11.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our Group's financial condition and results of operations should be read in conjunction with the Accountants' Report as set out in Section 12 of this Prospectus.

This management's discussion and analysis contains forward-looking statements that reflect our views with respect to future events and our future financial performance. However, actual events and results may differ materially from those described in these forward-looking statements. Factors that may cause actual events and results to differ significantly from those described in these forward-looking statements include, but are not limited to, those discussed in the management's discussion and analysis, and elsewhere in this Prospectus, particularly the risk factors as set out in Section 8 of this Prospectus.

Overview of Our Business Activities

We are predominantly an engineering supporting service provider with integrated capabilities in providing automation equipment solutions. Our Group is involved in the following business segments:

(i)	Sheet metal fabrication	:	We provide metal fabrication services to produce sheet metal parts.
(ii)	CNC machining	:	We provide CNC machining services to fabricate precision-machined components.
(iii)	Mechanical assembly	:	We provide sub-module and full mechanical assembly services, where we assemble metal piece-parts into machine structures, metal enclosures or metal chassis. We also provide full assembly of metal-piece parts into finished products according to the design requirements of our customers.
(iv)	Automation equipment solutions*	:	We design and manufacture automated equipment and production line systems (comprising of multiple automated equipment) for our customers' manufacturing processes.

Note:

* Our Group only included the provision of automation equipment solutions in 2022 through one of our subsidiary namely, EEASB which was acquired as part of the Group's business expansion plan to provide additional services which complements our engineering supporting services. As such, for the Financial Years Under Review, our Group's business activities do not include this business segment.

Please refer to Section 6.4 of this Prospectus for further information about our business activities.

Overview of Our Financial Results

For the Financial Years Under Review, our business experienced a growth which was reflected in the increase in our total revenue by a CAGR of 22.21% between FYE 2018 and FYE 2021. Our revenue is derived mainly from our sheet metal fabrication segment and CNC machining segment, which accounted for more than 66.00% of our total revenue for the Financial Years Under Review. Our products and services are provided to customers both local and foreign. Our sales to our local customers are denominated in both USD and RM whereas for foreign customers our sales are all denominated in USD.

The average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM are summarised in the following table:

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
Exchange rate relative to USD1.0000	RM4.0168	RM4.1315	RM4.2014	RM4.1234
Change in the value of RM relative to USD compared to previous FYE*	-	2.86%	1.69%	(1.86)%

Note:

* A positive change in value would indicate that the value of the RM declined (depreciated) relative to the USD, while negative change in value would indicate that the value of the RM increased (appreciated) relative to the USD.

Our financial results for Financial Years Under Review are further analysed in the following sections**.**

11.3.1 Segmental analysis by revenue

For our local customers, revenue is recognised at a point in time once the products have been transferred and acknowledged receipt by our customer. For our foreign customers, revenue is recognised at a point in time once the products are handed to the freight forwarder for onward delivery.

Our Group recorded revenue of RM27.62 million, RM30.31 million, RM41.10 million and RM50.41 million for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. Revenue generated from sheet metal fabrication segment accounted for 38.07%, 25.42%, 20.52% and 23.74% of our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. Our GP margin for sheet metal fabrication segment stood at 58.95%, 58.58%, 49.80% and 40.03% for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively.

On the other hand, CNC machining segment accounted for 28.34%, 55.61%, 61.82% and 62.66% of our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively while the remaining 33.59%, 18.97%, 17.66% and 13.60% of our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021 respectively were generated from mechanical assembly segment. Our GP margin for the CNC machining segment stood at 34.78%, 57.88%, 59.82% and 59.86% whilst our GP margin for the mechanical assembly segment stood at 58.01%, 43.36%, 53.86% and 50.29% for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively.

The increase in revenue contribution from the CNC machining business segment for the Financial Years Under Review is in line with the Group's strategy to undertake more complex, high precision and high mix manufacturing which generally command higher margins as more planning, programming and process time have to be undertaken as well as usage of more advanced CNC machines will be required. On the other hand, sheet metal fabrication in general has a more constant pricing scheme unless additional services are required by our customers, such as product enhancements, solutions and design and development. Our Group's ability and commitment to meet customers' requests had recognise higher margins as compared to providing general sheet metal fabrication services. Nonetheless, as the opportunities for additional services for the sheet metal fabrication segment is limited as compared to the opportunities of higher complexity of our CNC machining business segment, our Group generally records higher margins for our CNC machining business segment through the manufacturing of more complex, high precision and high mix manufacturing as reflected in the increasing GP margins generated from CNC machining segment as compared to the sheet metal fabrication segment. In terms of our Group's mechanical assembly, the margins fluctuate depending on the whether such services entail sub-module or full assembly as well as the degree of usage of sheet metal parts and components which are produced in-house. In general, higher usage of in-house produced sheet metal parts and components will allow our Group to record better margins as compared to if such sheet metal parts and components are purchased from third party suppliers.

During the Financial Years Under Review, to increase our production capacity and meet the increasing demand for our Group's CNC machining business segment, our Group had continuously invested in machinery and equipment predominantly to acquire new CNC machines as detailed in Section 6.3 of this Prospectus. Kindly refer to Section 11.3.1(i) of this Prospectus for further analysis of revenue by business segments.

For the Financial Years Under Review, customers from the local market amounted for 25.06%, 58.40%, 59.80% and 78.72% to our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021 respectively, while the remaining 74.94%, 41.60%, 40.20% and 21.28% of our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021 respectively were derived from customers in foreign countries including USA, Singapore, Vietnam, Thailand, Denmark and France. For the Financial Years Under Review, our sales to our local and foreign customers are denominated in both USD and RM. Kindly refer to Section 11.3.1(ii) of this Prospectus for further analysis of revenue by geographical location.

The selling prices of our products and services are determined and negotiated on a case-to-case basis, and may vary according to various factors such as complexity, specifications and requirements, volume of order, materials used, raw material prices, fabrication processes, delivery lead time as well as whether the products are recurring orders and / or potential new orders from our customers. As such different unit selling price is applied to our products despite similar measurement unit in terms of size and quantity. Our deliverables to customers are measured in terms of number of pieces.

(i) Revenue by business segments

The following table summarises the breakdown of our total revenue by business activities and products:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Sheet metal fabrication	10,515	38.07	7,704	25.42	8,434	20.52	11,968	23.74
CNC machining	7,827	28.34	16,853	55.61	25,408	61.82	31,588	62.66
Mechanical assembly	9,275	33.59	5,749	18.97	7,258	17.66	6,856	13.60
Total revenue	**27,617**	**100.00**	**30,306**	**100.00**	**41,100**	**100.00**	**50,412**	**100.00**

(ii) Revenue by geographical locations

The following table summarises the breakdown of our total revenue by geographical locations:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Malaysia	6,921	25.06	17,699	58.40	24,579	59.80	39,685	78.72
Foreign Markets	**20,696**	**74.94**	**12,607**	**41.60**	**16,521**	**40.20**	**10,727**	**21.28**
USA	5,192	18.80	3,536	11.67	9,026	21.96	3,041	6.03
Singapore	12,836	46.48	7,994	26.38	7,479	18.20	7,669	15.21
Vietnam	1,617	5.85	-	-	-	-	-	-
Thailand	1,032	3.74	1,077	3.55	-	-	-	-
Others[(a)]	19	0.07	-	-	16	0.04	17	0.04
Total	**27,617**	**100.00**	**30,306**	**100.00**	**41,100**	**100.00**	**50,412**	**100.00**

Note:

(a) Others comprise Denmark and France.

A breakdown of the currency which our sales are denominated based on the geographical location is as follows:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Denominated in USD								
Malaysia	4,713	17.06	16,105	53.14	22,949	55.84	34,886	69.20
Foreign markets	20,695	74.94	12,576	41.50	16,500	40.15	10,727	21.28
Denominated in RM								
Malaysia	2,209	8.00	1,594	5.26	1,630	3.96	4,799	9.52
Foreign markets	-	-	31	0.10	21	0.05	-	-
Total	**27,617**	**100.00**	**30,306**	**100.00**	**41,100**	**100.00**	**50,412**	**100.00**

Note:

(a) Computed based on the average foreign exchange rate used for the respective FYEs.

(a) FYE 2019 compared to FYE 2018

For the FYE 2019, our total revenue increased by RM2.69 million or 9.74% from RM27.62 million for the FYE 2018 to RM30.31 million.

Sheet Metal Fabrication

Revenue from our sheet metal fabrication segment decreased by RM2.82 million or 26.81% from RM10.52 million to RM7.70 million for the FYE 2019, mainly attributed to the following factors:

(i) Decrease in orders from our customers, as elaborated below:

(aa) Our sales to Electro Scientific Industries group of companies ("**ESI Group**") collectively decreased from RM5.13 million for the FYE 2018 to RM3.07 million for the FYE 2019. The decrease was mainly due to lower orders of fabricated metal structures and parts attributed to lower demand for machineries from ESI Group's end customers in the semiconductor and E&E industry that utilises our metal structures and parts; and

(bb) Our sales to Customer F collectively decreased from RM3.59 million for the FYE 2018 to RM0.23 million for the FYE 2019. The decrease was mainly due to the completion of the new production lines set up in the respective factories of the companies within the Customer F. Upon the completion of the production line set up in the respective factories, there were no further orders for the fabricated metal structures from Customer F for the FYE 2019.

(ii) The abovementioned decrease in revenue was partially offset by the increase in sales from Plexus Group from RM0.01 million for the FYE 2018 to RM1.53 million for the FYE 2019, increase in sales from Vitrox Technologies Sdn Bhd from RM0.09 million for the FYE 2018 to RM0.52 million in the FYE 2019 as well as new sales for fabricated parts from Customer S of RM0.64 million in the FYE 2019.

CNC Machining

Revenue from our CNC machining segment increased by RM9.02 million or 115.20% from RM7.83 million for the FYE 2018 to RM16.85 million for the FYE 2019, mainly attributed to the following factors:

(i) Increase in sales from Customer S, where revenue from the said customer increased from RM4.12 million for the FYE 2018 to RM14.45 million for the FYE 2019 where we produced higher volume of new CNC components for the said customers.

(ii) The abovementioned increase in revenue was partially offset by the decrease in revenue from Teradyne group of companies ("**Teradyne Group**") of RM1.30 million, where revenue decreased from RM3.70 million for the FYE 2018 to RM2.40 million for the FYE 2019.

Mechanical Assembly

Revenue from our mechanical assembly segment decreased by RM3.53 million or 38.04% from RM9.28 million for the FYE 2018 to RM5.75 million for the FYE 2019, mainly attributed to the decrease in recurring orders of assembled parts and modules from ESI Group, where revenue from these customers decreased from RM8.62 million for the FYE 2018 to RM5.64 million for the FYE 2019.

Geographical Location

For the FYE 2019, revenue generated from local and foreign market accounted for 58.40% and 41.60% of our total revenue, respectively. This represented a 33.34% increase in revenue contribution from local market and corresponding decrease of revenue generated from foreign markets as compared to the contribution mix of 25.06% and 74.94% of the total revenue from local and foreign markets respectively for the FYE 2018.

The shift in the mix was due to the substantial increase in revenue for the local market, which was mainly attributed to the increase in revenue from Customer S coupled with decreased sales from foreign markets predominantly from Singapore, USA and Vietnam due to lower revenue from ESI Group, Teradyne Group and Customer F respectively as explained above.

For the FYE 2019, RM28.68 million or approximately 94.64% of our total revenue are denominated in USD. Our Group's revenue denominated in USD increased by RM0.80 million as a result of the weakening of the RM against the USD in FYE 2019 as depicted in the table below.

	Audited	Audited	Variance due to movement in exchange rate	
	FYE 2018	**FYE 2019**	**FYE 2019**	**Increase**
Revenue (USD'000)	6,326	6,942	6,942	-
Revenue (RM'000)	25,408	28,681	27,885[(b)]	796
Exchange rate (RM per USD)	4.0168[(a)]	4.1315[(a)]	4.0168	0.1147

Notes:

(a) Based on the average foreign exchange rates used in our combined financial statements to convert our sales denominated in USD to RM.

(b) Computed based on the average foreign exchange rate used for the FYE 2018.

(b) FYE 2020 compared to FYE 2019

For the FYE 2020, our total revenue increased by RM10.79 million or 35.60% from RM30.31 million for the FYE 2019 to RM41.10 million.

Sheet Metal Fabrication

Revenue from our sheet metal fabrication segment increased by RM0.73 million or 9.48% from RM7.70 million for the FYE 2019 to RM8.43 million for the FYE 2020, mainly attributed to the following factors:

(i) Increase in orders from our customers are as elaborated below:

(aa) new orders for fabricated metal parts from Teradyne Group amounting to RM1.66 million for the FYE 2020.

(bb) increase in orders for structures from Customer S, where revenue increased from RM0.64 million for the FYE 2019 to RM1.04 million for the FYE 2020.

(cc) increase in orders from one existing and new order from three new customers, where the aggregate revenue increased from RM0.04 million for the FYE 2019 to RM0.70 million for the FYE 2020.

(ii) The abovementioned increase in revenue was partially offset by the decrease in orders from Plexus Group from RM1.53 million for the FYE 2019 to RM1.38 million for the FYE 2020, decrease in orders from Vitrox Technologies Sdn Bhd from RM0.52 million in the FYE 2019 to RM4,000 in the FYE 2020, decrease in orders from ESI Group from RM3.07 million in the FYE 2019 to RM2.88 million in the FYE 2020 as well as decrease in orders from Customer T by RM1.08 million.

CNC Machining

Revenue from our CNC machining segment increased by RM8.56 million or 50.80% from RM16.85 million for the FYE 2019 to RM25.41 million for the FYE 2020, mainly attributed to the increase in orders for CNC component parts from Customer S and Teradyne Group, where revenue increased from RM14.45 million and RM2.40 million for the FYE 2019 to RM18.61 million and RM6.80 million for the FYE 2020 respectively.

Mechanical assembly

Revenue from our mechanical assembly segment increased by RM1.51 million or 26.26% from RM5.75 million for the FYE 2019 to RM7.26 million for the FYE 2020, mainly attributed to new sale order for assembled parts and modules from Customer S which amounted to RM2.00 million.

Geographical Location

For the FYE 2020, revenue generated from local and foreign markets accounted for 59.80% and 40.20% of our total revenue, respectively. This represented a 1.40% increase in revenue contribution from local market and corresponding decrease of revenue generated from foreign markets as compared to the contribution mix of 58.40% and 41.60% of the total revenue from local and foreign markets respectively, for the FYE 2019.

The marginal increase in revenue contribution from the local market was mainly attributed to higher revenue contribution from Customer S. The increase in sales from foreign market were predominantly from USA due to higher revenue from Teradyne Group as explained above. The increase in foreign sales from the USA was offset by decrease in sales from Thailand as there were no further orders from Customer T.

For the FYE 2020, RM39.45 million or approximately 95.99% of our total revenue are denominated in USD. Our Group's revenue denominated in USD increased by RM0.65 million as a result of the weakening of the RM against the USD in FYE 2020 as depicted in the table below.

	Audited	Audited	Variance due to movement in exchange rate	
	FYE 2019	**FYE 2020**	**FYE 2020**	**Increase**
Revenue (USD'000)	6,942	9,390	9,390	-
Revenue (RM'000)	28,681	39,449	38,795[(b)]	654
Exchange rate (RM per USD)	4.1315[(a)]	4.2014[(a)]	4.1315	0.0699

Notes:

(a) Based on the average foreign exchange rates used in our combined financial statements to convert our sales denominated in USD to RM.

(b) Computed based on the average foreign exchange rate used for the FYE 2019.

(c) <u>FYE 2021 compared to FYE 2020</u>

For the FYE 2021, our total revenue increased by RM9.31 million or 22.65% from RM41.10 million for the FYE 2020 to RM50.41 million.

<u>Sheet Metal Fabrication</u>

Revenue from our sheet metal fabrication segment increased by RM3.54 million or 41.99% from RM8.43 million for the FYE 2020 to RM11.97 million for the FYE 2021, mainly attributed to the following factors:

(i) Increase in orders from our customers are as elaborated below:

(aa) new orders for fabricated metal parts from Customer S where revenue increased from RM1.04 million for the FYE 2020 to RM2.20 million for the FYE 2021.

(bb) increase in orders for structures from Plexus Group, where revenue increased from RM1.38 million for the FYE 2020 to RM4.70 million for the FYE 2021.

(cc) increase in recurring orders from Customer F and Customer B, where the aggregate revenue increased from RM0.63 million for the FYE 2020 to RM1.76 million for the FYE 2021.

(dd) increase in new orders from 3 existing customers, where the aggregate revenue increased from RM0.09 million for the FYE 2020 to RM1.49 million for the FYE 2021.

(ii) The abovementioned increase in revenue was partially offset by the decrease in orders from ESI Group from RM2.88 million for the FYE 2020 to RM1.09 million for the FYE 2021 and decrease in orders from Teradyne Group by RM1.66 million (FYE 2020: RM1.66 million).

CNC Machining

Revenue from our CNC machining segment increased by RM6.18 million or 24.32% from RM25.41 million for the FYE 2020 to RM31.59 million for the FYE 2021, mainly attributed to the following factors:

(i) Increase in orders from our customers are as elaborated below:

(aa) increase in orders for CNC component parts from Customer S where revenue increased from RM18.61 million for the FYE 2020 to RM26.34 million for the FYE 2021.

(bb) increase in new orders for CNC component parts from ESI Group by RM2.77 million (FYE 2020: Nil).

(ii) The abovementioned increase in revenue was partially offset by the decrease in orders from Teradyne Group from RM6.80 million for the FYE 2020 to RM2.46 million for the FYE 2021.

Mechanical assembly

Revenue from our mechanical assembly segment decreased by RM0.40 million or 5.51% from RM7.26 million for the FYE 2020 to RM6.86 million for the FYE 2021, mainly attributed to decrease in orders for assemble parts and modules from ESI Group where revenue decreased by RM0.36 million.

Geographical Location

For the FYE 2021, revenue generated from local and foreign markets accounted for 78.72% and 21.28% of our total revenue, respectively. This represented a 18.92% increase in revenue contribution from local market and corresponding decrease of revenue generated from foreign markets as compared to the contribution mix of 59.80% and 40.20% of the total revenue from local and foreign markets respectively, for the FYE 2020.

The increase in revenue contribution from the local market was mainly attributed to higher revenue contribution from Customer S. The decrease in sales from foreign market were predominantly from USA due to lower revenue from Teradyne Group as explained above.

For the FYE 2021, RM45.61 million or approximately 90.48% of our total revenue are denominated in USD. Our Group's revenue denominated in USD decreased by RM0.86 million as a result of the strengthening of the RM against the USD in FYE 2021 as depicted in the table below.

	Audited	**Audited**	**Variance due to movement in exchange rate**	
	FYE 2020	**FYE 2021**	**FYE 2021**	**Decrease**
Revenue (USD'000)	9,390	11,062	11,062	-
Revenue (RM'000)	39,449	45,613	46,476[(b)]	(863)
Exchange rate (RM per USD)	4.2014[(a)]	4.1234[(a)]	4.2014	0.0780

Notes:

(a) Based on the average foreign exchange rates used in our combined financial statements to convert our sales denominated in USD to RM.

(b) Computed based on the average foreign exchange rate used for the FYE 2020.

11.3.2 Segmental analysis by cost of sales

Our cost of sales comprises three main components, namely material costs, direct labour costs and production overheads. Our cost of sales had been increasing from RM13.32 million for the FYE 2018 to RM23.27 million for the FYE 2021 in tandem with our revenue growth during the Financial Years Under Review.

The increase in our cost of sales were partially offset by our material costs which accounted for approximately 49.20%, 30.25%, 28.74% and 27.29% for the Financial Years Under Review, respectively. Please refer to Section 6.10 of this Prospectus for further details of the raw materials purchased for our production activities.

(i) Material costs

As mention above, our material costs as a proportion to our total cost of sales were on a decreasing trend for the Financial Years Under Review.

We source our raw materials from local and foreign suppliers. We obtain quotations for raw materials from our suppliers before submitting our quotation to our customers. Actual purchases of raw materials and parts and components are made upon confirmation of orders from our customers.

In view that our products are customised according to our customers' orders, the material cost varies from each other depending on the type of metal, shape, size and thickness specified by our customers despite similar measurement unit in terms of quantity being used.

During the Financial Years Under Review, we have not experienced any substantial increase in cost of sales due to fluctuation in unit cost of raw materials.

(ii) Direct labour costs

Direct labour costs consist of salaries, wages, allowances, performance incentives and other staff-related costs incurred in relation to production workers. They accounted for approximately 18.00%, 21.53%, 22.48% and 23.03% of our cost of sales for the Financial Years Under Review respectively.

During the Financial Years Under Review, our direct labour cost had increased mainly due to an increase in our production headcount, which was in line with the expansion of our production capacity (due to the increase in the number of equipment and machinery as well as factory area amidst the relocation to Manufacturing Plant 1 and commence of operations of Manufacturing Plant 2).

(iii) Production overheads

Production overheads mainly consist of depreciation of machinery and equipment, subcontractor charges, utilities costs, indirect staff costs for employees deployed in the ancillary functions supporting the production activities such as inventory management and quality control as well as repair and maintenance costs. The said costs accounted for approximately 32.80%, 48.22%, 48.78% and 49.68% of our cost of sales for the Financial Years Under Review respectively.

During the Financial Years Under Review, our production overheads had increased mainly due to an increase in depreciation on newly acquired equipment and machinery and leasehold land.

(i) Cost of sales by compositions

The following table sets out our cost of sales by cost components:

Cost of Sales	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Material costs	6,552	49.20	4,098	30.25	5,114	28.74	6,349	27.29
Direct labour costs	2,397	18.00	2,916	21.53	3,999	22.48	5,359	23.03
Production overheads	4,367	32.80	6,531	48.22	8,678	48.78	11,558	49.68
Total	**13,316**	**100.00**	**13,545**	**100.00**	**17,791**	**100.00**	**23,266**	**100.00**

(ii) Cost of sales by business segments

The following table sets out our cost of sales by business segments:

Cost of Sales	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sheet metal fabrication	4,316	32.41	3,191	23.56	4,234	23.80	7,177	30.85
CNC machining	5,105	38.34	7,098	52.40	10,208	57.38	12,681	54.50
Mechanical assembly	3,895	29.25	3,256	24.04	3,349	18.82	3,408	14.65
Total	**13,316**	**100.00**	**13,545**	**100.00**	**17,791**	**100.00**	**23,266**	**100.00**

We carry out our business operations solely in Malaysia and as such, we do not maintain an analysis of our cost of sales by geographical location.

(a) <u>FYE 2019 compared to FYE 2018</u>

Our cost of sales increased by RM0.23 million or approximately 1.73% from RM13.32 million for the FYE 2018 to RM13.55 million for the FYE 2019. This increase in cost of sales was in tandem with our revenue growth, as explained in Section 11.3.1 of this Prospectus.

The overall increase in cost of sales was mainly due to the following reasons:

(i) our direct labour costs increased by RM0.52 million or approximately 21.67% as a result of additional wages incurred for engaging temporary workers to meet the increase in sales orders received from our customers during the financial year;

(ii) our production overheads increased by RM2.16 million or approximately 49.43% mainly due to:

(aa) increase in depreciation charges by RM0.76 million arising from the purchase of new machinery and equipment for our production activities;

(bb) increase in indirect staff costs by RM0.14 million, arising from additional headcounts employed in our ancillary functions supporting the production activities;

(cc) increase in utilities costs by RM0.18 million due to the commencement of operations at Manufacturing Plant 2;

(dd) additional upkeep and maintenance costs of RM0.84 million in view of the acquisition of second-hand machines which requires additional refurbishment / repair works before being put to use; and

(iii) the increase was partially offset by a decrease in material costs by RM2.45 million or approximately 37.40% in view of the overall lower consumption of materials in line with the decreased orders from our sheet metal fabrication segment customers. Notwithstanding that our Group recognised an increase in revenue for CNC machining activities, our material cost had been decreasing as the consumption of raw materials from our CNC machining segment is relatively lower compared to our sheet metal fabrication segment.

(b) <u>FYE 2020 compared to FYE 2019</u>

Our cost of sales increased by RM4.24 million or approximately 31.29% from RM13.55 million for the FYE 2019 to RM17.79 million for the FYE 2020 which was in line with our revenue growth.

The overall increase in cost of sales was mainly due to the following reasons:

(i) our material costs increased by RM1.01 million or approximately 24.63% in view of higher consumption of materials in line with the increased orders for all business activities from our customers mainly driven by orders from Customer S, Teradyne Group and ESI Group;

(ii) our direct labour costs increased by RM1.08 million or approximately 36.99% as a result of additional headcounts employed for our production which increased the number of employees in STSB from 75 employees as at 31 December 2019 to 119 employees as at 31 December 2020.

(iii) our production overheads increased by RM2.15 million or approximately 32.92% mainly due to:

(aa) increase in depreciation charges by RM1.17 million arising from the purchase of new machinery and equipment which were used in our production activities;

(bb) increase in subcontractors' charges for surface finishing works, such as coating and galvanising by RM0.67 million, in tandem with the increased orders from our customers;

(cc) increase in indirect staff costs by RM0.11 million, arising from higher payout of performance incentive, in line with growing sales during the financial year; and

(dd) increase in utilities costs by RM0.41 million due to the increased production activities to fulfil the increased orders from our customers.

(c) <u>FYE 2021 compared to FYE 2020</u>

Our cost of sales increased by RM5.48 million or approximately 30.80% from RM17.79 million for the FYE 2020 to RM23.27 million for the FYE 2021 which was in line with our revenue growth.

The overall increase in cost of sales was mainly due to the following reasons:

(i) our material costs increased by RM1.24 million or approximately 24.27% in view of higher consumption of materials in line with the increased orders for our CNC machining and sheet metal fabrication business segment. The increase in cost of sales were mainly driven by orders from Customer S and Plexus Group which contributed to the CNC machining and sheet metal business segment respectively, as well as higher aluminium and mild steel prices;

(ii) our direct labour costs increased by RM1.36 million or approximately 34.00% as a result of additional headcounts employed for our production which increased the number employees in STSB from 119 employees as at 31 December 2020 to 174 employees as at 31 December 2021.

(iii) our production overheads increased by RM2.88 million or approximately 33.18% mainly due to:

(aa) increase in depreciation charges by RM1.14 million arising from the purchase of new machinery and equipment which were used in our production activities;

(bb) increase in subcontractors' charges for surface finishing works, such as coating and galvanising by RM0.48 million, in tandem with the increased orders from our customers;

(cc) increase in utilities costs by RM0.45 million due to the increased production activities to fulfil the increased orders from our customers;

(dd) increase in machine repair and maintenance charges by RM0.33 million, due to the increase in number of machineries owned;

(ee) increase in staff refreshment costs by RM0.22 million, arising from daily meals provided to all employees; and

(ff) increase in indirect staff costs by RM0.11 million, arising from higher payout of salaries and overtime, in line with the increase in sales during the financial year.

11.3.3 Segmental analysis by GP and GP margin

Our GP increased from RM14.30 million in FYE 2018 to RM27.15 million in FYE 2021, which represented a CAGR of 23.82% over the same period. Our GP margin improved from 51.78% in FYE 2018 to 53.85% in FYE 2021.

(i) GP and GP margin by business segments

The table below presents the breakdown of our GP and GP margin by business activities:

<u>**GP**</u>

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sheet metal fabrication	6,199	43.35	4,513	26.93	4,200	18.02	4,791	17.65
CNC machining	2,722	19.03	9,755	58.20	15,200	65.21	18,907	69.65
Mechanical assembly	5,380	37.62	2,493	14.87	3,909	16.77	3,448	12.70
Total	**14,301**	**100.00**	**16,761**	**100.00**	**23,309**	**100.00**	**27,146**	**100.00**

GP margin

	FYE 2018 %	FYE 2019 %	FYE 2020 %	FYE 2021 %
Sheet metal fabrication	58.95	58.58	49.80	40.03
CNC machining	34.78	57.88	59.82	59.86
Mechanical assembly	58.01	43.36	53.86	50.29
Overall GP margin	**51.78**	**55.31**	**56.71**	**53.85**

We do not practice any fixed pricing policy. The selling prices of our products and services are determined and negotiated on a case-to-case basis, and may vary according to various factors such as complexity, specifications and requirements, volume of order, materials used, raw material prices, fabrication processes, delivery lead time, our customers' end user market as well as whether the products are recurring orders and /or potential new orders from our customers. As such, the margins derived from our products and services are not fixed.

For the Financial Years Under Review, our Group was able to achieve improving overall margins due mainly to higher contributions with increasing margins from our CNC machining business segment which was in line with our Group's strategy to undertake more complex, high precision and high mix manufacturing coupled with the margin contributions from our sheet metal fabrication and mechanical assembly business segments attributed from the added services provided and undertaking of more full assembly jobs for the respective business segment. Our Group's capabilities to undertake integrated engineering supporting services in-house through our 3 business segments had also contributed to our Group's improving margins. For the Financial Years Under Review, our Group had been able to recognise similar GP margins for all 3 business segments due to the inclusion of additional services to our customers for our sheet metal fabrication segment; undertaking of more complex, high precision and high mix manufacturing for our CNC machining segment; and undertaking of more full assembly services with higher degree of usage of in-house produced sheet metal and components for our mechanical assembly segment.

(a) FYE 2019 compared to FYE 2018

Our GP increased by RM2.46 million or 17.20% from RM14.30 million for the FYE 2018 to RM16.76 million for the FYE 2019. This was in line with our revenue increase for the financial year from our CNC machining segment, partially offset by decrease in revenue from our sheet metal fabrication segment and mechanical assembly segment. The increase in contribution from the CNC machining segment was in line with the Group's strategy to undertake more complex, high precision and high mix manufacturing which generally command higher margins as compared to sheet metal fabrication. The increase in GP contribution for our CNC machining segment was due increase in sales orders for high mix and high value-add products.

Our overall GP margin also increased from 51.78% in the FYE 2018 to 55.31% in the FYE 2019 mainly due to substantial increase in GP margin for CNC machining segment from 34.78% in the FYE 2018 to 57.88% in FYE 2019. The increase was mainly due to the supply of high mix and high value-add products for our customer namely, Customer S as well as lower material consumption for the CNC machining business segment. The increase in GP margin was partially offset by decrease in GP margin for mechanical assembly segment from 58.01% in FYE 2018 to 43.36% in FYE 2019 due to overall decrease in recurring sales for this segment.

(b) FYE 2020 compared to FYE 2019

Our GP increased by RM6.55 million or 39.08% from RM16.76 million for the FYE 2019 to RM23.31 million for the FYE 2020. This was in line with our increase in overall revenue mainly driven by increase in revenue for CNC machining business segments.

Our overall GP margin has also increased from 55.31% to 56.71% for the FYE 2020 mainly due to higher GP margin contribution from our mechanical assembly segment amidst orders for full mechanical assembly products which predominantly generate better margin as compared to sub-module assembly products. This was partially offset by the decrease in GP margin for our sheet metal fabrication segment from 58.58% for the FYE 2019 to 49.80% for the FYE 2020 due mainly to the increased orders for general products which are less sensitive and have less complex sheet metal piece parts coupled with decreased orders for metal structures.

(c) FYE 2021 compared to FYE 2020

Our GP increased by RM3.84 million or 16.47% from RM23.31 million for the FYE 2020 to RM27.15 million for the FYE 2021. This was in line with our increase in overall revenue mainly driven by increase in revenue for CNC machining and sheet metal fabrication business segments.

Our overall GP margin decreased from 56.71% to 53.85% for the FYE 2021 mainly due to lower GP margin contribution from our sheet metal fabrication segment and mechanical assembly segment, in addition to the global increase in aluminium and mild steel prices. The lower GP margin contributed from our sheet metal fabrication segment was due to higher orders for general sheet metal fabrication services which garners lower margins as compared to sheet metal fabrication orders with additional services whilst the lower GP margin contributed from our mechanical assembly segment was due to lower orders for full mechanical assembly products which predominantly generate better margin as compared to sub-module assembly products.

11.3.4 Other income

The table below provides a breakdown of our other income:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Deferred income released[(a)]	696	80.09	696	58.64	696	48.94	696	43.28
Realised gain on foreign exchange	-	-	107	9.01	511	35.94	87	5.41
Unrealised gain on foreign exchange	91	10.47	-	-	-	-	517	32.15
Rental income	9	1.04	300	25.27	14	0.98	-	-
Interest income	13	1.50	40	3.37	111	7.81	144	8.96
Scrap income[(b)]	60	6.90	42	3.54	90	6.33	164	10.20
Discount received	-	-	2	0.17	-	-	-	-
Total	**869**	**100.00**	**1,187**	**100.00**	**1,422**	**100.00**	**1,608**	**100.00**

Notes:

(a) Being deferred income released arising from grants received from MIDA. The grants serve to assist our Group to acquire the blueprint for test head manipulator as well as the necessary training for our employees. The blueprint acquired enabled our Group to expand into the test head manipulator assembly business in the semiconductor industry. The total amount of grants received were RM6,750,000 and released to profit or loss over 10 years to match the expected economic life of the intangible asset acquired.

(b) Scrap income comprises proceeds from disposal of scrap metals.

