano Development Sdn Bhd ("**Nagano Development**")	Property development	Datuk Ir. Dr. Lim is our Group Managing Director and major shareholder. He is also a director and major shareholder of Nagano Development
Nestcity Property Sdn Bhd (formerly known as Nestcon Holdings Sdn Bhd) ("**Nestcity Property**")	Property development	Datuk Ir. Dr. Lim is our Group Managing Director and major shareholder. He is also a director and major shareholder of Nestcity Property
Nescity Cemerlang Sdn Bhd (formerly known as Nestcon Cemerlang Sdn Bhd) ("**Nestcity Cemerlang**")	Property development	Datuk Ir. Dr. Lim is our Group Managing Director and major shareholder. He is also a director and major shareholder of Nestcity Cemerlang
Super Bolt Hardware Sdn Bhd ("**Super Bolt**")	Trading in hardware and machinery	Ong Yong Chuan is our Executive Director and major shareholder. He is also a director and major shareholder of Super Bolt

Our Group will remain focused in the construction services for both civil engineering and infrastructure works as well as building construction works. Our Group has no intention to venture into property development or ancillary businesses which are currently being held by our Directors and substantial shareholders.

11.1.1 Clients of our Group

During FYE 2017 to FYE 2020, Nestcon Builders or Nestcon Infra have dealt with:

(a) Nagano Development, in respect of its development of Nest Residence Project where Nestcon Builders was the main contractor. The transaction values amounted to RM58.55 million, RM57.86 million and RM22.08 million for FYE 2017, FYE 2018 and FYE 2019 respectively;

(b) Nestcity Property, in respect of its development of Peaks Project where Nestcon Builders was the main contractor. The transaction values amounted to RM2.64 million, and RM3.94 million for FYE 2018 and FYE 2019 respectively; and

(c) Nestcon Hailong, in respect of rental income arising from the rental of heavy machineries from Nestcon Infra. The transaction value amounted to RM0.11 million, for FYE 2018.

11. CONFLICT OF INTEREST *(Cont'd)*

The Nest Residence Project and Peaks Project were completed in FYE 2019 and we do not expect further transactions in relation to the projects save for the finalisation of the project accounts. Moving forward, our Group also does not expect to have further transactions with Nagano Development and Nestcity Property as they do not have any more land bank for development. As at the date of this Prospectus, Nestcon Hailong has ceased operations and on 24 December 2020, Nestcon Hailong has been struck off from the register of the ROC.

In FYE 2021, Nestcity Cemerlang as the property developer for Nest2 Project has appointed Nescaya Etika Sdn Bhd (formerly known as Nestcon Engineering Sdn Bhd) as the main contractor, which subsequently appointed Nestcon Builders as the principal works contractor. The contract value is RM89.10 million. Nescaya Etika Sdn Bhd (formerly known as Nestcon Engineering Sdn Bhd) is not a related party to our Group.

11.1.2 Suppliers of our Group

During FYE 2017 to FYE 2020, Nestcon Builders in its capacity as contractor has dealt with:

(i) Nescaya Etika Sdn Bhd (formerly known as Nestcon Engineering Sdn Bhd) ("**Nescaya**"), in respect of the development of Peaks Project where Nescaya was a subcontractor. As at LPD, Datuk Ir. Dr. Lim has resigned as Director and disposed his entire shareholdings to the other existing shareholder of Nescaya. The transaction values amounted to RM2.84 million and RM3.74 million for FYE 2018 and FYE 2019 respectively; and

(ii) Super Bolt for the supplies of hardware products for our building construction projects. The transaction values amounted to RM0.94 million, RM2.12 million, RM3.15 million and RM2.18 million for FYE 2017, FYE 2018, FYE 2019 and FYE 2020 respectively.

Our Board is of the view that the interests of our Directors or major shareholders in the above companies which are our clients or suppliers do not give rise to a conflict of interest situation based on the following:

(a) Our Directors are not involved in the day-to-day operations of the above businesses as their daily operations are managed by the respective companies' personnel, and they only attend meeting of the board of directors on which they serve and accordingly discharge their principal areas of responsibilities as directors of those companies;

(b) All the transactions carried out with the above companies were on arm's length basis, on normal commercial terms which are not more favourable to our related parties than those generally available to the public, and are not to the detriment of our minority shareholders; and

(c) The above clients and suppliers are not major clients and suppliers of our Group, and we are not dependent on them for our business operations.

11. CONFLICT OF INTEREST *(Cont'd)*

However, we expect to have future dealings with other companies held by our Directors and substantial shareholders involved in property development or ancillary sectors such as Nestcity Development Sdn Bhd, Picoland Sdn Bhd and Super Bolt. We have established procedures for related party transactions to ensure that they are carried out on an arm's length basis, on normal commercial terms which are not more favourable to our related parties than those generally available to the public, and are not to the detriment of our minority shareholders. Please refer to our procedures as disclosed in Section 10.1.

It is our Director's fiduciary duty to avoid conflict, and they are required to attend courses which provide them guidelines on their fiduciary duties. In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nominating 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 Nominating Committee will first then evaluate if such Director's involvement gives rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest of a Director, our Nominating Committee will then:

(a) Immediately inform our Board of the conflict of interest situation;

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

  (i) 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

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

In relation to (b)(ii) above, the conflicted Director and persons connected with him (if applicable) shall be absent from any Board discussion relating to the recommendation of our Nominating Committee and the conflicted Director and persons connected with him (if applicable) 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 our Board, be present at our Board meeting to answer any questions.

In circumstances where a Director is determined to have a significant, ongoing and irreconcilable conflict of interest with our Group, and where such conflict of interest significantly impedes the Director's ability to carry out his fiduciary responsibility to our Group, our Nominating Committee may determine that a resignation of the conflicted Director from our Board is appropriate and necessary.

Where there are related party transactions between our Group with our Directors (or person connected with them) or companies in which our Directors (or person connected with them) have an interest, our Audit Committee will, amongst others, supervise and monitor such related party transaction and the terms thereof and report to our Board for further action. Please refer to Section 10.1 for the procedures to be taken to ensure that related party transactions (if any) are undertaken on arm's length basis.

11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

(a) 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 Adviser, Sponsor, Underwriter and Placement Agent for our Listing.

(b) Eco Asia Capital Advisory Sdn Bhd 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 Financial Adviser for our Listing. Its scope of work as Financial Adviser includes the following:

   (i) To conceptualise and advise on our Group's restructuring, equity and corporate structure in preparation for our Listing;

   (ii) To assist our Group in compiling information and documents for our Listing;

   (iii) To assist in reviewing the draft documents prepared by the relevant advisers in relation to our Listing; and

   (iv) To assess and advise on any other issues relevant to our Listing.

(c) Teh & Lee 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 Solicitors for our Listing.

(d) Ecovis 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.

(e) Protégé Associates Sdn Bhd 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 IMR for our Listing.

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our historical financial information throughout FYE 2017 to FYE 2020 has been prepared in accordance with MFRS and IFRS. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

Our Company was incorporated on 10 March 2020 to facilitate our Listing, and we completed the Acquisitions on 18 March 2021. Both Nestcon Builders and Nestcon Infra have been under the common control of our Promoters throughout FYE 2017 to FYE 2020 and are regarded as continuing entities. As such, the historical financial information of our Group for FYE 2017 to FYE 2020 is presented based on the combined audited financial statements of Nestcon Builders and Nestcon Infra.

12.1.1 Combined statements of comprehensive income

The following table sets out a summary of our combined statements of comprehensive income for FYE 2017 to FYE 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	190,857	217,764	422,786	344,479
Cost of sales	(173,273)	(190,430)	(384,910)	(311,196)
GP	**17,584**	**27,334**	**37,876**	**33,283**
Other income	164	980	1,232	1,327
Administrative expenses	(7,863)	(11,444)	(11,953)	(10,316)
Other operating expenses	(45)	(45)	(296)	(536)
Profit from operations	**9,840**	**16,825**	**26,859**	**23,758**
Finance costs	(1,291)	(2,451)	(4,677)	(4,547)
Share of loss in an associate	(1)-	-	-	-
PBT	**8,549**	**14,374**	**22,182**	**19,211**
Taxation	(2,606)	(4,473)	(6,415)	(4,910)
PAT/ total comprehensive income	**5,943**	**9,901**	**15,767**	**14,301**
PAT/ total comprehensive income attributable to:				
Owners of the Company	5,483	7,455	14,587	14,301
Non-controlling interests	460	2,446	1,180	-
	5,943	**9,901**	**15,767**	**14,301**
EBIT (2)	9,762	16,825	26,248	23,044
EBITDA (2)	13,455	24,093	36,764	34,452
GP margin (%) (3)	9.2	12.6	9.0	9.7
PBT margin (%) (4)	4.5	6.6	5.2	5.6
PAT margin (%) (4)	3.1	4.5	3.7	4.2
Basic EPS (sen) (5)	1.14	1.54	3.02	2.96
Diluted EPS (sen) (6)	0.85	1.16	2.27	2.22

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) Represents less than RM1,000.

(2) 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	5,943	9,901	15,767	14,301
Less:				
Interest income	(78)	[(a)]-	(611)	(714)
Add:				
Finance costs	1,291	2,451	4,677	4,547
Taxation	2,606	4,473	6,415	4,910
EBIT	**9,762**	**16,825**	**26,248**	**23,044**
Add:				
Depreciation	3,693	7,268	10,516	11,408
EBITDA	**13,455**	**24,093**	**36,764**	**34,452**

Note:

(a) Represents less than RM1,000.

(3) Calculated based on GP over revenue.

(4) Calculated based on PBT or PAT over revenue.

(5) Calculated based on PAT attributable to owners of the Company and share capital of 482,866,600 Shares in issue before IPO.

(6) Calculated based on PAT attributable to owners of the Company and enlarged share capital of 643,822,000 Shares after IPO.

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12.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 31 December 2017, 2018, 2019 and 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	31 December 2017	31 December 2018	31 December 2019	31 December 2020
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	34,304	61,876	64,574	63,032
Investment properties	2,179	2,134	2,660	3,260
Investment in an associate	-	-	-	-
Other investments	-	-	-	1,941
Deferred tax assets	145	-	-	568
Trade receivables	36,890	29,361	26,203	38,168
	73,518	93,371	93,437	106,969
Current assets				
Trade receivables	74,478	67,991	90,780	90,493
Other receivables, deposits and prepayments	4,215	6,587	11,609	11,544
Contract assets	2,685	19,252	61,530	46,124
Amount due from related parties	46	8,085	11,880	-
Tax recoverable	75	-	-	-
Other investment	-	-	3,023	74
Fixed deposit with financial institutions	4,780	9,849	14,954	28,128
Cash and bank balances	17,345	17,042	40,701	59,198
	103,624	128,806	234,477	235,561
Total assets	**177,142**	**222,177**	**327,914**	**342,530**
Equity				
Share capital	-	-	-	(1)-
Invested equity	4,950	4,950	10,400	10,400
Retained earnings	25,480	30,935	47,544	61,845
Total equity attributable to owners of the Company	30,430	35,885	57,944	72,245
Non-controlling interests	3,046	5,492	-	-
Total equity	33,476	41,377	57,944	72,245
Non-current liabilities				
Trade payables	12,351	15,990	13,157	17,266
Bank borrowings	747	699	316	3,460
Lease liabilities	10,060	26,273	19,095	12,586
Deferred tax liabilities	767	2,877	3,912	2,833
	23,925	45,839	36,480	36,145
Current liabilities				
Trade payables	72,268	76,777	146,173	137,130
Other payables and accruals	6,440	4,700	7,590	6,372
Contract liabilities	15,709	6,361	30,430	24,917
Amount due to related parties	9	-	-	-
Amount due to Directors	8,824	10,928	9	-

	Audited			
	31 December 2017	**31 December 2018**	**31 December 2019**	**31 December 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Bank borrowings	5,551	20,054	30,962	47,734
Lease liabilities	6,357	12,998	14,638	13,088
Income tax payable	4,583	3,143	3,688	4,899
	119,741	134,961	233,490	234,140
Total liabilities	143,666	180,800	269,970	270,285
Total equity and liabilities	**177,142**	**222,177**	**327,914**	**342,530**

Note:

(1) Represents less than RM1,000.

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for FYE 2017 to FYE 2020 which has been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
PBT	8,549	14,374	22,182	19,211
Adjustments for:				
Depreciation of property, plant and equipment	3,648	7,223	10,475	11,356
Depreciation of investment properties	45	45	41	52
Gain on disposal of property, plant and equipment	(30)	(183)	(87)	(168)
Gain on remeasurement of lease liabilities	-	-	-	(29)
Interest expenses	1,291	2,451	4,677	4,547
Interest income	(78)	(1)-	(611)	(714)
Loss on disposal of investment properties	-	-	20	-
Property, plant and equipment written off	-	-	235	484
Share of loss in an associate	(1)-	-	-	-
Operating profit before changes in working capital	13,425	23,910	36,932	34,739
Changes in working capital:				
Decrease/(increase) in trade and other receivables	63,070	11,644	(24,654)	(11,613)
(Decrease)/increase in trade and other payables	(39,764)	6,409	69,451	(6,152)
Decrease/(increase) in contract assets	2,518	(16,567)	(42,278)	15,406
Increase/(decrease) in contract liabilities	3,019	(9,348)	24,069	(5,153)
Cash generated from operations	42,268	16,048	63,520	26,867

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000	RM'000
Interest received	78	[1]-	75	83
Income tax paid	(1,795)	(3,624)	(5,804)	(5,415)
Income tax refunded	-	42	969	68
Net cash generated from operating activities	**40,551**	**12,466**	**58,760**	**21,603**
Cash flows from investing activities				
Addition of other investments	-	-	(3,023)	(2,021)
Proceeds from disposal of other investments	-	-	-	3,028
Interest received	-	-	-	119
Investment in an associate	[1]-	-	-	-
Proceeds from disposal of property, plant and equipment	80	605	1,533	499
Proceeds from disposal of investment properties	-	-	680	-
Purchase of investment properties	-	-	(1,267)	(651)
Purchase of property, plant and equipment	(4,561)	(4,823)	(5,102)	(4,638)
Net cash used in investing activities	**(4,481)**	**(4,218)**	**(7,179)**	**(3,664)**
Cash flows from financing activities				
Dividend paid	-	(2,000)	(2,200)	-
Interest paid	(1,291)	(2,451)	(4,677)	(4,547)
Issuance of shares	-	-	-	[1]-
Interest received	-	-	536	511
Placement of pledged deposits with financial institutions	(4,780)	(5,069)	(5,105)	(8,174)
Movement in restricted cash at bank[2]	-	(685)	(10,518)	(5,858)
(Advances to)/Repayment received from related parties, net	(1,011)	(8,048)	(3,795)	11,880
Advances from/(repayment to) Directors, net	2,816	2,104	(7,919)	(9)
Repayment of lease liabilities	(1,853)	(7,542)	(15,287)	(14,020)
Drawdown of term loans	-	-	-	3,865
Repayment of term loans	(44)	(46)	(406)	(150)
Net movement of factoring payable	(23,896)	12,124	2,581	(2,221)
Net cash used in financing activities	**(30,059)**	**(11,613)**	**(46,790)**	**(18,723)**
Net increase/(decrease) in cash and cash equivalents	**6,011**	**(3,365)**	**4,791**	**(784)**
Cash and cash equivalents at beginning of financial year	5,831	11,842	8,477	13,268
Cash and cash equivalents at end of financial year	**11,842**	**8,477**	**13,268**	**12,484**

Notes:

(1) Represents less than RM1,000.

(2) Restricted cash at bank relates to the sinking fund account for our bank overdraft facilities where the bank has a fixed charge over the said sinking fund account.

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

The following discussion and segmental analysis of our combined financial statements for FYE 2017 to FYE 2020 should be read with the Accountants' Report included in Section 13.

12.2.1 Overview of our operations

(a) Principal activities

Our Group is principally involved in the business of securing and carrying out construction activities for building, civil engineering and infrastructure contracts.

