12. FINANCIAL INFORMATION

12.1 HISTORICAL AUDITED COMBINED FINANCIAL INFORMATION

The historical audited combined financial information of our Group for the Financial Years and Period Under Review presented in this section have been extracted from the Accountants' Report set out in Section 14 of this Prospectus, which deals with the audited combined financial statements of our Group for the same Financial Years and Period Under Review.

You should read the historical audited combined financial information below together with:

- Management's Discussion and Analysis of Financial Conditions and Results of Operations set out in Section 12.3 of this Prospectus; and
- Accountants' Report set out in Section 14 of this Prospectus.

The historical audited combined financial information included in this Prospectus does not reflect our Group's result of operations, financial position and cash flows in the future. Moreover, our Group's past operating results are not indicative of our Group's future operating performance.

(a) Historical audited combined statements of profit or loss and other comprehensive income of our Group

	Audited			Unaudited	Audited
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2022 RM'000**	**FPE 2023 RM'000**
Revenue	31,388	100,461	107,573	51,404	138,577
Cost of sales	(27,833)	(89,869)	(92,569)	(43,365)	(122,613)
GP	**3,555**	**10,592**	**15,004**	**8,039**	**15,964**
Other income	1,919	414	770	423	414
Administrative expenses	(3,135)	(4,619)	(6,838)	(4,050)	(5,537)
Net reversal / (loss) on impairment of financial assets	6	(214)	(114)	(18)	(124)
Other expenses	-	(69)	-	(1)	(11)
Profit from operations	**2,345**	**6,104**	**8,822**	**4,393**	**10,706**
Finance costs	(404)	(625)	(840)	(182)	(755)
PBT	**1,941**	**5,479**	**7,982**	**4,211**	**9,951**
Taxation	(243)	(1,345)	(1,813)	(953)	(2,696)
PAT	**1,698**	**4,134**	**6,169**	**3,258**	**7,255**
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the financial year	**1,698**	**4,134**	**6,169**	**3,258**	**7,255**
PAT attributable to:					
- Owners of the Company	1,698	4,134	6,169	3,258	7,255
- Non-controlling interests	-	-	-	-	-
	1,698	**4,134**	**6,169**	**3,258**	**7,255**

	Audited			Unaudited	Audited
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2022 RM'000**	**FPE 2023 RM'000**
EBITDA(1)	2,447	6,239	9,007	4,492	10,962
Assumed number of Shares in issue(2) ('000)	440,000	440,000	440,000	440,000	440,000
Basic and diluted EPS(3) (sen)	0.39	0.94	1.40	0.74	1.65
GP margin(4) (%)	11.33	10.54	13.95	15.64	11.52
EBITDA margin(5) (%)	7.80	6.21	8.37	8.74	7.91
PBT margin(6) (%)	6.18	5.45	7.42	8.19	7.18
PAT margin(7) (%)	5.41	4.12	5.73	6.34	5.24
Effective tax rate(8) (%)	12.52	24.55	22.71	22.63	27.09

Notes:

(1) EBITDA is calculated as follows:

	Audited			Unaudited	Audited
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2022 RM'000**	**FPE 2023 RM'000**
PAT	1,698	4,134	6,169	3,258	7,255
Add: Income tax expense	243	1,345	1,813	953	2,696
Depreciation	139	159	287	159	413
Finance costs	404	625	840	182	755
Less: Interest income	(37)	(24)	(102)	(60)	(157)
EBITDA	**2,447**	**6,239**	**9,007**	**4,492**	**10,962**

(2) Based on assumed number of Shares in issue of 440,000,000 after the Public Issue.

(3) Based on PAT divided by the assumed number of Shares in issue of 440,000,000 after the Public Issue. The diluted EPS is equal to basic EPS as there were no potential dilutive ordinary shares existing during the Financial Years and Period Under Review.

(4) GP margin is calculated based on GP divided by revenue.

(5) EBITDA margin is calculated based on EBITDA divided by revenue.

(6) PBT margin is calculated based on PBT divided by revenue.

(7) PAT margin is calculated based on PAT divided by revenue.

(8) Effective tax rate is calculated based on income tax expense divided by PBT.

There was no share of profits of associated companies or joint ventures, and no exceptional or extraordinary items throughout the Financial Years and Period Under Review. The audited financial statements of our Group for the Financial Years and Period Under Review were not subject to any qualification or modification.

(b) Historical audited combined statements of financial position of our Group

	Audited as at			
	31 December			31 August
	2020 RM'000	**2021 RM'000**	**2022 RM'000**	**2023 RM'000**
ASSETS				
Non-current assets				
PPE	997	1,121	1,911	3,166
Investment properties	4,700	5,817	1,180	1,180
Other investment	402	-	-	-
Receivables	-	-	-	771
	6,099	**6,938**	**3,091**	**5,117**
Current assets				
Inventories	116	427	724	1,225
Receivables	10,455	37,910	42,606	63,407
Contract assets	1,906	10,057	24,271	9,031
Other investment	-	-	-	10,033
Fixed deposits with licenced banks	1,185	1,390	4,805	5,140
Cash and bank balances	729	4,984	8,970	11,856
	14,391	**54,768**	**81,376**	**100,692**
Non-current asset held for sale	-	-	4,800	4,800
Total assets	**20,490**	**61,706**	**89,267**	**110,609**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	-	-	-	*
Invested equity	1,000	1,000	1,000	1,000
Retained earnings	8,086	11,720	14,890	22,145
	9,086	**12,720**	**15,890**	**23,145**
LIABILITIES				
Non-current liabilities				
Borrowings	757	597	675	1,198
Lease liabilities	-	92	498	1,046
Deferred tax liabilities	172	139	133	106
	929	**828**	**1,306**	**2,350**
Current liabilities				
Payables	5,827	40,528	40,779	68,175
Contract liabilities	800	536	21,504	14,353
Tax payable	52	1,029	784	1,745
Borrowings	3,778	5,995	8,732	336
Lease liabilities	18	70	272	505
	10,475	**48,158**	**72,071**	**85,114**
Total liabilities	**11,404**	**48,986**	**73,377**	**87,464**
Total equity and liabilities	**20,490**	**61,706**	**89,267**	**110,609**

Note:

* Less than RM1,000.

12.2 CAPITALISATION AND INDEBTEDNESS

The following table sets out our Group's capitalisation and indebtedness:

(i) as at 15 November 2023, after taking into account the Acquisition of Hexatech Engineering but before our Public Issue and use of proceeds; and

(ii) after adjusted for the proceeds arising from our Public Issue and use of proceeds from Public Issue.

	(Unaudited) As at 15 November 2023 RM'000	After Public Issue and use of proceeds RM'000
INDEBTEDNESS		
Current		
Secured and guaranteed:		
- Term loans	333	333
- Lease liabilities (under hire purchase agreement)	87	87
Unsecured and unguaranteed:		
- Lease liabilities	400	400
	820	820
Non-current		
Secured and guaranteed:		
- Terms loans	1,109	1,109
- Lease liabilities (under hire purchase agreement)	297	297
Unsecured and unguaranteed:		
- Lease liabilities	644	644
	2,050	2,050
Total borrowings	**2,870**	**2,870**
Contingent liability		
Secured and guaranteed:		
- Performance guarantee extended to third parties in respect of subcontractors' performance	24,581	24,581
Total Indebtedness (1)	**27,451**	**27,451**
CAPITALISATION		
Shareholders' equity	24,540	44,970
Total capitalisation and indebtedness	**51,991**	**72,421**
Gearing ratio (times) (2)	0.12	0.06

Notes:

(1) Comprises total borrowings and contingent liability.

(2) Computed based on total borrowings divided by our shareholders' equity.

12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS, RESULTS OF OPERATIONS AND PROSPECTS

Investors should read the following management's discussion and analysis of our Group's financial conditions and results of operations in conjunction with the Accountants' Report as set out in Section 14 of this Prospectus.

The management's discussion and analysis contains data derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. The results may differ significantly from those projected in these forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 9 of this Prospectus.

12.3.1 Overview of our operations

(a) Principal activities

Our Company through our wholly-owned subsidiary, Hexatech Engineering is principally involved in the following:

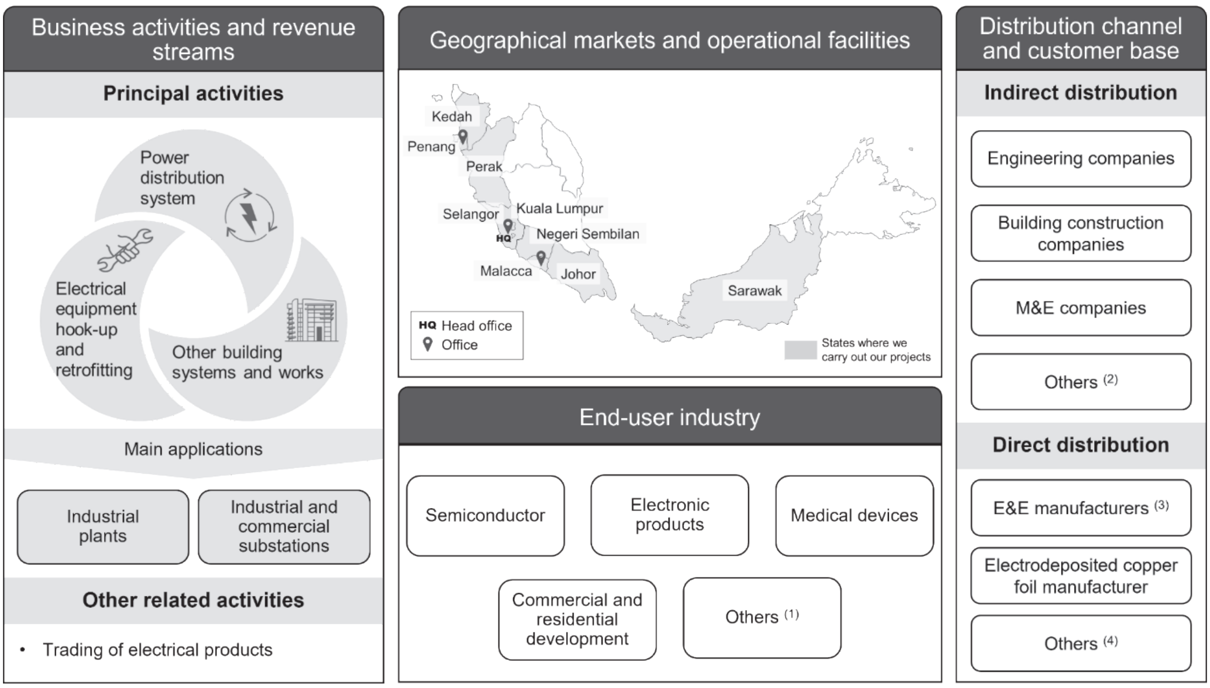
(i) provision of electrical engineering services focusing on the development of power distribution systems covering HV, MV, LV and ELV electrical systems for end-user premises such as industrial plants, industrial and commercial substations, and commercial and residential developments;

(ii) provision of other building systems and works which includes the installation of mechanical systems, integration of control and instrumentation systems, and provision of civil, structural and architectural works;

(iii) provision of electrical equipment hook-up and retrofitting services; and

(iv) trading of electrical products.

A summary of our business model is set out as follows:



Notes:

(1) Includes electrodeposited copper foil, battery cell manufacturing, telecommunications, chemical products, gas, solar, education, food and beverage, and glove industries.

(2) Includes mainly manufacturers and suppliers of M&E equipment, electrical contractor, and water treatment service providers.

(3) Includes mainly manufacturers of semiconductor and electronic products.

(4) Includes mainly manufacturers of chemical products, solar PV modules, and gloves, as well as property developers.

Please refer to Section 7 of this Prospectus for further details on our business overview.

(b) Revenue

Our main revenue stream is derived from the provision of electrical engineering services for the development of end-user premises' substations to the development of power distribution systems in end-user premises' facilities. For the Financial Years and Period Under Review, revenue from the provision of power distribution systems accounted for RM20.97 million (66.82%), RM58.46 million (58.19%), RM76.09 million (70.74%) and RM92.21 million (66.54%) of our total revenue for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively.

We also provide other complementary works including the provision of other building systems and works such as mechanical systems, control and instrumentation systems as well as civil, structural and architectural works, which usually form part of the overall scope of our contracts for the power distribution systems service. Revenue contribution from the provision of other building systems and works accounted for RM28.19 million (28.07%), RM16.21 million (15.07%) and RM39.48 million (28.49%) of our total revenue for FYE 2021, FYE 2022 and FPE 2023, respectively. We did not generate any revenue from the provision of other building systems and works for FYE 2020.

In general, the provision of electrical engineering services for the development of power distribution systems, and other building systems and works can be completed within 12 to 24 months depending on, among others, scale and scope of the projects, site readiness, project specifications such as technical complexity and design layout, and project delivery schedule required by customers as well as variation orders, if any.

We are also involved in the provision of electrical equipment hook-up and retrofitting services which are based on POs and/or work order basis as and when required. In general, the provision of electrical equipment hook-up and retrofitting services can be completed within 3 months. For the Financial Years and Period Under Review, revenue from the provision of electrical equipment hook-up and retrofitting services accounted for RM5.77 million (18.39%), RM10.30 million (10.25%), RM13.66 million (12.70%) and RM6.66 million (4.81%) of our total revenue for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively.

We also generate some revenue from the trading of electrical products. For the Financial Years and Period Under Review, revenue from the trading of electrical products accounted for RM4.65 million (14.79%), RM3.51 million (3.49%), RM1.61 million (1.49%) and RM0.23 million (0.16%) of our total revenue for FYE 2020, FYE 2021,FYE 2022 and FPE 2023, respectively.

Revenue from the provision of electrical engineering services for the development of power distribution systems, and other building systems and works is recognised over the period of the contract using the input method to measure the progress towards complete satisfaction of the performance obligations under the construction contract i.e. based on the cost incurred for work performed to date over the estimated total cost. We are entitled to invoice customer for construction of power distribution systems, and other building systems and works based on achieving a series of agreed performance-related milestones (i.e. progress billing). A contract asset is recognised when revenue has been recognised but invoices have not been issued. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the progress billing exceeds the revenue recognised to date, a contract liability is recognised for the difference.

Revenue from the provision of electrical equipment hook-up and retrofitting services is recognised in the reporting period in which the services are rendered, whereby customers simultaneously receive and consume the benefits provided by our Group, and our Group has a present right to payment for the services.

Revenue from the trading of electrical products is recognised at a point in time, which is typically on delivery of the goods. Goods are considered sold when the customer obtains control of the asset. All the contracts are net of discounts and taxes.

Our revenue is driven by the following key factors:

(i) our ability to secure new projects and contracts. The pricing of our services varies from customer to customer as they are provided based on the customers' specifications and requirements and are determined based on various factors including among others, nature and scope of the projects, expected project risks, project schedule and project specifications as well as competitive bidding from other industry players providing similar services; and

(ii) the progress of physical contract work performed for our projects during the financial year.

As at LPD, our revenue is derived entirely from local market.

(i) Analysis of contribution to revenue by business activities

The breakdown of our Group's revenue by business activities for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Business activities	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Power distribution system	20,973	66.82	58,460	58.19	76,095	70.74	39,740	77.31	92,215	66.54
Other building systems and works	-	-	28,195	28.07	16,212	15.07	2,577	5.01	39,479	28.49
Electrical equipment hook-up and retrofitting	5,771	18.39	10,299	10.25	13,659	12.70	8,262	16.07	6,658	4.81
Trading of electrical products	4,644	14.79	3,507	3.49	1,607	1.49	825	1.61	225	0.16
Total revenue	**31,388**	**100.00**	**100,461**	**100.00**	**107,573**	**100.00**	**51,404**	**100.00**	**138,577**	**100.00**

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our total revenue increased by RM69.07 million or 220.04% to RM100.46 million (FYE 2020: RM31.39 million). The increase in total revenue for FYE 2021 was mainly contributed by:

(i) higher revenue from the provision of power distribution systems services by RM37.49 million or 178.78% to RM58.46 million (FYE 2020: RM20.97 million) mainly due to, among others:

(a) commencement of work for a new project secured for the supply and installation of a power distribution system for a 3-storey 132kV substation in an electronic product manufacturing plant amounted to RM39.81 million;

(b) commencement of work for a new project secured for the supply and installation of MV power distribution system for an electrodeposited copper foil manufacturing plant amounted to RM9.85 million;

(ii) revenue generated from the provision of other building systems and works of RM28.19 million (FYE 2020: nil) mainly due to, among others:

(a) commencement of work for new project secured for the civil construction and mechanical system works for an open car park infrastructure within an electronic product manufacturing plant amounted to RM14.20 million;

(b) commencement of work for new project secured for the civil construction and mechanical system works for a 3-storey 132kV substation in an electronic product manufacturing plant amounted to RM13.27 million; and

(iii) higher revenue from the provision of electrical equipment hook-up and retrofitting services by RM4.53 million or 78.51% to RM10.30 million (FYE 2020: RM5.77 million) mainly due to more work orders secured for the installation of new machineries, and modification of power distribution system to accommodate changes to customer's production line for a semiconductor manufacturing plant amounted to RM7.88 million.

Nevertheless, the increase in revenue for FYE 2021 was partly offset by the decrease in the revenue generated from the trading of electrical products by RM1.14 million or 24.52% to RM3.51 million (FYE 2020: RM4.65 million) mainly due to lower request for replacement or upgrading of parts and/or ad hoc sales to new customers during FYE 2021. Further, there was no revenue generated from the provision of other building systems and works as there was no ongoing projects secured which include this scope of work in FYE 2020.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our total revenue increased by RM7.11 million or 7.08% to RM107.57 million (FYE 2021: RM100.46 million). The increase in total revenue for FYE 2022 was mainly contributed by:

(i) higher revenue from the provision of power distribution systems services by RM17.63 million or 30.16% to RM76.09 million (FYE 2021: RM58.46 million) mainly due to:

(a) higher revenue recognition for the supply and installation of a power distribution system for a medical device manufacturing plant amounted to RM29.35 million;

(b) commencement of work for more new contracts secured during FYE 2022 which include among others, the supply and installation of power distribution system for a semiconductor manufacturing plant amounted to RM12.32 million; the supply, installation, testing and commissioning of power distribution system for a semiconductor testing plant amounted to RM14.83 million; the design, supply, installation, testing and commissioning of power distribution system and control and instrumentation system for a semiconductor manufacturing plant amounted to RM10.20 million; and

(ii) higher revenue from the provision of electrical equipment hook-up and retrofitting services by RM3.36 million or 32.62% to RM13.66 million (FYE 2021: RM10.30 million) mainly due to more work orders secured for the installation of new machinery production line for a semiconductor manufacturing plant amounted to RM6.54 million.

Nevertheless, the increase in revenue for FYE 2022 was partly offset by the decrease in the revenue generated from the following:

(i) lower revenue generated from the provision of other building systems and works by RM11.98 million or 42.50% to RM16.21 million (FYE 2021: RM28.19 million) mainly due to completion for the civil construction and mechanical system works for an open car park infrastructure, and a 3-storey 132kV substation in an electronic product manufacturing plant during FYE 2022; and

(ii) lower revenue from the trading of electrical products by RM1.90 million or 54.13% to RM1.61 million (FYE 2021: RM3.51 million) mainly due to lower request for replacement or upgrading of parts and/or ad hoc sales to new customers during FYE 2022.

<u>Comparison between FPE 2022 and FPE 2023</u>

For FPE 2023, our total revenue increased by RM87.18 million or 169.61% to RM138.58 million (FPE 2022: RM51.40 million). The increase in total revenue for FPE 2023 was mainly contributed by:

(i) higher revenue from the provision of power distribution systems services by RM52.48 million or 132.06% to RM92.22 million (FPE 2022: RM39.74 million) mainly due to, among others:

(a) higher revenue recognition for the design, supply, installation, testing and commissioning of a power distribution system for a semiconductor manufacturing plant amounted to RM40.24 million;

(b) higher revenue recognition for the supply, installation, testing and commissioning of a power distribution system for a semiconductor testing plant amounted to RM20.08 million;

(c) commencement of work for new phases of the project secured for the supply and installation of MV power distribution system for an electrodeposited copper foil manufacturing plant amounted to RM12.74 million;

(d) commencement of work for new project secured for the supply and installation of UPS system for a battery cell manufacturing plant for RM6.36 million;

(ii) higher revenue from the provision of other building systems and works by RM36.90 million or 1,430.23% to RM39.48 million (FPE 2022: RM2.58 million) mainly due to, among others:

(a) commencement of mechanical works for the installation of mechanical system (ACMV and utility system) for a semiconductor testing plant amounted to RM23.27 million; and

(b) commencement of control and instrumentation system work for a semiconductor manufacturing plant amounted to RM16.12 million.

Nevertheless, the increase in revenue for FPE 2023 was partly offset by the decrease in the revenue generated from the following:

(i) lower revenue generated from the provision of electrical equipment hook-up and retrofitting services by RM1.60 million or 19.37% to RM6.66 million (FPE 2022: RM8.26 million) mainly due to lesser work orders secured for the installation of new machinery production line for a semiconductor manufacturing plant during FPE 2023 as compared to FPE 2022; and

(ii) lower revenue from the trading of electrical products by RM0.60 million or 72.29% to RM0.23 million (FPE 2022: RM0.83 million) mainly due to lower request for replacement or upgrading of parts and/or ad hoc sales to new customers during FPE 2023 as compared to FPE 2022.

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(ii) Analysis of contribution to revenue by end-user industries

The breakdown of our Group's revenue by end-user industries for the Financial Years and Period Under Review is as follows:

	Audited						**Unaudited**		**Audited**	
	FYE 2020		**FYE 2021**		**FYE 2022**		**FPE 2022**		**FPE 2023**	
End-user industries	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Semiconductor	6,873	21.90	10,278	10.23	65,295	60.70	19,349	37.64	106,946	77.17
Medical devices	-	-	1,575	1.57	31,456	29.24	24,154	46.99	9,267	6.69
Electronic products	-	-	69,400	69.08	3,778	3.51	3,751	7.30	-	-
Commercial and residential developments	19,081	60.79	4,701	4.68	403	0.38	471	0.91	-	-
Others (1)	5,434	17.31	14,507	14.44	6,641	6.17	3,679	7.16	22,364	16.14
Total revenue	**31,388**	**100.00**	**100,461**	**100.00**	**107,573**	**100.00**	**51,404**	**100.00**	**138,577**	**100.00**

Note:

(1) Includes electrodeposited copper foil, battery cell manufacturing, telecommunication, chemical product, gas, solar, education, food and beverage, and glove industries, as well as revenue from trading of electrical products.

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our total revenue increased by RM69.07 million or 220.04% to RM100.46 million (FYE 2020: RM31.39 million). The increase in total revenue for FYE 2021 was mainly contributed by:

(i) higher revenue generated from the semiconductor industry by RM3.41 million or 49.64% to RM10.28 million (FYE 2020: RM6.87 million) mainly due to more work orders secured for the installation of new machineries, and modification of power distribution system to accommodate changes to customer's production line for a semiconductor manufacturing plant amounted to RM7.88 million;

(ii) revenue generated from the electronic products industry of RM69.40 million (FYE 2020: nil) mainly due to:

(a) commencement of work for a new project secured for the supply and installation of a power distribution system, and civil construction and mechanical system works for a 3-storey 132kV substation in an electronic product manufacturing plant amounted to RM39.81 million and RM13.27 million, respectively;

(b) commencement of work for new project secured for the civil construction and mechanical system works for an open car park infrastructure within an electronic product manufacturing plant amounted to RM14.20 million;

(iii) revenue generated from the medical devices industry of RM1.58 million (FYE 2020: nil) due to the commencement of work for a new project secured for the supply and installation of a power distribution system for a medical device manufacturing plant; and

(iv) higher revenue generated from other industries by RM9.08 million or 167.22% to RM14.51 million (FYE 2020: RM5.43 million) mainly due to the commencement of work for a new project secured for the supply and installation of MV power distribution system for an electrodeposited copper foil manufacturing plant amounted to RM9.85 million.

The increase in revenue for FYE 2021 was partly offset by the decrease in the revenue generated from commercial and residential developments industry by RM14.38 million or 75.37% to RM4.70 million (FYE 2020: RM19.08 million) mainly due to tail end and completion of both the commercial and residential projects during FYE 2021.

<u>Comparison between FYE 2021 and FYE 2022</u>

For FYE 2022, our total revenue increased by RM7.11 million or 7.08% to RM107.57 million (FYE 2021: RM100.46 million). The increase in total revenue for FYE 2022 was mainly contributed by:

(i) higher revenue from the semiconductor industry by RM55.02 million or 535.21% to RM65.30 million (FYE 2021: RM10.28 million) mainly due to:

  (a) commencement of work for more new contracts secured during FYE 2022 which include among others, the supply and installation of power distribution system for a semiconductor manufacturing plant amounted to RM12.32 million; the supply, installation, testing and commissioning of power distribution system for a semiconductor testing plant amounted to RM23.18 million; the design, supply, installation, testing and commissioning of power distribution system and control and instrumentation system for a semiconductor manufacturing plant amounted to RM15.45 million;

  (b) more work orders secured for the installation of new machinery production line for a semiconductor manufacturing plant amounted to RM6.54 million; and

(ii) higher revenue from the medical devices industry by RM29.88 million or 1,891.14% to RM31.46 million (FYE 2021: RM1.58 million) mainly due to higher recognition of work for the supply and installation of a power distribution system for a medical device manufacturing plant amounted to RM29.35 million.

Nevertheless, the increase in revenue for FYE 2022 was partly offset by the decrease in the revenue generated from the following:

(i) lower revenue generated from the electronic products industry by RM65.62 million or 94.55% to RM3.78 million (FYE 2021: RM69.40 million) mainly due to the completion for the supply and installation of a power distribution system and civil construction and mechanical system works for a 3-storey 132kV substation and the civil construction and mechanical system works for an open car park infrastructure in an electronic product manufacturing plant during FYE 2022;

(ii) lower revenue generated from the commercial and residential developments industry by RM4.30 million or 91.49% to RM0.40 million (FYE 2021: RM4.70 million) as there were no other project secured under the segment after the completion of both the commercial and residential projects during FYE 2021; and

(iii) lower revenue generated from other industries by RM7.87 million or 54.24% to RM6.64 million (FYE 2021: RM14.51 million) mainly due to lower recognition of revenue for the supply and installation of MV power distribution system for an electrodeposited copper foil manufacturing plant which only commenced in October 2022.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our total revenue increased by RM87.18 million or 169.61% to RM138.58 million (FPE 2022: RM51.40 million). The increase in total revenue for FPE 2023 was mainly contributed by:

(i) higher revenue from the semiconductor industry by RM87.60 million or 452.71% to RM106.95 million (FPE 2022: RM19.35 million) mainly due to, among others:

(a) higher revenue recognition for the design, supply, installation, testing and commissioning of a power distribution system for a semiconductor manufacturing plant amounted to RM40.24 million, and supply, installation, testing and commissioning of power distribution system for a semiconductor testing plant amounted to RM20.08 million;

(b) higher revenue recognition for the installation of mechanical system (ACMV and utility system) for a semiconductor testing plant amounted to RM23.27 million, and commencement of control and instrumentation system work for a semiconductor manufacturing plant amounted to RM16.12 million; and

(ii) higher revenue from other industries by RM18.68 million or 507.61% to RM22.36 million (FPE 2022: RM3.68 million) which was mainly attributable to the commencement of work for new phases of the project secured for the supply and installation of MV power distribution system for an electrodeposited copper foil manufacturing plant amounted to RM12.74 million which was completed on 30 September 2023, and commencement of project for the supply and installation of UPS system for a battery cell manufacturing plant for RM6.36 million which was completed on 30 November 2023.

Nevertheless, the increase in revenue from the above industries was partly offset by a lower revenue generated from the medical devices industry due to near completion of the project for the supply and installation of a power distribution system for a medical device manufacturing plant in FPE 2023 as well as the completion of the projects for the electronic products manufacturing plant.