(a) FYE 2019 compared to FYE 2018

Our other income for the FYE 2019 increased by RM0.32 million or 36.78% to RM1.19 million (FYE 2018: RM0.87 million), mainly attributed to the increase in rental income and realised gain on foreign exchange.

We recognised a realised gain on foreign exchange of RM0.11 million for the FYE 2019 due to the strengthening of the USD against RM. Our rental income increased by RM0.29 million or 3,233.33% to RM0.30 million (FYE 2018: RM9,000, being rental deposit forfeited) due to rental income received from one of our suppliers for temporary rental of a section of our warehouse for the storage of its machines during the FYE 2019. Subsequently, the machine had been vacated from our premise.

(b) FYE 2020 compared to FYE 2019

Our other income for the FYE 2020 had increased by RM0.23 million or 19.33% to RM1.42 million (FYE 2019: RM1.19 million), mainly attributed to the increase in realised gain on foreign exchange and interest income which was offset by the decrease in rental income.

The realised gain on foreign exchange increased by RM0.40 million or 363.64% to RM0.51 million (FYE 2019: RM0.11 million) due to the strengthening of the USD against RM. We also recognised an increase in interest income by RM0.07 million or 175.00% to RM0.11 million (FYE 2019: RM0.04 million) due to increased bank balance. On the other hand, our rental income decreased by RM0.29 million or 96.67% to RM0.01 million, derived mainly from the rental of machineries, (FYE 2019: RM0.30 million) due to the absence of rental income derived in FYE 2019, which was temporary in nature as explained above.

(c) FYE 2021 compared to FYE 2020

Our other income for the FYE 2021 had increased marginally by RM0.19 million to RM1.61 million (FYE 2020: RM1.42 million), mainly attributed to the increase in unrealised gain on foreign exchange by RM0.52 million due to the higher exchange rate between the USD against the RM recorded in trade receivables at the end of the financial year as compared to the exchange rate applied at the point of revenue recognition and increase in scrap income by RM0.07 million. The increase in other income was partially offset by the decrease in realised gain on foreign exchange by RM0.42 million due to minimal changes in the exchange rate between USD and MYR recorded upon revenue recognition and payment made by the customer.

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11.3.5 Administrative and other expenses

The table below provides a breakdown of our administrative and other expenses:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement	8	0.17	6	0.12	6	0.12	59	0.88
Bad debt written off	284	6.01	-	-	141	2.86	25	0.37
Bank charges	14	0.30	14	0.28	12	0.24	31	0.46
Depreciation	362	7.67	481	9.69	532	10.79	551	8.23
Entertainment	46	0.97	79	1.59	22	0.45	-	-
Fees to Authorities	14	0.30	21	0.42	105	2.13	106	1.58
Insurance	34	0.72	41	0.83	50	1.02	262	3.92
Office and administrative expenses	174	3.69	341	6.87	242	4.91	265	3.96
Preliminary expenses	-	-	-	-	-	-	5	0.08
Professional fees	534	11.31	677	13.64	501	10.16	204	3.05
Rental and maintenance	103	2.18	235	4.73	278	5.64	368	5.50
Realised loss on foreign exchange	291	6.16	-	-	-	-	-	-
Staff related expenses	2,364	50.06	2,034	40.98	2,150	43.62	4,449	66.46
Staff welfare	87	1.84	189	3.81	110	2.23	189	2.82
Transport and travelling costs	342	7.24	334	6.73	118	2.39	124	1.85
Unrealised loss on foreign exchange	-	-	490	9.87	643	13.05	-	-
Others[(a)]	65	1.38	22	0.44	19	0.39	56	0.84
Total	**4,722**	**100.00**	**4,964**	**100.00**	**4,929**	**100.00**	**6,694**	**100.00**

Note:

(a) Others refers to donation made to welfare association.

(a) <u>FYE 2019 compared to FYE 2018</u>

Our administrative and other expenses increased by 5.08% or RM0.24 million for the FYE 2019 (FYE 2018: RM4.72 million). The increase was mainly due to:

(i) increase in depreciation by RM0.12 million or 33.33% to RM0.48 million (FYE 2018: RM0.36 million) due to increase in our capital expenditure on furniture, fittings and office equipment, computer and software and motor vehicle;

(ii) increase in professional fees by RM0.15 million or 28.30% to RM0.68 million (FYE 2018: RM0.53 million) arising from engineering services for the relocation of the equipment and machinery from Plot 244 to Manufacturing Plant 1;

(iii) increase in office and administrative expenses by RM0.17 million or 100.00% to RM0.34 million (FYE 2018: RM0.17 million) and increase in rental and maintenance expenses by RM0.14 million or 140.00% to RM0.24 million (FYE 2018: RM0.10 million). The increase was mainly due to dismantling works done on the previous manufacture plant at Plot 244 and the relocation to Manufacturing Plant 1;

(iv) net increase in unrealised and realised loss of foreign exchange by RM0.20 million or 68.97% to RM0.49 million (FYE 2018: RM0.29 million) mainly due to sales denominated in the USD were recognised at a higher exchange rate against the RM. However, as at 31 December 2019, all outstanding receivables denominated in the USD were marked at a lower exchange rate against the RM as compared to the higher exchange rate recognised during the FYE 2019;

(v) the increase in staff welfare by RM0.10 million or 117.24% mainly due to food and refreshments provided to employees as well as employees' medical expenses; and

(vi) the increase in our administrative and other expenses for the FYE 2019 was offset by the decrease in staff related expenses by RM0.33 million or 13.98% to RM2.03 million (FYE 2018: RM2.36 million) due mainly to lower payment of commission and there were no bad debts recognised for the FYE 2019 as compared to bad debt recognised for the FYE 2018 of RM0.28 million.

(b) <u>FYE 2020 compared to FYE 2019</u>

Our total administrative and other expenses marginally decreased by 0.60% or RM0.03 million for the FYE 2020 (FYE 2019: RM4.96 million). The decrease was mainly due to:

(i) decrease in professional fees by RM0.18 million or 26.47% to RM0.50 million (FYE 2019: RM0.68 million) due mainly to the engineering fees incurred in the previous financial year for the relocation of machineries from Plot 244 to Manufacturing Plant 1;

(ii) decrease in transport and travelling cost by RM0.21 million or 63.64% to RM0.12 million (FYE 2019: RM0.33 million) due to reduced travelling and accommodation cost incurred by our employees as a result of MCO during the year;

(iii) decrease in office and administrative expenses by RM0.10 million or 29.41% to RM0.24 million (FYE 2019: RM0.34 million). The decrease was due to the absence of cost related to the relocation from Plot 244 to Manufacturing Plant 1 which was incurred in the previous year;

(iv) the decrease of our administrative and other expenses for the FYE 2020 was offset by bad debt written off by RM0.14 million and increase in staff related expenses by RM0.12 million to RM2.15 million (FYE 2019: RM2.03 million). The increase was due to additional headcount and general increment which was in line with improved performance;

(v) The Group also recognised an increase in unrealised loss on foreign exchange by RM0.15 million to RM0.64 million (FYE 2019: RM0.49 million) This was mainly due to sales denominated in USD were recognised at a higher exchange against the RM. However, as at 31 December 2020, all outstanding receivables denominated in the USD were marked at a lower exchange rate against the RM as compared to the higher exchange rate recognised during the FYE 2019; and

(vi) the decrease was offset by the increase in fees to authorities by RM0.08 million or 400% mainly due to write-off of a non-claimable GST expenses.

(c) FYE 2021 compared to FYE 2020

Our total administrative and other expenses increased by 35.70% or RM1.76 million for the FYE 2021 (FYE 2020: RM4.93 million). The increase was mainly due to:

(i) increase in staff related expenses by RM2.30 million or approximately 106.98% to RM4.45 million (FYE 2020: RM2.15 million) due mainly to the increase in number of employees in STSB from 147 employees to 208 employees for the FYE 2021 and general increment, as well as the increase in salary and bonus paid to a director which was in line with improved performance;

(ii) the increase was offset by the decrease in unrealised loss on forex exchange by RM0.64 million (FYE 2020: RM0.64 million) mainly due to the weakening of the MYR against the USD for the FYE 2021 which resulted in the outstanding receivables denominated in USD being recorded at a higher exchange rate against the MYR as compared to the exchange rate, applied at the point of revenue recognition.

11.3.6 Finance costs

The table below provides a breakdown of our finance costs:

Finance costs	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Term loan interest	423	74.47	752	82.64	851	81.36	913	72.17
Hire purchase interest	145	25.53	158	17.36	195	18.64	352	27.83
Total	**568**	**100.00**	**910**	**100.00**	**1,046**	**100.00**	**1,265**	**100.00**

(a) FYE 2019 compared to FYE 2018

Our finance costs increased by RM0.34 million or 59.65% from RM0.57 million for the FYE 2018 to RM0.91 million for the FYE 2019. This was mainly attributed to the higher interest expenses on term loans by RM0.33 million due to the additional borrowings undertaken to finance the cost for the building construction of Manufacturing Plant 2.

(b) FYE 2020 compared to FYE 2019

Our finance costs increased by RM0.14 million or 15.38% from RM0.91 million for the FYE 2019 to RM1.05 million for the FYE 2020. This was mainly attributed to the higher interest expenses on term loans by RM0.10 million due to additional borrowings undertaken to the finance the purchase of Plot 322.

(c) FYE 2021 compared to FYE 2020

Our finance costs increased by RM0.21 million or 20.00% from RM1.05 million for the FYE 2020 to RM1.26 million for the FYE 2021. This was mainly attributed to the higher interest expenses on finance lease liabilities by RM0.16 million due to additional bank borrowings undertaken to finance the purchase of machinery.

11.3.7 PBT and PBT margin

The table below sets forth our PBT and PBT margin:

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
Total PBT (RM'000)	9,880	12,074	18,756	20,795
PBT margin (%)	35.78	39.84	45.63	41.25

(a) FYE 2019 compared to FYE 2018

We recorded an increase in PBT for the FYE 2019 by 22.17% or RM2.19 million (FYE 2018: RM9.88 million), mainly attributed to the increase in our GP of RM2.46 million from RM14.30 million for the FYE 2018 to RM16.76 million for the FYE 2019 due to the higher revenue for the FYE 2019.

Our PBT margin increased from 35.78% for the FYE 2018 to 39.84% for the FYE 2019, mainly attributed to the increase in our GP margin from 51.79% for the FYE 2018 to 55.31% for the FYE 2019.

(b) FYE 2020 compared to FYE 2019

We recorded an increase in PBT for the FYE 2020 by 55.43% or RM6.69 million (FYE 2019: RM12.07 million), mainly attributed to the increase in our GP of RM6.55 million from RM16.76 million for the FYE 2019 to RM23.31 million for the FYE 2020 due to the higher revenue for the FYE 2020.

Our PBT margin increased from approximately 39.84% for the FYE 2019 to approximately 45.63% for the FYE 2020, mainly attributed to the increase in our GP margin from 55.31% for the FYE 2019 to 56.71% for the FYE 2020, as well as the consistent administrative and other expenses in comparison to the increase in revenue.

(c) FYE 2021 compared to FYE 2020

We recorded an increase in PBT for the FYE 2021 by 10.87% or RM2.04 million (FYE 2020: RM18.76 million), mainly attributed to the increase in our GP of RM3.84 million from RM23.31 million for the FYE 2020 to RM27.15 million for the FYE 2021 due to the higher revenue for the FYE 2021.

Our PBT margin decreased from approximately 45.63% for the FYE 2020 to approximately 41.26% for the FYE 2021, mainly attributed to the increase in administrative and other expenses in comparison to the increase in revenue.

11.3.8 Effective tax rate

The table below sets forth our effective tax rate:

	FYE 2018 (RM'000)	**FYE 2019 (RM'000)**	**FYE 2020 (RM'000)**	**FYE 2021 (RM'000)**
Income tax				
- current year provision	399	576	907	944
- (over) / under provision in prior year	(40)	114	*	(483)
Deferred tax				
- current year provision	158	853	202	939
- under provision in prior year	71	-	-	(26)
Overall tax expenses	**588**	**1,543**	**1,109**	**1,374**
Effective tax rate (%)	5.95	12.78	5.91	6.58
Statutory tax rate (%)				
- on the first RM500,000[(a)] of chargeable income	18.00	17.00	17.00	17.00
- balance of chargeable income	24.00	24.00	24.00	24.00

Notes:

* Negligible.

(a) RM600,000 for the FYE 2020 and FYE 2021.

(a) <u>FYE 2018</u>

The effective tax rate for our Group was lower than the statutory tax rate in the FYE 2018 mainly due to the following:

(i) income not subject to tax of RM2.33 million, arising from tax incentive due to the pioneer status of STSB from MIDA which entitles STSB for 100.00% tax exemption for income generated from the design, development and manufacture of semi-conductor test head manipulator ("**Pioneer Income**"); and

(ii) income not subject to tax of RM0.17 million, arising from deferred income released attributed to grant received from MIDA.

However, the above factors were offset against certain expenses not deductible for tax purposes amounting to RM0.71 million. Expenses not deductible include amongst others, depreciation charges on non-qualifying capital assets and professional fee.

(b) <u>FYE 2019</u>

Our effective tax rate for the FYE 2019 was lower than the statutory tax rate mainly due to the following:

(i) income not subject to tax of RM1.89 million, arising from tax incentive on Pioneer Income; and

(ii) income not subject to tax of RM0.18 million, arising from deferred income released attributed to grant received from MIDA and realised gain on foreign exchange.

However, the above factors were offset against the following:

(i) certain expenses not deductible for tax purposes amounting to RM0.64 million. Expenses not deductible include amongst others, depreciation charges on non-qualifying capital assets, professional fee and unrealised loss on foreign exchange; and

(ii) under provision of income tax in the prior year amounting to RM0.11 million. The under provision of income tax in the prior year was mainly due to overestimation of allowable expenses.

The higher effective tax rate for the FYE 2019 arises from the significant acquisition of machineries and equipment during the financial year which were depreciated at a rate of 10% based on management's estimate on the expected economic useful life of these machineries and equipment. However, the rate of capital allowances claimed for these machineries and equipment were at 14% and thus had resulted in the increase in deferred tax liabilities recognised for FYE 2019.

(c) <u>FYE 2020</u>

Our effective tax rate for the FYE 2020 was lower than the statutory tax rate mainly due to the following:

(i) income not subject to tax of RM4.22 million, arising from tax incentive on Pioneer Income; and

(ii) income not subject to tax of RM0.23 million, arising mainly from deferred income released attributed to grant received from MIDA and realised gain on foreign exchange.

However, the above factors were offset against certain expenses not deductible for tax purposes amounting to RM1.09 million. Expenses not deductible include amongst others, depreciation charges on non-qualifying capital assets, professional fee and unrealised loss on foreign exchange.

(d) FYE 2021

Our effective tax rate for the FYE 2021 was lower than the statutory tax rate mainly due to income not subject to tax of RM3.32 million, arising from tax incentive on Pioneer Income.

However, the above factor was offset against certain expenses not deductible for tax purposes amounting to RM0.23 million. Expenses not deductible include amongst others, depreciation charges on non-qualifying capital assets, professional fee and reversal of unrealised loss on foreign exchange.

11.3.9 PAT and PAT margin

The table below sets forth our PAT and PAT margin:

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
Total PAT (RM'000)	9,292	10,531	17,647	19,421
PAT margin (%)	33.65	34.75	42.94	38.52

(a) FYE 2019 compared to FYE 2018

We recorded an increase in PAT and PAT margin for the FYE 2019 as compared to the FYE 2018, mainly due to reasons set out in Sections 11.3.7 and 11.3.8 of this Prospectus.

(b) FYE 2020 compared to FYE 2019

We recorded an increase in PAT and PAT margin for the FYE 2020 as compared to the FYE 2019, mainly due to reasons set out in Sections 11.3.7 and 11.3.8 of this Prospectus.

(c) FYE 2021 compared to FYE 2020

We recorded an increase in PAT but a decrease in PAT margin for the FYE 2021 as compared to the FYE 2020, mainly due to reasons set out in Sections 11.3.7 and 11.3.8 of this Prospectus.

11.3.10 Significant factors affecting our operations and financial performance

Our business operations and financial conditions have been and will continue to be affected by factors including, but not limited to, the following:

(i) Demand and supply conditions

Our revenue and profit are dependent on the demand and supply conditions of the engineering supporting industry in Malaysia. In particular, our services are driven by technological advancement in the industries we cater to, where we stand to benefit from the evolving technological trends such as, amongst others, invention of new technologies and advancement of current technologies. In addition, technological advancement in these industries will also lead to a need for us to invest and upgrade our machinery and equipment to keep up with the new technology trend as part of our business operations. Nonetheless, if we are unable to keep up with the latest technological changes or invest in upgrading our machinery and equipment, this may have an adverse impact which would result in the loss of orders from customers.

The demand and supply of our services are also influenced by other factors such as support from the government and public sector, expansion in the global economy, a growing and aging population, protectionism by major economies as well as downward pricing pressure from our customers.

(ii) Dependency on major customers

Our customers typically do not enter into long-term purchase commitments with us, but would instead provide us with short-term rolling forecast of their potential orders which ranges from 6 to 12 months. Our sales are secured by way of purchase orders from our customers from time to time, which may vary from their forecasted volume.

Our future performance, to a certain extent, depends on our ability to secure repeat orders from our major customers. In the event our major customers reduce the orders placed with us, our business volume may decrease, which could result in an adverse impact on our business operations and financial performance.

Despite the lack of formal long-term contracts with our customers, we have developed good working relationship with our major customers. Specifically, we have been working with ESI Group for 9 years, Customer S for 4 years, and Teradyne Group for 5 years as at the LPD and have continued to receive orders from them. We work closely with them to ensure customer satisfaction and participate in the production of first article for their new products so that we stand a better chance to secure new orders from them.

(iii) Foreign currency exchange rate fluctuations

Sales denominated in USD accounted for 92.00%, 94.64%, 95.98 and 90.48% of our total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021 respectively. As such, any significant fluctuations in foreign exchange between RM and USD may have a material impact on our reported income as they are required to be stated in RM in our financial statements. Any unfavourable movement in the USD against the RM may adversely affect our profitability.

Our net gain or loss from realised and unrealised on foreign exchange for the Financial Years Under Review are as follows:

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
Realised (loss) / gain on foreign exchange (RM'000)	(291)	107	511	87
Unrealised gain / (loss) on foreign exchange (RM'000)	91	(490)	(643)	517
Net (loss) / gain on foreign exchange (RM'000)	(200)	(383)	(132)	604
PBT (RM'000)	9,880	12,074	18,756	20,795
Net (loss) / gain on foreign currency exchange as a percentage of PBT (%)	(2.02)	(3.17)	(0.70)	2.90

Based on the above, we are exposed to foreign exchange gains or losses during the conversion of foreign currency into RM, mainly arising from the timing differences between our billings and the actual receipts of payments from our foreign customers.

We do not use any financial instrument to hedge our exposure against transactions in foreign currency. Nonetheless, we closely monitor the movement of the foreign exchange to manage our foreign currency risks. We also maintain foreign currency accounts whereby collections from our foreign sales are used to settle our purchases in the same foreign currency. This would, to a certain extent, provide a natural hedge against the foreign exchange fluctuations.

(iv) Skilled and production workers

We are dependent on skilled and production workers for our manufacturing operations, which also includes the operation of programmable machinery and equipment to meet the specifications and requirements of each customer. Further, we also rely on skilled workers such as engineers for our D&D activities. As such, we face competition in hiring skilled and production workers from other companies involved in the engineering supporting services. In any event that we are unable to hire and / or retain skilled and production workers, this may have a material and adverse effect on our operations and financial performance.

(v) Raw materials

We are dependent on the supply of quality raw materials such as aluminium, steel and fabricated metal parts and components for our manufacturing operations. Any delay or disruptions in the supply of these raw materials and / or such raw materials does not meet the specification and quality standard would adversely affect our business operations.

Further, the price of both aluminium and steel fluctuates according to, amongst others, government regulations, global market supply and demand conditions and prevailing energy costs. Any unfavourable changes in conditions of the above factors may result in an increase in aluminium and steel prices thus resulting in an increase in manufacturing cost. In the event that we are unable to pass on such increase to our customers, our Group would be required to bear the increase in cost which will adversely affect our financial performance.

(vi) Inflation

There was no material impact of inflation on our Group's financial performance for the Financial Years Under Review. Nevertheless, there can be no assurance that future inflation would not have an impact on our business operations and financial performance.

(vii) Government / economic / fiscal / monetary policies

Our business and the industry we operate in are subject to risks relating to government economic, fiscal and monetary policies. Any unfavourable change in these policies may materially affect our business operations and financial performance. For the Financial Years Under Review, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

Kindly refer to Section 8.2.3 of this Prospectus for further details.

Our business is also subject to BNM's Foreign Exchange Notices that govern, among others, payment to and receipt of local or foreign currencies from customers and suppliers in view that our sales are denominated in both RM and USD and export of goods to customers overseas.

Kindly refer to Section 6.22 of this Prospectus for further details on the applicable exchange control provision.

(viii) Impact on interest rate fluctuations

All our borrowings are interest bearing and as such, any fluctuation in interest rates would affect our financial performance. Our finance cost mainly comprises interest charges on bank and trade facilities including term loans and finance lease that are granted by bank and financial institutions.

Save for the finance lease, all our borrowings were based on prevailing bank's base lending rate or base financing rate plus / minus a margin agreed with our banking institutions when respective loans and financing were granted. Meanwhile, our finance lease were charged based on the average fixed rates.

In this respect, we face financial risks relating to increase in interest rates that may impact our financial performance including profitability and margins. For the Financial Years Under Review and up to LPD, we have not defaulted on any payments of either principal sums and / or interests in relation to our borrowings.

11.3.11 Significant changes on the financial position

Save for the Acquisitions, there are no significant changes that have occurred, which may have a material effect on the financial position and results of our Group since the FYE 2021, being our most recent annual financial statements.

11.3.12 Liquidity and Capital Resources

(i) Working Capital

We have been financing our business operations through existing cash and bank balances, cash generated from our operations and credit facilities extended to us by financial institution.

As at 31 December 2021, we have:

(i) cash and bank balances of RM25.46 million;

(ii) working capital of RM24.86 million, being the difference between current assets of RM47.81 million and current liabilities of RM22.95 million; and

(iii) credit facilities, which consist of term loans with a total limit of RM57.16 million, of which RM22.90 million has yet to be utilised.

Based on the pro forma consolidated statements of financial position of our Group as at 31 December 2021 (after the Acquisitions but before the Public Issue), our NA stood at RM80.31 million and our gearing ratio is 0.52 times. Our NA position and gearing ratio after the Acquisitions and Public Issue (and utilisation of proceeds) are RM142.54 million and 0.29 times, respectively.

As at the LPD, we have cash and bank balances of RM24.70 million and credit facilities which consist of terms loans (excluding lease liabilities) of up to RM57.16 million, of which RM18.74 million has yet to be utilised.

Our Board is of the opinion that, after taking into consideration our cash flow position, the banking facilities currently available to our Group, the proceeds to be raised from our Public Issue and the impact of the COVID-19 pandemic, we have sufficient working capital to meet our existing and foreseeable requirements for period of at least 12 months from the date of this Prospectus.

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(ii) Cash Flow

The following is a summary of our combined statements of cash flows for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021. This should be read in conjunction with the Accountants' Report as set out in Section 12 of this Prospectus.

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Net cash from operating activities	13,309	8,356	21,018	17,963
Net cash used in investing activities	(13,994)	(12,302)	(9,448)	(16,214)
Net cash from financing activities	1,115	4,535	3,529	3,425
Net increase in cash and cash equivalents	430	589	15,099	5,174
Effects of changes in foreign currency rate	58	(35)	(7)	216
Cash and cash equivalents at beginning of financial year	2,316	2,804	3,358	18,450
Cash and cash equivalent at end of financial year[(a)]	**2,804**	**3,358**	**18,450**	**23,840**

Note:

(a) The components of our cash and cash equivalents are set out below:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Fixed deposits with licensed banks	560	560	1,579	1,624
Cash and bank balances	2,804	3,358	18,450	23,840
Less: Fixed deposits pledged to licensed banks or maturity period more than 3 months	(560)	(560)	(1,579)	(1,624)
Total	**2,804**	**3,358**	**18,450**	**23,840**

(a) <u>FYE 2018</u>

Net cash from operating activities

Our Group recorded net cash from operating activities of RM13.31 million. During the financial year, our cash inflows comprised mainly collection from our customers amounting to RM30.80 million. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases of materials amounting to RM6.48 million;

(ii) payment of direct labour costs of RM2.40 million;

(iii) payment of production overhead and administrative expenses of RM6.30 million; and

(iv) payment of income tax of RM0.18 million and interest expense of RM0.57 million.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM13.99 million was attributed mainly to cash outflow for prepayment made for purchase of machinery and equipment amounting to RM7.43 million and payment for the purchase of PPE of RM9.31 million comprising the following:

(i) machinery and equipment amounting to RM1.53 million;

(ii) furniture fitting and office equipment, computer and software, as well as other electrical items and renovation amounting to RM0.37 million;

(iii) motor vehicle amounting to RM0.96 million; and

(iv) capital work-in-progress amounting to RM6.45 million in relation to the construction of Manufacturing Plant 1.

The purchase of PPE of RM9.31 million was partially funded through finance lease amounting to RM2.74 million.

Net cash from financing activities

Our Group recorded net cash from financing activities of RM1.12 million. We drew down a total of RM4.21 million term loan which was obtained to part-finance the acquisition of Plot 350(B) and construction of Manufacturing Plant 1.

The above cash inflows were partly offset by the following payments during the financial year:

(i) repayment of banking facilities amounting to RM1.28 million;

(ii) repayment of amount due to director of RM1.25 million; and

(iii) pledging of fixed deposit to a licensed bank of RM0.56 million.

(b) <u>FYE 2019</u>

Net cash from operating activities

Our Group recorded net cash from operating activities of RM8.36 million. During the financial year, our cash inflow comprised mainly collection from our customers amounting to RM24.59 million. Notwithstanding that the revenue generated for the FYE 2019 was higher than the FYE 2018, collection from our customers was lower. This was attributed to the higher sales in the last quarter of the FYE 2019 as compared to the FYE 2018 and such amount owing from our customers were still within the credit period allocated and as such we have not received payments from these customers as at 31 December 2019. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases amounting to RM4.49 million;

(ii) payment of direct labour costs of RM2.92 million;

(iii) payment of production overhead and administrative expenses of RM8.09 million; and

(iv) payment of income tax of RM0.30 million and interest expense of RM0.87 million.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM12.30 million was attributed mainly to cash outflow for payment for the purchase of PPE of RM22.85 million comprising the following:

(i) machinery and equipment amounting to RM13.71 million;

(ii) furniture fitting and office equipment, computer and software other electrical items and renovation amounting to RM0.36 million;

(iii) motor vehicle amounting to RM0.08 million; and

(iv) capital work-in-progress amounting to RM8.70 million in relation to the construction of Manufacturing Plant 2.

The purchase of PPE of RM22.85 million was partially funded through finance lease amounting to RM3.12 million and the transfer from prepayment of RM7.43 million made in the previous financial year.

Net cash from financing activities

Our Group recorded net cash from financing activities of RM4.54 million. We drew down a total of RM5.87 million term loan which was obtained to part-finance the construction of Manufacturing Plant 1 and Manufacturing Plant 2.

During the financial year, we have also received RM0.95 million of loan from a director.

The above cash inflows were partly offset by the repayment of banking facilities amounting to RM2.29 million during the financial year.

(c) <u>FYE 2020</u>

Net cash from operating activities

Our Group recorded net cash from operating activities of RM21.02 million. During the financial year, our cash inflows comprised mainly collection from our customers amounting to RM43.54 million. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases amounting to RM6.70 million;

(ii) payment of direct labour costs of RM4.00 million;

(iii) payment of production overhead and administrative expenses of RM9.18 million;

(iv) payment of income tax of RM0.59 million and interest expense of RM0.95 million;

(v) deposits paid for purchase of Plot 322 amounting to RM0.21 million and prepayment for retention sum to contractor and other creditors amounting to RM0.53 million; and

(vi) repayment of amount owing to other creditor amounting to RM0.35 million.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM9.45 million was attributed mainly to cash outflow for payment for the purchase of PPE of RM13.78 million comprising the following:

(i) leasehold land and building amounting to RM8.87 million;

(ii) machinery and equipment amounting to RM3.78 million;

(iii) furniture fitting and office equipment, computer and software, as well as other electrical items and renovation amounting to RM0.42 million; and

(iv) capital work-in-progress amounting to RM0.71 million in relation to the ground work carried out on Plot 322.

The purchase of PPE of RM13.78 million was partially funded through finance lease amounting to RM4.34 million.

Net cash from financing activities

Our Group recorded net cash from financing activities of RM3.53 million. We drew down a total of RM9.87 million during the financial year for the following banking facilities:

(i) RM7.00 million from term loans to part-finance the acquisition of Plot 322; and

(ii) RM2.87 million for our working capital purposes.

The above cash inflows were partly offset by the following payments during the financial year:

(i) repayment of banking facilities amounting to RM3.38 million;

(ii) repayment of amount due to directors of RM1.96 million; and

(iii) pledging of fixed deposit to a licensed bank of RM1.00 million.

(d) <u>FYE 2021</u>

Net cash from operating activities

Our Group recorded net cash from operating activities of RM17.96 million. During the financial year, our cash inflow comprised mainly collection from our customers amounting to RM48.80 million. Notwithstanding that the revenue generated for the FYE 2021 was higher than the FYE 2020, collection from our customers was lower. This was attributed to the higher sales in the last quarter of the FYE 2021 as compared to the FYE 2020 and such amount owing from our customers were still within the credit period allocated and hence we have not received payments from these customers as at 31 December 2021. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases amounting to RM7.58 million;

(ii) payment of direct labour costs of RM5.36 million;

(iii) payment of production overhead and administrative expenses of RM12.62 million;

(iv) payment of income tax of RM1.41 million and interest expense of RM1.26 million; and

(v) prepayment of finance lease instalment, Listing cost and construction of manufacturing Plant 3 amounting to RM2.75 million.

Net cash from investing activities

Our Group's net cash used in investing activities of RM16.21 million was attributed mainly to cash outflow for payment for the purchase of PPE of RM16.12 million comprising the following:

(i) leasehold land and building amounting to RM1.59 million;

(ii) machinery and equipment amounting to RM25.78 million;

(iii) motor vehicle, furniture fitting and office equipment, computer and software, as well as other electrical items and renovation amounting to RM0.50 million; and

(iv) capital work-in-progress amounting to RM6.87 million mainly due to the construction of Manufacturing Plant 3.

The purchase of PPE of RM34.74 million was partially funded through finance lease amounting to RM6.68 million. In terms of the remaining amount of RM28.06 million, RM16.12 million will be funded via internally generated cash whilst letter of credits from financial institutions as security for the remaining outstanding balance of RM11.94 million has been obtained which upon expiry of the letter of credits, will be funded via bank borrowings.

Net cash from financing activities

Our Group recorded net cash from financing activities of RM3.42 million. We drew down a total of RM9.62 million during the financial year for the following banking facilities:

(i) RM7.15 million from term loans to part-finance the construction of Manufacturing Plant 3; and

(ii) RM2.47 million for our working capital purposes.

The above cash inflows were partly offset by the following payments during the financial year:

(i) repayment of banking facilities amounting to RM6.15 million;

(ii) pledging of fixed deposit to a licensed bank of RM0.05 million.

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11.3.13 Borrowings

Our total outstanding borrowings (including term loans and lease liabilities owing to financial institutions for the purchases of motor vehicles, machinery and equipment) as at 31 December 2021 stood at RM39.32 million. Details of which are set out below. All our borrowings are secured and interest bearing. Our borrowings are predominantly denoted in RM:

				As at 31 December 2021		
Type of borrowings	**Purpose**	**Tenure**	**Interest rate per annum %**	**Payable within 12 months (RM'000)**	**Payable after 12 months (RM'000)**	**Total (RM'000)**
Term loan 1a	Finance purchase of Plot 350(B)	20 years	1st 2 year – BFR + 0.00% 3rd year onwards – BFR -2.00%	79	1,324	1,403
Term loan 1b	Construction of Manufacturing Plant 1	20 years	BFR -2.00%	132	2,654	2,786
Term loan 1c	Construction of Manufacturing Plant 1	20 years	BFR + 0.00%	20	532	552
Term loan 2a	Finance purchase of Plot 350(A)	20 years	BFR -2.00%	123	2,438	2,561
Term loan 2b	Construction of Manufacturing Plant 2	20 years	1st 2 year – BFR + 0.50% 3rd year onwards – BFR -2.00%	454	6,984	7,438
Term loan 3(a)[(a)]	Finance purchase of Plot 322	15 years	Islamic cost of finance + 1.25%	463	5,858	6,321
Term loan 3(b)	Working capital	15 years	Islamic cost of finance + 1.25%	2,000	4,160	6,160
Term loan 5	Working capital	5 years	BFR +1.00%	386	1,032	1,418
Term loan 6	Working capital	5 years and 5 months	3.50%	190	658	848
Hire purchases	Finance purchase of motor vehicles, machinery and equipment	36 months – 60 months	1.99% -2.88%	4,633	5,199	9,832
Total				**8,480**	**30,839**	**39,319**

Note:

(a) Borrowings is denominated in USD, translated based on the exchange rate of USD1.00 to RM4.199.