Please refer to Section 7 for our Group's detailed business overview.

(b) Revenue

Our Group's revenue for the financial years under review was derived from the provision of construction works. The construction services offered by our Group can be categorised into 2 main segments namely building, and civil engineering and infrastructure.

Revenue is recognised upon rendering of services. When the outcome of a construction contract can be reliably estimated, contract revenue is recognised as revenue by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for works performed to date to the estimated total contract costs.

When the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Our construction revenue are mainly recognised over the contract period according to the proportion of construction costs incurred for work performed to date over the estimated total construction costs. Nevertheless, for certain civil engineering and infrastructure projects which are transferred to the clients at a point in time instead of over the period of the construction contract, such revenue is recognised at a point in time when the client obtains control over the asset.

(c) Cost of sales

Our cost of sales comprises subcontractors cost, purchase of construction materials, direct labour cost and preliminaries as follows:

(i) Subcontractors cost

We engage subcontractors for various specialist works such as M&E engineering works, piping and plumbing works, external painting works and water proofing works. As subcontractors cost constitute a major component in our cost of sales, we practise a prudent selection process before engaging our subcontractors.

(ii) Purchase of materials

Our Group's direct materials mainly consist of construction materials such as steel bars and wire mesh, ready-mixed concrete, sanitary wares, tiles, cement, grout and adhesives, timber and plywood, hollow section and galvanised iron pipes, electrical items, bricks, diesel, and quarry products.

We generally purchase our construction materials based on our projects' requirements. These raw materials are widely available in Malaysia and sourced from our large base of approved suppliers. Our approved suppliers are selected based on their pricing, availability and lead time for delivery. In addition, we also purchase our construction materials from suppliers nominated by our clients. Whilst we have maintained long term business relationship with our approved list of suppliers, we also source for raw materials from new suppliers, if the need arises.

(iii) Direct labour cost

Our direct labour comprises wages for workers who are employed directly by us and those outsourced from domestic labour subcontractors.

(iv) Preliminaries

Preliminaries are general miscellaneous expenses incurred over the course of a project. Certain general preliminaries expenses may not be identifiable to any work stages in the construction contract such as hire of vehicles, rental of equipment and premises, upkeep expenses, fuel & diesel, utilities, projects levy, insurances, depreciation of property, plant and equipment and costs related to safety, health and welfare.

When the outcome of a construction contract can be reliably estimated, contract costs are recognised as expenses by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to-date in proportion to the estimated total contract costs. Costs incurred in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as prepayments or other assets, depending on their nature.

When the outcome of a construction contract cannot be reliably estimated, contract cost is recognised as expense in the period which it is incurred.

Irrespective of whether the outcome of a construction contract can be reliably estimated, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Provision is made for all anticipated losses on construction work. Provision for warranties is made for expected/estimated repair costs for making good certain defects and damages during the warranty periods.

When costs incurred on construction contracts plus recognised profits (less recognised losses) exceed progress billings, the balance is shown as contract assets in the financial position. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as contract liabilities in the financial position.

(d) Other income

Other income mainly comprises interest income, insurance compensation and gain on disposal of property, plant and equipment.

(e) Administrative expenses

Administrative expenses mainly consist of overheads incurred to maintain our operations such as staff costs, directors' remuneration, depreciation of property, plant and equipment, professional fees, upkeep expenses, stamp duty, insurance and road tax.

(f) Other operating expenses

Other operating expenses relate to expenses incurred which are not directly related to our operations such as property, plant and equipment written off, depreciation of investment properties and loss on disposal of investment properties.

(g) Finance cost

Finance cost comprises factoring interest, lease liabilities interest, bank overdraft interest and term loan interest.

(h) Others

(i) Retention sum in trade receivables

Retention sum is a percentage of contract value, generally 10.0% of each progress billing, up to a maximum of 5.0% of the contract sum that is retained by our client as follows:

(i) entire retention sum to be retained throughout the contract period until the issuance of CPC; and

(ii) half of the retention sum to be retained until the end of the DLP and upon issuance of CMGD.

Retention sum which are due within 12 months are recognised as current trade receivables while those which are due after 12 months are recognised as non-current trade receivables.

(ii) Retention sum in trade payables

Similarly, we also retain 10.0% of each certified work done against our subcontractors as retention sum, up to a maximum of 5.0% of the awarded subcontract value as follows:

(i) entire retention sum to be retained throughout the contract period until the issuance of CPC; and

(ii) half of the retention sum to be retained until the end of the DLP and upon issuance of CMGD.

Retention sum which are payable within 12 months are recognised as current trade payables while those which are payable after 12 months are recognised as non-current trade payables.

12. FINANCIAL INFORMATION *(Cont'd)*

(i) Recent developments

Save for the Acquisitions and the interruptions in our business due to Covid-19 and MCO as disclosed in Section 7.8, there were no other significant events subsequent to our Group's audited combined financial statements for FYE 2020.

(j) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during FYE 2017 to FYE 2020. In addition, our audited financial statements for the financial years under review were not subject to any audit qualifications.

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12.2.2 Review of our results of operations

(a) Revenue

Analysis of revenue by segment

	Audited							
	FYE 2017		**FYE 2018**		**FYE 2019**		**FYE 2020**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Building segment								
- Residential	149,465	78.3	138,628	63.6	165,340	39.1	68,458	19.9
- Commercial & industrial	3,903	2.0	-	-	20,800	4.9	51,678	15.0
- Mixed development	12,679	6.7	21,258	9.8	60,651	14.4	79,311	23.0
	166,047	87.0	159,886	73.4	246,791	58.4	199,447	57.9
Civil engineering and infrastructure segment	21,764	11.4	54,396	25.0	175,933	41.6	145,032	42.1
Others[2]	3,046	1.6	3,482	1.6	62	[1]-	-	-
	190,857	**100.0**	**217,764**	**100.0**	**422,786**	**100.0**	**344,479**	**100.0**

Notes:

(1) Represents less than 0.1%.

(2) Rental income arising from the rental of heavy machineries to our clients, which accounted for less than 2.0% of our revenue from FYE 2017 to FYE 2019. The decrease in FYE 2019 was due to the completion of our client's infrastructure works project which resulted in cessation of the rental of our heavy machineries.

Our revenue for the financial years under review are mainly derived from the building segment, which accounted for more than 55.0% of our revenue from FYE 2017 to FYE 2020.

12. FINANCIAL INFORMATION *(Cont'd)*

Major construction projects contributing to our revenue during the financial years under review are as follows:

(i) Building segment

No.	Project	Client Name	Segment	Contract Period	Total Contract Sum RM'000	Revenue Recognised FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000	Remaining Contract Sum RM'000
1.	Petalz Project	EXSIM Group	Mixed development	September 2014 to May 2017		12,679	-	-	-	-
2.	Scarletz Project	EXSIM Group	Commercial & industrial	February 2019 to November 2021		-	-	20,800	51,678	
					1,157,327					
3.	Mossaz and Paxtonz Project	EXSIM Group	Mixed development	June 2019 to October 2022		-	-	17,962	25,034	467,522
4.	Nidoz Project	EXSIM Group	Residential	September 2016 to June 2020		107,394	69,570	126,183	30,681	
5.	Nest Residence Project [(1)]	Nagano Development Sdn Bhd	Residential	August 2016 to February 2019	162,561	41,584	66,607	28,748	-	-
6.	Grand Project	Mediaraya Sdn Bhd	Mixed development	May 2018 to March 2021[(2)]	123,570	-	21,258	42,650	43,302	16,360

No.	Project	Client Name	Segment	Contract Period	Total Contract Sum	Revenue Recognised				Remaining Contract Sum
						FYE 2017	FYE 2018	FYE 2019	FYE 2020	
					RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
7.	Panorama Project	LLC Infra Sdn Bhd (a subsidiary of LLC Berhad)	Residential	July 2019 to December 2021	96,500	-	-	6,763	32,035	57,702
8.	Kuchai Sentral Project	Altimas Sdn Bhd (a subsidiary of Menta Land Sdn Bhd)	Mixed development	April 2020 to March 2023	241,800	-	-	-	10,975	230,825
					Total	**161,657**	**157,435**	**243,106**	**193,705**	

Notes:

(1) Nest Residence Project was awarded by our related party, Nagano Development Sdn Bhd. The GP margin for our Group's building segment for FYE 2017 to FYE 2020 ranged from 7.1% to 10.1%. We were able to earn a higher GP margin (15.4%) for this project due to our proposed value engineering which reduced construction cost and resulted in higher profit earned.

(2) As at LPD, we are still awaiting reply from our client for the proposed completion date of July 2021. Please refer to Section 7.8 for further details.

(ii) Civil engineering and infrastructure segment

No.	Project	Client Name	Contract Period	Total Contract Sum	Revenue Recognised				Remaining Contract Sum
					FYE 2017	FYE 2018	FYE 2019	FYE 2020	
				RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1.	Removal of soil located at Gua Musang, Kelantan	Syabas Tiara Sdn Bhd	January 2017 to April 2019	6,541	2,541	3,550	450	-	-

12. FINANCIAL INFORMATION *(Cont'd)*

No.	Project	Client Name	Contract Period	Total Contract Sum	Revenue Recognised				Remaining Contract Sum
					FYE 2017	FYE 2018	FYE 2019	FYE 2020	
				RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2.	Provision of earthworks for power plant located at Alor Gajah, Melaka	Loh & Loh Constructions Sdn Bhd	April 2017 to October 2017	15,547	15,547	-	-	-	-
3.	Provision of earthworks at Kertih, Terengganu	China Communications Construction (ECRL) Sdn Bhd	October 2017 to April 2018	2,561	1,551	1,010	-	-	-
4.	Provision of earthworks, retaining wall and upgrading of drainage system located at Mukim Ampangan, Negeri Sembilan	Bright Term Sdn Bhd	November 2017 to December 2018	9,614	493	9,121	-	-	-
5.	Melaka Gateway Project	Hai Feng Shipping Sdn Bhd	December 2017 to October 2018	9,941	-	9,941	-	-	-
6.	Provision of earthworks to construct underpass at Sungai Pendas Bridge located at Sunway Iskandar, Johor	Sunway Iskandar Development Sdn Bhd	April 2018 to February 2019	9,623	-	8,081	1,542	-	-

12. FINANCIAL INFORMATION *(Cont'd)*

No.	Project	Client Name	Contract Period	Total Contract Sum	Revenue Recognised				Remaining Contract Sum
					FYE 2017	FYE 2018	FYE 2019	FYE 2020	
				RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
7.	Railway Project	Client A	May 2018 to July 2021	(1)	-	21,393	151,465	110,967	(1)
8.	Provision of elevated roadworks at Damansara Perdana, Selangor	EXSIM Group	March 2019 to August 2021	85,000	-	-	20,589	11,538	52,873
9.	Provision of earthworks and drainage works for bridge crossing and link road located at Johor	China Communications Construction Company (M) Sdn Bhd	August 2019 to March 2022	39,213	-	-	1,843	6,406	30,964
10.	Provision of construction and completion of subgrade earthworks at Kertih, Terengganu	China Communications Construction (ECRL) Sdn Bhd	May 2020 to April 2022	26,720	-	-	-	4,448	22,272
11.	Provision of earthworks at Damansara Perdana, Selangor	Binastra Construction (M) Sdn Bhd	May 2020 to December 2020	6,000	-	-	-	6,000	-
				Total	**20,132**	**53,096**	**175,889**	**139,359**	

Note:

(1) Due to the confidentiality agreement with Client A, we are unable to disclose the contract sum for the Railway Project.

Comparison between FYE 2017 and FYE 2018

Our Group's total revenue increased by RM26.90 million or 14.1% from RM190.86 million in FYE 2017 to RM217.76 million in FYE 2018. The increase in revenue was mainly due to higher revenue recognised from our civil engineering and infrastructure segment which increased by RM32.64 million or 150.0% from RM21.76 million in FYE 2017 to RM54.40 million in FYE 2018.

<u>Building segment</u>

Revenue from our building segment decreased by RM6.16 million or 3.7% from RM166.05 million in FYE 2017 to RM159.89 million in FYE 2018. The decrease in revenue was mainly attributable to:

(i) decrease in revenue recognised from Nidoz Project by RM37.82 million or 35.2% from RM107.39 million in FYE 2017 to RM69.57 million in FYE 2018 mainly due to lower percentage of completion recognised in FYE 2018 based on the cost incurred method. Higher cost were incurred in the previous year for earthworks, piling works and construction of podium during the initial construction stage; and

(ii) lesser revenue recognised in FYE 2018 due to the completion of Petalz Project which contributed revenue of RM12.68 million in FYE 2017 and Nouvelle Industrial Park Project which contributed RM3.90 million in FYE 2017.

The decrease in revenue from our building segment was partially offset by higher level of construction activities or project commencement from the following projects:

(i) higher revenue recognised from Nest Residence Project by RM25.03 million or 60.2% from RM41.58 million in FYE 2017 to RM66.61 million in FYE 2018;

(ii) commencement of Grand Project which contributed RM21.26 million in FYE 2018; and

(iii) higher revenue recognised from Peaks Project by RM1.96 million from RM0.49 million in FYE 2017 to RM2.45 million in FYE 2018.

Civil engineering and infrastructure segment

Revenue from our civil engineering and infrastructure segment increased by RM32.64 million or 150.0% from RM21.76 million in FYE 2017 to RM54.40 million in FYE 2018. The increase in revenue was mainly attributable to:

(i) commencement of Railway Project which contributed RM21.39 million in FYE 2018;

(ii) commencement and completion of Melaka Gateway Project which contributed RM9.94 million in FYE 2018;

(iii) higher level of construction activities for an existing project for provision of earthworks, retaining wall and upgrading of drainage system located at Mukim Ampangan, Negeri Sembilan which resulted an increase in revenue recognised by RM8.63 million from RM0.49 million in FYE 2017 to RM9.12 million in FYE 2018; and

(iv) commencement of a new project for provision of earthworks to construct underpass at Sungai Pendas Bridge located at Sunway Iskandar, Johor which contributed RM8.08 million in FYE 2018.

The increase in revenue from our civil engineering and infrastructure segment was partially offset by completion of 2 civil engineering and infrastructure projects namely removal of soil located at Temusu Mukah, Sarawak and provision of earthworks for power plant located at Alor Gajah, Melaka which collectively contributed to a total revenue of RM17.39 million in FYE 2017.

Comparison between FYE 2018 and FYE 2019

Our Group's total revenue increased significantly by RM205.03 million or 94.2% from RM217.76 million in FYE 2018 to RM422.79 million in FYE 2019. Both our building and civil engineering and infrastructure segments recorded higher revenue by RM86.90 million and RM121.53 million or 54.4% and 223.4% respectively mainly due to higher level of construction activities and commencement of new projects during FYE 2019.

Building segment

Revenue from our building segment increased by RM86.90 million or 54.4% from RM159.89 million in FYE 2018 to RM246.79 million in FYE 2019. The increase in revenue was mainly attributable to:

(i) higher revenue recognised from Nidoz Project by RM56.61 million or 81.4% from RM69.57 million in FYE 2018 to RM126.18 million in FYE 2019;

(ii) higher revenue recognised from Grand Project by RM21.39 million or 100.6% from RM21.26 million in FYE 2018 to RM42.65 million in FYE 2019;

(iii) commencement of Scarletz Project which contributed RM20.80 million in FYE 2019;

(iv) commencement of Mossaz and Paxtonz Project which contributed RM17.96 million in FYE 2019; and

(v) commencement of Panorama Project which contributed RM6.76 million in FYE 2019.

The increase in revenue from our building segment was partially offset by the decrease in revenue recognised for Nest Residence Project by RM37.86 million or 56.8% from RM66.61 million in FYE 2018 to RM28.75 million in FYE 2019 due to the completion of the project during the financial year.