Commentary on movement between number of employees and revenue for the Financial Years and Period Under Review

The total number of employees of our Group for the Financial Years and Period Under Review is as follows:

	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
Total no. of employees	**35**	**37**	**72**	**54**	**83**

For FYE 2021, our total revenue increased substantially by RM69.07 million or 220.04% to RM100.46 million (FYE 2020: RM31.39 million) on the back of the increase of only 2 employees (from 35 employees in FYE 2020 to 37 employees in FYE 2021). There was no substantial increase in the total number of employees as our Group implemented a temporary recruitment freeze as part of our cost control measures during the pandemic due to uncertain market conditions. In FYE 2021, our Group's existing workforce was concentrated on the 2 new power distribution system projects which were secured during the financial year. Further, in FYE 2021, our Project and Technical Director, Tang Kok Wai was assigned to our Group (which he was under the employment of HEC at the time) to assist in overseeing and managing one of the aforementioned new power distribution system projects. Please refer to Section 10.1.1(No. 1)(iii) for further details of the services rendered by HEC. In addition, we engaged more subcontractors to perform installation works for the aforementioned new power distribution projects.

In FYE 2022, our Group increased our staff force substantially to 72 employees whilst our revenue increased by RM7.11 million or 7.08% to RM107.57 million (FYE 2021: RM100.46 million) due mainly to the following:

(i) the significantly bigger physical size of certain power distribution system projects undertaken coupled with wider scope of works. In addition, we secured our largest contract to date totalling approximately RM240 million in FYE 2022 which involved the design, supply, installation, testing and commissioning of a power distribution system for a semiconductor manufacturing plant in Kulim, Kedah. This project has significantly higher manpower requirement as specified by this customer. As such, the Group has recruited 12 new employees mainly for this project in FYE 2022;

(ii) higher number of projects being secured; and

(iii) to cater to business expansion.

For FPE 2023, our Group increased our staff force to 83 employees whilst our revenue increased by RM87.18 million or 169.61% to RM138.58 million (FPE 2022: RM51.40 million) as we continue to secure bigger size of projects which required more manpower to cater for the demand from our customers and to cater to our business expansion. The increase in staff force was mainly to cater for the design, supply, installation, testing and commissioning of a power distribution system for a semiconductor manufacturing plant, and supply, installation, testing and commissioning of power distribution system for a semiconductor testing plant.

(c) Cost of sales

Our cost of sales comprises mainly the following:

(i) Purchased materials

As an electrical engineering service provider, we are responsible for the procurement of the required electrical components and accessories such as power cables and wires, cable trunking and accessories, switchgears, UPS system, transformers and capacitors, switchboards and other electrical panels, power conditioning or energy management system and other electrical products. We generally purchase our equipment and materials based on our projects' requirements, design and specifications. For the Financial Years and Period Under Review, these electrical materials and accessories are sourced from local and foreign suppliers and selected based on their brands, models, pricing, product quality and reliability, availability and delivery lead time, technical support and warranty period as well as customers' specifications.

(ii) Subcontractors' charges

We engage qualified subcontractors to carry out the following works:

- provision of mechanical systems such as ACMV, fire protection and process utility system;
- installation, testing and commissioning of electrical systems; and
- civil, structural and architectural works including earthworks, piling and foundation works, building construction, interior and exterior fittings and finishing, parameter fencing, plumbing and landscaping.

(iii) Direct labour costs

Direct labour costs relate to salaries, wages and allowances for our site supervisors and technicians who are involved in the provision of electrical engineering services such as electrical equipment hook-up and retrofitting services as well as installation, testing and commissioning works.

(iv) Project related expenses

Project related expenses comprise mainly rental of machinery and equipment such as forklifts, boom lifts, scissor lifts and cranes, premium for contractors' all risk and workmen's compensation insurance, application and/or processing fees to relevant authorities in relation to our projects such as CIDB levy, site safety expenditures, contracts' stamp duty and other incidental direct costs relating to our projects.

The major factors affecting our cost of sales, GP and GP margin include, *inter alia*, the following:

(i) fluctuation in prices of our purchased materials which is influenced by overall market supply and demand conditions as well as globally traded commodities prices such as copper and steel;

(ii) our ability to source subcontractors at competitive prices; and

(iii) our ability to provide value engineering as well as implement and manage our projects in a timely and cost-effective manner.

(i) Analysis of cost of sales by cost component

A breakdown of our cost of sales by cost component for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Type of cost component	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Purchased materials	20,035	71.98	53,725	59.78	65,417	70.67	37,294	86.00	70,194	57.25
Subcontractors' charges	7,216	25.93	33,951	37.78	24,306	26.25	5,001	11.53	50,370	41.08
Direct labour costs	208	0.75	210	0.23	341	0.37	180	0.42	385	0.31
Project related expenses	374	1.34	1,983	2.21	2,505	2.71	890	2.05	1,664	1.36
Total cost of sales	**27,833**	**100.00**	**89,869**	**100.00**	**92,569**	**100.00**	**43,365**	**100.00**	**122,613**	**100.00**

(ii) Analysis of cost of sales by business activities

A breakdown of our cost of sales by business activities for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Business activities	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Power distribution system	20,312	72.98	52,751	58.70	66,039	71.34	34,439	79.42	79,574	64.90
Other building systems and works	-	-	26,092	29.03	15,585	16.84	2,403	5.54	37,942	30.95
Electrical equipment hook-up and retrofitting	3,245	11.66	7,769	8.65	9,606	10.38	5,823	13.43	4,884	3.98
Trading of electrical products	4,276	15.36	3,257	3.62	1,339	1.44	700	1.61	213	0.17
Total cost of sales	**27,833**	**100.00**	**89,869**	**100.00**	**92,569**	**100.00**	**43,365**	**100.00**	**122,613**	**100.00**

Commentary:

<u>Comparison between FYE 2020 and FYE 2021</u>

For FYE 2021, our cost of sales increased by RM62.04 million or 222.92% to RM89.87 million (FYE 2020: RM27.83 million) which was in tandem with the increase in our revenue growth.

Our cost of sales from the provision of power distribution system increased by RM32.44 million or 159.72% to RM52.75 million (FYE 2020: RM20.31 million) mainly due to:

(i) increase in purchased materials costs by RM30.04 million or 217.05% to RM43.88 million (FYE 2020: RM13.84 million) mainly due to higher procurement of electrical components and accessories as we commenced work for new projects secured for the supply and installation of a power distribution system for a 3-storey 132kV substation in an electronic product manufacturing plant and the supply and installation of

MV power distribution system for an electrodeposited copper foil manufacturing plant as well as increase in prices for some of our electrical components and accessories purchased due to the increase in copper and steel prices during the financial year;

(ii) increase in subcontractors' charges by RM1.20 million or 19.20% to RM7.45 million (FYE 2020: RM6.25 million) as more subcontractors were engaged to perform the installation works for the abovementioned rollout of new projects being secured; and

(iii) increase in project related expenses by RM1.21 million or 550.00% to RM1.43 million (FYE 2020: RM0.22 million) mainly due to higher rental of machinery and equipment, premium paid for contractors' all risk and workmen's compensation insurance in view of the commencement of work for the abovementioned new projects secured.

We recorded cost of sales from the provision of other building systems and works of RM26.09 million for FYE 2021 (FYE 2020: nil) mainly comprising the following:

(i) subcontractors' charges of RM25.69 million (FYE 2020: nil) mainly in respect of the engagement of subcontractors for the civil construction and mechanical system works for an open car park infrastructure and a 3-storey 132kV substation in an electronic product manufacturing plant; and

(ii) project related expenses of RM0.40 million (FYE 2020: nil) mainly due to premium paid for contractors' all risk and workmen's compensation insurance in view of the commencement of work for the abovementioned new projects secured as well as CIDB levy.

Our cost of sales from the provision of electrical equipment hook-up and retrofitting services increased by RM4.53 million or 139.81% to RM7.77 million (FYE 2020: RM3.24 million) mainly due to increase in purchased materials costs by RM4.68 million or 245.03% to RM6.59 million (FYE 2020: RM1.91 million) mainly due to higher procurement of electrical components and accessories which was in line with higher work orders secured for the installation of new machineries, and modification of power distribution system to accommodate changes to customer's production line for a semiconductor manufacturing plant as well as increase in prices of power cables and wires purchased due to the increase in copper prices during the financial year. However, such increases were partly offset by a decrease in subcontractors' charges by RM0.15 million or 15.63% to RM0.81 million (FYE 2020: RM0.96 million) as some of the works were handled directly by our technicians and workers.

Cost of sales from the trading of electrical products decreased by RM1.02 million or 23.83% to RM3.26 million (FYE 2020: RM4.28 million) in line with the decrease in the revenue from the trading of electrical products.

For avoidance of doubt, our direct labour costs did not increased in tandem with the increase in our Group's revenue mainly because our direct labour costs only relate to salaries, wages and allowances for our in-house team i.e. site supervisors and technicians which mainly focus on the provision of electrical equipment hook-up and retrofitting services. Nonetheless, we also engage qualified subcontractors mainly to carry out installation and testing works on project basis.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our cost of sales increased by RM2.70 million or 3.00% to RM92.57 million (FYE 2021: RM89.87 million) which was in tandem with the increase in our revenue growth.

Our cost of sales from the provision of power distribution system increased by RM13.29 million or 25.19% to RM66.04 million (FYE 2021: RM52.75 million) mainly due to:

(i) increase in purchased material costs by RM12.19 million or 27.78% to RM56.07 million (FYE 2021: RM43.88 million) mainly due to higher procurement of electrical components and accessories to cater for the materials requirements for the design, supply, installation, testing and/or commissioning of power distribution system and/or control and instrumentation system for a medical device manufacturing plant, semiconductor testing plant and semiconductor manufacturing plant;

(ii) increase in subcontractors' charges by RM0.42 million or 5.64% to RM7.87 million (FYE 2021: RM7.45 million) as more subcontractors were engaged to perform the installation works for the abovementioned projects; and

(iii) increase in project related expenses by RM0.59 million or 41.26% to RM2.02 million (FYE 2021: RM1.43 million) mainly due to higher rental of machinery and equipment, premium paid for contractors' all risk and workmen's compensation insurance in view of the commencement of work for the abovementioned projects.

Our cost of sales from the provision of electrical equipment hook-up and retrofitting services increased by RM1.84 million or 23.68% to RM9.61 million (FYE 2021: RM7.77 million) mainly due to:

(i) increase in purchased materials costs by RM1.40 million or 21.24% to RM7.99 million (FYE 2021: RM6.59 million) mainly due to higher procurement of electrical components and accessories which was in line with more work orders secured for the installation of new machinery production line for a semiconductor manufacturing plant; and

(ii) increase in subcontractors' charges by RM0.42 million or 51.85% to RM1.23 million (FYE 2021: RM0.81 million) as more subcontractors were engaged to cater for for the installation of new machinery production line for a semiconductor manufacturing plant.

Notwithstanding, our cost of sales from the provision of other building systems and works decreased by RM10.50 million or 40.25% to RM15.59 million (FYE 2021: RM26.09 million) mainly due to decrease in subcontractors' charges by RM10.49 million or 40.83% to RM15.20 million (FYE 2021: RM25.69 million) in respect of completion for the civil construction and mechanical system works for an open car park infrastructure, and a 3-storey 132kV substation in an electronic product manufacturing plant during FYE 2022.

Cost of sales from the trading of electrical products decreased by RM1.92 million or 58.90% to RM1.34 million (FYE 2021: RM3.26 million) in line with the decrease in the revenue from the trading of electrical products.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our cost of sales increased by RM79.24 million or 182.71% to RM122.61 million (FYE 2022: RM43.37 million) which was in tandem with the increase in our revenue growth.

Our cost of sales from the provision of power distribution system increased by RM45.13 million or 131.04% to RM79.57 million (FPE 2022: RM34.44 million) mainly due to, among others:

(i) increase in purchased material costs by RM30.02 million or 95.21% to RM61.55 million (FPE 2022: RM31.53 million) due to higher procurement of electrical components and accessories to cater for the materials requirements for the design, supply, installation, testing and/or commissioning of power distribution systems for semiconductor manufacturing plant, semiconductor testing plant, electrodeposited copper foil manufacturing plant and battery cell manufacturing plant in line with the progress of the projects;

(ii) increase in subcontractors' charges by RM14.47 million or 699.03% to RM16.54 million (FPE 2022: RM2.07 million) as more subcontractors were engaged to perform the installation works for the abovementioned projects. The substantial increase was in line with the increase in revenue for the segment; and

(iii) increase in project related expenses by RM0.68 million or 85.00% to RM1.48 million (FPE 2022: RM0.80 million) mainly due to higher rental of machinery and equipment.

Our cost of sales from the provision of other building systems and works increased by RM35.54 million or 1,480.83% to RM37.94 million (FPE 2022: RM2.40 million) mainly due to:

(i) increase in subcontractors' charges by RM30.72 million or 1,280.00% to RM33.12 million (FPE 2022: RM2.40 million) in respect of the engagement of subcontractors for the mechanical system work for a semiconductor testing plant, and the installation, testing and commissioning work for a control and instrumentation system for a semiconductor manufacturing plant. The substantial increase was in line with the increase in revenue for the segment; and

(ii) purchases of materials amounted to RM4.82 million in relation to the control and instrumentation system works for a semiconductor manufacturing plant.

Notwithstanding, our cost of sales from the provision of electrical equipment hook-up and retrofitting services decreased by RM0.94 million or 16.15% to RM4.88 million (FPE 2022: RM5.82 million) mainly due to the decrease in the materials purchased by RM1.46 million or 28.80% to RM3.61 million (FPE 2022: RM5.07) which was in line with the decrease in revenue generated from provision of electrical equipment hook-up and retrofitting services.

Further, our cost of sales from the trading of electrical products decreased by RM0.49 million or 70.00% to RM0.21 million (FPE 2022: RM0.70 million) in line with the decrease in the revenue from the trading of electrical products.

(d) GP and GP margin

(i) Analysis of GP and GP margin by business activities

The breakdown of our Group's GP and GP margin by business activities for the Financial Years and Period Under Review are as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
GP	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Power distribution system	661	18.60	5,709	53.90	10,055	67.01	5,301	65.94	12,641	79.18
Other building systems and works	-	-	2,103	19.85	627	4.18	174	2.16	1,537	9.63
Electrical equipment hook-up and retrofitting	2,526	71.05	2,530	23.89	4,054	27.02	2,439	30.34	1,774	11.11
Trading of electrical products	368	10.35	250	2.36	268	1.79	125	1.56	12	0.08
Total GP	**3,555**	**100.00**	**10,592**	**100.00**	**15,004**	**100.00**	**8,039**	**100.00**	**15,964**	**100.00**

GP margin	**%**	**%**	**%**	**%**	**%**
Power distribution system	3.15	9.77	13.21	13.34	13.71
Other building systems and works	-	7.46	3.87	6.75	3.89
Electrical equipment hook-up and retrofitting	43.77	24.57	29.68	29.52	26.64
Trading of electrical products	7.92	7.13	16.68	15.15	5.33
Overall GP margin	**11.33**	**10.54**	**13.95**	**15.64**	**11.52**

Commentary:

<u>Comparison between FYE 2020 and FYE 2021</u>

For FYE 2021, our overall GP increased by RM7.03 million or 197.47% to RM10.59 million (FYE 2020: RM3.56 million) which was mainly due to the following:

(i) increase in the GP from the provision of power distribution system by RM5.05 million or 765.15% to RM5.71 million (FYE 2020: RM0.66 million) which was corresponding with the increase in the revenue from the provision of power distribution system; and

(ii) GP recorded for the provision of other building systems and works of RM2.10 million (FYE 2020: nil) which was in line with the revenue from the provision of other building systems and works recorded for FYE 2021.

GP contribution from the provision of electrical equipment hook-up and retrofitting services during FYE 2021 of RM2.53 million was relatively consistent as compared to FYE 2020 of RM2.53 million. However, the overall increase in GP was partly offset by the decrease in GP from the trading of electrical products by RM0.12 million or 32.43% to RM0.25 million (FYE 2020: RM0.37 million) due to the decrease in the sales from trading activities during FYE 2021.

Despite the increase in GP for FYE 2021, our overall GP margin decreased slightly from 11.33% in FYE 2020 to 10.54% in FYE 2021. This was mainly due to the following:

(i) higher proportion of GP contribution from the provision of power distribution system, and other building systems and works to the overall GP for FYE 2021 which was of lower margin as compared to provision of electrical equipment hook-up and retrofitting services;

(ii) decrease in GP margin for the provision of electrical equipment hook-up and retrofitting services from 43.77% in FYE 2020 to 24.57% in FYE 2021, mainly due to increase in prices of power cables and wires purchased arising from the increase in copper prices of USD3,325 per metric tonne or 52.46% to an average price of USD9,663 per metric tonne in FYE 2021 from an average price of USD6,338 per metric tonne in FYE 2020 coupled with our higher purchases made for cables for the provision of electrical equipment hook-up and retrofitting services in FYE 2021. For avoidance of doubt, the increase in copper prices in FYE 2021 had impacted the GP margin for the provision of electrical equipment hook-up and retrofitting services because the costs of materials were fixed in the framework agreement upon securing projects / works as mentioned in Section 7.2.6(i) of this Prospectus, which was entered into before the increase in copper prices; and

(iii) GP margin for the provision of other building systems and works of 7.46% in FYE 2021 was generally lower (as compared to the provision of electrical equipment hook-up and retrofitting services) as we engaged subcontractors to support with construction-related and mechanical works and we were only responsible for the project management of these other building systems and works.

However, such a decrease in the GP margin was partly offset with the increase in GP margin for the provision of power distribution system from 3.15% in FYE 2020 to 9.77% in FYE 2021 which contributed 53.90% to the total GP for FYE 2021. The increase in the GP margin was mainly due to higher margin projects secured in relation to works performed for industrial plant and substation as compared to the margin for residential and commercial buildings projects in FYE 2020. For avoidance of doubt, the impact of the increase in copper prices in FYE 2021 for the provision of power distribution system was minimal as we have factored in the increase in copper prices in our project costing during tendering / bidding stage.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our overall GP increased by RM4.41 million or 41.64% to RM15.00 million (FYE 2021: RM10.59 million) which was mainly due to the following:

(i) increase in GP from the provision of power distribution system by RM4.34 million or 76.01% to RM10.05 million (FYE 2021: RM5.71 million) which was corresponding with the increase in the revenue from the provision of power distribution system;

(ii) increase in GP from the provision of electrical equipment hook-up and retrofitting services by RM1.52 million or 60.08% to RM4.05 million (FYE 2021: RM2.53 million) which was in line with the increase in the revenue from the provision of electrical equipment hook-up and retrofitting services during FYE 2022; and

(iii) increase in GP from the trading of electrical products by RM0.02 million or 8.00% to RM0.27 million (FYE 2021: RM0.25 million) despite a lower revenue from trading activities as a result of better margin recorded during FYE 2022.

However, the overall increase in GP was partly offset by a decrease in GP from the provision of other building systems and works by RM1.47 million or 70.00% to RM0.63 million (FYE 2021: RM2.10 million) mainly due to lower revenue contribution from the provision of other building systems and works during FYE 2022.

In line with the increase in GP for FYE 2022, our overall GP margin improved from 10.54% in FYE 2021 to 13.95% in FYE 2022 which was mainly due to the following:

(i) increase in GP margin for the provision of power distribution system from 9.77% in FYE 2021 to 13.21% in FYE 2022, mainly due to higher margin projects secured during FYE 2022 in respect of the supply and installation of the power distribution systems for a medical device manufacturing plant, and a semiconductor manufacturing plant;

(ii) increase in GP margin for the provision of electrical equipment hook-up and retrofitting services from 24.57% in FYE 2021 to 29.68% in FYE 2022, mainly due to decrease in prices of power cables and wires purchased arising from the decrease in copper prices during the financial year; and

(iii) increase in GP margin for the trading of electrical products from 7.13% in FYE 2021 to 16.68% in FYE 2022 mainly due to sale of copper busbars and power conditioning systems which was of higher margin.

However, such an increase in the GP margin was partly offset by the decrease in GP margin for the provision of other building systems and works from 7.46% in FYE 2021 to 3.87% in FYE 2022 mainly because we engaged subcontractors to support our Group on the mechanical works for the installation of mechanical system (ACMV and utility system) for a semiconductor testing plant and installation of control and instrumentation system for a semiconductor manufacturing plant.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our overall GP increased by RM7.92 million or 98.51% to RM15.96 million (FPE 2022: RM8.04 million) which was mainly due to the following:

(i) increase in GP from the provision of power distribution system by RM7.34 million or 138.49% to RM12.64 million (FPE 2022: RM5.30 million) which was in line with the increase in the revenue from the provision of power distribution system; and

(ii) increase in GP from the provision of other building systems and works by RM1.37 million or 805.88% to RM1.54 million (FPE 2022: RM0.17 million) which was in line with the increase in the revenue from the provision of other building system and works during FPE 2023.

However, the overall increase in GP was partly offset by the decrease in GP for the following:

(i) decrease in GP from the provision of electrical equipment hook-up and retrofitting services by RM0.67 million or 27.46% to RM1.77 million (FPE 2022: RM2.44 million) which was in line with the decrease in revenue from the provision of electrical equipment hook-up and retrofitting services; and

(ii) decrease in GP from trading of electrical products by RM0.12 million or 92.31% to RM0.01 million (FPE 2022: RM0.13 million) which was in line with the decrease in the revenue from trading of electrical products.

Despite the increase in GP for FPE 2023, our overall GP margin decreased from 15.64% in FPE 2022 to 11.52% in FPE 2023. This was mainly due to the following:

(i) higher proportion of GP contribution from the provision of power distribution system, and other building systems and works to the overall GP which was of lower margin as compared to provision of electrical equipment hook-up and retrofitting services;

(ii) decrease in GP margin for the provision of other building systems and works as we engaged subcontractors to support our Group on mechanical works for the installation of mechanical system (ACMV and utility system) for a semiconductor testing plant, and installation of control and instrumentation system for a semiconductor manufacturing plant, which resulted in lower margin from both of these projects;

(iii) decrease in GP margin for the provision of electrical equipment hook-up and retrofitting services due to lesser work orders secured for the installation of new machinery production line for a semiconductor manufacturing plant during FPE 2023 as compared to FPE 2022. The provision of hook-up services typically has a higher margin as compared to retrofitting services due to the stringent standards and compliance requirements of cleanroom protocols. The decrease in the said work orders secured for hook-up services consequently has affected the GP contribution and lowered the overall GP margin for the provision of electrical equipment hook-up and retrofitting services in FPE 2023; and

(iv) decrease in GP margin for the trading of electrical products mainly due to sale of electrical products of lower margin such as power cables during FPE 2023.

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(e) Other income

Our Group recorded other income of RM1.92 million, RM0.41 million, RM0.77 million and RM0.41 million for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively. The breakdown of our other income for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sale of solar energy [(1)]	236	12.30	218	52.66	199	25.84	138	32.63	131	31.64
Fair value gain on investment properties [(2)]	-	-	-	-	163	21.17	-	-	-	-
Interest income	37	1.93	24	5.80	102	13.25	60	14.18	157	37.92
Rental income	96	5.00	96	23.19	96	12.47	64	15.13	64	15.46
Dividend income	-	-	3	0.72	-	-	-	-	1	0.24
Realised gain on foreign currency exchange	-	-	-	-	3	0.39	-	-	-	-
Fair value gain on other investment [(3)]	1,466	76.39	-	-	-	-	-	-	33	7.97
Unwinding of discount [(4)]	-	-	-	-	-	-	-	-	23	5.56
Others [(5)]	84	4.38	73	17.63	207	26.88	161	38.06	5	1.21
Total	**1,919**	**100.00**	**414**	**100.00**	**770**	**100.00**	**423**	**100.00**	**414**	**100.00**

Notes:

(1) The sale of solar energy relates to the development of a rooftop solar PV system for the generation and sale of solar energy to TNB pursuant to the renewable energy power purchase agreement entered into with TNB for a feed-in-tariff concession period of 21 years from 2013 to 2034.

(2) Fair value gain on investment properties arose pursuant to the fair value adjustment for our investment properties which reflected the market conditions at the reporting date pursuant to MFRS 140.

(3) Fair value gain on other investment was in relation to the fair value adjustment through profit or loss for our investment in quoted securities on the Australian Securities Exchange ("**ASX**") and our Group's investment in money market funds pursuant to MFRS 9.

(4) Unwinding of discount refers to systematically reversing the discounting impact for the future value of our keyman insurance premium paid to its present value.

(5) Comprises wage subsidy received from SOCSO under the Wage Subsidy Programme, incentive received from SOCSO under the Jamin Kerja Insentif Penggajian, scrap sale and a one-off deposit forfeiture in relation to a cancellation of an installation of power distribution system project by a customer, as well as administrative charges by Hexatech Engineering as set out in Section 10.1.1 of this Prospectus.

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our Group recorded a decrease in other income by RM1.51 million or 78.65% to RM0.41 million (FYE 2020: RM1.92 million). The decrease in other income was mainly due to the fair value gain for our investment in quoted securities on the ASX pursuant to MFRS 9 in FYE 2020.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our Group recorded an increase in other income by RM0.36 million or 87.80% to RM0.77 million (FYE 2021: RM0.41 million). The increase in other income was mainly due to the following:

(i) higher interest income by RM0.08 million mainly due to higher placement of fixed deposit during FYE 2022;

(ii) fair value gain on investment properties of RM0.16 million pursuant to the fair value adjustment for our investment properties which reflected the market conditions at the reporting date pursuant to MFRS 140; and

(iii) a one-off deposit forfeiture of RM0.09 million in relation to a cancellation of an installation of power distribution system project by our customer during FYE 2019 as well as management fee charged by Hexatech Engineering as set out in Section 10.1.1 of this Prospectus amounted to RM0.11 million during FYE 2022.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our Group recorded a marginal decrease in other income by RM0.01 million or 2.38% to RM0.41 million (FPE 2022: RM0.42 million) mainly due to a one-off deposit forfeiture of RM0.09 million received in FPE 2022 in relation to a cancellation of an installation of power distribution system project by a customer in FYE 2019 as well as administrative fee charged by Hexatech Engineering amounted to RM0.06 million in FPE 2022 which was subsequently ceased in December 2022. For the avoidance of doubt, the one-off deposit forfeiture of RM0.09 million arising from the said project cancellation was only received in FPE 2022 after our Group and the customer reached a mutual agreement following prolonged discussions.

The decrease in other income was partly offset by the increase in the following:

(i) higher interest income by RM0.10 million due to higher placement of fixed deposits; and

(ii) fair value gain on other investment of RM0.03 million in relation to fair value adjustment for our Group's investment in money market funds pursuant to MFRS 9.

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(f) Administrative expenses

Our Group incurred administrative expenses of RM3.14 million, RM4.62 million, RM6.84 million and RM5.54 million for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively. The breakdown of our administrative expenses for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	2,086	66.54	2,839	61.46	4,625	67.64	2,977	73.51	3,556	64.22
Directors' fees and remuneration	468	14.93	890	19.27	779	11.39	329	8.12	508	9.17
Legal & professional fees	36	1.15	160	3.46	412	6.03	90	2.22	225	4.06
Depreciation of PPE	139	4.43	159	3.44	287	4.20	159	3.92	413	7.46
Travelling and transportation	68	2.17	143	3.10	220	3.22	147	3.63	131	2.37
Advertisement and marketing expenses	92	2.94	85	1.84	161	2.35	111	2.74	123	2.22
Upkeep of PPE	34	1.08	46	1.00	78	1.14	44	1.09	33	0.60
Rental and utility expenses	74	2.36	71	1.54	128	1.87	96	2.37	90	1.63
Others [(1)]	138	4.40	226	4.89	148	2.16	97	2.40	458	8.27
Total	**3,135**	**100.00**	**4,619**	**100.00**	**6,838**	**100.00**	**4,050**	**100.00**	**5,537**	**100.00**

Note:

(1) Comprises mainly printing and stationery, postage and courier, project and/or business licence and registration fees, security charges, building insurances and bank charges and Real Property Gain Tax ("**RPGT**").

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our Group recorded an increase in administrative expenses by RM1.48 million or 47.13% to RM4.62 million (FYE 2020: RM3.14 million).

The increase in administrative expenses was mainly due to the following factors:

(i) increase in staff costs and directors' fees and remuneration by RM1.18 million mainly due to higher bonus payout during FYE 2021 as well as restoration of staff costs and directors' remuneration to the level prior to the COVID-19 pandemic as our Group adopted a temporary salary reduction measure during the COVID-19 pandemic in FYE 2020; and

(ii) increase in legal and professional fees by RM0.12 million mainly due to increase in stamp duties and legal fees for new banking facilities secured.

12. FINANCIAL INFORMATION (CONT'D)

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our Group recorded an increase in administrative expenses by RM2.22 million or 48.05% to RM6.84 million (FYE 2021: RM4.62 million).

