7. BUSINESS OVERVIEW

7.1 OUR HISTORY

The history of our Group can be traced back to the incorporation of Kawan Dynamic Engineering Sdn Bhd on 2 May 1996 by our co-founder and Managing Director, Lim Thou Lai, as well as other shareholders, namely Kam Foong Cheng, Wong Heng Kuan, Chan Fook Kheong and Tan Teik Kian, all of whom subsequently disposed their entire shareholdings and ceased to be shareholders on 12 March 2003, 15 July 2002, 18 October 2018 and 5 December 2018 respectively. Kawan Dynamic Engineering Sdn Bhd subsequently changed its name to Kawan Engineering Sdn Bhd on 10 July 2009.

We commenced business operations in 1996 from our rented factory in Pengkalan 2, Ipoh with the fabrication of non-pressure vessels and tanks. In the same year, we were registered with DOSH as a competent firm for the fabrication and repair of pressure vessels which enabled us to expand our industrial process equipment offerings and capability to include the fabrication and repair of pressure vessels.

As our business continued to expand, we acquired a vacant land measuring 90,499 sq ft in Kawasan Perusahaan IGB in Ipoh in 2004 to construct larger factory space and office building (i.e. Factory 1) to cater for increased orders of pressure vessels and non-pressure vessels and tanks. The construction of Factory 1 was completed in 2006 with a total built-up area of 60,007 sq ft. Subsequently, we relocated our operations to Factory 1 and we ceased the rental of the said factory in Pengkalan 2, Ipoh.

With our experience in the fabrication of process equipment, our service offerings expanded to include process plants fabrication and integration, when we secured one of our earliest turnkey process plant projects in 2006 for a biodiesel and phytonutrient plant in Malaysia. Following that and over the years, we continuously grew our service offering for process plants and focuses within the specialty of food processing, oleochemical and chemical processing, oil and gas, waste recovery and power plant.

In 2008, we were registered with the ASME, a non-profit membership organisation based in the USA that develops codes and standards pertaining to mechanical engineering which are globally recognised, and became an authorised user of the ASME U stamp. With that, our Group is certified to use the ASME U stamp for pressure vessels and heat exchangers with design pressure of between 15 PSIG to 3,000 PSIG manufactured by our Group. The ASME U stamp indicates that the quality of our pressure vessels and heat exchangers are in compliance with internationally recognised standards and the ASME U stamp is required by our customers for pressure vessels and heat exchangers that will be delivered inside and outside Malaysia.

Within the same year, we also obtained ISO 9001:2005 quality management systems for the design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment.

Further, we were registered with DOSH as a competent firm for the fabrication and repair of steam boilers which enabled us to expand our range of industrial process equipment to include the fabrication and repair of steam boilers.

In line with our continued expansion of our industrial process capabilities, in 2008, we began to design and manufacture boilers and heaters.

7. BUSINESS OVERVIEW *(Cont'd)*

In 2009, we acquired a vacant land measuring 91,999 sq ft, also in Kawasan Perusahaan IGB in Ipoh to construct another factory (including a small office space) to expand our fabrication area and to provide us with more storage space to house semi-finished and finished products (i.e. Factory 2). The construction of Factory 2 was completed in 2012 with a total built-up area of 63,825 sq ft.

In 2010, we were registered with The National Board of Boiler & Pressure Vessel Inspectors, an association based in the USA that oversees adherence to laws, rules, and regulations relating to boilers and pressure vessels and became an authorised user of the National Board mark (NB mark) for our pressure vessels manufactured in accordance with ASME U stamp. The NB mark allows items manufactured in accordance with the respective ASME stamps to be registered with The National Board of Boiler & Pressure Vessel Inspectors which is required by our customers for products that will be exported to USA and Canada.

In 2011, we became an authorised user of the ASME S stamp and ASME H stamp for power boilers and heating boilers respectively. The ASME S stamp and ASME H stamp respectively indicates that the quality of our power boilers and heating boilers are in compliance with internationally recognised standards, and the ASME S and H stamps are required by our customers for power boilers and heating boilers that will be delivered inside and outside Malaysia.

In 2017, we also became an authorised user of the NB mark from The National Board of Boiler & Pressure Vessel Inspectors for our boilers manufactured in accordance with ASME S and H stamps for customers in USA and Canada.

In 2020, we became an authorised user of the R stamp from The National Board of Boiler & Pressure Vessel Inspectors for repair and alteration of boilers and pressure vessels carried out by our Group, and indicates that the quality of our repair and alteration of boilers and pressure vessels comply with internationally recognised standards. In the same year, we began offering our design and fabrication of industrial process equipment services for renewable energy and co-generation plants, for which we carry out the fabrication works in all our factories. As the working principles behind the engineering of industrial process equipment across various industries are similar, such as boilers and heat exchangers, throughout the years of experience in the fabrication of various industrial process equipment, our Group acquired the knowledge/know-how on fabricating industrial process equipment for power and co-generation plants.

In November 2021, we entered into a shares transfer and sales agreement to acquire Magenko Group, which is an IPP, with the intention to venture into the power generation and sale of electricity business. Please refer to Section 6.5 for further details of shares transfer and sales agreement. Pending the completion of the acquisition, we took over certain functions of operations of Magenko Group in November 2021 by assigning an operating manager to supervise the operations of Magenko Ipoh, being the operations of the landfill biogas power plant (i.e. Bercham Plant) including its expenses, repair and maintenance, which allowed us to better assess the condition of the operations before fully taking over upon the completion of the acquisition on 1 August 2022, and the consolidation of financial statements with Magenko Group took place after the completion of the acquisition. Through this acquisition, we began our power generation and sale of electricity business with an installed capacity of 1.2MW and a net export capacity of 1MW through Bercham Plant located in Ipoh (i.e. Bercham Landfill). Further details are as set out in Section 7.2.1.2.

7. BUSINESS OVERVIEW *(Cont'd)*

In 2022, we acquired another factory in Kawasan Perusahaan IGB in Ipoh (i.e. Factory 3) with a total build-up area of 42,560 sq ft, on a land measuring 130,265 sq ft in which Factory 3 is presently used as factory and storage. Moving forward, as one of our future business expansion plans, part of the existing land in Factory 3 which is currently unused will be used to construct a new 2MW biomass power plant as disclosed in Section 7.16.2. In the same year, we began offering our design, fabrication, installation and commissioning of renewable energy and co-generation plants services through Kawan Engineering.

Furthermore, in April 2022, our Group incorporated Kawan Green to manage our design, fabrication, installation and commissioning of renewable energy and co-generation plants business. Since then, our design, fabrication, installation and commissioning of renewable energy and co-generation plants services were offered through Kawan Green. In November 2022, Kawan Green obtained the MyHIJAU Mark from Malaysian Green Technology and Climate Change Corporation which certifies us to use the MyHIJAU Mark for our design, fabrication, installation and commissioning of renewable energy and co-generation plants business. The MyHIJAU Mark indicates that our renewable energy and co-generation plants are in compliance with global environmental standards recognised by the Malaysian Green Technology and Climate Change Corporation mainly reduction in the greenhouse gas emissions which enables Kawan Green to enjoy a 3 years income tax exemption of 70% on statutory income derived therefrom from the issuance of the first invoice. As at LPD, Kawan Green has not issued any invoice for design, fabrication, installation and commissioning of renewable energy and co-generation plants.

Moreover, through Kawan Engineering, we were recognised as a local manufacturer or assembler (LMA) under the Sustainable Energy Development Authority (SEDA) for the fabrication and assembly of boilers in biomass plants in 2022. With this recognition, customers that use our boilers in their biomass plants to generate electricity for sale are eligible for an additional bonus rate of RM0.05/kWh on top of their basic tariff.

In 2023, we became an authorised user of the ASME U2 stamp, which is akin to the ASME U stamp, for pressure vessels and heat exchangers with higher design pressure between 3,001 PSIG and 10,000 PSIG. In the same year, we obtained ISO 14001:2015 environmental management systems and ISO 45001:2018 occupational health and safety management systems for the design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment.

7.1.1 Key achievements / Milestones

Our key achievements / milestones are as follows:

Year	Key achievements / Milestones
1996	• Commenced business operations with the fabrication of non-pressure vessels and tanks • Registered with DOSH as a competent firm for the fabrication and repair of pressure vessels and thus, began fabrication and repair of pressure vessels offering
2004	• Acquired a vacant land in Kawasan Perusahaan IGB in Ipoh for the construction of Factory 1
2006	• Completion of construction for Factory 1 • Secured one of our earliest turnkey process plant projects for a biodiesel and phytonutrient plant in Malaysia

7. BUSINESS OVERVIEW *(Cont'd)*

Year	Key achievements / Milestones
2008	• Became an authorised user of ASME U stamp for pressure vessels and heat exchangers with design pressure of between 15 PSIG to 3,000 PSIG manufactured by our Group • Obtained ISO 9001:2005 quality management systems for the design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment • Registered with DOSH as a competent firm for the fabrication and repair of steam boilers and thus, began our fabrication and repair of steam boilers offering • Began our design and manufacture of boilers and heaters offering
2009	• Acquired a vacant land for the construction of Factory 2
2010	• Became an authorised user of the NB mark for our pressure vessels manufactured in accordance with ASME U stamp
2011	• Became an authorised user of the ASME S stamp and ASME H stamp for power boilers and heating boilers, respectively
2012	• Completion of construction of Factory 2
2017	• Became an authorised user of the NB mark for our boilers manufactured in accordance with ASME S and H stamps
2020	• Became an authorised user of the R stamp from The National Board of Boiler & Pressure Vessel Inspectors for repair and alteration of boilers and pressure vessels • Began offering our design and fabrication of industrial process equipment services for renewable energy and co-generation plants
2022	• Began our power generation and sale of electricity business through the acquisition of Magenko Group, with an installed capacity of 1.2MW and a net export capacity of 1MW through Bercham Plant located in Bercham Landfill • Acquired Factory 3 in Kawasan Perusahaan IGB in Ipoh • Began offering our design, fabrication, installation and commissioning of renewable energy and co-generation plants services • Obtained the MyHIJAU Mark from Malaysian Green Technology and Climate Change Corporation for our design, fabrication, installation and commissioning of renewable energy and co-generation plants business • Recognised as an LMA under SEDA for the fabrication and assembly of boilers in biomass plants
2023	• Became an authorised user of the ASME U2 stamp for pressure vessels and heat exchangers with design pressure between 3,001 PSIG and 10,000 PSIG • Obtained ISO 14001:2015 environmental management systems for the design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment • Obtained ISO 45001:2018 occupational health and safety management systems for the design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment

7. BUSINESS OVERVIEW *(Cont'd)*

7.2 DESCRIPTION OF OUR BUSINESS

7.2.1 Business activities

We are an engineering solutions provider, principally involved in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants ("**design, fabrication, installation and/or commissioning solutions**"). As an engineering solutions provider, our solutions encompass our Group's technical capability to analyse our customer's need and proactively propose suitable design solutions which are customised to meet our customers' engineering requirements. In addition to proposing design solutions, our Group's solutions also include the capability to provide in-house fabrication, installation and/or commissioning of the industrial process equipment, process plants as well as renewable energy and co-generation plants. Our business activities are further elaborated in Section 7.2.1.1. Apart from our principal business activities disclosed, we are also involved in power generation and sale of electricity through the acquisition of Magenko Group on 1 August 2022. Further details are as set out in Section 7.1.

The details of each of our business activities are described in the following sections:

7.2.1.1 Design, fabrication, installation and/or commissioning solutions

(a) Design and fabrication of industrial process equipment

We design and fabricate industrial process equipment that are used to facilitate and/or support industrial production and processing (e.g. food processing, oleochemical and chemical processing, oil and gas, waste recovery and utilities) as well as power plant (e.g. power generation and co-generation). The industrial process equipment that we design and fabricate comprise heat exchangers, pressure vessels as well as boilers and heaters. Please refer to Section 7.2.2 for further details of our product offerings. Our industrial process equipment is fabricated and sold as standalone equipment to our customers for installation into their production and processing operations.

We design and fabricate customised industrial process equipment based on our customer's specifications and requirements. Our design process involves understanding our customer's industrial process requirements and budget, followed by designing and proposing suitable industrial process equipment design to our customers which comprise detailed engineering drawings and technical descriptions, which are carried out by our engineers. We carry out in-house fabrication of industrial process equipment according to our engineering drawings and technical descriptions. The fabrication of heat exchangers, pressure vessels as well as boilers and heaters are carried out at our factories in Kawasan Perusahaan IGB in Ipoh. We deliver the finished product to our customers and our customers will carry out the installation. The duration required for design and fabrication of industrial process equipment typically takes approximately 3 months to 6 months.

Our industrial process equipment can be used across various industries for similar applications or processes. For example, heat exchangers are used to transfer heat from one medium to another. The heat exchangers which we offer can be used for various industrial applications that require heat transfer such as oil and gas refining, oleochemical and chemicals processing, waste recovery, food manufacturing and fermentation, power generation, incineration as well as for heat, ventilation and air conditioning ("**HVAC**") system.

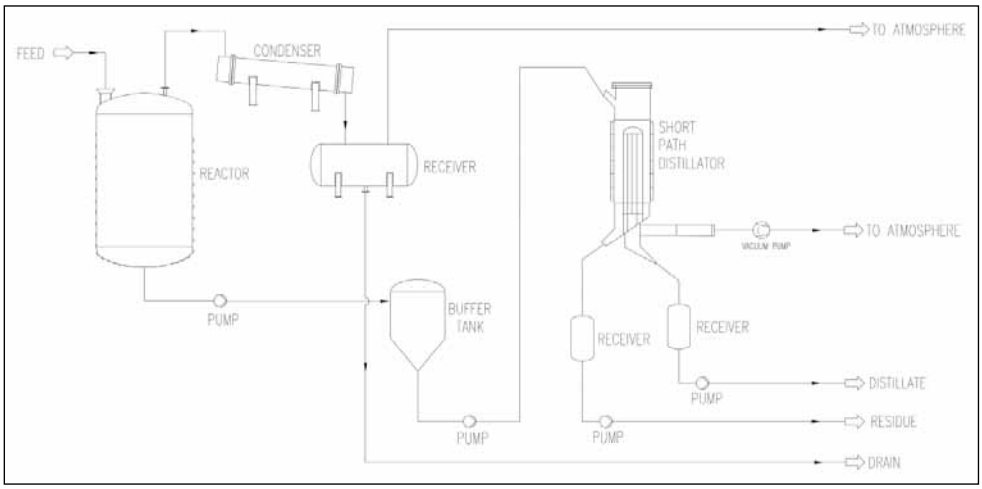
7. BUSINESS OVERVIEW *(Cont'd)*

Notwithstanding this, the design and specifications of the heat exchangers need to be customised in order to adapt to our customer's process plant as our customers have their own process requirements, and different industrial applications may require heat exchangers of different specifications to transfer the desired amount of heat. As such, the industrial process equipment which we offer are not standard products and are typically customised to our customer's needs. Our customers for industrial process equipment comprise EPCC contractors (i.e. companies that are involved in managing and overseeing the process of EPCC of process plants directly with industrial end-users) and industrial end-users (e.g. manufacturers and plant owners). We act as a subcontractor to EPCC contractors; or we sell our products directly to industrial end-users who are involved in food processing (e.g. food emulsifier production as well as edible oil and palm phytonutrient extraction), oleochemical and chemical processing (e.g. palm biodiesel, biolubricants, fatty acids and industrial esters), oil and gas (e.g. oil and gas refinery), waste recovery and utilities as well as power plant (e.g. co-generation and power generation).

(b) Design, fabrication, installation and commissioning of process plants

We design, fabricate, install and commission process plants that are used to facilitate and/or support industrial production and processing. This comprises the integration of multiple industrial process equipment to form a process plant. Our offering of process plants focuses within the area of food processing, oleochemical and chemical processing and waste recovery. Please refer to Section 7.2.2 for further details of our process plant offerings.

For illustration purposes, the following diagram of an example of an oleochemical process plant for inter-esterification of fatty acid and glycerol.



The main industrial process equipment which make up the oleochemical process plant for inter-esterification of fatty acid and glycerol are reactor and short path distillator, which are pressure vessels; condenser, which is a heat exchanger; as well as tanks comprising receivers and buffer tank. The pressure vessels, heat exchanger and tanks are manufactured by our Group. The oleochemical process plant also comprises auxiliary equipment, in which the main auxiliary equipment are pumps and vacuum pump. The pumps and vacuum pump are sourced from third party manufacturers.

7. BUSINESS OVERVIEW *(Cont'd)*

We are involved in the design of the oleochemical process plant as well as the integration of the industrial process equipment which are fabricated by our Group and auxiliary equipment sourced from third party manufacturers, together with piping and control system to form the oleochemical process plant. Each of the industrial process equipment in the oleochemical process plant plays a pivotal role in ensuring that all the processes required for the inter-esterification of fatty acid and glycerol can be executed, and that the final products meet our customer's desired requirements.

We design customised process plants based on our customer's specifications and requirements. Our design process involves understanding our customer's industrial process requirements, followed by designing and proposing suitable process plant designs to our customers which comprise detailed engineering drawings and technical descriptions, which are carried out by our engineers. We carry out in-house fabrication of the individual industrial process equipment and subsequently integrating the multiple equipment to form the process plant, according to our engineering drawings and technical descriptions.

For process plants that comprise auxiliary equipment (e.g. dryers, filters, multiple-effect evaporators, scrubbers, motors, chillers, separators, vacuum pumps, plate heat exchangers and sifters), we will source the equipment from third party manufacturers as we do not fabricate these equipment in-house, and integrate these equipment with the equipment we manufacture to form the process plants. These third party manufacturers may be our panel of suppliers or suppliers appointed by our customers. For process plants, we carry out installation and commissioning for our customers. The duration required for design, fabrication, installation and commissioning of process plants typically takes approximately 12 months to 18 months.

Our customers for industrial process plants comprise EPCC contractors and industrial end-users, who are involved in food processing (e.g. food emulsifier production as well as edible oil and palm phytonutrient extraction), oleochemical and chemical processing (e.g. palm biodiesel, biolubricants, fatty acids and industrial esters) and waste recovery.