<u>Civil engineering and infrastructure segment</u>

Revenue from our civil engineering and infrastructure segment increased significantly by RM121.53 million or 223.4% from RM54.40 million in FYE 2018 to RM175.93 million in FYE 2019. The increase in revenue was mainly attributable to:

(i) higher level of construction activities for Railway Project which increased our revenue by RM130.08 million or 608.1% from RM21.39 million in FYE 2018 to RM151.47 million in FYE 2019; and

(ii) commencement of a new project for provision of elevated roadworks located at Damansara Perdana, Selangor which contributed RM20.59 million in FYE 2019.

The increase in our revenue from civil engineering and infrastructure segment was partially offset by zero contribution from Melaka Gateway Project and provision of earthworks, retaining wall and upgrading of drainage system located at Mukim Ampangan, Negeri Sembilan during FYE 2019, as both these projects contributed revenue of RM9.94 million and RM9.12 million in FYE 2018 respectively, were completed in FYE 2018. In addition, we had also substantially recognised the contract value for the provision of earthworks to construct underpass at Sungai Pendas Bridge located at Sunway Iskandar, Johor in FYE 2018 (RM8.08 million in FYE 2018 compared to RM1.54 million in FYE 2019).

Comparison between FYE 2019 and FYE 2020

Our Group's total revenue decreased by RM78.31 million or 18.5% from RM422.79 million in FYE 2019 to RM344.48 million in FYE 2020. Both our building and civil engineering and infrastructure segments recorded lower revenue by RM47.34 million and RM30.90 million or 19.2% and 17.6% respectively mainly due to completion of several construction projects and lower level of construction activities following the implementation of MCO as a result of the Covid-19 pandemic.

12. FINANCIAL INFORMATION *(Cont'd)*

Building segment

Revenue from our building segment decreased by RM47.34 million or 19.2% from RM246.79 million in FYE 2019 to RM199.45 million in FYE 2020. The decrease in revenue was mainly attributable to:

(i) decrease in revenue recognised from Nidoz Project by RM95.50 million or 75.7% from RM126.18 million in FYE 2019 to RM30.68 million in FYE 2020 as the project was completed in June 2020; and

(ii) completion of Nest Residence Project which contributed revenue of RM28.75 million in FYE 2019.

The decrease in revenue from our building segment was partially offset by higher level of construction activities or project commencement from the following projects:

(i) higher revenue recognised from Scarletz Project by RM30.88 million or 148.5% from RM20.80 million in FYE 2019 to RM51.68 million in FYE 2020;

(ii) higher revenue recognised from Panorama Project by RM25.28 million or 374.0% from RM6.76 million in FYE 2019 to RM32.04 million in FYE 2020;

(iii) commencement of Kuchai Sentral Project which contributed revenue of RM10.98 million in FYE 2020; and

(iv) higher revenue recognised from Mossaz and Paxtonz Project by RM7.07 million or 39.4% from RM17.96 million in FYE 2019 to RM25.03 million in FYE 2020.

Civil engineering and infrastructure segment

Revenue from our civil engineering and infrastructure segment decreased by RM30.90 million or 17.6% from RM175.93 million in FYE 2019 to RM145.03 million in FYE 2020. The decrease in revenue was mainly attributable to:

(i) lower level of construction activities for Railway Project which resulted in a decrease in revenue recognised by RM40.50 million or 26.7% from RM151.47 million in FYE 2019 to RM110.97 million in FYE 2020; and

(ii) lower level of construction activities for the provision of elevated roadworks project at Damansara Perdana, Selangor which resulted in a decrease in revenue recognised by RM9.05 million or 44.0% from RM20.59 million in FYE 2019 to RM11.54 million.

12. FINANCIAL INFORMATION *(Cont'd)*

The lower level of construction activities was generally due to implementation of MCO.

The decrease in revenue from our civil engineering and infrastructure segment was partially offset by higher level of construction activities or project commencement from the following projects:

(i) commencement and completion of our short-term project for provision of earthworks at Damansara Perdana, Selangor which contributed revenue of RM6.00 million in FYE 2020;

(ii) higher revenue recognised from provision of earthworks and drainage works for bridge crossing and link road project located at Johor by RM4.57 million or 248.4% from RM1.84 million in FYE 2019 to RM6.41 million in FYE 2020; and

(iii) commencement of provision of construction and completion of subgrade earthworks project at Kertih, Terengganu which contributed revenue of RM4.45 million in FYE 2020.

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12. FINANCIAL INFORMATION *(Cont'd)*

(b) Cost of sales, GP and GP margin

We price our construction projects based on cost estimate. Under the terms of certain of our contracts, the prices we submit in our tender bid or negotiate in our contracts are fixed, with the exception of any approved variation orders. As such, our GP and GP margin are dependent on the accuracy of our pricing during the tender and/or negotiation stage. Our cost estimate is based on inter-alia, the availability and costs of construction materials and equipment, subcontractors cost, project period, labour costs, as well as the complexity and scale of the construction project.

Analysis of cost of sales by segment

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Building segment								
- Residential	136,742	78.9	123,596	64.9	151,717	39.4	60,757	19.5
- Commercial & industrial	3,357	2.0	-	-	19,453	5.0	48,379	15.6
- Mixed development	11,618	6.7	20,209	10.6	58,063	15.1	75,341	24.2
	151,717	87.6	143,805	75.5	229,233	59.5	184,477	59.3
Civil engineering and infrastructure segment	19,370	11.2	44,670	23.5	155,450	40.4	126,719	40.7
Others	2,186	1.2	1,955	1.0	227	0.1	-	-
	173,273	**100.0**	**190,430**	**100.0**	**384,910**	**100.0**	**311,196**	**100.0**

Analysis of cost of sales by cost items

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Subcontractors cost	106,998	61.7	94,850	49.8	223,856	58.2	171,376	55.1
Purchase of materials	38,385	22.2	58,798	30.9	105,910	27.5	88,551	28.4
Direct labour cost	7,322	4.2	12,792	6.7	17,159	4.4	16,199	5.2
Preliminaries	20,568	11.9	23,990	12.6	37,985	9.9	35,070	11.3
	173,273	**100.0**	**190,430**	**100.0**	**384,910**	**100.0**	**311,196**	**100.0**

Major components of our cost of sales are subcontractors cost, purchase of materials and direct labour cost that collectively represents between 87.4% to 90.1% of our Group's cost of sales from FYE 2017 to FYE 2020.

Comparison between FYE 2017 and FYE 2018

Our Group's cost of sales increased by RM17.16 million or 9.9% from RM173.27 million in FYE 2017 to RM190.43 million in FYE 2018. The increase was mainly due to higher cost of sales recognised from our civil engineering and infrastructure segment which increased by RM25.30 million or 130.6% from RM19.37 million in FYE 2017 to RM44.67 million in FYE 2018. The overall increase was mainly attributable to the following cost items:

(i) increase in the purchase of materials by RM20.41 million or 53.2% from RM38.39 million in FYE 2017 to RM58.80 million in FYE 2018; and

(ii) increase in direct labour cost by RM5.47 million or 74.7% from RM7.32 million in FYE 2017 to RM12.79 million in FYE 2018.

The increase in cost of sales mainly arose from the commencement of 3 new civil engineering and infrastructure projects namely Melaka Gateway Project, Railway Project and provision of earthworks to construct underpass at Sungai Pendas Bridge located at Sunway Iskandar, Johor. The higher level of construction activities from our infrastructure project located at Mukim Ampangan, Negeri Sembilan also increased our cost of sales.

However, our subcontractors cost decreased by RM12.15 million or 11.4% from RM107.00 million in FYE 2017 to RM94.85 million in FYE 2018. The decrease was in line with the overall decrease in revenue from our building segment as our subcontractors cost mainly relates to M&E engineering works, piping and plumbing works, external painting works and water proofing works, which are appointed under our building segment.

Comparison between FYE 2018 and FYE 2019

Our Group's cost of sales increased by RM194.48 million or 102.1% from RM190.43 million in FYE 2018 to RM384.91 million in FYE 2019. Both our building and civil engineering and infrastructure segments recorded a higher cost of sales by RM85.43 million and RM110.78 million or 59.4% and 248.0% respectively. The overall increase was mainly attributable to the following cost items:

(i) increase in subcontractors cost by RM129.01 million or 136.0% from RM94.85 million in FYE 2018 to RM223.86 million in FYE 2019; and

(ii) increase in purchase of materials by RM47.11 million or 80.1% from RM58.80 million in FYE 2018 to RM105.91 million in FYE 2019.

The increase in cost of sales was mainly arising from the commencement of construction works on various new building projects such as Scarletz Project, Mossaz and Paxtonz Project and Panorama Project as well as new infrastructure project located at Damansara Perdana, Selangor.

12. FINANCIAL INFORMATION *(Cont'd)*

The increase in cost of sales was also contributed by higher level of construction activities from our on-going projects from building and civil engineering and infrastructure segments such as Nidoz Project, Grand Project and Railway Project.

Comparison between FYE 2019 and FYE 2020

Our Group's cost of sales decreased by RM73.71 million or 19.1% from RM384.91 million in FYE 2019 to RM311.20 million in FYE 2020. Both our building and civil engineering and infrastructure segments recorded lower cost of sales by RM44.75 million and RM28.73 million or 19.5% and 18.5% respectively. The overall decrease was mainly attributable to the following cost items:

(i) decrease in subcontractors cost by RM52.48 million or 23.4% from RM223.86 million in FYE 2019 to RM171.38 million in FYE 2020; and

(ii) decrease in the purchase of materials by RM17.36 million or 16.4% from RM105.91 million in FYE 2019 to RM88.55 million in FYE 2020.

Our overall cost of sales decreased in line with the overall decrease in revenue mainly due to completion of several construction projects and the implementation of MCO resulting from Covid-19 pandemic which has slowed down the construction progress of our various projects.

Analysis of GP and GP margin by segment

	Audited							
	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	%
Building segment								
- Residential	12,723	8.5	15,032	10.8	13,623	8.2	7,701	11.2
- Commercial & Industrial	546	14.0	-	-	1,347	6.5	3,299	6.4
- Mixed development	1,061	8.4	1,049	4.9	2,588	4.3	3,970	5.0
	14,330	8.6	16,081	10.1	17,558	7.1	14,970	7.5
Civil engineering and infrastructure segment	2,394	11.0	9,726	17.9	20,483	11.6	18,313	12.6
Others	860	28.2	1,527	(1)43.9	(1)(165)	(1)(266.1)	-	-
	17,584	**9.2**	**27,334**	**12.6**	**37,876**	**9.0**	**33,283**	**9.7**

12. FINANCIAL INFORMATION *(Cont'd)*

Note:

(1) GP margin increased in FYE 2018 mainly due to higher repair and maintenance costs incurred in FYE 2017 on the heavy machineries rented to client. The negative GP and GP margin in FYE 2019 was mainly due to demobilisation expenses incurred to transport our heavy machineries from our client's project site located in Penang to other project sites after the completion of the rental period.

Our GP and GP margin are dependent on our overall project mix during the financial year. We price our construction projects based on cost estimates taking into consideration the complexity and scale of the project. As such, our GP and GP margin are also dependent on the accuracy of our cost estimates.

In addition, our GP and GP margin may fluctuate throughout our construction period as and when there is a need to revise our cost estimates. Such fluctuations are generally more significant towards the completion of the construction project when we can estimate our cost more accurately.

Comparison between FYE 2017 and FYE 2018

Our Group's GP increased by RM9.75 million or 55.5% from RM17.58 million in FYE 2017 to RM27.33 million in FYE 2018, while our overall GP margin increased by 3.4% from 9.2% in FYE 2017 to 12.6% in FYE 2018. The increase in our GP margin in FYE 2018 was mainly attributable to:

(i) our building segment, which recorded a higher GP margin of 10.1% in FYE 2018 as compared to 8.6% in FYE 2017 amidst a decrease in revenue from RM166.05 million in FYE 2017 to RM159.89 million in FYE 2018. The increase in GP margin was mainly due to lesser preliminary expenses such as hire of vehicles and rental of equipment for the initial land/site clearing and piling for foundation, which were already incurred in the previous financial year for various major on-going building projects; and

(ii) our civil engineering and infrastructure segment, which recorded a higher GP margin of 17.9% in FYE 2018 as compared to 11.0% in FYE 2017 mainly due to Melaka Gateway Project and removal of soil located at Gua Musang, Kelantan which yields a higher GP margin as we did not incur cost of materials and were able to leverage on our internal resources to complete the projects without having to incur subcontractors cost.

Comparison between FYE 2018 and FYE 2019

Our Group's GP increased by RM10.55 million or 38.6% from RM27.33 million in FYE 2018 to RM37.88 million in FYE 2019 while our overall GP margin has decreased by 3.6% from 12.6% in FYE 2018 to 9.0% in FYE 2019. The decrease in our GP margin in FYE 2019 was mainly attributable to:

(i) our building segment, which recorded a lower GP margin of 7.1% in FYE 2019 as compared to 10.1% in FYE 2018. The decrease in GP margin for building segment was mainly due to higher preliminary expenses such as hire of vehicles and rental of equipment for the initial land/site clearing and piling for foundation, incurred during the financial year as our Group commenced various new building projects such as Scarletz Project, Mossaz and Paxtonz Project and Panorama Project; and

(ii) our civil engineering and infrastructure segment, which recorded a lower GP margin of 11.6% in FYE 2019 as compared to 17.9% in FYE 2018 mainly due to the decrease in GP margin after completion of Melaka Gateway Project in FYE 2018 and removal of soil located at Gua Musang, Kelantan in early FYE 2019, where both projects yielded higher GP margins.

Comparison between FYE 2019 and FYE 2020

Our Group's GP decreased by RM4.60 million or 12.1% from RM37.88 million in FYE 2019 to RM33.28 million in FYE 2020, while our overall GP margin increased slightly by 0.7% from 9.0% in FYE 2019 to 9.7% in FYE 2020. The increase in our GP margin in FYE 2020 was mainly attributable to:

(i) our building segment, which recorded a higher GP margin of 7.5% in FYE 2020 as compared to 7.1% in FYE 2019 mainly due to:

- revision in budgeted construction cost upon completion of the Nidoz Project, due to lower actual subcontractors cost as well as lower actual materials cost as the overall market price of concrete decreased in FYE 2020; and

- lesser preliminary expenses for various major on-going building projects as such expenses were already incurred in the previous financial year.

(ii) our civil engineering and infrastructure segment, which recorded a higher GP margin of 12.6% in FYE 2020 as compared to 11.6% in FYE 2019 mainly due to:

- revision in budgeted construction cost for Railway Project mainly due to lower actual materials cost as the overall market price of reinforcement steel bar and concrete decreased in FYE 2020;

- higher GP margin arising from our short term project involving provision of earthworks at Damansara Perdana, Selangor as this project was on an ad-hoc basis and we were able to undertake the project with minimal external resources; and

- higher GP margin arising from our rectification works for the retaining wall and upgrading of drainage system located at Mukim Ampangan, Negeri Sembilan as we were requested by our client to conduct an overall rectification works on an ad-hoc basis in FYE 2020.

(c) Other income

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on disposal of property, plant and equipment	30	18.3	183	18.7	87	7.0	168	12.6
Gain on remeasurement of lease liabilities[(1)]	-	-	-	-	-	-	29	2.2
Insurance compensation	-	-	215	21.9	282	22.9	77	5.8
Interest income	78	47.6	[(5)]-	[(5)]-	611	49.6	714	53.8
Incentive	-	-	451	46.0	-	-	-	-
Administrative fees[(2)]	-	-	-	-	36	2.9	-	-
Sites income [(3)]	56	34.1	95	9.7	169	13.7	86	6.5
Others [(4)]	-	-	36	3.7	47	3.9	253	19.1
	164	**100.0**	**980**	**100.0**	**1,232**	**100.0**	**1,327**	**100.0**

Notes:

(1) The remeasurement of lease liabilities in FYE 2020 was mainly due to revised lease payments related to the exercise of renewal options on tenancies and non-renewal of certain tenancies.

(2) Administrative fees charged to Nestcon Hailong, a former associate company, for office administration work.