The increase in administrative expenses was mainly due to the following factors:

(i) increase in staff costs by RM1.79 million due to the increase in our headcounts which was in line with our business expansion;

(ii) increase in legal and professional fees by RM0.25 million due to the increase in stamp duties and legal fees for new banking facilities secured in FYE 2022;

(iii) increase in depreciation by RM0.13 million mainly following more addition of PPE during FYE 2022; and

(iv) increase in travelling and transportation by RM0.08 million due to increase in expenses claimed by employees to attend project sites.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our Group recorded an increase in administrative expenses by RM1.49 million or 36.79% to RM5.54 million (FPE 2022: RM4.05 million).

The increase in administrative expenses was mainly due to the following factors:

(i) increase in staff costs, and directors' fees and remuneration by RM0.76 million mainly due to increase in our Group's headcounts to 83 (FPE 2022: 54 headcounts) and revision of staff salary, and directors' remuneration during FPE 2023 which was in line with our Group's business expansion and growth;

(ii) increase in depreciation by RM0.25 million as a result of more addition of PPE during FPE 2023; and

(iii) incurrence of RPGT amounted to RM0.30 million during FPE 2023 in relation to the disposal of investment property held under Lot 7743.

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(g) Net reversal/(loss) on impairment of financial assets

Our Group incurred net reversal on impairment of financial assets of RM6,232 for FYE 2020. Our Group incurred a net loss on impairment of financial assets of RM0.21 million, RM0.11 million and RM0.12 million for FYE 2021, FYE 2022 and FPE 2023, respectively. For avoidance of doubt, the financial assets that were impaired / reversed are trade receivables. The breakdown of our net reversal/(loss) on impairment of financial assets for the Financial Years and Period Under Review are as follows:

	Audited						Unaudited		Audited	
	FYE 2020		**FYE 2021**		**FYE 2022**		**FPE 2022**		**FPE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Impairment loss on expected credit losses on trade receivables	-	-	(214)	100.00	(114)	100.00	(18)	100.00	(124)	100.00
Reversal of impairment on expected credit losses on trade receivables	6	100.00	-	-	-	-	-	-	-	-
Total	**6**	**100.00**	**(214)**	**100.00**	**(114)**	**100.00**	**(18)**	**100.00**	**(124)**	**100.00**

Commentary:

<u>Comparison between FYE 2020 and FYE 2021</u>

For FYE 2021, our Group recorded a net loss on impairment of financial assets of RM0.21 million mainly in relation to the higher general allowance made for expected credit loss in accordance with MFRS 9 after taking into consideration the loss given default and probability of default assigned and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts. This was in contrast with a net reversal on impairment of financial assets of RM6,232 recorded in FYE 2020 due mainly to recovery of trade receivables previously impaired in accordance with MFRS 9.

<u>Comparison between FYE 2021 and FYE 2022</u>

For FYE 2022, our Group recorded a further net loss on impairment of financial assets of RM0.11 million mainly due to higher general allowance made for expected credit loss in accordance with MFRS 9 after taking into consideration the loss given default and probability of default assigned and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

<u>Comparison between FPE 2022 and FPE 2023</u>

For FPE 2023, the net loss on impairment of financial assets increased by RM0.10 million or 500.00% to RM0.12 million (FPE 2022: RM0.02 million) mainly due to higher general allowance made for expected credit loss in accordance with MFRS 9 in line with our increase in trade receivables after taking into consideration the loss given default and probability of default assigned and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

(h) Other expenses

Our Group did not incur any other expenses in FYE 2020 and FYE 2022. For FYE 2021, FPE 2022 and FPE 2023, our Group incurred other expenses of RM0.07 million, approximately RM1,000 and RM0.01 million, respectively. The breakdown of our other expenses for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Fair value loss on other investment (1)	-	-	65	94.20	-	-	-	-	-	-
Realised loss on foreign currency exchange	-	-	4	5.80	-	-	1	100.00	11	100.00
Total	**-**	**-**	**69**	**100.00**	**-**	**-**	**1**	**100.00**	**11**	**100.00**

Note:

(1) Fair value loss on other investment was in relation to the fair value adjustment through profit or loss for our investment in quoted securities on the ASX pursuant to MFRS 9.

Commentary:

For FYE 2021, our Group incurred other expenses of RM0.07 million mainly due to the fair value loss for our investment in quoted securities on the ASX.

Comparison between FPE 2022 and FPE 2023

The realised loss on foreign currency exchange increased by RM0.01 million to RM11,000 for FPE 2023 (FPE 2022: approximately RM1,000) was in relation to loss on foreign currency exchange arising from our Group's purchases of electrical components during FPE 2023.

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12. FINANCIAL INFORMATION (CONT'D)

(i) Finance costs

Our Group incurred finance costs of RM0.40 million, RM0.62 million, RM0.84 million and RM0.76 million for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively. The breakdown of our finance costs for the Financial Years and Period Under Review is as follows:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bankers' acceptance	80	19.80	137	21.92	138	16.43	82	45.05	28	3.71
Bank commitment fees	11	2.72	9	1.44	11	1.31	7	3.85	7	0.93
Bank guarantee	112	27.72	270	43.20	462	55.00	35	19.23	420	55.63
Bank overdraft	1	0.25	10	1.60	2	0.24	1	0.55	-	-
Domestic recourse factoring [(1)]	115	28.46	123	19.68	142	16.90	16	8.79	2	0.27
Lease liabilities	2	0.50	8	1.28	21	2.50	8	4.40	57	7.55
Letter of credit	49	12.13	35	5.60	34	4.05	14	7.69	2	0.26
Trust receipt	12	2.97	-	-	-	-	-	-	-	-
Term loans	22	5.45	33	5.28	30	3.57	19	10.44	42	5.56
Discount on non-current financial assets [(2)]	-	-	-	-	-	-	-	-	197	26.09
Total	**404**	**100.00**	**625**	**100.00**	**840**	**100.00**	**182**	**100.00**	**755**	**100.00**

Notes:

(1) Domestic recourse factoring refers to a facility whereby in relation to the sales of the receivables which the financial institution agrees to make an agreed initial payment to us and thereafter releases the balance payment less charges to our Group upon receipt of full payment from our project customers.

(2) Being discounting impact for the future value of our keyman insurance premium paid to its present value.

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our Group recorded an increase in finance costs of RM0.23 million or 57.50% to RM0.63 million (FYE 2020: RM0.40 million). The increase in finance costs was mainly due to higher bank guarantee fees charged as we secured new projects of higher contract sum which required us to provide performance bonds in the form of a bank guarantee as well as higher utilisation of bankers' acceptance for the purchase of materials for our new projects which commenced works during FYE 2021.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our Group recorded an increase in finance costs of RM0.21 million or 33.33% to RM0.84 million (FYE 2021: RM0.63 million). The increase in finance costs was mainly due to higher bank guarantee fees charged as we secured more new projects of higher contract sum which required us to provide performance bonds in the form of a bank guarantee.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our Group recorded an increase in finance costs of RM0.58 million or 322.22% to RM0.76 million (FPE 2022: RM0.18 million). The increase in finance costs was mainly due to:

(i) higher bank guarantee fees charged as we secured more new projects of higher contract sum which required us to provide performance bonds in the form of a bank guarantee; and

(ii) discounting impact in respect of our keyman insurance premium paid to its present value.

(j) Taxation

The breakdown of our income tax expense for the Financial Years and Period Under Review is set out below:

	Audited			Unaudited	Audited
	FYE 2020	**FYE 2021**	**FYE 2022**	**FPE 2022**	**FPE 2023**
Income tax expense (RM'000)	243	1,345	1,813	953	2,696
Effective tax rate (%) [(1)]	12.52	24.55	22.71	22.63	27.09
Statutory tax rate (%)	24.00	24.00	24.00	24.00	24.00

Note:

(1) Effective tax rate is calculated based on income tax expense divided by PBT.

Our effective tax rate for FYE 2020 was 12.52% which was 11.48% lower than the statutory tax rate mainly due to following:

(i) income not subjected to tax mainly in respect of the fair value gain for our investment in quoted securities on the ASX; and

(ii) tax saving on first tranche of chargeable income of RM0.60 million at the tax rate of 17.00%.

Our effective tax rate for FYE 2021 was 24.55% which was 0.55% more than the statutory tax rate mainly due to higher non-deductible expenses including, among others, depreciation, entertainment expenses, and stamp duty and legal fee for loan agreement.

Our effective tax rate for FYE 2022 was 22.71% which was 1.29% lower than the statutory tax rate mainly due to following:

(i) income not subjected to tax mainly in respect of the fair value gain on investment properties; and

(ii) over provision of current tax in the prior financial year of RM0.10 million.

Our effective tax rate for FPE 2023 was 27.09% which was 3.09% more than the statutory tax rate mainly due to the following:

(i) non-deductible expenses including, among others, depreciation charges, RPGT, stamp duty and legal fee for loan agreement; and

(ii) under provision of current tax in the prior financial year of RM0.10 million.

(k) PBT, PBT margin, PAT and PAT margin

Our Group recorded PBT of RM1.94 million, RM5.48 million, RM7.98 million and RM9.95 million for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively. In addition, we recorded PAT of RM1.70 million, RM4.13 million, RM6.17 million and RM7.26 million for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively. Our PBT, PBT margin, PAT and PAT margin for the Financial Years and Period Under Review are set out below:

	Audited			Unaudited	Audited
	FYE 2020	**FYE 2021**	**FYE 2022**	**FPE 2022**	**FPE 2023**
PBT (RM'000)	1,941	5,479	7,982	4,211	9,951
PAT (RM'000)	1,698	4,134	6,169	3,258	7,255
PBT margin (%)	6.18	5.45	7.42	8.19	7.18
PAT margin (%)	5.41	4.12	5.73	6.34	5.24

Commentary:

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our Group recorded an increase in PBT by RM3.54 million or 182.47% to RM5.48 million (FYE 2020: RM1.94 million) and an increase in PAT by RM2.43 million or 142.94% to RM4.13 million (FYE 2020: RM1.70 million). The increase in both PBT and PAT was mainly due to higher GP recorded for FYE 2021 as set out in Section 12.3.1(d) above.

Nevertheless, our PBT margin decreased from 6.18% for FYE 2020 to 5.45% for FYE 2021 mainly due to lower GP margin recorded for FYE 2021 as set out in Section 12.3.1(d) above and higher PBT margin recorded for FYE 2020 arising from higher other income recorded amounting to RM1.92 million mainly due to, among others, fair value gain on other investment amounting to RM1.47 million. Our PAT margin also decreased from 5.41% for FYE 2020 to 4.12% for FYE 2021. The decrease in the PAT margin was mainly due to lower PBT margin recorded for FYE 2021 and lower effective tax rate recorded in FYE 2020.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our Group recorded an increase in PBT by RM2.50 million or 45.62% to RM7.98 million (FYE 2021: RM5.48 million) and an increase in PAT by RM2.04 million or 49.39% to RM6.17 million (FYE 2021: RM4.13 million). The increase in both PBT and PAT was mainly due to higher GP recorded for FYE 2022 as set out in Section 12.3.1(d) above.

Correspondingly, our PBT margin improved from 5.45% for FYE 2021 to 7.42% for FYE 2022. Our PAT margin also improved from 4.12% for FYE 2021 to 5.73% for FYE 2022. The improvement in the PBT margin and PAT margin was mainly due to higher GP margin recorded for FYE 2022 as set out in Section 12.3.1(d) above.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our Group recorded an increase in PBT by RM5.74 million or 136.34% to RM9.95 million (FPE 2022: RM4.21 million) and an increase in PAT by RM4.00 million or 122.70% to RM7.26 million (FPE 2022: RM3.26 million). The increase in both PBT and PAT was mainly due to higher GP recorded for FPE 2023 as set out in Section 12.3.1(d) above.

Nevertheless, our PBT margin decreased from 8.19% for FPE 2022 to 7.18% for FPE 2023 mainly due to lower GP margin and higher administrative expenses recorded for FPE 2023 as set out in Section 12.3.1(d) and 12.3.1(f) above. Our PAT margin also decreased from 6.34% for FPE 2022 to 5.24% for FPE 2023 mainly due to the lower PBT margin recorded for FPE 2023 as well as higher effective tax rate.

(I) Review of financial positions

(i) Assets

	Audited			
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2023 RM'000**
ASSETS				
Non-current assets				
PPE	997	1,121	1,911	3,166
Investment properties	4,700	5,817	1,180	1,180
Other investment	402	-	-	-
Receivables	-	-	-	771
	6,099	**6,938**	**3,091**	**5,117**
Current assets				
Inventories	116	427	724	1,225
Receivables	10,455	37,910	42,606	63,407
Contract assets	1,906	10,057	24,271	9,031
Other investment	-	-	-	10,033
Fixed deposits with licenced banks	1,185	1,390	4,805	5,140
Cash and bank balances	729	4,984	8,970	11,856
	14,391	**54,768**	**81,376**	**100,692**
Non-current asset held for sale	-	-	4,800	4,800
Total assets	**20,490**	**61,706**	**89,267**	**110,609**

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our non-current assets increased by RM0.84 million or 13.77% to RM6.94 million (FYE 2020: RM6.10 million) mainly due to the addition of investment properties amounting to RM1.12 million and purchase of PPE of RM0.28 million which was partly offset by the depreciation of PPE of RM0.16 million and disposal of the remaining investment in quoted securities on the ASX of RM0.40 million. Please refer to Section 6.5 of this Prospectus for further details of the addition of investment properties amounting to RM1.12 million.

For FYE 2021, our current assets increased by RM40.38 million or 280.61% to RM54.77 million (FYE 2020: RM14.39 million) mainly due to the following:

(i) increase in receivables of RM27.46 million, of which trade receivables increased by RM27.36 million mainly due to higher progress billings towards the last quarter of FYE 2021 for the supply and installation of the power distribution systems for a 3-storey 132kV substation in an electronic product manufacturing plant while other receivables increased by RM0.31 million mainly due to higher deposits paid for tender submission and advances made to suppliers for the purchase of electrical components. The increase in trade receivables was partly offset by the increase in the expected credit losses of RM0.21 million;

(ii) increase in contract assets of RM8.15 million due to higher amount of work performed during FYE 2021 but pending certification and billing; and

(iii) increase in cash and bank balances of RM4.26 million mainly due to increase in cash collateral pledged with licenced bank for bank guarantees in relation to the performance bonds for our projects.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our non-current assets decreased by RM3.85 million or 55.48% to RM3.09 million (FYE 2021: RM6.94 million) mainly due to the transfer of investment property from non-current assets to non-current asset held for sale under current asset following the disposal of investment property amounted to RM4.80 million pending completion. However, such a decrease was partly offset by the addition of PPE of RM1.10 million comprising mainly motor vehicles, renovation work and rental of properties classified as ROU assets.

For FYE 2022, our current assets increased by RM26.61 million or 48.58% to RM81.38 million (FYE 2021: RM54.77 million) mainly due to the following:

(i) increase in contract assets of RM14.21 million mainly due to higher amount of work performed during FYE 2022 but pending certification and billing;

(ii) increase in receivables of RM4.70 million, of which trade receivables increased by RM6.27 million mainly due to slower collection from certain customers during FYE 2022 while other receivables decreased by RM1.46 million mainly due to repayment of advances from corporate shareholder. The increase in trade receivables was partly offset by the increase in the expected credit losses of RM0.11 million;

(iii) increase in fixed deposits with licensed banks of RM3.41 million pledged as collateral for new banking facilities; and

(iv) increase in cash and bank balances of RM3.99 million due to higher billings to customers and collection during FYE 2022.

Comparison between FYE 2022 and FPE 2023

For FPE 2023, our non-current assets increased by RM2.03 million or 65.70% to RM5.12 million (FYE 2022: RM3.09 million) mainly due to addition of PPE of RM1.69 million comprising motor vehicles, furniture and fittings, office equipment, renovations and rental of property classified as ROU assets which was partly offset by the depreciation of PPE of RM0.41 million. In addition, we recorded an increase in other receivables of RM0.77 million due to keyman insurance premium paid for our new banking facilities.

For FPE 2023, our current assets increased by RM19.31 million or 23.73% to RM100.69 million (FYE 2022: RM81.38 million) mainly due to, among others:

(i) increase in receivables of RM20.80 million, of which trade receivables increased by RM17.59 million which was in line with the increase in our Group's revenue while other receivables increased by RM3.33 million mainly due to deposits made to suppliers for purchases of materials as well as prepayment in relation to IPO expenses. The increase in trade receivables was partly offset by the increase in the expected credit losses of RM0.12 million;

(ii) increase in other investment of RM10.03 million in respect of the placement of cash in money market funds; and

(iii) increase in cash and bank balances of RM2.89 million due to due to higher billings to customers and collection during FPE 2023.

However, the increase in our Group's current assets was partly offset by the decrease in contract assets of RM15.24 million mainly due to billings raised for work performed which was subsequently certified by customers.

(ii) Liabilities

	Audited			
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2023 RM'000**
LIABILITIES				
Non-current liabilities				
Borrowings	757	597	675	1,198
Lease liabilities	-	92	498	1,046
Deferred tax liabilities	172	139	133	106
	929	**828**	**1,306**	**2,350**
Current liabilities				
Payables	5,827	40,528	40,779	68,175
Contract liabilities	800	536	21,504	14,353
Tax payable	52	1,029	784	1,745
Borrowings	3,778	5,995	8,732	336
Lease liabilities	18	70	272	505
	10,475	**48,158**	**72,071**	**85,114**
Total liabilities	**11,404**	**48,986**	**73,377**	**87,464**

Comparison between FYE 2020 and FYE 2021

For FYE 2021, our non-current liabilities decreased by RM0.10 million or 10.75% to RM0.83 million (FYE 2020: RM0.93 million) mainly due to repayment of term loans amounted to RM0.16 million. However, the decrease is partly offset by an increase in lease liabilities of RM0.09 million for the purchase of motor vehicles and addition of ROU assets.

For FYE 2021, our current liabilities increased by RM37.68 million or 359.54% to RM48.16 million (FYE 2020: RM10.48 million) mainly due to the following:

(i) increase in payables of RM34.70 million, of which trade payables increased by RM34.19 million which was in line with the progress of our projects while other payables increased by RM0.51 million mainly due to higher accruals made for staff bonus;

(ii) increase in borrowings of RM2.22 million mainly due to the increase of bankers' acceptances by RM2.18 million for working capital purpose while term loans increased by RM0.04 million; and

(iii) increase in tax payable of RM0.98 million due to increase in our PBT.

However, the increase in our current liabilities was partly offset by a decrease in contract liabilities of RM0.26 million which was mainly due to subsequent works performed.

Comparison between FYE 2021 and FYE 2022

For FYE 2022, our non-current liabilities increased by RM0.48 million or 57.83% to RM1.31 million (FYE 2021: RM0.83 million) mainly due to an increase in lease liabilities of RM0.41 million in relation to the purchase of motor vehicles and rental of properties classified as ROU assets.

For FYE 2022, our current liabilities increased by RM23.91 million or 49.65% to RM72.07 million (FYE 2021: RM48.16 million) mainly due to the following:

(i) increase in contract liabilities of RM20.97 million mainly due to higher progress billings as per the billing milestones stated in the contract for the design, supply, installation, testing and commissioning of power distribution system and control and instrumentation system for a semiconductor manufacturing plant during FYE 2022; and

(ii) increase in borrowings of RM2.74 million, of which the bankers' acceptances increased by RM3.14 million for the purchase of materials but partly offset by a decrease in bank overdraft by RM0.46 million.

Comparison between FYE 2022 and FPE 2023

For FPE 2023, our non-current liabilities increased by RM1.04 million or 79.39% to RM2.35 million (FYE 2022: RM1.31 million) mainly due to, among others:

(i) increase in lease liabilities of RM0.55 million in relation to the purchase of motor vehicles and addition of ROU assets; and

(ii) increase in borrowings of RM0.52 million in relation to the drawdown of term loan for keyman insurance.

For FPE 2023, our current liabilities increased by RM13.04 million or 18.09% to RM85.11 million (FYE 2022: RM72.07 million) mainly due, among others:

(i) increase in payables of RM27.40 million of which, trade payables increased by RM27.20 million mainly due to higher purchases of material and subcontractors' charges which was in line with the progress of our projects while other payables increased by RM0.20 million mainly due to downpayment received for the disposal of investment property held under Lot 7743; and

(ii) increase in tax payable of RM0.96 million due to increase in our PBT.

However, the increase in our current liabilities was partly offset by the following:

(i) decrease in borrowings of RM8.39 million due to repayment of term loans and bankers' acceptance; and

(ii) decrease in contract liabilities of RM7.15 million which was mainly due to subsequent work performed.

12.3.2 Significant factors materially affecting our operations and financial results

In addition to the factors and trends set out in Section 12.5 of this Prospectus, some of the factors that may have an impact to our operations and financial results are as follows:

(a) Performance of the power distribution systems at end-user premises industry

Our Group's principal activities are in the provision of electrical engineering services focusing on the development of power distribution systems with 66.82%, 58.19%, 70.74% and 66.54% of our total revenue for FYE 2020, FYE 2021, FYE 2022 and FPE 2023, respectively contributed by the provision of electrical engineering services for development of power distribution systems. Further, to strengthen our business, we also provide other building systems and works as well as electrical equipment hook-up and retrofitting services, which are closely associated with the development of power distribution systems. Hence, our operations and financial results are driven by the performance and prospects of the power distributions systems at end-user premises industry.

The power distribution systems for end-user premises are closely related to the construction industry, represented by specialised construction subsector which includes electrical installation. According to the IMR Report, for the first 9 months of 2023, the value of construction work completed for electrical installation grew by 18.4%, while the number of applications for new electrical installations grew by 0.1%, compared to the corresponding period in 2022. The real GDP of the construction industry is estimated to grow by 6.3% in 2023, mainly supported by the civil engineering and specialised construction activity subsectors in first half of 2023, and growth across all subsectors in the second half of 2023. In 2024, the construction industry is forecasted to grow by 6.8% following the anticipated improved performance across all subsectors. The continuing growth in the construction industry particularly for electrical installation will help sustain and provide opportunities for operators involved in the development of power distribution systems at end-user premises. In addition, the power distribution systems for end-user premises are largely driven by performance and investments in user industries. For the first 9 months of 2023, the sales value of the manufacture of electronic components and boards in Malaysia grew by 7.4%, while irradiation, electromedical and electrotherapeutic equipment grew by 2.9%, compared to the corresponding period in 2022. Growth and new investments in the semiconductor, electronic product and medical devices industries may increase demand for power distribution systems for industrial facilities *(Source: IMR Report)*.

Given our experience and track record in serving the growing and prospective end-user industries such as semiconductor, medical device and electronic product industries, it places us in a good position to secure new projects to sustain and grow our business. Nevertheless, there is no assurance that our business, performance and results of operations will not be materially and adversely affected if we are unable to do so. Please refer to Section 7.4.1 of this Prospectus for further details on the power distribution systems at end-user premises.

(b) Continuity of our order book

Due to the nature of our business which is project based, our customers typically do not enter into long-term contracts with us, but would instead engage us on a fixed lump-sum or scheduled rates contract basis for a specific project. Generally, our engagement on a particular contract or project would come to an end between 12 and 24 months upon handing over of completed power distribution systems at end-user premises. There is no assurance of continuity of our order book from a financial year to the next financial year.

In the event we are unable to secure new projects and/or contracts to replenish our order book, our operations and operating results, long-term sustainability and business growth will be adversely affected. Please refer to Sections 12.6 and 9.1.1 of this Prospectus for further details of our order book and risk factor relating to the continuity of our order book, respectively.

(c) Competition

According to the IMR Report, there are 7,392 electrical contractors registered with ST as at 18 December 2023, of which 1,227 of them are Class A electrical contractors who can undertake electrical works with no restrictions in value. In addition, as for CIDB there are 9,644 Grade 7 M&E contractors as at 18 December 2023. This includes 1,938 registered M&E contractors focusing on medium and high voltage electrical works including installation as well as underground and overhead cabling, of which 796 are G7 contractors. Our Group is a G7 contractor and registered with ST as Class A electrical contractor. Hence, we have to compete with these contractors in terms of pricing, track records, financial capability as well as technical capabilities to bid and secure for projects competitively.

We will leverage on our competitive advantages and key strengths as set out in Section 7.3 of this Prospectus to maintain our competitiveness. However, there is no assurance that our business, profit margin, performance and results of operations will not be materially and adversely affected if we are unable to do so. Please refer to Sections 8 and 9.2.3 of this Prospectus for further details on the industry assessment on the power distributions systems at end-user premises industry and risk factor relating to the competition from other electrical engineering companies, respectively.

(d) Unanticipated increase in project cost and delay in completion

Due to the nature of our business, we are subject to project management risks such as cost risk, schedule risk, performance and operational risk, which would give rise to unanticipated increase in project cost or cost overrun and delay in completion of projects. Such risks can be due to poor project cost estimation and budgeting, change of scope of work and design, poor project administration in terms of procurement of materials and communication and manpower plannning, delay in obtaining relevant permits and/or approvals, poor project site management in terms of logistics and coordination works, as well as factors beyond our control such as weather, pandemic, fluctuation in price of materials and equipment, delay or disruption in the supply of materials and contracting services from third parties, disruption in power and water supply at project sites, availability of financing and accessibility to project sites. Please refer to Section 9.1.2 for further details on risk factor relating to unanticipated increase in project cost.

Our revenue and operating results are subject to our ability to complete and deliver our projects in accordance with the project timeline as stated in the contracts or EOT granted by our customers and within our project budget. Any adverse development and management of our projects will result in delay in progress claims, project cost overrun and may also expose us to LAD claim by our customers, which will adversely affect our financial performance.

(e) Potential defect liability claims and warranties

As an electrical engineering service provider, we are exposed to the risk of defect liability claims by our customers as a result of defects in our contract works during the DLP. DLP usually ranges from 12 to 24 months after the issuance of CPC, and we are responsible for any rectification works together with the respective subcontractors, including nominated subcontractors who work under our supervision and project management. If there is a defect liability claim that is attributable to the works carried out by a subcontractor, we usually require the subcontractor to perform the rectification works and related costs will be borne by the said subcontractor. However, the cost of all defect liability claims not attributable to our subcontractors will be fully borne by us. Hence, in the event there are defect liability claims against us directly, our financial performance will be adversely affected.

Please refer to Sections 7.2.6(vi) and 9.1.3 of this Prospectus for further details on the post construction commitment and the risk factor in relation to the defect liability claims from our customers.

(f) Impact of commodity prices

Our input materials which are electrical components materials in particular power cables and wires are influenced by commodity prices such as copper and subjected to price fluctuations. For FYE 2020, FYE 2021, FYE 2022 and FPE 2023, the purchase of power cables and wires represented 14.54%, 8.36%, 24.84% and 22.88% of our total cost of sales respectively. As such, any fluctuation in the prices of commodity which are beyond our control may adversely impact our financial performance as we are not able to pass on such increase in costs to our customers.

(g) Impact of interest rates fluctuations

We incurred minimal finance costs for the Financial Years and Period Under Review given our low outstanding borrowings position over the same period. Therefore, there was no material impact arising from fluctuation of interest rates on our operations and financial results for the Financial Years and Period Under Review. However, any major increase in interest rates would raise the cost of our future borrowings and our finance costs, if incurred, which may have an adverse impact on the financial performance of our Group.

(h) Impact of foreign exchange rate fluctuations

For the Financial Years Under Review, our financial performance was not materially affected by the impact of fluctuation in foreign exchange as our projects and purchases were mainly transacted in RM.

In FPE 2023, we are exposed to foreign exchange fluctuation risks as part of our revenue and purchases were transacted in foreign currencies. In FPE 2023, RM6.36 million or 4.59% of our total revenue were transacted in USD and RM0.67 million or 0.54% of our total purchases were transacted in SGD. Moving forward, we may continue to generate sales and make purchases in foreign currencies. As at LPD, our management does not utilise any financial instruments for hedging purposes. As such, there is no assurance that any significant fluctuation in foreign exchange rate will not have an adverse impact on the financial performance of our Group.

(i) Impact of inflation

Our business, financial condition or results of operations for the Financial Years and Period Under Review were not materially affected by the impact of inflation. Nonetheless, there can be no assurance that future inflation, such as future increases in purchased materials, subcontractor cost and labour cost, would not have any impact on our business operations and financial performance.