As at 31 December 2021, our floating and fixed rate borrowings are as set out below:

	Floating rate (RM'000)	Fixed rate (RM'000)	Total (RM'000)
Term loans	28,640	847	29,488
Hire purchases	-	9,832	9,832
Total	**28,640**	**10,679**	**39,319**

Our credit facilities are secured by charge over our leasehold lands and buildings as well as joint and several guarantee by our Promoter. We have not defaulted on payments of either interest and / or principal sums in respect of any borrowings throughout the Financial Years Under Review and up to the LPD. We also do not encounter any seasonality in the trend of our borrowings and there is no restriction on the use of our committed borrowing facilities, save for prior consents from our lenders before utilising the banking facilities, where required.

As at the LPD, we are not in breach of any terms and conditions or covenants associated with the credit arrangements or bank borrowings, which can materially affect our financial results, financial position or business operations, or the investment by holders of securities in our Group.

As at the LPD, save as disclosed above, we did not use any other financial instruments.

11.3.14 Financial instruments, treasury policies and objectives

We do not have any other financial instruments, save for bank borrowings as disclosed in Section 11.3.13 of this Prospectus, as at the LPD.

For clarity purposes, our financial instruments which are used in the ordinary course of business, from an accounting perspective, may include financial assets such as cash and cash equivalents, trade and other receivables, as well as financial liabilities such as borrowings, trade payable and other payables. As at the LPD, we have not used any financial instruments for hedging purpose.

Our operations have been funded through internally generated funds as well as external sources of funds, such as shareholders' funds, credit extended by our suppliers and various banking facilities extended by licensed financial institutions.

In our ordinary course of business, we deal with customers and suppliers from both the domestic market and foreign market, where transactions are denominated in both local currency as well as foreign currencies. We maintain bank accounts mainly in RM and USD, such that collections can be used to settle payments of the same currency where possible. This provides a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks. We may consider other hedging instruments such as derivative contracts available in the financial markets to hedge against foreign exchange risks should the need arise.

Our operations were not subject to any material impact arising from interest rate fluctuations throughout the Financial Years Under Review. Accordingly, we have not entered into any financial instrument to hedge against the fluctuations in the interest rate. We manage our exposure to interest rate fluctuations by maintaining a combination of fixed-rate and floating-rate borrowings.

11.3.15 Material litigation / arbitration, contingent liabilities and material commitment for capital expenditure

(i) Material litigation / arbitration

Save as disclosed in Section 6.17 of this Prospectus, as at the LPD, neither our Company nor our subsidiaries are involved in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the 12 months immediately preceding the date of this Prospectus.

(ii) Material contingent liabilities

As at the LPD, our Board confirms that there are no contingent liabilities incurred by us or our subsidiaries, which upon becoming enforceable, may have a material effect on the financial position of our Group.

(iii) Material capital commitments

Save as disclosed below, as at the LPD, we do not have any material capital commitments for capital expenditure, which upon becoming enforceable, may have a material effect on the financial position of our Group:

		Source of funds	
		IPO proceeds	Internal generated funds / bank borrowings
Capital expenditure	**(RM'000)**	**(RM'000)**	**(RM'000)**
Approved and contracted for:			
- Construction of Manufacturing Plant 3	33,000	-	33,000
- Purchase of new machinery and equipment	12,000	12,000	-
Approved but not contracted for:			
- Construction of Manufacturing Plant 3	17,000	15,000	2,000
- Purchase of new machinery and equipment	14,000	12,500	1,500
- Construction of D&D centre	3,000	3,000	-
Total material capital commitments	**79,000**	**42,500**	**36,500**

Further details of the use of proceeds are set out in Section 4.4 of this Prospectus and details on our business strategies are set out in Section 6.26 of this Prospectus.

11.3.16 Key financial ratios

The following table provides the key financial ratios based on our combined financial statements for the financial years indicated below:

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
Trade receivables turnover period (days)[(a)]	102	112	102	81
Trade payables turnover period (days)[(b)]	31	37	27	18
Inventory turnover period (days)[(c)]	5	21	35	47
Current ratio[(d)]	3.52	2.43	4.87	2.08
Gearing ratio[(e)]	0.43	0.49	0.53	0.53

Notes:

(a) Computed based on the average trade receivables as at the end of the respective financial years over the revenue of the respective financial years, multiplied by 365 days for the FYE 2018, FYE 2019 and FYE 2021 and 366 days for the FYE 2020.

(b) Computed based on the average trade payables as at the end of the respective financial years over the cost of sales of the respective financial years, multiplied by 365 days for the FYE 2018, FYE 2019 and FYE 2021 and 366 days for the FYE 2020.

(c) Computed based on the average inventories as at the end of the respective financial years over the cost of sales of the respective financial years, multiplied by 365 days for the FYE 2018, FYE 2019 and FYE 2021 and 366 days for the FYE 2020.

(d) Computed based on current asset divided by current liabilities.

(e) Computed based on total borrowings divided by total equity.

(i) Trade Receivables

A summary of our trade receivables for the Financial Years Under Review is provided in the following table:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Trade receivables	6,168	12,332	10,371	11,995
Revenue	27,617	30,306	41,100	50,412
Trade receivables turnover period (days)	102	112	102	81

The normal credit term granted to our customers ranges from 30 to 90 days. Our credit terms to customers are determined on a case-by-case basis, taking into consideration factors such as our business relationship with the customer, customer creditworthiness, historical payment trend, as well as transaction volume and value. The credit terms granted to our major customers range between 30 days to 75 days. For the Financial Years Under Review, the average trade receivables turnover period is above the normal credit terms granted of 30 to 90 days was due mainly to high trade receivables balance of our major customers namely, ESI Group, Customer S and Teradyne Group at each year end due mainly to higher sales in the last quarter of the respective financial years. Nonetheless, save for disputes or delay in product evaluation if any, our major customers predominantly settle the amount owing within the credit period granted. We have not experienced any major disputes or major delay in product evaluation with our debtors except as disclosed below and we have generally been able to collect our receivables eventually.

For the FYE 2018, the average trade receivable period of 102 days was above the normal credit term granted due to the higher average trade receivables recorded as a result of the higher revenue recorded in the last quarter of 2017 contributed mainly from our major customers (last quarter contributed 33.61% of the year's revenue). The increase in the average trade receivable turnover period from 102 days in the FYE 2018 to 112 days in the FYE 2019 was mainly due to abnormally higher sales in the last quarter of FYE 2019 from major customers. Subsequently, our average trade receivable turnover period reduced to 102 days in the FYE 2020 as there was no spike in sales for the last quarter of FYE 2020. The revenue generated in the last quarter of the FYE 2019 accounted for 44.55% of the total revenue for the year as compared to the revenue contribution for the same period for the FYE 2018 and FYE 2020 of 28.92% and 26.07%, respectively. In general, our trade receivables turnover period for the Financial Years Under Review were higher than the normal credit period given due mainly to sales to our customers for the FYE 2017 and FYE 2019 which were skewed to the last quarter, thus resulting in higher average trade receivables balance which resulted in the high average trade receivables period calculated. As at the respective financial year end, such trade receivables outstanding from sales in the last quarter were predominantly within the normal credit period granted. For the FYE 2021, the average trade receivable turnover period reduced to 81 days which is within the credit period granted to our customers as a result of trade receivable balance from ESI Group, Customer S and Teradyne Group has been lower compared to prior year.

We assess the collectability of trade receivables on an individual customer basis and provide for impairment loss on receivables as follows:

(i) allowance for impairment loss based on lifetime expected credit loss in accordance with Malaysian Financial Reporting Standards 9 - Financial Instruments; and

(ii) specific allowance for impairment on balances overdue for more than 180 days or where recoverability is uncertain based on our dealings with the customer.

The ageing analysis of our Group's trade receivables as at 31 December 2021 is as follows:

		Past credit period			
	Within credit period	**Not more than 30 days**	**31-90 days**	**More than 90 days**	**Total**
Trade receivables (RM'000)	10,483	982	432	98	11,995
% of trade receivables	87.39	8.19	3.60	0.82	100.00
Subsequent collections as at LPD (RM'000)	(10,363)	(982)	(407)	(98)	(11,850)
Net trade receivables after subsequent collections (RM'000)	120	-	25	-	145
% of trade receivables net of subsequent collections	82.76	-	17.24	-	100.00

Our total trade receivables stood at RM12.00 million as at 31 December 2021, out of which RM1.51 million or approximately 12.61% exceeded the normal credit term.

As at the LPD, we have collected RM11.85 million or approximately 98.75% of our total trade receivables which were outstanding as at 31 December 2021. The remaining amount of RM0.12 million that falls within the credit period granted accounted for 82.76% of RM0.15 million. The remaining amount of RM0.03 million or 17.24% which were past the normal credit period was due to delay in payment from 1 of our major customers.

Our Group has not encountered any major dispute with our trade receivables and hence, our Board is of the opinion that the remaining outstanding trade receivables are recoverable, after taking into consideration our historical payment trend as evident by collection of payment which reduced the total outstanding trade receivables to RM0.15 million from RM11.99 million and the fact that these customers have never defaulted on payment throughout the Financial Years Under Review and up to the LPD.

(ii) Trade Payables

A summary of our trade payables for the Financial Years Under Review is provided in the following table:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Trade payables	1,082	1,623	907	1,362
Cost of sales	13,316	13,545	17,791	23,266
Average trade payables turnover period (days)	31	37	27	18

The normal credit period extended by our suppliers to us generally ranges from 30 to 60 days. Our average trade payables turnover period stood at 31 days, 37 days, 27 days and 18 days for the Financial Years Under Review. The average trade payables turnover period for the FYE 2018 and FYE 2019 fell within the normal credit period granted by our suppliers. For the FYE 2020 and FYE 2021, the average trade payables turnover period was 27 days and 18 days respectively. The trade payable turnover period for the FYE 2020 was lower than the normal credit term granted due to a reduction in purchased fabrication parts and components from one of our suppliers in the last quarter of 2020 as fabrication of such required parts and components are done in-house. As for the trade payable turnover period for the FYE 2021, the recorded trade payable turnover period was lower than the normal credit period granted by our suppliers due to our Group taking the initiative to make early payment to assist our suppliers in managing their cash flow.

The ageing analysis of our Group's trade payables as at 31 December 2021 is as follows:

		Past credit period			Total
	Within credit period	Not more than 30 days	31-90 days	More than 90 days	
Trade payables (RM'000)	1,330	18	14	-	1,362
% of trade payables	97.65	1.32	1.03	-	100
Subsequent payments as at LPD (RM'000)	(1,330)	(18)	(14)	-	(1,362)
Net trade payables after subsequent payments (RM'000)	-	-	-	-	-
% of trade payables net of subsequent payments	-	-	-	-	-

As at the LPD, we have settled RM1.36 million or 100.00% of the total outstanding trade payables which were outstanding as at 31 December 2021.

As at the LPD, there are no disputes in respect of trade payments and no legal action has been initiated by our suppliers to demand for payment.

(iii) Inventory Turnover

A summary of our Group's inventory for the Financial Years Under Review is set out below:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Total inventory[(a)]				
Raw materials	*289*	*392*	*301*	*1,319*
Work in progress	-	*437*	*1,410*	*1,833*
Finished goods	-	*391*	*379*	*624*
Total	***289***	***1,220***	***2,090***	***3,776***
Cost of sales	13,316	13,545	17,791	23,266
Inventory turnover period (days)[(b)]	*5*	*21*	*35*	*47*

Notes:

(a) Balances of inventories as at the end of the respective financial years.

(b) Based on dividing the average inventories by the cost of sales of the respective financial years multiplied by 365 days for the FYE 2018, FYE 2019 and FYE 2021, and 366 days for the FYE 2020.

Our operations are on 'build-to-order' basis, where we commence our production upon receiving confirmed order from our customer and produce in accordance with the customer's specifications and requirements.

Our inventories turnover period was 5 days for the FYE 2018 mainly due to most of raw material purchased have been used to facilitate fast turnaround and timely delivery to our customers in the first quarter of 2019. Furthermore, in view that we were shifting into Manufacturing Plant 1 towards the end of the FYE 2018, we have utilised the remaining work-in-progress and finished goods inventory to ensure that the amount of inventory to be relocated to Manufacturing Plant 1 would be at minimal to avoid incurring additional transport expense. However, the reduction of such inventories did not materially affect our operations.

Our inventories turnover period increased from 5 days for the FYE 2018 to 21 days for the FYE 2019 mainly due to higher work-in progress as at 31 December 2019 to cater for sales orders which are due for delivery in the first quarter of 2020 which were mainly customers from the semiconductor industry.

Our inventories turnover period further increased from 21 days for the FYE 2019 to 35 days for the FYE 2020 mainly due to higher work-in-progress as at 31 December 2020 to cater for sales towards the first quarter of 2021.

As for the FYE 2021, our inventories turnover period increased to 47 days from 35 days for the FYE 2020 mainly due to additional raw materials purchased to cater to orders received in the last quarter of 2021 and the first quarter of 2022.

We are of the opinion that there are no material slow-moving / obsolete inventories as at the LPD in view that:

(i) our raw materials are primarily metal, which are long-lasting in nature;

(ii) work in progress and finished goods primarily consist of metal piece parts and precision machines components fabricated in accordance to customer's specifications and requirements and supported by confirmed order; and

(iii) we have not experienced any significant impairment of inventories throughout the Financial Years Under Review.

(iv) Current Ratio

The table below provides a summary of our Group's current ratio:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Current assets	19,649	19,736	35,495	47,810
Current liabilities	5,580	8,133	7,289	22,952
Current ratio (times)[(a)]	3.52	2.43	4.87	2.08

Note:

(a) Current ratio is calculated based on current assets divided by current liabilities.

As at FYE 2019, our current ratio was 2.43 times, which was lower compared to 3.52 times as at FYE 2018. This was due mainly due to the following:

(i) increase in amount due to director of RM1.40 million; and

(ii) increase in trade payables amounting to RM0.54 million.

As at the FYE 2020, our current ratio was 4.87 times, which was higher compared to 2.43 times as at the FYE 2019. This was mainly due to the increase in cash and cash equivalents by RM16.11 million during the financial year.

For the FYE 2021, our current ratio decreased to 2.08 times from 4.87 times as at the FYE 2020. This was mainly due to the increase in other payables and accruals by RM12.32 million which was predominately contributed by amount owing to our machinery and equipment vendors of RM11.94 million and increase in borrowings by RM10.15 million during the financial year.

(v) Gearing Ratio

The table below provides a summary of our Group's gearing ratio:

	FYE 2018 (RM'000)	FYE 2019 (RM'000)	FYE 2020 (RM'000)	FYE 2021 (RM'000)
Total borrowings[(a)]	11,637	18,343	29,168	39,319
Total equity	26,899	37,430	55,077	74,499
Gearing ratio (times)[(b)]	0.43	0.49	0.53	0.53

Notes:

(a) Total borrowings include finance lease and term loans.

(b) Gearing ratio is calculated based on total borrowings divided by total equity.

As at 31 December 2019, our gearing ratio was 0.49 times, which was higher as compared to 0.43 times as at 31 December 2018. This was attributed to the increase in total borrowings from RM11.64 million as at 31 December 2018 to RM18.34 million as at 31 December 2019. This was due mainly to the following:

(i) increase in term loans amounting to RM4.97 million, which were used to part-finance the acquisition of Plot 350(A); and

(ii) increase in finance lease amounting to RM1.74 million, which were used to purchase machinery and equipment to support our operations.

As at 31 December 2020, our gearing ratio was 0.53 times, which was higher as compared to 0.49 times as at 31 December 2019. This was in line with the increase in total borrowings from RM18.34 million as at 31 December 2019 to RM29.17 million as at 31 December 2020. This was due mainly to the following:

(i) increase in term loans amounting to RM8.64 million, which were used to part-finance the acquisition of Plot 322; and

(ii) increase in finance lease amounting to RM2.18 million, which were used to purchase machinery and equipment to support our operations.

As at 31 December 2021, our gearing ratio was 0.53 times, which was similar to the gearing ratio as at 31 December 2020 was due to the increase in shareholders' funds offsetting the increase in borrowings.

11.3.17 Trend Analysis

As at the LPD, 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 financial performance, position and operations, save as disclosed in this section and Sections 6 and 8 of this Prospectus;

(ii) material commitment for capital expenditure, as set out in Section 11.3.15 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations, save as disclosed in this section and Sections 6 and 8 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and / or profits as well as our liquidity and capital resources, save as disclosed in this section, and in Sections 6, 7 and 8 of this Prospectus; and

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in this section and Sections 6 and 8 of this Prospectus.

In 2020, due to the outbreak of COVID-19, the Government imposed the MCO throughout Malaysia, which resulted in mandatory closure of all government and private premises during this period, except those involved in essential services, or unless written permission was obtained from MITI. As we were permitted to operate during the initial MCO period, we were able to continue manufacturing our products and did not experience any material disruptions to our production output or experience any decrease in demand for our products. However, during the initial MCO periods, our engineering support service segment experienced minor disruptions in our supply chain due to travel restrictions. We also experienced slight delays in delivery of finished goods to overseas customers due to difficulty in obtaining cargo space for air and sea freight during the MCO periods. As for automated equipment solution, we experienced delays in delivery, installation and commissioning of the equipment at our customers' premises due to travel restrictions.

Despite the impact of the COVID-19 pandemic, we continued to receive new purchase orders from existing and new customers from both local and foreign countries. Further we have not experienced any cancellation in purchase orders from our customers. We also did not experience any claims arising from delayed delivery during this period.

As at the LPD, the recent Russia-Ukraine war which began in February 2022 is still ongoing. Nevertheless, our Group has not faced any impact arising from the war. This is because as majority of our customers are from Malaysia, USA and Singapore and majority of our raw materials and purchases are sourced from local suppliers.

Pursuant to the Minimum Wage Order 2022 which increased the minimum wage to RM1,500 effective 1 May 2022, our Group will incur additional wage expenditure due to the increase in salaries and bonus of our employees.

For the Financial Years Under Review, save for our CNC machining segment in the FYE 2018, our Group had been able to record GP margin ranges between 40% and 60% for all 3 business segments. Our GP margin depends on, amongst others, value of our sales which are dependent on additional services provided, the level of complexity, precision and mix of the products, cost of raw materials as well as labour, degree of raw materials outsourced from third party suppliers, and our customers' end-user market. Nonetheless, moving forward, we expect to maintain our GP margin within the said range.

Further, the Acquisition of EEASB is expected to contribute positively to the earnings of our Group moving forward and as a one-stop automated equipment solutions provider, this would allow our Group to lower cost of production of our automated equipment solutions thus resulting in better margins. Notwithstanding the above, EEASB was granted a pioneer certificate for its factory automation machine and related modules that was valid until 31 October 2023, however the Acquisition of EEASB resulted in non-compliance of a condition relating to the shareholding requirement stipulated in the pioneer certificate. Nonetheless, EEASB had on 13 September 2021 submitted a Waiver Application for the said condition which is currently being processed. In the event the Waiver Application is approved, EEASB will be eligible for continuation of its pioneer status tax incentive whilst if the Waiver Application is not approved, EEASB will expect to incur tax expenses which would have impact on its profit after tax.

In addition, amidst our expansionary plans, our Group expects to incur higher cost arising from amongst others, higher depreciation, increase interest expense and higher operation cost which may have an impact on the margins of our Group.

Based on the above, our Board is optimistic about the future prospects of our Group after taking into consideration our Group's competitive advantages and key strengths, as well as business strategies as set out in Section 6 of this Prospectus.

11.3.18 Order Book

We do not maintain an order book as we do not have any long-term contracts with our customers as our sales are made based on confirmed purchased orders we receive from our customers on an on-going basis. As at the LPD, we have outstanding secured purchase orders amounting up to RM20.19 million, which has not been recognised in our revenue. The outstanding secured purchase orders from our engineering supporting services segment is RM16.92 million whilst the outstanding secured purchase order from our automated equipment solutions segment is RM3.27 million. The orders are expected to be billed progressively over the next 6 months.

11.3.19 Significant changes

Save for the prolonged COVID-19 pandemic and as disclosed in this Prospectus, there are no significant changes that have occurred which may have a material effect on the financial position and results of our Group subsequent to the FYE 2021 and up to the LPD.

11.3.20 Accounting policies which are peculiar to the Group

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to Note 3 of the Accountants' Report included in Section 12 of this Prospectus.

11.4 DIVIDEND POLICY

It is our Boards' policy to recommend dividends to allow our shareholders to participate in the profits of our Group. Nonetheless, our Company does not have any formal dividend policy.

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our Subsidiaries, present and future. The payment of dividends by our Subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of Directors deem relevant. Save for certain banking restrictive covenants, which our Subsidiaries are subject to, there is no other dividend restriction imposed on our Subsidiaries as at the LPD. There is no dividend restriction being imposed on our Group currently.

In addition to the factors above which may affect the ability of our Subsidiaries to pay dividends to us, our Board will also consider, among others the following, when recommending the actual dividends for approval by shareholders or when declaring any interim dividends:

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

(ii) our expected financial performance;

(iii) our working capital requirements;

(iv) our other investment plans;

(v) any material impact of tax laws and other regulatory requirements; and

(vi) any restrictive covenants contained in our current and future financing arrangements.

The payment and amount of any dividends and distributions to our shareholders will be at the discretion of our Board and will depend on the factors mentioned above (which may not be exhaustive). There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

For the Financial Years Under Review and up to the LPD, our Group has not declared and paid any dividends.

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11.5 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

SFP TECH HOLDINGS BERHAD
(Registration No.: 202101004713 (1405012-M))
(Incorporated in Malaysia)

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd

GrantThornton

REPORTING ACCOUNTANTS' REPORT ON COMPILATION OF THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021
(Prepared for inclusion in the Prospectus)

Grant Thornton Malaysia PLT
Level 5, Menara BHL
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Malaysia

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29 April 2022

The Board of Directors
SFP Tech Holdings Berhad
Plot 350B
Lorong Perindustrian Bukit Minyak 20
Penang Science Park
Mukim 13 Kawasan Perindustrian Bukit Minyak
Seberang Perai Tengah
14100 Bukit Mertajam
Penang

Dear Sirs,

SFP TECH HOLDINGS BERHAD
REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Financial Statements of SFP Tech Holdings Berhad ("SFP Tech" or "Company") and its subsidiaries ("SFP Group" or "Group") for the financial year ended 31 December 2021. The Pro Forma Consolidated Financial Statements of SFP Tech consists of the Pro Forma Consolidated Statements of Financial Position as at 31 December 2021 and the Pro Forma Consolidated Statements of Comprehensive Income and the Pro Forma Consolidated Statements of Cash Flows for the financial year ended 31 December 2021 together with the notes and assumptions thereto (which we have stamped for the purpose of identification), have been compiled and prepared by the Directors of the Company for inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing of and quotation for the entire issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Listing").

The applicable criteria based on which the Directors of the Company has compiled the Pro Forma Consolidated Financial Statements are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in Note 1 to the Pro Forma Consolidated Statements of Financial Statements ("Applicable Criteria").

The Pro Forma Consolidated Financial Statements for the financial year ended 31 December 2021 have been compiled by the Directors of the Company, for illustrative purposes only, to show the effects of the Listing on the Consolidated Financial Statements presented had the Listing been effected and completed on that date. As part of this process, financial information about the Group's Consolidated Financial Statements have been extracted by the Directors of the Company from the audited financial statements of the Company and its subsidiaries, namely SFP Technology Sdn. Bhd. and EST Exhibit Automation Sdn. Bhd. for the financial year ended 31 December 2021, on which their audit reports have been issued without modification.

Directors' Responsibility for the Pro Forma Consolidated Financial Statements

The Directors of the Company are responsible for compiling the Pro Forma Consolidated Financial Statements based on the Applicable Criteria.

GrantThornton

Reporting Accountants' Independence and Quality Control

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.

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

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Financial Statements have been properly compiled, in all material respect, by the Directors based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements ("ISAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position based on the Applicable Criteria.

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

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

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

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

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

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

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

GrantThornton

Opinion

In our opinion, the Pro Forma Consolidated Financial Statements have been compiled, in all material respects, on the basis set out in the Notes thereon to the Pro Forma Consolidated Financial Statements and in accordance with the requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

Other Matter

This report has been prepared solely for inclusion in the Prospectus in connection with the IPO and the Listing. It is not intended to be used for any other purpose. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Grant Thornton Malaysia PLT
AF: 0737
201906003682 (LLP0022494-LCA)
Chartered Accountants

Terence Lau Han Wen
No. 03293/04/2023 J
Chartered Accountant

Penang

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 ("FYE 2021") AND THE NOTES THEREON

1. **BASIS OF PREPARATION**

The Pro Forma Consolidated Financial Statements of SFP Tech for the FYE 2021 together with the notes thereon, for which the Directors of the Company is solely responsible, have been prepared for illustrative purpose only for the purpose of inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Listing").

The Pro Forma Consolidated Financial Statements have been prepared based on accounting policies and basis which are consistent with those adopted in the audited Combined Financial Statements of SFP Tech for the FYE 2021 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of Chapter 9, Part II Division 1 : Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("SC") and adjusted for the impacts of the events and transactions as set out in Note 2 to the Pro Forma Consolidated Financial Statements had the events took place or the transactions been undertaken on 31 December 2021 or a specified date listed in the notes thereon.

2. **LISTING SCHEME**

In conjunction with, and as an integral part of the Listing, the Company undertook the following:

(i) **Pro Forma I: Internal Restructuring**

Acquisition of SFP Technology Sdn. Bhd. ("STSB")

The Internal Restructuring Exercise entails the Company acquiring the entire equity interest of STSB for a purchase consideration of RM55,076,900 satisfied by the issuance of 550,769,000 new SFP Tech shares at an issue price of RM0.10 per share. The purchase consideration was arrived at on a "willing-buyer-willing-seller" basis taking into consideration the audited net assets of the STSB as at 31 December 2020 of RM55,077,253. The acquisition was completed on 18 March 2022. Thereafter, STSB became a wholly-owned subsidiary of the Company.

For the purpose of accounting for the acquisition of STSB, the Company has adopted the merger accounting principles as the consolidated entities are under common control by the same parties before and after the acquisition of STSB. Under merger method of accounting, the difference between the cost of investment recorded by the Company (i.e. the consideration for the acquisition of STSB) and the share capital of STSB is accounted for as merger reserve, computed as follows:

	RM
Consideration for the acquisition of STSB	55,076,900
Less : Issued share capital of STSB as at 31 December 2021	(2,000,000)
Merger reserve	**53,076,900**

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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

2. **LISTING SCHEME (CONT'D)**

(i) **Pro Forma I: Internal Restructuring (cont'd)**

Acquisition of STSB (cont'd)

The effects of the acquisition of STSB on the Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2021 are as follows:

	RM
Assets	
Property, plant and equipment	81,800,599
Intangible assets	3,339,375
Inventories	3,775,930
Trade receivables	11,994,682
Other receivables, deposits and prepayments	6,580,429
Cash and cash equivalents	25,463,690
Total assets	**132,954,705**
Equity and liabilities	
Share capital	55,076,900
Retained profits	72,581,709
Merger reserve	(53,076,900)
Borrowings	39,319,552
Deferred tax liabilities	2,415,446
Deferred income	2,243,964
Trade payables	1,362,412
Other payables and accruals	13,003,666
Current tax liabilities	27,956
Total equity and liabilities	**132,954,705**

(ii) **Pro Forma II: Pre-IPO Acquisition**

Acquisition of EST Exhibit Automation Sdn. Bhd. ("EEASB")

On 3 August 2021, the Company entered into a conditional share sale agreement with the vendors of EEASB to acquire the entire equity interest in EEASB comprising 500,000 ordinary shares for a total purchase consideration of RM4,179,000 satisfied by the issuance of 41,790,000 new SFP Tech shares at an issue price of RM0.10 per share. The purchase consideration was arrived at on a "willing-buyer-willing-seller" basis taking into consideration the audited net assets of EEASB as at 31 December 2020 of RM4,179,390. The acquisition was completed on 18 March 2022. Thereafter, EEASB became a wholly-owned subsidiary of the Company.

The effect of the acquisition of EEASB on the Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2021 is as follows:

	RM
Assets	
Property, plant and equipment	3,158,194
Deferred tax assets	16,000
Inventories	1,297,065
Trade receivables	4,281,009
Other receivables, deposits and prepayments	105,882
Tax recoverable	163,626
Cash and bank balances	2,906,482
Total assets	**11,928,258**

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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2020 AND THE NOTES THEREON (CONT'D)

2. **LISTING SCHEME (CONT'D)**

(ii) **Pro Forma II: Pre-IPO Acquisition (cont'd)**

Acquisition of EEASB (cont'd)

	RM
Equity and liabilities	
Share capital	4,179,000
Retained profits	* 1,634,828
Borrowings	2,730,187
Trade payables	1,657,455
Other payables and accruals	1,048,348
Contract liabilities	678,440
Total equity and liabilities	**11,928,258**

* The Acquisition of EEASB was accounted for using the acquisition method resulting in a bargain purchase of RM1,634,828.

(iii) **Pro Forma III: IPO**

(a) **Public Issue**

A total of 207,440,000 new SFP Tech shares ("Issued Shares") representing 25.93% of the enlarged issued share capital of SFP Tech are offered at an issue price of RM0.30 per share and shall be allocated in the following manner:

- 40,000,000 Issue Shares, representing 5.00% of the enlarged issued share capital are made available for application by the Malaysian Public,

- 24,000,000 Issue Shares, representing 3.00% of the enlarged share capital are reserved for the Company's eligible Directors, employees and persons who have contributed to the success of the Group, and

- 143,440,000 Issue Shares, representing 17.93% of the enlarged share capital are reserved for private placement to selected investors and Bumiputera Investors approved by the Ministry of International Trade and Industry, Malaysia.

(b) **Listing**

Subsequent to the above, the Company's entire enlarged issued share capital of RM121,488,000 comprising 800,000,000 ordinary shares shall be listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad.

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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

(iv) **Pro Forma IV: Utilisation of Proceeds from IPO**

Gross proceeds from the IPO of RM62,232,000 will be utilised as follows:

Purposes	RM	%	Estimated timeframe for utilisation from listing date
Purchase of new machinery and equipment	24,500,000	39.37	Within 36 months
Repayment of bank borrowings [(a)]	10,000,000	16.07	Within 12 months
Construction of Manufacturing Plant 3 [(b)]	15,000,000	24.10	Within 24 months
Design and development centre	3,000,000	4.82	Within 12 months
Working capital expenditure	5,132,000	8.25	Within 12 months
Estimated listing expenses [(c)]	4,600,000	7.39	Within 3 months
Total proceeds	**62,232,000**	**100.00**	

Notes:

(a) Comprise of early settlement of term loans which was drawn down to part finance the acquisition of existing industrial land of STSB and the construction of buildings erected thereon situated on Plot 350 (A) and Plot 350 (B) of Lorong Perindustrian Bukit Minyak 20, Penang Science Park, Mukim 13, Kawasan Perindustrian Bukit Minyak, 14100 Bukit Mertajam, Pulau Pinang.

The early settlement will attract an early settlement fee as stipulated in the offer letters amounting to approximately RM183,920, and it will be paid via internally generated funds. The actual interest savings amount may vary depending on the applicable interest rate and the outstanding balance at that point of time.

(b) The construction of Manufacturing Plant 3 is expected to cost approximately RM50 million and to be constructed on Plot 322, Lorong Perindustrian Bukit Minyak 20, Penang Science Park, Mukim 13, Kawasan Perindustrian Bukit Minyak, 14100 Bukit Mertajam, Pulau Pinang. The estimated construction cost covers pilling and structural works, electrical, interior design and fittings, furniture and professional fees. Out of the RM50 million estimated construction cost, RM15 million will be funded via IPO proceeds, RM5 million will be funded via internally generated funds and the remaining balance will be funded via bank borrowings. The Group has secured a Flexi Term Islamic Financing Facility of RM30,000,000 to cover the remaining construction cost. As at 31 December 2021, STSB had partially drawn down RM7,150,097 of the term loan. To present the impact on the Group's gearing ratio had the Flexi Term Islamic Financing Facility been fully drawn down, it is assumed that the construction of Manufacturing Plant 3 is completed on 31 December 2021.

(c) The estimated listing expenses comprise the following:

Details	RM
Professional fees	2,200,000
Estimated underwriting, placement and brokerage fees	1,400,000
Printing, advertising and contingencies	900,000
Fees to authorities	100,000
Total estimated listing expenses *	**4,600,000**

* The estimated listing expenses will be apportioned accordingly to share capital and profit or loss for an amount of RM2,229,760 and RM2,370,240 respectively.

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

3. **PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021**

The Pro Forma Consolidated Statements of Financial Position of the Group as at 31 December 2021 as set out below are provided for illustrative purpose only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Consolidated Statements of Financial Position on the assumption that these transactions were completed on 31 December 2021, and should be read in conjunction with the accompanying notes.