(3) Sites income consists of payment received from another main contractor for Nidoz Project for water usage to clean their lorries at project site entrance as well as administration fee received from subcontractors for managing attendance of their site workers and purchase of materials on behalf of subcontractors.

(4) Others mainly consist of fee received from subcontractors for minor repair works on their machineries at sites and sales of scrap metal.

(5) Represents less than RM1,000 or 0.1%.

Comparison between FYE 2017 and FYE 2018

Other income increased by RM0.82 million or 512.5% from RM0.16 million in FYE 2017 to RM0.98 million in FYE 2018. The increase was primarily attributable to:

(i) incentive received from one of our major clients for our value engineering proposals in relation to Nidoz Project amounting to RM0.45 million;

(ii) one-off insurance compensation of RM0.19 million received from MSIG Insurance (Malaysia) Bhd ("**MSIG**") for damages to an excavator in a fire incident at a land reclamation site located at Seri Tanjung, Penang and RM0.03 million received from Allianz General Insurance Company (M) Sdn Bhd for damages to a lighting and tower crane's motor in a thunder incident at Nidoz Project; and

(iii) one-off gain on disposal of 3 units excavators and 1 unit bulldozer amounting to RM0.18 million.

Comparison between FYE 2018 and FYE 2019

Other income increased by RM0.25 million or 25.5% from RM0.98 million in FYE 2018 to RM1.23 million in FYE 2019. The increase was mainly due to:

(i) increase in interest income by RM0.61 million mainly arising from the increase in fixed deposits placed with financial institutions of RM14.95 million as at 31 December 2019 compared to RM9.85 million as at 31 December 2018, and new investment in mutual funds of RM3.02 million as at 31 December 2019. Fixed deposits were placed with financial institutions towards the end of FYE 2018; and

(ii) increase in insurance compensation by RM0.07 million due to one-off insurance compensation received from MSIG for an excavator in a fire incident at the earthworks site located at Gua Musang, Kelantan.

However, the overall increase in other income was partially offset by the one-off incentive received in FYE 2018 amounted to RM0.45 million which did not recur in FYE 2019.

Comparison between FYE 2019 and FYE 2020

Other income increased by RM0.10 million or 8.1% from RM1.23 million in FYE 2019 to RM1.33 million in FYE 2020. The increase was mainly due to:

(i) increase in other income by RM0.21 million mainly arising from sales of scrap metal; and

(ii) increase in interest income by RM0.10 million mainly arising from investment in mutual funds.

(d) Administrative expenses

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Auditors' remuneration	58	0.7	57	0.5	64	0.6	57	0.6
Bank charges	22	0.3	153	1.3	91	0.8	120	1.2
Depreciation of property, plant and equipment	545	6.9	1,143	10.0	724	6.1	839	8.1
Directors' remuneration	1,568	19.9	1,455	12.7	1,441	12.1	1,667	16.2
Donations	86	1.1	90	0.8	60	0.5	186	1.8
Entertainment	29	0.4	81	0.7	40	0.3	67	0.6
Expenses in relation to Covid-19	-	-	-	-	-	-	100	1.0
Insurance and road tax	207	2.6	430	3.8	286	2.4	198	1.9
Printing and stationery	79	1.0	116	1.0	145	1.2	141	1.4
Professional fees	278	3.5	109	1.0	484	4.0	705	6.8
Staff costs	4,267	54.3	6,475	56.6	7,341	61.4	5,184	50.2
Stamp duty	6	0.1	307	2.7	540	4.5	281	2.7
Travelling and accommodation	99	1.3	90	0.8	71	0.6	45	0.4
Upkeep expenses	256	3.3	232	2.0	147	1.2	212	2.1
Utilities	37	0.5	61	0.5	62	0.5	70	0.7
Workpass expenses for foreign workers	27	0.3	85	0.7	105	0.9	7	0.1
Others [1]	299	3.8	560	4.9	352	2.9	437	4.2
	7,863	**100.0**	**11,444**	**100.0**	**11,953**	**100.0**	**10,316**	**100.0**

Note:

(1) Others mainly consist of goods and services tax, sales and services tax, service charges, processing fee for leasing facilities and trade facilities, licenses and permits expenses and other miscellaneous expenses, each representing not more than 1.5% of our administrative expenses for each respective year.

Comparison between FYE 2017 and FYE 2018

Administrative expenses increased by RM3.58 million or 45.5% from RM7.86 million in FYE 2017 to RM11.44 million in FYE 2018. The increase was mainly attributable to:

(i) increase in staff costs by RM2.21 million mainly due to increments and recruitment of 19 new employees for various departments such as project, tender and contracts and procurement as well as higher provision of bonus;

(ii) increase in depreciation of property, plant and equipment by RM0.60 million mainly due to new motor vehicles purchased during FYE 2018;

(iii) increase in stamp duty by RM0.30 million mainly due to the stamping of banking facilities agreement for additional facility limit of RM44.00 million granted by OCBC Bank Malaysia Berhad ("**OCBC**") during FYE 2018; and

(iv) increase in insurance and road tax by RM0.22 million mainly due to additional motor vehicles purchased during FYE 2018.

Comparison between FYE 2018 and FYE 2019

Administrative expenses increased by RM0.51 million or 4.5% from RM11.44 million in FYE 2018 to RM11.95 million in FYE 2019. The increase was primarily attributable to:

(i) increase in staff costs by RM0.87 million mainly due to increments as well as recruitment of 14 new employees for various departments such as project, finance and accounts, human resource and administration, tender and contracts, procurement, quality control and assurance;

(ii) increase in stamp duty by RM0.23 million mainly due to the stamping of banking facilities agreement for additional facility limit of RM28.00 million granted by OCBC and bank guarantee agreement with OCBC Al-Amin Bank Berhad during FYE 2019; and

(iii) increase in professional fees by RM0.38 million mainly due to consultancy fee for ISO certifications and legal fee incurred for new banking facilities obtained in FYE 2019.

12. FINANCIAL INFORMATION *(Cont'd)*

However, the overall increase in administrative expenses was partially offset by a net decrease in depreciation of property, plant and equipment by RM0.42 million mainly due to disposal of motor vehicles. Such disposal of motor vehicles has also contributed to the reduction in insurance and road tax expenses by RM0.14 million.

Comparison between FYE 2019 and FYE 2020

Administrative expenses decreased by RM1.63 million or 13.6% from RM11.95 million in FYE 2019 to RM10.32 million in FYE 2020. The decrease was primarily attributable to:

(i) decrease in staff costs by RM2.16 million mainly due to no provision of bonus, reduction in staff welfare such as refreshment and festive celebration expenses and reduction in staff training expenses due to the implementation of MCO as a result of the Covid-19 pandemic; and

(ii) decrease in stamp duty by RM0.26 million mainly due to the one-off stamping fee for banking facilities agreement for additional facility limit of RM28.00 million in FYE 2019 which did not recur in FYE 2020.

However, the overall decrease in administrative expenses was partially offset by:

(i) increase in directors' remuneration by RM0.23 million mainly due to an additional executive director;

(ii) increase in professional fees by RM0.22 million mainly for our Listing exercise;

(iii) increase in donations by RM0.13 million as part of our contribution to the local communities such as school and old folks' home in battling the Covid-19 pandemic;

(iv) increase in depreciation of property, plant and equipment by RM0.12 million due to addition of motor vehicles and tools and equipment; and

(v) increase in expenses related to Covid-19 pandemic by RM0.10 million for swab tests and purchase of masks and sanitisation products.

12. FINANCIAL INFORMATION *(Cont'd)*

(e) Other operating expenses

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Depreciation of investment properties	45	100.0	45	100.0	41	13.9	52	9.7
Loss on disposal of investment properties	-	-	-	-	20	6.7	-	-
Property, plant and equipment written off	-	-	-	-	235	79.4	484	90.3
	45	**100.0**	**45**	**100.0**	**296**	**100.0**	**536**	**100.0**

Comparison between FYE 2017 and FYE 2018

For both FYE 2017 and FYE 2018, other operating expenses comprise depreciation of investment properties only.

Comparison between FYE 2018 and FYE 2019

Other operating expenses increased by RM0.25 million or 500.0% from RM0.05 million in FYE 2018 to RM0.30 million in FYE 2019 mainly due to write off of excavators that were damaged in a fire incident.

Comparison between FYE 2019 and FYE 2020

Other operating expenses increased by RM0.24 million or 80.0% from RM0.30 million in FYE 2019 to RM0.54 million in FYE 2020 mainly due to write off of excavator and vibratory roller that were damaged in fire incidents. As at LPD, the insurance claim for the vibratory roller is still pending.

12. FINANCIAL INFORMATION *(Cont'd)*

(f) Finance costs

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bank overdraft	7	0.5	569	23.2	777	16.6	1,426	31.4
Factoring	638	49.4	476	19.4	1,640	35.1	1,516	33.3
Lease liabilities	610	47.3	1,370	55.9	2,243	48.0	1,522	33.5
Term loans	36	2.8	36	1.5	17	0.3	83	1.8
	1,291	**100.0**	**2,451**	**100.0**	**4,677**	**100.0**	**4,547**	**100.0**

Comparison between FYE 2017 and FYE 2018

Finance costs increased by RM1.16 million or 89.9% from RM1.29 million in FYE 2017 to RM2.45 million in FYE 2018. The increase was mainly attributable to:

(i) increase in lease liabilities interest by RM0.76 million arising from new machineries and motor vehicles purchased during FYE 2018; and

(ii) increase in bank overdraft interest by RM0.56 million due to higher overdraft utilised for working capital purpose.

Comparison between FYE 2018 and FYE 2019

Finance costs increased by RM2.23 million or 91.0%, from RM2.45 million in FYE 2018 to RM4.68 million in FYE 2019. The increase was mainly attributable to:

(i) increase in factoring interest and bank overdraft interest by RM1.16 million and RM0.21 million respectively due to higher factoring and overdraft utilised to finance our greater working capital requirements; and

(ii) increase in lease liabilities interest by RM0.87 million arising from new machineries and motor vehicles purchased during FYE 2019.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2019 and FYE 2020

Finance costs decreased by RM0.13 million or 2.8%, from RM4.68 million in FYE 2019 to RM4.55 million in FYE 2020, mainly attributable to the decrease in lease liabilities interest by RM0.72 million resulting from lower outstanding balance.

However, the overall decrease in finance costs was partially offset by the increase in bank overdraft interest by RM0.65 million, mainly due to the utilisation of new overdraft facility to finance our working capital.

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12. FINANCIAL INFORMATION *(Cont'd)*

(g) PBT and PBT margin

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
PBT (RM'000)	8,549	14,374	22,182	19,211
PBT margin (%)	4.5	6.6	5.2	5.6

Comparison between FYE 2017 and FYE 2018

PBT margin improved from 4.5% in FYE 2017 to 6.6% in FYE 2018. The improvement in our PBT margin was mainly attributable to higher GP margin generated from our civil engineering and infrastructure segment.

Comparison between FYE 2018 and FYE 2019

PBT margin decreased from 6.6% in FYE 2018 to 5.2% in FYE 2019. The decrease in our PBT margin was mainly attributable to lower GP margin generated from both of our building and civil engineering and infrastructure segments.

However, the quantum of decrease in our PBT margin is lower than the quantum of decrease in our GP margin mainly because we managed to maintain our total administrative expenses in FYE 2019 at the level similar to in FYE 2018, although revenue for FYE 2019 had increased.

Comparison between FYE 2019 and FYE 2020

PBT margin improved slightly from 5.2% in FYE 2019 to 5.6% in FYE 2020. The improvement in our PBT margin was mainly attributable to higher GP margin generated from both our building and civil engineering and infrastructure segments.

(h) Taxation

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
Taxation (RM'000)	2,606	4,473	6,415	4,910
Statutory tax rate (%)	24.0	24.0	24.0	24.0
Effective tax rate (%)	30.5	31.1	28.9	25.6

Our effective tax rate for FYE 2017 to FYE 2020 was higher than the statutory tax rate of 24.0% mainly due to certain non-deductible expenses such as depreciation for non-qualifying assets. The non-qualifying assets were mainly derived from the unpaid instalments of motor vehicles and machineries that are under hire purchase arrangements.

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12.2.3 Review of financial position

(a) Assets

	Audited			
	31 December 2017	31 December 2018	31 December 2019	31 December 2020
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
Property, plant and equipment	34,304	61,876	64,574	63,032
Investment properties	2,179	2,134	2,660	3,260
Investment in an associate	-	-	-	-
Other investments	-	-	-	1,941
Deferred tax assets	145	-	-	568
Trade receivables	36,890	29,361	26,203	38,168
Total non-current assets	73,518	93,371	93,437	106,969
Current assets				
Trade receivables	74,478	67,991	90,780	90,493
Other receivables, deposits and prepayments	4,215	6,587	11,609	11,544
Contract assets	2,685	19,252	61,530	46,124
Amount due from related parties	46	8,085	11,880	-
Tax recoverable	75	-	-	-
Other investment	-	-	3,023	74
Fixed deposit with financial institutions	4,780	9,849	14,954	28,128
Cash and bank balances	17,345	17,042	40,701	59,198
Total current assets	103,624	128,806	234,477	235,561
Total assets	**177,142**	**222,177**	**327,914**	**342,530**

Comparison between 31 December 2017 and 31 December 2018

Our total assets increased by RM45.04 million or 25.4% from RM177.14 million as at 31 December 2017 to RM222.18 million as at 31 December 2018. This was mainly due to the increase in current assets by RM25.18 million and increase in non-current assets by RM19.85 million as at 31 December 2018.

The increase in current assets was primarily attributable to:

(i) increase in contract assets by RM16.57 million mainly from Railway Project, Grand Project and Nidoz Project. Such increase was mainly due to timing differences with higher revenue recognised based on the cost incurred method compared to the certified progress billings issued to our clients;

(ii) increase in fixed deposit with financial institutions by RM5.07 million mainly due to our obligation to pledge fixed deposit of up to RM10.00 million by way of sinking fund build-up via 5% retention from each progress claims we receive for Nidoz Project for our bank overdraft facilities purpose; and

(iii) increase in amount due from related parties by RM8.04 million due to advances made to them for their working capital purposes.

However, the overall increase in current assets was partially offset by the decrease in trade receivables by RM6.49 million.

The increase in non-current assets was mainly due to the increase in property, plant and equipment by RM27.57 million mostly from the purchase of machineries of RM24.54 million for our construction activities and motor vehicles of RM5.07 million.

Comparison between 31 December 2018 and 31 December 2019

Our total assets increased by RM105.73 million or 47.6% from RM222.18 million as at 31 December 2018 to RM327.91 million as at 31 December 2019. The increase was mainly attributable to the increase in current assets by RM105.67 million.

The increase in current assets was mainly due to:

(i) increase in contract assets of RM42.28 million mainly from Railway Project, elevated roadworks at Damansara Perdana, Selangor, Grand Project, Mossaz and Paxtonz Project and Panorama Project. Such increase was mainly due to timing differences with higher revenue recognised based on the cost incurred method compared to the certified progress billings issued to our clients; and

(ii) increase in cash and bank balances of RM23.66 million, trade receivables of RM22.79 million and other receivables, deposits and prepayments of RM5.02 million, in line with our growth in revenue.

Comparison between 31 December 2019 and 31 December 2020

Our total assets increased by RM14.62 million or 4.5% from RM327.91 million as at 31 December 2019 to RM342.53 million as at 31 December 2020. This was mainly due to the increase in non-current assets by RM13.53 million and increase in current assets by RM1.08 million as at 31 December 2020.

The increase in non-current assets was primarily attributable to:

(i) increase in trade receivables by RM11.97 million arising from higher retention sum retained by our clients mainly for Railway Project, Mossaz and Paxtonz Project, Scarletz Project and Panorama Project; and

(ii) increase in other investments by RM1.94 million arising from our purchase of keyman insurances for Datuk Ir. Dr. Lim and Ong Yong Chuan in relation to the banking facilities granted to us for our Kuchai Sentral Project and our project involving provision of flyover and pedestrian bridge works located at Seberang Perai Tengah, Penang. The insurance premium paid together with guaranteed returns shall be remitted to us should we have no specific claims against the insurance by the end of year 2025.