(j) Impact of government/economic/fiscal/monetary policies

Any unfavourable change in government, economic, fiscal or monetary policies may materially affect our business operations and financial performance. For the Financial Years and Period Under Review, our results were not adversely affected by any unfavourable changes relating to these policies. Nonetheless, there is no assurance that our financial performance will not be adversely affected by the impact of changes in government, economic, fiscal or monetary policies in the future.

(k) Impact of outbreaks of diseases such as the COVID-19 pandemic

Please refer to Section 7.10.3 of this Prospectus for further details of the impact of COVID-19 on our financial performance. Whilst the various restrictions and measures arising from the COVID-19 pandemic had affected our operations at our project site temporarily during the Financial Years and Period Under Review, as disclosed in Section 7.10.1 of this Prospectus, the impact of the MCO to our business, results of operations and financial performance were not material as at LPD.

As at LPD, our Group does not foresee any material adverse effect on the financial position or business of our Group arising from the MCO and the COVID-19 outbreak in view of our overall financial position and relatively lean fixed cost structure. Further, our Directors consider that the disruption caused by and the impact of the COVID-19 outbreak is not expected to be long-lasting. Therefore, it is expected that the overall impact caused by the outbreak of COVID-19 on our business, results of operations and/or financial performance will not be material, and that our Group will be able to discharge our obligations under all on-going projects. Since 18 March 2020 and up to the LPD, we have not encountered any cancellation of contracts or work orders from our customers, as well as disruption in supply or services by our suppliers or subcontractors.

12.3.3 Liquidity and capital resources

(a) Working capital

Our operations are funded through cash generated from our operating activities, credit extended by our suppliers, credit facilities granted by financial institutions as well as our existing cash and bank balances.

As at LPD, our Group has cash and bank balances of RM23.52 million, available credit facilities of RM19.91 million, which encompass RM17.50 million of trade line facilities earmarked for working capital purposes, of which RM16.74 million has yet to be utilised as well as working capital of RM23.47 million, being the difference between current assets of RM80.51 million and current liabilities of RM57.04 million.

Based on the above and after taking into consideration of our funding requirements for our committed capital expenditure, existing level of cash and bank balances, expected cash flows to be generated from our operations, credit facilities available and the estimated net proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for a period of 12 months from the date of this Prospectus.

(b) Cash flows

The table below sets out the summary of our Group's historical audited combined statements of cash flows for the Financial Years and Period Under Review:

	Audited			
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2023 RM'000**
Net cash (used in) / from operating activities	(6,150)	4,422	8,792	22,381
Net cash from / (used in) investing activities	2,125	(5,210)	(172)	(758)
Net cash (used in) / from financing activities	(1,536)	864	(726)	(8,704)
Net changes in cash and cash equivalents	**(5,561)**	**76**	**7,894**	**12,919**
Cash and cash equivalents at the beginning of the financial year / period	**5,122**	**(439)**	**(363)**	**7,531**
Cash and cash equivalents at the end of the financial year / period	**(439)**	**(363)**	**7,531**	**20,450**

	Audited			
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2023 RM'000**
Cash and cash equivalents at the end of the financial year / period comprises:				
Cash and bank balances	729	4,984	8,970	11,856
Fixed deposits with licensed banks	1,185	1,390	4,805	5,140
Other investments	-	-	-	10,033
Bank overdraft	(469)	(463)	-	-
	1,445	**5,911**	**13,775**	**27,029**
Less: Cash collateral pledged with licensed banks	(699)	(4,884)	(1,439)	(1,439)
Less: Fixed deposits pledged with licensed banks	(1,185)	(1,390)	(4,805)	(5,140)
	(439)	**(363)**	**7,531**	**20,450**

There are no legal, financial or economic restrictions on the ability of our subsidiaries to transfer funds to our Company in the form of cash dividends, loans or advances, subject to availability of distributable reserves and compliance with financial covenants.

Commentary:

Net cash (used in) / from operating activities

FYE 2020

For FYE 2020, our operating cash flows before working capital changes were RM0.98 million. After adjusting for the following key items, our net cash used in our operating activities was RM6.15 million:

(i) increase in inventories of RM6,230;

(ii) increase in receivables of RM0.83 million, of which trade receivables increased by RM0.33 million mainly due to higher progress billings towards the last quarter of FYE 2020 while other receivables increased by RM0.50 million mainly due to advances made to corporate shareholder for its working capital purposes. These advances were interest-free, unsecured and repayable on demand and were fully settled in FYE 2022. Please refer to Section 10.3 of this Prospectus for further details;

(iii) decrease in payables of RM7.72 million, of which trade payables decreased by RM7.50 million mainly due to higher payment made to our suppliers and subcontractors while other payables decreased by RM0.22 million mainly due to lower accruals for staff bonus made for FYE 2020 in view of the pandemic; and

(iv) net decrease in contract assets of RM1.89 million mainly due to higher progress billing following the certification of work performed towards the last quarter of FYE 2020 amid the lock down periods.

FYE 2021

For FYE 2021, our operating cash flows before working capital changes were RM6.52 million. After adjusting for the following key items, our net cash from our operating activities was RM4.42 million:

(i) increase in inventories of RM0.31 million;

(ii) increase in receivables of RM27.67 million, of which trade receivables increased by RM27.36 million mainly due to higher progress billings towards the last quarter of FYE 2021 for the supply and installation of the power distribution systems for a 3-storey 132kV substation in an electronic product manufacturing plant while other receivables increased by RM0.31 million mainly due to higher deposits paid for tender submission and advances made to suppliers for the purchase of electrical components;

(iii) increase in payables of RM34.70 million, of which trade payables increased by RM34.19 million which was in line with the progress of our projects while other payables increased by RM0.51 million mainly due to higher accruals made for staff bonus; and

(iv) net increase in contract assets of RM8.41 million mainly due to higher amount of work performed during FYE 2021 but pending certification and billing.

FYE 2022

For FYE 2022, our operating cash flows before working capital changes were RM8.96 million. After adjusting for the following key items, our net cash from our operating activities was RM8.79 million:

(i) increase in inventories of RM0.30 million;

(ii) increase in receivables of RM4.81 million, of which trade receivables increased by RM6.27 million mainly due to slower collection from certain customers during FYE 2022 while other receivables decreased by RM1.46 million mainly due to repayment of advances from corporate shareholder;

(iii) increase in payables of RM0.25 million, of which other payables increased by RM1.27 million mainly due to deposit received from a company in which our Directors have interest for the disposal of investment property, higher accruals for staff bonus and deposits received of RM0.64 million from subcontractor in relation to performance bond while trade payables decreased by RM1.02 million due to higher payment made to our suppliers and subcontractors during FYE 2022; and

(iv) net increase in contract liabilities of RM6.75 million mainly due to higher progress billings as per the billing milestones stated in the contract for the design, supply, installation, testing and commissioning of power distribution system and control and instrumentation system for a semiconductor manufacturing plant during FYE 2022.

FPE 2023

For FPE 2023, our operating cash flows before working capital changes were RM11.03 million. After adjusting for the following key items, our net cash from our operating activities was RM22.38 million:

(i) increase in inventories of RM0.50 million;

(ii) increase in receivables of RM21.87 million, of which the trade receivables increased by RM17.59 million mainly due to higher trade receivables which was in line with the increase in our Group's revenue while other receivables also increased by RM4.28 million mainly due to deposits made to suppliers for purchases of materials as well as prepayment in relation to the IPO expenses;

(iii) increase in payables of RM20.40 million, of which the trade payables increased by RM20.20 million mainly due to higher purchases of material and subcontractors' charges which was in line with the progress of the Group's projects while other payables increased by RM0.20 million mainly due to downpayment received for the disposal of investment property held under Lot 7743; and

(iv) net decrease in contract assets of RM8.09 million mainly due to higher decrease in contract assets of RM15.24 million arising from billings raised for work performed which was subsequently certified by customers as opposed to the decrease in contract liabilities of RM7.15 million which was mainly due to subsequent work performed.

Net cash from / (used in) investing activities

FYE 2020

Our Group generated net cash from investing activities of RM2.12 million for FYE 2020. This was mainly attributed to the following:

(i) proceeds from the partial disposal of investment in quoted securities on the ASX of RM1.70 million;

(ii) interest income received of RM0.04 million; and

(iii) withdrawal of fixed deposits pledged with licenced banks of RM0.41 million.

However, the above cash inflows were partly offset with the following:

(i) purchase of computers and office equipment of RM0.01 million; and

(ii) placement of cash collateral pledged with licenced banks of RM2,509 for bank guarantees in relation to the performance bonds for our projects.

FYE 2021

Our Group recorded net cash used in investing activities of RM5.21 million for FYE 2021. This was mainly attributed to the following:

(i) purchase of investment properties of RM1.12 million;

(ii) purchase of computers, furniture and fittings, office equipment, and tools and equipment of RM0.06 million;

(iii) placement of fixed deposits pledged with licenced banks of RM0.20 million for new banking facilities; and

(iv) placement of cash collateral pledged with licenced banks of RM4.19 million for bank guarantees in relation to the performance bonds for our projects.

However, the above cash outflows were partly offset with the following:

(i) proceeds from the disposal of the remaining investment in quoted securities on the ASX of RM0.34 million; and

(ii) interest income received of RM0.02 million.

FYE 2022

Our Group recorded net cash used in investing activities of RM0.17 million for FYE 2022. This was mainly attributed to the following:

(i) purchase of computers, furniture and fittings, office equipment and renovation works of RM0.31 million; and

(ii) placement of fixed deposits pledged with licensed banks of RM3.41 million for new banking facilities.

However, the above cash outflows were partly offset with the following:

(i) withdrawal of cash collateral pledged with licensed banks of RM3.45 million for bank guarantees after the release of the performance bond by our customers; and

(ii) interest income received of RM0.10 million.

FPE 2023

Our Group recorded net cash used in investing activities of RM0.76 million for FPE 2023. This was mainly attributed to the following:

(i) purchase of PPE comprising motor vehicles, furniture and fittings, renovations, office equipment and rental of property classified as ROU assets amounted to RM1.69 million; and

(ii) placement of fixed deposits pledged with licenced bank for new banking facilities amounted to RM0.33 million.

However, the above cash outflows were partly offset with the following:

(i) financing from lease liabilities of ROU assets of RM1.07 million;

(ii) interest received of RM0.16 million; and

(iii) fair value gain from other investments of RM0.03 million.

Net cash (used in) / from financing activities

FYE 2020

Our Group recorded net cash used in financing activities of RM1.54 million mainly attributed to the following:

(i) payment of dividend to shareholders amounted to RM0.30 million;

(ii) payment of interest expenses amounted to RM0.40 million; and

(iii) repayments of bankers' acceptances, lease liabilities and term loans amounted to RM1.33 million.

The above cash outflows were partly offset by drawdown of term loan of RM0.50 million during FYE 2020.

FYE 2021

Our Group recorded net cash from financing activities of RM0.86 million which was due to the drawdown of bankers' acceptances of RM11.25 million. However, this cash inflow was partly offset by the following:

(i) payment of dividend to shareholders amounted to RM0.50 million;

(ii) payment of interest expenses amounted to RM0.63 million; and

(iii) repayments of bankers' acceptances, lease liabilities and term loans amounted to RM9.26 million.

FYE 2022

Our Group recorded net cash used in financing activities of RM0.73 million mainly attributable to the following:

(i) payment of dividend to shareholders amounted to RM3.00 million;

(ii) payment of interest expenses amounted to RM0.84 million; and

(iii) repayments of bankers' acceptances, lease liabilities and term loans amounted to RM14.28 million.

The above cash outflows were partly offset by drawdown of term loans and bankers' acceptances of RM0.29 million and RM17.10 million, respectively during FYE 2022.

FPE 2023

Our Group recorded net cash used in financing activities of RM8.70 million mainly attributable to the following:

(i) repayment of bankers' acceptances, term loans and lease liabilities amounted to RM11.60 million; and

(ii) payment of interest expenses amounted to RM0.56 million.

The above cash outflows were partly offset by drawdown of bankers' acceptances and term loan of RM2.46 million and RM1.00 million, respectively.

12.3.4 Borrowings and financial instruments

As at 31 August 2023, our total outstanding borrowings and financial instruments amounted to RM3.09 million which can be analysed further as follows:

Type of borrowings	Purpose	Tenure	Effective interest rates (per annum)	Payable within 12 months RM'000	Payable after 12 months RM'000	Total RM'000
Term loan	Finance the purchase of investment property, working capital and keyman insurance	5 to 15 years	3.50% to 7.60%	329	1,198	1,527
Bank overdraft	Working capital	Repayable on demand	5.97% to 7.40%	-	-	-
Bankers' acceptance	Working capital	90 to 120 days	3.56% to 5.09%	7	-	7
Lease liabilities	Finance the purchase of motor vehicles and rental of properties classified as ROU assets	2 to 7 years	2.15% to 2.46% (1)	505	1,046	1,551
Total borrowings				**841**	**2,244**	**3,085**
Gearing ratio as at 31 August 2023 (times) (2)						0.13

Notes:

(1) Refers to the effective interest rate for the purchase of motor vehicles.

(2) Computed based on total borrowings over our pro forma shareholders' equity (after the Acquisition of Hexatech Engineering but before our Public Issue and use of proceeds) as at 31 August 2023 of RM23.15 million.

As at LPD, all our bank borrowings are secured, interest bearing and denominated in RM. Our credit facilities are secured by charge over our investment property, motor vehicles, joint and several guarantee by our Directors, corporate guarantee by corporate shareholder, fixed deposits with licensed banks and guarantee coverage of up to RM16.00 million under PEMULIH Government Guarantee Scheme (PGGS) by Syarikat Jaminan Pembiayaan Perniagaan Berhad. The PGGS provides financing assistance to Malaysian small and medium enterprises in the form of a guarantee from the Government for new financing and/or restructuring of existing financing facilities as well as additional financing of existing financing facilities. We have not defaulted on any payment of either principal sum and/or interest in relation to our borrowings during the Financial Years and Period Under Review and up to the LPD. We also do not encounter any seasonality in our borrowings trend and there is no restriction on our committed borrowing facilities.

The short-term banking facilities available to our Group include bankers' acceptances and bank overdraft, which are generally used for working capital purposes. The long-term banking facilities of our Group include term loans and lease liabilities, which are used for the purchase of investment property and motor vehicles, and rental of properties classified as ROU assets.

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

12.3.5 Type of financial instruments used

As at LPD, save for bank borrowings and financial instruments as disclosed in Section 12.3.4 of this Prospectus, we do not use any other financial instruments.

For clarity purposes, the financial instruments of our Group which are used in the ordinary course of business, from an accounting perspective, may include financial assets such as fixed deposits with licensed banks, cash and bank balances, and trade and other receivables, as well as financial liabilities such as borrowings, lease liabilities and trade and other payables. These are shown in the combined statements of financial position of our Group.

As at LPD, we do not use any financial instrument for hedging purposes.

12.3.6 Treasury policies and objectives

We finance our operations through a combination of internally and externally generated funds. Internally generated funds mainly comprise cash generated from operations and shareholders' funds, while externally generated funds mainly comprise credit terms from our suppliers and/or subcontractors as well as short-term and long-term bank borrowings.

The primary objective of our financial management and treasury policies is to maintain sufficient working capital at all times and ensure our ability to support and grow our business in order to maximise shareholders' value. We review and manage our capital structure to maintain its debt-to-equity ratio at an optimal level based on the business requirements and prevailing economic conditions.

Our Group has not entered into any interest rate swap to hedge against fluctuations in interest rates. Our Group manage our exposure to interest rate movements by maintaining a combination of both fixed-rate and floating-rate borrowings.

12.3.7 Material commitment

As at LPD, our Group has not incurred any material commitment for capital expenditure that may have a material and adverse impact on the financial position of our Group.

12.3.8 Material contingent liabilities

As at LPD, save for the performance guarantees extended to third parties amounting to RM24.58 million in respect of contract works carried out by our Group, our Board is not aware of any contingent liabilities which upon becoming enforceable may have a material impact on the financial performance and position of our Group.

12.3.9 Material litigation

As at LPD, our Group is not engaged in any litigation, claims or arbitration, either as plaintiff or defendant, which may have a material and/or adverse effect on the financial position or business of our Group.

12.4 KEY FINANCIAL RATIOS

The key financial ratios of our Group are as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FPE 2023
Trade receivables turnover period (days)	77	111	111	88
Trade payables turnover period (days)	70	156	145	124
Inventories turnover period (days)	2	2	3	2
Current ratio (times)	1.37	1.14	1.13	1.18
Gearing ratio (times)	0.50	0.53	0.64	0.13

Trade receivables turnover period

A summary of our trade receivables for the Financial Years and Period Under Review is set out below:

	Audited			
	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000	FPE 2023 RM'000
Revenue	31,388	100,461	107,573	138,577
Trade receivables	6,586	30,628	32,769	50,454
Trade receivables turnover period (days) [(1)]	**77**	**111**	**111**	**88**

Note:

(1) Computed based on net trade receivables (excluding retention sum and expected credit losses) of the respective financial year over the revenue of the respective financial year, multiplied by 366 days for FYE 2020, 365 days for FYE 2021 and FYE 2022, and 243 days for FPE 2023.

The normal credit period granted to our customers ranges from 30 days to 90 days from the date of invoice. Other credit terms to our customers are assessed and approved on a case-by-case basis by taking into consideration various factors such as business relationship with the customers, the customers' payment history and creditworthiness as well as transaction volume while new customers are subject to our credit verification and assessment process.

Due to the nature of our electrical engineering business, generally our customers are entitled to a retention sum equivalent to 5% to 10% of the total contract sum for a period of 12 to 24 months. Depending on the terms of the contract, the retention sum will usually be released in two portions where the first portion (representing 50% of the total retention sum) will be released upon issuance of CPC, while the remaining 50% will be released upon the issuance of CMGD or upon the expiration of DLP. We will only raise progress billing for the retention sum of our projects upon the issuance of CPC and CMGD. Hence, we exclude retention sum and expected credit losses in the computation of trade receivables turnover period.

Our Group applies a simplified approach in calculating expected credit losses ("**ECLs**") and recognises a loss allowance based on lifetime ECLs at each reporting date. The ECLs are calculated using a provision matrix that is based on the historical credit loss experience, and adjusted for forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

For FYE 2020, we recorded trade receivables turnover period of 77 days which fell within the credit period granted to our customers. For FYE 2021, our trade receivable turnover period increased to 111 days (FYE 2020: 77 days) mainly due to higher progress billings made during the month of November and December 2021 amounting to RM21.56 million, which were not due for repayment yet. As a result, we recorded a higher trade receivables balance as at 31 December 2021 which also contributed to the increase in the overall trade receivables turnover period for FYE 2021. For FYE 2022, our trade receivable turnover period maintained at 111 days (FYE 2021: 111 days) mainly due to prolonged repayment from 2 of our customers as well as higher progress billings made during the month of November and December 2022 amounting to RM22.02 million. For FPE 2023, our trade receivable turnover period decreased to 88 days (FYE 2022: 111 days) mainly due to better collection during FPE 2023.

As at 31 August 2023, the trade receivables of our Group amounted to RM59.62 million, the ageing analysis in respect of trade receivables are analysed as follows:

	Within credit period	Exceed credit period by				Total
		1 – 30 days	31 – 60 days	61 – 90 days	> 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	56,738	1,195	86	7	1,595	59,621
Less: Retention sum	(8,630)	-	-	-	-	(8,630)
	48,108	1,195	86	7	1,595	50,991
Less: Impairment losses	(477)	(14)	(1)	-	(45)	(537)
Net trade receivables	**47,631**	**1,181**	**85**	**7**	**1,550**	**50,454**
% of total net trade receivables	*94.41*	*2.34*	*0.17*	*0.01*	*3.07*	*100.00*
Subsequent collections up to the LPD	46,704	350	85	-	1,305	48,444
Outstanding net trade receivables	(1) **927**	**831**	**-**	**7**	**245**	**2,010**

Note:

(1) Including subsequent collection for the amount provided under the impairment loss on expected credit loss pursuant to MFRS 9.

As at LPD, we have collected RM48.44 million or 96.02% of the total net trade receivables outstanding as at 31 August 2023. We are in the process of collecting the remaining amount of RM2.01 million. Meanwhile, RM0.25 million or 12.19% of the outstanding net trade receivables which have exceeded credit period by more than 90 days was mainly attributed to slower payments from a customer for the supply and installation of power distribution system for a semiconductor manufacturing plant.

As part of our credit control policy, we closely monitor our aging report and assess the collectability of trade receivables on an individual customer basis regularly. For any trade receivables which have exceeded the normal credit period granted, we will follow up with calls, emails and send reminders every month. For any trade receivables which have been outstanding over a period of 12 months exceeding our approved credit period, we will assess the trade receivables' current financial status, its credit record and if no response received after legal action has been taken to recover such outstanding amount, we will provide for specific impairment on those trade receivables as approved by our Directors where recoverability are uncertain. Nevertheless, there was no specific impairment on trade receivables for the Financial Years and Period Under Review up to LPD.

Notwithstanding the above, our Board is of the opinion that the remaining amount of RM11.60 million is recoverable and no further impairment of trade receivables is required after taking into consideration these customers' credentials, payment track record, agreed payment arrangement as well as our relationship with them.

Trade payables turnover period

A summary of our trade payables for the Financial Years and Period Under Review is set out below:

	Audited			
	FYE 2020 RM'000	**FYE 2021 RM'000**	**FYE 2022 RM'000**	**FPE 2023 RM'000**
Cost of sales	27,833	89,869	92,569	122,613
Trade payables	5,356	38,351	36,694	62,478
Trade payables turnover period (days)(1)	**70**	**156**	**145**	**124**

Note:

(1) Computed based on trade payables (excluding retention sum) of the respective financial year over the cost of sales of the respective financial year, multiplied by 366 days for FYE 2020, 365 days for FYE 2021 and FYE 2022 and 243 days for FPE 2023.

The normal credit period extended by our suppliers and/or subcontractors ranges from 30 days to 90 days. Similar to our contracts with our customers which require retention sum for our projects, we are also entitled to impose retention sum on our subcontractors' progress billings up to a maximum of 5% to 10% of the total contract sum as stipulated in our contracts with subcontractors. We generally release 50% of the retention sum upon the issuance of CPC, while the remaining half of the retention sum will be released after the end of the DLP. Hence, we exclude retention sum in the computation of trade payables turnover period.

For FYE 2020, we recorded trade payables turnover period of 70 days which fell within the normal credit period extended by our suppliers and/or subcontractors. For FYE 2021, our trade payables turnover period increased to 156 days (FYE 2020: 70 days) mainly due to higher purchases made in the month of November and December 2021 amounting to RM32.42 million in line with the progress of our projects which resulted in higher trade payables as at 31 December 2021, and thus higher trade payables turnover period during FYE 2021. For FYE 2022, our trade payables turnover period improved to 145 days (FYE 2021: 156 days) mainly due to higher repayment made to our suppliers and/or subcontractors during FYE 2022 despite recording higher purchases in the month of November and December 2022 amounting to RM39.01 million in line with the progress of our projects. For FPE 2023, our trade payables turnover period improved to 124 days (FYE 2022: 145 days) mainly due to higher repayment made to our suppliers and/or subcontractors.

12. FINANCIAL INFORMATION (CONT'D)

As at 31 August 2023, the trade payables of our Group amounted to RM65.82 million, the ageing of which are analysed as follows:

	Within credit period	Exceed credit period by				Total
		1 – 30 days	31 – 60 days	61 – 90 days	> 90 days	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	64,284	587	953	-	-	65,824
Less: Retention sum	(3,346)	-	-	-	-	(3,346)
Net trade payables	**60,938**	**587**	**953**	**-**	**-**	**62,478**
% of total net trade payables	*97.53*	*0.94*	*1.53*	-	-	*100.00*
Subsequent payments up to the LPD	56,501	587	953	-	-	58,041
Outstanding net trade payables	**4,437**	**-**	**-**	**-**	**-**	**4,437**

As at LPD, we have settled all the outstanding trade payables (excluding retention sum) as at 31 August 2023 of RM58.04 million. We will settle the balance of RM4.44 million outstanding net trade payables which is within the credit period in due course. As at LPD, there is no dispute in respect of our trade payables and no legal action has been initiated by our suppliers and/or subcontractors to demand for payment from us during the Financial Years and Period Under Review.

Inventories turnover period

A summary of our inventories for the Financial Years and Period Under Review is set out below:

	Audited			
	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000	FPE 2023 RM'000
Cost of sales	27,833	89,869	92,569	122,613
Inventories	116	427	724	1,225
Inventories turnover period (days)(1)	**2**	**2**	**3**	**2**

Note:

(1) Computed based on inventories of the respective financial year over the cost of sales of the respective financial year, multiplied by 366 days for FYE 2020, 365 days for FYE 2021 and FYE 2022, and 243 days for FPE 2023.

Our inventories comprise electrical components and accessories such as power cables and wires, cable trunking and accessories, and other electrical components which are measured at the lower of cost and net realisable value. We usually do not maintain a high level of inventories as our Group plans and procures the required electrical components and accessories for our projects in accordance with the project specifications and delivery lead time requirements for such electrical components and accessories to meet the project timeline. Hence, our inventories turnover period was maintained at 2 to 3 days for the Financial Years and Period Under Review. For avoidance of doubt, we do not carry inventories for trading of electrical products and we order these electrical products upon customers' request.

Current ratio

A summary of our current ratio for the Financial Years and Period Under Review is set out below:

	Audited as at			
	31 December			31 August
	2020 RM'000	**2021 RM'000**	**2022 RM'000**	**2023 RM'000**
Current assets	14,391	54,768	81,376	100,692
Current liabilities	10,475	48,158	72,071	85,114
Current ratio (times)	**1.37**	**1.14**	**1.13**	**1.18**

Current ratio measures the liquidity position of our Group to meet our short-term obligations. The liquidity position of our Group has been manageable as reflected in the current ratio for the Financial Years and Period Under Review which ranges between 1.13 times and 1.37 times.

Our current ratio stood at 1.37 times as at 31 December 2020 and decreased to 1.14 times as at 31 December 2021 mainly due to higher proportion increase in our current liabilities position as compared to current assets mainly in respect of trade payables as at 31 December 2021 as a result of substantial increase in scale of our operations in FYE 2021. This is in line with the higher trade payables turnover period as compared to trade receivables turnover period.

Our current ratio decreased marginally from 1.14 times as at 31 December 2021 to 1.13 times as at 31 December 2022 mainly due to higher proportion increase in our current liabilities as a result of higher contract liabilities arising from progress billings as per the billing milestone stated in the contract for the design, supply, installation, testing and commissioning for a power distribution system, and control and instrumentation system for a semiconductor manufacturing plant during FYE 2022.

Our current ratio increased to 1.18 times as at 31 August 2023 as compared to 1.13 times as at 31 December 2022. The increased in the current ratio was mainly due to increase in trade and other receivables, and other investment coupled with the decrease in contract liabilities and borrowings.

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Gearing ratio

A summary of our gearing ratio for the Financial Years and Period Under Review is set out below:

	Audited as at			
	31 December			31 August
	2020 RM'000	**2021 RM'000**	**2022 RM'000**	**2023 RM'000**
Total loans and borrowings	4,553	6,754	10,177	3,085
Shareholders' equity	9,086	12,720	15,890	23,145
Gearing ratio (times) (1)	**0.50**	**0.53**	**0.64**	**0.13**

Note:

(1) Computed based on total loans and borrowings (including lease liabilities) divided by our shareholders' equity as at the end of the respective financial years and period.

Our gearing ratio increased from 0.50 times as at 31 December 2020 to 0.53 times as at 31 December 2021 mainly due to the higher utilisation of bankers' acceptances for the purchase of electrical components and accessories to meet our project materials requirements in FYE 2021.

Our gearing ratio has further increased from 0.53 times as at 31 December 2021 to 0.64 times as at 31 December 2022 mainly due to the higher utilisation of bankers' acceptances for the purchase of electrical components and accessories to meet our project materials requirements as well as higher lease liabilities arising from additional motor vehicles and rental of properties classified as ROU assets in FYE 2022.

Our gearing ratio decreased from 0.64 times as at 31 December 2022 to 0.13 times as at 31 August 2023 mainly due to decrease in our Group's overall borrowings and improvement in the retained earnings.