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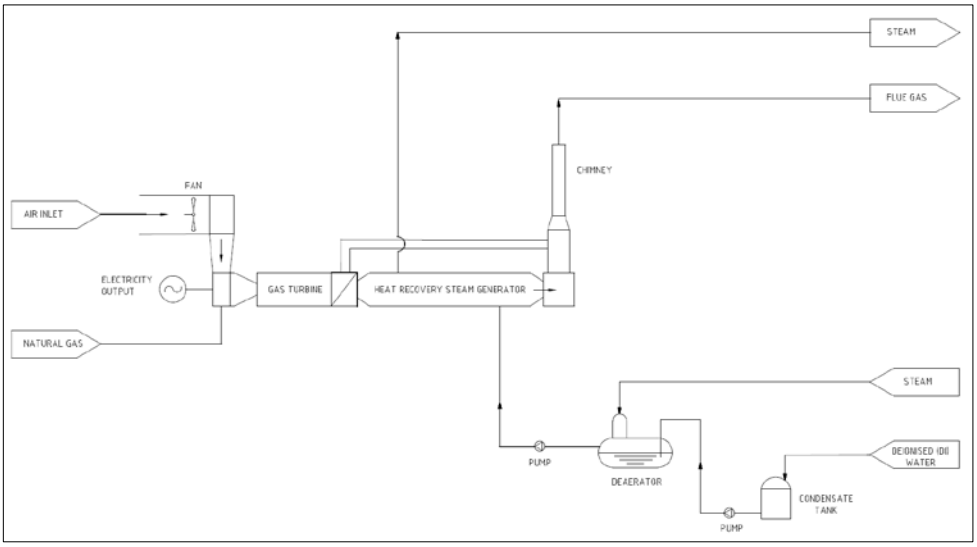
7. BUSINESS OVERVIEW *(Cont'd)*

(c) Design, fabrication, installation and commissioning of renewable energy and co-generation plants

We also design, fabricate, install and commission renewable energy and co-generation plants. This comprises the integration of multiple industrial process equipment to form a renewable energy or co-generation plant. Renewable energy plants generate electricity using renewable resources such as thermal energy (i.e. heat), biogas and biomass, while co-generation plants use fuel such as natural gas to generate electricity and thermal energy. Please refer to Section 7.2.2 for further details of our renewable energy and co-generation plant offerings.

For illustration purposes, the following diagram is an example of a co-generation plant in which this co-generation plant generates electricity using natural gas and captures exhaust heat from the gas turbine to generate thermal output (i.e. steam and hot water) which can be used for heating.



The main industrial process equipment which make up the co-generation plant are gas turbine; heat recovery steam generator and chimney, which are boilers; deaerator, which is a pressure vessel; and condensate tank. The boilers, pressure vessel and condensate tank are fabricated by our Group while the gas turbine is sourced from third party manufacturer. The co-generation plant also comprises auxiliary equipment, in which the main auxiliary equipment are fan and pumps. The fan and pumps are sourced from third party manufacturers.

We are involved in the design of the co-generation plant, and the integration of the industrial process equipment which are fabricated by our Group and sourced from third party manufacturer as well as auxiliary equipment sourced from third party manufacturers, together with piping and control system to form the co-generation plant. Each of the industrial process equipment in the co-generation plant plays a pivotal role in ensuring that all the processes required for co-generation can be executed properly, and that the performance of the co-generation plant meets our customer's desired requirements.

7. BUSINESS OVERVIEW *(Cont'd)*

We design customised renewable energy and co-generation plants based on our customer's specifications and requirements. Our design process involves understanding our customer's renewable energy and co-generation requirements, followed by designing and proposing suitable renewable energy and co-generation plants design to our customers which comprise detailed engineering drawings and technical descriptions, which are carried out by our engineers. We carry out in-house fabrication of the individual industrial process equipment and subsequently integrating the multiple equipment to form the renewable energy and co-generation plant, according to our engineering drawings and technical descriptions.

For renewable energy and co-generation plants that comprise turbines and auxiliary equipment (e.g. smokeless incinerators, dryers, filters, biogas reactors, scrubbers, gasifiers, motors, chillers, separators and plate heat exchangers), we will source the equipment from third party manufacturers as we do not fabricate these equipment in-house, and integrate these equipment with the equipment we manufacture to form the renewable energy and co-generation plants. These third party manufacturers may be our panel of suppliers or suppliers appointed by our customers. We also carry out installation and commissioning for renewable energy and co-generation plants for our customers. The duration required for design, fabrication, installation and commissioning of renewable energy and co-generation plants typically takes approximately 12 months to 18 months.

Our customers for renewable energy and co-generation plants comprise EPCC contractors and industrial end-users, who are involved in renewable energy operations and power plant operations (e.g. co-generation and power generation).

We are registered with CIDB as a G7 contractor, details of which are set out in Section 6.7. As a G7 contractor, we are eligible to tender for projects with contract value over RM10 million within our scope of specialisation. For FYE 2020 to 2023, we have undertaken 7 projects with contract values over RM10 million each, which collectively contributed 23.6%, 15.2%, 26.4% and 34.4% of our Group's total revenue, respectively. To the extent of the contribution of such projects, our Group is dependent on our G7 certificate to generate revenue for process plants and renewable energy and co-generation plants. However, our Group has been and will still able to secure other customers and projects of other nature without the G7 certification.

In addition to the provision of design, fabrication, installation and/or commissioning solutions, we also provide repair and maintenance services which include the replacement of spare parts and components as well as general upkeep of the industrial process equipment fabricated by our Group as well as by other fabricators. Generally, our repair and maintenance services are provided under warranty to customers who engage us for design, fabrication, installation and/or commissioning solutions. We also provide repair and maintenance services as and when required by our customers on purchase order basis (i.e. after expiration of warranty period or to customers who have not engaged us for design, fabrication, installation and/or commissioning solutions), however this revenue was minimal which represented less than 0.1% of our revenue over FYE 2020 to 2023.

For repair and maintenance services which are covered under warranty, the cost will be borne by our Group. Further details on our warranty are as set out in Section 7.2.6.

7. BUSINESS OVERVIEW *(Cont'd)*

7.2.1.2 Power generation and sale of electricity

Apart from our principal business activities disclosed above, we are also involved in the operations of power generation through Bercham Plant located at Bercham Landfill. We acquired the business in 2022 through the acquisition of Magenko Group, which Bercham Plant began operations in 2016. Bercham Plant has an installed capacity of 1.2MW and a net export capacity of 1MW, and is operating under the FiT mechanism. Under the FiT mechanism, we are allowed to sell the electricity produced from our plant to the distribution licensee at a predetermined rate of RM0.3880/kWh until 2032. In addition, the total FiT that Magenko Ipoh is entitled to receive in each year during the effective period, as specified in the Feed-In Approval, is limited to the total FiT payable to Magenko Ipoh based on the renewable energy generated up to the declared annual availability of the particular year. Since the commissioning of Bercham Plant in 2016, all the electricity generated have been sold to the distribution licensee.

The Bercham Plant is a turnkey agreement with IYO Alam Sekitar Sdn Bhd ("**IYO**"), entered in 2011 by Magenko Ipoh, to carry out a methane capture and flaring project as well as power generation project (i.e. the development and operation of Bercham Plant), in which Magenko Ipoh is responsible to design, develop, finance, construct, equip, manage, operate and maintain Bercham Plant at Bercham Landfill ("**Turnkey Agreement**").

Through the Turnkey Agreement, Magenko Ipoh holds the Feed-In Approval for the FiT quota from SEDA and is also the licence holder for the generation and supply of electricity issued by EC. The Feed-In Approval is valid for a period of 16 years from the FiT commencement date (i.e. 20 July 2016). As the Feed-In Approval holder, Magenko Ipoh is regulated by the REA 2011. Please refer to Sections 6.7 and 6.10 for further details of the REA 2011 and the compliance status with our Feed-In Approval.

In June 2013, Magenko Ipoh had entered into a REPPA with a distribution licensee pursuant to Section 12(1) of the REA 2011. Pursuant to the Turnkey Agreement, IYO is entitled to 10% of the revenue derived from the sale of power generated by Bercham Plant.

As Bercham Plant is erected on a piece of State land, IYO is responsible for obtaining the TOL from the Perak State Authority for the use of the said land. IYO had obtained a TOL which was valid for a period of 1 year commencing from 1 January 2023 to 31 December 2023. On 7 February 2024, IYO submitted the application for the renewal of the TOL for year 2024. The District and Land Office of Kinta, Ipoh had vide letter dated 7 March 2024 acknowledged receipt of the said application and as at LPD, it is pending the issuance of the renewed TOL. Our Board is of the view that the non-renewal of the TOL is remote as Magenko Ipoh has obtained Feed-In Approval for the FiT quota from SEDA. Magenko Ipoh is also a licence holder for the generation and supply of electricity issued by EC and has also entered into REPPA with a distribution licensee to sell electricity to the distribution licensee up to 2032. In addition, the District and Land Office of Kinta, Ipoh had vide a further letter dated 26 March 2024 informed that (i) the renewal application is still in progress; (ii) no penalty will be imposed for the late submission of the renewal application; and (iii) our Group is allowed to operate the Bercham Plant pending issuance of the renewed TOL.

7. BUSINESS OVERVIEW *(Cont'd)*

Bercham Plant is a biogas plant that operates by capturing and converting the methane gas released from the decomposition of organic waste in the Bercham Landfill, for the generation of electricity. Underneath the landfill contains organic waste such as municipal solid waste which decomposes in an oxygen-free environment, producing mainly methane gas as a byproduct. The methane gas is collected through a collection system comprising a network of wells drilled into the landfill which is connected to a piping system that channels the captured methane gas into a generator set of the plant. The methane gas will be burned as fuel for the generation of electricity.

As at LPD, the Bercham Plant FiT has a remaining effective period of approximately 8 years. Further details on our future plan to construct a new biomass power plant are as set out in Section 7.16.

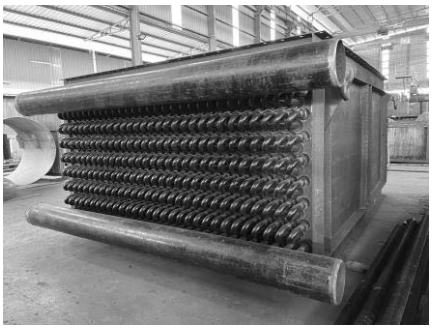
7.2.2 Our products and services

(a) Industrial process equipment

The industrial process equipment offered by our Group comprises heat exchangers, pressure vessels as well as boilers and heaters as follows:

Industrial process equipment	Description
(i) Heat exchangers 	Heat exchangers are used to transfer heat from one medium to another. These media may be in the form of gas or liquid, or a combination of both. The media may be separated by a solid wall to prevent mixing or may be in direct contact. Heat exchangers are required to provide heating and/or cooling to meet a process requirement. Heat exchangers are used for industrial applications such as oil and gas refining, oleochemical and chemicals processing, waste recovery, food manufacturing and fermentation, power generation, incineration as well as for HVAC system. Examples of heat exchangers that our Group offers include shell and tube, finned air cooler and heater, thin film evaporator, gas-to-liquid heat exchanger, liquid-to-liquid heat exchanger, economiser and steam condenser.
(ii) Pressure vessels 	A pressure vessel is a closed container or pressurised tanks that are designed to hold gases or liquids at pressures that are substantially higher or lower than the ambient pressure. Pressure vessels are used for industrial applications such as oleochemical and chemicals processing, food and non-food emulsification, food manufacturing and wax manufacturing.

7. BUSINESS OVERVIEW *(Cont'd)*

Industrial process equipment	Description
	Examples of pressure vessels that our Group offers include reactor, column, deaerator, surge vessel, calorifier, steam separator, ammonia vessel, fermenter and sanitary tank.
(iii) Boilers and heaters 	Boilers are used to produce hot water for the purpose of domestic or commercial heating and hot water supply; or to produce steam to power turbines for power generation and various other industrial heating applications. Heaters are used to supply heat to the surrounding liquid to carry out industrial processes. Boilers and heaters are used in industrial applications for heat generation to produce hot water, steam and thermal oil. Examples of boilers and heaters that our Group offers include heat recovery boiler, high pressure boiler, clean steam generator, thermal oil heater, high efficiency condensing steam / hot water boiler and electrical boiler.

(b) Process plants

Our offerings on process plants focuses within the area of food processing, oleochemical and chemical processing and waste recovery. Some examples are as follows:

Process plants	Description
(i) Food processing 	Food processing is the transformation of agricultural products into edible food products through physical, chemical and/or biological processes. Examples of food processing methods are addition of food additives (e.g. food emulsification) and extraction (e.g. edible oil and phytonutrient extraction). Examples of food processing plants that our Group offers include food emulsifier production, edible oil and palm phytonutrient plant, continuous / batch reaction, deglycerination, deodorisation, bleaching, neutralisation and short-path distillation.

7. BUSINESS OVERVIEW *(Cont'd)*

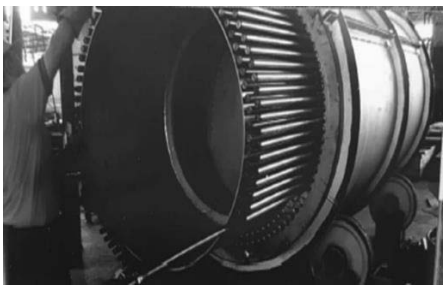
Process plants	Description
(ii) Oleochemical and chemical processing 	Oleochemical production is the process of converting oils and fats into chemical compounds called oleochemicals which can be used as raw materials in many industries. Oleochemical production is part of the downstream segment of the edible oils and fats industry (e.g. oil palm industry). Chemical processing comprises reactions between various chemicals and catalysts to produce various industrial products. Examples of oleochemical and chemical plants that our Group offers include biolubricant, distilled biodiesel, specialty chemicals, animal feeds, calcium soap, palm kernel cake and bio-ethanol.
(iii) Waste recovery 	Waste recovery is the process of converting industrial and agricultural solid, liquid and gas wastes into energy or usable other products by reclaiming particular components or materials from the wastes through mechanical or biological processes. Examples of waste recovery plants that our Group offers exhaust, chimney, dryer, multiple-effect evaporator, biogas reactor and scrubber, spent oil and solvent recovery.

(c) Renewable energy and co-generation plants

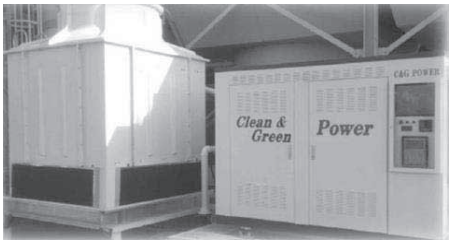
Our offerings on renewable energy and co-generation plants are as follows:

Renewable energy and co-generation plants	Description
(i) Co-generation and tri-generation 	Co-generation power plant uses one source of primary fuel (e.g. natural gas or biomass) to generate electricity and thermal energy in the form of steam, which is used for applications such as space, oil and water heating. Tri-generation power plant uses one source of primary fuel to generate electricity, thermal energy and cool air simultaneously. Cool air is used for applications such as refrigeration and air conditioning.

7. BUSINESS OVERVIEW *(Cont'd)*

Renewable energy and co-generation plants	Description
(ii) Biomass 	Biomass produces electrical energy by burning organic waste such as wood to create heat which turns water into high pressure steam. The high-pressure steam spins the turbines to generate mechanical energy which then activates the generator to create electrical energy.
(iii) Combined cycle 	Combined cycle plant produces electrical energy using natural gas and steam. Natural gas is burned to create heat. Heat spins the gas turbines to generate mechanical energy which then activates the generator to create electrical energy. The waste heat released from the gas turbines is captured to generate steam which is used to generate more electrical energy.
(iv) Biogas / landfill 	Biogas / landfill power plants use methane gas produced by decomposed organic waste and/or wastewater as combustion fuel to spin the turbines to generate mechanical energy which then activates the generator to create electrical energy.
(v) Waste incineration 	Waste incineration power plant produces electrical energy by burning municipal waste or industrial waste to create heat which turns water into high pressure steam. The high-pressure steam spins the turbines to generate mechanical energy which then activates the generator to create electrical energy.

7. BUSINESS OVERVIEW *(Cont'd)*

Renewable energy and co-generation plants	Description
(vi) Organic rankine cycle 	Organic rankine cycle produces electrical energy by using renewable thermal energy such as solar energy or waste heat to turn thermal oil into vapour. The vapour spins the turbines to generate mechanical energy which then activates the generator to create electrical energy.

7.2.4 Our business model

Our Group's business model, by business activities, is as illustrated below:

	Our principal activities	Other business activity
	Design, fabrication, installation and/or commissioning solutions	**Power generation and sale of electricity**
Our engineering solutions	Industrial process equipment: • Heat exchangers • Pressure vessels • Boilers and heaters Process plants: • Food processing • Oleochemical and chemical processing • Waste recovery Renewable energy and co-generation plants: • Co-generation and tri-generation • Biomass • Combined cycle • Biogas / landfill • Waste incineration • Organic rankine cycle	• Sale of electricity to the distribution licensee
Our product application	Examples of applicable industries: • Food processing • Oleochemical and chemical processing • Oil and gas • Waste recovery • Power plant	• Not applicable

7. BUSINESS OVERVIEW *(Cont'd)*

7.2.5 Our operational facilities

Our business operations are based in Malaysia at the following locations:

Facilities	Location	Land area (sq ft)	Built-up area (sq ft)	Function
Factory 1	No. 18, Lebuh Perusahaan Klebang 1, Kawasan Perusahaan IGB, 31200 Ipoh, Perak	90,499	60,007	Headquarter, factory and storage
Factory 2	Lot 181630, Lebuh Perusahaan Klebang 11, Kawasan Perusahaan IGB, 31200 Ipoh, Perak	91,999	63,825	Factory and storage
Factory 3	No. 25, Lebuh Perusahaan Klebang 1, Kawasan Perusahaan IGB, 31200 Ipoh, Perak	130,265	42,560	Factory and storage

Facilities	Location	Land area (sq ft)	Installed capacity (MW)	Function
Bercham Plant	Lot 41293, Batu 8, Jalan Bercham, Tanjung Rambutan, 31250 Bercham, Perak	2,955,232	1.2	Power generation

7.2.6 Warranty

Our Group provides a standard warranty period of 12 months to our customers for our industrial process equipment, process plants, and renewable energy and co-generation plants. For industrial process equipment, save for consumables and wear and tear parts (e.g. gaskets, mechanical seals and bearings) which are not covered under our warranty, the warranty provided to customers encompasses workmanship and material defect.

Process plants and renewable energy and co-generation plants comprise the integration of multiple industrial process equipment to form a set of processes. Save for consumables and wear and tear parts which are not covered under our warranty, the standard warranty for process plants and renewable energy and co-generation plants covers the rectification and/or replacement of faulty parts of the industrial process equipment that make up the process plants and renewable energy and co-generation plants, due to workmanship and material defect.

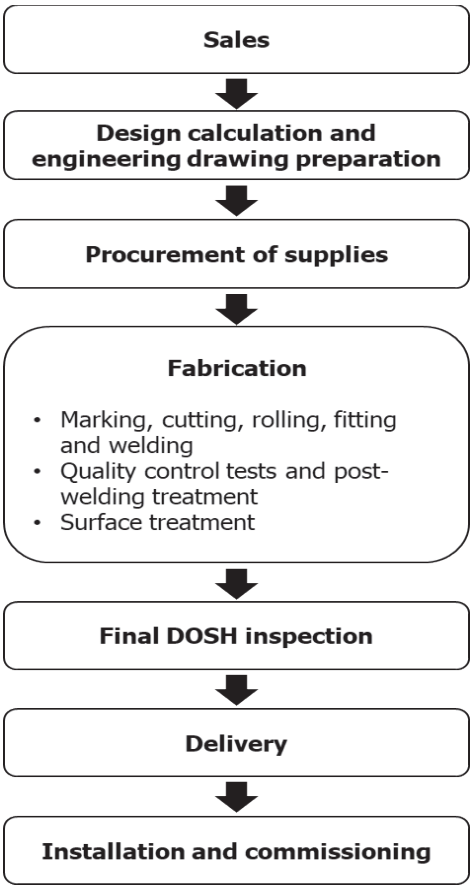
During the warranty period, we will rectify and/or replace faulty parts of industrial process equipment, including the industrial process equipment which make up the process plants and renewable energy and co-generation plants, at our cost.