The increase in current assets was mainly attributable to:

(i) increase in cash and bank balances by RM18.50 million; and

(ii) increase in fixed deposit with financial institutions by RM13.17 million arising from RM8.17 million fixed deposits pledged for performance bond mainly for Railway Project and Scarletz Project, and RM5.00 million placed in short term repurchase agreement.

However, the overall increase in current assets was partially offset by the decrease in contract assets by RM15.41 million from Railway Project, Grand Project, Mossaz and Paxtonz Project and elevated roadworks at Damansara Perdana, Selangor, and the decrease in amount due from related parties by RM11.88 million.

(b) Liabilities

	Audited			
	31 December 2017	**31 December 2018**	**31 December 2019**	**31 December 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current liabilities				
Trade payables	12,351	15,990	13,157	17,266
Bank borrowings	747	699	316	3,460
Lease liabilities	10,060	26,273	19,095	12,586
Deferred tax liabilities	767	2,877	3,912	2,833
Total non-current liabilities	23,925	45,839	36,480	36,145
Current liabilities				
Trade payables	72,268	76,777	146,173	137,130
Other payables and accruals	6,440	4,700	7,590	6,372
Contract liabilities	15,709	6,361	30,430	24,917
Amount due to related parties	9	-	-	-
Amount due to Directors	8,824	10,928	9	-
Bank borrowings	5,551	20,054	30,962	47,734
Lease liabilities	6,357	12,998	14,638	13,088
Income tax payable	4,583	3,143	3,688	4,899
Total current liabilities	119,741	134,961	233,490	234,140
Total liabilities	**143,666**	**180,800**	**269,970**	**270,285**

Comparison between 31 December 2017 and 31 December 2018

Our total liabilities increased by RM37.13 million or 25.8% from RM143.67 million as at 31 December 2017 to RM180.80 million as at 31 December 2018. The increase was attributable to the increase in non-current liabilities by RM21.91 million and increase in current liabilities by RM15.22 million.

The increase in non-current liabilities was mainly due to:

(i) increase in lease liabilities by RM16.21 million arising from the purchase of new machineries and motor vehicles for our business operations; and

(ii) increase in non-current trade payables by RM3.64 million mainly due to the increase in our projects undertaken and increase in the retention sum payables for FYE 2018.

The increase in current liabilities was mainly due to:

(i) increase in short term bank borrowings by RM14.50 million as new factoring facilities were obtained to finance Nidoz Project;

(ii) increase in lease liabilities by RM6.64 million arising from the purchase of new machineries and motor vehicles for our business operations;

(iii) increase in current trade payables by RM4.51 million mainly due to the increase in projects undertaken for FYE 2018; and

(iv) increase in amount due to Directors by RM2.10 million mainly due to advances from Directors to Nestcon Infra for working capital purposes.

However, the overall increase in current liabilities was partially offset by decrease in contract liabilities of RM9.35 million, other payables and accruals of RM1.74 million and income tax payable of RM1.44 million. The decrease in contract liabilities was mainly from Nest Residence Project as it was close to completion stage where revenue has been recognised substantially as at 31 December 2018.

Comparison between 31 December 2018 and 31 December 2019

Our total liabilities increased by RM89.17 million or 49.3% from RM180.80 million as at 31 December 2018 to RM269.97 million as at 31 December 2019. The increase was mainly attributable to the increase in current liabilities by RM98.53 million.

The increase in current liabilities was mainly due to:

(i) increase in current trade payables by RM69.40 million mainly due to the increase in projects undertaken for FYE 2019;

(ii) increase in contract liabilities by RM24.07 million mainly due to timing differences with higher certified progress billings issued to our clients compared to the revenue recognised based on cost incurred method. The increase in contract liabilities was mainly attributable to Nidoz Project and Railway Project; and

(iii) increase in short term bank borrowings by RM10.91 million to finance our greater working capital requirements.

However, the increase in current liabilities was partially offset by the decrease in non-current liabilities by RM9.36 million, mainly attributable to decrease in lease liabilities by RM7.18 million as there were no major purchase of property, plant and equipment during FYE 2019 as opposed to the previous financial year and non-current trade payables by RM2.83 million due to delay in capturing our subcontractors' cost as explained in (ii) above.

Comparison between 31 December 2019 and 31 December 2020

Our total liabilities increased by RM0.32 million or 0.1% from RM269.97 million as at 31 December 2019 to RM270.29 million as at 31 December 2020. The increase was mainly attributable to the increase in current liabilities by RM0.65 million.

The increase in current liabilities was mainly due to:

(i) increase in short term bank borrowings by RM16.77 million to finance our working requirements: and

(ii) increase in income tax payable by RM1.21 million.

However, the increase in current liabilities was partially offset by the decrease in non-current liabilities by RM0.34 million, mainly attributable to the decrease in lease liabilities resulting from scheduled repayments.

12.2.4 Review of cash flows

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash generated from operating activities	40,551	12,466	58,760	21,603
Net cash used in investing activities	(4,481)	(4,218)	(7,179)	(3,664)
Net cash used in financing activities	(30,059)	(11,613)	(46,790)	(18,723)
Net increase/ (decrease) in cash and cash equivalents	6,011	(3,365)	4,791	(784)
Cash and cash equivalents at the beginning of financial year	5,831	11,842	8,477	13,268
Cash and cash equivalents at end of financial year	**11,842**	**8,477**	**13,268**	**12,484**
Cash and cash equivalents at end of the financial year comprise:				
Deposits placed with financial institutions	4,780	9,849	14,954	28,128
Cash and bank balances	17,345	17,042	40,701	59,198
	22,125	26,891	55,655	87,326
Less: Bank overdrafts	(5,503)	(7,880)	(16,230)	(34,653)
Less: Pledged deposits with financial institutions	(4,780)	(9,849)	(14,954)	(23,128)
Less: Restricted cash at bank	-	(685)	(11,203)	(17,061)
	11,842	**8,477**	**13,268**	**12,484**

FYE 2017

Net cash for operating activities

In FYE 2017, our net cash generated from operating activities amounted to RM40.55 million. Our collections of RM256.58 million was partially offset by our payments of RM216.03 million. Such payments were mainly for:

(i) Subcontractors and trade suppliers of RM190.65 million;

(ii) Staff and directors' remuneration of RM13.16 million;

(iii) Rental of heavy machineries, vehicles and premises of RM10.42 million; and

(iv) Income tax payment of RM1.80 million.

Net cash for investing activities

In FYE 2017, the net cash used in investing activities amounted to RM4.48 million. It was mainly attributable to the purchase of machineries, tools, equipment, motor vehicles, computer and software, furniture and fittings for our business operations amounted to RM4.56 million.

Net cash used in investing activities was partially offset by proceeds from disposal of machineries amounted to RM0.08 million.

Net cash for financing activities

In FYE 2017, the net cash used in financing activities amounted to RM30.06 million. This was mainly attributable to the net repayment of factoring facilities of RM23.90 million, placement of pledged deposits with financial institutions of RM4.78 million, repayment of lease liabilities of RM1.85 million, interest paid of RM1.29 million and net advances to related parties of RM1.01 million which was offset by advances from Director of RM2.82 million. The advances from Director were mainly for our working capital purposes.

FYE 2018

Net cash for operating activities

In FYE 2018, our net cash generated from operating activities decreased by RM28.08 million or 69.2% from RM40.55 million in FYE 2017 to RM12.47 million in FYE 2018. Our total collections decreased by RM24.76 million from RM256.58 million in FYE 2017 to RM231.82 million in FYE 2018 mainly due to higher amount of retention sum receivables which increased by RM12.23 million in FYE 2018. We have also commenced construction works on various new projects during this financial year, where we incurred construction costs during the initial stages but cannot be billed yet as we have not met the agreed billing milestone. This resulted in an increase in our contract assets by RM16.57 million in FYE 2018. .

In addition, our total payments increased from RM216.03 million in FYE 2017 to RM219.35 million in FYE 2018 mainly due to increase in payments to staff and directors' remuneration as a result of increments and recruitment of new employees as well as higher provision of bonus.

Our collections of RM231.82 million was partially offset by our payments of RM219.35 million. Such payments were mainly for:

(i) Subcontractors and trade suppliers of RM186.85 million;

(ii) Staff and directors' remuneration of RM20.72 million;

(iii) Rental of heavy machineries, vehicles and premises of RM8.16 million; and

(iv) Income tax payment of RM3.62 million.

Net cash for investing activities

In FYE 2018, the net cash used in investing activities amounted to RM4.22 million. It was mainly attributable to the purchase of machineries, tools, equipment, motor vehicles, computer and softwares, furniture and fittings for our business operations amounted to RM4.82 million.

Net cash used in investing activities was partially offset by proceeds from disposal of machineries and tools and equipment amounted to RM0.61 million.

Net cash for financing activities

In FYE 2018, the net cash used in financing activities amounted to RM11.61 million. This was mainly attributable to net advances to related parties of RM8.05 million, repayment of lease liabilities of RM7.54 million, placement of pledged deposits with financial institutions of RM5.07 million, interest paid of RM2.45 million and dividend paid of RM2.00 million.

Net cash used in financing activities was partially offset by the net drawdown of factoring facilities of RM12.12 million and advances from Director of RM2.10 million. The advances from Director were mainly for our working capital purposes.

FYE 2019

Net cash for operating activities

In FYE 2019, our net cash generated from operating activities amounted to RM58.76 million. Our collections of RM404.20 million was partially offset by our payments of RM345.44 million. Such payments were mainly for:

(i) Subcontractors and trade suppliers of RM296.82 million;

(ii) Staff and directors' remuneration of RM25.94 million;

(iii) Rental of heavy machineries, vehicles and premises of RM16.87 million; and

(iv) Income tax payment of RM5.81 million.

Net cash for investing activities

In FYE 2019, the net cash used in investing activities amounted to RM7.18 million was mainly attributable to the purchase of machineries, tools, equipment, motor vehicles, computer and softwares, furniture and fittings for our business operations amounted to RM5.10 million, investment in mutual funds of RM3.02 million and purchase of investment properties of RM1.27 million.

Net cash used in investing activities was partially offset by proceeds from disposal of machinery and motor vehicles of RM1.53 million and investment properties of RM0.68 million respectively.

Net cash for financing activities

In FYE 2019, the net cash used in financing activities amounted to RM46.79 million. This was mainly attributable to repayment of lease liabilities of RM15.29 million, repayment to Director of RM7.92 million, net payment into the sinking fund account for our bank overdraft facilities of RM10.52 million, placement of pledged deposits with financial institutions of RM5.11 million, interest paid of RM4.68 million, net advances to related parties of RM3.80 million, dividend paid of RM2.20 million and repayment of term loans of RM0.41 million.

Net cash used in financing activities was partially offset by net drawdown of factoring facilities of RM2.58 million and interest received of RM0.54 million.

FYE 2020

Net cash for operating activities

In FYE 2020, our net cash generated from operating activities decreased by RM37.16 million or 63.2% from RM58.76 million in FYE 2019 to RM21.60 million in FYE 2020. Our total collections decreased by RM71.25 million from RM404.20 million in FYE 2019 to RM332.95 million in FYE 2020 while our total payment decreased by RM34.09 million from RM345.44 million in FYE 2019 to RM311.35 million in FYE 2020. This is in line with the overall decrease in revenue and cost of sales due to the implementation of MCO resulting from the Covid-19 pandemic.

Our collections of RM332.95 million was partially offset by our payments of RM311.35 million. Such payments were mainly for:

(i) Subcontractors and trade suppliers of RM269.17 million;

(ii) Staff and directors' remuneration of RM23.05 million;

(iii) Rental of heavy machineries, vehicles and premises of RM13.71 million; and

(iv) Income tax payment of RM5.42 million.

Net cash for investing activities

In FYE 2020, the net cash used in investing activities amounted to RM3.66 million. This was mainly from the purchase of machineries, building equipment, motor vehicles and office equipment for our business operations of RM4.64 million, investment in keyman insurances of RM1.94 million and additional investment in mutual funds of RM0.08 million. During the year, we also made a balance payment of RM0.65 million for an investment property which we acquired in FYE 2019.

Net cash used in investing activities was partially offset by proceeds from disposal of mutual funds of RM3.03 million, disposal of building equipment and motor vehicle of RM0.50 million and interest received of RM0.12 million.

Net cash for financing activities

In FYE 2020, the net cash used in financing activities amounted to RM18.72 million. This was mainly attributable to repayment of lease liabilities of RM14.02 million, placement of pledged deposits with financial institutions of RM8.17 million, net deposit to the sinking fund account of RM5.86 million for our bank overdraft facilities, interest paid of RM4.55 million, net repayment of factoring facilities of RM2.22 million, repayment of term loans of RM0.15 million and repayment to Directors of RM0.01 million.

Net cash used in financing activities was partially offset by net repayment received from related parties of RM11.88 million, drawdown of term loans of RM3.87 million and interest received of RM0.51 million.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

We finance our operations with cash generated from operations, credit extended by trade payables and/or financial institutions as well as cash and bank balances. Our facilities from financial institutions comprise term loans, bank overdrafts, bank guarantees, factoring as well as finance lease liabilities.

We recorded net current liabilities of RM16.12 million and RM6.16 million as at 31 December 2017 and 31 December 2018 respectively. The net current liabilities position as at 31 December 2017 and 31 December 2018 was mainly due to:

(a) Higher percentage of retention sum receivables from our building segment in FYE 2017, approximately 33.1% or RM36.89 million of our total trade receivables consist of retention sum which are classified as non-current assets vis-à-vis 30.2% (RM29.36 million) for FYE 2018 and 22.4% (RM26.20 million) for FYE 2019. The retention sum receivables for FYE 2017 was mainly attributable to our first building construction project, Petalz Project that was completed in May 2017 but its retention sum has yet to be fully released in FYE 2017. This coupled with the Nest Residence Project and Nidoz Project which commenced in FYE 2016, further increased our retention sum receivables in FYE 2017;

(b) Temporary timing differences mainly arising from Nest Residence Project when progress billings raised by us to clients was higher than the costs incurred plus recognised profits. This resulted in contract liabilities of RM15.71 million as at 31 December 2017. Although the progress billings are captured as trade receivables, a portion of such progress billings are retained as retention sum (i.e. non-current asset). As such, our current liabilities increased more than our current assets in FYE 2017;

(c) Short-term financing facilities such as bank overdraft, factoring payable and advances from Directors to partially finance our construction contracts which generally require 1 to 3 years to complete; and

(d) Acquisition of property, plant and equipment (i.e. non-current asset) which resulted in the increase of current lease liabilities and payment in cash in FYE 2017 and FYE 2018.

As we expand our business, we may continue to use cash generated from operations to finance our capital expenditure. Coupled with the nature of our business where there will be retention sum receivables (classified as non-current assets), timing differences resulting in contract liabilities as well as our utilisation of short-term financing facilities to finance our construction projects, we may be in net current liabilities position in the future. However, we wish to highlight that we have consistently recorded positive operating cash flow from FYE 2017 to FYE 2020. Our current ratio improved from 0.9 times as at 31 December 2018 to 1.0 times as at 31 December 2019 mainly due to increase in contract assets, trade receivables, fixed deposit with financial institution and cash and bank balances, which was in line with our revenue growth. Our current ratio remained at 1.0 times as at 31 December 2020 mainly due to decrease in contract assets and increase in fixed deposit with financial institutions and cash and bank balances. Upon completion of our Listing, our current ratio will improve further to 1.1 times.

After taking into consideration the following, we have sufficient working capital for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus:

(a) Our cash and cash equivalent of approximately RM43.76 million (excluding the restricted cash and pledged fixed deposits with financial institutions) as at LPD;

(b) Our expected future cash flows from operations taking into account the potential impact of Covid-19 and MCO on our business;

(c) Our total banking facilities as at LPD of RM391.80 million (excluding finance leases), of which RM100.93 million have been utilised; and

(d) Our pro forma gearing level of 0.5 times, based on our pro forma statements of financial position as at 31 December 2020 after the Acquisitions, IPO and utilisation of proceeds.