	Note	As at 31/12/2021	Pro Forma I After Internal Restructuring	Pro Forma II After Pre-IPO Acquisition	Pro Forma III After IPO	Pro Forma IV After Utilisation of IPO Proceeds
		RM	RM	RM	RM	RM
ASSETS						
Non-current assets						
Property, plant and equipment	3.1	-	81,800,599	84,958,793	84,958,793	155,308,696
Deferred tax assets		-	-	16,000	16,000	16,000
Intangible assets		-	3,339,375	3,339,375	3,339,375	3,339,375
Total non-current assets		-	85,139,974	88,314,168	88,314,168	158,664,071
Current assets						
Inventories		-	3,775,930	5,072,995	5,072,995	5,072,995
Trade receivables		-	11,994,682	16,275,691	16,275,691	16,275,691
Other receivables, deposits and prepayments		1,650,137	6,575,739	6,681,621	6,681,621	6,681,621
Tax recoverable		-	-	163,626	163,626	163,626
Cash and cash equivalents	3.2	100	25,463,790	28,370,272	90,602,272	28,318,352
Total current assets		1,650,237	47,810,141	56,564,205	118,796,205	56,512,285
TOTAL ASSETS		**1,650,237**	**132,950,115**	**144,878,373**	**207,110,373**	**215,176,356**
EQUITY AND LIABILITIES						
Equity attributable to owners of the Company:						
Share capital	3.3	100	55,077,000	59,256,000	121,488,000	119,258,240
Retained profits	3.4	(83,190)	72,498,519	74,133,347	74,133,347	71,579,187
Merger reserve		-	(53,076,900)	(53,076,900)	(53,076,900)	(53,076,900)
Total Equity		(83,090)	74,498,619	80,312,447	142,544,447	137,760,527

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

3. **PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)**

	Note	As at 31/12/2021	Pro Forma I After Internal Restructuring	Pro Forma II After Pre-IPO Acquisition	Pro Forma III After IPO	Pro Forma IV After Utilisation of IPO Proceeds
		RM	RM	RM	RM	RM
LIABILITIES						
Non-current liabilities						
Borrowings	3.5	-	30,839,248	33,142,807	33,142,807	44,966,675
Deferred tax liabilities			2,415,446	2,415,446	2,415,446	2,415,446
Deferred income		-	2,243,964	2,243,964	2,243,964	2,243,964
Total non-current liabilities		-	35,498,658	37,802,217	37,802,217	49,626,085
Current liabilities						
Trade payables		-	1,362,412	3,019,867	3,019,867	3,019,867
Other payables and accruals		1,733,327	13,082,166	14,130,514	14,130,514	14,130,514
Contract liabilities		-	-	678,440	678,440	678,440
Borrowings	3.5	-	8,480,304	8,906,932	8,906,932	9,932,967
Provision for taxation		-	27,956	27,956	27,956	27,956
Total current liabilities		1,733,327	22,952,838	26,763,709	26,763,709	27,789,744
TOTAL LIABILITIES		1,733,327	58,451,496	64,565,926	64,565,926	77,415,829
TOTAL EQUITY AND LIABILITIES		**1,650,237**	**132,950,115**	**144,878,373**	**207,110,373**	**215,176,356**
Issued ordinary shares		1,000	550,770,000	592,560,000	800,000,000	800,000,000
Net assets per share (RM)		(83.09)	0.14	0.14	0.18	0.17
Borrowings (RM)		-	39,319,552	42,049,739	42,049,739	54,899,642
Gearing (Times) #		-	0.53	0.52	0.29	0.40

Computed based on total borrowings of the Group over total equity attributable to owners of the Company.

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

3.1 PROPERTY, PLANT AND EQUIPMENT

The movements of the property, plant and equipment are as follows:

	RM
As at 31 December 2021	-
Pursuant to Internal Restructuring (Note 2(i))	81,800,599
As per Pro Forma I	81,800,599
Pursuant to Pre-IPO Acquisition (Note 2(ii))	3,158,194
As per Pro Forma II and III	84,958,793
Pursuant to Utilisation of Proceeds from IPO	27,500,000
Estimated cost to complete construction of Manufacturing Plant 3 (Note 2(iv)(b))	
- Funded via IPO Proceeds	15,000,000
- Funded via internally generated funds	5,000,000
- Funded via borrowing net of draw down	22,849,903
As per Pro Forma IV	155,308,696

3.2 CASH AND CASH EQUIVALENTS

The movements of cash and cash equivalents are as follows:

	RM
As at 31 December 2021	100
Pursuant to Internal Restructuring (Note 2(i))	25,463,690
As per Pro Forma I	25,463,790
Pursuant to Pre-IPO Acquisition (Note 2(ii))	2,906,482
As per Pro Forma II	28,370,272
Pursuant to IPO (Note 2(iii))	62,232,000
As per Pro Forma III	90,602,272
Pursuant to Utilisation of IPO Proceeds	
- Purchase of new machinery and equipment	(24,500,000)
- Construction of Manufacturing Plant 3 (inclusive of cost funded via internally generated funds)	(20,000,000)
- Design & Development Centre	(3,000,000)
- Repayment of borrowings	(10,000,000)
- Estimated listing expenses	(4,600,000)
Early settlement fee (Note 2(iv)(a))	(183,920)
As per Pro Forma IV	28,318,352

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

3.3 SHARE CAPITAL

The movements of the share capital are as follows:

	No. of Shares	RM
As at date of incorporation	1,000	100
Pursuant to Internal Restructuring (Note 2(i))	550,769,000	55,076,900
As per Pro Forma I	550,770,000	55,077,000
Pursuant to Pre-IPO Acquisition (Note 2(ii))	41,790,000	4,179,000
As per Pro Forma II	592,560,000	59,256,000
Pursuant to IPO (Note 2(iii))	207,440,000	62,232,000
As per Pro Forma III	800,000,000	121,488,000
Pursuant to Utilisation of IPO Proceeds		
- Portion of estimated listing expenses set-off against issued share capital	-	(2,229,760)
As per Pro Forma IV	800,000,000	119,258,240

3.4 RETAINED PROFITS

The movements of the retained profits are as follows:

	RM
As at 31 December 2021	-
Pursuant to Internal Restructuring (Note 2(i))	72,498,519
As per Pro Forma I	72,498,519
Bargain purchase arising from Pre-IPO Acquisition (Note 2(ii))	1,634,828
As per Pro Forma II and III	74,133,347
Pursuant to Utilisation of IPO Proceeds	
- Estimated listing expenses set-off against profit or loss	(2,370,240)
Early settlement fee (Note 2(iv)(a))	(183,920)
As per Pro Forma IV	71,579,187

GRANT THORNTON MALAYSIA PLT
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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (CONT'D)

3.5 BORROWINGS

The movements of the borrowings are as follows:

	RM
Non-current liabilities	
As at date 31 December 2021	-
Pursuant to Internal Restructuring (Note 2(i))	30,839,248
As per Pro Forma I	30,839,248
Pursuant to Pre-IPO Acquisition (Note 2(ii))	2,303,559
As per Pro Forma II and III	33,142,807
Pursuant to Utilisation of IPO Proceeds	(9,026,031)
Drawdown of Flexi Term Islamic Financing for construction of factory (Note 2(iv)(b))	20,849,899
As per Pro Forma IV	44,966,675
Current liabilities	
As at date 31 December 2021	-
Pursuant to Internal Restructuring (Note 2(i))	8,480,304
As per Pro Forma I	8,480,304
Pursuant to Pre-IPO Acquisition (Note 2(ii))	426,628
As per Pro Forma II and III	8,906,932
Pursuant to Utilisation of IPO Proceeds	(973,969)
Drawdown of Flexi Term Islamic Financing for construction of factory (Note 2(iv)(b))	2,000,004
As per Pro Forma IV	9,932,967

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

4. **PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021**

The Pro Forma Consolidated Statement of Comprehensive Income of SFP Tech Holdings Berhad ("SFP Tech" or "Company") and its subsidiaries ("SFP Group" or "Group") for the financial year ended 31 December 2021 as set out below are provided for illustrative purpose only to show the effects of the Pre-IPO Acquisition as mentioned in Notes 2(ii) on the assumption that the Pre-IPO Acquisition was completed on 1 January 2021 and Utilisation of IPO Proceeds in Note 2(iv), and should be read in conjunction with the accompanying notes.

	Combined Statement of Comprehensive Income	Historical results of EEASB	Utilisation of IPO Proceeds	Pro Forma
	RM	RM	RM	RM
Revenue	50,411,891	12,100,922	-	62,512,813
Cost of sales	(23,265,662)	(8,264,808)	-	(31,530,470)
Gross profit	27,146,229	3,836,114	-	30,982,343
Other income	1,608,106	25,637	-	1,633,743
Administrative expenses	(6,694,047)	(2,185,122)	(2,554,160)	(11,433,329)
Operating profit	22,060,288	1,676,629	(2,554,160)	21,182,757
Finance costs	(1,264,981)	(35,635)	-	(1,300,616)
Profit before tax	20,795,307	1,640,994	(2,554,160)	19,882,141
Taxation	(1,374,041)	(6,556)	-	(1,380,597)
Net profit, representing total comprehensive income for the financial year	19,421,266	1,634,438	(2,554,160)	18,501,544

Adjustments in arriving at the Pro Forma Consolidated Statement of Comprehensive Income:

(i) Combined Statement of Comprehensive Income is extracted from the audited combined statements of SFP Tech for the financial year ended 31 December 2021 comprising the results of SFP Tech and STSB;

(ii) Historical financial results of EEASB prior to the actual acquisition by the Company for the period from 1 January 2021 to the 31 December 2021 (excluding the bargain purchase of RM1,634,828 arising from the Pre-IPO Acquisition); and

(iii) Charge of the estimated listing expenses to be set-off against profit or loss amounting to RM2,370,240 and early settlement fee (Note 2(iv)(a)) amounting to RM183,920.

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

5. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The Pro Forma Consolidated Statement of Cash Flows of SFP Tech Holdings Berhad ("SFP Tech" or "Company") and its subsidiaries ("SFP Group" or "Group") for the financial year ended 31 December 2021 as set out below are provided for illustrative purpose only to show the effects of the Pre-IPO Acquisition as mentioned in Notes 2(ii) on the assumption that the Pre-IPO Acquisition was completed on 1 January 2021, the IPO Note2(iii) and Utilisation of IPO Proceeds in Note 2(iv), and should be read in conjunction with the accompanying notes.

	Combined Statement of Cash Flows	Pre-IPO Acquisition	The IPO	Utilisation of IPO Proceeds	Pro Forma
	RM	RM	RM	RM	RM
Cash flows from operating activities					
Profit before tax	20,795,307	1,640,994	-	(183,920)	22,252,381
Adjustments for:					
Amortisation of intangible assets	1,027,500	-	-	-	1,027,500
Bad debt written off	25,000	-	-	-	25,000
Deferred income released	(695,836)	-	-	-	(695,836)
Depreciation on property, plant and equipment	4,408,574	316,339	-	-	4,724,913
Interest expenses	1,264,981	35,635	-	-	1,300,616
Interest income	(144,152)	(255)	-	-	(144,407)
Unrealised (gain)/loss on foreign exchange	(516,598)	5,134	-	-	(511,464)
Operating profit before working capital change	26,164,776	1,997,847	-	(183,920)	27,978,703
(Increase)/Decrease in inventories	(1,685,864)	88,293	-	-	(1,597,571)
(Increase)/Decrease in receivables	(4,826,050)	731,335	-	-	(4,094,715)
Increase/(Decrease) in payables	839,173	(560,649)	-	-	278,524
Increase in contract liabilities	-	144,174	-	-	144,174
Cash generated from operations	20,492,035	2,401,000	-	(183,920)	22,709,115
Income tax paid	(1,408,436)	(257,026)	-	-	(1,665,462)
Interest paid	(1,264,981)	(35,635)	-	-	(1,300,616)
Interest received	144,152	255	-	-	144,407
Net cash from operating activities	17,962,770	2,108,594	-	(183,920)	19,887,444

GRANT THORNTON MALAYSIA PLT
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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

5. **PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONT'D)**

	Combined Statement of Cash Flows	Pre-IPO Acquisition	The IPO	Utilisation of IPO Proceeds	Pro Forma
	RM	RM	RM	RM	RM
Cash flow from operating activities (cont'd)	17,962,770	2,108,594	-	(183,920)	19,887,444
Cash flows from investing activities					
Prepayment made for purchase of property, plant and equipment	(93,000)	-	-	-	(93,000)
Purchase of property, plant and equipment, representing net cash used in investing activities	(16,121,368)	(237,529)	-	(70,349,903)	(86,708,800)
	(16,214,368)	(237,529)	-	(70,349,903)	(86,801,800)
Cash flow from financing activities					
Drawdown of term loans	9,618,445	-	-	22,849,903	32,468,348
Fixed deposits pledged to a licensed bank	(45,227)	-	-	-	(45,227)
Payment of listing expenses	-	-	-	(4,600,000)	(4,600,000)
Proceeds from issuance of shares	100	-	62,232,000	-	62,232,100
Repayment of finance lease	(3,504,791)	(74,180)	-	-	(3,578,971)
Repayment of term loans	(2,643,428)	(245,524)	-	(10,000,000)	(12,888,952)
Net cash from financing activities	3,425,099	(319,704)	62,232,000	8,249,903	73,587,298
Net increase in cash and cash equivalents	5,173,501	1,551,361	62,232,000	(62,283,920)	6,672,942
Effect of changes in foreign exchange rate	216,292	(5,134)	-	-	211,158
Cash and cash equivalents at beginning	18,450,010	1,202,634	-	-	19,652,644
Cash and cash equivalents at end	23,839,803	2,748,861	62,232,000	(62,283,920)	26,536,744

GRANT THORNTON MALAYSIA PLT
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SFP TECH HOLDINGS BERHAD
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE FYE 2021 AND THE NOTES THEREON (CONT'D)

5. **PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (CONT'D)**

Disclosures and Adjustments in arriving at the Pro Forma Consolidated Statement of Cash Flows:

(i) Combined Statement of Cash Flows is extracted from the audited combined statements of SFP Tech for the financial year ended 31 December 2021 comprising the results of SFP Tech and STSB;

(ii) Historical cash flows of EEASB prior to the actual acquisition by the Company for the period from 1 January 2021 to the 31 December 2021 (excluding the bargain purchase of RM1,634,828 arising from the Pre-IPO Acquisition); and

(iii) Recognition of gross proceeds arising from IPO, Utilisation of IPO Proceeds, additional draw down of borrowings arising from construction of factory and early settlement fee arising from early settlement of certain term loans from IPO proceeds.

(iv) The Pro Forma Cash and Cash Equivalents are represented by:-

	31 December 2021 RM
Fixed deposits with licensed banks	1,623,987
Cash and cash equivalents	26,694,365
Less: Fixed deposits pledged to licensed banks or with maturity period more than 3 months	(1,623,987)
Bank overdraft	(157,621)
	26,536,744

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

SFP TECH HOLDINGS BERHAD
(Registration No.: 202101004713 (1405012-M))
(Incorporated in Malaysia)

ACCOUNTANTS' REPORT ON THE
COMBINED FINANCIAL STATEMENTS

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd.

Grant Thornton

29 April 2022

The Board of Directors
SFP Tech Holdings Berhad
Plot 350B
Lorong Perindustrian Bukit Minyak 20
Penang Science Park
Mukim 13 Kawasan Perindustrian Bukit Minyak
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Dear Sirs,

Reporting Accountants' Opinion on The Combined Financial Statements Contained in The Accountants' Report of SFP Tech Holdings Berhad ("the Company" or "SFP Tech")

Opinion

We have audited the accompanying combined financial statements of the Company and its combining entity, SFP Technology Sdn. Bhd., (collectively known as the "Group") which comprise the combined statements of financial position as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021 and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years then ended and a summary of accounting policies and other explanatory notes, as set out on pages 4 to 51.

The combined financial statements of the Group have been prepared for inclusion in the prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and for no other purposes.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined statements of financial position of the Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021 and of their combined financial performance and combined cash flows for the financial years then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

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 audit 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.

GrantThornton

Responsibilities of the Directors for the Combined Financial Statements

The Directors of the Company are responsible for the preparation of the combined financial statements of the Group that give 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 the 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 cease operations, or have 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 reporting accountants' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and 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 the 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:

- 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.

- 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.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 reporting accountants' report to the related disclosures in the financial information 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.

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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)

- 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 represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial information 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 communicated with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Restriction on Distribution and Use

This report is made solely to the Company for inclusion in this prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

Grant Thornton Malaysia PLT
AF: 0737
201906003682 (LLP0022494 - LCA)
Chartered Accountants

Terence Lau Han Wen
No. 03298/04/2023 J
Chartered Accountant

Penang

SFP TECH HOLDINGS BERHAD
Registration No.: 202101004713 (1405012-M)
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2021 RM	2020 RM	2019 RM	2018 RM
ASSETS					
Non-current assets					
Property, plant and equipment	4	81,800,599	51,469,730	40,936,534	20,121,045
Intangible assets	5	3,339,375	4,366,875	5,394,375	6,421,875
		85,139,974	55,836,605	46,330,909	26,542,920
Current assets					
Inventories	6	3,775,930	2,090,066	1,220,139	289,096
Trade receivables	7	11,994,682	10,371,262	12,332,555	6,167,993
Other receivables, deposits and prepayments	8	6,575,739	3,004,803	2,266,311	9,827,396
Cash and cash equivalents	9	25,463,790	20,028,770	3,917,762	3,364,375
		47,810,141	35,494,901	19,736,767	19,648,860
TOTAL ASSETS		132,950,115	91,331,506	66,067,676	46,191,780
EQUITY AND LIABILITIES					
Equity					
Equity attributable to owners of the Company					
Share capital	10	100	-	-	-
Invested equity	10	2,000,000	2,000,000	2,000,000	2,000,000
Retained profits	11	72,498,519	53,077,253	35,430,223	24,899,230
Total equity		74,498,619	55,077,253	37,430,223	26,899,230
Non-current liabilities					
Borrowings	12	30,839,248	24,523,336	15,568,609	8,934,398
Deferred tax liabilities	13	2,415,446	1,502,073	1,300,092	447,377
Deferred income	14	2,243,964	2,939,800	3,635,636	4,331,472
		35,498,658	28,965,209	20,504,337	13,713,247
Current liabilities					
Trade payables	15	1,362,412	907,080	1,623,238	1,081,560
Other payables and accruals	16	13,082,166	760,828	1,116,766	517,022
Amount due to directors	17	-	-	1,957,905	1,003,658
Borrowings	12	8,480,304	4,645,412	2,774,640	2,702,744
Tax payable		27,956	975,724	660,567	274,319
		22,952,838	7,289,044	8,133,116	5,579,303
Total liabilities		58,451,496	36,254,253	28,637,453	19,292,550
TOTAL EQUITY AND LIABILITIES		132,950,115	91,331,506	66,067,676	46,191,780

SFP TECH HOLDINGS BERHAD
Registration No.: 202101004713 (1405012-M)
(Incorporated in Malaysia)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		For the financial year ended 31 December			
	Note	**2021 RM**	**2020 RM**	**2019 RM**	**2018 RM**
Revenue	18	50,411,891	41,100,590	30,306,350	27,617,590
Cost of sales		(23,265,662)	(17,791,109)	(13,545,056)	(13,316,338)
Gross profit		27,146,229	23,309,481	16,761,294	14,301,252
Other income		1,608,106	1,421,755	1,187,213	869,500
Administrative expenses		(6,694,047)	(4,929,455)	(4,964,458)	(4,722,008)
Operating profit		22,060,288	19,801,781	12,984,049	10,448,744
Finance costs		(1,264,981)	(1,045,709)	(910,192)	(568,353)
Profit before tax	19	20,795,307	18,756,072	12,073,857	9,880,391
Tax expense	20	(1,374,041)	(1,109,042)	(1,542,864)	(587,718)
Net profit, representing total comprehensive income for the financial year		19,421,266	17,647,030	10,530,993	9,292,673
Basic earnings per ordinary share	21	9.71	8.82	5.26	4.64

SFP TECH HOLDINGS BERHAD
Registration No.: 202101004713 (1405012-M)
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Invested Equity (i)	|- Distributable -| Retained Profits	Total Equity
	RM	RM	RM	RM
Balance as at 1 January 2018	-	2,000,000	15,606,557	17,606,557
Total comprehensive income for the financial year	-	-	9,292,673	9,292,673
Balance as at 1 January 2019	-	2,000,000	24,899,230	26,899,230
Total comprehensive income for the financial year	-	-	10,530,993	10,530,993
Balance as at 31 December 2019/ 1 January 2020	-	2,000,000	35,430,223	37,430,223
Total comprehensive income for the financial year	-	-	17,647,030	17,647,030
Balance as at 31 December 2020/ 1 January 2021	-	2,000,000	53,077,253	55,077,253
Transaction with owners:				
Issuance of shares (ii)	100	-	-	100
Total comprehensive income for the financial year	-	-	19,421,266	19,421,266
Balance as at 31 December 2021	100	2,000,000	72,498,519	74,498,619

(i) This denotes the share capital of SFP Technology Sdn. Bhd. ("STSB")

(ii) Issuance of shares pursuant to the incorporation of SFP Tech

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COMBINED STATEMENTS OF CASH FLOWS

		For the financial year ended 31 December			
	Note	2021 RM	2020 RM	2019 RM	2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		20,795,307	18,756,072	12,073,857	9,880,391
Adjustments for: -					
Amortisation of intangible assets		1,027,500	1,027,500	1,027,500	1,027,500
Bad debt written off		25,000	141,573	-	283,856
Deferred income released		(695,836)	(695,836)	(695,836)	(695,836)
Depreciation of property, plant and equipment		4,408,574	3,252,723	2,036,654	1,154,137
Interest expenses		1,264,981	1,045,709	910,192	568,353
Interest income		(144,152)	(111,131)	(39,709)	(13,087)
Unrealised (gain)/loss on foreign exchange		(516,598)	642,895	489,543	(91,195)
Operating profit before working capital changes		26,164,776	24,059,505	15,802,201	12,114,119
Increase in inventories		(1,685,864)	(869,927)	(931,043)	(223,089)
(Increase)/Decrease in receivables		(4,826,050)	443,425	(6,481,396)	2,911,103
Increase/(Decrease) in payables		839,173	(1,070,069)	1,140,530	(754,013)
Cash generated from operations		20,492,035	22,562,934	9,530,292	14,048,120
Income tax paid		(1,408,436)	(591,904)	(303,901)	(184,020)
Interest paid		(1,264,981)	(1,045,709)	(910,192)	(568,353)
Interest received		144,152	92,371	39,709	13,087
Net cash from operating activities		17,962,770	21,017,692	8,355,908	13,308,834
CASH FLOWS FROM INVESTING ACTIVITIES					
Prepayment made for purchase of machinery and equipment		(93,000)	-	-	(7,425,000)
Purchase of property, plant and equipment	(a)	(16,121,368)	(9,447,719)	(12,302,143)	(6,569,485)
Net cash used in investing activities		(16,214,368)	(9,447,719)	(12,302,143)	(13,994,485)
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown of term loans	(b)	9,618,445	9,866,423	5,873,462	4,210,951
Placement of fixed deposits		(45,227)	(1,000,000)	-	(560,000)
Net change in directors' account	(b)	-	(1,957,905)	954,247	(1,253,801)
Proceeds from issuance of shares		100	-	-	-
Repayment of finance lease	(b)	(3,504,791)	(2,155,341)	(1,385,559)	(938,658)
Repayment of term loans	(b)	(2,643,428)	(1,223,783)	(906,796)	(343,764)
Net cash from financing activities		3,425,099	3,529,394	4,535,354	1,114,728
NET INCREASE IN CASH AND CASH EQUIVALENTS CARRIED FORWARD		5,173,501	15,099,367	589,118	429,077

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COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	For the financial year ended 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
NET INCREASE IN CASH AND CASH EQUIVALENTS BROUGHT FORWARD	5,173,501	15,099,367	589,119	429,077
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	216,292	(7,119)	(35,732)	58,926
CASH AND CASH EQUIVALENTS AT BEGINNING	18,450,010	3,357,762	2,804,375	2,316,372
CASH AND CASH EQUIVALENTS AT END	23,839,803	18,450,010	3,357,762	2,804,375

The cash and cash equivalents are represented by:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Fixed deposits with licensed banks	1,623,987	1,578,760	560,000	560,000
Cash and bank balances	23,839,803	18,450,010	3,357,762	2,804,375
Less: Fixed deposits pledged to licensed banks or maturity period more than 3 months	(1,623,987)	(1,578,760)	(560,000)	(560,000)
Total cash and cash equivalents	23,839,803	18,450,010	3,357,762	2,804,375

(a) **Purchase of property, plant and equipment**

	For the financial year ended 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Total acquisition cost	34,739,443	13,785,919	22,852,143	9,308,485
Transferred from prepayment	-	-	(7,425,000)	-
Amount owing to vendor reflected under other payables	(11,937,497)	-	-	-
Acquired under finance lease liabilities	(6,680,578)	(4,338,200)	(3,125,000)	(2,739,000)
Total cash acquisition	16,121,368	9,447,719	12,302,143	6,569,485

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COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

(b) **Reconciliation of movement of liabilities to cash flows arising from financing activities**

	Balance at beginning RM	Net cash flows RM	Others RM		Balance at end RM
2021					
Term loans	22,512,312	(2,643,428)	9,618,445	[1]	29,487,329
Finance lease liabilities	6,656,436	(3,504,791)	6,680,578	[2]	9,832,223
	29,168,748	(6,148,219)	16,299,023		39,319,552
2020					
Term loans	13,869,672	(1,223,783)	9,866,423	[1]	22,512,312
Finance lease liabilities	4,473,577	(2,155,341)	4,338,200	[2]	6,656,436
Amount due to directors	1,957,905	(1,957,905)	-		-
	20,301,154	(5,337,029)	14,204,623		29,168,748
2019					
Term loans	8,903,006	(906,796)	5,873,462	[1]	13,869,672
Finance lease liabilities	2,734,136	(1,385,559)	3,125,000	[2]	4,473,577
Amount due to directors	1,003,658	954,247	-		1,957,905
	12,640,800	(1,338,108)	8,998,462		20,301,154
2018					
Term loans	5,035,819	(343,764)	4,210,951	[1]	8,903,006
Finance lease liabilities	933,794	(938,658)	2,739,000	[2]	2,734,136
Amount due to directors	2,257,459	(1,253,801)	-		1,003,658
	8,227,072	(2,536,223)	6,949,951		12,640,800

[1] Others consists of term loan drawn down.
[2] Others consists of new finance lease facilities secured for newly acquired property, plant and equipment.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Introduction

This report has been prepared in accordance with the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion in the prospectus of SFP Tech Holdings Berhad (the "Company" or "SFP Tech") in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing") via an initial public offering ("IPO") by the Company.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

1. GENERAL INFORMATION (CONT'D)

1.2 Background

The Company was incorporated on 8 February 2021 under the Companies Act 2016 in Malaysia as a private limited company and subsequently converted into a public limited company on 3 September 2021 and assumed its present name. The Company was incorporated to act as the special purpose vehicle for the purpose of acquiring STSB and EST Exhibit Automation Sdn Bhd ("EEASB") ("Acquisitions") as disclosed in Note 1.5 below, pursuant to the Listing.

The registered office of the Company is located at Suite A Level 9, Wawasan Open University, 54 Jalan Sultan Ahmad Shah, 10050 Georgetown, Penang. The principal place of business of the Company is located at Plot 350B Lorong Perindustrian Bukit Minyak 20, Penang Science Park, Mukim 13 Kawasan Perindustrian Bukit Minyak, Seberang Perai Tengah, 14100 Bukit Mertajam, Penang.

1.3 Principal activities

The Company's principal activity is that of investment holding and provision of management services. The details of the subsidiaries as at the date of this report are as follows:

Name of company	Country of incorporation	Date of incorporation	Effective equity interest	Principal activities
STSB	Malaysia	2 October 2012	100%	Provision of sheet metal fabrication, CNC machining and mechanical assembly services
EEASB	Malaysia	29 May 2015	100%	Provision of automation equipment solutions and trading of spare parts

1.4 Movement of Share Capital of SFP Tech

The share capital of SFP Tech as at the latest practicable date - 31 March 2022 ("LPD") is RM59,256,000 comprising 592,560,000 ordinary shares. The movement of SFP Tech share capital since its incorporation are set out below:

Date of Allotment	No. of Shares Allotted	Consideration/Type of Issue RM	Cumulative Share Capital RM
8 February 2021	1,000	100 / Subscribers shares	100
18 March 2022	592,559,000	59,255,900 / Consideration for the Acquisitions	59,256,000

As at the LPD, SFP Tech does not have any outstanding warrant, option, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment of shares.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

1. **GENERAL INFORMATION (CONT'D)**

1.4 **Movement of Share Capital of SFP Tech (cont'd)**

Upon completion of the IPO, the enlarged share capital of SFP Tech will increase from RM59,256,000 comprising 592,560,000 ordinary shares to RM121,488,000 comprising 800,000,000 ordinary shares.

1.5 **Internal restructuring**

Prior to the IPO, the following internal restructuring exercise was undertaken:

(a) Acquisition of STSB

On 3 August 2021, SFP Tech entered into a conditional share sale agreement with the vendor of STSB, to acquire the entire equity interest in STSB comprising 2,000,000 ordinary shares for a total purchase consideration of RM55,076,900. The purchase consideration was satisfied by SFP Tech issuing 550,769,000 new shares to the Promoters at an issue price of RM0.10 per share.

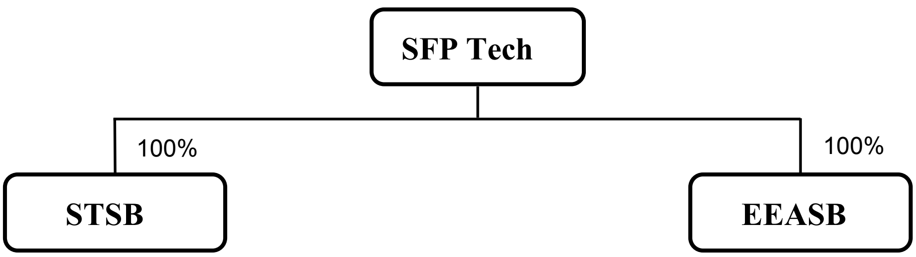
The acquisition was completed on 18 March 2022. Thereafter, STSB became a wholly-owned subsidiary of SFP Tech. The total purchase consideration of RM55,076,900 was arrived on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of STSB as at 31 December 2020 of RM55,077,253.

(b) Acquisition of EEASB

On 3 August 2021, SFP Tech entered into a conditional share sale agreement with the vendors of EEASB, to acquire the entire equity interest in EEASB comprising 500,000 ordinary shares for a total purchase consideration of RM4,179,000. The purchase consideration was satisfied by SFP Tech issuing 41,790,000 new shares to the shareholders of EEASB at an issue price of RM0.10 per share.

The acquisition was completed on 18 March 2022. Thereafter, EEASB became a wholly-owned subsidiary of SFP Tech. The total purchase consideration of RM4,179,000 was arrived on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of EEASB as at 31 December 2020 of RM4,179,390.

Following the completion of the Acquisitions, the group structure of SFP Tech Group is as follows:



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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

1. **GENERAL INFORMATION (CONT'D)**

1.6 **IPO Listing Scheme**

(i) **Public Issue**

A total of 207,440,000 new SFP Tech ordinary shares ("Issued Shares") representing 25.93% of the enlarged share capital of SFP Tech are offered at an issue price of RM0.30 per share and shall be allocated in the following manner:

(a) 40,000,000 Issue Shares, representing 5.00% of the enlarged share capital are made available for application by the Malaysian Public,

(b) 24,000,000 Issue Shares, representing 3.00% of the enlarged share capital are reserved for our eligible Directors and employees and persons who have contributed to the success of the Group, and

(c) 143,440,000 Issue Shares, representing 17.93% of the enlarged share capital are reserved for private placement to selected investors and Bumiputera Investors approved by the Ministry of International Trade and Industry, Malaysia.

(ii) **Listing**

Subsequent to the above, the Company's entire enlarged share capital of RM121,488,000 comprising 800,000,000 ordinary shares shall be listed on the ACE Market of Bursa Securities.

2. **BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS**

The combined entities are SFP Tech and STSB (collectively known as the "Group"). The combined financial statements of the Group have been prepared as if the Group has been operating as a single economic entity throughout the financial years ended 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021, since the combining entities were under common control throughout the financial years under review by virtue of common controlling shareholder namely, Mr. Keoh Beng Huat.

As SFP Tech was only incorporated on 8 February 2021, the financial information for the financial years under review only represents those of STSB for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020. The financial results of EEASB were not incorporated into the combined financial statements of the Group as EEASB was not under common control by virtue of common controlling shareholders. The financial results of EEASB will only be incorporated upon the date of completion of the acquisition of EEASB.

2.1 **Statement of Compliance**

For the purpose of preparing this Accountants' Report, the combined financial statements of the Group for the financial years ended 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") International Financial Reporting Standards ("IFRS"), Guidance Note on "Combined financial statements" issued by the Malaysian Institute of Accountant and Chapter 10, Part II Division I: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2.2 **Basis of Measurement**

The combined financial statements of the Group are prepared under the historical cost convention unless otherwise indicated in the summary of accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

2.3 **Functional and Presentation Currency**

The combined financial statements are presented in Ringgit Malaysia ("RM") which is also the Company's and its combining entity's functional currency.