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12.5 TREND INFORMATION

As at LPD, our Board confirms that the financial conditions and operations of our Group have not been and are not expected to be affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those disclosed in this section and in Sections 7 and 9 of this Prospectus;

(b) material commitment for capital expenditure, save as disclosed in Section 12.3.7 of this Prospectus;

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save for those that had been disclosed in this section and in Section 9 of this Prospectus;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our Group's revenue and/or profits, save for those that had been disclosed in this section and in Section 9 of this Prospectus; and

(e) known circumstances, trends, demands, commitments, events or uncertainties that are reasonably likely to make the historical financial statements not indicative of the future financial performance and position, save for those that had been disclosed in this section and in Section 9 of this Prospectus.

12.6 ORDER BOOK

As the revenue from our provision of electrical engineering services are recognised based on the stage of completion method, our order book excludes the value of completed works in respect of on-going projects which have been recognised in revenue.

As at LPD, our order book stood at RM211.91 million, summarised as follows:

Business activities	RM'000
Power distribution system	147,619
Other building systems and works	53,202
Electrical equipment hook-up and retrofitting	11,088
Total	**211,909**

Barring unforeseen circumstances, the total order book as at LPD is envisaged to be recognised as follows:

Business activities	To be recognised in FYE 2023	To be recognised in FYE 2024
	RM'000	RM'000
Power distribution system	14,043	133,576
Other building systems and works	7,079	46,123
Electrical equipment hook-up and retrofitting	1,871	9,217
Total	**22,993**	**188,916**

Due to the nature of our business, our projects typically ranges from 3 months to 26 months depending on the scope and size of the project. We envisage that 10.85% and 89.15% of our total order book as at LPD to be recognised in FYE 2023 and FYE 2024, respectively.

12.7 SIGNIFICANT CHANGES

There are no significant changes that have occurred, which may have a material effect on our financial position and results subsequent to FPE 2023 and up to the LPD.

12.8 DIVIDEND POLICY

It is our Directors' policy to allow our shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group.

HE Group declared dividends of RM0.30 million, RM0.50 million and RM3.00 million in FYE 2020, FYE 2021 and FYE 2022, respectively which represented 17.67%, 12.09% and 48.63% of our Group's PAT in the respective financial year. For FPE 2023, there was no dividend declared, made or paid by our Group or our subsidiary to shareholders. As at LPD, we do not intend to declare and pay dividend prior to our Listing.

Notwithstanding the above, our Group presently does not have a fixed dividend policy. Our Group's ability to distribute dividends or make other distributions to our shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for working capital of our business. Our Directors will take into consideration, among others, the following factors when recommending dividends for approval by our shareholders or when declaring any dividends:

(i) the availability of adequate reserves and cash flows. As an investment holding company, our income, and therefore our ability to pay dividends, depends on the dividends or other distributions received from our subsidiary;

(ii) our operating cash flow requirements and financing commitments;

(iii) our anticipated future operating conditions, as well as future expansion, capital expenditure and investment plans;

(iv) our Company is solvent as required under Section 132 of the Act;

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

(vi) prior written consent from financial institutions, where required.

However, investors should note that the intention to recommend dividends should not be treated as a legal obligation on our Group to do so. The level of dividends should also not be treated as an indication of our Group's future dividend policy. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future. In determining dividends in respect of subsequent financial years, consideration will be given to maximising shareholders' value. There is no dividend restriction being imposed on our Group currently.

In addition, our ability to declare and pay interim dividends as well as to recommend final dividends are subject to the discretion of our Board. We will also need to obtain our shareholders' approval for any final dividend for the year.

No inference should or can be made from any of the statements above as to our actual future profitability and our ability to pay dividends in the future.

HE GROUP BERHAD
[Registration No.: 202301016404 (1510326-M)]
(Incorporated in Malaysia)

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023

TGS TW PLT

CHARTERED ACCOUNTANTS

Date: 26 December 2023

The Board of Directors
HE Group Berhad
No. 42, Jalan OP 1/5
Pusat Perdagangan One Puchong
47160 Puchong
Selangor Darul Ehsan

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants
Unit E-16-2B, Level 16, ICON Tower (East)
No.1, Jalan 1/68F, Jalan Tun Razak
50400 Kuala Lumpur
Tel: +603 9771 4326
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Dear Sirs,

**HE GROUP BERHAD ("HE GROUP" OR "THE COMPANY")
REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023**

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of HE Group Berhad and of its subsidiary (collectively known as "the combining entities" or "the Group") as at 31 August 2023.

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors based on the applicable criteria as specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in the notes as set out in Basis of Preparation of Pro Forma Combined Statements of Financial Position ("Applicable Criteria").

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors for illustrative purposes only and for inclusion into the prospectus of the Group in connection with the listing of and quotation for the entire enlarged issued share capital of the Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing").

As part of this process, information about the combining entities' combined financial position has been extracted by the Directors from the audited statements of financial position of the combining entities as at 31 August 2023, on which was reported by us to the members of the combining entities on 26 December 2023 without any modification.

Directors' Responsibility for the Pro Forma Combined Statements of Financial Position

The Board of Directors is solely responsible for compiling the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

Our Independence and Quality Control

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board of Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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

Our Responsibility

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

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

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

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

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

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

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Our Responsibility (Cont'd)

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

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

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

Opinion

In our opinion, the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria.

Other matters

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

Yours faithfully,

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants

OOI POH LIM
3087/10/2025 J
Chartered Accountant

Kuala Lumpur
26 December 2023

HE GROUP BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023

The Pro Forma Combined Statements of Financial Position of the Group as at 31 August 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 August 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position.

	Note	At 31 August 2023	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Public Issue	Proforma II After Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
ASSETS								
Non-current assets								
Property, plant and equipment	3.01	-	3,166,333	3,166,333	-	3,166,333	1,750,000	4,916,333
Investment properties	3.02	-	1,180,000	1,180,000	-	1,180,000	-	1,180,000
Receivables	3.03		770,926	770,926		770,926		770,926
Total non-current assets		-		5,117,259		5,117,259		6,867,259
Current assets								
Inventories	3.04	-	1,224,660	1,224,660	-	1,224,660	-	1,224,660
Receivables	3.03	-	63,407,248	63,407,248	-	63,407,248	(1,484,062)	61,923,186
Contract assets	3.05	-	9,030,671	9,030,671	-	9,030,671	-	9,030,671
Other investment	3.06		10,033,197	10,033,197		10,033,197		10,033,197
Fixed deposits with licensed banks	3.07	-	5,139,734	5,139,734	-	5,139,734	-	5,139,734
Cash and bank balances	3.08	45	11,855,989	11,856,034	24,329,116	36,185,150	(4,065,938)	32,119,212
Total current assets		45		100,691,544		125,020,660		119,470,660
Non-current asset held for sale	3.09	-	4,800,000	4,800,000	-	4,800,000	-	4,800,000
Total assets		45		110,608,803		134,937,919		131,137,919

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HE GROUP BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

The Pro Forma Combined Statements of Financial Position of the Group as at 31 August 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 August 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position. (Cont'd)

	Note	At 31 August 2023	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Public Issue	Proforma II After Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES								
EQUITY								
Equity attributable to owners of HE Group Berhad:-								
Share capital	3.10	45	15,889,919	15,889,964	24,329,116	40,219,080	(1,175,357)	39,043,723
Merger deficit	3.11	-	(14,889,919)	(14,889,919)	-	(14,889,919)	-	(14,889,919)
(Accumulated losses)/Retained earnings	3.12	(98,750)	22,243,395	22,144,645	-	22,144,645	(2,624,643)	19,520,002
Total equity		(98,705)		23,144,690		47,473,806		43,673,806
LIABILITIES								
Non-current liabilities								
Borrowings	3.13	-	1,197,739	1,197,739	-	1,197,739	-	1,197,739
Lease liabilities	3.14	-	1,045,695	1,045,695	-	1,045,695	-	1,045,695
Deferred tax liabilities	3.15	-	106,000	106,000	-	106,000	-	106,000
Total non-current liabilities		-		2,349,434		2,349,434		2,349,434

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HE GROUP BERHAD
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

The Pro Forma Combined Statements of Financial Position of the Group as at 31 August 2023 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 31 August 2023, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position. (Cont'd)

	Note	At 31 August 2023	Adjustments for Acquisition	Proforma I After Acquisition	Adjustments for Public Issue	Proforma II After Public Issue	Adjustments for Proposed Utilisation of Proceeds	Proforma III After Proposed Utilisation of Proceeds
		RM	RM	RM	RM	RM	RM	RM
EQUITY AND LIABILITIES (CONT'D)								
LIABILITIES (CONT'D)								
Current liabilities								
Payables	3.16	98,750	68,076,761	68,175,511	-	68,175,511	-	68,175,511
Contract liabilities	3.17	-	14,353,499	14,353,499	-	14,353,499	-	14,353,499
Tax payable	3.18	-	1,745,153	1,745,153	-	1,745,153	-	1,745,153
Borrowings	3.13	-	335,693	335,693	-	335,693	-	335,693
Lease liabilities	3.14	-	504,823	504,823	-	504,823	-	504,823
Total current liabilities		98,750		85,114,679		85,114,679		85,114,679
Total liabilities		98,750		87,464,113		87,464,113		87,464,113
Total equity and liabilities		45		110,608,803		134,937,919		131,137,919
Issued ordinary share capital (Unit)	3.10	1,000	353,109,300	353,110,300	86,889,700	440,000,000	-	440,000,000
Net assets per share attributable to owners of HE Group Berhad (RM)		(98.71)		0.07		0.11		0.10
Lease liabilities and Borrowings		-		3,083,950		3,083,950		3,083,950
Gearing ratio (times)		-		0.13		0.06		0.07

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HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023

1. **BASIS OF PREPARATION**

The Pro Forma Combined Statements of Financial Position of the Group has been prepared for illustrative purposes and on the assumptions that all the transactions mentioned as per Note 2 to the Pro Forma Combined Statements of Financial Position had taken place on 31 August 2023.

The Pro Forma Combined Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited combined financial statements of the combining entities for the financial period ended 31 August 2023 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:

Merger method of accounting

The Pro Forma Combined Statements of Financial Position are combined using the merger method as these companies are under the common control by the same party both before and after the acquisition of Hexatech Engineering Sdn. Bhd. ("Hexatech Engineering"). When the merger method is used, the difference between the cost of investment recorded by the Group and the share capital of the subsidiary are accounted for as merger deficit in the Pro Forma Combined Statements of Financial Position.

Hexatech Engineering is regarded as a continuing entity resulting from the reorganisation exercise because the management of Hexatech Engineering, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

2. **LISTING SCHEME**

(i) **Pro Forma I: Acquisition**

The Acquisition entails acquiring the entire equity interest of Hexatech Engineering, for total purchase consideration of RM15,889,918.50 to be satisfied via the issuance of 353,109,300 new shares at an issue price of RM0.045 per share based on the net assets of Hexatech Engineering as at 31 December 2022.

(ii) **Pro Forma II: Public Issue**

The Public Issue involves a public issue of 86,889,700 new ordinary shares in HE Group Berhad at an IPO of RM0.28 per share.

In conjunction with the IPO, the Company would list and quote of its entire enlarged issued share capital comprising 440,000,000 ordinary shares in HE Group Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

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HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

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

(iii) **Pro Forma III: Proposed Utilisation of Proceeds**

Gross proceeds from the Public Issue of RM24,329,116 are expected to be utilised as follows:

Details of use of proceeds	Estimated timeframe for the use of proceeds upon Proposed Listing	RM	% of total gross proceeds from the Proposed Public Issue
Business expansion	30 months [(1)]	**3,650,000**	**15.00%**
Capital expenditure	24 months [(1)]	**1,750,000**	**7.19%**
General working capital	36 months [(1)]	**15,129,116**	**62.19%**
Estimated listing expenses*	1 month [(1)]	**3,800,000**	**15.62%**
Total estimated proceeds		**24,329,116**	**100.00%**

(1) From the date of listing of the shares.

* If the actual proceeds are higher than budgeted above, the excess will be used for working capital. Conversely, if the actual proceeds are lower than budgeted above, the proceeds allocated for working capital will be reduced accordingly.

The listing expenses are estimated at RM3,800,000 and will be set off against the share capital and profit or loss accordingly. The apportionment is disclosed in Notes 3.10 and 3.12.

3. **EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

3.01 **PROPERTY, PLANT AND EQUIPMENT**

The movements in property, plant and equipment are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	3,166,333
As per Pro Forma I to II	3,166,333
Pursuant to Proposed Utilisation of Proceeds	
- Capital expenditure	1,750,000
As per Pro Forma III	4,916,333

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HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.02 INVESTMENT PROPERTIES

The movements in investment properties are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	1,180,000
As per Pro Forma I to III	1,180,000

3.03 RECEIVABLES

The movements in receivables are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	
- Non-current assets	770,926
- Current assets	63,407,248
As per Pro Forma I to II	64,178,174
Pursuant to Proposed Utilisation of Proceeds	
- Estimated listing expenses	(1,484,062)
As per Pro Forma III	62,694,112

3.04 INVENTORIES

The movements in inventories are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	1,224,660
As per Pro Forma I to III	1,224,660

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HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.05 CONTRACT ASSETS

The movements in contract assets are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	9,030,671
As per Pro Forma I to III	9,030,671

3.06 OTHER INVESTMENT

The movements in other investment are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	10,033,197
As per Pro Forma I to III	10,033,197

3.07 FIXED DEPOSITS WITH LICENSED BANKS

The movements in fixed deposits with licensed banks are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	5,139,734
As per Pro Forma I to III	5,139,734

HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.08 CASH AND BANK BALANCES

The movements in cash and bank balances are as follows:

	RM
At 31 August 2023	45
Pursuant to Acquisition	11,855,989
As per Pro Forma I	11,856,034
Pursuant to Public Issue	24,329,116
As per Pro Forma II	36,185,150
Pursuant to Proposed Utilisation of Proceeds	
- Capital expenditure	(1,750,000)
- Estimated listing expenses	(2,315,938)
As per Pro Forma III	32,119,212

3.09 NON-CURRENT ASSET HELD FOR SALE

The movements in non-current asset held for sale are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	4,800,000
As per Pro Forma I to III	4,800,000

HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.10 SHARE CAPITAL

The movements in share capital are as follows:

	RM
At 31 August 2023	45
Pursuant to Acquisition	15,889,919
As per Pro Forma I	15,889,964
Pursuant to Public Issue	24,329,116
As per Pro Forma II	40,219,080
Pursuant to Proposed Utilisation of Proceeds	
Less: Estimated listing expenses*	(1,175,357)
As per Pro Forma III	39,043,723

* The estimated listing expenses of RM1,175,357 directly attributable to the Proposed Public Issue will be offset against share capital and the remaining estimated listing expenses of RM2,624,643 that attributable to the Proposed Listing will be expensed off to profit and loss.

3.11 MERGER DEFICIT

The movements in merger deficit are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	(14,889,919)
As per Pro Forma I to III	(14,889,919)

HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.12 (ACCUMULATED LOSSES)/RETAINED EARNINGS

The movements in (accumulated losses)/retained earnings are as follows:

	RM
At 31 August 2023	(98,750)
Pursuant to Acquisition	22,243,395
As per Pro Forma I to II	22,144,645
Pursuant to Proposed Utilisation of Proceeds	
- Estimated listing expenses*	(2,624,643)
As per Pro Forma III	19,520,002

* The estimated listing expenses of RM1,175,357 directly attributable to the Proposed Public Issue will be offset against share capital and the remaining estimated listing expenses of RM2,624,643 that attributable to the Proposed Listing will be expensed off to profit and loss.

3.13 BORROWINGS

The movements in borrowings are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	
- Non-current liabilities	1,197,739
- Current liabilities	335,693
As per Pro Forma I to III	1,533,432

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HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.14 LEASE LIABILITIES

The movements in lease liabilities are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	
- Non-current liabilities	1,045,695
- Current liabilities	504,823
As per Pro Forma I to III	1,550,518

3.15 DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	106,000
As per Pro Forma I to III	106,000

3.16 PAYABLES

The movements in payables are as follows:

	RM
At 31 August 2023	98,750
Pursuant to Acquisition	68,076,761
As per Pro Forma I to III	68,175,511

HE GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023 (CONT'D)

3. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.17 CONTRACT LIABILITIES

The movements in contract liabilities are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	14,353,499
As per Pro Forma I to III	14,353,499

3.18 TAX PAYABLE

The movements in tax payable are as follows:

	RM
At 31 August 2023	-
Pursuant to Acquisition	1,745,153
As per Pro Forma I to III	1,745,153

HE GROUP BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2023

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 26 December 2023.

On behalf of the Board of Directors

Haw Chee Seng Director	Eng Choon Leong Director

HE GROUP BERHAD
[Registration No: 202301016404 (1510326-M)]
(Incorporated in Malaysia)

ACCOUNTANTS' REPORT
FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2020, 31 DECEMBER 2021,
31 DECEMBER 2022 AND FOR THE
FINANCIAL PERIOD ENDED 31 AUGUST 2023

TGS TW PLT

CHARTERED ACCOUNTANTS

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants
Unit E-16-2B, Level 16, ICON Tower (East)
No.1, Jalan 1/68F, Jalan Tun Razak
50400 Kuala Lumpur
Tel: +603 9771 4326
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Email: tgsaudit@tgs-tw.com
www.tgs-tw.com

Date: 26 December 2023

The Board of Directors
HE Group Berhad
No. 42, Jalan OP 1/5
Pusat Perdagangan One Puchong
47160 Puchong
Selangor Darul Ehsan

Dear Sirs,

Reporting Accountants' Opinion on the Financial Information (as defined herein) Contained in the Accountants' Report of HE Group Berhad ("the Company" or "HE Group")

Opinion

We have audited the accompanying combined financial statements ("Financial Information") of the Company and of its subsidiary (collectively known as "the combining entities" or "the Group") which comprise the combined statements of financial position as at 31 December 2020, 31 December 2021, 31 December 2022, 31 August 2023 and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the combining entities for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and for the financial period ended 31 August 2023 and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 57.

These Financial Information have been prepared for inclusion in the prospectus of HE Group 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.

In our opinion, the accompanying Financial Information give a true and fair view of the combined financial position of the combining entities as at 31 December 2020, 31 December 2021, 31 December 2022, 31 August 2023 and of their financial performance and their cash flows for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and for the financial period ended 31 August 2023 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Paragraph 10.04 of Chapter 10, Part II Division 1, Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia.

Basis for Opinion

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

Basis for Opinion (Cont'd)

Independence and Other Ethical Responsibilities

We are independent of the combining entities in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of the Directors for the Financial Information

The Directors of the combining entities are responsible for the preparation of the Financial Information of the combining entities that give a true and fair view in accordance with the 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 Financial Information of the combining entities that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Information of the combining entities, the Directors are responsible for assessing the combining entities' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the combining entities or cease operations, or have no realistic alternative but to do so.

Reporting Accountants' Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the Financial Information of the combining entities as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Information.

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

As part of an audit in accordance with approved standards on auditing in Malaysia and 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 Information of the combining entities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the combining entities' internal control.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the combining entities' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our accountants' report to the related disclosures in the Financial Information of the combining entities or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the combining entities to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Information of the combining entities, including the disclosures, and whether the Financial Information of the combining entities represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the Financial Information of the combining entities or business activities within the combining entities to express an opinion on the Financial Information of the combining entities. We are responsible for the direction, supervision and performance of the combining entities audit. We remain solely responsible for our audit opinion.

We 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.

Restriction on Distribution and Use

This report is made solely to the Company and for inclusion in the prospectus of the Company to be issued in relation to 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 no other purposes. We do not assume responsibility to any other person for the content of this report.

Other Matters

The significant events occurring after the end of the financial period ended 31 August 2023 have been disclosed in Note 1(d) to the combined financial statements.

The comparative information in respect of the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows and related notes to the combined financial statements for the financial period ended 31 August 2022 has not been audited.

TGS TW PLT
202106000004 (LLP0026851-LCA) & AF002345
Chartered Accountants

OOI POH LIM
03087/10/2025 J
Chartered Accountant

KUALA LUMPUR
26 December 2023

HE GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND 31 AUGUST 2023

	Note	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
ASSETS					
Non-current assets					
Property, plant and equipment	4	996,977	1,120,920	1,910,752	3,166,333
Investment properties	5	4,700,000	5,816,716	1,180,000	1,180,000
Other investment	6	401,648	-	-	-
Receivables	7	-	-	-	770,926
		6,098,625	6,937,636	3,090,752	5,117,259
Current assets					
Inventories	8	116,110	426,873	723,406	1,224,660
Receivables	7	10,454,981	37,910,241	42,606,355	63,407,248
Contract assets	9	1,905,820	10,057,098	24,271,202	9,030,671
Other investment	6	-	-	-	10,033,197
Fixed deposits with licensed banks	10	1,185,077	1,390,379	4,804,989	5,139,734
Cash and bank balances	11	729,278	4,983,858	8,970,007	11,856,034
		14,391,266	54,768,449	81,375,959	100,691,544
Non-current asset held for sale	12	-	-	4,800,000	4,800,000
Total assets		20,489,891	61,706,085	89,266,711	110,608,803
EQUITY AND LIABILITIES					
EQUITY					
Share capital	13 (a)	-	-	-	45
Invested equity	13 (b)	1,000,000	1,000,000	1,000,000	1,000,000
Retained earnings		8,086,246	11,720,487	14,889,915	22,144,645
Total equity		9,086,246	12,720,487	15,889,915	23,144,690
LIABILITIES					
Non-current liabilities					
Borrowings	14	757,245	597,552	674,751	1,197,739
Lease liabilities	15	-	91,791	498,118	1,045,695
Deferred tax liabilities	16	172,000	139,000	133,000	106,000
		929,245	828,343	1,305,869	2,349,434
Current liabilities					
Payables	17	5,827,023	40,528,388	40,778,985	68,175,511
Contract liabilities	9	799,673	536,143	21,504,078	14,353,499
Tax payable		52,302	1,028,408	783,854	1,745,153
Borrowings	14	3,777,773	5,994,536	8,732,581	335,693
Lease liabilities	15	17,629	69,780	271,429	504,823
		10,474,400	48,157,255	72,070,927	85,114,679
Total liabilities		11,403,645	48,985,598	73,376,796	87,464,113
Total equity and liabilities		20,489,891	61,706,085	89,266,711	110,608,803

The accompanying notes form an integral part of the combined financial statements.

HE GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023

	Note	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Revenue	18	31,388,096	100,460,593	107,572,986	138,576,540	51,403,916
Cost of sales		(27,832,777)	(89,869,076)	(92,568,779)	(122,612,870)	(43,365,248)
Gross profit		3,555,319	10,591,517	15,004,207	15,963,670	8,038,668
Other income		1,919,426	414,475	770,338	414,349	423,566
Administrative expenses		(3,135,669)	(4,619,430)	(6,837,560)	(5,537,537)	(4,050,214)
Net reversal/(loss) on impairment of financial assets		6,232	(214,305)	(114,442)	(123,979)	(17,814)
Other expenses		-	(68,674)	-	(10,645)	(683)
Profit from operations		2,345,308	6,103,583	8,822,543	10,705,858	4,393,523
Finance costs	19	(403,929)	(624,548)	(840,264)	(755,163)	(182,140)
Profit before tax	20	1,941,379	5,479,035	7,982,279	9,950,695	4,211,383
Taxation	21	(243,864)	(1,344,794)	(1,812,851)	(2,695,965)	(953,158)
Profit after tax		1,697,515	4,134,241	6,169,428	7,254,730	3,258,225
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the financial years/periods		1,697,515	4,134,241	6,169,428	7,254,730	3,258,225
Total comprehensive income for the financial years/periods attributable to:						
Owners of the Company		1,697,515	4,134,241	6,169,428	7,254,730	3,258,225
Non-controlling interest		-	-	-	-	-
		1,697,515	4,134,241	6,169,428	7,254,730	3,258,225
Earnings per share:						
Basic (sen)	22	0.39	0.94	1.40	1.65	0.74
Diluted (sen)	22	N/A	N/A	N/A	N/A	N/A

The accompanying notes form an integral part of the combined financial statements.

HE GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023

	Note	Share capital RM	Invested equity RM	Retained earnings RM	Total equity RM
Audited					
At 1 January 2020		-	1,000,000	6,688,731	7,688,731
Total comprehensive income for the financial year		-	-	1,697,515	1,697,515
Transaction with owners:					
Dividends	23	-	-	(300,000)	(300,000)
At 31 December 2020		-	1,000,000	8,086,246	9,086,246
Total comprehensive income for the financial year		-	-	4,134,241	4,134,241
Transaction with owners:					
Dividends	23	-	-	(500,000)	(500,000)
At 31 December 2021		-	1,000,000	11,720,487	12,720,487
Total comprehensive income for the financial year		-	-	6,169,428	6,169,428
Transaction with owners:					
Dividends	23	-	-	(3,000,000)	(3,000,000)
At 31 December 2022		-	1,000,000	14,889,915	15,889,915
Total comprehensive income for the financial period		-	-	7,254,730	7,254,730
Transaction with owners:					
Issuance of shares	13(a)	45	-	-	45
At 31 August 2023		45	1,000,000	22,144,645	23,144,690

HE GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023 (CONT'D)

	Note	Invested equity RM	Invested equity RM	Retained earnings RM	Total equity RM
Unaudited					
At 1 January 2022		-	1,000,000	11,720,487	12,720,487
Total comprehensive income for the financial period		-	-	3,258,225	3,258,225
Transaction with owners:					
Dividends	23	-	-	(500,000)	(500,000)
At 31 August 2022		-	1,000,000	14,478,712	15,478,712

The accompanying notes form an integral part of the combined financial statements.

HE GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023

	Note	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Cash flows from operating activities						
Profit before tax		1,941,379	5,479,035	7,982,279	9,950,695	4,211,383
Adjustments for:						
Depreciation of property, plant and equipment		139,220	159,325	287,293	412,667	158,959
Fair value gain on investment properties		-	-	(163,284)	-	-
Discount on non-current financial assets		-	-	-	196,694	-
Fair value (gain)/loss on other investment		(1,465,630)	64,662	-	(32,887)	-
Interest expenses		403,929	624,548	840,264	558,469	182,140
Interest income		(37,245)	(24,332)	(101,981)	(158,327)	(60,556)
Impairment loss on expected credit losses on trade receivables		-	214,305	114,442	123,979	17,814
Gain on early termination of lease contracts		-	-	(798)	(592)	(798)
Reversal of impairment loss on expected credit losses on trade receivables		(6,232)	-	-	-	-
Unwinding of discount on non-current financial assets		-	-	-	(22,947)	-
Operating profit before working capital changes		975,421	6,517,543	8,958,215	11,027,751	4,508,942
Changes in working capital:						
Inventories		(6,230)	(310,763)	(296,533)	(501,254)	(347,478)
Receivables		(826,691)	(27,669,565)	(4,810,556)	(21,869,545)	5,377,410
Payables		(7,720,332)	34,701,365	250,597	27,396,526	(11,978,501)
Contract assets and liabilities		1,893,766	(8,414,808)	6,753,831	8,089,952	4,020,411
Cash (used in)/from generated operations		(5,684,066)	4,823,772	10,855,554	24,143,430	1,580,784
Tax paid		(465,634)	(401,688)	(2,063,405)	(1,767,666)	(1,213,405)
Tax refunded		-	-	-	6,000	-
Net cash (used in)/from operating activities		(6,149,700)	4,422,084	8,792,149	22,381,764	367,379
Cash flows from investing activities						
Interest received		37,245	24,332	101,981	158,327	60,556
Net changes in other investment		-	-	-	32,887	-
Purchase of property, plant and equipment	A	(10,465)	(63,328)	(304,879)	(614,638)	(98,076)
Purchase of investment properties		-	(1,116,716)	-	-	-
Proceed from disposal of other investment		1,695,429	336,986	-	-	-
Proceed from issuance of shares		-	-	-	45	-
Withdrawal/(Placement) of fixed deposits pledged with licensed banks		405,165	(205,302)	(3,414,610)	(334,745)	(1,602,870)
(Placement)/Withdrawal of cash collateral pledged with licensed banks		(2,509)	(4,185,909)	3,445,283	-	3,230,243
Net cash from/(used in) investing activities		2,124,865	(5,209,937)	(172,225)	(758,124)	1,589,853

HE GROUP BERHAD
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COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022 AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023 (CONT'D)

	Note	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Cash flows from financing activities						
Dividend paid		(300,000)	(500,000)	(3,000,000)	-	(500,000)
Interest paid		(403,929)	(624,548)	(840,264)	(558,469)	(182,140)
Repayments of lease liabilities	B/C	(52,451)	(75,998)	(163,472)	(272,047)	(61,738)
Drawdown of term loans	C	500,000	-	291,329	1,000,000	-
Repayments of term loans	C	(25,090)	(113,878)	(156,884)	(365,285)	(99,883)
Drawdown of bankers' acceptances	C	-	11,245,000	17,103,338	2,454,300	11,949,491
Repayments of bankers' acceptances	C	(1,255,126)	(9,067,056)	(13,959,696)	(10,962,915)	(9,560,701)
Net cash (used in)/from financing activities		(1,536,596)	863,520	(725,649)	(8,704,416)	1,545,029
Net changes in cash and cash equivalents		(5,561,431)	75,667	7,894,275	12,919,224	3,502,261
Cash and cash equivalents at the beginning of the financial year/period		5,122,346	(439,085)	(363,418)	7,530,857	(363,418)
Cash and cash equivalents at the end of the financial year/period		(439,085)	(363,418)	7,530,857	20,450,081	3,138,843
Cash and cash equivalents at the end of the financial year/period comprises:						
Cash and bank balances		729,278	4,983,858	8,970,007	11,856,034	4,793,033
Fixed deposits with licensed banks		1,185,077	1,390,379	4,804,989	5,139,734	2,993,249
Other investment		-	-	-	10,033,197	-
Bank overdraft		(469,839)	(462,843)	-	-	-
		1,444,516	5,911,394	13,774,996	27,028,965	7,786,282
Less: Cash collateral pledged with licensed banks		(698,524)	(4,884,433)	(1,439,150)	(1,439,150)	(1,654,190)
Less: Fixed deposits pledged with licensed banks		(1,185,077)	(1,390,379)	(4,804,989)	(5,139,734)	(2,993,249)
		(439,085)	(363,418)	7,530,857	20,450,081	3,138,843

NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

A. Purchase of property, plant and equipment

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Total purchase of property, plant and equipment	10,465	283,268	1,095,238	1,688,613	330,163
Less: Acquisition by means of lease liabilities	-	(219,940) *	(790,359)	(1,073,975)	(232,087)
Total cash paid	10,465	63,328	304,879	614,638	98,076

* The amount higher than the additions of right-of-use assets for the financial year ended 31 December 2021 due to discount received from supplier.