In FYE 2020 to 2023, we incurred warranty claims from our customers amounting to RM4,040, Nil, RM12,239 and RM83,477 respectively.

7. BUSINESS OVERVIEW *(Cont'd)*

7.3 BUSINESS PROCESSES

The process flow for our Group's business operations is depicted below. As our process plants and renewable energy and co-generation plants comprise the integration of multiple industrial process equipment, the process flow set out below applies to all our engineering solutions, i.e. for our industrial process equipment, process plants, and renewable energy and co-generation plants as well.



(a) Sales

Upon the receipt of enquiry from customer, we will attend to the enquiry to understand the customer's specifications and requirements. We will send a quotation to the customer based on the type of product requested, product requirement, and specification provided. Prior to accepting our quotation, the customer may also request to perform an audit on our operational processes including our licensing and certifications, fabrication facilities and expertise to assess our capability to meet their quality standards. Upon accepting our quotation, the customer will issue a purchase order to our Group. Following which, we will issue an order confirmation to our customer.

7. BUSINESS OVERVIEW *(Cont'd)*

Typically, we will issue the sales invoice to our customer by project milestone basis. The number of project milestones as well as terms of payment differ from project to project, which is negotiated with our customer prior to the issuance of the order confirmation. Typically, the general project milestones comprise order confirmation, design calculation and engineering drawing confirmation, completion of fabrication and testing of industrial process equipment, and delivery of industrial process equipment to our customer's project site. Additional project milestones may be included as and when requested by our customer. We will issue a sales invoice to our customer upon meeting each milestone. In cases where a downpayment is negotiated with our customers, we will collect a downpayment for the purchase order through the issuance of the first sales invoice upon order confirmation.

(b) Design calculation and engineering drawing preparation

Upon consultation with our customers and understanding their product requirements, we will carry out the design calculations and prepare the engineering drawings for pressure vessels, heat exchangers as well as boilers and heaters according to our customer's specifications and in compliance with engineering codes such as ASME codes and DOSH requirements. We will work closely with our customers to identify in detail their requirements and technical specifications when designing the industrial process equipment, process plants, and renewable energy and co-generation plants. The design for boilers may be carried out by our Group or third party boiler design company upon our customer's discretion. There are also circumstances where customers will request for our Group to fabricate the industrial process equipment according to their design calculations and/or engineering drawings.

In addition, we will also prepare an inspection test plan which describes the type of quality control inspections and tests that must be completed before, during and after fabrication to ensure that all quality and safety requirements are met.

To ensure compliance with DOSH's requirements, our design calculations and engineering drawings for heat exchangers, pressure vessels as well as boilers and heaters will be submitted to DOSH for approval. For certain waste recovery equipment such as exhausts and chimneys, we will also submit our design calculations and engineering drawings to the DOE for approval to ensure compliance with the Environmental Quality (Clean Air) Regulations 2014.

Upon request by our customer, we also submit our design calculations and engineering drawings to ASME authorised inspectors for design inspection and approval.

(c) Procurement of supplies

We will identify the raw materials required to carry out fabrication works and source the raw materials based on our customer's product requirements and specifications. We then inspect the incoming raw materials to ensure that there are no defects on the raw materials and it complies with the required specifications as stated in the purchase orders. The raw materials inspection may be carried out in-house or by an ASME authorised inspector upon request by our customer. The raw materials are also required to undergo inspection by DOSH.

We will source the following equipment from third party manufacturers:

(i) For process plants, auxiliary equipment such as dryers, filters, multiple-effect evaporators, scrubbers, motors, chillers, separators, vacuum pumps, plate heat exchangers and sifters; and

(ii) For renewable energy and co-generation plants, turbines and auxiliary equipment such as smokeless incinerators, dryers, filters, biogas reactors, scrubbers, gasifiers, motors, chillers, separators and plate heat exchangers.

These third party manufacturers may be our panel of suppliers or suppliers appointed by our customers. We inspect the equipment received to ensure that the equipment complies with our requirement and is functioning in accordance with the required specification.

(d) Fabrication

(i) Marking, cutting, rolling, fitting and welding

The raw materials will be marked for cutting, rolling, fitting, welding and machining based on the engineering drawings. We will carry out inspection on the markings to ensure that the markings are indicated as per the engineering drawings. If there are discrepancy between the markings and our engineering drawings, the markings will be revised according to the required specifications.

Then, the raw materials will undergo cutting, rolling and machining to shape the metal segments and pieces that form parts of the industrial process equipment. We will inspect the metal segments and pieces to ensure that they fulfil the specifications as per the engineering drawings before we assemble, fit and weld the metal segments and pieces together to form the industrial process equipment.

We will carry out visual inspections and dimensional checks of the industrial process equipment during this stage to ensure that the dimensions of the industrial process equipment are as per the engineering drawings.

We outsource some machining works such as drilling of baffle plate and machining of tube sheet as these machining works are out of our scope of capabilities or due to the shortage of skilled labour.

(ii) Quality control tests and post-welding treatment

Following the welding process, we will inspect the welded areas of the industrial process equipment through visual inspections and NDTs to ensure that the welded areas do not contain any flaws. As and when required, we will engage authorised inspectors to carry out NDTs comprising dye penetrant test, radiography test, ultrasonic test, magnetic particle test, PMI test and hardness test. Please refer to Section 7.13 for further details of our NDTs.

Following the welding inspection, as and when required, the industrial process equipment will undergo post-welding treatment such as heat treatment and stress relief treatment to relieve the residual stresses in the welded areas that were induced during the fabrication process.

As and when required by our customers, the industrial process equipment may be inspected by authorised inspectors appointed by our customer. Upon satisfactory inspections, further testing such as hydrostatic test will be carried out in-house to ensure that there are no leakages in the industrial process equipment, which will be witnessed by DOSH personnel as well as, if required, authorised inspectors and/or our customer.

(iii) Surface treatment

Upon the completion of final quality control inspections and post-welding treatment, the industrial process equipment will undergo the last stage of the fabrication process which is surface treatment. The surface treatment that we carry out in-house are abrasive blasting, spray painting, power brushing, acid pickling, markings, and buffing. As and when required, we will outsource surface treatment works such as hot dipped galvanising, polymer lining or ceramic coating to third party surface treatment service providers.

(e) Final DOSH inspection

After fabrication, the industrial process equipment will undergo final DOSH inspection in accordance with the inspection test plan to ensure compliance with the design calculations and engineering drawings.

(f) Delivery

Following the completion of fabrication works, a certificate of shop inspection and release order will be issued to certify that the industrial process equipment complies with ASME codes as well as the specifications of the engineering plans. Upon request, we will arrange for delivery of the industrial process equipment to our customer's project site. The transportation costs are borne by our customers. Such costs are included in the quotation issued to our customers, and are recorded as part of our cost of sales as we make the necessary arrangements thereafter. Our customers may also opt to arrange for their own transportation for the delivery of the industrial process equipment to their project sites. A tentative delivery date or an agreed delivery date for the industrial process equipment is stated in the order confirmation.

In cases where liquidated and ascertained damages ("**LAD**") terms are negotiated with our customers, the LAD charges will apply based on an agreed delivery date. In such cases, our customers may claim for LAD from our Group in the event of delays on project milestones due to unanticipated internal delays from our Group. LAD terms are included in the purchase order as and when required by our customers. In FYE 2022 and 2023, we incurred LAD charges for late delivery of RM0.1 million from 3 customers and RM0.02 million from 1 customer, respectively. We did not incur any LAD charges for FYE 2020 and 2021.

(g) Installation and commissioning

For process plants and renewable energy and co-generation plants, we will carry out installation and commissioning works for our customers whose sites are in Malaysia. For these customers, we will assemble and install the individual industrial process equipment (i.e. industrial process equipment fabricated in-house and sourced from third party manufacturers) and integrate with piping and control system to form the complete plant. The assembly, installation and integration works will be carried out at our customer's project site.

7. BUSINESS OVERVIEW *(Cont'd)*

Customers whose sites are located overseas will make their own arrangements for the assembly, installation and integration to form the complete plant, and as such, will not require us to carry out these works for them. However, as and when required by our customer, we will appoint our supervisor to be present at our customer's overseas site to supervise the commissioning of the plants.

Upon commissioning, we will ensure that the plant is functioning according to the required specification before handover to our customer.

The duration required for design and fabrication of industrial process equipment typically takes approximately 3 months to 6 months; whereas the duration required for design, fabrication, installation and commissioning of process plants and renewable energy and co-generation plants typically takes approximately 12 months to 18 months.

7.4 PRINCIPAL BUSINESS SEGMENTS AND MARKETS

For FYE 2020 to 2023, our Group's total revenue is mainly derived from the design, fabrication, installation and/or commissioning solutions segment. Our power generation and sale of electricity segment began contributing to our Group's revenue in FYE 2022, but the contribution remain minimal at 0.2% of our Group's total revenue in FYE 2023.

The breakdown of our Group's revenue by principal business activities for FYE 2020 to 2023 is as follows:

Revenue by business segment	**Audited**							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Design, fabrication, installation and/or commissioning solutions								
- Industrial process equipment	30,041	61.5	32,183	50.3	54,344	39.0	48,439	49.2
- Process plants	18,782	38.5	31,858	49.7	43,388	31.2	27,708	28.2
- Renewable energy and co-generation plants	-	-	-	-	41,411	29.8	22,050	22.4
Sub-total	48,823	100.0	64,041	100.0	139,143	100.0	98,197	99.8
Other[(1)]	-	-	-	-	41	<0.1	182	0.2
Total	**48,823**	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**

Note:

(1) Other comprised the sale of electricity revenue from the power generation following the acquisition of Magenko Group in August 2022. Hence, revenue for this business segment was not applicable for the FYE 2020 and 2021.

7. BUSINESS OVERVIEW *(Cont'd)*

The breakdown of our Group's revenue by geographical market is as follows:

Revenue by geographical market[(1)]	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	**42,022**	**86.1**	**60,548**	**94.5**	**122,594**	**88.1**	**80,597**	**81.9**
Overseas								
- Indonesia	1,350	2.8	1,411	2.2	8,533	6.1	1,426	1.5
- Singapore	1,509	3.1	1,447	2.3	7,299	5.2	1,037	1.1
- Japan	3,266	6.7	617	1.0	352	0.3	34	<0.1
- USA	-	-	-	-	39	<0.1	13,312	13.5
- Others[(2)]	676	1.3	18	<0.1	367	0.3	1,973	2.0
	6,801	**13.9**	**3,493**	**5.5**	**16,590**	**11.9**	**17,782**	**18.1**
Total	**48,823**	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**

Notes:

(1) Revenue by the geographical market is based on the place of domicile of our customers. The design and fabrication of our projects will be performed in Malaysia. However, we will purchase the equipment from overseas if we are unable to design and fabricate it. The installation and commissioning works of our projects will be carried out at our customer's project site in Malaysia or overseas.

(2) Others comprise mainly New Zealand, South Africa and Germany.

7.5 SALES AND MARKETING

We actively engage in the following sales and marketing strategies:

(a) Direct approach

We secure new customers through direct approach with potential customers that operate within the industries that our Group currently serves such as food processing, oleochemical and chemical processing, oil and gas, waste recovery, power plant and utilities. Our sales and marketing team also follows up closely with our existing customers to identify opportunities to secure more sales.

(b) Digital marketing

We market our products and services through social media platforms such as LinkedIn and Facebook. We also market our product and services through email marketing where we send newsletters to our customers and subscribers. Through these digital marketing efforts, we are able to present to our customers the latest products and technologies. Our sales and marketing team also follows up closely with existing customers as well as subscribers to identify opportunities to secure more sales.

7. BUSINESS OVERVIEW *(Cont'd)*

(c) Trade fairs, exhibitions, industry networking events and associations

We participate in trade fairs and exhibitions where we are able to introduce our fabrication expertise, capabilities and products to industry players within the manufacturing and engineering-related industries. We also participate in networking events which allow us to meet industry players within the manufacturing and engineering-related industries. Through our participation in trade fairs, exhibitions and networking events, we are able to identify potential new customers, promote our market presence, maintain business relationships with our existing customers as well as gain industry insights and keep abreast with new technologies in the industry.

Due to the movement restrictions imposed during the COVID-19 pandemic, we did not participate in any physical trade fairs and exhibitions in FYE 2020 and 2021. Our participation in trade fairs, exhibitions and industry networking events are as shown below:

Year	Events	Organiser	Location
September 2019	POWERGEN Asia	Clarion Events Pte Ltd	Malaysia International Trade and Exhibition Centre (MITEC), Kuala Lumpur
August 2022	5th International Sustainable Energy Summit 2022	SEDA	Kuala Lumpur Convention Centre

In addition, we are a member of FMM as well as a member of HTRI consortium. FMM is a private organisation based in Malaysia for manufacturers and industrial service companies. FMM provides its members with various benefits including business and networking opportunities as well as industry advice and information. HTRI is a company based in Texas, USA and is principally involved in the provision of process heat transfer technology software and services, as well as research in process heat transfer. Being a member of the FMM allows us to broaden our exposure to industry players within the manufacturing and engineering-related industries and keep abreast with the latest industry trends and market demands, whereas being a member of the HTRI consortium enables us to leverage on their technology and technical knowledge on process heat transfer technology.

(d) Corporate website

We have established our corporate website at *http://www.kawan-renergy.com.my*, as a medium for introducing our Group and our products and services to our potential customers. We understand that the internet is an important advertising medium as the prevalence of the internet as a source of information will potentially enhance our market reach and exposure globally.

7. BUSINESS OVERVIEW *(Cont'd)*

7.6 TECHNOLOGY USED

Our Group uses the following technologies in our operations:

(a) Engineering software

Our Group utilises various software to design our industrial process equipment and process plants such as software for drawings and design such as mechanical calculations, thermal calculations and stress analysis. The software which we use are known as GstarCAD, Autodesk Plant 3D, Autodesk Inventor, HTRI and PV Elite. GstarCAD is used to carry out 2-dimensional drawings of industrial process equipment and process plants. Autodesk Plant 3D and Autodesk Inventor are used to carry out 3-dimensional drawings of industrial process equipment and process plants. HTRI is used to carry out design, rating and/or simulation of heat exchangers whereas PV Elite is used to carry out mechanical calculations, thermal calculations and stress analysis for pressure vessels and heat exchangers. These engineering software enables our engineers to design detailed equipment, parts and components according to our customer's specifications.

(b) Welding technology

Welding is a fabrication process of joining two pieces of metals by fusing to produce a single piece of metal, with or without the use of filler material. The two pieces of metal are joined by the application of intense heat or pressure or both to melt the edges of the metals so that they are able to fuse to form a permanent joint. Our Group uses arc welding such as shielded metal arc welding, submerged arc welding, plasma arc welding and orbital welding, as well as laser welding, in our fabrication works.

In arc welding, an electric arc is created between an electrode and the base material to melt metal at the welding point. The welding point is sometimes protected by inert gas, semi-inert gas or flux (i.e. a mixture of minerals and other chemicals) which protects the welded area from contamination due to oxygen and other atmospheric gases. Filler materials which are metals are sometimes used to fill the small gaps at the welding point. Further details on shielded metal arc welding, submerged arc welding, plasma arc welding and orbital welding are as follows:

(a) Shielded metal arc welding is a welding method that joins metals together using an electrode with a layer of flux coating. When the electrode comes into contact with the metals at the welding point, the layer of flux coating on the electrode breaks down and forms a layer of protective gas.

(b) In submerged arc welding, the welding point of the metals to be welded together are covered in a layer of powdered flux which protects the welded area during welding.

(c) Plasma arc welding is a welding method that uses a plasma torch to form plasma arc to join metals at the welding point. In plasma arc welding, electrode is automatically fed into the nozzle of the plasma torch which is separated from the shielding gas envelope, to generate concentrated plasma arc to form high quality welds.

7. BUSINESS OVERVIEW *(Cont'd)*

(d) Orbital welding is a type of automated welding technology use in connecting pipes or tubes. In orbital welding, electrode will be loaded into automated welding machine to form welding arc, whereby the welding arc will rotate around the welding point of the static metal (i.e. pipes and tube).

Laser welding is a fusion joining process that joins metals using the heat obtained from impinging a concentrated beam of laser onto the welding area.

7.7 INTERRUPTIONS TO BUSINESS

Save for the temporary disruptions to our operations arising from the COVID-19 pandemic as detailed below, our Group had not experienced any other interruptions in our operations which had a significant effect on our operations for the past 12 months preceding LPD.

Impact of COVID-19 on the operations of our Group

Pursuant to the outbreak of the COVID-19 pandemic in 2020, the Government had implemented different forms of MCO since 18 March 2020 to contain the spread of the virus. During this period, our Group was required to comply with the changes in SOP outlined by MITI throughout the period.

In FYE 2020, we faced some disruptions in the receipt of supplies for tubes as well as auxiliary parts and equipment (i.e. plate heat exchanger, belt conveyor, filter plate, vacuum pump, flange, stainless steel pipe and tubesheet) that are sourced from our suppliers in China and Korea due the country's COVID-19 restrictions which resulted in a delay in the shipment to our factory by approximately 1 month. We had informed our customer of the delay in delivery schedule and in view of the COVID-19 situation, our customers did not initiate any penalty claims against our Group arising from the delay. Saved as disclosed above, we did not face any material shortages or delay in the receipt of supplies and delivery schedule during the COVID-19 pandemic.

Further, there was no material adverse impact on our sales during the COVID-19 pandemic as our sales activities have been able to continue through online meetings.

There was no material impact on our sales, delivery, and receipt of supplies upon the enforcement of the "Transition to Endemic" phase beginning 1 April 2022.

Impact on our business, cash flows, liquidity, financial position and financial performance

The delay in delivery schedule experienced in FYE 2020 as mentioned above had resulted in a delayed recognition of revenue in FYE 2020 which was subsequently recognised in FYE 2021. Save for the foregoing, there was no material impact to our business, cash flows, liquidity, financial position and financial performance in FYE 2020. Further, there was no material impact to our business, cash flows, liquidity, financial position and financial performance in FYE 2021 and FYE 2022 arising from the COVID-19 pandemic. Our business cash flows, liquidity, financial position and financial performance was also not impacted by the enforcement of the "Transition to Endemic" phase beginning 1 April 2022.

7. BUSINESS OVERVIEW *(Cont'd)*

Strategy and steps taken to address the impact of COVID-19

In response to the COVID-19 pandemic, our Group has established a standard safety protocol that outlines several infection control measures based on the guidelines and SOP issued by MITI from time to time to protect employees and customers against COVID-19 infection. Since March 2020 and up to LPD, there have been no actions taken or penalties issued by the relevant authorities against our Group for breach of any laws relating to COVID-19 restrictions and/or SOPs.