2.4 **Standards Issued But Not Yet Effective**

The following are accounting standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group:

Effective for annual period beginning on or after 1 April 2021
Amendment to MFRS 16 Leases: Covid-19 - Related Rent Concessions beyond 30 June 2021

Effective for annual periods beginning on or after 1 January 2022
Amendments to MFRS 3 Business Combination - Reference to the Conceptual Framework
Amendments to MFRS 116 Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contract - Cost of Fulfilling a Contract
Annual Improvements to MFRS Standards 2018 - 2020

Effective for annual periods beginning on or after 1 January 2023
MFRS 17 Insurance Contracts
Amendments to MFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying MFRS 9
Amendments to MFRS 17 Initial Application of MFRS 17 and MFRS 9 – Comparative Information
Amendments to MFRS 101 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current
Amendments to MFRS 101 Presentation of Financial Statements – Disclosure of Accounting Policies
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates
Amendments to MFRS 112 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

2.4 Standards Issued But Not Yet Effective (cont'd)

Effective date yet to be confirmed

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group will adopt the above accounting pronouncements when they become effective in the respective financial years. Preliminary assessment indicates that these accounting pronouncements are not expected to have any material impacts to the combined financial statements of the Group upon adoption.

2.5 Significant Accounting Estimates and Judgements

The preparation of the combined financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

The key assumptions concerning the future and other key sources of estimation uncertainty and judgements at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) **Useful lives of depreciable assets**

The Group's major fixed assets which are subject to key sources of estimation uncertainty are its machinery, equipment and intangible assets. Management estimates the useful lives of these assets to be 5 to 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of the machinery and equipment. Therefore, future depreciation charges could be revised.

The carrying amount of the Group's property, plant and equipment and intangible assets are disclosed in Note 4 and 5 to the combined financial statements respectively.

(ii) **Impairment of property, plant and equipment and intangible assets**

The Group performs an impairment review as and when there are impairment indicators to ensure that the carrying value of the property, plant and equipment and intangible assets do not exceed their recoverable amount. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate, product life cycle and discount rate.

The carrying amount of the Group's property, plant and equipment and intangible assets are disclosed in Note 4 and 5 to the combined financial statements respectively.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.5 **Significant Accounting Estimates and Judgements (cont'd)**

(iii) **Provision for expected credit losses ("ECL") of trade receivables**

The Group uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECL on the Group's trade receivables is disclosed in Note 25.3 to the combined financial statements.

3. **ACCOUNTING POLICIES**

The following accounting policies adopted by the Group are consistently applied throughout the financial years under review unless otherwise indicated below.

3.1 **Basis of combination**

3.1.1 **Combining entities**

The combined financial statements comprise the financial statements of the Company and its combining entities as at the reporting dates. The financial statements of the Company and its combining entities used in the preparation of the combined financial statements are prepared as of the same reporting dates.

The combining entities are entities, including structured entities, under common control of the shareholders that control the Company and the combining entities ("Controlling Shareholders"), and are accounted for as if the Company and the combining entities are a single economic entity at the beginning of the earlier comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities of the combining entities are recognised at the carrying amounts recognised in respective combining entities' financial statements. The components of equity of the combining entities are added to the same components within the Group's equity and any resulting gain or loss is recognised directly in equity.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. ACCOUNTING POLICIES (CONT'D)

3.1 Basis of combination (cont'd)

3.1.1 Combining entities (cont'd)

The Controlling Shareholders control an entity when they are exposed, or have rights, to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Controlling Shareholders also consider they have *de facto* power over an investee when, despite not having the majority of voting rights, they have the current ability to direct the activities of the investee that significantly affect the investee's return.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements.

3.1.2 Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount at fair value of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether to recognise non-controlling interest in the acquiree either at fair value, or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.2 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Categories	Years
Leasehold land and buildings	52 - 60
Plant, machinery and factory equipment	5 - 10
Furniture, fittings and office equipment	5
Computer and software	2.5
Electrical installation, air conditioner and renovation	5
Motor vehicles	5

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.2 **Property, Plant and Equipment (cont'd)**

Capital work-in-progress represents assets under construction, and which are not ready for commercial use at the end of the reporting period. Capital work-in-progress is stated at cost and is transferred to the relevant category of assets and depreciated accordingly when the assets are completed and ready for commercial use.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the combined profit or loss.

3.3 **Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. At the commencement of a lease, the Group recognises a right-of-use asset and a corresponding lease liability.

(i) **Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 3.5 to the combined financial statements.

(ii) **Lease liabilities**

At the commencement date of the lease, lease liabilities are recognised and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.3 **Leases (cont'd)**

(i) **Lease liabilities (cont'd)**

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(ii) **Short term leases and leases of low-value assets**

The Group applies (i) the short-term lease recognition exemption to short-term leases of premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option), and (ii) the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

As a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue and other income in the combined statements of comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.4 **Intangible Assets**

Intangible assets acquired separately are measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The Group's intangible assets which comprise of separately acquired blueprint for test head manipulators are amortised on a straight-line basis over its estimated economic useful lives at 10% per annum.

The amortisation period and method are reviewed at the end of each reporting period to ensure that the expected useful lives of these assets are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of intangible assets.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.5 **Impairment of Non-Financial Assets**

The Group assesses at the end of each reporting period whether there is an indication that an asset other than inventories may be impaired. For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the combined profit or loss except for assets that were previously revalued where the revaluation surplus was taken to other comprehensive income. In this case the impairment loss is also recognised in the combined other comprehensive income up to the amount of any previous revaluation surplus.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the combined profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.6 **Financial Instruments**

3.6.1 **Recognition**

Financial assets or financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

3.6.2 **Classification and subsequent measurement of financial assets**

All financial assets are initially measured at fair value adjusted for transaction costs except for those trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient.

Financial assets, other than those designated as hedging instruments, are classified into the following categories:

- amortised cost ("AC")
- fair value through profit or loss ("FVTPL")
- fair value through other comprehensive income ("FVOCI")

In the periods presented, the Group does not have any financial assets which are categorised as FVTPL and FVOCI.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.6 **Financial Instruments (cont'd)**

3.6.2 **Classification and subsequent measurement of financial assets (cont'd)**

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognised in the combined profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at AC

Financial assets are measured at AC if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at AC using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

3.6.3 **Impairment of financial assets**

MFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss ("ECL") model'. Instruments within the scope of the new requirements included loans, trade and other receivables and other debt-type financial assets measured at AC.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead, the Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2')

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month ECLs' are recognised for the Stage 1 category while 'lifetime ECLs' are recognised for the Stage 2 category.

Measurement of the ECLs is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.6 **Financial Instruments (cont'd)**

3.6.3 **Impairment of financial assets (cont'd)**

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

For other receivables, the Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

3.6.4 **Classification and measurement of financial liabilities**

The Group's financial liabilities include borrowings, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at AC using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in the combined profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the combined profit or loss are included within finance costs or finance income.

3.6.5 **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the combined statement of financial position if, and only if, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.6 **Financial Instruments (cont'd)**

3.6.6 **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, or (c) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or have entered into a pass-through arrangement, it evaluates if, and to what extent, they have retained the risks and rewards of ownership. When they have neither nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group had retained.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received together with any cumulative gain or loss that has been recognised in the combined statements of other comprehensive income is recognised in the combined statements of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the combined statements of comprehensive income.

3.7 **Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost of raw materials and consumables is determined on the first-in, first-out basis.

Cost in the case of work-in-progress and finished goods include materials, direct labour and attributable production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and estimated costs necessary to make the sale.

3.8 **Cash and Cash Equivalents**

Cash comprises cash in hand, cash at bank and demand deposits. Cash equivalents are short term and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, against which bank overdraft balances, if any, are deducted and net of fixed deposit pledged.

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3. ACCOUNTING POLICIES (CONT'D)

3.9 Government Grants

Government grants, including non-monetary grants, shall not be recognised until there is reasonable assurance conditions attaching to the grants will be complied with and the grants will be received.

Grants related to assets are set up as deferred income and recognised as income on a systematic basis over the estimated useful lives of the assets. Grants related to expenses are recognised as income in the period the grants become receivable. Grants related to future costs are deferred and recognised in the combined profit or loss in the same period as the related costs.

3.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

3.11 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred

Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

3.12 Revenue Recognition

To determine whether to recognise revenue, the Group follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognising revenue when/as performance obligations are satisfied.

Revenue is recognised only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer.

The transfer of control can occur over time or at a point in time.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.12 **Revenue Recognition (cont'd)**

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and
(iii) the Group's performance does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date.

Engineering support services

Revenue from engineering support services encompass the process of design, development, fabrication and manufacturing. The Group categorise revenue from the aforementioned sales into 3 broad categories i.e. computer numerical control ("CNC") machining, mechanical assembly and sheet metal fabrication. The Group determines that its performance obligations to its customers are satisfied when it delivers to its customers the finished product in accordance with the agreed specifications and acknowledged acceptance by the customer. Although, there are multiple processes involved, the Group views these processes as one performance obligation i.e. the delivery of the finished product. Hence, revenue is recognised at point in time.

Interest income

Interest income is recognised on a time proportion basis using the applicable effective interest rate.

Rental income

Rental income is recognised on a straight-line basis over the lease terms.

Contract balances

This refers to the closing balances of trade receivables as at the reporting period.

Trade receivables

A receivable represents the Group's right to receive an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

3.13 **Employee Benefits**

Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave is recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.13 **Employee Benefits (cont'd)**

Defined contribution plan

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred.

3.14 **Income Tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.15 **Sales and Services Tax ("SST")**

Revenue, expenses and assets are recognised net of SST except:

- where the SST incurred in a purchase of asset or service is not recoverable from the taxation authority, in which case the SST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with SST inclusive.

The net SST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.16 **Foreign Currency Translations**

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities measured at historical cost in a foreign currency at the end of the reporting period are translated to the functional currency at the exchange rate at the date of the transaction except for those measured at fair value shall be translated at the exchange rate at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in combined profit or loss for the year except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in the combined other comprehensive income.

3.17 **Share Capital, Share Issuance Costs and Dividends**

Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Share issuance costs

Incremental external costs directly attributable to the issuance of new shares are deducted against equity.

Dividends

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained profits and recognised as a liability in the period in which they are declared and approved.

3.18 **Earnings Per Ordinary Share**

The Group presents basic earnings per share data for its ordinary shares ("EPS"). Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the Group over the weighted average number of ordinary shares in issue during the period. There was no dilutive effects for EPS for all the financial years under review.

3.19 **Operating Segments**

Operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision makers, which in this case are the Executive Directors of the Group, to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.20 **Related Parties**

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) Has control or joint control over the Group;
(ii) Has significant influence over the Group; or
(iii) Is a member of the key management personnel of the Group including its ultimate holding company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.
(ii) The entity is an associate or joint venture of the other entity.
(iii) Both entities are joint ventures of the same third party.
(iv) The Group is a joint venture of a third entity and the other entity is an associate of the same third entity.
(v) The entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.
(vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
(vii) A person identified in (a)(i) above has significant influence over the Group or is a member of the key management personnel of the entity.
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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4. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM	Buildings RM	Plant, machinery and factory equipment RM	Furniture, fittings and office equipment RM	Computer and software RM	Electrical installation, air conditioner and renovation RM	Motor vehicle RM	Capital work-in-progress RM	Total RM
Cost									
At 1 January 2018	6,717,895	-	6,361,773	34,964	184,993	233,406	557,833	853,840	14,944,704
Additions	-	-	1,533,940	55,825	99,627	211,660	959,594	6,447,839	9,308,485
Reclassification	-	7,199,806	8,385	(8,385)	-	-	-	(7,199,806)	-
At 31 December 2018/ 1 January 2019	6,717,895	7,199,806	7,904,098	82,404	284,620	445,066	1,517,427	101,873	24,253,189
Additions	-	-	13,711,290	48,084	104,028	207,282	82,401	8,699,058	22,852,143
Reclassification	-	6,367,864	-	-	-	-	-	(6,367,864)	-
At 31 December 2019/ 1 January 2020	6,717,895	13,567,670	21,615,388	130,488	388,648	652,348	1,599,828	2,433,067	47,105,332
Additions	8,808,703	62,804	3,776,588	1,499	391,176	27,749	-	717,400	13,785,919
Reclassification	-	3,005,103	-	-	-	-	-	(3,005,103)	-
At 31 December 2020/ 1 January 2021	15,526,598	16,635,577	25,391,976	131,987	779,824	680,097	1,599,828	145,364	60,891,251
Additions	872,079	719,803	25,782,801	-	147,015	34,550	314,694	6,868,501	34,739,443
At 31 December 2021	16,398,677	17,355,380	51,174,777	131,987	926,839	714,647	1,914,522	7,013,865	95,630,694

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4. **PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Leasehold land RM	Buildings RM	Plant, machinery and factory equipment RM	Furniture, fittings and office equipment RM	Computer and software RM	Electrical installation, air conditioner and renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Accumulated depreciation									
At 1 January 2018	91,682	-	2,266,580	15,642	109,689	135,444	358,970	-	2,978,007
Current charge	111,970	-	679,745	14,096	62,114	75,280	210,932	-	1,154,137
Reclassification	-	-	559	(559)	-	-	-	-	-
At 1 January 2019	203,652	-	2,946,884	29,179	171,803	210,724	569,902	-	4,132,144
Current charge	111,970	320,015	1,123,475	20,913	88,204	107,149	264,928	-	2,036,654
At 31 December 2019/ 1 January 2020	315,622	320,015	4,070,359	50,092	260,007	317,873	834,830	-	6,168,798
Current charge	267,252	271,242	2,182,395	24,088	140,235	107,041	260,470	-	3,252,723
At 31 December 2020/ 1 January 2021	582,874	591,257	6,252,754	74,180	400,242	424,914	1,095,300	-	9,421,521
Current charge	281,368	287,698	3,288,264	21,962	221,855	93,451	213,976	-	4,408,574
At 31 December 2021	864,242	878,955	9,541,018	96,142	622,097	518,365	1,309,276	-	13,830,095

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4. **PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Leasehold land RM	Buildings RM	Plant, machinery and factory equipment RM	Furniture, fittings and office equipment RM	Computer and software RM	Electrical installation, air conditioner and renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Net carrying amount									
At 31 December 2018	6,514,243	7,199,806	4,957,214	53,225	112,817	234,342	947,525	101,873	20,121,045
At 31 December 2019	6,402,273	13,247,655	17,545,029	80,396	128,641	334,475	764,998	2,433,067	40,936,534
At 31 December 2020	14,943,724	16,044,320	19,139,222	57,807	379,582	255,183	504,528	145,364	51,469,730
At 31 December 2021	15,534,435	16,476,425	41,633,759	35,845	304,742	196,282	605,246	7,013,865	81,800,599

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4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(i) The Group's leasehold land and building are pledged to licensed banks for banking facilities granted to the Group as disclosed in Note 12 to the combined financial statements.

The following carrying amount of plant and equipment are collaterised under finance lease:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Plant, machinery and factory equipment	13,038,199	7,827,848	4,714,824	1,878,097
Motor vehicle	254,591	446,512	685,403	933,692
	13,292,790	8,274,360	5,400,227	2,811,789

(ii) The information of right-of-use assets which are included in the property, plant and equipment is as follows:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Leasehold land	15,534,435	14,943,724	6,402,273	6,514,243
Plant, machinery and factory equipment	13,038,199	7,827,848	4,714,824	1,878,097
Motor vehicle	254,591	446,512	685,403	933,692

The property, plant and equipment acquired above meets the definition of right-of-use assets. However, the Group elected not to disclose the right-of-use assets for these assets separately. Instead, they continue to be recognised under property, plant and equipment as though these assets are owned.

5. INTANGIBLE ASSETS

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
At cost				
Balance at beginning/end	10,275,000	10,275,000	10,275,000	10,275,000
Accumulated amortisation				
Balance at beginning	5,908,125	4,880,625	3,853,125	2,825,625
Current year	1,027,500	1,027,500	1,027,500	1,027,500
Balance at end	6,935,625	5,908,125	4,880,625	3,853,125
Carrying amount	3,339,375	4,366,875	5,394,375	6,421,875

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6. INVENTORIES

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
At cost:				
Raw material	1,318,403	301,063	391,955	289,096
Work-in-progress	1,833,315	1,410,222	436,697	-
Finished goods	624,212	378,781	391,487	-
	3,775,930	2,090,066	1,220,139	289,096
Recognised in profit or loss:				
Inventories recognised as cost of sales	23,265,662	17,791,109	13,545,056	13,316,338

7. TRADE RECEIVABLES

The currency profile of the trade receivables is as follows:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Ringgit Malaysia	1,214,340	574,842	148,755	282,372
US Dollar	10,780,342	9,796,420	12,109,823	5,811,782
Singapore Dollar	-	-	73,977	73,839
	11,994,682	10,371,262	12,332,555	6,167,993

The normal credit terms granted to trade receivables range from **30 to 60 days** (2020: 30 to 90 days, 2019: 30 to 90 days; 2018: 30 to 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables is an amount of RM Nil (2020: RM Nil, 2019: RM3,991; 2018: RM Nil) due from a company in which a director of SFP Tech has substantial financial interest. It was unsecured, non-interest bearing and repayable on demand.

8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Other receivables	1,724,775	1,088,290	1,181,846	1,477,599
Prepayments	4,600,884	1,679,933	690,590	7,654,258
Refundable deposits	250,080	236,580	15,790	13,590
GST claimable	-	-	378,085	681,949
	6,575,739	3,004,803	2,266,311	9,827,396

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8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONT'D)

The currency profile of other receivables, deposits and prepayments is as follows:

	As at 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Ringgit Malaysia	6,100,909	2,802,568	2,249,456	9,811,533
US Dollar	380,748	199,719	16,855	15,863
Euro	-	1,940	-	-
Renminbi	92,586	576	-	-
Singapore Dollar	1,496	-	-	
	6,575,739	3,004,803	2,266,311	9,827,396

Included in other receivables, deposits and prepayments:

i. is an amount of RM Nil (2020: RM Nil; 2019: RM956,181, 2018: RM936,624) due from companies in which a director of SFP Tech has substantial financial interest. It was unsecured, non-interest bearing and repayable on demand.

ii. is an amount of RM1,650,137 (2020: RM Nil; 2019: RM Nil, 2018: RM Nil) being IPO expenses paid in advance by STSB on behalf of SFP Tech.

9. CASH AND CASH EQUIVALENTS

	As at 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Cash in hand and at banks	23,839,803	18,450,010	3,357,762	2,804,375
Fixed deposits with licensed banks	1,623,987	1,578,760	560,000	560,000
	25,463,790	20,028,770	3,917,762	3,364,375

The currency profile of cash and cash equivalents is as follows:

	As at 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Ringgit Malaysia	15,891,135	16,375,738	2,896,231	1,571,569
US Dollar	9,571,802	3,652,179	1,020,678	1,791,953
Singapore Dollar	853	853	853	853
	25,463,790	20,028,770	3,917,762	3,364,375

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9. CASH AND CASH EQUIVALENTS (CONT'D)

Included in fixed deposits with licensed banks are the following:

i. an amount of RM1,016,197 (2020: RM 1,000,000; 2019: RM Nil, 2018: RM Nil) pledged to a licensed bank for banking facility granted to the Group as disclosed in Note 12 to the combined financial statements.

ii. an amount of RM607,790 (2020: RM578,760; 2019: RM560,000, 2018: RM560,000) placed in the name of a director of SFP Tech held in trust for STSB.

The effective interest rates per annum and maturity of the fixed deposits with licensed banks of the Group as at the end of the reporting period ranged from 1.60% to 1.85% (2020: 1.60% to 3.10%; 2019: 3.35%, 2018: 3.35%) and 6 months to 12 months (2020: 6 months to 12 months; 2019: 12 months, 2018: 12 months) respectively.

10. SHARE CAPITAL AND INVESTED EQUITY

(i) Share capital

	Number of shares Units	Amount RM
Issued and fully paid with no par value:		
At the date of incorporation/end of financial year	100	100

(ii) Invested equity

	Number of shares Units	Amount RM
Issued and fully paid with no par value:		
At beginning/end of financial year	2,000,000	2,000,000

11. RETAINED PROFITS

The franking of dividends is under the single tier system and therefore, there is no restriction to distribute dividends subject to the availability of retained profits.

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12. **BORROWINGS**

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Non-current liabilities				
Secured:				
Finance lease liabilities				
Minimum payments				
Within one year	4,954,025	2,968,875	2,270,631	1,304,503
More than one year and less than two years	3,900,785	2,564,051	1,421,822	1,163,849
More than two years and less than five years	1,459,568	1,531,908	1,082,221	529,674
	10,314,378	7,064,834	4,774,674	2,998,026
Future finance charges	(482,156)	(408,398)	(301,097)	(263,890)
	9,832,222	6,656,436	4,473,577	2,734,136
Amount due within one year included under current liabilities	(4,633,445)	(2,715,766)	(2,084,838)	(1,145,204)
	5,198,777	3,940,670	2,388,739	1,588,932
Term loans				
Total amount repayable	29,487,330	22,512,312	13,869,672	8,903,006
Amount due within one year included under current liabilities	(3,846,859)	(1,929,646)	(689,802)	(1,557,540)
	25,640,471	20,582,666	13,179,870	7,345,466
	30,839,248	24,523,336	15,568,609	8,934,398
Current liabilities				
Secured:				
Finance lease liabilities	4,633,445	2,715,766	2,084,838	1,145,204
Term loans	3,846,859	1,929,646	689,802	1,557,540
	8,480,304	4,645,412	2,774,640	2,702,744

The currency profile of borrowings is as follows:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Ringgit Malaysia	32,999,083	22,685,988	18,343,249	11,637,142
US Dollar	6,320,469	6,482,760	-	-
	39,319,552	29,168,748	18,343,249	11,637,142

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12. **BORROWINGS (CONT'D)**

The borrowings (except for finance lease liabilities) are secured by way of:

(i) Pledge of fixed deposit with a licensed bank of STSB;
(ii) Legal charge over the leasehold land and buildings of STSB;
(iii) Joint and several guarantee of a director of SFP Tech and his spouse;
(iv) Guarantee from Syarikat Jaminan Pembiayaan Perniagaan Berhad under Covid 19 Special Relief Fund of up to RM800,000 being 80% of the principal limit of the fixed rate term loan;
(v) Guarantee from Syarikat Jaminan Pembiayaan Perniagaan Berhad under Working Capital Guarantee Scheme of up to RM1,400,000; and
(vi) Guarantee from Credit Guarantee Corporation Malaysia Berhad under Portfolio Guarantee of up to 70% of RM500,000.

The finance lease liabilities are secured over the leased assets as disclosed in Note 4 to the combined financial statements.

A summary of the effective interest rates and the maturities of the borrowings are as follows:

	Effective interest rate per annum (%)	Total RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
2021						
Finance lease liabilities	1.99 to 2.88	9,832,222	4,633,445	3,761,478	1,437,299	-
Term loans	1.88 to 6.45	29,487,330	3,846,859	3,916,894	7,314,329	14,409,248
2020						
Finance lease liabilities	2.29 to 3.43	6,656,436	2,715,766	2,441,785	1,498,885	-
Term loans	4.67 to 11.85	22,512,312	1,929,646	1,981,677	5,894,123	12,706,866
2019						
Finance lease liabilities	2.29 to 3.43	4,473,577	2,084,838	1,331,838	1,056,901	-
Term loans	4.92 to 12.00	13,869,672	689,802	985,866	2,656,094	9,537,910
2018						
Finance lease liabilities	2.29 to 3.43	2,734,136	1,145,204	1,086,938	501,994	-
Term loans	4.92 to 12.00	8,903,006	1,557,540	382,160	1,000,302	5,963,004

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13. DEFERRED TAX LIABILITIES

	As at 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Balance at beginning	1,502,073	1,300,092	447,377	218,249
Current year provision	938,955	201,981	852,715	158,032
(Over)/Under provision in prior year	(25,582)	-	-	71,096
Balance at end	2,415,446	1,502,073	1,300,092	447,377

The deferred tax liabilities at the end of the reporting year are made up of the temporary difference arising from property, plant and equipment.

14. DEFERRED INCOME

	As at 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Government grants	2,939,800	3,635,636	4,331,472	5,027,308
Less: Released to profit or loss	(695,836)	(695,836)	(695,836)	(695,836)
	2,243,964	2,939,800	3,635,636	4,331,472

Deferred income relates to matching government grants amounting to RM6,750,000 received by the Company for reimbursement of capital expenditure.

15. TRADE PAYABLES

The currency profile of trade payables is as follows:

	As at 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Ringgit Malaysia	1,351,992	893,636	1,582,744	1,046,782
US Dollar	10,420	13,444	36,708	34,363
Singapore Dollar	-	-	3,528	415
Euro	-	-	258	-
	1,362,412	907,080	1,623,238	1,081,560

The normal credit terms granted by trade payables range from 30 to 60 days (2020: 30 to 60 days; 2019: 30 to 60 days; 2018: 30 to 60 days).

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16. OTHER PAYABLES AND ACCRUALS

	As at 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Fixed asset suppliers	11,937,497	-	-	-
Other payables	223,912	380,430	722,659	184,004
Accruals	920,757	380,398	394,107	333,018
	13,082,166	760,828	1,116,766	517,022

Included in other payables is an amount of RM Nil (2020: RM Nil; 2019: RM16,559, 2018: RM16,559) due to a company in which a director of SFP Tech has substantial financial interests. It is unsecured, non-interest bearing and is repayable on demand.

During the financial year ended 31 December 2021, the Company acquired machines amounting to RM25,782,801 of which RM11,937,497 remained payable to the fixed asset suppliers as at the end of the reporting period. STSB had via its financial institutions provided letter of credits as security for the balancing outstanding.

17. AMOUNT DUE TO DIRECTORS

The amount due to directors were non-trade related, unsecured, non-interest bearing and repayable on demand.

18. REVENUE

18.1 Disaggregated revenue information

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Types of goods				
CNC machining	31,588,403	25,407,618	16,853,032	7,827,505
Mechanical assembly	6,855,506	7,258,384	5,749,216	9,275,480
Sheet metal fabrication	11,967,982	8,434,588	7,704,102	10,514,605
Total revenue from contracts with customers	50,411,891	41,100,590	30,306,350	27,617,590
Geographical markets				
Malaysia	39,685,185	24,579,138	17,698,878	6,921,428
United States	3,040,686	9,026,330	3,536,211	5,191,542
Singapore	7,669,412	7,478,642	7,994,157	12,835,658
Thailand	-	-	1,077,104	1,032,500
Vietnam	-	-	-	1,617,364
Denmark	16,608	16,000	-	-
France	-	480	-	19,098
Total revenue from contracts with customers	50,411,891	41,100,590	30,306,350	27,617,590

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18. REVENUE

18.1 Disaggregated revenue information

Timing of revenue recognition

Sales of goods is recognised at a point in time upon the satisfaction of performance obligations which is upon the delivery and acceptance of goods by customers.

Performance obligations

Performance obligations of the Group are disclosed in Note 3.12 to the combined financial statements.

19. PROFIT BEFORE TAX

This is arrived at:

	For the financial year ended 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
After charging:				
Amortisation of intangible assets	1,027,500	1,027,500	1,027,500	1,027,500
Bad debt written off	25,000	141,573	-	283,856
Depreciation on property, plant and equipment	4,408,574	3,252,723	2,036,654	1,154,137
Directors' fees for non-executive directors	76,500	-	-	-
Expenses relating to short-term leases				
- factory	-	-	-	50,784
- premises	46,494	23,900	11,200	9,100
Expenses relating to low value assets				
- machinery	-	-	18,204	64,430
- office equipment	13,236	6,156	4,356	3,840
Interest expense on:				
- finance lease liabilities	352,068	194,947	157,685	145,149
- term loans	912,913	850,762	752,507	423,204
Staff costs (i)	10,352,498	6,794,245	4,880,575	4,059,083
Unrealised loss on foreign exchange	-	642,895	489,543	-
And crediting:				
Deferred income released	695,836	695,836	695,836	695,836
Interest income	144,152	111,131	39,709	13,087
Realised gain on foreign exchange	87,195	511,071	106,912	-
Rental income	-	13,560	300,000	9,000
Unrealised gain on foreign exchange	516,598	-	-	91,195

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19. PROFIT BEFORE TAX (CONT'D)

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
[(i)] Staff costs				
- Salaries, allowance and bonus	9,431,722	6,320,233	4,522,873	3,743,534
- EPF	825,818	405,972	313,195	275,846
- EIS	7,689	5,123	4,119	4,075
- SOCSO	87,269	62,917	40,388	35,628
	10,352,498	6,794,245	4,880,575	4,059,083

Included in staff costs of the Group is the directors' emoluments as shown below:

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
- Salaries, allowance and bonus	1,316,000	492,000	312,000	291,000
- EPF	157,920	59,040	37,440	34,920
- EIS	142	190	190	190
- SOCSO	1,243	2,257	1,657	1,657
	1,475,305	553,487	351,287	327,767

20. TAX EXPENSE

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Malaysian income tax:				
Based on results for the financial year				
- Current tax	(944,000)	(907,249)	(576,292)	(399,234)
- Deferred tax relating to the origination and reversal of temporary differences	(938,955)	(201,981)	(852,715)	(158,032)
	(1,882,955)	(1,109,230)	(1,429,007)	(557,266)
Over/(Under) provision in prior year				
- Current tax	483,332	188	(113,857)	40,644
- Deferred tax	25,582	-	-	(71,096)
	508,914	188	(113,857)	(30,452)
	(1,374,041)	(1,109,042)	(1,542,864)	(587,718)

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20. **TAX EXPENSE (CONT'D)**

The reconciliation of tax expense of the Group is as follows:

	For the financial year ended 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Profit before tax	20,795,307	18,756,072	12,073,857	9,880,391
Income tax at Malaysian statutory tax rate of 24%	(4,990,874)	(4,501,457)	(2,897,726)	(2,371,294)
Pioneer income not subject to tax	3,319,769	4,220,046	1,892,743	2,331,008
Income not subject to tax	-	228,330	179,830	167,001
Expenses not deductible for tax purposes	(253,850)	(1,098,149)	(638,854)	(713,981)
Reduced tax rate on first RM600,000 chargeable income	42,000	42,000	35,000	30,000
	(1,882,955)	(1,109,230)	(1,429,007)	(557,266)
Over/(Under) provision in prior year	508,914	188	(113,857)	(30,452)
	(1,374,041)	(1,109,042)	(1,542,864)	(587,718)

21. **EARNINGS PER SHARE**

Basic earnings per share

The calculation of basic earnings per share for the financial year ended 31 December 2021, 2020, 2019 and 2018 was based on the profit attributable to shareholder of the combining entity and its weighted average number of shares in issue during the said financial years as follows:

	For the financial year ended 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Profit for the financial year attributable to the shareholder of the combining entity	19,421,266	17,647,030	10,530,993	9,292,673

	For the financial year ended 31 December			
	2021	**2020**	**2019**	**2018**
Weighted average number of invested equity in issue	2,001,000	2,001,000	2,001,000	2,001,000

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21. EARNINGS PER SHARE (CONT'D)

Basic earnings per share (cont'd)

The calculation of basic earnings per share for the financial year ended 31 December 2021, 2020, 2019 and 2018 was based on the profit attributable to shareholder of the combining entity and its weighted average number of shares in issue during the said financial years as follows (cont'd):

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Basic earnings per ordinary share	9.71	8.82	5.26	4.64

22. OPERATING SEGMENT

The management determines the business segments based on the reports reviewed and used by the directors for strategic decisions making and resources allocation.

The Group is principally engaged in the provision of sheet metal fabrication, CNC machining and mechanical assembly under STSB. Accordingly, information by operating segment on the Group's operations as required by *MFRS 8* is not presented.

Geographical segments

Revenue of the Group based on geographical location of its customers are disclosed in Note 18 to the combined financial statements.

Major customers

The following are major customers with revenue equal to or more than 10% of the Group revenue for the relevant reporting periods:

	For the financial year ended 31 December			
	2021 RM	2020 RM	2019 RM	2018 RM
Customer A	30,754,306	21,703,280	15,093,162	4,123,470
Customer B	-	8,458,581	-	3,704,035
Customer C	8,085,523	7,716,019	8,709,211	13,741,578
Customer D	-	-	-	3,591,332
	38,839,829	37,877,880	23,802,373	25,160,415

A customer is defined as a company or a group of companies having the same ultimate holding company.

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23. **RELATED PARTY DISCLOSURES**

(i) **Identity of related parties**

The Group has related party relationship with its key management personnel, and the following parties:

Related parties	**Relationship**
Strait Fabrication Partner Sdn. Bhd. ("SFPSB") FAS Integration Sdn. Bhd. ("FISB")	A company in which the director of the Company has substantial financial interest. In the financial year ended 31 December 2021, the director had disposed off his interest in these companies. As such, they are no longer related parties.