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COMBINED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2020, 31 DECEMBER 2021, 31 DECEMBER 2022
AND FOR THE FINANCIAL PERIODS ENDED 31 AUGUST 2022 AND 31 AUGUST 2023 (CONT'D)

NOTES TO THE COMBINED STATEMENT OF CASH FLOWS (CONT'D)

B. Cash outflows for leases as a lessee

	Note	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Included in net cash from operating activities						
Payment relating to short-term leases	20	2,500	9,100	53,100	27,600	42,962
Payment relating to variable lease	20	8,383	8,194	8,592	2,400	5,392
Payment relating to lease of low value asset	20	-	-	-	3,244	-
Included in net cash from financing activities						
Payment of lease liabilities		52,451	75,998	163,472	272,047	61,738
Payment on interest of lease liabilities	19	2,246	7,788	20,873	57,199	8,402
		65,580	101,080	246,037	362,490	118,494

C. Reconciliation of liabilities arising from financing activities

	Lease liabilities RM	Term loans RM	Bankers' acceptances RM	Total RM
Audited				
At 1 January 2020	70,080	396,213	4,449,182	4,915,475
Drawdown	-	500,000	-	500,000
Repayments	(52,451)	(25,090)	(1,255,126)	(1,332,667)
At 31 December 2020	17,629	871,123	3,194,056	4,082,808
Drawdown	219,940	-	11,245,000	11,464,940
Repayments	(75,998)	(113,878)	(9,067,056)	(9,256,932)
At 31 December 2021	161,571	757,245	5,372,000	6,290,816
Drawdown	790,359	291,329	17,103,338	18,185,026
Repayments	(163,472)	(156,884)	(13,959,696)	(14,280,052)
Early termination of lease	(18,911)	-	-	(18,911)
At 31 December 2022	769,547	891,690	8,515,642	10,176,879
Drawdown	1,073,975	1,000,000	2,454,300	4,528,275
Repayments	(272,047)	(365,285)	(10,962,915)	(11,600,247)
Early termination of lease	(20,957)	-	-	(20,957)
At 31 August 2023	1,550,518	1,526,405	7,027	3,083,950
Unaudited				
At 1 January 2022	161,571	757,245	5,372,000	6,290,816
Drawdown	232,087	-	11,949,491	12,181,578
Repayments	(61,738)	(99,883)	(9,560,701)	(9,722,322)
At 31 August 2022	331,920	657,362	7,760,790	8,750,072

The accompanying notes form an integral part of the combined financial statements.

HE GROUP BERHAD
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NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. **Corporate information**

(a) **Introduction**

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commision Malaysia and for inclusion in the prospectus of HE Group Berhad ("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 ("Bursa Securities") (hereinafter defined as "the Listing") and should not be relied upon for any other purposes.

(b) **Background**

The Company was incorporated on 2 May 2023 as a private limited liability company and domiciled in Malaysia. The registered office of the Company is located at Third Floor, No. 77, 79 & 81, Jalan SS21/60, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan. The principal place of business of the Company is No. 42, Jalan OP 1/5, Pusat Perdagangan One Puchong, 47160 Puchong, Selangor Darul Ehsan. On 23 May 2023, the Company was converted as a public limited liability company and assumed its current name of HE Group Berhad.

(c) **Principal activities**

The Company's principal activity is investment holding.

The details of the subsidiary as of the date of this report are as follow:

Name of company	Effective ownership	Date of incorporation	Principal activities
Hexatech Engineering Sdn. Bhd. ("Hexatech Engineering")	100%	29 March 1995	Engaged in provision of power distribution system, other building systems and works, hook up and retrofitting of electrical equipment and trading.

(d) **Acquisition**

The Group has been formed pursuant to the completion of the acquisition of its subsidiary by the Company prior to the listing and quotation on the ACE Market of Bursa Malaysia Securities Berhad.

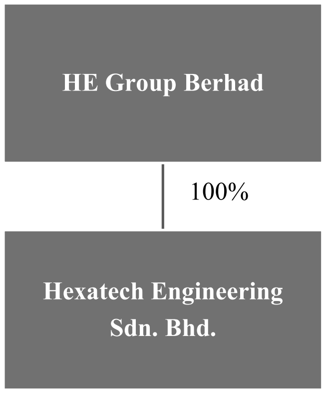
The Company entered into a conditional Share Sale Agreement on 12 May 2023 to acquire the entire equity interest in Hexatech Engineering for a purchase consideration of RM15,889,918.50 to be satisfied by the issuance of 353,109,300 new ordinary shares in the Company at an issue price of RM0.045 per share.

The acquisition was completed on 22 November 2023 and consolidated using merger method of accounting.

1. **Corporate information (Cont'd)**

(d) **Acquisition (Cont'd)**

Following the completion of the Acquisition of Hexatech Engineering, the group structure (combining entities) is as follows:



(e) **Auditors**

The relevant financial years/period of the audited financial statements used for the purpose of the combined financial statements ("Relevant Financial Years/Period") and the auditors are as follows:

Company	Relevant Financial Years/Period	Auditors
HE Group Berhad	31 August 2023	TGS TW PLT
Hexatech Engineering	31 December 2020	TGS TW PLT
	31 December 2021	TGS TW PLT
	31 December 2022	TGS TW PLT
	31 August 2023	TGS TW PLT

The audited financial statements of HE Group Berhad and Hexatech Engineering for the Relevant Financial Years/Period reported above were not subject to any qualification or modification.

2. **Basis of preparation**

(a) **Statement of compliance**

The combined financial statements of the combining entities have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

The combined financial statements consist of the financial statements of combining entities as disclosed in Note 1(c) to this report, which were under common control throughout the reporting years/period by virtue of common controlling shareholders.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting years/period.

The combined financial statements of the combining entities have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

2. **Basis of preparation (Cont'd)**

(a) **Statement of compliance (Cont'd)**

(i) Adoption of new and amended standards

During the financial period, the combining entities have adopted the following and amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for the current financial period:

MFRS 17	Insurance Contracts
Amendments to MFRS 17	Insurance Contracts
Amendments to MFRS 17	Initial Application of MFRS 17 and MFRS 9 - Comparative Information
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current
Amendments to MFRS 108	Disclosure of Accounting Policies
Amendments to MFRS 112	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to MFRS 112	International Tax Reform - Pillar Two Model Rules

The adoption of the amendments to MFRSs did not have any significant impact on the combined financial statements of the combining entities.

(ii) Standards issued but not yet effective

The combining entities have not applied the following new MFRSs and amendments to MFRSs that have been issued by the MASB but are not yet effective for the combining entities:

		Effective dates for financial years beginning on or after
Amendments to MFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to MFRS 101	Non-current Liabilities with Covenants	1 January 2024
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to MFRS 107 and MFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to MFRS 121	Lack of Exchangeability	1 January 2025
Amendments to MFRS 10 and MFRS 128	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice

The combining entities intend to adopt the above new and amendments to MFRSs when they become effective.

The initial applications of the above-mentioned new MFRSs and amendments to MFRSs are not expected to have any significant impacts on the combined financial statements of the combining entities.

(b) **Functional and presentation currency**

These combined financial statements are presented in Ringgit Malaysia ("RM"), which is the combining entities' functional currency. All financial information is presented in RM and has been rounded to nearest RM, unless otherwise stated.

2. **Basis of preparation (Cont'd)**

(c) **Significant accounting judgements, estimates and assumptions**

The preparation of the combining entities' combined financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

The following are the judgements made by management in the process of applying the combining entities' accounting policies that have the most significant effect on the amounts recognised in the combined financial statements:

<u>Determining the lease term of contracts with renewal and termination options as lessee</u>

The combining entities determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The combining entities apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the combining entities reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

<u>Classification between investment properties and property, plant and equipment</u>

The combining entities have developed certain criteria based on MFRS 140 Investment Property in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes.

If these portions could be sold separately (or leased out separately under a finance lease), the combining entities would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are significant that a property does not qualify as investment property.

<u>Satisfaction of performance obligations in relation to contracts with customers</u>

The combining entities are required to assess each of their contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method for recognising revenue. This assessment was made based on the terms and conditions of the contracts and provisions of relevant laws and regulations.

2. **Basis of preparation (Cont'd)**

(c) **Significant accounting judgements, estimates and assumptions (Cont'd)**

Satisfaction of performance obligations in relation to contracts with customers (Cont'd)

The combining entities recognise revenue over time in the following circumstances:

(a) the customer simultaneously receives and consumes benefits provided by the combining entities' performance as the combining entities perform;
(b) the combining entities do not create an asset with an alternative use to the combining entities and have an enforceable right to payment for performance completed to date; and
(c) the combining entities' performance creates or enhances an assets that the customer controls as the asset is created or enhanced.

Where the above criteria are not met, revenue is recognised at a point in time. Where revenue is recognised at a point in time, the combining entities assess each contract with customers to determine when the performance obligation of the combining entities under the contract is satisfied.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty 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 reporting period are set out below:

Useful lives of property, plant and equipment

The combining entities regularly review the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment. The carrying amount at the reporting date for property, plant and equipment is disclosed in Note 4 to the combined financial statements.

Inventories valuation

Inventories are measured at the lower of cost and net realisable value. The combining entities estimate the net realisable value of inventories based on an assessment of expected sales prices. Demand levels and pricing competition could change from time to time. If such factors result in an adverse effect on the combining entities' products, the combining entities might be required to reduce the value of its inventories. Details of inventories are disclosed in Note 8 to the combined financial statements.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the combining entities is not yet committed to or significant future investments that will enhance the performance of the assets of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the combining entities.

2. **Basis of preparation (Cont'd)**

(c) **Significant accounting judgements, estimates and assumptions (Cont'd)**

Key sources of estimation uncertainty (Cont'd)

Revenue from construction contracts

Construction revenue and costs are recognised over the period of the contract in the profit or loss by reference to the progress towards complete satisfaction of that performance obligation.

The progress towards complete satisfaction of performance obligation is measured based on the physical proportion of contract work-to-date certified by professional consultants. Significant judgement is required in determining the progress based on the certified work-to-date corroborated by the level of completion of the construction based on actual costs incurred to-date over the estimated total construction costs. The total estimated construction costs are based on approved budgets, which require assessments and judgments to be made on changes in, for example, work scope, changes in costs and costs to completion. In making the judgement, the combining entities evaluate based on past experience, the work of specialists and a continuous monitoring mechanism.

Provision for expected credit loss of financial assets at amortised cost and contract assets

The combining entities review the recoverability of its receivables and contract assets at each reporting date to assess whether an impairment loss should be recognised. The impairment provisions for receivables and contract assets are based on assumptions about risk of default and expected loss rates. The combining entities use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the combining entities' past history, existing market conditions at the end of each reporting period.

The combining entities use a provision matrix to calculate expected credit loss for receivables. The provision rates are based on number of days past due.

The provision matrix is initially based on the combining entities' historical observed default rates. The combining entities will calibrate the matrix to adjust the historical credit loss experience. 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 loss is a significant estimate. The carrying amounts at the reporting date for receivables and contract assets are disclosed in Notes 7 and 9 to the combined financial statements.

Discount rate used in leases

Where the interest rate implicit in the lease cannot be readily determined, the combining entities use the incremental borrowing rate to measure the lease liabilities. The incremental borrowing rate is the interest rate that the combining entities would have to pay to borrow over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate requires estimation, particularly when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The combining entities estimate the incremental borrowing rate using observable inputs when available and is required to make certain entity-specific estimates.

Income taxes

Judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

2. **Basis of preparation (Cont'd)**

(c) **Significant accounting judgements, estimates and assumptions (Cont'd)**

Key sources of estimation uncertainty (Cont'd)

Income taxes (Cont'd)

The combining entities recognise liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. **Significant accounting policies**

The combining entities apply the significant accounting policies set out below, consistently throughout all periods presented in the combined financial statements unless otherwise stated.

(a) **Basis of consolidation**

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Group applies the merger method to account for business combinations. Business combinations under common control are accounted for using the merger method, where the results of entities or businesses under common control are accounted for as if the combination had been effected throughout the current and previous financial periods. The assets, liabilities and reserves of these entities are recorded at their pre-combination carrying amounts or existing carrying amounts are accounted for from the perspective of the common shareholder. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of combination that would otherwise be done under the acquisition method. No new goodwill is recognised as a result of the combination. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as reserve on acquisition arising from common control.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date, if known, would have affected the amounts recognised at that date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

3. **Significant accounting policies (Cont'd)**

(a) **Basis of consolidation (Cont'd)**

(i) Subsidiaries (Cont'd)

Inter-company transactions, balances and unrealised gains or losses on transactions between Group entities are eliminated. Unrealised losses are eliminated only if there is no indication of impairment. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiaries are stated at the cost less accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts are recognised in profit or loss. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 3(l)(i) to the combined financial statements on impairment of non-financial assets.

(ii) Loss of control

Upon the loses control of a subsidiary, the Group derecognised the assets and liabilities of the former subsidiary, including any goodwill, and non-controlling interests and other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is remeasured at fair value at the date at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

(b) **Foreign currency translations and balances**

Transactions in foreign currency are recorded in the functional currency of the combining entities using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are included 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 reporting period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised in other comprehensive income.

(c) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy of recognition and measurement of impairment losses is in accordance with Note 3(l)(i) to the combined financial statements on impairment of non-financial assets.

(i) Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. All other repair and maintenance costs are recognised in profit or loss as incurred.

3. **Significant accounting policies (Cont'd)**

(c) **Property, plant and equipment (Cont'd)**

(i) Recognition and measurement (Cont'd)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the combining entities and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit or loss on straight-line basis to write off the cost of each asset to its residual value over its estimated useful life. Property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:

Buildings	lease terms over 24 to 48 months
Solar photovoltaic system	25 years
Tools and equipment	10 years
Computers	5 years
Motor vehicles	5 years
Office equipment	10 years
Furniture and fittings	10 years
Renovation	10 years
Electrical installation	10 years

The residual values, useful lives 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 property, plant and equipment.

(d) **Investment properties**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Subsequently, investment properties are measured at fair value which reflects market conditions at the reporting date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss for the period in which they arise.

Investment properties are valued by independent professionally qualified valuers, having appropriate recognised professional qualifications and recent experience in the locations and segments of the investment properties valued. The management team reviewed and discussed the valuations, including valuation processes, performed by the independent valuers for financial reporting purposes.

3. **Significant accounting policies (Cont'd)**

(d) **Investment properties (Cont'd)**

Investment properties are derecognised when either they are disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the profit or loss in the reporting period of retirement or disposal.

(e) **Leases**

As lessee

The combining entities recognise a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The ROU asset is subsequently measured at cost less any accumulated depreciation, accumulated impairment loss and, if applicable, adjusted for any remeasurement of lease liabilities. The policy of recognition and measurement of impairment losses is in accordance with Note 3(l)(i) to the combined financial statements.

The ROU asset under cost model is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property, plant and equipment as follows:

Buildings	lease terms over 24 to 72 months
Motor vehicles	5 years

The lease liability is initially measured at the present value of future lease payments at the commencement date, discounted using the combining entities' incremental borrowing rates. Lease payments included in the measurement of the lease liability include fixed payments, any variable lease payments, amount expected to be payable under a residual value guarantee, and exercise price under an extension option that the combining entities is reasonably certain to exercise.

Variable lease payments that do not depend on an index or a rate and are dependent on a future activity are recognised as expenses in profit or loss in the period in which the event or condition that triggers the payment occurs.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, or if the combining entities change its assessment of whether it will exercise an extension or termination option.

Lease payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and do not contain a purchase option. Low value assets are those assets valued at less than RM20,000 each when purchased new.

As lessor

When the combining entities act as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. Leases in which the combining entities do not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

If the lease arrangement contains lease and non-lease components, the combining entities apply MFRS 15 Revenue from Contracts with Customers to allocate the consideration in the contract based on the stand-alone selling price.

3. **Significant accounting policies (Cont'd)**

(e) **Leases (Cont'd)**

As lessor (Cont'd)

The combining entities recognise assets held under a finance lease in their statements of financial position and presents them as a receivable at an amount equal to the net investment in the lease. The combining entities use the interest rate implicit in the lease to measure the net investment in the lease.

The combining entities recognise lease payments under operating leases as income on a straight-line basis over the lease term unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. The lease payment recognised is included as part of "Other 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.

(f) **Financial assets**

Financial assets are recognised in the statements of financial position when, and only when, the combining entities become a party to the contractual provisions of the financial instrument.

A financial asset (unless it is a trade receivable without financing component) is initially measured at fair value plus or minus, for an item not at fair value through profit or loss ("FVTPL"), directly attributable transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

The combining entities determine the classification of its financial assets at initial recognition, and are not reclassified subsequent to its initial recognition unless the combining entities change its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(i) Financial assets at amortised cost

The combining entities measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(ii) Financial assets at fair value through other comprehensive income ("FVTOCI")

Debt instruments

A debt security is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. **Significant accounting policies (Cont'd)**

(f) **Financial assets (Cont'd)**

(ii) Financial assets at fair value through other comprehensive income ("FVTOCI") (Cont'd)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the combining entities may irrevocably elect to present subsequent changes in fair value in other comprehensive income on an investment-by-investment basis.

Financial assets categorised as FVTOCI are subsequently measured at fair value, with unrealised gains and losses recognised directly in other comprehensive income and accumulated under fair value reserve in equity. For debt instruments, when the investment is derecognised or determined to be impaired, the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss. For equity instruments, the gains or losses are never reclassified to profit or loss.

The combining entities have not designated any financial assets as FVTOCI.

(iii) Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or FVTOCI, as described above, are measured at FVTPL. This includes derivative financial assets (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). On initial recognition, the combining entities may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as FVTPL are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

The combining entities has designated other investment as FVTPL.

All financial assets at amortised costs are subject to impairment.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the combining entities commits to purchase or sell the asset.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received for financial instrument is recognised in profit or loss.

(g) **Financial liabilities**

Financial liabilities are recognised when, and only when, the combining entities become a party to the contractual provisions of the financial instruments. All financial liabilities are recognised initially at fair value plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition, financial liabilities that are not carried at FVTPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

3. **Significant accounting policies (Cont'd)**

(g) **Financial liabilities (Cont'd)**

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(h) **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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(i) **Inventories**

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

Cost of inventories comprise cost of purchase and other costs incurred in bringing it to their present location and condition are determined on weighted average basis.

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

(j) **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits and bank overdraft that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For the purpose of statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(k) **Contract assets and liabilities**

Contract asset is the right to consideration for goods or services transferred to the customers. The combining entities' contract asset is the excess of revenue recognised over the billings to-date and deposits or advances received from customers.

Where there is objective evidence of impairment, the amount of impairment losses is determined by comparing the contract asset's carrying amount and the present value of estimated future cash flows to be generated by the contract asset.

Contract asset is reclassified to trade receivables at the point at which invoices have been billed to customers. Contract assets are subject to impairment assessment in accordance of MFRS 9 *Financial Instruments*.

Contract liability is the obligation to transfer goods or services to customers for which the combining entities have received the consideration or have billed the customers. The combining entities' contract liability is the excess of the billings to-date over the revenue recognised. Contract liabilities are recognised as revenue when the combining entities perform its obligation under the contracts.

3. **Significant accounting policies (Cont'd)**

(l) **Impairment of assets**

(i) Non-financial assets

The combining entities assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exits, or when an annual impairment assessment for an asset is required, the combining entities make an estimate of the asset's recoverable amount.

As asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are group at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGUs")). In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impaired losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive and equity. In this case the impairment is also recognised in other comprehensive and equity up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss were recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as revaluation increase. Impairment loss on goodwill is not reversed in a subsequent year.

(ii) Financial assets

The combining entities recognise an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the combining entities expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the combining entities apply a simplified approach in calculating ECLs. Therefore, the combining entities do not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The combining entities have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. **Significant accounting policies (Cont'd)**

(m) **Share capital**

An equity instrument is any contract that evidences a residual interest in the assets of the combining entities after deducting all of its liabilities. Ordinary shares are equity instruments. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the period they are approved by the Board of Directors except for the final dividend which is subject to approval by the Company's shareholders.

(n) **Provisions**

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

Provisions are reviewed at end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Any reimbursement that the combining entities can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is recognised in the profit or loss net of any reimbursement.

(o) **Revenue recognition**

(i) Revenue from contract with customers

Revenue is recognised when the combining entities satisfied a performance obligation ("PO") by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A PO may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied PO.

<u>Revenue from construction contracts</u>

The combining entities recognise revenue from construction contracts over time when control over the asset has been transferred to the customers. The assets have no alternative use to the combining entities due to contractual restriction and the combining entities have an enforceable right to payment for performance completed to date. Revenue from construction contracts is measured at the transaction price agreed under the construction contracts.

Revenue is recognised over the period of the contract using the input method to measure the progress towards complete satisfaction of the performance obligations under the construction contract i.e., based on the proportion of cost incurred to date over the estimated total costs.

The combining entities become entitled to invoice customers for construction of promised asset based on achieving a series of performance-related milestones (i.e. progress billing). The combining entities previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the progress billing exceeds the revenue recognised to date, the combining entities recognise a contract liability for the difference. There is not considered to be a significant financing component in contracts with customers as the period between the recognition of revenue and the progress billing is always less than one year.

3. **Significant accounting policies (Cont'd)**

(o) **Revenue recognition (Cont'd)**

(i) Revenue from contract with customers (Cont'd)

Revenue from rendering of services

Revenue from services is recognised in the reporting period in which the services are rendered, which simultaneously received and consumes the benefits provided by the combining entities, and the combining entities have a present right to payment for the services.

Revenue from sales of goods

All revenue is recognised at a point in time, which is typically on delivery of the goods. Goods are sold when the customer obtains control of the asset. All the contracts are discounts and taxes. The combining entities shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

(ii) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(iii) Interest income

Interest income is recognised on accruals basis using the effective interest method.

(p) **Employee benefits**

(i) Short-term employee benefits

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

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Defined contribution plans

As required by law, companies in Malaysia contribute to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred. Once the contributions have been paid, the combining entities have no further payment obligations.

(q) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the assets, which are assets that necessarily take a substantial period of time to get ready for theirs intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets is substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs consist of interest and other costs that the combining entities incurred in connection with the borrowing of funds.

3. **Significant accounting policies (Cont'd)**

(q) **Borrowing costs (Cont'd)**

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for their intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(r) **Income taxes**

Tax expense in profit or loss 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 financial 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 financial years.

Deferred tax is recognised using the liability method for all 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.

The measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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.

(s) **Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers are responsible for allocating resources and assessing performance of the operating segments and make overall strategic decisions. The combining entities' operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

(t) **Earnings per share**

The combining entities present basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the net profit attributable to common controlling shareholders by the weighted average number of shares in issue.

Diluted EPS is calculated by dividing the net profit for the financial year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted EPS is not applicable as the combining entities do not have potential dilutive equity instruments that would give a diluted effect to the basic EPS.

3. **Significant accounting policies (Cont'd)**

(u) **Contingencies**

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

(v) **Non-current assets held for sale**

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group). Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) are not depreciated or amortised once classified as held for sale.

(w) **Related parties**

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

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

(i) has control or joint control over the combining entities; or
(ii) has significant influence over the combining entities; or
(iii) is a member of the key management personnel of the combining entities.

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

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

4. **Property, plant and equipment**

	Buildings RM	Solar photovoltaic system RM	Tools and equipment RM	Computers RM	Motor vehicles RM	Office equipment RM	Furniture and fittings RM	Renovation RM	Electrical installation RM	Total RM
Audited										
Cost										
At 1 January 2020	136,268	1,181,480	73,060	42,267	75,000	288,348	134,215	95,433	-	2,026,071
Additions	-	-	-	8,315	-	2,150	-	-	-	10,465
Expiration of lease contract	(136,268)	-	-	-	-	-	-	-	-	(136,268)
Written off	-	-	-	-	-	(20,760)			-	(20,760)
At 31 December 2020	-	1,181,480	73,060	50,582	75,000	269,738	134,215	95,433	-	1,879,508
Additions	86,940	-	679	32,966	131,000	16,629	15,054	-	-	283,268
At 31 December 2021	86,940	1,181,480	73,739	83,548	206,000	286,367	149,269	95,433	-	2,162,776
Additions	530,359	-	-	39,084	292,430	24,911	46,773	161,681	-	1,095,238
Early termination of lease contract	(86,940)	-	-	-	-	-	-	-	-	(86,940)
At 31 December 2022	530,359	1,181,480	73,739	122,632	498,430	311,278	196,042	257,114	-	3,171,074
Additions	973,975	-	-	7,868	109,904	90,516	263,445	227,849	15,056	1,688,613
Early termination of lease contract	(40,729)	-	-	-	-	-	-	-	-	(40,729)
At 31 August 2023	1,463,605	1,181,480	73,739	130,500	608,334	401,794	459,487	484,963	15,056	4,818,958

4. **Property, plant and equipment (Cont'd)**

	Buildings RM	Solar photovoltaic system RM	Tools and equipment RM	Computers RM	Motor vehicles RM	Office equipment RM	Furniture and fittings RM	Renovation RM	Electrical installation RM	Total RM
Audited										
Accumulated depreciation										
At 1 January 2020	97,334	287,493	52,272	38,211	27,500	202,308	105,594	89,627	-	900,339
Charge for the financial year	38,934	47,259	6,048	1,671	15,000	18,333	7,074	4,901	-	139,220
Expiration of lease contract	(136,268)	-	-	-	-	-	-	-	-	(136,268)
Written off	-	-	-	-	-	(20,760)	-	-	-	(20,760)
At 31 December 2020	-	334,752	58,320	39,882	42,500	199,881	112,668	94,528	-	882,531
Charge for the financial year	43,470	47,259	2,297	2,681	34,650	19,149	9,643	176	-	159,325
At 31 December 2021	43,470	382,011	60,617	42,563	77,150	219,030	122,311	94,704	-	1,041,856
Charge for the financial year	139,154	47,259	2,348	8,848	53,428	20,324	11,689	4,243	-	287,293
Early termination of lease contract	(68,827)	-	-	-	-	-	-	-	-	(68,827)
At 31 December 2022	113,797	429,270	62,965	51,411	130,578	239,354	134,000	98,947	-	1,260,322
Charge for the financial period	242,473	31,506	1,565	12,011	66,285	16,868	19,139	22,067	753	412,667
Early termination of lease contract	(20,364)	-	-	-	-	-	-	-	-	(20,364)
At 31 August 2023	335,906	460,776	64,530	63,422	196,863	256,222	153,139	121,014	753	1,652,625
Audited										
Carrying amount										
At 31 December 2020	-	846,728	14,740	10,700	32,500	69,857	21,547	905	-	996,977
At 31 December 2021	43,470	799,469	13,122	40,985	128,850	67,337	26,958	729	-	1,120,920
At 31 December 2022	416,562	752,210	10,774	71,221	367,852	71,924	62,042	158,167	-	1,910,752
At 31 August 2023	1,127,699	720,704	9,209	67,078	411,471	145,572	306,348	363,949	14,303	3,166,333

4. **Property, plant and equipment (Cont'd)**

(i) Including in net carrying amount of property, plant and equipment are right-of-use assets as follows:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Buildings	-	43,470	416,562	1,127,699
Motor vehicles	32,500	128,850	367,852	411,471
	32,500	172,320	784,414	1,539,170

(ii) Depreciation charge of right-of-use assets are as follows:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM
Buildings	38,934	43,470	139,154	242,473
Motor vehicles	15,000	34,650	53,428	66,285
	53,934	78,120	192,582	308,758

(iii) Additions of right-of-use assets are as follows:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM
Buildings	-	86,940	530,359	973,975
Motor vehicles	-	131,000	292,430	109,904
	-	217,940	822,789	1,083,879

5. **Investment properties**

	Leasehold land and building RM	Freehold buildings RM	Total RM
Audited			
At 1 January 2020/31 December 2020	4,700,000	-	4,700,000
Additions	-	1,116,716	1,116,716
At 31 December 2021	4,700,000	1,116,716	5,816,716
Fair value adjustments	100,000	63,284	163,284
Transfer to non-current asset held for sale	(4,800,000)	-	(4,800,000)
At 31 December 2022/31 August 2023	-	1,180,000	1,180,000

5. **Investment properties (Cont'd)**

The leasehold land and building is lease to a third party.