7.8 SEASONALITY AND CYCLICALITY

Generally, there are no significant seasonality or cyclical patterns in our business as the demand for our services is not subject to any seasonal or cyclical fluctuations.

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7. BUSINESS OVERVIEW *(Cont'd)*

7.9 MAJOR CUSTOMERS

Our top 5 major customers for FYE 2020 to 2023 are as follows:

No.	Major customer	Revenue RM'000	Revenue %	Products / Solutions provided	Length of relationship[(1)] Years
FYE 2020					
1.	Jadi Imaging Technologies Sdn Bhd	10,521	21.6	Process plant – Chemical plant, raw water treatment plant and waste water treatment plant	2
2.	Murum Hydro Power Generation Sdn Bhd	3,437	7.0	Industrial process equipment – Heat exchanger	1
3.	Kobelco E&M Co., Ltd (formerly known as Shinko Engineering & Maintenance Co., Ltd)	3,266	6.7	Industrial process equipment – Heat exchanger	1
4.	Oiltek Sdn Berhad	3,035	6.2	Industrial process equipment – Pressure vessel and heat exchanger	8
5.	Elantas Malaysia Sdn Bhd	2,400	4.9	Process plant – Chemical plant	Less than 1
	Sub-total	**22,659**	**46.4**		
	Total	**48,823**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major customer	Revenue RM'000	Revenue %	Products / Solutions provided	Length of relationship[(1)] Years
FYE 2021					
1.	Oleon Port Klang Sdn Bhd (formerly known as Unioleon Sdn Bhd)	6,154	9.6	Process plant – Food emulsifier plant	1
2.	Oiltek Sdn Berhad	5,204	8.1	Industrial process equipment – Pressure vessel and heat exchanger	9
3.	Vast Evolve Sdn Bhd	4,442	6.9	Process plant – Chemical plant	1
4.	Munzing Malaysia Sdn Bhd	3,631	5.7	Process plant – Chemical plant	1
5.	Periforce Sdn Bhd	3,032	4.7	Industrial process equipment – Pressure vessel	10
	Sub-total	**22,463**	**35.0**		
	Total	**64,041**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major customer	Revenue RM'000	Revenue %	Products / Solutions provided	Length of relationship[(1)] Years
FYE 2022					
1.	Ramatex Textiles Industrial Sdn Bhd	36,028	25.9	Co-generation power plant	Less than 1
2.	Munzing Malaysia Sdn Bhd	26,956	19.4	Process plant – Chemical plant; Co-generation power plant	2
3.	PT Sari Dumai Oleo	6,236	4.5	Industrial process equipment – Pressure vessel	1
4.	Oiltek Sdn Berhad	5,990	4.3	Industrial process equipment – Pressure vessel and heat exchanger	10
5.	Sulzer Singapore Pte Ltd	4,793	3.4	Industrial process equipment – Pressure vessel and heat exchanger	6
	Sub-total	**80,003**	**57.5**		
	Total	**139,184**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major customer	Revenue RM'000	Revenue %	Products / Solutions provided	Length of relationship[(1)] Years
FYE 2023					
1.	Ramatex Textiles Industrial Sdn Bhd	15,989	16.3	Co-generation power plant	1
2.	Oiltek Sdn Berhad	14,151	14.4	Industrial process equipment – Pressure vessel and heat exchanger	11
3.	Oleon Group[(2)]	13,681	13.9	Industrial process equipment – Pressure vessel	3
4.	Munzing Malaysia Sdn Bhd	11,521	11.7	Process plant – Chemical plant; Co-generation power plant	3
5.	Eyvap Sabun Malaysia Sdn Bhd	4,332	4.4	Industrial process equipment – Pressure vessel and heat exchanger; Process Plant – Chemical plant	4
	Sub-total	**59,674**	**60.7**		
	Total	**98,379**	**100.0**		

Notes:

(1) Length of relationship as at the respective FYE.

(2) Oleon Group comprises Oleon Americas, Inc. and Oleon Port Klang Sdn Bhd (formerly known as Unioleon Sdn Bhd), which are subsidiaries of Oleon NV, a company based in Belgium. Oleon Americas, Inc. is a company based in the USA.

7. BUSINESS OVERVIEW *(Cont'd)*

For FYE 2020 to 2023, our top 5 major customers contributed 46.4%, 35.0%, 57.5% and 60.7% to our Group's total revenue, respectively. Due to the nature of our business, we are not dependent on our major customers as our design, fabrication, installation and/or commissioning solutions are project-based. Further, we do not have any long-term agreements or arrangements with our customers as our Group's sales are based on purchase orders whereby our customers purchase our products / services on a project-to-project basis or on an as-needed basis. The recognition of revenue is also dependent on the project milestones as revenue is recognised by the stages of project completion and billing. Hence, our major customers may vary from year to year.

We believe that our Group's sustainability and ability to secure new projects and customer base are adequately supported by our competitive strengths as well as sales and marketing strategies. Our competitive strengths comprise our established history of 28 years in the industrial process equipment industry; technical capabilities to customise engineering solutions for our customers; ability to offer engineering solutions for a wide range of industries, primarily comprising food, chemical, oil and gas, waste recovery, energy and utilities; ability to meet internationally recognised standards of quality; as well as a technically strong and experienced team. Coupled with these strengths, we employ sales and marketing strategies comprising direct approach with potential customers; digital marketing through social medical platforms and email marketing; participation in trade fairs, exhibitions, industry networking events and associations; as well as establishing our corporate website to introduce our products and services to enhance our market reach and exposure. With our competitive strengths as well as sales and marketing strategies, we provide potential customers with confidence and awareness on our capabilities and offerings, and thus, enabling us to secure new projects and increase our customer base to sustain and expand our business. Please refer to Sections 7.5 and 7.15 for further details on our sales and marketing strategies as well as competitive strengths respectively.

7.10 TYPES, SOURCES AND AVAILABILITY OF SUPPLIES

The table below sets out our purchases for FYE 2020 to 2023:

	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
Purchases	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Auxiliary parts and equipment[(1)]	11,659	34.1	15,607	34.7	24,873	23.6	19,834	34.0
Subcontractor and outsourced services[(2)]	10,611	31.1	11,479	25.6	18,715	17.7	17,109	29.3
Steel plates	6,632	19.4	10,850	24.2	14,088	13.3	9,189	15.8
Steel tubes	2,765	8.1	2,509	5.6	7,995	7.6	5,252	9.0
Turbines	-	-	-	-	29,102	27.6	615	1.1
Consumables, fittings and accessories[(3)]	1,360	4.0	2,758	6.1	4,066	3.9	3,781	6.5
Handling, freight, forwarding and transportation	1,135	3.3	1,721	3.8	6,632	6.3	2,534	4.3
Other[(4)]	-	-	-	-	4	<0.1	2	<0.1
Total	**34,162**	**100.0**	**44,924**	**100.0**	**105,475**	**100.0**	**58,316**	**100.0**

7. BUSINESS OVERVIEW *(Cont'd)*

Notes:

(1) Comprise auxiliary parts such as pumps, valves, pipes and fittings (e.g. flanges), control, instruments, electrical cables, belt conveyor, filter plate, tubesheet and agitators, as well as auxiliary equipment such as smokeless incinerators, dryers, filters, multiple-effect evaporators, biogas reactors, scrubbers, gasifiers, motors, chillers, separators, vacuum pumps, plate heat exchangers and sifters.

(2) Comprise mainly labour supply at our customer's site for installation and commissioning works.

(3) Consumables, fittings and accessories comprise mainly welding wire and welding electrodes.

(4) Comprises lubricant oil for Bercham Plant.

Auxiliary parts and equipment, subcontractor and outsourced services as well as steel plates are our Group's primary purchases and they collectively accounted for 84.6%, 84.5%, 54.6% and 79.1% of our total purchases for the respective FYE 2020 to 2023. These supplies are readily available, and our auxiliary parts and equipment, subcontractor and outsourced services as well as steel plates are sourced from local and overseas suppliers. Save for the disruptions in the receipt of supplies during the COVID-19 pandemic as disclosed in Section 7.7, we did not experience any shortages or major disruptions in the sourcing of auxiliary parts and equipment, subcontractor and outsourced services as well as steel plates from our suppliers in FYE 2020 to 2023. We also did not experience any shortages or major disruptions in the sourcing of other raw materials in FYE 2020 to 2023.

The prices of our steel plates and steel tubes are subject to price fluctuations as a result of global demand and supply conditions, as steel is a global commodity. Further details on the impact of price fluctuations on our cost of sales are set out in Section 12.2.2(b). Nevertheless, we are generally able to pass on the increase in cost of steel plates and steel tubes to our customers via the increase in the prices of our industrial process equipment, process plants as well as renewable energy and co-generation plants in a timely manner to reduce the adverse impact on our financial performance. The prices which we quote to our customers take into consideration the prevailing market prices for steel plates and steel tubes which are quoted by our suppliers. Upon the acceptance of the quotation by our customer, we will place purchase orders for the steel plates and steel tubes required for our customer's order based on the quoted prevailing market prices. Hence, the increase in prices of steel plates and steel tubes are generally passed on to our customers in a timely manner.

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7. BUSINESS OVERVIEW *(Cont'd)*

7.11 MAJOR SUPPLIERS

Our top 5 major suppliers for FYE 2020 to 2023 are as follows:

No.	Major supplier	Purchase value RM'000	Purchase value %	Products / Services sourced	Length of relationship[(1)] Years
FYE 2020					
1.	Kentzu Steel Sdn Bhd	2,809	8.2	Steel plates	13
2.	Leon Fuat Metal Sdn Bhd (formerly known as Leon Fuat Hardware (Klang) Sdn Bhd)	2,178	6.4	Steel plates	12
3.	Ener Tech Solutions Sdn Bhd	1,368	4.0	Auxiliary parts and equipment; Subcontractor and outsourced services	8
4.	Asea Metal Co.	1,317	3.9	Steel tubes	1
5.	Wong Shoon Huat	1,300	3.8	Subcontractor and outsourced services	8
	Sub-total	**8,972**	**26.3**		
	Total	**34,162**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major supplier	Purchase value RM'000	Purchase value %	Products / Services sourced	Length of relationship[1] Years
FYE 2021					
1.	Leon Fuat Metal Sdn Bhd (formerly known as Leon Fuat Hardware (Klang) Sdn Bhd)	3,712	8.3	Steel plates	13
2.	Ekato Ruhr-Und Mischtechnik GmbH	1,902	4.2	Auxiliary parts and equipment	1
3.	Shoon Huat Technology Enterprise[2]	1,753	3.9	Subcontractor and outsourced services	9
4.	Kentzu Steel Sdn Bhd	1,704	3.8	Steel plates	14
5.	Ann Joo Metal Sdn Bhd	1,377	3.1	Steel plates	15
	Sub-total	**10,448**	**23.3**		
	Total	**44,924**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major supplier	Purchase value RM'000	Purchase value %	Products / Services sourced	Length of relationship[(1)] Years
FYE 2022					
1.	Gimmill Private Limited	26,115	24.8	Turbines	Less than 1
2.	Leon Fuat Metal Sdn Bhd (formerly known as Leon Fuat Hardware (Klang) Sdn Bhd)	6,661	6.3	Steel plates	14
3.	Pantech Corporation Sdn Bhd	3,995	3.8	Auxiliary parts and equipment	15
4.	Zhejiang Daling Special Steel Co., Ltd	3,308	3.1	Steel tubes; Auxiliary parts and equipment	1
5.	SD Advance Engineering Sdn Bhd	2,870	2.7	Turbines	Less than 1
	Sub-total	**42,949**	**40.7**		
	Total	**105,475**	**100.0**		

7. BUSINESS OVERVIEW *(Cont'd)*

No.	Major supplier	Purchase value RM'000	Purchase value %	Products / Services sourced	Length of relationship[1] Years
FYE 2023					
1.	Pantech Corporation Sdn Bhd	3,583	6.1	Auxiliary parts and equipment	16
2.	Shoon Huat Technology Enterprise[2]	3,170	5.4	Subcontractor and outsourced services	11
3.	Leon Fuat Metal Sdn Bhd (formerly known as Leon Fuat Hardware (Klang) Sdn Bhd)	3,067	5.3	Steel plates	15
4.	Zhejiang Daling Special Steel Co., Ltd	2,884	4.9	Steel tubes; Auxiliary parts and equipment	2
5.	Kentzu Steel Sdn Bhd	2,678	4.6	Steel plates	16
	Sub-total	**15,382**	**26.4**		
	Total	**58,316**	**100.0**		

Notes:

(1) Length of relationship as at the respective FYE.

(2) Comprises purchases from Wong Shoon Huat and Shoon Huat Technology Enterprise. Wong Shoon Huat is the sole proprietor of Shoon Huat Technology Enterprise. Our Group first sourced for subcontractor and outsourced services (i.e. labour supply at our customer's site for installation and commissioning works) from Wong Shoon Huat, in 2012. In October 2020, Shoon Huat Technology Enterprise, a sole proprietorship, was established and we began transacting with Shoon Huat Technology Enterprise since October 2021. Prior to transacting with Shoon Huat Technology Enterprise in October 2021, our Group was transacting with Wong Shoon Huat for FYE 2021.

7. BUSINESS OVERVIEW *(Cont'd)*

For FYE 2020 to 2023, our top 5 major suppliers contributed 26.3%, 23.3%, 40.7% and 26.4% of our Group's total purchases respectively. Our purchases from our top 5 major suppliers in FYE 2020 to 2023 comprise, amongst others, auxiliary parts and equipment, subcontractor and outsourced services, steel plates, steel tubes as well as turbines.

While we do not enter into any long-term contracts with our major suppliers, we have not experienced any material supply disruptions or delays from our major suppliers in FYE 2020 to 2023. Our supplies are sourced from local and overseas suppliers, selected based on pricing, production capacities, ability to meet our quality requirements and ability to deliver in a timely manner. We are not dependent on any of our major suppliers as we are able source similar supplies from alternative suppliers.

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7. BUSINESS OVERVIEW *(Cont'd)*

7.12 OPERATING CAPACITY AND UTILISATION

Our fabrication works are carried out at our factory with a total built-up area of 166,247 sq ft, where the fabrication and inspection of industrial process equipment, process plants, and renewable energy and co-generation plants are undertaken prior to the delivery to our customer's project site for installation and commissioning.

The nature of our business is project based and the duration required to complete the fabrication of our industrial process equipment, process plants, and renewable energy and co-generation plants varies depending on the size, technical specifications, and complexity of the product. Our industrial process equipment takes approximately 3 months to 6 months from fabrication delivery to our customer's project site, whereas our process plants and renewable energy and co-generation plants take approximately 12 months to 18 months from fabrication to delivery for installation and commissioning at our customer's project site. In addition, the number of industrial process equipment that we can fabricate at a given point in time is limited by the availability of floor area and the size of the industrial process equipment being fabricated.

Therefore, we are not able to ascertain or estimate our annual production capacity and the utilisation rate of our factory given that the conventional measurement of capacity may not be relevant to our operations. However, based on our track record in FYE 2020 to 2023, we have delivered 367, 433, 480 and 634 industrial process equipment respectively.

7.13 QUALITY CONTROL PROCEDURES AND CERTIFICATIONS

We place strong emphasis on the safety and quality of all our industrial process equipment, process plants, and renewable energy and co-generation plants. We are committed to ensure that our quality management system is in accordance with internationally recognised standards. We have adopted a stringent internal quality management assurance policy to ensure that the industrial process equipment we fabricate adhere to both international and our Group's standards.

In order to ensure that the quality and safety of our products and services are upheld, quality control procedures are undertaken during the design calculation and engineering drawing preparation stage, as well as fabrication stage as detailed below:

(a) Quality control during the design calculation and engineering drawing preparation stage

Our industrial process equipment and process plants are designed in accordance with the engineering codes such as ASME codes and the National Board Inspection Code of The National Board of Boiler & Pressure Vessel Inspectors. Our design calculations and engineering drawings for pressure vessels, heat exchangers, boilers and heaters are submitted to DOSH for approval prior to carrying out fabrication works. For certain waste recovery plants such as exhausts and chimneys, we submit our design calculations and engineering drawings to the DOE for approval in accordance with the Environmental Quality (Clean Air) Regulations 2014. Upon our customer's request, we may also submit our design calculations and engineering drawings to ASME authorised inspectors, for design inspection and approval prior to carrying out fabrication works.

7. BUSINESS OVERVIEW *(Cont'd)*

(b) Quality control tests during fabrication stage

We carry out quality control tests during fabrication stage in-house, as well as engage authorised inspectors to carry out the quality control tests. The quality control tests comprise visual inspections, hydrostatic test and/or NDTs.

Hydrostatic test is used to identify defects in pressure vessels using water. In a hydrostatic test, the pressure vessel is completely filled with water and the pressure inside the pressure vessel is increased. Water will leak at the presence of defects and thus, indicating the location of the defects. We carry our hydrostatic test in-house which is witnessed by DOSH personnel as well as, if required, authorised inspectors and/or our customer. Hydrostatic test is mandatory for industrial process equipment sold to local end-user customers, as required by DOSH.

NDTs are carried out as and when required and are applicable for heat exchangers, pressure vessels as well as boilers and heaters. We will engage authorised inspectors to carry out NDTs. Further details on our NDTs are as follows:

NDTs	Description
Dye penetrant test	Dye penetrant test is used to identify surface defects such as cracks and fractures in an equipment. Liquid dye is applied to the test area. In the presence of surface defects, the liquid dye will flow into surface defects and thus, indicating the location of the defects.
Radiography test	Radiography test is used to identify defects in the internal structure of an equipment by transmitting radiation such as x-rays or gamma rays on the equipment and capturing the equipment's radiation absorption pattern on a film. The radiation absorption pattern is then interpreted for presence and location of the defects.
Ultrasonic test	Ultrasonic test is used to identify defects in an equipment by transmitting high frequency sound waves into the equipment. In the presence of defects, the transmission of sound waves will be disrupted and deflected. The signals from the deflected sound waves are interpreted to determine the location of the defects.
Magnetic particle test	Magnetic particle test is used to identify surface and subsurface defects in an equipment. Fine magnetic particles, such as ferrous iron filings, are applied to the test area which will accumulate around the surface or subsurface defects, indicating the presence and location of surface or subsurface defects.
PMI test	PMI test is used to analyse and determine the material of an equipment to ensure that the materials used for the fabrication of the equipment comply with quality and safety requirements. PMI test uses radiation (i.e. x-ray fluorescence) or electrical energy (i.e. optical emission spectrometry) to detect the key elements of the equipment's materials.

7. BUSINESS OVERVIEW *(Cont'd)*

NDTs	Description
Hardness test	Hardness test is used to determine the resistance of an equipment's material to indentation. In a hardness test, an indentor (i.e. an object of specified mass) is pressed on the test area with a certain force which creates an indentation. The depth or size of the indentation is measured to determine the hardness of the equipment's material.