Given that we still have sufficient unutilised banking facilities as at LPD and based on our existing order book as at LPD, we do not foresee additional external financing to fund our working capital within the next 12 months from the date of this Prospectus. However, we will carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.4 BORROWINGS

All of our borrowings are secured, interest-bearing and denominated in RM. Our total outstanding borrowings (bank borrowings and lease liabilities excluding lease liabilities arising from right-of-use assets of RM0.65 million) as at 31 December 2020 stood at RM76.22 million, details of which are set out below:

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 31 December 2020
				%	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Term loans	Purchase of investment properties/ Project financing	(a) All Monies Facilities agreement as principal instruments; (b) All Monies Legal Charge or all Monies Deed of Assignment and Power of Attorney over investment properties as subsidiary instrument; and (c) Equitable assignment of rental proceeds created over investment properties; (d) Joint and several guarantee by Datuk Ir. Dr. Lim and Ong Yong Chuan [(3)] (e) An insurance policy with sum insured of not less than RM5 million taken up under Datuk Ir. Dr. Lim and Ong Yong Chuan[(3)] and assigned to the bank; and (f) Credit Guarantee Corporation Malaysia Berhad's guarantee under BizJamin Special Relief Facility.	180 months	3.2 – 5.6	597
Bank overdraft	Working capital	(a) Open All Monies Facilities Agreement to be entered into between the Borrower and the Bank; (b) First party pledge of fixed deposit of 10% each issuance of letter of credit or trust receipts to be created by the Borrower by way of an Open All Monies Memorandum of Deposit. The interest earned shall be capitalised and retained as security;	On demand	6.5 – 7.8	34,653

12. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 31 December 2020
				%	RM'000
		(c) Pledge of fixed deposit of RM10,000,000 by way of sinking fund build-up via 5% retention from each progress payment as and when received from identified projects with duly executed Open All Monies Memorandum of Deposit to be executed by the Borrower. The interest earned shall be capitalised and retained as security; (d) An assignment and a fixed charge over receivables; (e) Fixed charge over the designated collections account, sinking fund account and other accounts; (f) Charge over goods as defined under Master Security Agreement; (g) Charge over all payments or deposit from time to time paid or deposited into accounts opened or to be opened or maintained by the Company with any branch of the bank which requires to be charged to the bank for all monies owing or payable under the facilities; (h) Open All Monies joint and several guarantee by Datuk Ir. Dr. Lim and Ong Yong Chuan[(3)]; and (i) Corporate guarantee by Nestcon Builders.			
Factoring payable	Working capital	(a) Assignment of contract proceeds in respect of identified projects by way of Factoring Agreement; and (b) Joint and several guarantee by Datuk Ir. Dr. Lim and Ong Yong Chuan [(3)].	Ranging from 150 days to 180 days	6.5 – 7.5	12,484
Lease liabilities	Purchase of building equipment, machinery and motor vehicles	Building equipment, machinery and motor vehicles under the finance lease.	Ranging from 36 to 60 months	4.3 – 6.6	12,732
					60,466

12. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 31 December 2020
				%	RM'000
Interest bearing long-term borrowings, payable after 1 year:					
Term loans	Purchase of investment properties/ Projects financing	(a) All Monies Facilities agreement as principal instruments; (b) All Monies Legal Charge or all Monies Deed of Assignment and Power of Attorney over investment properties as subsidiary instrument; and (c) Equitable assignment of rental proceeds created over investment properties; (d) Joint and several guarantee by Datuk Ir. Dr. Lim and Ong Yong Chuan [3] (e) An insurance policy with sum insured of not less than RM5 million taken up under Datuk Ir. Dr. Lim and Ong Yong Chuan[3] and assigned to the bank; and (f) Credit Guarantee Corporation Malaysia Berhad's guarantee under BizJamin Special Relief Facility.	180 months	3.2 – 5.6	3,460
Lease liabilities	Purchase of building equipment, machinery and motor vehicles	Building equipment, machinery and motor vehicles under the finance lease.	Ranging from 36 to 60 months	4.3 – 6.6	12,294
					15,754
Total borrowings					**76,220**

Gearing (times)

After Acquisitions but before IPO and utilisation of proceeds[1]	1.1
After Acquisitions and utilisation of proceeds [2]	0.5

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) Computed based on our pro forma equity attributable to the owners of the Company of RM72.24 million in the pro forma statements of financial position after the Acquisitions, but before IPO and utilisation of proceeds.

(2) Computed based on our pro forma equity attributable to the owners of the Company of RM113.68 million in the pro forma statements of financial position after the Acquisitions, IPO and utilisation of proceeds which includes the repayment of bank borrowings of RM16.50 million.

(3) In conjunction with our Listing, we have applied to the financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. Until such release and/or discharge are obtained from the respective financiers, our Directors will continue to guarantee the banking facilities extended to our Group. Please refer to Section 10.2.2 for further details.

Separately, we have also recognised the following lease liabilities on the right-of-use assets which are denominated in RM:

	Purpose	**Tenure**	**As at 31 December 2020**
			RM'000
Lease liabilities payable within 1 year	Rental of land, office and staff hostel	Initial lease of 1 to 2 years with option to renew for another 1 to 3 years	357
Lease liabilities payable after 1 year	Rental of land, office and staff hostel	Initial lease of 1 to 2 years with option to renew for another 1 to 3 years	292
			649

We also rely on bank guarantees for tender bonds and performance bonds. Such bank guarantees are used for all aspects of the project construction contract lifecycle from the start of tender process to expiration of our liability towards the client in accordance with the terms of each contract. The bank guarantees allow us to tender, execute and guarantee our deliverables to our clients. The tenure requirements for the bank guarantees are structured to match the underlying construction contracts with the respective counterparties.

Our total bank guarantees as at 31 December 2020 stood at RM42.45 million, details as set out below. All our bank guarantees are secured, interest-bearing and denominated in RM.

12. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Security	Tenure	Interest rate	As at 31 December 2020
				% per annum	RM'000
Bank guarantees	Performance guarantees for contract works carried out by our Group	(a) Legal assignment and a fixed charge over receivables; (b) Legal fixed charge over the designated collections account, the sinking fund account and other account(s); (c) Legal charge over certain goods; (d) Legal charge over all payments or deposit paid or deposited into accounts for all monies owing or payable under the facility; (e) Pledge of 10% of bank guarantee in the form of fixed deposits; (f) Joint and several guarantee from Datuk Ir. Dr. Lim and Ong Yong Chuan[(1)]; and (g) Corporate guarantee by Nestcon Builders.	On demand	1.0 – 1.2	42,446

Note:

(1) In conjunction with our Listing, we have applied to the financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. Until such release and/or discharge are obtained from the respective financiers, our Directors will continue to guarantee the banking facilities extended to our Group. Please refer to Section 10.2.2 for further details.

The liabilities in respect of the bank guarantees will only crystallise and become payable following a call by our clients of the tender bonds or performance bonds in accordance with the terms and conditions of such construction contracts. During FYE 2017 to FYE 2020, we did not experience any call of the tender bonds or performance bonds issued to our clients.

As at 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 of our borrowings throughout FYE 2017 to FYE 2020 and up to LPD.

12. FINANCIAL INFORMATION *(Cont'd)*

As at LPD, neither our Company nor any of our subsidiaries 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.

During FYE 2017 to FYE 2020, we did not experience any claw back or reduction in the facilities limit granted to us by our lenders.

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12.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

Save as disclosed in Section 12.4 above, we do not have or utilise any other financial instruments or have any other treasury policies. All our financial instruments are used towards purchase of property, plant and equipment and our construction business. As at 31 December 2020, save for our finance lease liabilities which are based on fixed rates, all our other facilities with licensed financial institutions are based on base rate plus or minus a rate which varies depending on the type of facility.

12.6 MATERIAL CAPITAL COMMITMENTS

As at LPD, we do not have any other material capital commitments.

12.7 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

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

As at LPD, save for the financial guarantees amounting to RM42.45 million as disclosed in Section 12.4 and corporate guarantee as disclosed in Section 10.2.2 (b)(ii), our Directors confirm that there are no material contingent liabilities incurred by our Group, which upon becoming enforceable may have a material effect on our Group's business, financial results or position.

12.8 KEY FINANCIAL RATIOS

The key financial ratios of our Group as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 are as follows:

	Audited			
	31 December 2017	**31 December 2018**	**31 December 2019**	**31 December 2020**
Trade receivables turnover (days)(1)	223	100	47	68
Trade payables turnover (days)(2)	193	138	99	152
Current ratio (times)(3)	0.9	0.9	1.0	1.0
Gearing ratio (times)(4)	0.7	1.4	1.1	1.1

Notes:

(1) Computed based on average opening and closing trade receivables (excluding retention sum) over revenue for the year multiplied by 365 days for each financial year.

(2) Computed based on average opening and closing trade payables (excluding retention sum) over cost of sales for the year multiplied by 365 days for each financial year.

(3) Computed based on current assets over current liabilities as at each year end.

(4) Computed based on total borrowings and lease liabilities (excluding lease liabilities arising from the rental of land and buildings of RM0.60 million for FYE 2017, RM0.85 million for FYE 2018, RM0.58 million for FYE 2019 and RM0.65 million for FYE 2020) over total equity as at each year end.

12.8.1 Trade receivables turnover

The normal credit period granted by our Group to our contract clients is 45 days from the date of progress billings depending on the terms of the contracts.

Our trade receivables turnover period was computed excluding retention sums. Due to the nature of the construction industry, our clients are entitled to retain 10.0% of each progress billing as retention sum up to a maximum of 5.0% of the total contract sum awarded, in accordance to the terms of the contracts. Our clients will retain the entire retention sum throughout the contract period until the issuance of the CPC, of which half of the total retention sums will be released to us, whilst the remaining half will be released to us at the end of the contracted DLP and upon issuance of the CMGD. As such, the exclusion of the retention sums in the computation of trade receivables turnover period represents a more accurate measure of the average number of days that our Group requires for the collection of debts.

Although the credit period as per contractual terms is 45 days, there is still a gap between contractual terms and actual collections as indicated in the trade receivable turnover days. This is mainly due to our clients' lengthy and time-consuming internal process involving verification of the architect's certification by various internal departments before payment is processed. Notwithstanding the above, we opt not to extend our credit period in our contracts to reflect the actual practice as clients may take even longer time to pay if longer payment terms are granted.

The trade receivable turnover period is dependent on the mix of clients and projects undertaken by us during the financial years under review. The changes in our receivable turnover days are very much dependent on the time taken by the respective clients to verify the architect's certificates.

Our trade receivable turnover period improved from 223 days in FYE 2017 to 100 days in FYE 2018 mainly due to faster collection from various projects undertaken by us in FYE 2018 such as Nidoz Project, Grand Project, Melaka Gateway Project and Railway Project. The improved collection time is mainly attributable to lesser time taken to verify the architects' certificates and quicker processing time incurred by our clients.

Our trade receivable turnover period improved further to 47 days in FYE 2019 mainly due to prompt collection from various projects undertaken by us in FYE 2019 such as Nidoz Project, Grand Project and elevated road works in Mukim Petaling, Selangor. The improvement in trade receivables turnover days in FYE 2019 was also contributed by prompt collection from Client A for Railway Project. The revenue contribution from Client A increased to 35.8% in FYE 2019.

Our trade receivable turnover period in FYE 2017 and FYE 2018 were higher mainly due to higher revenue contribution from building segment where there were delayed payments by our clients from the building segment. For FYE 2017 and FYE 2018, the long trade receivables turnover days was mainly due to EXSIM Group (236 days in FYE 2017 and 172 days in FYE 2018) for Petalz Project and Nidoz Project; and Nagano Development Sdn Bhd (150 days in FYE 2017 and 81 days for FYE 2018) for Nest Residence Project. EXSIM Group contributed 65.0% and 32.0% of our total revenue for FYE 2017 and FYE 2018 respectively whilst Nagano Development Sdn Bhd contributed 21.8% and 30.6% of our total revenue for FYE 2017 and FYE 2018 respectively.

Petalz Project was our first building construction project and we were building up relationship with EXSIM Group, as such we did not put in a lot of effort to follow up and closely monitor our collections in the earlier years. Similarly for Nest Residence Project, it was our third building construction project and we did not follow up and closely monitor the collections as we were more focused in the value engineering to reduce construction costs. However, as we expand our business and operations, we allocated more manpower to follow up and closely monitor the collections from our clients.

Our trade receivable turnover period increased from 47 days in FYE 2019 to 68 days in FYE 2020 mainly due to slower collections from our clients as a result of the implementation of MCO resulting from the Covid-19 pandemic where clients were conserving their cash flow and delaying payments.

The ageing analysis of our trade receivables as at 31 December 2020 is as follows:

	Trade receivables as at 31 December 2020		**Amount collected from 1 January 2021 up to LPD**	**Balance of trade receivables which have yet to be collected as at LPD**
	RM'000	**Percentage of trade receivables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**
Neither past due nor impaired	33,177	25.8	17,369	15,808
Past due but not impaired:				
- less than 30 days	12,176	9.5	12,058	118
- 31 to 60 days	8,970	7.0	8,240	730
- 61 to 90 days	929	0.7	929	-
- over 90 days	9,991	7.7	9,991	-
	32,066	24.9	31,218	848
Retention sum[(1)]	63,418	49.3	170	63,248
Total	**128,661**	**100.0**	**48,757**	**79,904**

Note:

(1) RM25.25 million or 39.8% of the retention sum is within 12 months.

Our total trade receivables past due as at 31 December 2020 is RM32.07 million, representing 24.9% of our total trade receivables. Subsequent to 31 December 2020 and up to LPD, we collected RM48.76 million, representing 37.9% of the total trade receivables as at 31 December 2020, of which RM31.22 million were relating to trade receivable past due as at 31 December 2020.

Our Group has not encountered any major disputes with our trade receivables. With respect to overdue debts, we have generally been able to collect payment eventually as evident by our subsequent collections after 31 December 2020.

Our Group has in place a credit procedure to monitor and minimise the exposure of default. Receivables are monitored on a regular and an ongoing basis. Credit evaluations are performed on all clients requiring credit over certain amount.

Financial assets are written off when there is no reasonable expectation of recovery, such as debtor failing to engage in a repayment plan with us. Where receivables have been written off, we will continue to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

An impairment analysis is performed at each reporting date using provision matrix to measure expected credit losses for all trade receivables. There was no impairment loss on trade receivables recognised over the financial years under review.

12.8.2 Trade payables turnover

The ageing analysis of our trade payables as at 31 December 2020 is as follows:

	Trade payables as at 31 December 2020		**Amount paid from 1 January 2021 up to LPD**	**Balance of trade payables which have yet to be paid as at LPD**
	RM'000	**Percentage of trade payables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**
Within credit period	99,140	64.2	62,190	36,950
Exceeding credit period:				
- 1 to 30 days	11,512	7.4	10,456	1,056
- 31 to 60 days	9,677	6.3	8,359	1,318
- More than 60 days	5,104	3.3	5,104	-
	26,293	17.0	23,919	2,374
Retention sum	28,963	18.8	1,036	27,927
Total	**154,396**	**100.0**	**87,145**	**67,251**

The normal credit term granted to us by our suppliers and subcontractors ranges from 30 to 90 days. We have not experienced any disruptions in supplies from our suppliers for construction materials, and subcontractors for services. Retention sums are excluded in arriving at our trade payables turnover period.

Our trade payable turnover period improved from 193 days in FYE 2017 to 138 days in FYE 2018 and improved further to 99 days in FYE 2019. However, our trade payable turnover period increased from 99 days in FYE 2019 to 152 days in FYE 2020.

The trade payable turnover days for the financial years under review were beyond the normal credit terms granted by our creditors as a result of our working capital management taking into account, inter-alia, collections from our clients. The increase in our trade payables turnover days in FYE 2020 was also a result of our cash flow management to conserve our cash flow as a result of the MCO and Covid-19 pandemic.