The net carrying amount of leasehold land and building amounted to (31.12.2020: RM4,700,000, 31.12.2021: RM4,700,000, 31.12.2022: RMNil and 31.8.2023: RMNil) are pledged as securities for banking facilities granted to the combining entities.

The fair value of the investment properties is determined by external independent professional valuers with recent experience in the location and category of property being valued and are determined once a year based on the comparison approach.

The following are recognised in profit or loss in respect of the investment properties:

	Audited 1.1.2020 to 31.12.2020 RM	**Audited 1.1.2021 to 31.12.2021 RM**	**Audited 1.1.2022 to 31.12.2022 RM**	**Audited 1.1.2023 to 31.8.2023 RM**	**Unaudited 1.1.2022 to 31.8.2022 RM**
Rental income	96,000	96,000	96,000	64,000	64,000
Direct operating expenses	10,292	13,738	9,772	7,277	7,337

6. **Other investment**

	Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
At fair value through profit or loss:				
Non-current				
- Quoted investment outside Malaysia	401,648	-	-	-
Current				
- Money market fund	-	-	-	10,033,197
	401,648	-	-	10,033,197

The foreign currency exposure profile of other investment is as follow:

	Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
Australian Dollar ("AUD")	401,648	-	-	-

7. **Receivables**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Non-current				
Non-trade receivables (a)	-	-	-	770,926
Current				
Trade receivables, gross	6,669,991	30,926,302	33,181,752	50,990,793
Retention sum	1,726,781	4,827,846	8,844,503	8,630,124
	8,396,772	35,754,148	42,026,255	59,620,917
Less: Expected credit losses ("ECL")	(83,803)	(298,108)	(412,550)	(536,529)
Trade receivables, net (b)	8,312,969	35,456,040	41,613,705	59,084,388
Non-trade receivables (c)	2,021,142	2,020,596	274,888	308,850
Advances to suppliers	-	204,475	180,428	2,353,918
Deposits	120,870	229,130	161,010	176,030
Prepayments for listing expenses	-	-	362,971	1,484,062
Prepayments	-	-	13,353	-
	10,454,981	37,910,241	42,606,355	63,407,248
	10,454,981	37,910,241	42,606,355	64,178,174

(a) Non-trade receivables - non-current

Non-current non-trade receivables represent insurance premium paid for keyman life insurance which shall be refundable when the combining entities surrender the insurance policy upon its maturity dates in 5 years' time. These amounts have been discounted to their respective present value.

(b) Trade receivables

Trade receivables are non-interest bearing and are generally on (31.12.2020: 30 to 90 days, 31.12.2021: 30 to 90 days, 31.12.2022: 30 to 90 days and 31.8.2023: 0 to 90 days) term. They are recognised at engineer certificates amounts which represent their fair values on initial recognition.

Movements in the impairment loss on ECLs are as follows:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
At beginning of the financial year/period	90,035	83,803	298,108	412,550
Charge for the financial year/period	-	214,305	114,442	123,979
Reversal for the financial year/period	(6,232)	-	-	-
At end of the financial year/period	83,803	298,108	412,550	536,529

The impairment loss account in respect of trade receivables is used to record impairment loss. Unless the combining entities are satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

7. **Receivables (Cont'd)**

(b) Trade receivables (Cont'd)

Included in gross trade receivables is an amount of (31.12.2020: RM438,719, 31.12.2021: RMNil, 31.12.2022: RM727,853 and 31.8.2023: RMNil) due from related companies.

The following table provide information about the exposure to credit risk and ECLs for trade receivables:

	Gross amount RM	ECL RM	Net amount RM
Audited			
31.12.2020			
Not past due	4,529,361	(27,407)	4,501,954
Past due:			
Less than 30 days	1,568,697	(14,275)	1,554,422
31 to 60 days	561,892	(7,642)	554,250
61 to 90 days	1,060,579	(19,196)	1,041,383
More than 90 days	676,243	(15,283)	660,960
	8,396,772	(83,803)	8,312,969
Audited			
31.12.2021			
Not past due	27,944,284	(187,227)	27,757,057
Past due:			
Less than 30 days	4,164,775	(37,899)	4,126,876
31 to 60 days	1,044,106	(14,200)	1,029,906
More than 90 days	2,600,983	(58,782)	2,542,201
	35,754,148	(298,108)	35,456,040
Audited			
31.12.2022			
Not past due	35,374,177	(275,497)	35,098,680
Past due:			
Less than 30 days	1,095,765	(11,725)	1,084,040
31 to 60 days	1,255,462	(20,087)	1,235,375
61 to 90 days	1,809,709	(38,728)	1,770,981
More than 90 days	2,491,142	(66,513)	2,424,629
	42,026,255	(412,550)	41,613,705
Audited			
31.8.2023			
Not past due	56,738,545	(476,604)	56,261,941
Past due:			
Less than 30 days	1,194,422	(13,497)	1,180,925
31 to 60 days	85,918	(1,452)	84,466
61 to 90 days	7,492	(169)	7,323
More than 90 days	1,594,540	(44,807)	1,549,733
	59,620,917	(536,529)	59,084,388

7. **Receivables (Cont'd)**

(c) Non-trade receivables - current

Non-trade receivables are unsecured, non-interest bearing and repayable on demand.

Included in non-trade receivables is an amount of (31.12.2020: RM2,716, 31.12.2021: RM1,941, 31.12.2022: RMNil and 31.8.2023: RMNil) due from related companies and (31.12.2020: RM2,000,861, 31.12.2021: RM2,000,638, 31.12.2022: RMNil and 31.8.2023: RMNil) due from a corporate shareholder.

8. **Inventories**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Consumables	116,110	426,873	723,406	1,224,660

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Recognised in profit or loss					
Inventories recognised as cost of sales	8,354,836	10,341,559	10,944,636	5,096,931	6,523,278

9. **Contract assets/liabilities**

	Note	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Contract assets					
Construction contracts	(a)	1,905,820	10,057,098	24,271,202	9,030,671
Contract liabilities					
Construction contracts	(a)	712,599	164,069	20,798,078	14,353,499
Deposit received		87,074	372,074	706,000	-
		799,673	536,143	21,504,078	14,353,499

The contract assets primarily relate to the combining entities' rights to consideration for work completed but not yet billed at the reporting date for its construction activities. The contract assets will be transferred to trade receivables when the rights become unconditional.

The contract liabilities primarily relate to the advance consideration received from customer for construction contract, which revenue is recognised over time during the construction's activities.

9. **Contract assets/liabilities (Cont'd)**

(a) Construction contracts

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
At beginning of financial year/period	3,086,987	1,193,221	9,893,029	3,473,124
Recognised as revenue	20,972,579	86,654,458	92,306,414	131,693,839
Less: Progress billings issued	(22,866,345)	(77,954,650)	(98,726,319)	(140,489,791)
At end of financial year/period	1,193,221	9,893,029	3,473,124	(5,322,828)
Presented as:				
Contract assets	1,905,820	10,057,098	24,271,202	9,030,671
Contract liabilities	(712,599)	(164,069)	(20,798,078)	(14,353,499)
	1,193,221	9,893,029	3,473,124	(5,322,828)

Contract value yet to be recognised as revenue

As at the reporting date, revenue expected to be recognised in the future relating to performance obligations that are unsatisfied (or partially unsatisfied) as are follow:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Within 1 year	4,923,101	42,909,621	217,576,735	237,984,462
Between 2 to 4 years	165,017	-	106,109,941	-
	5,088,118	42,909,621	323,686,676	237,984,462

10. **Fixed deposits with licensed banks**

Fixed deposits with licensed banks of the combining entities are pledged as security for bank borrowings granted to the combining entities and hence not available for general use.

The interest rates of the fixed deposits are ranging from (31.12.2020: 3.17% to 3.75%, 31.12.2021: 3.08% to 3.51%, 31.12.2022: 1.72% to 2.75% and 31.8.2023: 1.56% to 3.10%).

11. **Cash and bank balances**

Included in bank balances is an amount of (31.12.2020: RM698,524, 31.12.2021: RM4,884,433, 31.12.2022: RM1,439,150 and 31.8.2023: RM1,439,150) pledged as cash collateral for performance bond granted to the combining entities and hence not available for general use.

12. **Non-current asset held for sale**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Investment property				
Leasehold land and building	-	-	4,800,000	4,800,000

12. **Non-current asset held for sale (Cont'd)**

The combining entities have entered into a Sales and Purchase Agreement with a company in which Directors have interest to dispose a piece of leasehold land and building for RM4,800,000. However, the sale is not completed as of the reporting date as it is subject to precedent condition that State Authority's Consent is required.

The leasehold land and building above are pledged as securities for banking facilities granted to the combining entities.

13. **Share capital and Invested equity**

(a) Share capital

	Number of ordinary shares Unit	Amount RM
Audited		
Issued and fully paid		
At 1.1.2020/31.12.2020/31.12.2021/31.12.2022	-	-
Issuance of shares	1,000	45
At 31.8.2023	1,000	45

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the combining entities. All ordinary shares rank equally with regards to the combining entities' residual assets.

(b) Invested equity

	Number of ordinary shares Unit	Amount RM
Audited		
Issued and fully paid		
At 1.1.2020/31.12.2020/31.12.2021/31.12.2022/31.8.2023	1,000,000	1,000,000

Invested equity comprised the aggregate number of issued and paid-up ordinary shares of Hexatech Engineering.

14. **Borrowings**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Non-current				
Secured:				
Term loans				
- Between 2 to 5 years	567,540	484,284	640,595	1,197,739
- More than 5 years	189,705	113,268	34,156	-
	757,245	597,552	674,751	1,197,739
Current				
Secured:				
Term loans	113,878	159,693	216,939	328,666
Bank overdraft	469,839	462,843	-	-
Bankers' acceptances	3,194,056	5,372,000	8,515,642	7,027
	3,777,773	5,994,536	8,732,581	335,693
	4,535,018	6,592,088	9,407,332	1,533,432

The repayment terms of the borrowings are as following:

(i) Term loans are repayable by (31.12.2020: 180 months, 31.12.2021: 84 to 180 months, 31.12.2022: 60 to 180 months and 31.8.2023: 60 to 180 months).
(ii) Bankers' acceptances are repayable within (31.12.2020: 120 days, 31.12.2021: 120 days, 31.12.2022: 120 days and 31.8.2023: 120 days).
(iii) Bank overdraft is repayable on demand.

The borrowings are secured by the following:

(i) A corporate guarantee by a corporate shareholder;
(ii) Jointly and several guaranteed by Directors of the combining entities;
(iii) First party legal charge over the factory building of the combining entities, as disclosed in Notes 5 and 12 to the combined financial statements;
(iv) Fixed deposit with a licensed bank of the combining entities, as disclosed in Note 10 to the combined financial statements; and
(v) A guarantee coverage of up to RM12,800,000 under PEMULIH Government Guarantee Scheme ("PGGS") by Syarikat Jaminan Pembiayaai Perniagaan Berhad.

The effective interest rates per annum are as follows:

	Audited 31.12.2020 %	Audited 31.12.2021 %	Audited 31.12.2022 %	Audited 31.8.2023 %
Term loans	3.50 - 4.72	3.50 - 4.72	3.50 - 7.60	3.50 - 4.72
Bank overdraft	5.97 - 7.40	5.97 - 7.40	5.97 - 7.40	-
Bankers' acceptances	3.67 - 3.90	3.56 - 3.59	3.56 - 5.09	5.48 - 5.66

15. **Lease liabilities**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Non-current	-	91,791	498,118	1,045,695
Current	17,629	69,780	271,429	504,823
	17,629	161,571	769,547	1,550,518

The maturity analysis of lease liabilities at the end of the reporting period:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Within 1 year	18,155	75,450	304,764	583,344
Between 2 - 5 years	-	98,198	520,287	1,077,311
More than 5 years	-	-	18,075	85,336
	18,155	173,648	843,126	1,745,991
Less: Future finance charges	(526)	(12,077)	(73,579)	(195,473)
Present value of lease liabilities	17,629	161,571	769,547	1,550,518

The combining entities lease buildings and motor vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

16. **Deferred tax liabilities**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
At beginning of the financial year/period	156,000	172,000	139,000	133,000
Recognised in profit or loss	16,000	(33,000)	(6,000)	(27,000)
At end of the financial year/period	172,000	139,000	133,000	106,000

The balances of deferred tax liabilities are made up of tax effect on temporary differences arising from:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Property, plant and equipment	192,000	211,000	232,000	239,000
Provision	(20,000)	(72,000)	(99,000)	(133,000)
	172,000	139,000	133,000	106,000

17. **Payables**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Trade payables (a)	5,356,315	38,351,404	36,693,772	62,477,851
Retention sum	96,659	1,293,616	1,933,626	3,345,721
	5,452,974	39,645,020	38,627,398	65,823,572
Non-trade payables	1,409	49,930	651,578	717,910
Accruals	361,728	822,526	1,010,701	221,670
Deposit received (b)	-	-	480,000	1,403,051
Good and Service Tax ("GST") payable	10,912	10,912	9,308	9,308
	5,827,023	40,528,388	40,778,985	68,175,511

(a) Trade payables

The normal trade credit terms granted to the combining entities ranged from (31.12.2020: 30 to 90 days, 31.12.2021: 30 to 90 days, 31.12.2022: 30 to 90 days and 31.8.2023: 30 to 90 days) depending on the terms of the contracts.

Included in trade payables is an amount of (31.12.2020: RMNil, 31.12.2021: RM2,386,566, 31.12.2022: RMNil and 31.8.2023: RM6,369,000) due to related companies and (31.12.2020: RMNil, 31.12.2021: RM93,516, 31.12.2022: RMNil and 31.8.2023: RMNil) due to a corporate shareholder.

(b) Deposit received

Included in deposit received is an amount of (31.12.2020: RMNil, 31.12.2021: RMNil, 31.12.2022: RM480,000 and 31.8.2023: RM1,403,051) represents deposit received from a related company for the disposal of investment property.

18. **Revenue**

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Type of revenue					
Construction contract with customers	20,972,579	86,654,458	92,306,414	131,693,839	42,316,709
Rendering of services	5,771,058	10,298,972	13,659,206	6,658,112	8,262,002
Sales of goods	4,644,459	3,507,163	1,607,366	224,589	825,205
	31,388,096	100,460,593	107,572,986	138,576,540	51,403,916
Timing of revenue recognition					
At a point in time	10,415,517	13,806,135	15,266,572	6,882,701	9,087,207
Over time	20,972,579	86,654,458	92,306,414	131,693,839	42,316,709
	31,388,096	100,460,593	107,572,986	138,576,540	51,403,916

19. **Finance costs**

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
- Bankers' acceptances	80,241	136,719	137,851	28,229	81,409
- Bank commitment fee	10,768	9,396	10,666	7,486	7,195
- Bank guarantee	111,577	269,911	462,129	419,528	35,133
- Bank overdraft	1,530	10,405	2,420	142	796
- Domestic recourse factoring	114,645	122,533	142,552	2,405	16,018
- Lease liabilities	2,246	7,788	20,873	57,199	8,402
- Letter of credit	49,162	34,961	33,589	1,631	14,262
- Trust receipt	12,169	-	-	-	-
- Term loans	21,591	32,835	30,184	41,849	18,925
- Discount on non-current financial assets	-	-	-	196,694	-
	403,929	624,548	840,264	755,163	182,140

20. **Profit before tax**

Profit before tax is determined after charging/(crediting), amongst others, the following items:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Auditors' remuneration	20,500	33,000	40,000	20,000	31,999
Depreciation of property, plant and equipment	139,220	159,325	287,293	412,667	158,959
Directors' fee	-	72,000	-	-	-
Fair value gain on investment properties	-	-	(163,284)	-	-
Fair value (gain)/loss on other investment	(1,465,630)	64,662	-	(32,887)	-
Gain on termination of lease contracts	-	-	(798)	(592)	(798)
Interest income	(37,245)	(24,332)	(101,981)	(158,327)	(60,556)
Impairment loss on expected credit losses on trade receivables	-	214,305	114,442	123,979	17,814
Lease of low value asset	-	-	-	3,244	-
Realised loss/(gain) on foreign currency exchange	-	4,012	(3,315)	10,645	683
Reversal of impairment loss on expected credit losses on trade receivables	(6,232)	-	-	-	-

20. **Profit before tax (Cont'd)**

Profit before tax is determined after charging/(crediting), amongst others, the following items (Cont'd):

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Rental income	(96,000)	(96,000)	(96,000)	(64,000)	(64,000)
Sales of solar energy	(236,345)	(217,782)	(198,983)	(131,094)	(137,580)
Short-term leases	2,500	9,100	53,100	27,600	42,962
Unwinding of discount on non-current financial assets	-	-	-	(22,947)	-
Variable lease payments	8,383	8,194	8,592	2,400	5,392
Wages subsidy	(84,000)	(68,400)	-	-	-

21. **Taxation**

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Current tax					
Current year provision	77,894	1,377,794	1,915,365	2,621,290	1,054,672
Under/(Over) provision in prior financial year/period	149,970	-	(96,514)	101,675	(96,514)
	227,864	1,377,794	1,818,851	2,722,965	958,158
Deferred tax					
Origination and reversal of temporary differences	16,000	(33,000)	(6,000)	(108,000)	(5,000)
Under provision in prior financial year/period	-	-	-	81,000	-
	16,000	(33,000)	(6,000)	(27,000)	(5,000)
	243,864	1,344,794	1,812,851	2,695,965	953,158

21. **Taxation (Cont'd)**

A reconciliation of income tax expenses applicable to profit before tax at the statutory tax rate to income tax expenses at the effective income tax of the combining entities are as follows:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Profit before tax	1,941,379	5,479,035	7,982,279	9,950,695	4,211,383
At Malaysian statutory tax rate of 24%	465,931	1,314,968	1,915,747	2,388,167	1,010,732
Tax saving on first tranche of chargeable income	(32,074)	-	-	-	-
Income not subject to tax	(371,911)	(16,416)	(39,984)	(8,156)	(192)
Expenses not deductible for tax purposes	31,948	46,242	33,602	133,279	39,132
Under/(Over) provision of current tax in prior financial year/period	149,970	-	(96,514)	101,675	(96,514)
Under provision of deferred tax in prior financial year/period	-	-	-	81,000	-
	243,864	1,344,794	1,812,851	2,695,965	953,158

22. **Earnings per share**

Basic earnings per share

The calculation of basic earnings per share was based on the profit for the financial years/periods attributable to ordinary equity holders of the combining entities and a weighted average number of ordinary shares issued calculated as follows:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Profit attributable to owners of the combining entities	1,697,515	4,134,241	6,169,428	7,254,730	3,258,225
Number of ordinary shares (unit)	440,000,000	440,000,000	440,000,000	440,000,000	440,000,000
Basic earnings per share (sen)	0.39	0.94	1.40	1.65	0.74

22. **Earnings per share (Cont'd)**

Diluted earnings per share

There is no diluted earnings per share as the combining entities do not have any dilutive potential ordinary shares outstanding as at the end of the reporting period.

23. **Dividends**

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
In respect of the financial year ended 31 December 2020					
An interim single-tier dividend of RM0.30 per share, declared on 1 December 2020 and paid on 31 December 2020	300,000	-	-	-	-
In respect of the financial year ended 31 December 2021					
An interim single-tier dividend of RM0.50 per share, declared on 1 December 2021 and paid on 31 December 2021	-	500,000	-	-	-
In respect of the financial year ended 31 December 2022					
An interim single-tier dividend of RM0.50 per share, declared on 1 July 2022 and paid on 14 July 2022	-	-	500,000	-	500,000
An interim single-tier dividend of RM2.50 per share, declared on 1 December 2022 and paid on 20 December 2022	-	-	2,500,000	-	-
	300,000	500,000	3,000,000	-	500,000

The Board of Directors do not recommend any final dividend in respect of the current financial year/period.

24. **Staff costs**

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Salaries, wages and other emoluments	2,373,355	3,258,536	4,751,352	3,611,416	2,969,568
Defined contribution plans	279,359	328,079	508,356	507,688	266,799
Social security contribution	28,907	29,850	46,961	46,262	27,379
Other benefits	97,502	202,472	337,783	146,164	165,037
	2,779,123	3,818,937	5,644,452	4,311,530	3,428,783

Included in staff costs is aggregate amount of remuneration received and receivable by the Executive Directors and other key management personnel and of the combining entities during the financial year as below:

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Executive Directors					
Salaries, wages and other emoluments	416,133	728,843	693,897	440,000	292,700
Defined contribution plans	50,038	87,530	83,269	67,323	35,124
Social security contribution	1,847	1,847	2,004	1,544	1,231
	468,018	818,220	779,170	508,867	329,055
Other key management personnel					
Salaries, wages and other emoluments	209,262	226,630	705,486	644,850	483,100
Defined contribution plans	25,341	27,235	84,713	69,212	58,008
Social security contribution	1,846	1,846	4,702	1,386	3,386
	236,449	255,711	794,901	715,448	544,494
Total key management personnel compensation	704,467	1,073,931	1,574,071	1,224,315	873,549

The estimated monetary value of benefits-in-kind received by the Directors of the combining entities were (31.12.2020: RMNil, 31.12.2021: RMNil, 31.12.2022: RM9,200, 31.8.2023: RMNil and 31.8.2022: RMNil).

25. **Related party disclosures**

(a) Identifying related parties

For the purposes of these combined financial statements, parties are considered to be related to the combining entities if the combining entities have the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the combining entities and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the combining entities either directly or indirectly. The key management personnel comprise the Directors and management personnel of the combining entities, having authority and responsibility for planning, directing and controlling the activities of the combining entities directly or indirectly.

(b) Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms. In addition to the related party balances disclosed elsewhere in the combined financial statements, the significant related party transactions of the combining entities are as follows:

	Audited 1.1.2020 to 31.12.2020 RM	**Audited 1.1.2021 to 31.12.2021 RM**	**Audited 1.1.2022 to 31.12.2022 RM**	**Audited 1.1.2023 to 31.8.2023 RM**	**Unaudited 1.1.2022 to 31.8.2022 RM**
Transactions with a corporate shareholder					
Sales to	208,644	-	-	-	-
Purchase from	27,600	438,694	1,113	-	1,113
Administrative expenses charged by	81,377	82,390	10,340	-	10,340
Management fee charged to	-	-	20,000	-	12,000
Transactions with related companies					
Sales to	4,443,770	3,288,403	2,013,455	10,000	1,231,295
Purchase from	4,860,034	9,392,878	2,141,033	8,009,450	1,981,512
Administrative expenses charged by	-	20,654	28,047	-	24,453
Lease rental charged by	39,300	48,090	82,461	-	42,461
Rental income charged to	96,000	96,000	96,000	64,000	64,000
Management fee charged to	-	-	90,000	-	10,000

(c) Compensation of key management personnel

Remuneration of Directors and other key management personnel are disclosed in Note 24 to the combined financial statements.

26. **Capital commitment**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Authorised and contracted for:				
Freehold buildings	1,096,716	-	-	-

27. **Contingent liability**

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Secured:				
Performance guarantee extended to third parties in respect of subcontractors' performance	3,492,618	15,328,068	18,614,178	24,662,410

28. **Operating segments**

Information about operating segments has not been reported separately as the combining entities' revenue, profit or loss, assets and liabilities are mainly confined to a single operating segment, namely the provision of power distribution system, other building systems and works, hook up and retrofitting of electrical equipment and trading sectors in Malaysia.

Major customers

The following are major customers with revenue equal to or more than 10% of the combining entities' total revenue.

	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2021 to 31.12.2021 RM	Audited 1.1.2022 to 31.12.2022 RM	Audited 1.1.2023 to 31.8.2023 RM	Unaudited 1.1.2022 to 31.8.2022 RM
Customer A	3,372,550	7,882,596	23,472,917	58,357,818	5,118,066
Customer B	1,565,248	1,585,486	30,482,213	8,940,521	22,905,831
Customer C	-	-	23,304,263	44,279,285	939,602
Customer D	701,309	1,647,648	13,602,304	1,576,916	9,478,372
Customer E	-	69,400,200	3,778,054	-	3,724,054
Customer F	13,959,875	604,348	-	-	-
Customer G	4,777,243	4,094,503	-	-	-
Customer H	4,271,074	3,282,538	536,705	-	536,705

29. **Financial instruments**

(a) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 3 describe how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

	Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
Financial assets				
At FVTPL				
Other investment	401,648	-	-	10,033,197
At amortised costs				
Receivables	10,454,981	37,705,766	42,049,603	60,340,194
Fixed deposits with licensed banks	1,185,077	1,390,379	4,804,989	5,139,734
Cash and bank balances	729,278	4,983,858	8,970,007	11,856,034
	12,369,336	44,080,003	55,824,599	77,335,962
Financial liabilities				
At amortised costs				
Payables	5,816,111	40,517,476	40,769,677	68,166,203
Borrowings	4,535,018	6,592,088	9,407,332	1,533,432
	10,351,129	47,109,564	50,177,009	69,699,635

(b) Financial risk management objectives and policies

The combining entities' financial risk management policy is to ensure that adequate financial resources are available for the development of the combining entities' operations whilst managing its credit, liquidity and market risks. The combining entities operate within clearly defined guidelines that are approved by the Board and the combining entities' policy is not to engage in speculative transactions.

The following sections provide details regarding the combining entities' exposure to the above-mentioned financial risks and the objectives, policies, and processes for the management of these risks.

(i) Credit risk

Credit risk is the risk of a financial loss to the combining entities if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The combining entities' exposure to credit risk arises principally from the receivables, amount due from related parties and deposits with banks and cash and bank balances. There are no significant changes as compared to previous year.

29. **Financial instruments (Cont'd)**

(b) Financial risk management objectives and policies (Cont'd)

(i) Credit risk (Cont'd)

The combining entities have adopted a policy of only dealing with creditworthy counterparties. Management has a credit policy in place to control credit risk by dealing with creditworthy counterparties and deposits with banks and financial institutions with good credit rating. The exposure to credit risk is monitored on an ongoing basis and action will be taken for long outstanding debts.

At each reporting date, the combining entities assess whether any if the receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables and contract assets are written off (either partial or full) when there is no realistic prospect of recovery. This is generally the case when the combining entities determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables and contract assets that are written off could still be subject to enforcement activities.

The carrying amounts of the financial assets recorded on the statements of financial position as at the financial year represent the combining entities' maximum exposure to credit risk except for financial guarantees provided to banks and non-financial institutions for banking facilities and supply of goods.

There are no significant changes as compared to previous financial year.