Our Group's commitment towards product quality and safety is further attested by our compliance with local and international quality standards, and we were awarded the certifications of compliance as follows:

Standard	Certification body	Country of certification body	Date first awarded	Current validity period	Scope of certification
Fabrication and repair of pressure vessels	DOSH	Malaysia	15 June 1996	14 March 2024 – 13 March 2027	Registered as a competent firm for the fabrication and repair of pressure vessels
ASME U Stamp Certification Mark	ASME	USA	1 April 2008	1 April 2023 – 23 February 2026	Certificate of Authorisation for fulfilling the requirements of the ASME Boiler and Pressure Vessel Code for the manufacturing of pressure vessels
ISO 9001:2015 Quality Management System	QMS Certification	Brazil	1 August 2008	11 July 2023 – 10 July 2026	Fulfilling the requirement for quality management system for design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment
Fabrication and repair of steam boilers	DOSH	Malaysia	4 September 2008	2 September 2022 – 1 September 2025	Registered as a competent firm for the fabrication and repair of steam boilers
ASME H Stamp Certification Mark	ASME	USA	4 May 2011	1 April 2023 – 23 February 2026	Certificate of Authorisation for fulfilling the requirements of the ASME Boiler and Pressure Vessel Code for the commissioning of heating boilers (except cast iron and cast aluminium)

7. BUSINESS OVERVIEW *(Cont'd)*

Standard	Certification body	Country of certification body	Date first awarded	Current validity period	Scope of certification
ASME S Stamp Certification Mark	ASME	USA	4 May 2011	1 April 2023 – 23 February 2026	Certificate of Authorisation for fulfilling the requirements of the ASME Boiler and Pressure Vessel Code for the manufacturing and assembly of power boilers
R Symbol	The National Board of Boiler & Pressure Vessel Inspectors	USA	14 January 2020	17 February 2023 – 1 April 2026	Authorisation to use the R Symbol in accordance with the provisions of the National Board Inspection Code and NB-415, Accreditation of "R" Repair Organisations
NB Mark	The National Board of Boiler & Pressure Vessel Inspectors	USA	19 January 2010(1) / 1 March 2017(2)	Since 19 January 2010(1)(3) / 1 March 2017(2)(3)	Authorisation to apply the NB mark and register boilers, pressure vessels or other pressure retaining items with the National Board, in which the scope of authorisation is limited to items manufactured in accordance with ASME H, S, U
ASME U2 Stamp Certification Mark	ASME	USA	23 February 2023	23 February 2023 – 23 February 2026	Certificate of Authorisation for fulfilling the requirements of the ASME Boiler and Pressure Vessel Code for the manufacturing of Class 1 and Class 2 pressure vessels
ISO 14001:2015 Environmental Management Systems	QMS Certification	Brazil	12 July 2023	12 July 2023 – 11 July 2026	Fulfilling the requirement for environmental management systems for design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment

7. BUSINESS OVERVIEW *(Cont'd)*

Standard	Certification body	Country of certification body	Date first awarded	Current validity period	Scope of certification
ISO 45001:2018 Occupational Health and Safety Management Systems	QMS Certification	Brazil	12 July 2023	12 July 2023 – 11 July 2026	Fulfilling the requirement for occupational health and safety management systems for design, manufacturing and on-site commissioning of pressure vessel, heat exchange system, water and waste treatment and process equipment

Notes:

(1) Date first awarded for NB Mark pertaining to the scope of authorisation that is limited to items manufactured in accordance with ASME U.

(2) Date first awarded for NB Mark pertaining to the scope of authorisation that is limited to items manufactured in accordance with ASME H and S.

(3) The validity period will remain in effect as long as our Group holds a valid Certificate of Authorisation issued by ASME.

7.14 RESEARCH AND DEVELOPMENT

We do not carry out any research and development activities as it is not applicable to the nature of our business.

7.15 COMPETITIVE STRENGTHS

7.15.1 We have an established history and proven track record with 28 years of experience in the industrial process equipment industry

We have an established history of 28 years in the industrial process equipment industry with a proven track record in the provision of design, fabrication, installation and/or commissioning solutions. Over the years, we grew our capabilities from the fabrication of non-pressure vessels and tanks to various industrial process equipment comprising heat exchangers, pressure vessels as well as boilers and heaters. We also offer process plants within the specialty of food processing, oleochemical and chemical processing, waste recovery and power plant. Since the commencement of our business, we have completed numerous industrial process equipment and process plants projects as well as renewable energy and co-generation for various industries.

Our vast experience in offering a wide range of industrial process equipment and process plants, as well as renewable energy and co-generation plants over the years have enabled us to gain in-depth knowledge and understanding on our customer's industrial process needs and requirements across different industries. Armed with in-depth technical knowledge, engineering solution and fabrication capabilities, track record and industry reputation, we have been able to continuously grow our business and secure new customers.

7. BUSINESS OVERVIEW *(Cont'd)*

7.15.2 We have the technical capabilities to customise engineering solutions for our customers

We have the technical capabilities to provide design, fabrication, installation and/or commissioning solutions to our customers to meet their specifications and requirements. Through our track record and experience in the provision of design, fabrication, installation and/or commissioning solutions, we are able to understand our customer's industrial process requirements and propose suitable process plants for our customers. Our customer's industrial process equipment, process plant and renewable energy and co-generation plants differ in terms of design, layouts, processes, application and materials required. Hence, our design, fabrication, installation and/or commissioning solutions are customised to meet our customer's industrial process needs. Consequently, our technical capabilities and knowledge in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants and renewable energy and co-generation plants have continued to be enhanced over the years as we continue to secure customers from various industries.

We believe that through our technical capabilities as well as our ability to provide end-to-end solutions to our customers from design to fabrication as well as installation and commissioning, we are well-positioned to capture business opportunities arising from the demand for industrial process equipment and process plants from a wide range of industries, as well as renewable energy and co-generation plants.

7.15.3 We are able to offer engineering solutions for a wide range of industries, primarily comprising food, chemical, oil and gas, waste recovery, energy and utilities

Our engineering solutions comprises the offerings of industrial process equipment, process plants and renewable energy and co-generation plants. We are able to offer engineering solutions for a wide range of industries such as food processing (e.g. food emulsifier production as well as edible oil and palm phytonutrient extraction), oleochemical and chemical processing (e.g. palm biodiesel, biolubricants, fatty acids and industrial esters), oil and gas (e.g. oil and gas refinery), waste recovery, power plant (e.g. co-generation and power generation) and utilities.

Our capability in offering engineering solutions for a wide range of industries is driven by the technical expertise and experience gained over the years. With that, we are able to expand our product offerings and thus, increasing our market reach and capture more business opportunities across a wide range of industries.

7.15.4 The quality of our products is attested by our ability to meet internationally recognised standards

Our ability to consistently fabricate quality industrial process equipment, process plants and renewable energy and co-generation plants is critical in building confidence in our customers to create customer satisfaction, maximise customer loyalty and minimise reputational risks. As such, to ensure that we are able to deliver products that meet the expectation of our customers, we have put in place quality control procedures, as well as an established quality management system that comply with international standards, as disclosed in Section 7.13.

7. BUSINESS OVERVIEW *(Cont'd)*

Our industrial process equipment, process plants and renewable energy and co-generation plants are fabricated according to the requirements of internationally recognised standards such as the ASME U, U2, H and S Stamp Certification Marks, R Symbol, NB Mark as well as ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018, as attested by the respective certifications awarded to our Group. Through our compliance with internationally recognised standards, we are able to provide confidence to customers on the quality of our products and expand our market reach globally which enables us to secure more customers. Please refer to Section 7.13 for further details on our quality certifications.

In addition, prior to securing orders from new customers, we are often required to undergo stringent qualification processes set out by our customers in which these customers will perform qualification audits on our Group to assess our ability to meet their requirements on product quality, fabrication facilities and fabrication processes. Our Group's ability to meet the qualification criteria of our customers demonstrates our customer's confidence towards the quality of our products in meeting internationally recognised standards.

7.15.5 We have a technically strong and experienced team with substantial industry experience

Our Group is led by an experienced and technically skilled key management team that has accumulated years of experience in their respective field and key expertise. They also have industry experience and/or in-depth knowledge of our business operations.

Our Managing Director, Lim Thou Lai, has 32 years of experience in the engineering industry. His technical and industry knowledge is instrumental in steering the overall strategic direction and business development of our Group. He is supported by the following Executive Directors and key senior management:

Name	Designation	Estimated years of relevant working experience
Chong Hon Choong	Executive Director and Head of Department (Project)	23
Heng Siew Aun	Executive Director and General Manager	15
Doris Tan Chuen Chuen	Chief Financial Officer	26
Sharizan Bin Abd. Bahrin	Head of Department (Engineering)	21
Syahirul Hafiz Bin Safuan Wong	Head of Department (Quality Control)	7
Chuah Theam Choon	Head of Department (Production)	29

Our Executive Directors and key senior management have in-depth knowledge and capabilities as a result of years of experience in their respective fields. Please refer to Sections 5.1.2 and 5.3.3 for the profiles of our Executive Directors and key senior management. Further, each of our key senior management takes an active, hands-on role in spearheading their respective departments to support the growth of our Group. As a result, there is a transfer of skills and knowledge to employees at all levels in our organisational structure. Their hands-on involvement in our Group demonstrates their strong commitment to our growth as we continue to expand our business.

7. BUSINESS OVERVIEW *(Cont'd)*

7.16 BUSINESS STRATEGIES AND FUTURE PLANS

7.16.1 We intend to improve the output of Bercham Plant

Bercham Plant has an installed capacity of 1.2MW and a net export capacity of 1MW, and is operating under the FiT mechanism. As such, we are licenced to sell up to 24MWh of electricity per day (i.e. 1MW multiplied by 24 hours). Under the FiT mechanism, we are allowed to sell the electricity produced from our plant to the distribution licensee at a predetermined rate of RM0.3880/kWh until 2032. In addition, the total FiT that Magenko Ipoh is entitled to receive in each year during the effective period, as specified in the Feed-In Approval, is limited to the total FiT payable to Magenko Ipoh based on the renewable energy generated up to the declared annual availability of the particular year. As at LPD, our electricity generated for sale is approximately 1.5MWh per day which is 6.3% of our maximum allowable electricity sales of 24MWh per day, due to blockages in the gas piping caused by polymers present in the landfill in which methane gas is extracted as feedstock for the Bercham Plant. Premised on this, the estimated revenue that can be generated from power generation at Bercham Plant is approximately RM0.2 million per year (i.e. 1.5MWh per day multiplied by RM0.3880/kWh and 365 days). For FYE 2022, our revenue from our power generation and sale of electricity business is approximately RM0.04 million, being 2 months of revenue recognised since our acquisition of Magenko Group in August 2022. For FYE 2023, our revenue from our power generation and sale of electricity business is approximately RM0.2 million.

To improve the production output of the Bercham Plant as well as to increase the revenue from our power generation and sale of electricity business, we will use agricultural waste (used in anaerobic digestion system) as additional feedstock on top of landfill gas, in accordance with our Feed-in-Approval, pursuant to our consultation with SEDA. As at LPD, we are in the midst of conducting a feasibility study of the new system and material. Our feasibility study entails carrying out design calculations to determine the feasibility of the new system required (i.e. anaerobic digestion system) to be installed for the additional feedstock as well as conducting prototype testing by constructing a pilot testing plant for the new system at Bercham Landfill. Thereafter, we will purchase and install an anaerobic digestion system, which will be connected, and will supply gas directly, to Bercham Plant.

In order to utilise agricultural waste as feedstock, we are required to install an anaerobic digestion system, which will convert the agricultural waste into biogas for generation of electricity. The main components of the anaerobic digestion system to be installed include anaerobic digestor, biogas scrubber and biogas demister. The anaerobic digestion system will be connected via pipelines to supply biogas directly into the gas generator set of Bercham Plant. In the anaerobic digestor, the agricultural waste is decomposed by microorganisms in an oxygen-free environment, producing a mixture of biogas which comprises primarily methane gas.

The biogas will be channelled to the biogas scrubber to undergo purification for the removal of impurities. Upon purification, the clean biogas will be directed to the biogas demister to eliminate water vapour formed in the anaerobic digestor. Following which, the clean biogas will be fed into the gas generator set which is a system where the clean biogas is used to generate electricity.

7. BUSINESS OVERVIEW *(Cont'd)*

The amount of gas produced by the anaerobic digestion system is expected to be able to generate up to 24MWh of electricity per day. With the combination of landfill gas and gas produced from the anaerobic digestion system, we expect to be able to generate approximately 24MWh of electricity per day which is expected to improve the revenue of our power generation and sale of electricity business to approximately RM3.4 million (i.e. 24MWh multiplied by RM0.3880/kWh and 365 days) per year from the estimated RM0.2 million a year. As we are licenced to sell up to 24MWh of electricity per day, we do not intend to generate above 24MWh of electricity per day.

We expect to commence the installation of the anaerobic digestion system within 15 months upon our Listing:

Timeframe from Listing (T)	Details
T + 3 months	Completed feasibility study and finalised system design
T + 4 months	Fulfilment of deposit payment
T + 9 months	Delivery of anaerobic digestion system
T + 15 months	Installation, testing and commissioning

The total estimated cost for the installation of the anaerobic digestion system is RM2.5 million based on quotation from the supplier, which will be fully funded from our Public Issue proceeds.

7.16.2 We intend to construct a new 2MW biomass power plant to grow our power generation and sale of electricity business segment

We intend to construct a new 2MW biomass power plant to grow our power generation and sale of electricity business segment and diversify our income base to include more recurring income. We will leverage on our Group's expertise in design, fabrication, installation and commissioning of renewable energy and co-generation plants, to construct the new biomass power plant in-house. To provide our design, fabrication, installation and commissioning of renewable energy and co-generation plants offerings to our customers, we are required to understand our customer's renewable energy and co-generation requirements as well as design and propose suitable renewable energy and co-generation plants design to our customers. As a result, we have obtained the necessary technical capabilities, know-how and experience in the design, fabrication, installation and commissioning of renewable energy and co-generation plants, which will enable us to develop and operate our own biomass power plant. Please refer to Section 7.2.1.1(c) for further details on our technical capabilities in the design, fabrication, installation and commissioning of renewable energy and co-generation plants. We plan to use biomass (such as EFB, wood chips or bamboo chips) which will be sourced from local suppliers as the fuel for the new biomass power plant. We intend to sell the electricity generated from the new biomass power plant to the distribution licensee.

The new biomass power plant will adopt a biomass boiler steam turbine system for the generation of electricity, which main components are: combustion chamber, boiler, steam turbine and generator set. The biomass will be burned to generate heat, which is then used to heat water in the boiler. The heat will turn the water into high-pressure steam, which then turns the steam turbines to generate mechanical energy. The mechanical energy will activate the generator set to produce electricity.

7. BUSINESS OVERVIEW *(Cont'd)*

We intend to construct the new biomass power plant on our existing land in Factory 3, where we have excess, unused space of approximately 40,000 sq ft and connection to the grid situated next to the factory. We expect to complete the construction of the new 2MW biomass power plant within 18 months from the date of SEDA's approval on the proposed quota.

As at LPD, we are in the midst of preparing for a bid application to SEDA for 2MW of quota, whereby the bid application is expected to open in second quarter of 2024.

The e-bidding process is as follows:

(a) Registration of our Group profile in the e-FiT online system prior to the bid window;
(b) Application of quota for 2MW based on the basic reference tariff as set out by SEDA for the year 2024;
(c) Upon submission of the application, our Group will pay a processing fee of RM1,000 and application fee of RM10/kW to SEDA;
(d) Pursuant to the closing of the bid window, SEDA will evaluate the applications received. The announcement of successful application is expected to take place in first quarter of 2025, whereby the FiT quota will be released and successful applicants will be issued a Feed-In Approval certificate;
(e) The successful applicant will enter into a REPPA with the distribution licensee for the supply of electricity to the distribution licensee for a period of 21 years from commissioning, and will be paid the approved electricity tariff by the distribution licensee based on the supply; and
(f) Successful applicants are given 3 years from the date of issuance of Feed-In Approval certificate to complete the installation and commissioning of the biomass power plant.

We are not required to apply for any licenses to bid for the quota from SEDA. In the event of successful bidding, the following will take place:

Timeframe	Details
Within 1 month of successful bid	• Application and receipt of Feed-In Approval from SEDA; • Finalisation of system design and project schedule; • Application and receipt of licence for generation and supply of electricity from EC; • Signing of REPPA for the sale of electricity; and • Application and receipt of permission from the DOE for the construction of the new 2MW biomass power plant
Within 6 months of successful bid	Commence construction
Within 18 months of successful bid	Completion and commissioning

In the event of an unsuccessful bid, we intend to participate in subsequent bidding exercises over 18 months from our Listing. In the event that we are unable to secure the quota within 18 months from our Listing, we may consider extending the timeframe or reallocating the proceeds for other purposes, and in such an event, we will seek our shareholders' approval, if required under the Listing Requirements, for such variation. Through the new biomass power plant, we expect to generate and sell up to 48MWh of electricity per day (i.e. 2MW multiplied by 24 hours).

7. BUSINESS OVERVIEW *(Cont'd)*

The total estimated cost for the construction of the new biomass power plants is approximately RM15.0 million which was derived based on the quotation by contractors as well as internal management estimates. We intend to allocate RM5.0 million for the construction of the new 2MW biomass power plant from our Public Issue proceeds, with the remaining RM10.0 million from bank borrowings and/or internally generated funds. Please refer to Section 4.9.1 for further details.

7.16.3 We intend to upgrade some of our production processes by purchasing additional machinery

We intend to upgrade some of our production processes by purchasing additional machinery at Factory 1 and Factory 3 to improve our production efficiency.

We intend to purchase the following machinery for Factory 1 and Factory 3.

Machinery	Description	Number of unit(s)	Estimated cost (RM'000)
Fibre laser cutting machine	Fibre laser cutting machine uses a focused, high-powered laser beam for precision cutting of materials such as metal	1	320
Adjustable rotator	Adjustable rotator uses a rotating platform to semi-automate the rotation of tanks during welding and fitting processes	2	78
	Total:	**3**	**398**

In addition, installation costs amounting to RM0.1 million will be incurred for the installation of the machines.

We intend to install the fibre laser cutting machine at Factory 1. As at LPD, we are using plasma cutting machines to carry out the cutting of plates for our industrial process equipment during fabrication which creates stains, dusts and markings on the plates in the process. Consequently, the plates will be required to undergo cleaning and grinding for the removal of the stains, dusts and markings, which requires additional manpower. The fibre laser cutting machine will enable us to carry out the cutting of plates without creating stains, dusts and markings, thus allowing us to eliminate the need to utilise additional manpower to clean the plates pursuant to cutting. This, in turn, enhances our operating efficiencies as shorter time is used to complete the cutting works and less labour is utilised. The fibre laser cutting machine will also enable us to achieve higher precision cutting on steel plates of various thickness. This enables us to more consistently meet our customer's product specifications with lower fabrication defects as well as reduce wastage of raw materials.