We note that there is a gap between our trade receivables turnover days (FYE 2017: 223 days, FYE 2018: 100 days, FYE 2019: 47 days and FYE 2020: 68 days) and our trade payables turnover days (FYE 2017: 193 days, FYE 2018: 138 days, FYE 2019: 99 days and FYE 2020: 152 days). Such differences were mainly due to certain of our clients being slower in issuing the architects' certificates on our progress billings. Although we have performed the works, we were unable to issue progress billings to our clients as we have yet to receive the architects' certificates. As such, our work performed is recognised as contract assets until we receive the architects' certificates, where it will then be captured as trade receivables. However, we continue to certify the progress claims received from our subcontractors and as such the certified progress claims from our subcontractors will be captured as trade payables earlier than the corresponding trade receivables. We try to match the timing of payment to our subcontractors with the collections from our clients, and therefore resulted in longer trade payables turnover days.

As at LPD, we have paid RM87.15 million or 56.4% of our trade payables as at 31 December 2019. Our Group has yet to make payment for trade payables exceeding credit period of RM2.37 million as at LPD mainly due to our working capital management strategy to utilise the credit term granted by suppliers to reduce the utilisation of our trade facilities and finance cost. Nevertheless, as at LPD, there are no disputes in respect of our trade payables and our Board confirms that there had been no legal actions initiated by our suppliers or subcontractors to demand for payment from us in the past nor present.

As at LPD, we have paid RM23.92 million, representing 91.0% of our total past due trade payables as at 31 December 2020.

12.8.3 Current ratio

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

	Audited			
	31 December 2017	**31 December 2018**	**31 December 2019**	**31 December 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	103,624	128,806	234,477	235,561
Current liabilities	119,741	134,961	233,490	234,140
Net current (liabilities)/assets	**(16,117)**	**(6,155)**	**987**	**1,421**
Current ratio (times)	0.9	0.9	1.0	1.0

Our current ratio remained at 0.9 times as at 31 December 2017 and 31 December 2018. The net current liabilities position as at 31 December 2017 was primarily attributable to:

(a) Higher percentage of retention sum receivables from our building segment in FYE 2017, approximately 33.1% or RM36.89 million of our total trade receivables consist of retention sum which are classified as non-current assets vis-à-vis 30.2% (RM29.36 million) for FYE 2018 and 22.4% (RM26.20 million) for FYE 2019. The retention sum receivables for FYE 2017 was mainly attributable to our first building construction project, Petalz Project that was completed in May 2017, but its retention sum has yet to be fully released in FYE 2017. This coupled with the Nest Residence Project and Nidoz Project which commenced in FYE 2016, further increased our retention sum receivables in FYE 2017;

(b) Short-term financing facilities such as bank overdraft (RM5.50 million) and advances from Directors (RM8.82 million) to partially finance our construction contracts which generally require 1 to 3 years to complete;

(c) Acquisition of property, plant and equipment (i.e. non-current asset) which resulted in the increase of current lease liabilities by RM3.71 million and payment in cash of RM4.56 million; and

(d) Temporary timing differences mainly arising from Nest Residence Project when progress billings raised by us to clients was higher than the costs incurred plus recognised profits. This resulted in contract liabilities of RM15.71 million as at 31 December 2017. Although the progress billings are captured as trade receivables, a portion of such progress billings are retained as retention sum (i.e. non-current asset). As such, our current liabilities increased more than our current assets in FYE 2017.

The net current liabilities position as at 31 December 2018 was primarily attributable to:

(a) Acquisition of property, plant and equipment (i.e. non-current asset) which resulted in the increase of current lease liabilities by RM6.64 million and payment in cash of RM4.82 million; and

(b) We continued to utilise short-term financing facilities such as bank overdraft (RM7.88 million), factoring payable (RM12.12 million) and advances from Directors (RM10.93 million) to partially finance our construction projects.

The acquisitions of property, plant and equipment was mainly machineries, motor vehicles and building equipment for our construction projects.

Our current ratio improved from 0.9 times as at 31 December 2018 to 1.0 times as at 31 December 2019 mainly due to increase in contract assets, trade receivables and cash and bank balances, which was in line with our revenue growth. Our current ratio remained at 1.0 times as at 31 December 2020 mainly due to decrease in contract assets and increase in fixed deposit with financial institutions and cash and bank balances. Upon completion of our Listing, our current ratio will improve further to 1.1 times.

12.8.4 Gearing ratio

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

	Audited			
	31 December 2017	**31 December 2018**	**31 December 2019**	**31 December 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total borrowings [(1)]	22,116	59,172	64,428	76,220
Total equity	33,476	41,377	57,944	72,245
Gearing ratio (times)	0.7	1.4	1.1	1.1

Note:

(1) Based on total borrowings and lease liabilities excluding lease liabilities arising from the rental of land and buildings of RM0.60 million as at 31 December 2017, RM0.85 million as at 31 December 2018, RM0.58 million as at 31 December 2019 and RM0.65 million as at 31 December 2020.

Our gearing ratio increased from 0.7 times as at 31 December 2017 to 1.4 times as at 31 December 2018 mainly due to increase in our short-term borrowings and lease liabilities to finance our working capital and capital expenditure requirements during the financial year.

Our gearing ratio decreased from 1.4 times as at 31 December 2018 to 1.1 times as at 31 December 2020 mainly due to increase in share capital and retained earnings arising from profits recorded in the respective year.

Upon completion of our Listing, our pro forma gearing ratio will reduce to 0.5 times.

12.9 SIGNIFICANT FACTORS AFFECTING OUR REVENUE

Section 9 details a number of risk factors relating to our business and the industry in which we operate in. Some of these risk factors have an impact on our Group's revenue and financial performance. The main factors which affect our revenues and profits include but not limited to the following:

(a) The ongoing Covid-19 pandemic and possible similar future outbreaks may have a significant adverse effect on our Group

On 11 March 2020, the World Health Organisation declared the Covid-19 outbreak as a pandemic due to its rapid spread across the world. It is clear that the pandemic will affect a large portion of the global population and bring about significant economic uncertainties globally.

The ongoing Covid-19 pandemic and any possible future outbreaks of viruses may have a significant adverse effect on our Group. Firstly, a spread of such diseases amongst our employees, as well any quarantines affecting our employees or our offices and project sites, may affect our ability to carry out our business. Secondly, strict operating procedures imposed by the regulatory authorities will also increase our operating costs. Finally, the current pandemic and any possible future outbreaks of viruses may also have an adverse effect on our business partners be it our clients, subcontractors or suppliers, resulting in lesser projects being awarded or slower construction progress or shortage of construction materials necessary for us to carry out our business.

(b) The continuity of our order book is not assured and any significant decline in our order book will adversely affect our long-term sustainability and growth

We are normally awarded contracts on a project-to-project basis. As such, there is no assurance of continuity from one project to the next project.

As at LPD, our order book comprised unbilled contracts amounting to approximately RM1,212.75 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.

(c) Any unanticipated increase in costs associated with our construction projects may impair our financial performance

We price our construction projects based on a cost estimate, and under the terms of certain of our contracts, the prices we submit in our tender bid or negotiate in our contracts are fixed, with the exception of any approved variation orders. As such, our project cash flows and profitability are much dependent on the accuracy of our cost estimate during the tender and/or negotiation stage. Our cost estimate is based on inter-alia, the availability and costs of construction raw materials and equipment, subcontracting costs, project period, labour costs, as well as the complexity and scale of the construction project.

Furthermore, any variation works are usually carried out before the finalisation of the variation orders and therefore, we are exposed to the risks that we may not be able to claim the full amount of variation orders from our client. Our cash flows and profitability will be reduced if the actual costs to complete a contract exceed original estimates.

(d) Our failure to complete our projects within the stipulated contract period could result in our clients imposing LAD on us

The timely completion of projects undertaken by our Group is dependent on many external factors inherent in the construction industry. Any adverse developments in respect of these factors can lead to interruptions or delays in completing a project, which may result in our clients imposing LAD on us that could affect our profitability and cash flows.

During FYE 2017 to FYE 2020, we did not encounter any LAD imposition.

12.10 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9.

12.11 IMPACT OF INFLATION

A majority of our projects take between 1 to 3 years to complete. Accordingly, prices of key construction materials at the time of submission of tender bids or signing of contracts may not reflect the prices that we will eventually pay during the implementation of our projects. Certain of our contracts are firm and fixed-price contracts, under which we commit to provide all of the resources required to complete a project at fixed unit prices. As such, we are not able to pass on any increases in construction cost.

Our operations are also dependent on the availability of labour at acceptable prices. Any unanticipated increases in the cost of labour not taken into account at the time of submission of tender bids or signing of contracts may also result in our profits being different from those originally estimated and may result in us experiencing reduced profitability or losses on projects.

During FYE 2017 to FYE 2020, our financial performance was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward.

12.12 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR GROUP'S OPERATIONS

(a) Impact of foreign exchange rates

Our transactions are solely denominated in RM.

(b) Impact of interest rates

Our exposure to changes in interest rate risk relates primarily to our borrowings from banks. We do not generally hedge interest rate risks.

A sensitivity analysis performed on our Group based on the outstanding floating rate of the bank borrowings as at 31 December 2020 indicates that our PBT for FYE 31 December 2020 would increase or decrease by approximately RM0.25 million, as a result of increase or decrease in interest rates by 50 basis points on these borrowings.

Our financial results for FYE 2017 to FYE 2020 were not materially affected by fluctuations in interest rates.

(c) Impact of commodity prices

Our direct materials mainly consist of construction raw materials such as steel bars, ready-mixed concrete, tiles, timber and plywood, bricks, reinforced mesh, cement, sand and sanitary items. These raw materials are widely available in Malaysia and from a large base of suppliers. We were not directly affected by fluctuations in commodity prices for FYE 2017 to FYE 2020.

12.13 ORDER BOOK

Details of our unbilled order book are as follows:

Project details	As at 31 December 2020 RM' 000	As at LPD RM' 000
Building		
- Residential	165,710	136,802
- Commercial	110,519	90,501
- Mixed development	604,149	664,095
	880,378	891,398
Civil engineering and infrastructure	272,857	321,352
	1,153,235	**1,212,750**

The above unbilled order book relates to the contract value of projects which are ongoing less revenue recognised up to 31 December 2020 or LPD, as the case may be. This unbilled order book will be recognised progressively over the next 1 to 3 financial years based on the expected progress of each project.

None of our order book is awarded by related party. Our unbilled order book of RM1,212.75 million as at LPD represents 4.13 times of our average revenue of RM293.97 million, calculated based on our audited revenues from FYE 2017 to FYE 2020.

The unbilled portion of our contracts with Client A and EXSIM Group represents 7.8% and 46.4% of our order book respectively as at LPD.

12.14 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) Our Group's revenue will remain sustainable in line with our unbilled order book as set out in Section 12.13. In addition, as at LPD, we continue to receive tender invitations from some of our existing major clients namely EXSIM Group and Client A;

(b) Our liquidity will improve further subsequent to the Public Issue given the additional funds to be raised for our Group to carry out our business strategies as stated in Section 7.16; and

(c) Our capital resources will strengthen, taking into account the amount to be raised from the Public Issue as well as internally generated funds. We may consider debt or equity funding for our capital expansion should the need arises.

In addition to the above, our Board confirms that there are no circumstances which would result in a significant decline in our revenue and GP margin or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

12.15 TREND INFORMATION

Based on our track record for FYE 2017 to FYE 2020, the following trends may continue to affect our business:

(a) During FYE 2017 to FYE 2020, more than 55.0% of our revenue was derived from the building segment. We expect that this segment to continue contributing significantly to our revenue in the future;

(b) During FYE 2017 to FYE 2020, Klang Valley has been our main focus for building segment and we will continue to focus in this region for our building segment;

(c) The main components of our cost of sales are subcontractors cost, purchase of materials and direct labour cost which collectively accounted for more than 85.0% of our total cost of sales during FYE 2017 to FYE 2020. Moving forward, our cost of sales is expected to fluctuate in tandem with the growth of our business and would depend on amongst others, the availability and price fluctuation of our direct materials, direct labours and subcontractors; and

(d) We achieved a GP margin of 9.2%, 12.6%, 9.0% and 9.7% for FYE 2017 to FYE 2020 respectively. Moving forward, our GP margin will depend on, amongst others, our continued ability to manage our costs efficiently and the types and complexity of projects that we can secure in the future.

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:

(i) 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 7.8, 12.2, 12.9, 12.10, 12.11 and 12.12;

(ii) Material commitments for capital expenditure;

(iii) 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 7.8, 12.2, 12.9, 12.10, 12.11 and 12.12;

(iv) 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 7.8, 12.2, 12.9, 12.10, 12.11 and 12.12; and

(v) 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 7.8, 12.2, 12.9, 12.10, 12.11 and 12.12.

Although the Covid-19 and MCO have resulted in our Group temporarily suspending operations for 8 to 10 weeks, our financial performance for FYE 2020 was only affected in terms of delayed revenue, for the periods where our construction activities were halted. Despite recording lower revenue of RM344.48 million for FYE 2020 (FYE 2019: RM422.79 million), we were able to record higher GP margin of 9.7% (FYE 2019: 9.0%) and PAT margin of 4.2% (FYE 2019: 3.7%). The imposition of the MCO 2.0 and MCO 3.0 did not materially impact our operation as exemption was granted by MITI for us to operate as usual. On 1 June 2021, the Government imposed the FMCO which resulted in temporary suspension of our operations at most of our project sites. As such, the final effects of the Covid-19 pandemic are difficult to assess at this stage and any prolonged Covid-19 pandemic may have negative effect on the Malaysian economy and property development industry as a whole. Please refer to Section 9.1.1 for further details on the risk of Covid-19 to us. However, we have not experienced any termination or cancellation of any of our ongoing projects as at LPD, and as such will continue to recognised revenue in the immediate FYE 2021.

Based on the above, our Board is optimistic about the future prospects of our Group given the positive outlook of the construction industry in Malaysia as set out in the IMR Report in Section 8, our Group's competitive strengths set out in Section 7.15 and our Group's intention to implement the business strategies as set out in Section 7.16.

12.16 DIVIDEND POLICY

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. Our subsidiaries will require its financiers' consent as set out in the respective facility agreements to pay dividends to our Company. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, 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. We paid dividend of RM2.00 million and RM2.20 million for FYE 2018 and FYE 2019 respectively.

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12.17 CAPITALISATION AND INDEBTEDNESS

The following information should be read in conjunction with the Reporting Accountants' report on the pro forma statement of financial position set out in Section 14.

The table below summarises our capitalisation and indebtedness:

(a) Based on our Group's latest unaudited financial information as at 30 April 2021; and

(b) After adjusting for the effects of Acquisitions, IPO and utilisation of proceeds.

	Unaudited	**I**	**II**
	(1) As at 30 April 2021	**After our IPO**	**After I and utilisation of proceeds**
	RM'000	**RM'000**	**RM'000**
Capitalisation			
Shareholders' equity	77,163	122,231	118,602
Total capitalisation	**77,163**	**122,231**	**118,602**
Indebtedness (2)			
Current			
Bank overdrafts	40,980	40,980	31,480
Invoice financing	3,162	3,162	3,162
Term loans	622	622	622
Factoring payable	10,476	10,476	3,476
Lease liabilities	11,662	11,662	11,662
Non-current			
Term loans	3,239	3,239	3,239
Lease liabilities	11,692	11,692	11,692
Contingent liabilities (3)	56,521	56,521	56,521
Total indebtedness	**138,354**	**138,354**	**121,854**
Total capitalisation and indebtedness	**215,517**	**260,585**	**240,456**
Gearing ratio (4)	1.06	0.67	0.55

Notes:

(1) After adjusting for the Acquisitions.

(2) All of our indebtedness are secured and guaranteed except for certain lease liabilities that are secured without guarantee.