As at the end of the financial year, the combining entities has (31.12.2020: Nil, 31.12.2021: 2, 31.12.2022: 2 and 31.8.2023: 2) major customers and accounted for approximately (31.12.2020: Nil, 31.12.2021: 72%, 31.12.2022: 59% and 31.8.2023: 70%) of the trade receivables outstanding.

(ii) Liquidity risk

Liquidity risk refers to the risk that the combining entities will encounter difficulty in meeting its financial obligations as they fall due. The combining entities' exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The combining entities' funding requirements and liquidity risk are managed with the objective of meeting business obligations on a timely basis. The combining entities finance its liquidity through internally generated cash flows and minimises liquidity risk by keeping committed credit lines available.

29. **Financial instruments (Cont'd)**

(b) Financial risk management objectives and policies (Cont'd)

(ii) Liquidity risk (Cont'd)

The following table analyses the remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the combining entities can be required to pay.

	On demand Within 1 year RM	**2 to 5 years RM**	**More than 5 years RM**	**Total contractual cash flows RM**	**Total carrying amount RM**
Audited					
31.12.2020					
Non-derivative financial liabilities					
Payables	5,816,111	-	-	5,816,111	5,816,111
Borrowings	3,816,079	641,085	198,360	4,655,524	4,535,018
Lease liabilities	18,155	-	-	18,155	17,629
	9,650,345	641,085	198,360	10,489,790	10,368,758
Audited					
31.12.2021					
Non-derivative financial liabilities					
Payables	40,517,476	-	-	40,517,476	40,517,476
Borrowings	6,021,227	536,781	116,280	6,674,288	6,592,088
Lease liabilities	75,450	98,198	-	173,648	161,571
	46,614,153	634,979	116,280	47,365,412	47,271,135
Audited					
31.12.2022					
Non-derivative financial liabilities					
Payables	40,769,677	-	-	40,769,677	40,769,677
Borrowings	8,772,634	706,916	34,451	9,514,001	9,407,332
Lease liabilities	304,764	520,287	18,075	843,126	769,547
	49,847,075	1,227,203	52,526	51,126,804	50,946,556
Audited					
31.8.2023					
Non-derivative financial liabilities					
Payables	68,166,203	-	-	68,166,203	68,166,203
Borrowings	395,880	1,298,566	-	1,694,446	1,533,432
Lease liabilities	583,344	1,077,311	85,336	1,745,991	1,550,518
	69,145,427	2,375,877	85,336	71,606,640	71,250,153

29. **Financial instruments (Cont'd)**

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risk

(a) Foreign currency risk

The combining entities are exposed to foreign currency risk on transactions that are denominated in currencies other than the respective functional currencies of the combining entities. The currencies giving rise to this risk are primarily Australian Dollar ("AUD").

The combining entities had not entered into any derivative instruments for hedging or trading purposes. Where possible, the combining entities would apply natural hedging by selling and purchasing in the same currency. However, the exposure to foreign currency risk is monitored from time to time by management.

	Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
AUD				
Financial assets				
Other investment	401,648	-	-	-

The following table demonstrates the sensitivity of the combining entities' and the combining entities' profit before taxation to a reasonably possible change in the AUD exchange rates against RM, with all other variables held constant.

		Effect on profit before tax			
		Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
AUD	Strengthened 1%	4,016	-	-	-
	Weakened 1%	(4,016)	-	-	-

(b) Interest rate risk

The combining entities' fixed rate borrowings is exposed to a risk of change in their fair value due to changes in interest rates.

The combining entities manage the interest rate risk of their deposits by placing them at the most competitive interest rates obtainable, which yield better returns than cash at bank and maintaining a prudent mix of short and long-term deposits.

The combining entities manage its interest rate risk exposure from interest bearing borrowing by obtaining financing with the most favourable interest rates in the market. The combining entities constantly monitor their interest rate risk by reviewing its debts portfolio to ensure favourable rates are obtained. The combining entities do not utilise interest swap contracts or other derivative instruments for trading or speculative purposes.

29. **Financial instruments (Cont'd)**

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risk (Cont'd)

(b) Interest rate risk (Cont'd)

The interest rate profile of the combining entities' significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Audited 31.12.2020 RM	Audited 31.12.2021 RM	Audited 31.12.2022 RM	Audited 31.8.2023 RM
Fixed rate instruments				
Financial asset				
Fixed deposits with licensed banks	1,185,077	1,390,379	4,804,989	5,139,734
Financial liabilities				
Lease liabilities	(17,629)	(161,571)	(769,547)	(1,550,518)
Bankers' acceptances	(3,194,056)	(5,372,000)	(8,515,642)	(7,027)
	(3,211,685)	(5,533,571)	(9,285,189)	(1,557,545)
Floating rate instruments				
Financial liabilities				
Bank overdraft	(469,839)	(462,843)	-	-
Term loans	(871,123)	(757,245)	(891,690)	(1,526,405)
	(1,340,962)	(1,220,088)	(891,690)	(1,526,405)

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The combining entities do not account for any fixed rate financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flows sensitivity analysis for floating rate instruments

A change in 1% interest rate at the end of the reporting period would have increased/(decreased) the combining entities' profit before tax by (31.12.2020: RM13,410, 31.12.2021: RM12,201, 31.12.2022: RM8,917 and 31.8.2023: RM15,264), arising mainly as a result of lower/higher interest expense on floating rate borrowings. This analysis assumed that all other variables remain constant. The assumed movement in basis points for the interest rate sensitivity analysis based on the currently observable market environment.

(c) Market price risk

Market price risk is the risk that the fair value or future cash flows of the combining entities' financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The combining entities are exposed to equity price risk arising from its investment in quoted instrument. This investment is listed on Australian Securities Exchange Ltd ("ASX") and is classified as financial asset at FVTPL.

29. **Financial instruments (Cont'd)**

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risk (Cont'd)

(c) Market price risk (Cont'd)

Management of the combining entities monitor investment in quoted investment on a portfolio basis. Material investment within the portfolio is managed on an individual basis and all buy and sell decisions are approved by Board of Directors of the combining entities.

Market price risk sensitivity analysis

At the reporting date, if the various stock indices had been 1% higher/lower, with all variables held constant, the combining entities' profit before tax would have been (31.12.2020: RM4,016, 31.12.2021: RMNil, 31.12.2022: RMNil and 31.8.2023: RMNil) higher/lower, arising as a result of higher/lower fair value gains on held for trading investment in equity instrument.

(c) Fair value of financial instruments

The carrying amounts of short-term receivables and payables, cash and cash equivalents and short-term borrowings approximate their fair value due to the relatively short-term nature of these financial instruments and insignificant impact of discounting.

(i) Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels during current financial period and previous financial years.

(ii) Level 1 fair value

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

(iii) Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

(iv) Level 3 fair value

Level 3 fair value for the financial assets and liabilities are estimated using unobservable inputs.

29. **Financial instruments (Cont'd)**

(c) Fair value of financial instruments (Cont'd)

The following table summarises the methods used in determining the fair value of financial assets on a recurring basis as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 August 2023.

Financial asset	Fair value as at				Fair value hierachy	Valuation techniques and key inputs
	31.12.2020	31.12.2021	31.12.2022	31.8.2023		
	RM	RM	RM	RM		
Other investment - Quoted investment outside Malaysia	401,648	-	-	-	Level 1	Quoted bid prices in an active market
Other investment - Money market fund	-	-	-	10,033,197	Level 2	Reference to statement provided by the financial institution.

30. **Fair value measurement**

The following table summarises the methods used in determining the fair value of non-financial assets of the combining entities on a recurring basis as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 August 2023.

Non-financial asset	**Fair value as at**				**Fair value hierachy**	**Valuation techniques and key inputs**	**Significant unobservable inputs**	**Relationship of unobservable input to fair value**
	31.12.2020	**31.12.2021**	**31.12.2022**	**31.8.2023**				
	RM	**RM**	**RM**	**RM**				
Investment properties	4,700,000	5,816,716	1,180,000	1,180,000	Level 2	<u>Land and buildings</u> Comparison approach which reflects recent market translations for similar properties.	<u>Land and buildings</u> Adjustment for factors such as plot size, location, emcumbrances and current use.	<u>Land and buildings</u> The extent and direction of this adjustment depends on the number and characteristics of the observable market transations in similar properties that are used as starting point for valuation.

31. **Capital management**

The combining entities' objective when managing capital are to safeguard the combining entities' ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the combining entities may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	Audited 31.12.2020 RM	**Audited 31.12.2021 RM**	**Audited 31.12.2022 RM**	**Audited 31.8.2023 RM**
Total borrowings	4,535,018	6,592,088	9,407,332	1,533,432
Less: Fixed deposits with licensed banks	(1,185,077)	(1,390,379)	(4,804,989)	(5,139,734)
Less: Cash and bank balances	(729,278)	(4,983,858)	(8,970,007)	(11,856,034)
Less: Other investment	-	-	-	(10,033,197)
Net (cash)/debts	2,620,663	217,851	(4,367,664)	(25,495,533)
Total equity	9,086,246	12,720,487	15,889,915	23,144,690
Gearing ratio (times)	0.29	0.02	N/A *	N/A *

* Gearing ratio not applicable as the cash and cash equivalents of the combining entities are sufficient to settle the outstanding debt.

There were no changes in the combining entities' approach to capital management during the financial years/periods.

HE GROUP BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, the undersigned, being two of the Directors of the combining entities, do hereby state that, in the opinion of the Directors, the combined financial statements set out on pages 5 to 57 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position of the combining entities as at 31 December 2020, 31 December 2021, 31 December 2022, 31 August 2023 and of their combined financial performance and cash flows for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and for the financial periods ended 31 August 2022 and 31 August 2023.

Signed by the Board of Directors in accordance with a resolution of the Directors dated 22 December 2023.

HAW CHEE SENG

ENG CHOON LEONG

KUALA LUMPUR

15. ADDITIONAL INFORMATION

15.1 EXTRACT OF OUR CONSTITUTION

Subject to the receipt of the approvals and fulfilment of the conditions as may be imposed by the relevant authorities as set out in Section 2.1 of this Prospectus, the following provisions relating to the selected matters are reproduced from our Constitution.

The words and expressions appearing in this section shall bear the same meanings used in our Constitution or the context otherwise requires.

(i) Remuneration, voting and borrowing powers of Directors

<u>Clause 96 – Directors' remuneration</u>

Subject to the Act and the Listing Requirements, the fees of the Directors and any benefits payable to the Directors shall from time to time be determined by way of an ordinary resolution of the Company in a general meeting and such fees shall be divided among the Directors in such proportions and manner as the Directors may determine and in default of agreement equally, except that if a Director has held office for part only of the period in respect of which such fees are payable, such a Director shall be entitled only to that proportion of the fees as is related to the period during which he has held office PROVIDED ALWAYS that:

(i) salaries, benefits and other emoluments payable to executive Director(s) pursuant to an employment contract or a contract of service need not be determined by the Company in a general meeting but such salaries may not include a commission on or percentage of turnover;

(ii) fees payable to non-executive Directors shall be by a fixed sum and not by way of a commission on or percentage of profits or turnover; and

(iii) any fee paid to an Alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

<u>Clause 123 – Remuneration of chief executive, executive Director, managing Director</u>

The remuneration of the chief executive, executive Director, managing Director or any person holding an equivalent position, shall, from time to time be fixed by the Directors and may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but such remuneration shall not include a commission on or percentage of turnover but it may be a term of their appointment that they shall receive a pension, gratuity or other benefits upon their retirement.

<u>Clause 101 – Directors' borrowing powers</u>

(a) The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or any related company (as defined under Section 7 of the Act) as may be thought fit subject always to the Act and/or the Listing Requirements.

(b) The Directors shall not borrow any money or mortgage or charge any of the Company's or the subsidiaries' undertaking, property or any uncalled capital, or issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

Clause 104 – Appointment of attorneys

The Directors may from time to time by power of attorney under the Seal, appoint any corporation, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney/attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under this Constitution) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

Clause 105 – Signing of cheques etc.

All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for money paid to the Company shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be in such manner as the Directors may from time to time by resolution determine.

Clause 111 – Meeting of Directors

(a) The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Any Director may at any time and the Secretary shall on the requisition of any of the Directors, summon a meeting of the Directors.

(b) The meeting of the Directors may be held fully virtual or hybrid at more than one venue using any technology or method. A member of the Board or any invitees may participate in the meeting by means of a telephone conference, or any other audio, or audio visual, or communication means which allows all persons participating in the meeting to hear and speak with each other and such Director or person shall be regarded for all purposes as personally attended such a meeting and such Director shall be counted in a quorum and be entitled to vote on the resolutions tabled at the meeting

Clause 115 – Votes by majority and Chairman to have a casting vote

Subject to this Constitution, any question arising at any meeting of Directors shall be decided by a majority of votes of the Directors present and a determination by a majority of Directors shall for all purposes be deemed a determination of the Directors. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote except where at the meeting only 2 Directors form a quorum and only such a quorum is present at the meeting or only 2 Directors are competent to vote on the question at issue.

Clause 117 – Disclosure of interest

Every Director shall comply with the provisions of Sections 219 and 221 of the Act in connection with the disclosure of his shareholding and interests in the Company and his interest in any contract or proposed contract with the Company and in connection with the disclosure, every Director shall state the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly, duties or interests might be created in conflict with his duty or interest as a Director of the Company. A general notice in writing, which complies with Section 221(4) of the Act or its equivalent, given to the Board by any Director shall be deemed to be a sufficient declaration of interest in relation to the subject matter of the notice.

Clause 118 – Restriction on voting

Subject to the Act, a Director shall not participate in any discussion or vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest and if he shall do so his vote shall not be counted. A Director shall, notwithstanding his interest, be counted in the quorum for any meeting where a decision is to be taken upon any contract or proposed contract or arrangement in which he is in any way interested.

Clause 119 – Power to vote

A Director may vote in respect of:

(i) any arrangement for giving the Director himself or any other Directors any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company;

(ii) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part, under a guarantee or indemnity or by the deposit of security;

(iii) any contract by a Director to subscribe for or underwrite shares or debentures of the Company; or

(iv) any contract or arrangement with any other company in which he is interested only as an officer of the Company or as a holder of shares or other securities in that company.

Clause 121 – Alternate Directors

(a) A Director may appoint any other person approved by a majority of the Board of Directors to act as his alternate provided that any fee paid by the Company to the alternate shall be deducted from that Director's remuneration. The Alternate Director shall not be required to hold any shares in the Company but shall be entitled to receive notices of all meetings and to attend, speak and vote, and be counted for the quorum, and generally to exercise all powers, rights, duties and authorities of the Director appointing him, at any such meeting at which the Director appointing him is not present. For the avoidance of doubt, an Alternate Director may not vote nor attend any meeting at which the Director appointing him is present. Any appointment so made may be revoked at any time by the appointor or by a majority of the Directors, and any appointment or revocation under this Constitution shall be effected by notice in writing to be delivered to the Secretary of the Company. An Alternate Director shall ipso facto cease to be an Alternate Director if his appointor for any reason ceases to be a Director.

(b) No Director may act as an Alternate Director, and a person may not act as an Alternate Director for more than 1 Director.

(c) If any Director retires by rotation and is re-elected by the meeting or is, pursuant to this Constitution, deemed to be re-elected at the meeting at which such retirement took effect, any appointment made by him of an Alternate Director which was in force immediately prior to the appointor's retirement shall continue to operate after such re-election as if the appointor had not so retired.

(d) Every person acting as an Alternate Director shall be an officer of the Company and shall alone be responsible to the Company for his own acts and defaults and he shall not be deemed to be the agent of or for the Director appointing him.

Clause 125 – Power of Directors to appoint committees

The Directors may establish any committees (including, without limitation, a management committee), local boards or agencies comprising 2 or more persons for managing any other affairs of the Company either in Malaysia or elsewhere, and may lay down, vary or annul such rules and regulations as they may think fit for the conduct of the business thereof, and may appoint any person or persons to be the member or members of any such committee or local board or agency and may fix their remuneration and may delegate to any such committee or local board or agency any of the powers, authorities and discretion vested in the Directors, with power to sub-delegate, and may authorise the member or members of any such committee or local board or agency or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be made upon such terms and subject to such conditions as the Directors may think fit, and the Directors may remove any person so appointed, and may annul or vary any such delegation, but no persons dealing in good faith and without notice of any such annulment or variation shall be affected thereby. The regulations herein contained for the proceedings of Directors shall so far as not altered by any regulations made by the Directors apply also to the meetings and proceedings of any committee.

(ii) Changes to share capital

Clause 5 – Class of shares

The share capital of the Company is its issued share capital. The shares in the original or any increased capital may be divided into several classes, and there may be attached thereto respectively any preferential, deferred and/or other special rights, privileges, conditions and/or restrictions as to dividends, capital, voting and/or otherwise.

Clause 6 – Allotment of shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to the provisions of this Constitution, the Act, any Applicable Laws, and to the provisions of any resolution of the Company, the Board may issue, allot or grant rights to subscribe for or otherwise dispose of such shares to such persons at such price, on such terms and conditions, with such preferred, deferred or other special rights and subject to such restrictions and at such times as the Board may determine but the Board in making any issue of shares shall comply with the following conditions:

(i) in the case of shares, other than ordinary shares, no special rights shall be attached until the same has been expressed in this Constitution and in the resolution creating the same;

(ii) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the Members in general meetings;

(iii) no Director shall participate in a scheme that involves a new issuance of shares or options unless the Members in a general meeting have approved the specific allotment to be made to such Director; and

(iv) except in the case of an issue of Securities on a pro-rata basis to all Members, or, pursuant to a back-to-back placement or a Dividend Reinvestment Scheme undertaken in compliance with the Listing Requirements, there shall be no issuance and allotment of Securities to a Director, major shareholder, chief executive or person connected with any Director, major shareholder or chief executive (hereinafter referred to as the "interested Director", "interested major shareholder", "interested chief executive" or "interested person connected with a Director, major shareholder or chief executive" respectively) unless the Members in a general meeting have approved of the specific allotment to be made to such aforesaid interested Director, interested major shareholder, interested chief executive or interested person connected with a Director, major shareholder or chief executive, as the case may be. In this Constitution, "major shareholder", "chief executive", "person connected with any Director, major shareholder or chief executive" and "Dividend Reinvestment Scheme" shall have the meaning ascribed thereto in the Listing Requirements.

Clause 9 – Variation of class rights

Subject to Section 91 of the Act, if at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with:

(i) the consent in writing of the holders of not less than 75% of the total voting rights of the Members in that class; or

(ii) the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of this Constitution relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be at least 2 persons holding at least one-third of the number of the issued shares of the class excluding any shares of that class held as treasury shares and that any holder of shares of the class present in person or by proxy may demand a poll and shall be entitled on a poll to one vote for every such share held by him. For adjourned meetings, the quorum is 1 person present holding shares of such class. To every such special resolution, the provisions of Section 292 of the Act shall with such adaptations as are necessary, apply.

Clause 54 – Power to increase capital

The Company in a general meeting may from time to time, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital, voting or otherwise as the general meeting resolving upon such increase may direct.

Clause 57 – Power to alter capital

Subject to the provisions of this Constitution and the Act, the Company may by special resolution:

(i) 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;

(ii) convert all or any of its paid-up shares into stock and reconvert that stock into fully-paid shares; or

(iii) subdivide its shares or any of its shares, such that whatever is in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived.

Clause 58 – Power to reduce capital

The Company may by special resolution, reduce its share capital in any manner permitted or authorised under and in compliance with the Act and the Applicable Laws.

Clause 59 – Purchase by the Company of its own Shares

The Company may, subject to it obtaining such approval from the relevant authorities (if required) and to its compliance with the Act, the Listing Requirements and the Applicable Laws, purchase its own shares. Any shares so purchased by the Company shall be dealt with in accordance with the Act, the Listing Requirements and all Applicable Laws. The provisions of Clause 57 and Clause 58 herein above shall not affect the power of the Company to cancel any shares or reduce its share capital pursuant to any exercise of the Company's powers under this Constitution.

(iii) Transfer of securities

Clause 30 – Transfers of Securities

The transfer of any Deposited Securities shall be made by way of book entry by the Central Depository in accordance with the Rules and, notwithstanding Sections 105, 106 and 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 such Deposited Securities.

(iv) Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights

As at the date of this Prospectus, we only have 1 class of shares, being ordinary shares, all of which rank equally with each other. There are no special rights attached to our Shares. Please refer to Section 4.1 of this Prospectus for a summary of the rights of our shareholders relating to voting, dividend and liquidation in respect of our Shares.

15.2 SHARE CAPITAL

15.2.1 No Shares will be allotted, issued or offered on the basis of this Prospectus later than 6 months after the date of the issue of this Prospectus.

15.2.2 There is no founder, management or deferred shares in our Company. As at the date of this Prospectus, we have only 1 class of shares in our Company, namely ordinary shares, all of which rank equally with one another.

15.2.3 None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under option.

15.2.4 Save as disclosed in Sections 6.2 and 6.3 of this Prospectus, no shares, debentures, warrants, options, convertible securities or uncalled capital of our Company and our subsidiary have been issued or are proposed to be issued as fully or partly paid-up in cash or otherwise, for the Financial Years and Period Under Review and up to the LPD.

15.2.5 Save for 11,000,000 Issue Shares reserved for the Eligible Persons as disclosed in Section 4.1.1(b)(ii) of this Prospectus, to the extent known by our Group,

(i) no person including Directors, Key Senior Management or employees of our Group has been or is entitled to be given or has exercised any option to purchase or subscribe for any shares or debentures, warrants, options, convertible securities or uncalled capital of our Company or our subsidiary; and

(ii) there is currently no other scheme involving our Directors, Key Senior Management or employees of our Group in the capital of our Company or our subsidiary.

15.2.6 As at the date of this Prospectus, we do not have any convertible securities, options, warrants and uncalled capital.

15.3 LIMITATION ON THE RIGHT TO OWN SECURITIES

There is no limitation on the right to own securities, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our Shares imposed by law or by the constituent documents of our Company.

15.4 PUBLIC TAKE-OVERS

During the last financial year and up to the LPD, there were no:

(i) public take-over offers by third parties in respect of our Group's shares; and

(ii) public take-over offers by our Group in respect of other companies' shares.

15.5 EXCHANGE CONTROLS

Our Group has not established any other place of business outside Malaysia and is not subject to governmental laws, decrees, regulations and/or other requirements which may affect repatriation of capital and remittance of profit by or to our Group.

15.6 MATERIAL LITIGATION, CLAIMS AND ARBITRATION

As at LPD, we are not engaged in any material litigation, claims and/or arbitration, either as plaintiff or defendant, which has a material effect on our financial position, and our Directors confirm that there are no proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect our financial position or business.

15.7 MATERIAL CONTRACTS

Save as disclosed below, our Group has not entered into any material contract which is not in the ordinary course of our Group's business within the Financial Years and Period Under Review and up to the LPD:

(i) Sale and purchase agreement dated 19 December 2022 as supplemented by a letter dated 30 December 2022 entered into between Hexatech Engineering (as vendor) and Simosynergy (as purchaser) for the disposal of Lot 7743 at a purchase price of RM4,800,000.00, which was arrived at a willing-buyer willing-seller basis after taking into consideration the market value of Lot 7743 of RM4,800,000.00 as appraised by an independent valuer. As at LPD, the disposal of Lot 7743 has been completed on 14 September 2023 and Lot 7743 has been transferred to Simosynergy on the same date.

(ii) SSA entered into between the Company and the Vendors for the Acquisition of Hexatech Engineering. The foregoing transaction has been completed on 22 November 2023. Please refer to Section 4.1.1(a) of this Prospectus for further details of the foregoing transaction.

(iii) Underwriting Agreement.

15.8 CONSENTS

(i) The written consents of our Principal Adviser, Sponsor, Sole Underwriter, Placement Agent, Company Secretaries, Solicitors, Share Registrar and Issuing House listed in the Corporate Directory of this Prospectus for the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

(ii) The written consent of our Auditors and Reporting Accountants for the inclusion of its name, the Accountants' Report and the Reporting Accountants' letter on the Pro Forma Combined Statements of Financial Position, and all references thereto in the form and context in which they are contained in this Prospectus have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

(iii) The written consent of our IMR for the inclusion of its name, the IMR Report and all references thereto in the form and context in which they are contained in this Prospectus have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

15.9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at our registered office at during normal business hours for a period of 6 months from the date of this Prospectus:

(i) the Constitution of our Company;

(ii) the material contracts as set out in Section 15.7 of this Prospectus;

(iii) the IMR Report prepared by IMR as included in Section 8 of this Prospectus;

(iv) the Reporting Accountants' Report on the Pro Forma Combined Statements of Financial Position as set out in Section 13 of this Prospectus;

(v) the Accountants' Report as set out in Section 14 of this Prospectus;

(vi) the letters of consent as referred to in Section 15.8 of this Prospectus;

(vii) the audited financial statements of HE Group for the financial period from 2 May 2023 (date of incorporation) to 31 August 2023; and

(viii) the audited financial statements of Hexatech Engineering for the Financial Years and Period Under Review.

15.10 RESPONSIBILITY STATEMENTS

(i) Our Directors, Promoters and Offerors have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

(ii) AIS as the Principal Adviser, Sponsor, Sole Underwriter and Placement Agent, 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 our IPO.

16. 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.

16.1 OPENING AND CLOSING OF APPLICATIONS

OPENING OF THE APPLICATION PERIOD	:	10.00 A.M., 12 January 2024
CLOSING OF THE APPLICATION PERIOD	:	5.00 P.M., 18 January 2024

Applications for the IPO Shares will be open and close at the dates stated above.

In the event of any change to the dates stated above, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia, and make an announcement on Bursa Securities' website.

Late Applications will not be accepted.

16.2 METHODS OF APPLICATIONS

16.2.1 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.

Types of Application and category of investors	Application method
Applications by the Malaysian Public:	
(a) Individuals	**WHITE** Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	**WHITE** Application Form only
Applications by the Eligible Persons	**PINK** Application Form only

16.2.2 Application by selected investors via private placement

Types of Application	Application method
Applications by:	
(a) Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.

Selected investors may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

16.3 ELIGIBILITY

16.3.1 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.

16.3.2 Applications by Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

(i) You must be one of the following:

(a) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

(b) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(ii) You must not be a director or employee of our Issuing House or an immediate family member of a director or employee of Issuing House; and

(iii) You must submit Applications by using only one of the following methods:

(a) White Application Form;

(b) Electronic Share Application; or

(c) Internet Share Application.

16.3.3 Application by Eligible Persons

The Eligible Persons 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 Issue Shares. The Eligible Persons must follow the notes and instructions in the said document and where relevant, in this 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, Issuing House, AIS, participating organisations of Bursa Securities and Members of the Association of Banks in Malaysia or Malaysian Investment Banking Association.

16.4 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 RM0.28 for each IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 755"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd
(Registration No. 197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(ii) **DELIVERED BY HAND AND DEPOSITED** in the drop-in boxes provided at 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 18 January 2024 or by such other time and date specified in any change to the date and 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 Forms to our Issuing House.

16.5 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, 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.

16.6 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, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad and Public 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.

16.7 AUTHORITY OF OUR BOARD AND ISSUING HOUSE

The Issuing House on the authority of our Board reserves the right to:

(i) reject Applications which:

  (a) do not conform to the instructions of this Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

  (b) are illegible, incomplete or inaccurate; or

  (c) are accompanied by an improperly drawn up, or improper form of, remittance; or

(ii) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(iii) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 16.9 of this Prospectus.

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 any time 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.

16.8 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 at 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 or any share of revenue or benefits arising therefrom) and if such monies are not returned in full within 14 days after our Company becomes liable to do so, the provision of Section 243(2) of the CMSA shall apply accordingly.

In the event of an under-subscription of our IPO Shares, subject to the underwriting arrangements and reallocation as set out in Section 4.1.1(b) of our Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by the Underwriters based on the terms of the Underwriting Agreement.

16.9 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.

16.9.1 For applications by way of Application Forms

(i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.

(ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by our Issuing House as per items (i) and (ii) above (as the case may be).

(iv) 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 registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

16.9.2 For applications by way of Electronic Share Applications and Internet Share Applications

(i) 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.

(ii) You may check your account on the 5th Market Day from the balloting date.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by 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 or Internet 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 or Internet 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.

16.10 SUCCESSFUL APPLICANTS

If you are successful in your Application:

(i) our IPO Shares allotted to you will be credited into your CDS account.

(ii) a notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(iii) in accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as prescribed securities. As such, our Issue Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(iv) In accordance with Section 29 of the SICDA, all dealings in our Issue 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.

16.11 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. +60 3 2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as 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.

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