We intend to install 2 adjustable rotators at Factory 3. The adjustable rotators will enable us to semi-automate the rotation of tanks during welding and fitting processes. The adjustable rotators allow ease of access to different sides of the tanks without the need to reposition the object or the fabricator and thus, enabling us to reduce the time taken to complete the fabrication process, hence improving our operating efficiency.

We intend to purchase the abovementioned additional machinery within 12 months upon our Listing. The total estimated cost for the purchase of additional machinery including installation is RM0.5 million which was derived based on quotations by suppliers. It will be entirely funded from our Public Issue proceeds.

8. IMR REPORT

SMITH ZANDER INTERNATIONAL SDN BHD 201301028298 (1058128-V)
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SMITH ZANDER

Date: 12 April 2024

The Board of Directors

Kawan Renergy Berhad
18, Lebuh Perusahaan Klebang 1
IGB Industrial Park
31200 Ipoh
Perak

Dear Sirs / Madams,

Independent Market Research Report on the Industrial Process Equipment Industry and Biogas Industry in Malaysia ("IMR Report")

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("**SMITH ZANDER**") for inclusion in the Prospectus in conjunction with the listing of Kawan Renergy Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industries in which Kawan Renergy Berhad and its subsidiaries ("**Kawan Group**") operate and to offer a clear understanding of the industry dynamics. As Kawan Group is an engineering solutions provider, principally involved in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants, and is also involved in power generation and sale of electricity, the scope of work for this IMR Report will thus address the following areas:

(i) The industrial process equipment industry in Malaysia;
(ii) Key industry drivers, risks and challenges of the industrial process equipment industry in Malaysia;
(iii) Competitive landscape of the industrial process equipment industry in Malaysia; and
(iv) The biogas industry in Malaysia.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report.

For and on behalf of SMITH ZANDER:

DENNIS TAN
MANAGING PARTNER

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The research for this IMR Report was completed on 4 April 2024.

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About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has over 26 years of experience in market research and strategy consulting, including over 21 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE INDUSTRIAL PROCESS EQUIPMENT INDUSTRY IN MALAYSIA

Overview

Industrial process equipment is an equipment used in an industrial facility or plant, designed to perform a specific process or a series of processes. Industrial process equipment is widely used in process industries such as oleochemicals, power generation, oil and gas, food and beverage manufacturing, petrochemicals, pulp and paper, pharmaceuticals and mining.

Industrial process equipment can be broadly divided into two categories, namely fixed equipment and rotating equipment. Fixed equipment refers to equipment that is non-moving or static. Examples of fixed equipment include boilers, heaters, heat exchangers, pressure vessels, storage tanks and valves. On the other hand, rotating equipment refers to equipment that applies kinetic energy to move fluids, gases and other process materials when performing a specific process. Examples of rotating equipment include industrial centrifuges, compressors, engines, gearboxes and turbines. As Kawan Group designs and fabricates boilers, heaters, heat exchangers and pressure vessels as standalone equipment or as part of the design, fabrication, installation and commissioning of process plants as well as renewable energy and co-generation plants, this IMR Report will primarily focus on these four categories of industrial process equipment, as follows:

(a) Boiler – is a closed vessel which utilises heat from an energy source either renewable (e.g. biomass) or non-renewable (e.g. coal, natural gas or oil) to generate steam or vapor from water or other liquid for use in various processes (e.g. to drive turbines for power generation). Examples of boilers include steam boilers, water tube boilers and fire tube boilers.

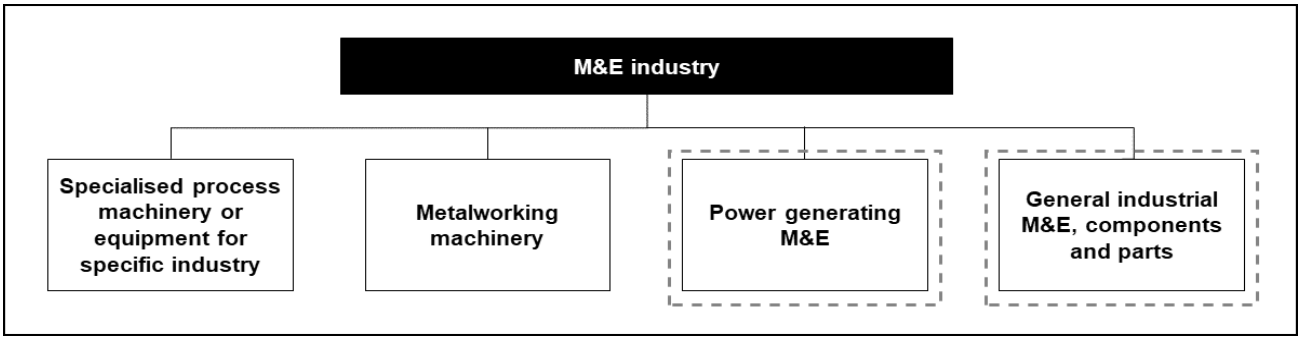
(b) Heater – is an equipment used to convert energy from a fuel or other sources into heat energy for an industrial process. Examples of heaters include duct heaters, electric heaters, immersion heaters and thermal oil heaters.

(c) Heat exchanger – is a device which facilitates the process of transferring heat from one fluid (i.e. liquid or gas) to another fluid (i.e. liquid or gas). Heat exchangers are typically used in both cooling and heating processes. Examples of heat exchangers include air-cooled heat exchangers, plate heat exchangers and shell and tube heat exchangers.

(d) Pressure vessel – is an enclosed vessel designed to hold liquids or gases at a pressure substantially greater or lesser than the ambient pressure. Examples of pressure vessels include air receivers and deaerators.

The types of industrial process equipment fabricated by Kawan Group fall under two major sub-sectors of the machinery and equipment ("**M&E**") industry, namely power generating M&E (i.e. which mainly comprises boilers, condensers, electric generating sets, turbines and engines) and general industrial M&E, components and parts (i.e. which covers products such as cold room equipment, compressors, conveyor systems, filtering equipment, heat exchangers, pressure vessels, pumps and valves).

Segmentation of the M&E industry



Note:

- *denotes the segment in which Kawan Group's products are categorised under.*

*Sources: Malaysian Investment Development Authority ("**MIDA**"), SMITH ZANDER*

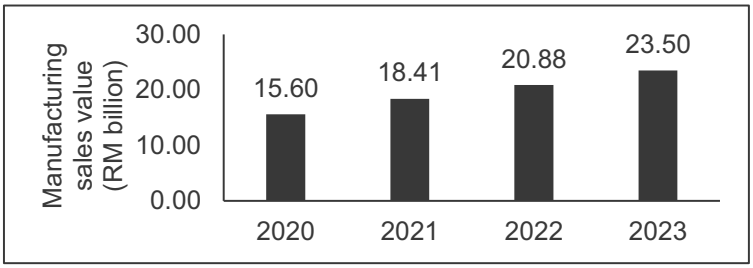
Industrial process equipment can be manufactured and sold to customers in two ways, which are either by selling the equipment as standalone products to customers or by the provision of design, fabrication, installation and commissioning services of industrial facilities where multiple integrated equipment are sold to customers.

Industry Performance, Size and Growth

The industrial process equipment industry in Malaysia is represented by the manufacturing sales value of tanks, reservoirs and containers of metal, steam generators, other general-purpose machinery, and other metal products, machinery and equipment in Malaysia, as this is the closest reliable industry categorisation available. The industrial process equipment industry in Malaysia increased from RM15.60 billion in 2020 to RM23.50 billion in 2023 at a compound annual growth rate ("**CAGR**") of 14.63%.

Moving forward, the growth of the industrial process equipment industry in Malaysia is expected to continue to be driven by the key industry drivers shown in **Chapter 2 – Key Industry Drivers, Risks and Challenges of the Industrial Process Equipment Industry in Malaysia** of this IMR Report.

Industrial process equipment industry size (Malaysia), 2020 – 2023



Note:

- *This data may include metal products, machinery and equipment (e.g. engines and turbines, lifting and handling equipment, agricultural and forestry machinery, weapons and ammunition, metal industrial frameworks etc), other than the industrial process equipment that Kawan Group fabricates as the data breakdown specifically for Kawan Group's industrial process equipment is not publicly available.*

*Sources: Department of Statistics Malaysia ("**DOSM**"), SMITH ZANDER*

2 KEY INDUSTRY DRIVERS, RISKS AND CHALLENGES OF THE INDUSTRIAL PROCESS EQUIPMENT INDUSTRY IN MALAYSIA

Key Industry Drivers

► **The demand for industrial process equipment is driven by the growth of process industries that utilise such equipment**

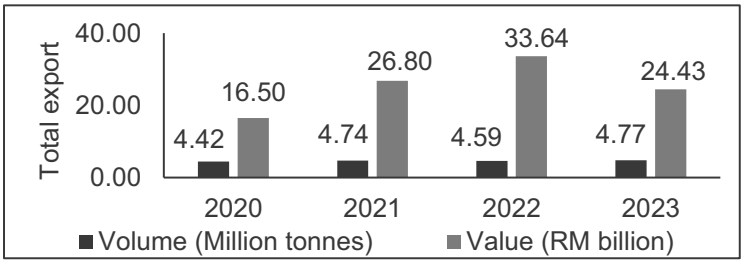
The demand for industrial process equipment is driven by the growth of process industries that utilise such equipment such as oleochemicals, power generation, oil and gas, food and beverage manufacturing, petrochemicals, pulp and paper, pharmaceuticals and mining. As the oleochemical, power generation, oil and gas as well as food and beverage manufacturing industries are key industries that Kawan Group supports, the growth of these industries is elaborated below:

- **<u>Oleochemical industry</u>**

  Oleochemicals are chemicals derived from natural fats and oils such as palm oil and coconut oil that can be used as raw materials or as supplemental materials in a broad range of industries such as the food packaging, pharmaceuticals and personal care industries, as well as used as a substitute for petrochemicals. Oleochemicals are produced through different processes such as, amongst others, splitting, fractional distillation, hydrogenation and flaking using various industrial process equipment including distillation columns, heat exchangers and reactors. As such, the growth in the oleochemical industry drives the demand for industrial process equipment.

  The oleochemical industry in Malaysia, measured by the total export value of palm-based oleochemicals in Malaysia, increased from RM16.50 billion in 2020 to RM33.64 billion in 2022 at a CAGR of 42.79%. However, in 2023, the total export value of palm-based oleochemicals in Malaysia declined by 27.38% from RM33.64 billion in 2022 to RM24.43 billion in 2023 due to lower palm oil prices.

Oleochemical industry size (Malaysia), 2020 – 2023



Source: DOSM

In terms of total export volume, total export volume of palm-based oleochemicals in Malaysia increased by 7.24% from 4.42 million tonnes in 2020 to 4.74 million tonnes in 2021. Subsequently, total export volume declined by 3.16% from 4.74 million tonnes in 2021 to 4.59 million tonnes in 2022 which may be due to lower export demand for palm-based oleochemicals amid higher prices of palm-based oleochemicals. Despite the decrease in export volume in 2022, the total export value of palm-based oleochemicals in Malaysia increased with a year-on-year ("**YOY**") growth of 25.52% in 2022 due to higher export prices of palm-based oleochemicals resulting from higher palm oil prices. Further, in 2023, despite experiencing a decline in total export value of palm-based oleochemicals, the total export volume of palm-based oleochemicals recovered and grew by 3.92% from 4.59 million tonnes in 2022 to 4.77 million tonnes in 2023.

Moving forward, the oleochemical industry in Malaysia is expected to grow in view of increasing export volume, this will in turn pose increasing demand for industrial process equipment to support the production of oleochemicals.

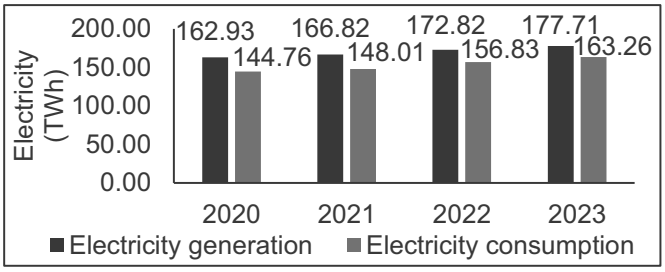
- **Power generation industry**

Power generation refers to the process of generating electric power from sources of primary energy, such as oil, coal, natural gas and renewable sources such as hydropower, solar and wind. The power generation industry adopts various industrial process equipment for the process of generating electric power in various types of power plants. For instance, a coal-fired power plant is equipped with various industrial process equipment such as boilers, steam turbines and generators to facilitate the power generation process. A boiler is used as a chamber to burn coal to create heat energy for the conversion of water into steam. Subsequently, the steam travels through a steam turbine creating mechanical energy to power a generator for electricity production. As such, the growth in the power generation industry drives the demand for industrial process equipment.

The power generation industry in Malaysia, represented by electricity generation in Malaysia increased from 162.93 terawatt-hours ("**TWh**") in 2020 to 177.71 TWh in 2023 at a CAGR of 2.94%.

The power generation industry in Malaysia grows in tandem with the country's electricity consumption, whereby electricity consumption in Malaysia increased from 144.76 TWh in 2020 to 163.26 TWh in 2023 at a CAGR of 4.09%.

Electricity generation and consumption (Malaysia), 2020 – 2023



Source: DOSM

Moving forward, electricity consumption in Malaysia is expected to continue increasing with on-going growth in the Malaysian economy with an expected gross domestic product ("**GDP**") growth rate of between 4.00% and 5.00% projected by Bank Negara Malaysia for 2024, which will drive growth in household consumption and industrial development. This will in turn lead to an increase in demand for power generation which will subsequently drive the growth of the industrial process equipment industry in Malaysia.

- **Oil and gas industry**

Oil and gas are non-renewable fossil fuels which are important sources of primary energy. Oil and gas can be used for, amongst others, electricity generation by power plants, provide fuel for transportation, and used as raw material to be processed into petrochemicals such as olefins including ethylene and propylene (i.e. used in the production of plastics, etc) and aromatics including benzene and xylene (i.e used in the production of paint solvents and cleaning agents, etc). The oil and gas industry is segmented into three stages, namely upstream (i.e. exploration and production), midstream (i.e. processing, storage and transportation of oil and gas) and downstream (i.e. refining, distribution and retail of finished products).

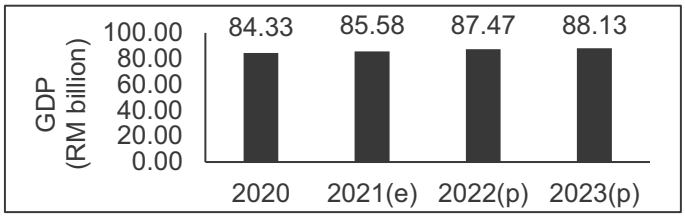
Industrial process equipment are used in all three stages of the oil and gas industry for the different functions and processes in the respective stages. Examples of industrial process equipment used in the oil and gas industry include valves (i.e. generally used for controlling the flow of oil during the upstream stage and used during the process of transporting oil and gas during the midstream stage), heat exchangers (i.e. commonly used within cracking units during the process of splitting oil from water and can be used in all three stages of

the oil and gas industry) and boilers (i.e. used to generate steam for purposes such as steam stripping and vacuum distillation).

The oil and gas industry in Malaysia, measured by the GDP of crude oil, condensate and natural gas in Malaysia, increased from RM84.33 billion in 2020 to RM88.13 billion in 2023 at a CAGR of 1.48%.

Based on latest publicly available information from MIDA, 18 investment projects in oil and gas in 2022 with a total value of RM23.90 billion were approved. These investment projects are expected to drive the growth of the oil and gas industry in Malaysia which will in turn lead to an increase in demand for industrial process equipment in Malaysia.

Oil and gas industry size (Malaysia), 2020 – 2023(p)



Notes:

(e) – Estimate.

(p) – Preliminary.

- *Latest available data as of 4 April 2024.*

Sources: DOSM, SMITH ZANDER

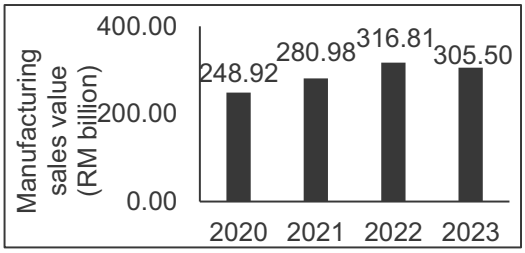
- **Food and beverage manufacturing industry**

The food and beverage manufacturing industry comprises companies involved in the production of food and beverage products, generally from raw agricultural ingredients to food and beverage products ready for intermediate or final consumption. The food and beverage manufacturing industry utilises industrial process equipment for various manufacturing processes such as evaporation, food peeling/skinning, pasteurisation and sterilisation. Examples of industrial process equipment that are used for the manufacturing of food and beverage products include heat exchangers (e.g. evaporators and plate heat exchangers), pressure vessels (e.g. for flash steam peeling of the outer skin of raw fruits or vegetables) and steam boilers (e.g. for heating, sterilising and pasteurising food and beverages).

The food and beverage manufacturing industry in Malaysia, measured by the manufacturing sales value of food products and beverages in Malaysia, increased from RM248.92 billion in 2020 to RM316.81 billion in 2022 at a CAGR of 12.82%.

Subsequently, the food and beverage manufacturing industry declined by 3.57% YOY to RM305.50 billion in 2023 in view of a lower economic growth in Malaysia with an overall GDP growth rate of 3.68%[1] in 2023 as compared to a 8.65%[1] growth in 2022, thus lowering the demand for food and beverage products. Nonetheless, the food and beverage manufacturing industry is expected to grow as the Malaysian economy continues to grow moving forward.

Food and beverage manufacturing industry size (Malaysia), 2020 – 2023



Sources: DOSM, SMITH ZANDER

The growth in the food and beverage manufacturing industry drives the demand for industrial process equipment. Malaysia is an upper-middle income developing country with a growing economy and increasing wealth, where the gross national income ("**GNI**") per capita in Malaysia increased from RM42,838.00 in 2020 to RM52,955.00 in 2023 at a CAGR of 7.32%.

The increasing GNI per capita indicates a more affluent population with greater propensity to spend and better standards of living, creating demand for basic necessities especially food. Thus, the food and beverage manufacturing industry is driven by an increase in consumer spending contributed from increasing disposable income of the Malaysian population.

► **Growth in foreign direct investment ("FDI") drives the growth of the industrial process equipment industry**

FDI inflows represent the value of inwards direct investment made by foreign investors. FDI inflows create stable and long-lasting relationships between economies of different countries, and the resilience of FDI inflows in a developing country is critical to allow the transfer of technology, foster healthy competition in the domestic market

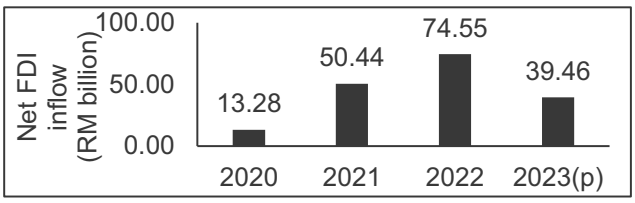
[1] *Sources: DOSM, SMITH ZANDER.*

and encourage human capital development[2]. With increasing FDI inflows in Malaysia, this will drive the growth of the Malaysian economy including industries such as power generation, oil and gas as well as manufacturing industries which will also benefit the industrial process equipment industry.