(3) Contingent liabilities consist of bank guarantees given to licensed banks as security for performance bonds and corporate guarantee given to a licensed bank for credit facilities granted to a related party, Picoland Sdn Bhd (maximum exposure of credit risk, representing the outstanding banking facilities as at 30 April 2021). Please refer to Section 10.2.2 (b)(ii) for further details.

12. FINANCIAL INFORMATION *(Cont'd)*

(4) Calculated based on total indebtedness (exclude contingent liabilities) divided by total capitalisation.

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10 May 2021

The Board of Directors
Nestcon Berhad
No. 02-10, Jalan Kenari 13B,
Bandar Puchong Jaya,
47180 Puchong,
Selangor Darul Ehsan.

Dear Sirs

REPORTING ACCOUNTANTS' OPINION ON THE COMBINED FINANCIAL STATEMENTS CONTAINED IN THE ACCOUNTANTS' REPORT OF NESTCON BERHAD

Opinion

We have audited the combined financial statements of **Nestcon Berhad** (the "Company") and its combining entities (collectively the "Group"), which comprises the combined statements of financial position as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 of the Group, and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the financial years then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 6 to 88.

The combined financial statements of the Group have been prepared solely for inclusion in the prospectus to be issued in relation to the proposed offering of the shares of the Company in connection with the Company's listing on Bursa Malaysia Securities Berhad.

In our opinion, the accompanying combined financial statements gives a true and fair view of the financial position of the Group as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020, and of their financial performance and its cash flows for each of the financial years ended 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and paragraph 10.05 of Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group 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.

Directors' Responsibilities for the Combined Financial Statements

The Directors of the Company are responsible for the preparation of combined financial statements of the Group that gives a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the Directors are responsible for assessing the Group's 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 Group or to cease operations, or has no realistic alternative but to do so.

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing 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 basis of these combined financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the combined financial statements of the Group, 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.

(b) 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 Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements (Cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (Cont'd)

(d) 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the combined financial statements of the Group 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 Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represents the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate 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 identify 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 Malaysia, we report that the significant subsequent events identified by the Group since 31 December 2020, the reporting date of the most recent audited combined financial statements to the date of this report, are as disclosed in Note 37 to the combined financial statements.

Restriction on Distribution and Use

This report is made solely to the Company and for inclusion in the prospectus to be issued in relation to the proposed offering of the shares of the Company in connection with the Company's listing on 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.

ECOVIS MALAYSIA PLT
AF 001825
Chartered Accountants

CHUA KAH CHUN
No. 02696/09/2021 J
Chartered Accountant

Kuala Lumpur
10 May 2021

NESTCON BERHAD

(Incorporated in Malaysia)
Registration No. 202001008684 (1365004-W)

ACCOUNTANTS' REPORT

ABBREVIATIONS

Unless the context otherwise requires, the following definitions shall apply throughout this report:

Companies within our group:

Nestcon Builders	Nestcon Builders Sdn. Bhd. (201301033505 (1063335-M))
Nestcon Infra	Nestcon Infra Sdn. Bhd. (200101021201 (556959-W))
Nestcon Hailong	Nestcon Hailong Sdn. Bhd. (201701041771 (1255944-K))
Nestcon or Company	Nestcon Berhad (202001008684(1365004-W))
Nestcon Group or Group	Nestcon and its combining entities, collectively

General

Act	Companies Act, 2016
AFS	Available-for-sale
Bursa Securities	Bursa Malaysia Securities Berhad (200301033577 (635998-W))
Covid-19	Coronavirus disease 2019, an infectious disease which affects the respiratory system, and it is a global pandemic
CGU	Cash Generating Unit
CPC	Certificate of practical completion, issued by the project's architect on behalf of the client to the contractor, when the contractor has completed its assigned obligations and handed the work to the client
Director(s)	An executive director or a non-executive director of the Company within the meaning of Section 2 of the Act
ECL	Expected credit loss
EPF	Employees Provident Fund
EPS	Earnings per share
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
FYE	Financial year(s) ended/ending 31 December, as the case may be

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ACCOUNTANTS' REPORT (CONT'D)

ABBREVIATIONS (CONT'D)

Unless the context otherwise requires, the following definitions shall apply throughout this report: (Cont'd)

General (Cont'd)

GST/SST	Goods and Services Tax/ Sales and Service Tax
HTM	Held-to-maturity
IC	Issue Committee
IFRS	International Financial Reporting Standards
LAD	Liquidated and ascertained damages, which are damages due to a client, calculated at a rate as stated in the contract when a contractor fails to deliver the completed work within the period stipulated in the said contract agreement
MASB	Malaysian Accounting Standards Board
MCO	The 2020 Malaysia movement control order, commonly referred to as the MCO, implemented as a preventive measure by the Government of Malaysia in response to the Covid-19 pandemic in the country, which began from 18 March 2020 and unless otherwise specified, includes all its subsequent phases
MFRS	Malaysian Financial Reporting Standards
MFRS 3	MFRS 3, 'Business Combinations'
MFRS 9	MFRS 9, 'Financial Instruments'
MRFS 15	MFRS 15, 'Revenue from Contracts with Customers'
MFRS 16	MFRS 16, 'Leases'
MFRS 139	MFRS 139, 'Financial Instruments: Recognition and Measurement'
Share(s)	Ordinary share(s) in Nestcon
Proposed Listing	Proposed Listing on the ACE Market of Bursa Securities
Relevant Financial Years	Relevant financial years of the audited financial statements presented for the purpose of this report
Vendors	Datuk Ir. Dr. Lim Jee Gin and Ong Yong Chuan

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Assets					
Non-current assets					
Property, plant and equipment	8	63,031,553	64,573,426	61,876,105	34,303,995
Investment properties	9	3,259,657	2,659,864	2,133,800	2,179,200
Investment in an associate	10	-	-	-	-
Other investments	11	1,941,188	-	-	-
Deferred tax assets	12	567,930	-	-	144,698
Trade receivables	13	38,167,948	26,203,314	29,361,056	36,889,499
		106,968,276	93,436,604	93,370,961	73,517,392
Current assets					
Trade receivables	13	90,493,272	90,780,393	67,991,310	74,477,872
Other receivables, deposits and prepayments	14	11,543,972	11,608,724	6,586,441	4,215,015
Contract assets	15	46,123,662	61,529,957	19,251,666	2,684,628
Amount due from related parties	16	-	11,880,307	8,085,264	45,893
Tax recoverable		-	-	-	75,460
Other investments	11	73,907	3,022,954	-	-
Fixed deposit with financial institution		28,127,790	14,954,022	9,849,259	4,780,042
Cash and bank balances		59,198,531	40,700,747	17,042,010	17,345,071
		235,561,134	234,477,104	128,805,950	103,623,981
Total assets		342,529,410	327,913,708	222,176,911	177,141,373

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Equity and liabilities					
Equity					
Share capital	17	77	-	-	-
Invested equity	17	10,400,000	10,400,000	4,950,000	4,950,000
Retained earnings	18	61,844,835	47,543,954	30,934,098	25,479,580
Total equity attributable to the owners of the Company		72,244,912	57,943,954	35,884,098	30,429,580
Non-controlling interests		-	-	5,492,813	3,046,575
Total equity		72,244,912	57,943,954	41,376,911	33,476,155
Non-current liabilities					
Trade payables	19	17,266,094	13,157,205	15,990,096	12,350,745
Bank borrowings	20	3,460,158	315,841	698,765	746,453
Lease liabilities	21	12,585,967	19,095,520	26,272,426	10,060,423
Deferred tax liabilities	12	2,832,646	3,912,002	2,877,233	767,104
		36,144,865	36,480,568	45,838,520	23,924,725
Current liabilities					
Trade payables	19	137,129,594	146,172,682	76,777,792	72,267,807
Other payables and accruals	22	6,371,898	7,589,877	4,700,313	6,439,699
Contract liabilities	15	24,917,044	30,429,816	6,360,794	15,708,928
Amount due to related parties	16	-	-	-	9,101
Amount due to Directors	23	-	8,529	10,927,985	8,824,022
Bank borrowings	20	47,733,643	30,962,207	20,053,995	5,550,677
Lease liabilities	21	13,088,804	14,637,568	12,997,519	6,357,014
Income tax payable		4,898,650	3,688,507	3,143,082	4,583,245
		234,139,633	233,489,186	134,961,480	119,740,493
Total liabilities		270,284,498	269,969,754	180,800,000	143,665,218
Total equity and liabilities		342,529,410	327,913,708	222,176,911	177,141,373

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Revenue	24	344,478,636	422,786,287	217,763,877	190,856,851
Cost of sales		(311,196,052)	(384,910,512)	(190,430,189)	(173,272,898)
Gross profit		33,282,584	37,875,775	27,333,688	17,583,953
Other income		1,327,238	1,232,084	979,951	164,209
Administrative expenses		(10,315,904)	(11,952,660)	(11,443,732)	(7,862,959)
Other operating expenses		(535,920)	(296,183)	(45,400)	(45,400)
Profit from operations		23,757,998	26,859,016	16,824,507	9,839,803
Finance costs	25	(4,547,018)	(4,677,296)	(2,450,679)	(1,290,685)
Share of loss in an associate		-	-	-	(50)
Profit before tax	26	19,210,980	22,181,720	14,373,828	8,549,068
Taxation	27	(4,910,099)	(6,414,677)	(4,473,072)	(2,605,845)
Net profit/total comprehensive income for the financial year		14,300,881	15,767,043	9,900,756	5,943,223
Net profit/total comprehensive income attributable to:					
Owners of the Company		14,300,881	14,586,805	7,454,518	5,483,563
Non-controlling interests		-	1,180,238	2,446,238	459,660
		14,300,881	15,767,043	9,900,756	5,943,223
Earnings per ordinary share attributable to the owners					
- Basic and diluted	30	1.38	1.80	1.51	1.11

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CHANGES IN EQUITY

		← Attributable to owners of the Company →					
		← Non-distributable →		Distributable			
	Note	Share capital RM	Invested equity RM	Retained earnings RM	Total RM	Non-controlling interests RM	Total Equity RM
At 1 January 2017		-	4,950,000	19,996,017	24,946,017	2,586,915	27,532,932
Net profit/total comprehensive income for the financial year		-	-	5,483,563	5,483,563	459,660	5,943,223
At 31 December 2017		-	4,950,000	25,479,580	30,429,580	3,046,575	33,476,155
Net profit/total comprehensive income for the financial year		-	-	7,454,518	7,454,518	2,446,238	9,900,756
Dividends paid	28	-	-	(2,000,000)	(2,000,000)	-	(2,000,000)
At 31 December 2018		-	4,950,000	30,934,098	35,884,098	5,492,813	41,376,911
Issuance of shares	17	-	3,000,000	-	3,000,000	-	3,000,000
Net profit/total comprehensive income for the financial year		-	-	14,586,805	14,586,805	1,180,238	15,767,043
Changes in ownership interest		-	2,450,000	4,223,051	6,673,051	(6,673,051)	-
Dividends paid	28	-	-	(2,200,000)	(2,200,000)	-	(2,200,000)
At 31 December 2019		-	10,400,000	47,543,954	57,943,954	-	57,943,954

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

		← Attributable to owners of the Company →					
		← Non-distributable →		Distributable			
	Note	Share capital RM	Invested equity RM	Retained earnings RM	Total RM	Non-controlling interests RM	Total Equity RM
At 1 January 2020		-	10,400,000	47,543,954	57,943,954	-	57,943,954
Issuance of shares	17	77	-	-	77	-	77
Net profit/total comprehensive income for the financial year		-	-	14,300,881	14,300,881	-	14,300,881
At 31 December 2020		77	10,400,000	61,844,835	72,244,912	-	72,244,912

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Cash flow from operating activities					
Profit before tax		19,210,980	22,181,720	14,373,828	8,549,068
Adjustments for:					
Depreciation of property, plant and equipment		11,355,948	10,474,978	7,223,762	3,648,387
Depreciation of investment properties		51,613	40,733	45,400	45,400
Gain on disposal of property, plant and equipment		(167,920)	(87,160)	(183,131)	(30,417)
Gain on remeasurement of lease liabilities		(29,234)	-	-	-
Interest expenses		4,547,018	4,677,296	2,450,679	1,290,685
Interest income		(714,142)	(611,443)	(368)	(77,834)
Loss on disposal of investment properties		-	20,300	-	-
Property, plant and equipment written off		484,307	235,150	-	-
Share of loss in an associate		-	-	-	50
Operating profit before changes in working capital		34,738,570	36,931,574	23,910,170	13,425,339
(Increase)/decrease in trade and other receivables		(11,612,761)	(24,653,624)	11,643,579	63,069,751
(Decrease)/increase in trade and other payables		(6,152,178)	69,451,563	6,409,950	(39,763,835)
Decrease/(increase) in contract assets		15,406,295	(42,278,291)	(16,567,038)	2,517,542
(Decrease)/increase in contract liabilities		(5,512,772)	24,069,022	(9,348,134)	3,019,277
Cash generated from operations		26,867,154	63,520,244	16,048,527	42,268,074
Interest received		83,265	74,631	368	77,834
Income tax paid		(5,415,179)	(5,803,945)	(3,624,626)	(1,794,803)
Income tax refunded		67,937	969,462	41,678	-
Net cash generated from operating activities		21,603,177	58,760,392	12,465,947	40,551,105

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Cash flow from investing activities					
Addition of other investments		(2,020,612)	(3,022,954)	-	-
Proceeds from disposal of other investments		3,028,471	-	-	-
Interest received		119,541	-	-	-
Investment in an associate		-	-	-	(50)
Proceeds from disposal of property, plant and equipment		498,600	1,532,500	605,000	80,000
Proceeds from disposal of investment properties		-	680,000	-	-
Purchase of investment properties		(651,406)	(1,267,097)	-	-
Purchase of property, plant and equipment	(a)	(4,638,361)	(5,102,459)	(4,823,162)	(4,561,468)
Net cash used in investing activities		(3,663,767)	(7,180,010)	(4,218,162)	(4,481,518)
Cash flow from financing activities					
Dividend paid		-	(2,200,000)	(2,000,000)	-
Interest paid		(4,547,018)	(4,677,296)	(2,450,679)	(1,290,685)
Issuance of shares		77	-	-	-
Interest received		511,336	536,812	-	-
Placement of pledged deposits with financial institution		(8,173,768)	(5,104,763)	(5,069,217)	(4,780,042)
Movement in restricted cash at bank		(5,859,046)	(10,517,287)	(685,157)	-
Repayment received/(advances to) related parties, net	(b)	11,880,307	(3,795,043)	(8,048,472)	(1,010,360)
(Repayment to)/advances from Director	(b)	(8,529)	(7,919,456)	2,103,963	2,815,724
Repayment of lease liabilities	(b)	(14,019,784)	(15,287,187)	(7,542,071)	(1,852,455)
Drawdown of term loans	(b)	3,864,417	-	-	-
Repayment of term loans	(b)	(149,919)	(406,158)	(45,887)	(44,346)
Net movement of factoring payable	(b)	(2,221,538)	2,581,112	12,124,246	(23,896,289)
Net cash used in financing activities		(18,723,465)	(46,789,266)	(11,613,274)	(30,058,453)

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	Note	2020 RM	2019 RM	2018 RM	2017 RM
Net (decrease)/increase in cash and cash equivalents		(784,055)	4,791,116	(3,365,489)	6,011,134
Cash and cash equivalents at beginning of financial year		13,267,882	8,476,766	11,842,255	5,831,121
Cash and cash equivalents at end of financial year	29	12,483,827	13,267,882	8,476,766	11,842,255

(a) Purchase of property, plant and equipment

The Group made the following cash payments to purchase property, plant and equipment:

	2020 RM	2019 RM	2018 RM	2017 RM
Acquisition of property, plant and equipment	10,925,629	14,852,789	35,217,741	17,517,862
Amount settled by lease	(6,287,268)	(9,750,330)	(30,394,579)	(12,956,394)
	4,638,361	5,102,459	4,823,162	4,561,468