(ii) **Related party transactions**

	For the financial year ended 31 December			
	2021 **RM**	**2020** **RM**	**2019** **RM**	**2018** **RM**
Transaction with a former director of STSB				
Rental of premise from a spouse of a director of SFP Tech	-	(19,700)	(8,400)	(9,100)
Transaction with related parties				
Consultancy fee paid to SFPSB	-	(110,000)	(55,000)	(85,000)
Purchases from SFPSB	-	-	(8,830)	-
Sales to SFPSB	-	2,590	77,235	-
Sales to FISB	-	92,650	-	-

(iii) **Compensation of key management personnel**

The Group has no other members of key management personnel apart from the Board of Directors which compensation has been shown in Note 19 to the combined financial statements.

Key management personnel are those persons including directors having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

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24. **CAPITAL COMMITMENT**

	2021 RM
Authorised and contracted for	
- Building	34,867,585
- Property, plant and equipment	11,248,823
	46,116,408
Authorised but not contracted for	
- Property, plant and equipment	3,568,325

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25. FINANCIAL INSTRUMENTS

25.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as financial assets and financial liabilities at amortised costs ("AC").

	As at 31 December							
	2021		2020		2019		2018	
	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM
Financial assets								
Trade receivables	11,994,682	11,944,682	10,371,262	10,371,262	12,332,555	12,332,555	6,167,993	6,167,993
Other receivables and refundable deposits	1,974,855	1,974,855	1,324,870	1,324,870	1,197,636	1,197,636	1,491,189	1,491,189
Cash and cash equivalents	25,463,790	25,463,790	20,028,770	20,028,770	3,917,762	3,917,762	3,364,375	3,364,375
	39,433,327	39,433,327	31,724,902	31,724,902	17,447,953	17,447,953	11,023,557	11,023,557
Financial liabilities								
Borrowings	39,319,552	39,319,552	29,168,748	29,168,748	18,343,249	18,343,249	11,637,142	11,637,142
Trade payables	1,362,412	1,362,412	907,080	907,080	1,623,238	1,623,238	1,081,560	1,081,560
Other payables and accruals	13,082,166	13,082,166	760,828	760,828	1,116,766	1,116,766	517,022	517,022
Amount due to directors	-	-	-	-	1,957,905	1,957,905	1,003,658	1,003,658
	53,764,130	53,764,130	30,836,656	30,836,656	23,041,158	23,041,158	14,239,382	14,239,382

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25. **FINANCIAL INSTRUMENTS (CONT'D)**

25.2 **Financial risk management**

The Group is exposed to a variety of financial risks arising from their operations. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative activities.

25.3 **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises principally from its trade receivables.

(i) **Credit risk concentration profile**

The Group's major concentration of credit risk that accounted for 10% or more of total trade receivables at the end of each reporting period is as follows:

	I---------------------------- As at 31 December			------------------------I
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Number of customers	1	3	2	2
Percentage of trade receivables	65%	92%	90%	77%

(ii) **Exposure to credit risk**

At the end of each reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position of the Group after deducting any allowance for impairment losses.

(iii) **Assessment of impairment losses**

The Group assesses ECL on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

As at the end of the reporting period, the maximum exposure to the credit risk arising from trade receivables is presented by the carrying amounts in the combined statements of financial position.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

25. **FINANCIAL INSTRUMENTS (CONT'D)**

25.3 **Credit risk (cont'd)**

(iii) **Assessment of impairment losses (cont'd)**

The ageing of trade receivables of the Group are as follows:

	As at 31 December			
	2021	**2020**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Not past due	10,482,629	7,428,415	10,793,505	5,511,984
Past due 1 to 30 days	981,648	812,119	1,408,250	157,229
Past due 31 to 60 days	313,814	34,608	3,480	170,540
Past due 61 to 90 days	117,869	143,076	960	45,372
Past due more than 91 days	98,722	1,953,044	126,360	282,868
	1,512,053	2,942,847	1,539,050	656,009
	11,994,682	10,371,262	12,332,555	6,167,993

Trade receivables that were past due but not impaired are creditworthy customers with good payment record with the Group. None of the Group's trade receivables that were past due but not impaired have been renegotiated during the financial year.

The Group has trade receivables amounting to **RM1,512,053** (2020: RM2,942,847; 2019: RM1,539,050, 2018: RM656,009) that were past due but not impaired as the management is of the view that these debts will be collected in due course.

25.4 **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

25. **FINANCIAL INSTRUMENTS (CONT'D)**

25.4 **Liquidity risk (cont'd)**

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments:

	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
2021						
Non-derivative financial liabilities						
Borrowings	39,319,552	45,993,451	9,673,407	8,571,549	10,430,148	17,318,347
Trade payables	1,362,412	1,362,412	1,362,412	-	-	-
Other payables and accruals	13,082,166	13,082,166	13,082,166	-	-	-
	53,764,130	60,438,029	24,117,985	8,571,549	10,430,148	17,318,347
2020						
Non-derivative financial liabilities						
Borrowings	29,168,748	35,610,172	5,666,127	5,221,184	8,951,061	15,771,800
Trade payables	907,080	907,080	907,080	-	-	-
Other payables and accruals	760,828	760,828	760,828	-	-	-
	30,836,656	37,278,080	7,334,035	5,221,184	8,951,061	15,771,800
2019						
Non-derivative financial liabilities						
Borrowings	18,343,249	23,886,421	3,682,715	2,867,236	4,812,397	12,524,073
Trade payables	1,623,238	1,623,238	1,623,238	-	-	-
Other payables and accruals	1,116,766	1,116,766	1,116,766	-	-	-
Amount due to directors	1,957,905	1,957,905	1,957,905	-	-	-
	23,041,158	28,584,330	8,380,624	2,867,236	4,812,397	12,524,073

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

25. **FINANCIAL INSTRUMENTS (CONT'D)**

25.4 **Liquidity risk (cont'd)**

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments (cont'd):

	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
2018						
Non-derivative financial liabilities						
Borrowings	11,637,142	15,853,964	3,310,594	1,875,260	2,133,571	8,534,539
Trade payables	1,081,560	1,081,560	1,081,560	-	-	-
Other payables and accruals	517,022	517,022	517,022	-	-	-
Amount due to directors	1,003,658	1,003,658	1,003,658	-	-	-
	14,239,382	18,456,204	5,912,834	1,875,260	2,133,571	8,534,539

25.5 **Interest rate risk**

The Group's fixed rate instruments are exposed to a risk of change in their fair values due to changes in interest rates. The Group's floating rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The interest rate profile of the Group's interest-bearing financial instruments based on their carrying amount as at the end of the reporting period are as follows:

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
Fixed rate instruments				
Financial assets	1,623,987	1,578,760	560,000	560,000
Financial liabilities	10,680,492	7,656,436	4,473,577	2,734,136
Floating rate instruments				
Financial liabilities	28,639,060	21,512,312	13,869,672	8,903,006

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting year would not affect profit or loss.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

25. FINANCIAL INSTRUMENTS (CONT'D)

25.5 Interest rate risk (cont'd)

Cash flow sensitivity analysis for variable rate instruments

An increase of 25 basis point at the end of the reporting year would have decreased the Group's profit before tax by RM52,812 (2020: RM32,772; 2019: RM22,776; 2018: RM12,506) and a corresponding decrease would have an equal but opposite effect. These changes are considered to be reasonably possible based on observation of current market conditions. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

25.6 Foreign currency risk

The Group is exposed to foreign currency risk mainly on sales and purchases that are denominated in currencies other than the Group's functional currency. The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes. The currency giving rise to this risk is primarily US Dollar ("USD").

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rates against Ringgit Malaysia, with all other variables held constant, of the Group's profit before tax. A 10% strengthening of the RM against the following currencies at the end of the reporting period would have decreased profit before tax by the amount shown below and a corresponding weakening of the RM would have an equal but opposite effect.

	As at 31 December			
	2021 RM	**2020 RM**	**2019 RM**	**2018 RM**
USD	1,440,200	715,211	1,311,065	758,524
Others	9,494	337	7,104	7,428
Decrease in profit before tax	1,449,694	715,548	1,318,169	765,952

26. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial assets and current portion of financial liabilities except for borrowings as at the end of the reporting period approximate their fair values due to their short-term nature.

The carrying amount of the term loan are reasonable approximation of their value as they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting year.

The carrying amount of the finance lease liabilities are reasonable approximation of their fair value due to the insignificant impact of discounting.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. CAPITAL MANAGEMENT

The primary objective of the Group's capital management policy is to maintain a strong capital base to support its business and to maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions or expansion of the Group. The Group may adjust the capital structure by issuing new shares, returning capital to shareholders, adjusting the amount of dividends to be paid to shareholders or sell assets to reduce debts. No changes were made to the objective, policy and process during the financial years under review.

As at the end of the reporting period, the Group has not breached any of the debt covenants imposed by its lenders.

28. SIGNIFICANT EVENTS

i. Acquisition of STSB and EEASB by SFP Tech pursuant to the listing

The details of the acquisition of STSB and EEASB by SFP Tech pursuant to the Listing are disclosed in Note 1.5 to the combined financial statements.

ii. Coronavirus outbreak

In recognition of the rapid spread of the COVID-19 virus, the World Health Organisation (WHO) declared the COVID-19 outbreak as a global pandemic on 11 March 2020. To contain the spread of the virus in the local community, the Federal Government of Malaysia ("Malaysian Government") has introduced movement control measures by gazetting the Movement Control Order (MCO) which restricts the movement of people, followed by National Recovery Plan (NRP), effective from 1 June 2021, which focused on the phased reopening of the economy.

The Group's revenue was not adversely affected as the Company is allowed to operate during the NRP period.

The Group has performed assessments on the overall impact of the situation on the Group's operations and financial implications, including the recoverability of the carrying amount of assets and subsequent measurement of assets and liabilities, and concluded that there is no material adverse effect on the combined financial statements for the financial year ended 31 December 2021.

Given the volatility of the situation, the Company will continuously monitor the impact of COVID-19 and take appropriate and timely measures to minimise the effect of the outbreak on the Company's operations. The Company has sufficient working capital to sustain its operation and to continue its business as a going concern.

13. ADDITIONAL INFORMATION

13.1 SHARE CAPITAL

(a) None of the share capital of our Group is under any option or agreed conditionally or unconditionally to be put under any option.

(b) Save for the Pink Form Allocation as disclosed in Section 4.1.1 of this Prospectus,

(i) no person including Directors or employees of our Group has been or is entitled to be given or has exercised any option to subscribe for any shares or debentures, warrants, options, convertible securities or uncalled capital of our Company or our Subsidiaries; and

(ii) there is currently no other scheme involving our Directors and employees of our Group and other persons who have contributed to the success of our Group in the share capital of our Company or our Subsidiaries.

(c) Save for the issuance of our subscribers' shares upon our incorporation and the new Shares issued for the Acquisitions and to be issued for the Public Issue as disclosed in Section 4.1.1 of this Prospectus, no shares, debentures, warrants, options, convertible securities or uncalled capital of our Group have been or are proposed to be issued as fully or partly paid-up, in cash or otherwise than in cash, within the 2 years preceding the date of this Prospectus.

(d) As at the date of this Prospectus, our Group does not have any outstanding convertible debt securities, options, warrants or uncalled capital.

13.2 EXTRACTS OF OUR CONSTITUTION

The following provisions are extracted from our Constitution and are qualified in its entirety by the provisions of our Constitution and by applicable law. Terms defined in our Constitution shall have the same meaning when used here unless they are otherwise defined here or the context otherwise requires.

13.2.1 Remuneration, voting and borrowing powers of Directors

(a) Directors' remuneration

<u>Clause 84</u>

A Managing Director or an Executive Director shall, subject to the terms of any agreement entered into in any particular case, receive such remuneration (whether by way of salary, bonus, commission, or participation in profits, or partly in one way and partly in another and other benefits) as the Board of Directors may determine.

<u>Clause 89</u>

An Alternate Director:

(1) has no entitlement to receive remuneration from the Company and any fee paid by the Company to the Alternate Director shall be deducted from the Appointer's remuneration; and

(2) is entitled to be reimbursed for all the travelling and other expenses properly incurred by him in attending the Board Meetings on behalf of the Appointer from the Company.

<u>Clause 90(2)</u>

The Board may fix, determine and vary the powers, duties and remuneration of any person appointed as an associate director.

Clause 93

(1) The Company may from time to time by an ordinary resolution passed at a General Meeting, approve the remuneration of the Directors, who hold non-executive office with the Company, for their services as non-executive Directors.

(2) Subject to Clause 84, the fees of the Directors and any benefits payable to the Directors shall be subject to annual shareholders' approval at a General Meeting.

(3) If the fee of each such non-executive Director is not specifically fixed by the Members, then the quantum of fees to be paid to each non-executive Director within the overall limits fixed by the Members, shall be decided by resolution of the Board. In default of any decision being made in this respect by the Board, the fees payable to the non-executive Directors shall be divided equally amongst themselves and such a Director holding office for only part of a year shall be entitled to a proportionate part of a full year's fees. The non-executive Directors shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

(4) The following expenses shall be determined by the Directors:

(a) Traveling, hotel and other expenses properly incurred by the Directors in attending and returning from meetings of the Directors or any committee of the Directors or General Meetings of the Company or in connection with the business of the Company; and

(b) Other expenses properly incurred by the Directors arising from the requirements imposed by the authorities to enable the Directors to effectively discharge their duties.

(5) Executive Directors of the Company shall be remunerated in the manner referred to in Clause 84 but such remuneration shall not include a commission on or percentage of turnover.

(b) Voting and borrowing powers of Directors

Clause 87

An Alternate Director is entitled to receive notice of Board Meetings and, if the Appointer is not present at such a meeting, is entitled to attend and vote in his stead.

Clause 90(3)

A person appointed as an associate director does not have any right to attend or vote at any Board Meetings except by the invitation and with the consent of the Board.

Clause 95

Without limiting the generality of Clause 94(1) and (2), the Directors may, subject to the Act and the Listing Requirements, exercise all the powers of the Company to do all or any of the following for any debt, liability, or obligation of the Company or of any third party:

(1) borrow money;

(2) mortgage or charge its undertaking, property, and uncalled capital, or any part of the undertaking, property and uncalled capital;

(3) issue debentures and other Securities whether outright or as security; and/or

(4) (a) lend and advance money or give credit to any person or company;

(b) guarantee and give guarantees or indemnities for the payment of money or the performance of contracts or obligations by any person or company;

(c) secure or undertake in any way the repayment of moneys lent or advanced to or the liabilities incurred by any person or company;

and otherwise to assist any person or company.

Clause 105(a)

A Director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest.

Clause 107

(1) The Directors may pass a resolution without a Board Meeting, if a majority of the Directors entitled to vote and sign on the resolution signed the resolution, signifying their agreement to the resolution set out in the document.

(2) Any such resolution may consist of several documents in like form, each signed by one (1) or more of the Directors, and shall be as valid and effectual as if it were a resolution duly passed at a Board Meeting.

Clause 114

(1) No business is to be transacted at any Board Meeting unless a quorum of Directors is present at the time when the meeting proceeds to business.

(2) Two (2) Directors personally present at a meeting shall constitute a quorum.

(3) In this clause, "Director" includes Alternate Director.

Clause 118

(1) Subject to this Constitution, questions arising at a Board Meeting shall be decided by a majority of votes of Directors present and voting and any such decision shall for all purposes be deemed a decision of the Directors.

(2) Each Director is entitled to cast one (1) vote on each matter for determination.

Clause 119

In the case of an equality of votes, the chairperson of the Board Meeting is entitled to a second or casting vote, except where two (2) Directors form a quorum, the chairperson of a meeting at which only such a quorum is present, or at which only two (2) Directors are competent to vote on the question at issue shall not have a casting vote.

13.2.2 Changes to share capital

Clause 46

(1) The Company may from time to time by ordinary resolution and subject to other applicable laws or requirements:

(a) consolidate and divide all or any of its share capital, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived; or

(b) subdivide its shares or any of them into shares, whichever is in the subdivision; the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived.

(2) The Company may from time to time by special resolution and subject to other applicable requirements:

(a) cancel shares which, at the date of the passing of the resolution in that regard, have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled or in such other manner allowed by law; or

(b) reduce its share capital in such manner permitted by law, and (where applicable) subject to the relevant required approvals being obtained.

(3) The Company shall have the power, subject to and in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines in respect thereof for the time being in force, to purchase its own shares and thereafter to deal with the shares purchased in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines thereunder or issued by Bursa Securities and any other relevant authorities in respect thereof.

13.2.3 Transfer of securities

Clause 13

Clauses 14 and 15 shall apply to Deposited Securities.

Clause 14

The transfer of any Deposited Security or class of Deposited Security of the Company, shall be by way of book entry by the Depository in accordance with the Rules and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the Deposited Securities.

Clause 15

Where:

(a) the Securities of the Company are listed on another stock exchange; and

(b) the Company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act 1998, as the case may be, under the Rules in respect of such Securities,

the Company shall, upon request of a Securities holder, permit a transmission of Securities held by such Securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the Company in Malaysia and vice versa provided that there shall be no change in the ownership of such Securities.

Clause 17

(1) Subject to this Constitution and other written laws, any Shareholder or debenture holder may transfer all or any of his shares or debentures by instrument of transfer as prescribed under the Act.

(2) The instrument of transfer must be executed by or on behalf of the transferor and the transferee.

(3) The transferor shall remain as the holder of such shares or debentures until the transfer is registered and the name of the transferee is entered in the Register of Members or register of debenture holders in respect of the shares or debentures respectively.

Clause 18

(1) To enable the Company to register the name of the transferee, the following items in relation to the transfer of shares or debentures must be delivered by the transferor to the Office of the Company:

(a) the instrument of transfer duly executed and stamped;

(b) the certificate of the shares or debentures which the instrument of transfer relates; and

(c) any other evidence as the Directors may reasonably require showing the right of the transferor to make the transfer.

(2) Upon receipt of the items referred to in Clause 18(1), the Company shall, upon the approval of the Board and unless otherwise resolved, register the name of the transferee in the Register of Members or register of debenture holders (as applicable).

Clause 19

(1) The Directors may decline or delay to register the transfer of shares within thirty (30) days from the receipt of the instrument of transfer if:

(a) the shares are not fully paid shares;

(b) the Directors passed a resolution with full justification to refuse or delay the registration of transfer;

(c) the Company has a lien on the shares; and/or

(d) the Shareholder fails to pay the Company an amount due in respect of those shares, whether by way of consideration for the issue of the shares or in respect of the sums payable by the Shareholder in accordance with this Constitution.

(2) Where applicable, the Company shall send a notice of the resolution referred to in Clause 19(1)(b) to the transferor and transferee, within seven (7) days of the resolution being passed by the Directors.

Clause 20

On giving at least fourteen (14) days' notice to the Registrar to close the Register of Members or register of debenture holders, the Company may close the Register of Members or register for any class of members or register of debenture holders (collectively, the "Registers") for the purpose of updating the Registers. The registration of transfer may be suspended at such time and for such period as the Directors may from time to time determine, provided that no part of the relevant Register(s) be closed for more than thirty (30) days in aggregate in any calendar year.

13.2.4 Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights

Clause 7(2)

A holder of ordinary share(s) shall have the following voting rights:

(a) Right to vote on a show of hands to one (1) vote on any resolution of the Company; and

(b) Right to vote on a poll to one (1) vote for every share held on any resolution of the Company.

Clause 8

(1) If at any time the share capital is divided into different classes of shares, the rights attached to each class of shares (unless otherwise provided by the terms of issue of the shares of that class) may only, whether or not the Company is being wound up, be varied:

(a) with the consent in writing of the holders holding not less than seventy-five percent (75%) of the total voting rights of the holders of that class of shares; or

(b) by a special resolution passed by a separate meeting of the holders of that class of shares sanctioning the variation.

(2) The provisions of this Constitution relating to General Meetings apply with the necessary modifications to every separate meeting of the holders of the shares of the class referred to in Clause 8(1), except that:

(a) for a meeting other than an adjourned meeting, a quorum is constituted by two (2) persons present holding at least one-third (1/3) of the number of issued shares of such class, excluding any shares of that class held as treasury shares;

(b) if that class of shares only has one holder, a quorum is constituted by one (1) person present holding shares of such class; and

(c) for an adjourned meeting, a quorum is constituted by one (1) person present holding share(s) of such class.

(3) The rights attached to an existing class of preference shares shall be deemed to be varied by the issue of new preference shares that rank equally with the existing class of preference shares unless such issuance was authorised by:

(a) the terms of the issue of the existing preference shares; or

(b) this Constitution of the Company as in force at the time when the existing preference shares were issued.

Clause 12

(1) Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares but subject always to the Act, the Listing Requirements and this Constitution, the Directors have the right to:

(a) issue and allot shares in the Company; and

(b) grant rights to subscribe for shares or options over unissued shares in the Company.

(2) Subject to the Act, the Listing Requirements, this Constitution and the relevant Shareholders' approval being obtained, the Directors may issue any shares (including rights or options over subscription of such shares):

(a) with such preferred, deferred, or other special rights or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine;

(b) to any person, whether a Member or not, in such numbers or proportions as the Directors may determine; and

(c) for such consideration as the Directors may determine.

(3) (a) Subject to the Act, the Listing Requirements and any direction to the contrary that may be given by the Company in General Meeting, all new shares or other convertible securities shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of General Meetings in proportion as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled.

(b) The offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company.

(c) The Directors may likewise also dispose of any new share or security which (by reason of the ratio which the new shares or securities bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Constitution.

<u>Clause 44</u>

(1) The stockholders shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which the stock arose.

(2) However, no such privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by any such part of stock which would not, if existing shares have conferred that privilege or advantage.

<u>Clause 137</u>

(1) A dividend may be declared by:

(a) the Director; or

(b) the Members on the recommendation of the Board of Directors as it thinks appropriate.

(2) The payment of a dividend is to those holders of such class of shares as the Directors have determined in accordance with and subject to any conditions upon which the shares have been issued.

(3) A dividend shall not exceed the amount recommended by the Directors.

<u>Clause 150</u>

(1) If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company:

(a) divide amongst the Members in kind the whole or any part of the property, if any, of the Company, whether they consist of property of the same kind or not;

(b) set a value as the liquidator considers fair upon the property, if any referred to in Clause 150(1)(a);

(c) determine how the division of property, if any is to be carried out as between the Members or different classes of Members; and

(d) vest the whole or any part of the property, if any, of the Company in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit.

(2) No Member is compelled to accept any shares or other Securities on which there is any liability.

13.3 LIMITATION ON THE RIGHT TO OWN SECURITIES

There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares imposed by law or by constituent documents of the Company.

13.4 PUBLIC TAKE-OVERS

During the last financial year and up to the LPD, there were no:

(a) public take-over offers by third parties in respect of our Group's shares; and

(b) public take-over offers by our Group in respect of other companies' shares.

13.5 MATERIAL CONTRACTS

Save as disclosed below, we have not entered into any contracts which are material (not being contracts entered into in the ordinary course of business) within the period covered by the historical financial information as disclosed in this Prospectus up to the date of this Prospectus:

(a) Sale and Purchase Agreement dated 3 July 2017 entered into between Penang Development Corporation (as vendor) and STSB (as purchaser) for the purchase of a piece of land situated in Daerah Seberang Perai Tengah and forming part of Mukim 13 the site of which is marked Plot 350(A) Penang Science Park and containing an area of 106,304 sq ft, for a total consideration of RM4,251,804.40. As at the LPD, this transaction has been completed.

(b) Sale and Purchase Agreement dated 4 February 2020 entered into between Penang Development Corporation (as vendor) and STSB (as purchaser) for the purchase of a piece of land situated in Daerah Seberang Perai Tengah and forming part of Mukim 13 the site of which is marked Plot 322 Penang Science Park and containing an area of 176,173 sq ft, for a total consideration of RM8,808,703.00. As at the LPD, this transaction has been completed.

(c) Share sale agreement dated 3 August 2021 entered into between Keoh Beng Huat (as vendor) and SFP Tech (as purchaser) for the Acquisition of STSB. The Acquisition of STSB was completed on 18 March 2022.

(d) Share sale agreement dated 3 August 2021 entered into between Ooi Chong Soon, Lee Boon Ping and Hong Lai Guan (collectively as the vendors) and SFP Tech (as purchaser) for the Acquisition of EEASB. The Acquisition of EEASB was completed on 18 March 2022.

(e) Tenancy agreement dated 17 November 2021 entered into between STSB and RPD MFG Connectivity Sdn Bhd for the rental of the first floor of the Plot 350(A) (Manufacturing Plant 2) to RPD MFG Connectivity Sdn Bhd.

(f) Underwriting agreement dated 20 April 2022 entered between SFP Tech and PIVB for the underwriting of 143,440,000 IPO Shares as set out in Section 4.5 of this Prospectus. Please refer to Section 4.6 of this Prospectus for the salient terms of the Underwriting Agreement.

13.6 CONSENTS

(a) The written consents of the Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent, Solicitors for the Listing, Share Registrar, Issuing House and Company Secretary for the inclusion in this Prospectus of their names in the form and context in which their names appear in this Prospectus have been given before the issue of this Prospectus, and have not subsequently been withdrawn.

(b) The written consent of the External Auditors and Reporting Accountants for the inclusion in this Prospectus of their name, the Accountant's Report and the Reporting Accountants' Report on the Pro Forma Consolidated Statements of Financial Position in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus, and has not subsequently been withdrawn.

(c) The written consent of the IMR for the inclusion in this Prospectus of its name and IMR Report in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus, and has not subsequently been withdrawn.

13.7 RESPONSIBILITY STATEMENTS

(a) PIVB acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts relating to the IPO.

(b) This Prospectus has been seen and approved by our Directors and Promoter and they collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

13.8 DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at out registered office during office hours for a period of 6 months from the date of this Prospectus:

(a) our Constitution;

(b) service contract agreements of Chang Chee Jia and Thiang Koe Tat as set out in Section 5.7 of this Prospectus;

(c) the IMR Report referred to in Section 7 of this Prospectus;

(d) the Reporting Accountants' Report relating to the Pro Forma Consolidated Financial Statements referred to in Section 11.5 of this Prospectus;

(e) the Accountants' Report as included in Section 12 of this Prospectus;

(f) material contracts as set out in Section 13.5 of this Prospectus;

(g) the letters of consent referred to in Section 13.6 of this Prospectus;

(h) the audited financial statements of STSB for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021;

(i) the audited financial statements of EEASB for the financial year ended 31 August 2018, financial year ended 31 August 2019, 16-month FPE 31 December 2020 and FYE 2021;

(j) the audited financial statement of SFP Tech for the financial period 8 February 2021 (date of incorporation) to 31 December 2021; and

(k) cause papers in relation to the Industrial Court Case as set out in Section 6.17 of this Prospectus.

14. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC COPY OF OUR PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT OUR ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

14.1 OPENING AND CLOSING OF APPLICATIONS

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 26 MAY 2022

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 2 JUNE 2022

Applications for the IPO Shares will open and close at the times and dates stated above.

In the event there is any change to the dates stated above, we will advertise the notice of the change in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

Late Applications will not be accepted.

14.2 METHODS OF APPLICATIONS

14.2.1 Application for our IPO Shares by the Malaysian Public and Eligible Persons

Application must accord with this Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

No.	Types of Application and category of investors	Application method
(a)	Applications by Malaysian Public:	
	(i) Individuals	▪ **WHITE** Application Form; or ▪ Electronic Share Application; or ▪ Internet Share Application
	(ii) Non-Individuals	▪ **WHITE** Application Form only
(b)	Applications by Eligible Persons	▪ **PINK** Application Form only

14.2.2 Application by selected investors via Placement

No.	Types of Application	Application method
(a)	Applications by selected investors	The Sole Placement Agent will contact the selected investors directly. They should follow the Sole Placement Agent's instructions.
(b)	Applications by Bumiputera Investors approved by MITI	The Sole Placement Agent will contact the Bumiputera Investors approved by MITI directly. They should follow the Sole Placement Agent's instructions.

14.3 ELIGIBILITY

14.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

14.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfil all of the following:

(a) You must be one of the following:

(i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

(ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(b) You must not be a director or employee of our Issuing House or an immediate family member of a director or employee of our Issuing House; and

(c) You must submit Applications by using only one of the following methods:

(i) White Application Form;

(ii) Electronic Share Application; or

(iii) Internet Share Application.

14.3.3 Application by Eligible Persons

The Eligible Persons (including any entities, wherever established) will be provided with Pink Application Forms and letters from us detailing their respective allocation, as well as detailed procedures on how to subscribe to the allocated IPO shares. Applicants must follow the notes and instructions in those documents and where relevant, of our Prospectus.

The Eligible Persons may request for a copy of the printed Prospectus from our Company at no cost and are given an option to have the printed Prospectus delivered to them free of charge, or to obtain the printed Prospectus from our Company, our Issuing House, PIVB, Participating Organisations of Bursa Securities and Members of the Association of Banks in Malaysia or Malaysian Investment Banking Association.

The Eligible Persons are not precluded from making additional application under the Malaysian Public category using either the White Application Form, Electronic Share Application, or Internet Share Application.

14.4 PROCEDURES FOR APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform STRICTLY to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.30 for each IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 720"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(a) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (*197101000970 (11324-H)*)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(b) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at the following address:

Tricor Investor & Issuing House Services Sdn Bhd (*197101000970 (11324-H)*)
Tricor Customer Service Centre
Unit G-3, Ground Floor
Vertical Podium
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 2 June 2022 or by such other time and date specified in any change to the date or time for closing.

We, together with our Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to our Issuing House.

14.5 PROCEDURES FOR APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

The exact procedures, terms and conditions for Electronic Share Application are set out on the ATM screens of the relevant Participating Financial Institutions.

14.6 PROCEDURES FOR APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

14.7 AUTHORITY OF OUR BOARD AND OUR ISSUING HOUSE

Our Issuing House, on the authority of our Board reserves the right to:

(a) reject Applications which:

  (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

  (ii) are illegible, incomplete or inaccurate; or

  (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or

(b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 14.9 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of our Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

14.8 OVER / UNDER-SUBSCRIPTION

In the event of over-subscription, our Issuing House will conduct a ballot in the manner approved by our Directors to determine the acceptance of Applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting and allocating our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market for our Shares.

The basis of allocation of shares and the balloting results in connection therewith will be furnished by our Issuing House to Bursa Securities, all major Bahasa Malaysia and English newspapers as well as posted on our Issuing House's website https://tiih.online within 1 Market Day after the balloting event.

Pursuant to the Listing Requirements we are required to have a minimum of 25% of our Company's issued share capital to be held by at least 200 public shareholders holding not less than 100 Shares each upon Listing and completion of our IPO. We expect to achieve this at the point of Listing. In the event the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all Applications will be returned in full (without interest).

In the event of an under-subscription of our IPO Shares by the Malaysian Public and / or eligible Directors, employees and persons who have contributed to the success of our Group, subject to the underwriting arrangements and reallocation as set out in Section 4.1.1(c) of this Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by the Underwriter based on the terms of the Underwriting Agreement.

14.9 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful / partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

14.9.1 For applications by way of Application Forms

(a) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.

(b) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by our Issuing House as per items (a) and (b) above (as the case may be).

(d) Our Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (b) above (as the case may be).

14.9.2 For applications by way of Electronic Share Application and Internet Share Application

(a) Our Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institutions or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from our Issuing House.

(b) You may check your account on the 5th Market Day from the balloting date.

(c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by our Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institutions will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institutions will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from our Issuing House.

14.10 SUCCESSFUL APPLICANTS

If you are successful in your application:

(a) Our IPO Shares allotted to you will be credited into your CDS account.

(b) A notice of allotment will be despatched to you at your last address maintained with Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(c) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(d) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

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14.11 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	Issuing House Enquiry Services at telephone no. (603) 2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, within **1 Market Day** after the balloting date.

You may also check the status of your Application at the above website, **5 Market Days** after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in the Section 12 of Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2021

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EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

CORPORATE INFORMATION

Directors	Ooi Chong Soon Hong Lai Guan Lee Boon Ping
Secretaries	Chew Choy Moon Chew Siew Cheng
Registered Office	Suite A Level 9 Wawasan Open University 54 Jalan Sultan Ahmad Shah 10500 Georgetown Penang
Business Address	No. 21 Lintang Beringin 3 Diamond Valley Industrial Park Permatang Damar Laut 11900 Bayan Lepas Penang
Auditors	Grant Thornton Malaysia PLT Chartered Accountants
Bankers	Public Bank Berhad UOB Bank Berhad

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended **31 December 2021**.

PRINCIPAL ACTIVITY

The principal activities of the Company in the course of the financial year remain unchanged and consist of designing and manufacturing of automation equipment.

RESULTS

	RM
Profit for the financial year	**1,634,438**

In the opinion of the directors, the results of the operations of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

There were no dividends declared or paid by the Company since the end of the previous financial period.

The directors do not recommend any dividend payment for the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

SHARE CAPITAL AND DEBENTURE

There were no changes in the issued and paid up capital of the Company during the financial year.