Net FDI inflow in Malaysia grew from RM13.28 billion in 2020 to RM74.55 billion in 2022 at a CAGR of 136.93%.

However, in 2023, the net FDI inflow in Malaysia declined by 47.07% YOY to RM39.46 billion which may be due to factors such as the political ambiguity before the six-state elections in August 2023, strengthening of the US dollar which lowered FDI inflows as well as high interest rates environment globally.

Net FDI inflow (Malaysia), 2020 – 2023(p)



Note:

(p) – Preliminary.

Source: DOSM

Despite recording a lower net FDI inflow in 2023 as compared to 2022, with Malaysia being an attractive investment destination for business growth and global expansion, FDI inflows in Malaysia is expected to recover and grow moving forward which would lead to subsequent increase in the establishment of new firms and facilities in various industries including power generation, oil and gas, and manufacturing. As more firms and facilities are set up in Malaysia, industrial process equipment will be required to support the operations of the new firms which will further drive the demand for industrial process equipment.

Key Industry Risks and Challenges

- **Exposure to global steel price fluctuations**

Steel is a key raw material used in the manufacturing of industrial process equipment, and the price of steel in Malaysia is driven by global steel prices. Steel is susceptible to price fluctuations as a result of demand and supply conditions of steel in the global market as well as prices of raw materials for the production of steel such as iron ore.

As Kawan Group uses hot rolled steel plates as one of its key raw materials, global steel prices will be represented by global hot rolled steel plate prices. In 2020, the global hot rolled steel plate price declined from USD637.00 (RM2,676.42)[3] per tonne in the first quarter ("**Q1**") of 2020 to USD585.33 (RM2,459.32) per tonne in the second quarter ("**Q2**") of 2020. A decline in the global hot rolled steel plate price in Q2 2020 was due to the impact of the novel coronavirus disease 2019 (COVID-19) pandemic that led to a temporary shutdown of many business operations which in turn caused lower demand for steel products. Nonetheless, starting from Q2 2020 up until Q2 2022, global hot rolled steel plate prices increased substantially quarter-by-quarter. Global hot rolled steel plate prices increased from USD585.33 (RM2,459.32) per tonne in Q2 2020 to USD1,602.00 (RM7,049.60)[4] per tonne in Q2 2022. This increase was due to a shortage in supply and global supply chain disruptions.

Thereafter, the price of global hot rolled steel plates decreased from USD1,602.00 (RM7,049.60) per tonne in Q2 2022 to USD1,148.33 (RM5,053.23) per tonne in fourth quarter ("**Q4**") of 2022. This decrease in the global price of hot rolled steel plates in the second half of 2022 may be due to slowing demand for steel caused by factors including increased risk of global recession in view of inflation and rising interest rates.

Subsequently, the price of global hot rolled steel plates increased slightly to USD1,158.00 (RM5,286.62)[5] per tonne in Q1 2023 and then further decreased to USD1,072.67 (RM4,897.06) per tonne in the third quarter ("**Q3**") of 2023. The decrease in price of global hot rolled steel plates in Q2 and Q3 2023 may be due to lower demand for steel products.

---

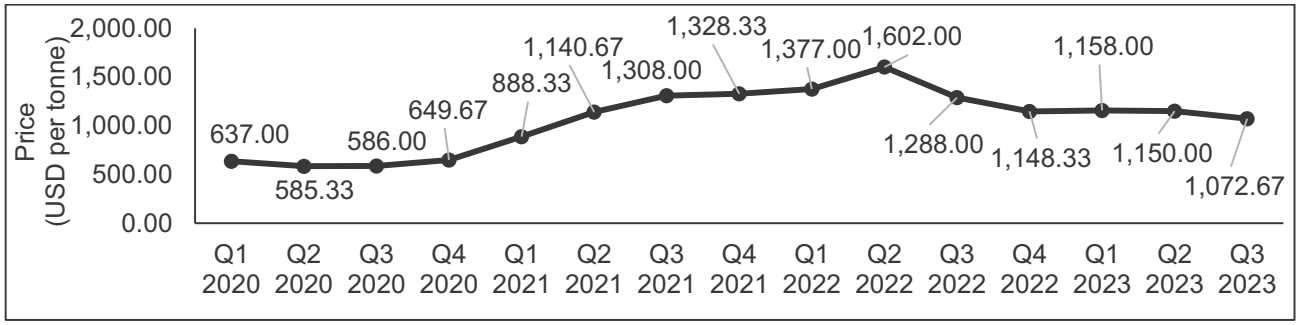
[2] Source: MIDA.

[3] Exchange rate from USD to RM in 2020 was converted based on average annual exchange rates in 2020 extracted from published information from Bank Negara Malaysia at USD1 = RM4.2016.

[4] Exchange rate from USD to RM in 2022 was converted based on average annual exchange rates in 2022 extracted from published information from Bank Negara Malaysia at USD1 = RM4.4005.

[5] Exchange rate from USD to RM in 2023 was converted based on average annual exchange rates in 2023 extracted from published information from Bank Negara Malaysia at USD1 = RM4.5653.

Hot rolled steel plate prices (Global), Q1 2020 – Q3 2023



Sources: MEPS International Ltd, SMITH ZANDER

Any unfavourable changes in the condition of any of the abovementioned factors may cause the price of steel to increase materially, which may lead to a rise in cost of production for industrial process equipment. If manufacturers of industrial process equipment are unable to pass on the material cost to their customers, they may have to bear the increasing costs, which could materially impact their financial performance.

- **Reliance on sufficient skilled personnel**

The manufacturing of industrial process equipment is characterised by its complexity and technical nature which require deep understanding of engineering principles and manufacturing processes. As such, the industrial process equipment manufacturing industry is dependent on having sufficient skilled and experienced personnel such as design engineers as well as skilled welders to remain competitive in the market. Experienced and knowledgeable design engineers are required to design detailed engineering drawings and technical descriptions of industrial process equipment based on customer's specifications, requirements and budget as well as to ensure the industrial process equipment designed can perform efficiently and effectively. Further, skilled welders play a vital role in carrying out the welding of industrial process equipment and ensuring the consistent quality of products and manufacturing productivity.

Failure to hire and/or retain skilled personnel with suitable capabilities may adversely affect the industry players' abilities to ensure consistent quality of products and manufacturing productivity. This would subsequently adversely affect the industry players' abilities to fulfil customer orders, secure new customers and/or to sustain revenue growth, which could lead to adverse impact on their business and financial performance.

3 COMPETITIVE LANDSCAPE OF THE INDUSTRIAL PROCESS EQUIPMENT INDUSTRY IN MALAYSIA

Overview

The industrial process equipment industry in Malaysia is competitive and fragmented due to the large number of industry players including public listed companies, large private companies as well as small to medium enterprises. Industry players may design and/or fabricate industrial process equipment as standalone products to be sold to customers or as part of the provision of design, fabrication, installation and commissioning services of industrial facilities where multiple integrated equipment are sold to customers.

Further, industry players who manufacture certain types of industrial process equipment such as boilers and pressure vessels in Malaysia are subject to stringent regulations and safety standards, whereby such industry players must be registered as a competent firm with the Department of Occupational Safety and Health ("**DOSH**"), granting them the approval to manufacture steam boilers, unfired pressure vessels, unfired pressure vessels (seamless pipe) and/or fired pressure vessels, in Malaysia. As at 4 April 2024, based on publicly available information, there were approximately 101 companies in Malaysia registered as competent firms and granted approval by DOSH to manufacture steam boilers, unfired pressure vessels, unfired pressure vessels (seamless pipe) and/or fired pressure vessels, with their approvals being in effect as of that date.

Key Industry Players

As Kawan Group designs and fabricates industrial process equipment namely boilers, heaters, heat exchangers and pressure vessels, the basis for selection of the key industry players in the industrial process equipment industry in Malaysia is as follows:

- Companies who are registered with DOSH as competent firms to manufacture steam boilers, fired pressure vessels and/or unfired pressure vessels;
- Companies who are involved in the manufacturing of at least one of the product types that Kawan Group manufactures (i.e. heat exchangers, pressure vessels, boilers and/or heaters);
- Companies recording revenue of at least RM30.00 million in their latest available financial year; and
- Companies with manufacturing facilities located in Peninsular Malaysia.

The list of key industry players in the industrial process equipment industry in Malaysia is as follows:

Company name	Business activities	Latest available financial year	Revenue (1) (RM million)	Gross profit (RM million)	Gross profit margin (%)	Profit after tax (RM million)	Profit after tax margin (%)
Wasco Process Engineering Sdn. Bhd. (formerly known as Jutasama Sdn. Bhd. and is a subsidiary of Wasco Berhad (2))	Design, fabrication, installation and commissioning of special tanks, pressure vessels, piping and specialised processing equipment	31 December 2022	482.37	95.10	19.72	39.08	8.10
Dynaciate Engineering Sdn. Bhd.	Provision of fabrication of pressure vessels, reel, skid and tankage, pipe spooling, customised engineering steel fabrication, steel structural, engineering and construction, facilities management, industrial piping system and plant service maintenance services	30 June 2023	281.68	27.41	9.73	6.48	2.30
Seremban Engineering Berhad (2)	Fabrication of process equipment, steel structures, civil engineering and provision of maintenance service and shutdown works	30 June 2023	274.82	12.24	4.45	4.62	1.68
Boilermech Sdn. Bhd. (a subsidiary of BM GreenTech Berhad (2))	Manufacturing, repairing and servicing of boilers	31 March 2023	242.10	30.15	12.45	7.73	3.19

Company name	Business activities	Latest available financial year	Revenue [1] (RM million)	Gross profit (RM million)	Gross profit margin (%)	Profit after tax (RM million)	Profit after tax margin (%)
Kawan Group [3]	Design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants, and involved in power generation and sale of electricity	31 October 2023	98.38	24.00	24.40	13.30	13.52
Amalgamated Metal Corporation (M) Sdn. Bhd. (a subsidiary of APB Resources Berhad [2])	Manufacturing of process equipment for petroleum, power, chemical, edible oil and other process industries	30 September 2022	75.05	19.93	26.56	8.50	11.33
Yuen Fee (Wan Soon) Engineering Sdn. Bhd.	Making welded steel pipes, silos, pressure vessels, air receivers and machine structures as well as provision of bending and cutting services	30 June 2023	68.99	24.91	36.11	9.03	13.09
A.K.K. Engineering Sdn. Bhd.	Provision of engineering, procurement and construction ("**EPC**") services, plant construction, fabrication of structure steel and pressure vessels, storage tank EPC, piping works, blasting and painting works, equipment installation, civil engineering, plant refurbishment and maintenance, and insulation works	31 December 2021	54.64	3.48	6.37	0.18	0.33
Ngeam Engineering Works Sdn. Bhd.	Provision of engineering and equipment for fertiliser plant and feedmill plant, engineering fabrication services for equipment like pressure vessels, factory automation machines, furnaces, rotary drums, filter vessels and precise steel structures, factory automation solution and waste management	31 December 2022	33.18	13.65	41.14	4.55	13.71

Notes:

- *The identified key industry players include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that*

have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players is exhaustive.

(1) Revenue of industry players may include revenue derived from other business activities (i.e. business activities other than manufacturing of industrial process equipment) and/or revenue derived from countries outside Malaysia, as segmental revenue for the manufacturing of industrial process equipment is not publicly available.

(2) Listed on the Main Market of Bursa Malaysia Securities Berhad.

(3) The financial figures for Kawan Group are presented on a group basis and include financials from the power generation and sale of electricity business segment. The revenue for power generation and sale of electricity in FYE 31 October 2023 is minimal, at RM0.18 million.

Sources: Kawan Group, various company websites, Companies Commission of Malaysia, SMITH ZANDER

Industry/Market Share

In 2023, the industrial process equipment industry size in Malaysia was recorded at RM23.50 billion. For the financial year end 31 October 2023, Kawan Group's revenue derived from the provision of design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants was recorded at RM98.20 million, and thereby Kawan Group captured a market share of 0.42% in the industrial process equipment industry in Malaysia.

4 THE BIOGAS INDUSTRY IN MALAYSIA

Overview

Renewable energy is generated from natural sources such as sunlight, wind, rain, biomass and geothermal heat which are naturally replenished. The rapid depletion of fossil fuels and its impact on the environment have driven nations globally, including Malaysia, to take up initiatives to develop renewable energy resources which are widely available, untapped and have zero to minimal amount of carbon dioxide emissions. There are various forms of renewable energy which include, but are not limited to, solar, small hydropower, biogas and biomass.

Energy generation in Malaysia relies on a varied mix of renewable and non-renewable energy resources. Non-renewable resources for electricity generation in Malaysia is primarily natural gas and coal. Meanwhile, renewable energy for electricity generation in Malaysia typically comprises solar, hydropower, biogas and biomass. Power producers in Malaysia operate different types of power plants and power generation facilities to convert fuels and energy resources into electricity for distribution to residential, commercial, industrial and other consumers nationwide via the National Grid in Peninsular Malaysia and the respective state grids in Sabah and Sarawak.

In the Eighth Malaysia Plan (2001-2005), the Government of Malaysia ("**Government**") announced the extension of the fuel diversification policy by including renewable energy as the fifth fuel to supplement supply from conventional energy sources, namely oil, gas, hydro and coal. Further, the Government has launched several schemes and programmes to drive the development and contribution of renewable energy in the nation's power generation mix. These schemes and programmes include the Feed-in-Tariff ("**FiT**") system, Large Scale Solar (LSS) scheme, Net Energy Metering (NEM) scheme and Self-consumption (SELCO) scheme. Additionally, Malaysia targets to increase the share of renewable energy in the national installed capacity mix to 31%, 40% and 70% by 2025, 2040 and 2050 respectively.

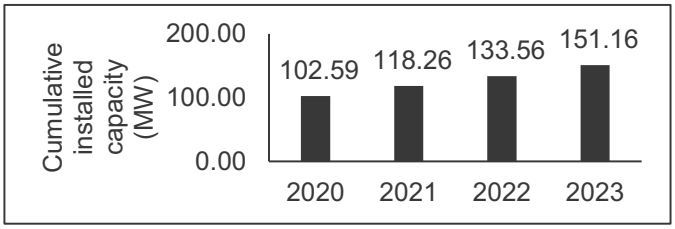
Moreover, under the National Energy Transition Roadmap, ten flagship catalyst projects and initiatives based on six energy transition levers namely energy efficiency, renewable energy, hydrogen, bioenergy, green mobility, as well as carbon capture, utilisation and storage have been outlined. The flagship catalyst projects and initiatives will have several modalities to showcase the different level of technology and solutions needed to tackle energy transition. One of the implementation modalities include a co-firing initiative at the existing 2,100-megawatt ("**MW**") Tanjung Bin Power Plant by burning biomass together with coal. Biomass sources include Empty Fruit Bunch (EFB) pellets, wood chips, wood pellets, bamboo pellets, coconut husk and rice husk. A pilot-phase of co-firing will begin in 2024 with a view to scale up the biomass co-firing capacity to a minimum of 15.00% by 2027.

As Kawan Group is involved in the operations of power generation through its landfill biogas power plant, this section will focus on the biogas segment of the renewable energy industry in Malaysia.

Biogas is primarily made up of methane, carbon dioxide and may contain nitrogen and trace elements of hydrogen sulphide, which are produced by the decomposition of agricultural waste, manure, sewage sludge, municipal solid waste and other biodegradable waste under specific conditions. The gas is then funnelled into a combustion engine where it is combusted to produce heat and mechanical force which are then used to power an electric generator for electricity production.

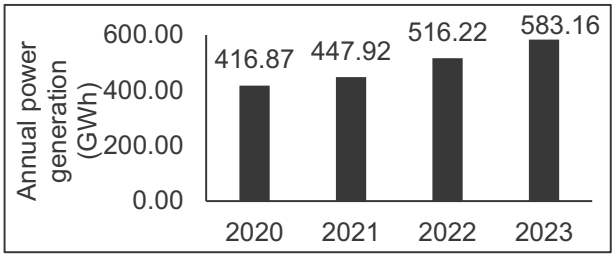
The biogas industry in Malaysia is illustrated through the cumulative installed capacity of commissioned biogas installations under the FiT mechanism and the annual power generation of commissioned biogas installations under the FiT mechanism. The cumulative installed capacity of commissioned biogas installations in Malaysia grew from 102.59 MW in 2020 to 151.16 MW in 2023 at a CAGR of 13.79%. In terms of supply, the annual power generation of commissioned biogas installations in Malaysia grew from 416.87 gigawatt-hours ("**GWh**") in 2020 to 583.16 GWh in 2023 at a CAGR of 11.84%.

Cumulative installed capacity of commissioned biogas installations (Malaysia), 2020 – 2023



*Sources: Sustainable Energy Development Authority ("**SEDA**") Malaysia, SMITH ZANDER*

Annual power generation of commissioned biogas installations (Malaysia), 2020 – 2023



Sources: SEDA Malaysia, SMITH ZANDER

The growth of the biogas industry in Malaysia will continue to be driven by the future growth in the economy as electricity is an integral infrastructural element for economic growth and a main input for commercial and production activities. Electricity underpins a wide range of products and services that improve the quality of life, increases productivity and promotes entrepreneurial activity. Continued economic development of a country as well as population growth generally lead to increased power consumption.

To support the growth of the renewable energy industry in Malaysia, including the biogas industry, under the Budget 2020, the Government announced the extension of green technology tax incentives until 2023 in which the incentives include:

- Green Investment Tax Allowance ("**GITA**"): Extension of Investment Tax Allowance of 100.00% on capital expenditure for eligible green activities for a duration of 3 years. The allowance can be set-off against up to 70.00% of statutory income.
- Green Income Tax Exemption ("**GITE**"): Extension of income tax exemption of 70.00% of statutory income for eligible green services activities for 3 years of assessment; as well as new tax incentive for solar leasing activities with income tax exemption of 70.00% of statutory income for up to 10 years of assessment to be given to solar leasing companies certified by SEDA.

Meanwhile under the Budget 2022, the purchase of eligible green assets and green services were proposed to be expanded to include Rainwater Harvesting System projects. Subsequently, under the Budget 2023, the Government will study and enhance the GITA and GITE packages.

Further, under the Budget 2024, the green technology tax incentives for GITA project (business purposes), GITA asset (own consumption) and GITE solar leasing are proposed to be reviewed and effective for applications received by MIDA or qualifying capital expenditure as verified by the Malaysian Green Technology and Climate Change Corporation for purchase of green technology assets from 1 January 2024 to 31 December 2026. Among the green technology tax incentives, the incentive period for biogas related qualifying activities under GITA project is proposed to be 5 years, with a GITA of 100.00%, and 70.00% of statutory income to be set-off.