DIRECTORS

The directors of the Company in office since the beginning of the financial year to the date of this report are:

Ooi Chong Soon
Hong Lai Guan
Lee Boon Ping

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interests of directors in office at the end of the financial year in shares in the Company during the financial year are as follows:

	Number of ordinary shares			
	Balance at 1.1.21	**Bought**	**Sold**	**Balance at 31.12.21**
Ooi Chong Soon	175,000	-	-	175,000
Hong Lai Guan	175,000	-	-	175,000
Lee Boon Ping	150,000	-	-	150,000

DIRECTORS' REMUNERATION AND BENEFITS

Since the end of the previous financial period, no director of the Company has received or become entitled to receive any benefit (other than a benefit as disclosed in Note 17 to the financial statements) by reason of a contract made by the Company or a related corporation with a director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest, other than those related party transactions disclosed in the notes to the financial statements.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

No indemnity has been given to or insurance effected for any of the directors and officers of the Company during the financial year.

OTHER STATUTORY INFORMATION

Before the financial statements of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no bad debts to be written off and no provision for doubtful debts was required, and

(ii) to ensure that any current assets which were unlikely to realised in the ordinary course of business including their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

(i) that would render it necessary to write off any bad debts or to make any provision for doubtful debts in the financial statements of the Company; or

(ii) that would render the value attributed to the current assets in the financial statements of the Company misleading; or

(iii) that have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate; or

(iv) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

Registration No. 201501021102 (1146438-P)

At the date of this report, there does not exist:

(i) any charge on the assets of the Company that has arisen since the end of the financial year which secures the liabilities of any other person, and

(ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

In the opinion of the directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations as and when they fall due, and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the current financial year in which this report is made.

SIGNIFICANT EVENTS

The details of the significant events are disclosed in Note 24 to the financial statements.

AUDITORS

The total amount of fees paid to or receivable by the auditors, **Grant Thornton Malaysia PLT**, as remuneration for their services as auditors of the Company for the financial year ended 31 December 2021 is RM25,000.

There was no indemnity given to or insurance effected for the auditors of the Company.

The auditors, **Grant Thornton Malaysia PLT**, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:

....	....
Hong Lai Guan	**Ooi Chong Soon**

Penang,

Date: 27 APR 2022

Registration No. 201501021102 (1146438-P)

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

DIRECTORS' STATEMENT

In the opinion of the directors, the financial statements set out on pages 10 to 39 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at **31 December 2021** and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:

....	....
Hong Lai Guan	**Ooi Chong Soon**

Date: 27 APR 2022

STATUTORY DECLARATION

I, **Hong Lai Guan**, the director primarily responsible for the financial management of **EST Exhibit Automation Sdn. Bhd.**, do solemnly and sincerely declare that the financial statements set out on pages 10 to 39 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed at Penang, this)
day of 27 APR 2022)

....
Hong Lai Guan

Before me,

PESURUHJAYA SUMPAH
No: P 125
Nama: GOH SUAN BEE
01-01-2022 – 31-12-2024
MALAYSIA

....
Commissioner for Oaths

20 Lebuh King
10200 Pulau Pinang

GrantThornton

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

Grant Thornton Malaysia PLT
Level 5, Menara BHL
51 Jalan Sultan Ahmad Shah
10050 Penang
Malaysia

T +604 228 7828
F +604 227 9828

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **EST Exhibit Automation Sdn. Bhd.**, which comprise the statement of financial position as at **31 December 2021**, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial year then ended, and notes to the financial statements, including a summary of accounting policies, as set out on pages 10 to 39.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at **31 December 2021** and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in 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 *Auditors' Responsibilities for the Audit of the 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 Company 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 of 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.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

GrantThornton

Independent Auditors' Report To The Members Of
EST Exhibit Automation Sdn. Bhd. (cont'd)
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Company so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of the Company.

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:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

GrantThornton

Independent Auditors' Report To The Members Of
EST Exhibit Automation Sdn. Bhd. (cont'd)
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

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 Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Grant Thornton Malaysia PLT
AF: 0737
201906003682 (LLP0022494 - LCA)
Chartered Accountants

Terence Lau Han Wen
No. 03298/04/2023 J
Chartered Accountant

Penang

Date: 27 April 2022

Registration No. 201501021102 (1146438-P)

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	NOTE	31.12.21 RM	31.12.20 RM
ASSETS			
Non-current assets			
Property, plant and equipment	4	3,158,194	3,237,004
Deferred tax assets	5	16,000	-
		3,174,194	3,237,004
Current assets			
Inventories	6	1,297,065	1,385,358
Trade receivables	7	4,281,009	5,008,972
Other receivables, deposits and prepayments	8	105,882	109,254
Tax recoverable		163,626	-
Cash and bank balances	9	2,906,482	1,304,918
		8,754,064	7,808,502
TOTAL ASSETS		11,928,258	11,045,506
EQUITY AND LIABILITIES			
Share capital	10	500,000	500,000
Retained profits	11	5,313,828	3,679,390
Total equity		5,813,828	4,179,390
Non-current liability			
Borrowings	12	2,303,559	2,635,156
Current liabilities			
Trade payables	13	1,657,455	2,272,101
Other payables and accruals	14	1,048,348	994,351
Contract liabilities	15	678,440	534,266
Borrowings	12	426,628	359,398
Tax payable		-	70,844
		3,810,871	4,230,960
Total liabilities		6,114,430	6,866,116
TOTAL EQUITY AND LIABILITIES		11,928,258	11,045,506

The accompanying notes form an integral part of the financial statements.

Registration No. 201501021102 (1146438-P)

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	NOTE	**1.1.21 to 31.12.21 (12 months) RM**	1.9.19 to 31.12.20 (16 months) RM
Revenue	**16**	**12,100,922**	14,689,357
Cost of sales		**(8,264,808)**	(10,481,712)
Gross Profit		**3,836,114**	4,207,645
Other income		**25,637**	153,949
Administrative expenses		**(2,185,122)**	(2,232,338)
Operating profit		**1,676,629**	2,129,256
Finance cost		**(35,635)**	(90,828)
Profit before tax	**17**	**1,640,994**	2,038,428
Taxation	**18**	**(6,556)**	(13,000)
Net profit, representing total comprehensive income for the financial year/period		**1,634,438**	2,025,428

The accompanying notes form an integral part of the financial statements.

EST EXHIBIT AUTOMATION SDN BHD
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	NOTE	Share Capital RM	Distributable Retained Profits RM	Total RM
31.12.21				
Balance at 1.1.21		**500,000**	**3,679,390**	**4,179,390**
Total comprehensive income for the financial year		**-**	**1,634,438**	**1,634,438**
Balance at 31.12.21		**500,000**	**5,313,828**	**5,813,828**
31.12.20				
Balance at 1.9.19		500,000	1,773,962	2,273,962
Total comprehensive income for the financial period		-	2,025,428	2,025,428
Transactions with owners:				
Dividend	19	-	(120,000)	(120,000)
Balance at 31.12.20		500,000	3,679,390	4,179,390

The accompanying notes form an integral part of these financial statements.

Registration No. 201501021102 (1146438-P)

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	NOTE	**1.1.21 to 31.12.21 (12 months) RM**	1.9.19 to 31.12.20 (16 months) RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,640,994**	2,038,428
Adjustments for:			
Depreciation on property, plant and equipment		**316,339**	355,032
Interest expense		**35,635**	90,828
Interest income		**(255)**	(2,006)
Unrealised loss on foreign exchange		**5,134**	1,768
Operating profit before working capital changes		**1,997,847**	2,484,050
Decrease/(Increase) in inventories		**88,293**	(595,281)
Decrease/(Increase) in receivables		**731,335**	(451,823)
(Decrease)/Increase in payables		**(560,649)**	776,189
Increase/(Decrease) in contract liabilities		**144,174**	(783,245)
Cash generated from operations		**2,401,000**	1,429,890
Interest paid		**(35,635)**	(81,574)
Interest received		**255**	2,006
Income tax paid		**(257,026)**	(464,232)
Net cash from operating activities		**2,108,594**	886,090
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment, representing net cash used in investing activities		**(237,529)**	(240,548)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**-**	(120,000)
Drawdown of term loans	**A**	**-**	500,000
Net change in directors' account	**A**	**-**	(56,227)
Repayment of finance lease liabilities	**A**	**(74,180)**	(93,195)
Repayment of term loans	**A**	**(245,524)**	(138,870)
Net cash from financing activities		**(319,704)**	91,708
NET INCREASE IN CASH AND CASH EQUIVALENTS CARRIED FORWARD		**1,551,361**	737,250

The accompanying notes from an integral part of these financial statements

Registration No. 201501021102 (1146438-P)

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
NET INCREASE IN CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**1,551,361**	737,250
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**(5,134)**	(1,768)
CASH AND CASH EQUIVALENTS AT BEGINNING	**1,202,634**	467,152
CASH AND CASH EQUIVALENTS AT END	**2,748,861**	1,202,634
The cash and cash equivalents are represented by:		
Cash and bank balances	**2,906,482**	1,304,918
Bank overdraft	**(157,621)**	(102,284)
	2,748,861	1,202,634

A. Liabilities arising from financing activities

Reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities of the Company is as follows:

	Balance at beginning RM	Net cash flows RM	Balance at end RM
31.12.21			
Finance lease liabilities	**303,952**	**(74,180)**	**229,772**
Term loans	**2,588,318**	**(245,524)**	**2,342,794**
Total liabilities arising from financing activities	**2,892,270**	**(319,704)**	**2,572,566**
31.12.20			
Amount due from directors	56,227	(56,227)	-
Finance lease liabilities	397,147	(93,195)	303,952
Term loans	2,217,934	370,384	2,588,318
Total liabilities arising from financing activities	2,671,308	220,962	2,892,270

The accompanying notes form an integral part of these financial statements.

EST EXHIBIT AUTOMATION SDN. BHD.
Registration No. 201501021102 (1146438-P)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2021

1. **GENERAL INFORMATION**

The Company is a private limited liability company, incorporated and domiciled in Malaysia.

The principal activities of the Company in the course of the financial year remain unchanged and consist of designing and manufacturing of automation equipment.

The registered office of the Company is located at Suite A, Level 9, Wawasan Open University, 54, Jalan Sultan Ahmad Shah, 10500 George Town, Penang.

The principal place of business of the Company is located at No. 21, Lintang Beringin 3, Diamond Valley Industrial Park, Permatang Damar Laut, 11900 Bayan Lepas, Penang.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 20 April 2022.

2. **BASIS OF PREPARATION**

2.1 **Statement of Compliance**

The financial statements of the Company have been prepared in accordance with applicable Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

2.2 **Basis of Measurement**

The financial statements of the Company are prepared under the historical cost convention, unless otherwise indicated in the summary of accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

2.3 **Functional and Presentation Currency**

The financial statements are presented in Ringgit Malaysia ("RM") which is also the Company's functional currency.

2.4 **Adoption of Amendments to MFRSs**

The accounting policies adopted by the Company are consistent with those of the previous financial years except for the adoption of the following amendment to MFRSs that are mandatory for the current financial year:

Effective for annual periods beginning on or after 1 June 2020
Amendments to MFRS 16 Leases - Covid-19 Related Rent Concessions

Effective for annual periods beginning on or after 1 January 2021
Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement, MFRS 7 Financial Instruments: Disclosures, MFRS 4 Insurance Contracts and MFRS 16 Leases: Interest Rate Benchmark Reform – Phase 2

Initial application for the above amendment to MFRSs did not have any material impact to the financial statements of the Company upon adoption.

2.5 **Standards Issued But Not Yet Effective**

The following are accounting standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Company:

Effective for annual period beginning on or after 1 April 2021
Amendment to MFRS 16 Leases: Covid-19 - Related Rent Concessions beyond 30 June 2021

Effective for annual periods beginning on or after 1 January 2022
Amendments to MFRS 3 Business Combination - Reference to the Conceptual Framework
Amendments to MFRS 116 Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contract - Cost of Fulfilling a Contract
Annual Improvements to MFRS Standards 2018 - 2020

Effective for annual periods beginning on or after 1 January 2023
MFRS 17 Insurance Contracts
Amendments to MFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying MFRS 9
Amendments to MFRS 17 Initial Application of MFRS 17 and MFRS 9 – Comparative Information
Amendments to MFRS 101 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current
Amendments to MFRS 101 Presentation of Financial Statements – Disclosure of Accounting Policies
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates
Amendments to MFRS 112 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Effective date yet to be confirmed
Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The initial application of the above standards is not expected to have any material impacts to the financial statements of the Company upon adoption.

2.6 Significant Accounting Estimates and Judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.6.1 Judgements made in applying accounting policies

There are no significant areas of critical judgement in applying accounting policies that have any significant effect on the amount recognised in the financial statements other than the following:

Revenue recognition

Revenue from the sale of goods and rendering of services are recognised at the point in time when control of the goods is transferred and service is rendered to the customer. The management applied judgements in identifying the performance obligations and estimating the point of revenue recognition under different contractual agreements.

2.6.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) **Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the time the estimate is made. Possible changes in these estimates could result in revisions to the valuations of inventories.

The carrying amount of the Company's inventories is disclosed in Note 6 to the financial statements.

(ii) **Provision for expected credit losses ("ECL") of trade receivables**

The Company uses a provision matrix to calculate ECL for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECL on the Company's trade receivables is disclosed in Note 21.3 to the financial statements.

3. **ACCOUNTING POLICIES**

3.1 **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Categories	Years
Light industrial building	50
Furniture, fittings and office equipment	5 - 10
Computer	2.5
Electrical installation, air conditioners and renovation	5 - 10
Motor vehicles	5

The residual value, useful life and depreciation method are reviewed at the end of each reporting year to ensure that the amount, method and year of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is charged or credited to profit or loss.

3.2 **Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. At the commencement of a lease, the Company recognises a right-of-use asset and a corresponding lease liability.

(i) **Right-of-use assets**

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

(ii) **Lease liabilities**

At the commencement date of the lease, lease liabilities are recognised and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) **Short term leases and leases of low-value assets**

The Company applies (i) the short-term lease recognition exemption to short-term leases of premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option), and (ii) the lease of low-value assets recognition exemption to leases of equipment that are considered to be of low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3.3 **Impairment of Non-Financial Assets**

The Company assesses at the end of each reporting period whether there is an indication that an asset other than inventories may be impaired. For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the profit or loss except for assets that were previously revalued where the revaluation surplus was taken to other comprehensive income. In this case the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation surplus.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.4 **Financial Instruments**

3.4.1 **Recognition**

Financial assets or financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

3.4.2 **Classification and subsequent measurement of financial assets**

All financial assets are initially measured at fair value adjusted for transaction costs except for those trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient.

Financial assets, other than those designated as hedging instruments, are classified into the following categories:

- amortised cost ("AC")
- fair value through profit or loss ("FVTPL")
- fair value through other comprehensive income ("FVOCI")

In the periods presented, the Company does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at AC

Financial assets are measured at AC if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these financial assets are measured at AC using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and bank balances, trade and other receivables fall into this category of financial instruments.

3.4.3 **Impairment of financial assets**

MFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss ("ECL") model'. Instruments within the scope of the new requirements included loans, trade and other receivables and other debt-type financial assets measured at AC.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2')

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month ECLs' are recognised for the Stage 1 category while 'lifetime ECLs' are recognised for the Stage 2 category.

Measurement of the ECLs is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

For other receivables, the Company measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognise lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

3.4.4 **Classification and measurement of financial liabilities**

The Company's financial liabilities include borrowings, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

3.4.5 **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.4.6 **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or

- The Company has transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, or (c) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or have entered into a pass-through arrangement, it evaluates if, and to what extent, they have retained the risks and rewards of ownership. When they have neither nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of their continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company had retained.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received together with any cumulative gain or loss that has been recognised in other comprehensive income is recognised in the statements of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.5 **Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost in the case of work-in-progress and finished goods include materials, direct labour and attributable production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and estimated costs necessary to make the sale.

3.6 **Cash and Cash Equivalents**

Cash comprises cash in hand, cash at bank and demand deposits. Cash equivalents are short term and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, against which bank overdraft balances, if any, are deducted.

3.7 **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

3.8 **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the year of time that is necessary to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred.

Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Company incurred in connection with the borrowing of funds.

3.9 Revenue Recognition

To determine whether to recognise revenue, the Company follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognising revenue when/as performance obligations are satisfied.

Revenue is recognised only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer.

The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and
(iii) the Company's performance does not create an asset with an alternative use to the Company and has an enforceable right to payment for performance completed to date.

Sales of automation systems

Revenue from sale of automation systems usually includes the customised system/equipment and installation. The sale of the customised system/equipment and installation service are considered as one performance obligation because the promises to transfer customised system/equipment and provide installation service are not capable of being distinct and they are highly interrelated.

The performance obligation for sale of system/equipment is satisfied at a point in time because the customer does not control the system/equipment and customer does not simultaneously receive and consume the benefits from the system/equipment manufactured by the Company.

Revenue is recognised upon shipment or at delivery destination point, provided that the product meets the performance acceptance criteria which is normally carried out prior to shipment. Under certain circumstances, customer acceptance is conducted at customer's site i.e. to ensure that the system/equipment purchased can be integrated with the customer's existing production flow. Under such circumstance, revenue is only recognised once customer acceptance has been received at customer's site.

Trading of engineering parts

Revenue from trading of engineering parts arising from sourcing for engineering parts for customised system/equipment and is recognised at a point in time when control of the goods is transferred to the customer, generally on the delivery of the goods to the customers.

Interest income

Interest income is recognised on a time proportion basis using the applicable effective interest rate.

Contract balances

This refers to the closing balances of trade receivables as at the reporting period.

Trade receivables

A receivable represents the Company's right to receive an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

3.10 Employee Benefits

Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave is recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

3.11 Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.12 Sales and Service Tax ("SST")

Revenue, expenses and assets are recognised net of SST except:

- where the SST incurred in a purchase of asset or service is not recoverable from the authority, in which case the SST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with SST inclusive.

The net amount of SST recoverable from, or payable to, the authority is included as part of receivables or payables in the consolidated statement of financial position.

3.13 **Foreign Currency Translation**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting year are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities measured at historical cost in a foreign currency at the end of the reporting year are translated to the functional currency at the exchange rate at the date of the transaction except for those measured at fair value shall be translated at the exchange rate at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the year except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in other comprehensive income.

3.14 **Share Capital, Share Issuance Costs and Dividends**

Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Share issuance costs

Incremental external costs directly attributable to the issuance of new shares are deducted against equity.

Dividends

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained profits and recognised as a liability in the period in which they are declared and approved.

3.15 **Related Parties**

A related party is a person or entity that is related to the Company. A related party transaction is a transfer of resources, services or obligations between the Company and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the Company if that person:

(i) Has control or joint control over the Company;
(ii) Has significant influence over the Company; or
(iii) Is a member of the key management personnel of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group.
(ii) The entity is an associate or joint venture of the other entity.
(iii) Both entities are joint ventures of the same third party.
(iv) The entity is a joint venture of a third entity and the other entity is an associate of the same third entity.
(v) The entity is a post-employment benefit plan for the benefits of employees of either the Company or an entity related to the Company.
(vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
(vii) A person identified in (a)(i) above has significant influence over the Company or is a member of the key management personnel of the entity.
(viii) The entity, or any member of a company of which it is a part, provides key management personnel services to the Company.

4. **PROPERTY, PLANT AND EQUIPMENT**

	Light industrial building RM	Furniture, fittings and office equipment RM	Computer RM	Electrical installation, air conditioners and renovation RM	Motor vehicles RM	Total RM
31.12.21						
At cost						
Balance at 1.1.21	**2,517,227**	**92,042**	**329,673**	**322,371**	**608,609**	**3,869,922**
Additions	**-**	**-**	**217,529**	**20,000**	**-**	**237,529**
Balance at 31.12.21	**2,517,227**	**92,042**	**547,202**	**342,371**	**608,609**	**4,107,451**
Accumulated depreciation						
Balance at 1.1.21	**100,690**	**21,176**	**99,767**	**62,998**	**348,287**	**632,918**
Current charge	**50,345**	**9,743**	**95,015**	**39,514**	**121,722**	**316,339**
Balance at 31.12.21	**151,035**	**30,919**	**194,782**	**102,512**	**470,009**	**949,257**
Carrying amount	**2,366,192**	**61,123**	**352,420**	**239,859**	**138,600**	**3,158,194**
31.12.20						
At cost						
Balance at 1.9.19	2,517,227	90,403	109,400	303,735	608,609	3,629,374
Additions	-	1,639	220,273	18,636	-	240,548
Balance at 31.12.20	2,517,227	92,042	329,673	322,371	608,609	3,869,922
Accumulated depreciation						
Balance at 1.9.19	33,563	8,388	36,509	13,435	185,991	277,886
Current charge	67,127	12,788	63,258	49,563	162,296	355,032
Balance at 31.12.20	100,690	21,176	99,767	62,998	348,287	632,918
Carrying amount	2,416,537	70,866	229,906	259,373	260,322	3,237,004

(i) The Company's light industrial building is pledged to licensed bank for banking facility granted to the Company as disclosed in Note 12 to the financial statements.

(ii) The Company's motor vehicles acquired under finance lease liabilities are as follows:

	31.12.21 **RM**	31.12.20 RM
Motor vehicles	**138,600**	260,322

The motor vehicles acquired under finance lease meets the definition of right-of-use assets. However, the Company elected not to disclose the right-of-use assets separately. Instead, they continue to be recognised under property, plant and equipment as though these assets are owned.

5. **DEFERRED TAX ASSETS**

	31.12.21 **RM**	31.12.20 RM
Under provision in prior year	**17,000**	-
Recognised in profit or loss	**(1,000)**	-
	16,000	-

The deferred tax assets as at the end of the reporting period are made up of the temporary differences arising from property, plant and equipment.

6. **INVENTORIES**

	31.12.21 **RM**	31.12.20 RM
At cost:		
Work-in-progress	**1,236,882**	1,385,358
Finished goods	**60,183**	-
	1,297,065	1,385,358

7. **TRADE RECEIVABLES**

The currency profile of trade receivables is as follows:

	31.12.21 **RM**	31.12.20 RM
Ringgit Malaysia	**4,175,924**	5,008,972
US Dollar	**105,085**	-
	4,281,009	5,008,972

The normal credit terms granted to trade receivables range from **30 to 90 days** (31.12.20: 30 to 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31.12.21	31.12.20
	RM	RM
Other receivables	**43,935**	3,978
Refundable deposits	**2,800**	32,058
Prepayments	**59,147**	73,218
	105,882	109,254

The currency profile of other receivables, deposits and prepayments is as follows:

	31.12.21	31.12.20
	RM	RM
Ringgit Malaysia	**91,109**	109,254
US Dollar	**14,773**	-
	105,882	109,254

9. CASH AND BANK BALANCES

The currency profile of cash and bank balances is as follows:

	31.12.21	31.12.20
	RM	RM
Ringgit Malaysia	**2,552,856**	1,111,761
US Dollar	**353,626**	193,157
	2,906,482	1,304,918

10. SHARE CAPITAL

	Number of ordinary shares		**Amount**	
	31.12.21	31.12.20	**31.12.21**	31.12.20
			RM	RM
Issued and fully paid with no par value	**500,000**	500,000	**500,000**	500,000

11. RETAINED PROFITS

The franking of dividends of the Company is under the single tier system and therefore, there are no restrictions on the Company to distribute dividends subject to the availability of retained profits.

12. BORROWINGS

	31.12.21 RM	31.12.20 RM
Non-current liabilities		
Finance lease liabilities		
Minimum payments	**246,396**	333,084
Less: Future finance charges	**(16,624)**	(29,132)
	229,772	303,952
Amount due within one year included under current liabilities	**(77,853)**	(74,180)
	151,919	229,772
Term loans		
Total amount repayable	**2,342,794**	2,588,318
Amount due within one year included under current liabilities	**(191,154)**	(182,934)
	2,151,640	2,405,384
	2,303,559	2,635,156
Current liabilities		
Bank overdraft	**157,621**	102,284
Finance lease liabilities	**77,853**	74,180
Term loans	**191,154**	182,934
	426,628	359,398

The borrowings (except for finance lease liabilities) are secured by way of:

(i) A facilities agreement;
(ii) Legal charge over the Company's light industrial building;
(iii) Joint and several guarantee of directors of the Company; and
(iv) Guarantee from Syarikat Jaminan Pembiayaan Perniagaan Berhad under Covid-19 Special Relief Fund of up to RM400,000.

The finance lease liabilities are secured over the corresponding assets acquired (Note 4) by the Company.

A summary of the effective interest rates and the maturities of the borrowings are as follows:

	Average effective interest rate per annum (%)	**Total RM**	**Within one year RM**	**More than one year and less than two years RM**	**More than two years and less than five years RM**	**More than five years RM**
31.12.21						
Bank overdraft	**6.32**	**157,621**	**157,621**	**-**	**-**	**-**
Finance lease liabilities	**4.60 - 5.56**	**229,772**	**77,853**	**73,952**	**75,075**	**2,892**
Term loans	**3.17 - 3.50**	**2,342,794**	**191,154**	**197,637**	**521,272**	**1,432,731**

	Average effective interest rate per annum (%)	Total RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
31.12.20						
Bank overdraft	6.32	102,284	102,284	-	-	-
Finance lease liabilities	4.60 - 5.56	303,952	74,180	77,853	149,027	2,892
Term loans	3.17 - 3.50	2,588,318	182,934	189,141	607,084	1,609,159

13. **TRADE PAYABLES**

The currency profile of trade payables is as follows:

	31.12.21 RM	31.12.20 RM
Ringgit Malaysia	**1,651,112**	2,272,101
US Dollar	**6,343**	-
	1,657,455	2,272,101

The trade payables are non-interest bearing and are normally settled within **30 to 90 days** (31.12.20: 30 to 90 days) credit terms.

14. **OTHER PAYABLES AND ACCRUALS**

	31.12.21 RM	31.12.20 RM
Other payables	**676,634**	682,958
Accruals	**348,298**	302,499
SST payables	**23,416**	8,894
	1,048,348	994,351

15. **CONTRACT LIABILITIES**

Contract liabilities comprised of deposits received from customers for manufacturing orders.

When the Company receives a deposit before production commences, this will give rise to contract liabilities at the start of a contract. The deposit will be reversed and recognised as revenue upon satisfying the performance obligation within the contract.

The performance obligation arising from all deposits received are expected to be satisfied within one year.

Contract liabilities outstanding at the beginning of the year amounting to **RM534,266** (31.12.20: RM1,317,511) have been recognised as revenue during the year.

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16. REVENUE

16.1 Disaggregated Revenue Information

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
Types of goods		
Sales of automation systems	**11,887,871**	14,312,306
Trading of engineering parts	**213,051**	377,051
Total revenue from contracts with customers	**12,100,922**	14,689,357
Geographical markets		
Malaysia	**11,581,310**	14,689,357
Mexico	**98,310**	-
Singapore	**421,302**	-
	12,100,922	14,689,357

Revenue is recognised at a point in time when the control of the goods or services are transferred to the customer. The amount of revenue recognised is adjusted for discounts and rebates.

17. PROFIT BEFORE TAX

This is arrived at:

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
After charging:		
Audit fee	**25,000**	25,000
Depreciation on property, plant and equipment	**316,339**	355,032
Interest expense on:		
- finance lease liabilities	**12,508**	22,390
- term loans	**18,136**	66,662
- overdraft	**4,991**	1,776
Realised loss on foreign exchange	**5,793**	21,513
Rental of forklift	**4,890**	10,160
Rental of premises	**33,438**	94,049
* Staff costs	**2,829,030**	2,696,144
Unrealised loss on foreign exchange	**5,134**	1,768
And crediting:		
Interest income	**255**	2,006

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
* Staff costs		
- Salaries, allowance and bonus	**2,504,775**	2,386,651
- EPF	**298,726**	283,872
- EIS	**2,619**	2,629
- SOCSO	**22,910**	22,992
	2,829,030	2,696,144

Included in staff costs of the Company is directors' emoluments as shown below:

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
- Salaries, allowances and bonus	**948,000**	864,000
- EPF	**113,760**	103,680
- EIS	**284**	379
- SOCSO	**2,486**	3,314
	1,064,530	971,373
- Benefits-in-kind	**19,500**	26,000
	1,084,030	997,373

18. TAXATION

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
Malaysian income tax:		
Based on results for the financial year		
- Current tax	**(22,663)**	(13,000)
- Deferred tax relating to the origination and reversal of temporary differences	**(1,000)**	-
	(23,663)	(13,000)
Over provision in prior year		
- Current tax	**107**	-
- Deferred tax	**17,000**	-
	17,107	-
	(6,556)	(13,000)

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The reconciliation of tax expense of the Company is as follows:

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
Profit before tax	**1,640,994**	2,038,428
Income tax at Malaysian statutory tax rate of 24%	**(393,839)**	(489,222)
Pioneer income not subject to tax	**410,058**	536,115
Income not subjected to tax	**13,803**	29,365
Expenses not deductible for tax purposes	**(59,720)**	(94,567)
Reduced tax rate on first RM600,000 chargeable income	**6,035**	5,309
	(23,663)	(13,000)
Over provision in prior year	**17,107**	-
	(6,556)	(13,000)

The Company has been granted pioneer status under the Promotion of Investments Act, 1986 by the Malaysia Industrial Development Authority which exempts 100% of statutory income in relation to the sales of factory automation machine and modules.

19. **DIVIDEND**

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
In respect of financial period ended 31 December 2020		
- First interim single tier dividend of RM0.24 per share	**-**	120,000

20. **RELATED PARTY DISCLOSURES**

(i) **Identity of related party**

The Company has related party relationship with its key management personnel, and the following party:

Related party	**Relationship**
EST Exhibit Solution ("EES")	A partnership which is jointly-controlled by a director of the Company. In the previous financial period, the partnership was struck off.

	1.1.21 to 31.12.21 (12 months) RM	1.9.19 to 31.12.20 (16 months) RM
Transaction with related party EES		
Purchases	**-**	249,000

(ii) **Compensation of key management personnel**

The Company has no other members of key management personnel apart from the Board of Directors which compensation has been shown in Note 17 to the financial statements.

Key management personnel are those persons including directors having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

21. **FINANCIAL INSTRUMENTS**

21.1 **Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as amortised cost ("AC").

	Carrying amount RM	AC RM
31.12.21		
Financial assets		
Trade receivables	**4,281,009**	**4,281,009**
Other receivables and refundable deposits	**46,735**	**46,735**
Cash and bank balances	**2,906,482**	**2,906,482**
	7,234,226	**7,234,226**
Financial liabilities		
Borrowings	**2,730,187**	**2,730,187**
Trade payables	**1,657,455**	**1,657,455**
Other payables and accruals	**1,024,932**	**1,024,932**
	5,412,574	**5,412,574**
31.12.20		
Financial assets		
Trade receivables	5,008,972	5,008,972
Other receivables and refundable deposits	36,036	36,036
Cash and bank balances	1,304,918	1,304,918
	6,349,926	6,349,926
Financial liabilities		
Borrowings	2,994,554	2,994,554
Trade payables	2,272,101	2,272,101
Other payables and accruals	985,457	985,457
	6,252,112	6,252,112

21.2 **Financial risk management**

The Company is exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and interest rate risk. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative activities.

21.3 **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's exposure to credit risk arises principally from its trade receivables.

The Company extends credit terms to customers that range between 30 to 90 days. Credit period extended to its customers is based on careful evaluation of the customers' financial condition and credit history. Receivables are monitored on an ongoing basis via Company's management reporting procedures and action will be taken for long outstanding debts. In order to further minimise its exposure to credit risk, the Company, in some instances, requires letters of credits and deposits from the customers.

New customers are subject to a credit evaluation process and existing customers' risk profiles are reviewed regularly with a view to setting appropriate terms of trade and credit limits. Where appropriate, further sales are suspended and legal actions are taken to attempt recoveries and mitigate losses for delinquent accounts.

In addition, as set out in Note 3.4, the Company assesses expected credit losses ("ECL") under MFRS 9 on trade receivables based on a provision matrix, the expected loss rates are based on the payment profile for sales in the past as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors have not been considered significant within the reporting period.

The Company applies the simplified approach to recognise lifetime expected credit losses for all trade receivables. The Company's ECL calculated under MFRS 9 is not material as at 31 December 2021 and hence, it was not provided for.

The ageing analysis of the Company's trade receivables is as follows:

	2021 RM	2020 RM
Not past due	**3,221,229**	450,770
1 to 30 days past due	**797,173**	2,557,840
31 to 60 days past due	**16,282**	1,121,180
61 to 90 days past due	**-**	-
Past due more than 90 days	**246,325**	879,182
	1,059,780	4,558,202
	4,281,009	5,008,972

Trade receivables that were past due but not impaired are creditworthy customers with good payment record with the Company. None of the Company's trade receivables that were past due but not impaired have been renegotiated during the financial year/period.

The Company has trade receivables amounting to **RM1,059,780** (31.12.20: RM4,558,202) that were past due but not impaired as the management is of the view that these debts will be collected in due course.

21.4 **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and bank balances to meet its working capital requirements.

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments:

	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
31.12.21						
Non-derivative financial liabilities						
Borrowings	**2,730,187**	**3,315,015**	**508,189**	**343,048**	**758,278**	**1,705,500**
Trade payables	**1,657,455**	**1,657,455**	**1,657,455**	**-**	**-**	**-**
Other payables and accruals	**1,024,932**	**1,024,932**	**1,024,932**	**-**	**-**	**-**
	5,412,574	**5,997,402**	**3,190,576**	**343,048**	**758,278**	**1,705,500**
31.12.20						
Non-derivative financial liabilities						
Borrowings	2,994,554	3,023,686	371,906	275,829	763,870	1,612,081
Trade payables	2,272,101	2,272,101	2,272,101	-	-	-
Other payables and accruals	985,457	985,457	985,457	-	-	-
	6,252,112	6,281,244	3,629,464	275,829	763,870	1,612,081

21.5 **Interest rate risk**

The Company's fixed rate instruments are exposed to a risk of change in its fair value due to changes in interest rates. The Company's floating rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The interest rate profile of the Company's interest-bearing financial instruments based on their carrying amounts as at the end of the reporting year are as follows:

	31.12.21	31.12.20
	RM	RM
Fixed rate instrument		
Financial liabilities	**644,100**	813,205
Floating rate instrument		
Financial liabilities	**2,086,087**	2,181,349

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting year would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 25 basis point at the end of the reporting period would have decreased the Company's profit before tax by **RM350** (31.12.20: RM4,528) and a corresponding decrease would have an equal but opposite effect. These changes are considered to be reasonably possible based on observation of current market conditions. This analysis assumes that all other variables remain constant.

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial assets and current portion of financial liabilities of the Company as at the end of the reporting period approximate their fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The carrying amount of the non-current portion of finance lease liabilities are reasonable approximation of their fair value due to the insignificant impact of discounting.

23. CAPITAL MANAGEMENT

The primary objective of the Company's capital management policy is to maintain a strong capital base to support its business and to maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions or expansion of the Company. The Company may adjust the capital structure by issuing new shares, returning capital to its shareholder. No changes were made in the objective, policy of process during the financial year under review as compared to the previous financial period.

There were no external capital requirements and/or covenants imposed on the Company as at the end of the reporting period.

24. **SIGNIFICANT EVENTS**

i. On 3 August 2021, the shareholders of the Company have entered into a conditional Share Sale Agreement ("SSA") with SFP Tech Holdings Berhad ("SFP Tech") for the disposal of all their equity interest in the Company for a total consideration of RM4,179,000 which will be satisfied by SFP Tech through the issuance of 41,790,000 new ordinary shares in SFP Tech ("the disposal"). The disposal was completed on 18 March 2022. Thereafter, the Company became a wholly-owned subsidiary of SFP Tech.

ii. In recognition of the rapid spread of the COVID-19 virus, the World Health Organisation (WHO) declared the COVID-19 outbreak as a global pandemic on 11 March 2020. To contain the spread of the virus in the local community, the Federal Government of Malaysia ("Malaysian Government") has introduced movement control measures by gazetting the Movement Control Order (MCO) which restricts the movement of people, followed by National Recovery Plan (NRP), effective from 1 June 2021, which focused on the phased reopening of the economy.

Despite registering a drop in its financial performance, the Company has performed assessments on the overall impact of the situation on the Company's operations and financial implications, including the recoverability of the carrying amount of assets and subsequent measurement of assets and liabilities, and concluded that there is no material adverse effect on the financial statements for the financial year ended 31 December 2021.

Nevertheless, the Company will continue to monitor the situation surrounding the pandemic closely so as to enable the Company to formulate measures in a swift and decisive manner to any potential impact arising from the pandemic. The Company has sufficient working capital to sustain its business operations and continue its business as a going concern.

ANNEXURE B MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS OF EEASB FOR THE FYE 31 DECEMBER 2021

1. Results from Operations

The following is a segmental analysis of the financial results of EEASB for the past two financial periods, 16-month FPE 31 December 2020 ("**FPE 2020**") and 12-month FYE 31 December 2021 ("**FYE 2021**"). A key factor for the difference between the results is due to the longer period of 16 months for the FPE 2020 as compared to 12 months for the FYE 2021. EEASB is predominantly an automated equipment solutions provider involved in the design, assembly to commission of automated equipment and production line system (comprising multiple automated equipment).

2. Segmental analysis by revenue

EEASB's revenue is recognised at the point in time when the control of the goods or services are transferred to the customer. The performance obligations and estimating the timing of revenue recognition may differ based on the different contractual agreement with the client. EEASB's sales to customers both local and foreign are denominated in either RM or USD. The determination of the geographical location of the customer are based on the country in which the customer who places the order originate from.

2.1 Revenue by Business Segments

The following table summarises the breakdown of EEASB's revenue by business activities and products:

	Audited FPE 2020		Audited FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**
Automated Equipment Solution	14,689	100.00	12,101	100.00
Total revenue	**14,689**	**100.00**	**12,101**	**100.00**

2.2 Revenue by Geographical Locations

The following table summarises the breakdown of EEASB's revenue by geographical locations:

	Audited FPE 2020		Audited FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**
Malaysia	**14,269**	**97.14**	**11,581**	**95.70**
Foreign Markets	**420**	**2.86**	**520**	**4.30**
China	*160*	1.09	-	-
Singapore	*152*	1.03	*421*	*3.48*
Thailand	*108*	0.74	-	-
Mexico	-	-	*99*	*0.82*
Total	**14,689**	**100.00**	**12,101**	**100.00**

A breakdown of the currency which the sales are denominated based on the geographical location is as follows:

	Audited		Audited	
	FPE 2020		FYE 2021	
Revenue	**RM'000**	**%**	**RM'000**	**%**
Denominated in USD				
Malaysia	19	0.13	13	0.11
Foreign Markets	268	1.82	485	4.01
Denominated in RM				
Malaysia	14,250	97.01	11,568	95.59
Foreign Markets	152	1.04	35	0.29
Total	**14,689**	**100.00**	**12,101**	**100.00**

FYE 2021 compared to FPE 2020

EEASB's revenue decreased by RM2.59 million or approximately 17.63% from RM14.69 million for the FPE 2020 to RM12.10 million for FYE 2021, mainly attributed to the following factors:

(i) Decrease in orders from EEASB's customers as elaborated below:

(a) Customer NP by RM4.15 million from RM4.22 million for the FPE 2020 to RM0.07 million for the FYE 2021. The decrease was mainly due to completion of automated equipment machine and production line system projects. Upon completion of the projects, there were no further orders for automated equipment machine and production line system;

(b) Customer V by RM1.79 million from RM1.80 million for the FPE 2020 to RM0.01 million for the FYE 2021. The decrease was attributed to the decrease in orders from its overseas clients due to the COVID-19 travel restriction;

(c) Customer CG by RM0.58 million from RM0.68 million for the FPE 2020 to RM0.10 million for the FYE 2021 amidst completion of its new line system. Upon completion of its new production line system, there were no new orders for production line systems; and

(d) Customer U by RM0.53 million from RM0.53 million for the FPE 2020 (FYE 2021: Nil) amidst completion of automated equipment machine and production line system projects. Upon completion of the projects, there were no new orders.

(ii) The above-mentioned decrease in revenue was partially offset by the increase in sales from EEASB's customers as elaborated below:

(a) Customer J by RM2.07 million from RM6.57 million for the FPE 2020 to RM8.64 million for the FYE 2021, amidst increase orders for new production line systems which was set up at Customer J's new plant;

(b) Customer TP by RM0.91 million from RM0.05 million for the FPE 2020 to RM0.96 million for the FYE 2021, attributed to the increase in orders for new automated equipment.;

(c) Customer SA by RM0.43 million from RM0.01 million for the FPE 2020 to RM0.44 million for the FYE 2021, due to the increase in orders for new automated equipment machines from Customer SA's customers; and

(d) Orders from two new customers, namely Customer A and Customer P, collectively amounting RM1.07 million for the provision of new automated equipment machines.

Notes:

(a) Customer I consists of 2 companies which are located in Malaysia and Thailand. The companies are subsidiaries of a company listed on the New York Stock Exchange. The group designs and manufactures fasteners, components and consumable equipment. The group is headquartered in the United States and has operations in 34 countries which includes, amongst others, Malaysia, Thailand, China and India. A consent was sought for disclosure of the identity of Customer I, however the consent was not provided. As such, the identity of Customer I is not disclosed in this Prospectus.

(b) Customer J is involved in manufacturing, testing and distribution of printed circuit board assembly. The company is a subsidiary of a company listed on the New York Stock Exchange. The group is involved in digital prototyping, printed electronics, service integration, circuit designing and volume board assembly services. The group is headquartered in the United States and has operations in 30 countries which includes, amongst others, China, Malaysia, Hong Kong and Vietnam. A consent was sought for disclosure of the identity of Customer J, however the consent was not provided. As such, the identity of Customer J is not disclosed in this Prospectus.

(c) Customer NP is involved in the provision of jigs and fixtures fabrication, as well as automated production lines. Customer NP was founded and is headquartered in China. The group is a smart machine manufacturer and provides customised automated machine. The group has operations in Malaysia, China and Singapore. A consent was sought for disclosure of the identity of Customer NP, however the consent was not provided. As such, the identity of Customer NP is not disclosed in this Prospectus.

(d) Customer CG is involved in the fabrication of tooling, jigs and fixture and industrial tapes, die cut and automated equipment. The company is based in Malaysia. A consent was sought for disclosure of the identity of Customer CG, however the consent was not provided. As such, the identity of Customer CG is not disclosed in this Prospectus.

(f) Customer SDL is involved in the trading of automated production lines and fabricated jigs and fixtures products. The company is based in China. A consent was sought for disclosure of the identity of Customer SDL, however the consent was not provided. As such, the identity of Customer SDL is not disclosed in this Prospectus.

(h) Customer V is involved in providing solutions for design and manufacturing of automated equipment and precision engineering products for the semiconductor and microelectronics industry. The company is based in Malaysia. A consent was sought for disclosure of the identity of Customer V, however the consent was not provided. As such, the identity of Customer V is not disclosed in this Prospectus.

(i) Customer TP is involved in the design and fabrication of automated machines, jig and fixtures, precision tooling, and software development for automated equipment. The company is a subsidiary of a listed company on Bursa Securities. The group manufactures moulded plastic products, air freshener dispensers and hygiene care products. The group operates in Malaysia. A consent was sought for disclosure of the identity of Customer TP, however the consent was not provided. As such, the identity of Customer TP is not disclosed in this Prospectus.

(l) Customer SA is involved in automated machine solution such as software solution, machine handler and electrical wiring provider. The company is based in Malaysia. A consent was sought for disclosure of the identity of Customer SA, however the consent was not provided. As such, the identity of Customer SA is not disclosed in this Prospectus.

(m) Customer A is involved in power and automation technologies and are based in Zurich, Switzerland. The company supplies industrial motors and drives, generators for the wind industry as well as power grids. A consent was sought for disclosure of the identity of Customer A, however the consent was not provided. As such, the identity of Customer A is not disclosed in this Prospectus.

(n) Customer P represents 2 companies which are based on Singapore. The companies are subsidiaries of a company listed on the Tokyo Stock Exchange. The group is involved in providing electrical products and solutions which includes, amongst others, housing, system solutions, agriculture, energy solutions, appliances, components and devices sectors. Consents were sought for disclosure of the identities of Customer P, however the consent was not provided. As such, the identities of Customer P are not disclosed in this Prospectus.

Geographical Location

For the FYE 2021, revenue generated from local and foreign market accounted for 95.70% and 4.30% of the total revenue respectively. The marginal decrease in contribution from local market by 1.44% and corresponding increase in revenue generated from foreign markets as there were minimal repeat orders from Customer NP and Customer V mainly due to the reason as set out above.

For the FYE 2021, RM0.50 million or approximately 4.12% of EEASB's total revenue are denominated in USD, which had increased compared to the FPE 2020 due to higher sales from new customers in foreign markets. The decrease in the exchange rate between RM against the USD for the FYE 2021 as compared to the FPE 2020 was minimal which did not have any impact on the revenue denominated in USD as depicted in the table below.

	Audited	Audited	Variance between FPE 2020 and FYE 2021	
	FPE 2020	**FYE 2021**	**FYE 2021**	**Increase/ (Decrease)**
Revenue (USD'000)	69	120	120	-
Revenue (RM'000)	287	498	499[(b)]	1
Exchange rate (RM per USD)	4.1594[(a)]	4.1500[(a)]	4.1594	(0.0094)

Notes:

(a) Based on the average foreign exchange rates used in EEASB's financial statements to convert the sales denominated in USD to RM.

(b) Computed based on the average foreign exchange rate used for the FPE 2020.

3. Segmental analysis by cost of sales

EEASB's cost of sales comprises three main components, namely material costs, direct labour costs and production overheads. The composition of each of this components are as follows:

(i) Material costs

EEASB source its materials from local and foreign suppliers. EEASB will obtain quotation for materials, parts and components from its suppliers as part of its design and planning before submitting quotes to its clients. Actual purchases of the materials, parts and components are made upon confirmation of the orders from its customers.

In view that the automated equipment are custom build for each customer, the material costs may vary from one equipment / project to another depending on complexity of the equipment, size, functionality including whether it is a standalone automated equipment or a line system.

(ii) Direct labour costs

Direct labour costs related to salaries, wages, allowances, performance incentive and other staff related cost incurred in relation to the assembly of the automated equipment.

(iii) Production overheads

Production overheads mainly consist of subcontract charges, indirect labour cost related to design and conceptualisation of the automated equipment, rental of premises and equipment, depreciation as well as freight charges.

3.1 Cost of Sales by compositions

The following table sets out EEASB's cost of sales by cost components:

	Audited		Audited	
	FPE 2020		FYE 2021	
Cost of Sales	**RM'000**	**%**	**RM'000**	**%**
Material costs	7,572	72.24	5,132	62.09
Direct labour costs	472	4.50	382	4.62
Production overheads	2,438	23.26	2,751	33.29
Total	**10,482**	**100.00**	**8,265**	**100.00**

3.2 Cost of Sales by Business Segments

The following table sets out EEASB's cost of sales by business segments:

	Audited		Audited	
	FPE 2020		FYE 2021	
Cost of Sales	**RM'000**	**%**	**RM'000**	**%**
Automated equipment solutions	10,482	100.00	8,265	100.00
Total	**10,482**	**100.00**	**8,265**	**100.00**

We carry out our business operations solely in Malaysia and as such, do not maintain an analysis of EEASB's cost of sales by geographical location.

<u>FYE 2021 compared to FPE 2020</u>

EEASB's cost of sales decreased by RM2.22 million or approximately 21.18% from RM10.48 million for the FPE 2020 to RM8.26 million for the FYE 2021.

The overall decrease in cost of sales from FPE 2020 to FYE 2021 was mainly due to the following reasons:

(i) material costs decreased by RM2.44 million or approximately 32.22% in line with the decrease in revenue.

(ii) direct labour costs decreased by RM0.09 million or approximately 19.15% mainly due to the shorter period, as well as lower bonus and incentive paid to employees.

The decrease in cost of sales were offset by the increase in production overheads by RM0.31 million or approximately 12.70% mainly due to the following:

(i) increase in subcontractor charges by RM0.24 million for works which are not undertaken in-house.

(ii) increase in freight cost by RM0.08 million mainly due to parts and components which were purchased from foreign countries.

4. Segmental analysis by GP and GP Margin

4.1 GP and GP Margin by Business Segments

The table below presents the breakdown of EEASB's total GP and GP margin by business activities:

GP

	Audited		Audited	
	FPE 2020		FYE 2021	
	RM'000	%	RM'000	%
Automated equipment solutions	4,207	100.00	3,836	100.00
Total	**4,207**	**100.00**	**3,836**	**100.00**

GP margin

	Audited	Audited
	FPE 2020	FYE 2021
	%	%
Automated equipment solutions	28.64	31.70
Overall GP margin	**28.64**	**31.70**

FYE 2021 compared to FPE 2020

EEASB's GP decreased by RM0.37 million or approximately 8.83% from RM4.21 million for the FPE 2020 to RM3.84 million for the FYE 2021 in line with the decrease in revenue.

However, EEASB's GP margin increased from 28.64% for the FPE 2020 to 31.70% for the FYE 2021. The higher GP margin recorded for the FYE 2021 was mainly due to the increase in sales of the automated equipment machine to Customer TP, Customer SA, Customer A and Customer P which requires more complex customisation hence, EEASB was able to garner higher margins for the automated equipment machine.

5. Other Income

The table below provides a breakdown of EEASB's other income:

	Audited		Audited	
	FPE 2020		FYE 2021	
	RM'000	%	RM'000	%
Compensation received	49	31.82	-	-
Interest Income	2	1.30	*	1.00
Unrealised gain on foreign exchange	-	-	-	-
Other[(a)]	-	-	4	14.75
Wages Subsidy	103	66.88	22	84.25
Total	**154**	**100.00**	**26**	**100.00**

Notes:

* Amounting to RM255

(a) Adjustment for goods and service tax transaction

FYE 2021 compared to FPE 2020

EEASB's other income decreased by RM128,000 from approximately RM154,000 for the FPE 2020 to RM26,000 for the FYE 2021, mainly attributed to the decrease in wage subsidy received from Perkeso under the Economic Stimulus Package 2020 and one-off compensation from a supplier in respect of materials supplied in the FYE 2019 which did not meet EEASB's customers required specification and such materials were subsequently returned to the supplier.

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6. Administrative and Other Expenses

The table below provides a breakdown of EEASB's administrative and other expenses:

	Audited FPE 2020		Audited FYE 2021	
	RM'000	%	RM'000	%
Bank charges	3	0.13	10	0.46
Depreciation	288	12.90	266	12.17
Entertainment	-	-	7	0.32
Fees to Authorities	42	1.88	10	0.46
Insurance	47	2.11	40	1.83
Professional fees	66	2.96	93	4.26
Office and administrative expenses	116	5.20	77	3.52
Rental and maintenance	29	1.30	15	0.69
Realised loss on foreign exchange	22	0.98	6	0.27
Staff related expenses	1,351	60.53	1,575	72.08
Staff welfare	171	7.66	27	1.24
Transport and travelling costs	87	3.90	46	2.10
Unrealised loss on foreign exchange	2	0.09	5	0.23
Others[(a)]	8	0.36	8	0.37
Total	**2,232**	**100.00**	**2,185**	**100.00**

Note:

(a) Other include festive gifts to customers, advertisement, sundry expenses comprising food and beverage for the office as well as miscellaneous expenses.

FYE 2021 compared to FPE 2020

EEASB's administrative and other expenses decreased marginally by RM0.04 million or approximately 1.79% from RM2.23 million for the FPE 2020 to RM2.19 million for the FYE 2021. The decrease was mainly due to the shorter period for the FYE 2021. Nonetheless, the decrease was offset by the increase in staff related expenses of RM0.22 million of approximately 16.30% (FPE 2020: 1.35 million) as a result of higher directors' remuneration of RM0.09 million as well as staff salaries and related cost of RM0.13 million arising from annual increment and bonus.

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7. Finance Costs

The table below provides a breakdown of EEASB's finance costs:

	Audited		Audited	
	FPE 2020		FYE 2021	
Finance costs	**RM'000**	**%**	**RM'000**	**%**
Term loan interest	67	73.63	18	50.00
Hire purchase interest	22	24.18	13	36.11
Overdraft interest	2	2.19	5	13.89
Total	**91**	**100.00**	**36**	**100.00**

<u>FYE 2021 compared to FPE 2020</u>

EEASB's finance costs decreased by approximately RM55,000 or approximately 60.44% from RM91,000 for the FPE 2020 to RM36,000 for the FYE 2021. This was mainly attributed to the decrease in mortgage interest loan as a result of additional cash placed in the current account.

8. PBT and PBT Margin

The table below sets forth the PBT and PBT margin:

	Audited	Audited
	FPE 2020	**FYE 2021**
Total PBT (RM'000)	2,038	1,641
PBT margin (%)	13.87%	13.56%

<u>FYE 2021 compared to FPE 2020</u>

We recorded a decrease in PBT for the FYE 2021 by RM0.40 million or approximately 19.61% from RM2.04 million for the FPE 2020 to RM1.64 million for the FYE 2021, mainly attributed to the decrease in EEASB's GP by RM0.37 million as explained above.

EEASB's PBT margin decreased from 13.87% for the FPE 2020 to 13.56% for the FYE 2021 mainly due to the increase in administrative expenses and other expenses.

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9. PAT and tax expense

The table below sets forth the PAT and effective tax rate:

	Audited FPE 2020	Audited FYE 2021
Tax expense (RM'000)	13	7
Effective tax rate (%)	0.64	0.43
Statutory tax rate (%)		
On the first RM600,000[(a)] chargeable income	17.00	17.00
Balance on chargeable income	24.00	24.00
PAT (RM'000)	2,025	1,634
PAT margin (%)	13.79	13.50

Note:

(a) RM600,000 for the FPE 2020 and FYE 2021

FYE 2021 compared to FPE 2020

EEASB applied for Pioneer Status on 17 May 2018 and only received its approval on 18 August 2020 with its effective date beginning on 1 November 2018. For the FPE 2020, the company's tax expense amounted to RM13,000 which was derived based on the statutory tax rate which did not enjoy tax exemption from pioneer statutory income. EEASB's effective tax rate for the FYE 2021 of RM6,556 or approximately 0.43% was lower than the statutory tax rate mainly due to tax exemption obtained on pioneer income. However, the above was offset by income tax effect on non-pioneer income and expenses not deductible for tax purposes amounting to RM0.02 million.

Notwithstanding that the lower tax expenses, EEASB recorded a decrease in PAT and PAT margin for the FYE 2021 as compared to the FPE 2020, mainly due to reasons set out in the sections above.

10. Liquidity and Capital Resources

10.1 Cash Flow

The following is a summary of EEASB's statement of cash flows for the FPE 2020 and FYE 2021.

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Net cash from operating activities	886	2,109
Net cash used in investing activities	(240)	(238)
Net cash used in financing activities	92	(320)
Net (decrease) / increase in cash and cash equivalents	738	1,551
Effects of changes in foreign currency rate	(2)	(5)
Cash and cash equivalents at beginning	467	1,203
Cash and cash equivalent at end of financial year[(a)]	**1,203**	**2,749**

Note:

(a) The components of the cash and cash equivalents are set out below:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Cash and bank balances	1,305	2,906
Less: Bank overdraft	(102)	(157)
Total	**1,203**	**2,749**

FPE 2020

Net cash from operating activities

EEASB recorded net cash from operating activities of RM0.88 million. During the financial period, the cash inflow comprised mainly collection from the customers amounting to RM13.47 million and wage subsidy received from Perkeso under the Economic Stimulus Package 2020 of RM0.10 million. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases amounting to RM7.56 million;

(ii) payment of direct labour costs of RM0.47 million;

(iii) payment of production overhead and administrative expenses of RM4.11 million; and

(iv) payment of interest expense of RM0.09 million and income tax of RM0.46 million.

Net cash used in investing activities

EEASB's net cash used in investing activities of RM0.24 million was attributed mainly to purchase of property, plant and equipment of RM0.24 million comprising mainly of air conditioners and computer and software.

Net cash used in financing activities

EEASB recorded net cash from financing activities of RM0.09 million. A Special Relief facility term loan amounting to RM0.50 million was drawdown during the FPE 2020 for working capital purposes. The cash inflows were partly offset by the repayment of banking facilities amounting to RM0.23 million, payment of dividend of RM0.12 million and repayment of amount due to directors of RM0.06 million during the period.

FYE 2021

Net cash from operating activities

EEASB recorded net cash from operating activities of RM2.11 million. During the financial period, EEASB's cash inflow comprised mainly collection from EEASB's customers amounting to RM12.98 million. The above cash inflows were partly offset by the following payments during the financial year:

(i) payment for purchases amounting to RM5.58 million;

(ii) payment of direct labour costs of RM0.38 million;

(iii) payment of production overhead and administrative expenses of RM4.61 million; and

(iv) payment of income tax of RM0.26 million and interest expense of RM0.04 million.

Net cash used in investing activities

EEASB's net cash used in investing activities of RM0.24 million was attributed mainly to purchase of property, plant and equipment of RM0.24 million comprising mainly of programming software.

Net cash used in financing activities

EEASB recorded net cash from financing activities of RM0.32 million. The cash outflows were due to the repayment of banking facilities amounting to RM0.32 million during the year.

10.2 Borrowings

EEASB's total outstanding borrowings (including term loans and lease liabilities owing to financial institutions for the purchase of motor vehicles and machinery and equipment) as at 31 December 2021 stood at RM2.73 million, details of which are set out below. All borrowings are secured and interest bearing.

				As at 31 December 2021		
Type of borrowings	**Purpose**	**Tenure**	**Interest rate per annum %**	**Payable within 12 months RM'000**	**Payable after 12 months RM'000**	**Total RM'000**
Term loan (SRF)	Working capital	66 Months	Effective Financing Rate up to 3.50%	98	316	414
Term loan	To finance the purchase of Assembly Facility	25 Years	1st year – Base financing rate ("BFR") + 2.57% 2nd year onward – BFR + 2.30%	93	1,835	1,928
Hire purchases	Finance purchase of motor vehicles	60 Months – 84 Months	4.60%-5.56%	78	152	230
Bank overdraft	Working capital guarantee scheme	12 Months	6.32%	158	-	158
Total:				**427**	**2,303**	**2,730**

As at 31 December 2021, EEASB's floating and fixed rate borrowings are as set out below:

	Floating rate RM'000	Fixed rate RM'000	Total RM'000
Term loans	1,928	414	2,342
Hire purchases	-	230	230
Bank overdraft	158	-	158
Total	**2,086**	**644**	**2,730**

EEASB's credit facilities are secured by charge over the Assembly Facility. We have not defaulted on payments of either interest and / or principal sums in respect of any borrowings during the FYE 2021 and up to the LPD. We also do not encounter any seasonality in the borrowings trend and there is no restriction on EEASB's committed borrowing facilities.

10.3 Key Financial Ratios

The following table provides the key financial ratios based on EEASB's combined financial statements for the financial periods indicated below:

	Audited FPE 2020	Audited FYE 2021
Trade receivables turnover period (days)[a]	160	141
Trade payables turnover period (days)[b]	92	87
Inventory turnover period (days)[c]	51	60
Current ratio[d]	1.85	2.30
Gearing ratio[e]	0.72	0.47

Notes:

(a) Computed based on the average trade receivables as at the end of the respective financial period / year over the revenue of the respective financial period / year, multiplied by 488 days for the FPE 2020 and 365 days for the FYE 2021 respectively.

(b) Computed based on the average trade payables as at the end of the respective financial period / year over the revenue of the respective financial period / year, multiplied by 488 days for the FPE 2020 and 365 days for the FYE 2021 respectively

(c) Computed based on the average inventories as at the end of the respective financial period / year over the revenue of the respective financial period / year, multiplied by 488 days for the FPE 2020 and 365 days for the FYE 2021 respectively

(d) Computed based on current asset divided by current liabilities.

(e) Computed based on total borrowings divided by total equity.

(i) Trade Receivables

A summary of the trade receivables for the financial periods indicated are provided in the following table:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Trade receivables	5,009	4,281
Revenue	14,689	12,101
Trade receivables turnover period (days)	160	141

EEASB's credit terms to customers are determined on a case-by-case basis, taking into consideration factors such as the business relationship with the customer, customer creditworthiness, historical payment trend as well as transaction volume and value. The normal credit term granted to the customers ranges from 30 to 90 days from the date of invoice. EEASB generally would invoice the customer upon delivery of the automated equipment or line system. However, the inspection may only take place at a later period when their entire system is integrated with EEASB's delivered automated equipment or line system, which may lead to longer period before payment by customers.

EEASB's trade receivable turnover period of 160 days for the FPE 2020 was higher than the normal credit term granted due mainly to amount owing of RM4.48 million from two customers for the supply of line systems were past its credit term due to the customers requesting for minor upgrade and modifications on the supplier products. EEASB only received full payment from these customers subsequent to the upgrade and modifications.

For the FYE 2021, our trade receivables turnover period decreased to 141 days from 160 days in the FPE 2020. The decrease in the trade receivable turnover period was due to payment of RM2.21 million by one customer which was past the credit term. Nonetheless, the trade receivable turnover period was still higher than the normal credit term granted due mainly to the amount owing of RM1.02 million from one customer for the supply of line systems which was passed its credit term due to the customer requesting for minor upgrade and modifications on the supplier products. EEASB only received full payment from these customers subsequent to the upgrade and modifications.

EEASB assess the collectability of trade receivables on an individual customer basis and provide for impairment loss on receivables as follows:

(a) allowance for impairment loss based on lifetime expected credit loss in accordance with Malaysian Financial Reporting Standards 9 - Financial Instruments; and

(b) specific allowance for impairment on balances overdue for more than 90 days and where recoverability is uncertain based on the dealings with the customer.

The ageing analysis of EEASB's trade receivables as at 31 December 2021 is as follows:

	Within credit period	Past credit period			Total
		Not more than 30 days	31-90 days	More than 90 days	
Trade receivables (RM'000)	3,221	797	16	247	4,281
% of trade receivables	75.24	18.62	0.37	5.77	100.00
Subsequent collections as at LPD (RM'000)	3,221	559	16	247	4,043
Net trade receivables after subsequent collections (RM'000)	-	238	-	-	238
% of trade receivables net of subsequent collections	-	100.00	-	-	100.00

EEASB's total trade receivables stood at RM4.28 million as at 31 December 2021 of which RM1.06 million or approximately 24.77% exceeded the normal credit term.

As at the LPD, we have collected RM4.04 million or approximately 94.39% of the total trade receivables which were outstanding as at 31 December 2021. The outstanding amount of RM 0.24 million was mainly due to the delay in customer J's line installation, EEASB will only receive the payment upon customer completed their line system installation and tested our equipment functionality in the line. EEASB is of the opinion that the remaining outstanding trade receivables are recoverable, after taking into consideration the historical payment trend and the fact that these customers have never defaulted on payment.

(ii) <u>Trade Payables</u>

A summary of EEASB's trade payables for the financial years indicated is provided in the following table:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Trade payables	2,272	1,657
Cost of sales	10,482	8,265
Trade payables turnover period (days)	92	87

The normal credit period extended by the suppliers to us generally ranges from 30 to 90 days. EEASB's trade payables turnover period stood at 92 days and 87 days for FPE 2020 and FYE 2021 respectively. The trade payables turnover period for the FPE 2020 was higher than the normal credit period as additional periods of up to 30 days were granted for the year of 2020 by the major suppliers in view of assisting its customers during this COVID-19 pandemic. As such, the trade payables turnover period for the FPE 2020 and FYE 2021 fell within the credit period granted by or customers.

The ageing analysis of EEASB's trade payables as at 31 December 2021 is as follows:

	Within credit period	Past credit period			Total
		Not more than 30 days	31-90 days	More than 90 days	
Trade payables (RM'000)	1,620	37	-	-	1,657
% of trade payables	97.77	2.23	-	-	100.00
Subsequent payments as at LPD (RM'000)	1,620	37	-	-	1,657
Net trade payables after subsequent payments (RM'000)	-	-	-	-	-
% of trade payables net of subsequent payments	-	-	-	-	-

As at the LPD, we have settled RM1.66 million or 100.00% of the total outstanding trade payables which were outstanding as at 31 December 2021.

As at the LPD, there are no disputes in respect of trade payments and no legal action has been initiated by our suppliers to demand for payment.

(iii) <u>Inventory Turnover</u>

A summary of EEASB's inventory for the financial years indicated is set out below:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Total inventory[(a)]		
Work in progress	1,385	1,297
Cost of sales	10,482	8,265
Inventory turnover period (days)[(b)]	51	60

Notes:

(a) Balances of inventories as at the end of the respective financial periods.

(b) Based on dividing the average inventories by the cost of sales of the respective financial period / year multiplied by 488 days for the FPE 2020 and 365 days for the FYE 2021 respectively.

EEASB's operations are on "build-to-order" basis, where we commence the production upon receiving confirmed order from the customer to manufacture the automated equipment. We generally do not keep raw material as we ordered as per the specification and commenced work immediately. Upon completion of the automated equipment, we generally deliver the finished goods to our customers within a week.

EEASB's inventory turnover period increased from 51 days in the FPE 2020 to 60 days in the FYE 2021 mainly due to the commencement of manufacture of equipment which was expected to be delivered in the subsequent financial period, resulting in an increase in work-in-progress.

(iv) Current Ratio

The table below provides a summary of EEASB's current ratio:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Current assets	7,809	8,754
Current liabilities	4,231	3,811
Current ratio (times)[(a)]	1.85	2.30

Note:

(a) Current ratio is calculated based on current assets divided by current liabilities.

As at FYE 2021, the current ratio was 2.30 times, which was higher compared to 1.85 times as at FPE 2020 due mainly due to increase in cash and cash equivalents by RM1.60 million and reduction of trade payables of RM0.61 million.

(v) Gearing Ratio

The table below provides a summary of EEASB's gearing ratio:

	Audited FPE 2020 RM'000	Audited FYE 2021 RM'000
Total borrowings[(a)]	2,995	2,730
Total equity	4,179	5,814
Gearing ratio (times)[(b)]	0.72	0.47

Notes:

(a) Total borrowings include finance lease and term loans.

(b) Gearing ratio is calculated based on total borrowings divided by total equity.

As at FYE 2021, the gearing ratio was 0.47 times which is lower than 0.72 times as at FPE 2020 due to improvement of retained earnings as a result of EEASB's profit for the FYE 2021 and decrease in borrowing of RM0.26 million.