The Government's efforts to promote renewable energy aim at ensuring energy security for the country as Malaysia strives to achieve the status of high-income economy. This will lead to a lower dependency on fossil fuels while increasing the nation's power generation capacity. This move towards ensuring that Malaysia's energy future is green, sustainable and diverse will bode well for the renewable energy industry in Malaysia.

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP AND INVESTMENT CONSIDERATIONS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED HEREIN IN THIS PROSPECTUS BEFORE YOU MAKE YOUR INVESTMENT DECISION. IF YOU ARE IN ANY DOUBT AS TO THE INFORMATION CONTAINED IN THIS SECTION, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our Group is dependent on our Managing Director, Executive Directors and key senior management

The success of our Group is dependent on the experience, industry knowledge and technical expertise of our Managing Director, Executive Directors and key senior management. The growth and future success of our Group, in particular, will continue to be dependent on the continuous contribution from our Managing Director, Lim Thou Lai, for his technical expertise and leadership in setting the strategic direction and driving the business development of our Group. Please refer to Section 5.1.2 for the profile of our Managing Director.

Our Executive Directors, Chong Hon Choong and Heng Siew Aun, are also actively involved in our operations and are supported by our key senior management, comprising individuals who each have significant relevant experience in the engineering industry as well as within their respective field of expertise. Further details on the experience of our Executive Directors and key senior management are as set out in Sections 5.1.2 and 5.3.3.

As such, the loss of our Managing Director and/or any of our Executive Directors and key senior management simultaneously or within a short time may create unfavourable or material impact on our Group's operations and the future growth of our business if we are unable to replace them in a timely manner. This may ultimately affect our business operations, financial performance and prospects.

9.1.2 The project-based nature of our Group's business may result in the fluctuation of our Group's performance

We are principally involved in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants. Our Group's sales are derived based on purchase orders whereby our customers will purchase our products on a project-to-project basis or on an as-needed basis. We do not enter into any long-term contracts with our customers due to the nature of our business and the prevailing customer practices where the demand for our products is subject to our customers' needs as and when required.

The project-based nature of our Group's business may result in the fluctuation of our Group's sales and result in uncertainties over our overall financial performance. In addition, there is no assurance that we are able to sustain our existing order book in the future or that purchase orders that have been made by our customers can be fulfilled due to cancellation by our customers or our Group's shortage of resources. Please refer to Section 12.12 for further details on our order book. While our Group continuously seeks to maintain and strengthen existing business relationships and establish relationships with new customers to expand our customer base, any adverse economic conditions, or slowdowns in the manufacturing or engineering-related industries, may negatively impact our sales, which will subsequently result in a decline in our financial performance.

9. RISK FACTORS *(Cont'd)*

9.1.3 We may not be able to successfully implement our business strategies

We plan to grow our Group's business by expanding and enhancing our business operations, through our business strategies and future plans as follows:

(a) improving the output of Bercham Plant;

(b) constructing a new 2MW biomass power plant; and

(c) upgrading some of our production processes to improve our operating efficiency.

In order to successfully implement these future plans and business strategies, we are required to install an anaerobic digestion system, which will convert the agricultural waste into biogas for generation of electricity; a new 2MW biomass power plant; and additional machinery. Please refer to Section 7.16 for further details.

The execution of our business strategies is subject to additional operating and capital expenditure. Such additional expenditure will increase our Group's operating cost including overhead costs, which may adversely affect our profitability if we are unable to generate sufficient revenue following the implementation of our business strategies. Furthermore, the implementation of our business strategies may be influenced by factors beyond our control, such as changes in general market conditions, the Government policies, economic conditions as well as political environment in Malaysia, which may affect the commercial viability of our business strategies.

Hence, there can be no assurance that the implementation of our business strategies will yield expected results. We are also not able to guarantee that we will be successful in executing our business strategies, nor can we assure that we will be able to anticipate all the business, operational and industry risks arising from our business strategies. For example, there is no assurance that we will be successful in achieving the desired output and revenue for our power generation and sale of electricity business with our upgraded Bercham Plant and investment in new 2MW biomass power plant. Such failure may lead to adverse effect on our business operations and financial performance.

9.1.4 We are exposed to warranty claims and product liability claims by our customers

The industrial process equipment, process plant, and renewable energy and co-generation plants provided by our Group must conform to our customers' specifications and perform according to our customers' requirements. We generally provide a standard warranty period of 12 months from delivery to our customers for our industrial process equipment, process plants as well as renewable energy and co-generation plants. Save for consumables and wear and tear parts (e.g. gaskets, mechanical seals and bearings) which are not covered under our warranty, the warranty provided to customers encompasses workmanship and material defect.

During this period, we will rectify and/or replace faulty or damaged parts at our cost. If we are required to rectify defects during the warranty period, which will result in substantial costs being borne by us, the margin from the particular project will be reduced. In FYE 2020 to 2023, we incurred RM4,040, Nil, RM12,239 and RM83,477 respectively in product rectification during our customers' warranty periods.

9. RISK FACTORS *(Cont'd)*

We may also be subject to product liability claims from our customers for the losses or damages suffered as a result of product defects. As insurance coverage for product liability is not available in the market, we are not insured for losses, claims and liabilities arising from or in connection with product defects. As such, the cost to reimburse the losses or to rectify the damages incurred will be borne by our Group which may adversely affect our financial performance and position. In FYE 2020 to 2023, our Group has not received any product liability claims by our customers.

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

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities which include, amongst others, fire, burglary, public liability, group personal accident, hospitalisation and surgical insurance policies. However, we are unable to guarantee that the insurance coverage will be adequate in all circumstances to cover the losses, damages or liabilities which we may incur, in the event that any of the abovementioned incidences take place or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all.

To the extent that any such risks are uninsured, not covered under our insurance policies, or where the insurance protection is not sufficient to cover such risks, we would have to bear such losses and consequently our business operations and financial performance may be adversely affected.

9.1.6 Our business operations are exposed to unexpected interruptions or delays caused by equipment failures, fire and environmental factors (including natural disasters and outbreak of diseases)

We rely on a diverse range of machinery and equipment to fabricate our industrial process equipment. These machinery and equipment may, on occasion, be out of service due to unanticipated failures or damages sustained during operations. Our business is also subject to disruptions due to fire, which may cause damage or destruction to all or part of our manufacturing facilities as well as our machinery and equipment. Further, we may also be affected by the occurrence of unexpected power failure which may affect our fabrication activities as we will not be able to operate our machinery and equipment.

Environmental factors such as natural disasters (e.g. floods or storms) may also lead to interruptions to the operations at our factories and/or damages to our machinery and equipment and affect our ability to meet the agreed upon delivery schedule to our customers.

Our business operations may also be affected by the outbreak of diseases such as the COVID-19 pandemic. Details on the interruptions to our business operations arising from the COVID-19 pandemic are as set out in Section 7.7. Any implementation or tightening of movement restriction arising from the outbreak of diseases which results in the suspension of operations and/or reduction of workforce may affect our business operations. Further, any delays in our delivery schedules and procurement activities may adversely impact our ability to fulfil orders in a timely manner, and subsequently affecting our revenue recognition.

In the event that we are required to halt our operations due to the abovementioned incidences, we will still be required to incur operating expenses such as labour costs and utility costs. Our Group's operations and financial performance may be adversely affected should the interruptions occur for a prolonged period of time. Further, we may also need to incur additional expenses if our machinery and equipment sustain unanticipated failures or damages and need to be repaired or replaced.

9. RISK FACTORS *(Cont'd)*

During FYE 2020 to 2023 and up to LPD, we have not experienced any major interruptions to our business operations caused by unexpected machinery and equipment failures, fire and environmental factors that have adversely affected our business operations and/or financial performance. If we encounter such events, our business operations and/or financial performance may be adversely affected.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 Our industry is reliant on certain licences, permits and approvals, as well as quality and safety accreditations

We have obtained several licences and permits from various governmental authorities and quality and safety accreditations from internationally recognised bodies (ASME, DOSH, National Board of Boiler & Pressure Vessel Inspectors and ISO). Details of our licenses, permits, approvals, and quality and safety accreditations are set out in Sections 6.7 and 7.13. Some of these licences, permits, approvals, and quality and safety accreditations are subject to periodic inspections, renewals, changes and/or fulfilment of certain conditions imposed by the relevant authorities, particularly DOSH with respect to the fabrication and repair of pressure vessels and steam boilers. We are registered with CIDB as a G7 contractor, details of which are set out in Section 6.7. As a G7 contractor, we are eligible to tender for projects with contract value over RM10 million within our scope of specialisation. For FYE 2020 to 2023, we have undertaken 7 projects with contract values over RM10 million each, which collectively contributed 23.6%, 15.2%, 26.4% and 34.4% of our Group's total revenue, respectively. To the extent of the contribution of such projects, our Group is dependent on our G7 certificate.

If we are unable to renew any of our licences, permits and approvals, as well as quality and safety accreditations or comply with the regulations or conditions of such licenses, permits, approvals and accreditations, they may be suspended or revoked and this will negatively affect our business operations. Please refer to Section 6.7 for further details on the conditions imposed by the relevant authorities. Further, in the event that there are new laws introduced, changes to existing legislations or other future regulatory developments, there is no assurance that such events will not have a material adverse effect on our business.

Further, the manufacturing licences of our Factory 2 and Factory 3 in Ipoh stipulate that 80% of the workforce of Kawan Engineering has to be Malaysian citizens by 31 December 2024. As at LPD, although we are working towards complying with the conditions whereby Kawan Engineering's total percentage of full-time Malaysian citizens is 72.2%, our Group has not complied with such condition. If our Group is unable to comply with such condition by 31 December 2024 and a further extension of time is not granted by the relevant authorities, our manufacturing licences may be suspended or revoked and this will negatively affect our business operations.

9.2.2 We rely on the availability of skilled workers for our fabrication activities

We rely on skilled workers such as foremen, machinists, welders and fitters to carry out our fabrication activities. As at LPD, we have 118 workers involved in our fabrication activities. This group consists of Chuah Theam Choon, our Head of Department (Production) and 117 workers from the Production department, which collectively represents 61.5% of our total workforce. Among the 118 workers, 81 are skilled workers comprising 7 foremen, 18 machinists, 16 welders and 40 fitters, representing 68.6%.

9. RISK FACTORS *(Cont'd)*

Our ability to retain and to attract competent and skilled workers is crucial for our continued success, future business growth and expansion. Any loss of our skilled workers and our inability to find suitable replacements in a timely manner and at competitive salary rates may cause disruptions to our deliverables which may consequently affect our revenue recognition. Any delays to our delivery schedules may lead to dissatisfaction from our customers and may impact our ability to secure future business opportunities from these customers. Additionally, we may lose our competitive edge if we are unable to recruit sufficient skilled workers to support our business growth and thus, causing us to forgo potential business opportunities, which may affect the financial performance and prospects of our Group.

9.2.3 We are exposed to fluctuations in raw material prices

Our Group's primary purchases are auxiliary parts and equipment, subcontractor and outsourced services as well as steel plates which constitute between 54.6% and 84.6% of our total purchases during FYE 2020 to 2023 as set out in Section 7.10.

The prices of certain raw materials such as steel plates and steel tubes are subject to price fluctuations as a result of, amongst others, global demand and supply conditions, as well as global and regional economic conditions (e.g. the COVID-19 pandemic and uncertainties arising from the sanctions on Russia). As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, and in turn, affecting our financial performance should we fail to pass the increase in cost to our customers.

In FYE 2021, the increase in steel prices, which moved in tandem with global steel prices, resulted in the increase in our raw materials costs and subsequently our cost of sales. Please refer to Section 12.2.2(b) for further details on the price fluctuations of our raw materials. Notwithstanding this, we did not experience any material adverse impact on our financial performance in FYE 2021 as we were able to pass the increase in costs to our customers in a timely manner. Save for the aforementioned, we have not encountered any substantial increase in raw materials prices in FYE 2020 to 2023. Moving forward, if we are unable to pass on any increase in raw material cost to our customers, our financial performance may be adversely affected.

9.2.4 We face competition from other industry players and new market entrants

The industrial process equipment industry in Malaysia is competitive and fragmented due to the large number of industry players including public listed companies, large private companies as well as small to medium enterprises. As at 4 April 2024, there were approximately 101 companies in Malaysia registered as competent firms and granted approval by DOSH to manufacture steam boilers, unfired pressure vessels, unfired pressure vessels (seamless pipe) and/or fired pressure vessels. Industry players may design and/or fabricate industrial process equipment as standalone equipment or part of their design, fabrication, installation and commissioning of process plants. Our Group competes with these players in terms of, amongst others, pricing, quality of industrial process equipment, fabrication capabilities and timeliness of delivery.

We face competition from existing and new industrial process equipment manufacturers similar to our Group (i.e. manufacturers of heat exchangers, pressure vessels as well as boilers and heaters). For more information on the industry players that are deemed closest competitors to our Group, please refer to Section 8.

9. RISK FACTORS *(Cont'd)*

9.2.5 Our Group is subject to the risks relating to the economic, political and/or legal environment in the markets in which we serve

Our Group principally operates in Malaysia. Our business, prospects, financial condition and results of operations may be affected by any adverse developments or uncertainties in political, legal, regulatory or economic conditions that are beyond our control in Malaysia as well as other countries where we market our products and services. These risks include unfavourable changes in political conditions, economic conditions, interest rates, government policies and regulations, import and export restrictions, duties and tariffs, civil unrest, methods of taxation, inflation and foreign exchange controls.

Any adverse economic, political, legal and/or social developments such as changes in government policies and widespread and/or prolonged economic slowdowns in the markets we operate may cause a decline in the demand for our Group's products and services, which may have a material adverse effect on our business operations and financial performance.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

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

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

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

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

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

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

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

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

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

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

9. RISK FACTORS *(Cont'd)*

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

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

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

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.4 OTHER RISKS

9.4.1 Our Promoters will be able to exert significant influence over our Company as they will continue to hold majority of our Shares after our IPO

Our Promoters will collectively hold approximately 73.7% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have a deciding vote on the outcome of (i.e. to approve or reject) certain matters requiring simple majority of the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save for the Group Internal Restructuring and as disclosed below, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during FYE 2020 to 2023 and up to LPD.

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Lim Thou Lai and Tan Kim Hong	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director • Tan Kim Hong is the spouse of Lim Thou Lai	Purchase of 1 unit of condominium located at B-5-3A, Jalan Chin Hwa, Damaipuri Kondominium, 30250 Ipoh, Perak by Kawan Engineering from Lim Thou Lai and Tan Kim Hong(1)	-	-	650	(2)1.7	-	-	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Tan Kim Hong	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director • Tan Kim Hong is the spouse of Lim Thou Lai	Purchase of 1 unit of condominium located at C-10-09, Upper East @ Tiger Lane, Kondominium Kelab Golf, Jalan Kelab Golf, 30350 Ipoh, Perak by Kawan Engineering from Tan Kim Hong[3]	-	-	730	[2]1.9	-	-	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Engecrol Moditech (Asia Pacific) Sdn Bhd ("**Engecrol Moditech**")	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director • Lim Thou Lai was a director and shareholder of Engecrol Moditech[4]	Sale of steam condenser and waste heat recovery power generation to Engecrol Moditech (This transaction is recurrent in nature and will subsist after our Listing)	-	-	-	-	4,153	[5]2.9	379	[5]0.4	[4]N/A	[4]N/A
				Purchase of power generation equipment from Engecrol Moditech (This transaction is recurrent in nature and will subsist after our Listing)	57	[7]0.1	4	[7]<0.1	494	[7]0.4	771	[7]1.0	[4]N/A	[4]N/A

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Semut Technology Sdn Bhd (formerly known as Kawan Technology Sdn Bhd) ("**Semut Technology**")	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director • Lim Thou Yan and Lim Thou Kiong, siblings of Lim Thou Lai, are the directors and shareholders of Semut Technology	Sale of fabrication products including heat exchanger and pressure vessels to Semut Technology (This transaction is recurrent in nature and will subsist after our Listing)	102	[5]0.2	156	[5]0.2	1,225	[5]0.8	89	[5]0.1	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
ADV Systems Sdn Bhd ("**ADV Systems**")[8]	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director • Lim Thou Lai and his spouse, Tan Kim Hong, are also directors and shareholders of ADV Systems	Provision of engineering services by ADV Systems	75	[7]0.2	286	[7]0.5	-	-	-	-	-	-
Periforce Asia Sdn Bhd ("**Periforce Asia**")[9]	Kawan Engineering	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director	Provision of engineering services by Periforce Asia	-	-	27	[7]0.1	41	[7]<0.1	-	-	-	-

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

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value									
					FYE 2020		FYE 2021		FYE 2022		FYE 2023		1 November 2023 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
			• Lim Thou Lai is also a director and shareholder of Periforce Asia											
Lim Thou Lai	Kawan	Lim Thou Lai	• Lim Thou Lai is our Group's Promoter, substantial shareholder and Managing Director	Provision of advances to Kawan for working capital purposes(10)	-	-	-	-	-	-	550	(2)<0.1	550	(2)<0.1

Notes:

(1) The purchase of 1 unit of condominium located at B-5-3A, Jalan Chin Hwa, Damaipuri Kondominium, 30250 Ipoh, Perak by Kawan Engineering was not at arm's length basis as it was purchased at an agreed pricing of RM650,000. Moving forward, our Group will procure valuer's report to ascertain the market value of the property(ies) prior to the acquisition of any such property(ies) from our related party.

(2) Computed based on our Group's NA as at the end of each of the respective financial years.

(3) The purchase of 1 unit of condominium located at C-10-09, Upper East @ Tiger Lane, Kondominium Kelab Golf, Jalan Kelab Golf, 30350 Ipoh, Perak by Kawan Engineering was not at arm's length basis as the purchase consideration was based on the cost price of RM730,800 in accordance with the previous sale and purchase agreement entered into between Tan Kim Hong (as purchaser) and Curah Bahagia Sdn Bhd (as vendor) on 22 December 2014. Moving forward, our Group will procure valuer's report to ascertain the market value of the property(ies) prior to the acquisition of any such property(ies) from our related party.

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

(4) Lim Thou Lai ceased to be a director and shareholder of Engecrol Moditech on 15 May 2023 and 22 June 2023 respectively. Pursuant thereto and as at LPD, Engecrol Moditech is no longer a related party.

(5) Computed based on our Group's revenue for each of the respective financial years.

(6) Not applicable as we did not prepare any financial statements from 1 November 2023 up to LPD.

(7) Computed based on our Group's cost of sales for each of the respective financial years.

(8) As at LPD, this company is inactive and is in the process of striking off, which is expected to be completed by second quarter of 2024.

(9) As at LPD, this company is dormant with no intended activities and is in the process of striking off, which is expected to be completed by second quarter of 2024.

(10) The advances were made by the related party for the working capital of Kawan. The advances were not given on arm's length basis as they were interest free. Subsequent to LPD, the said advances from the related party have been fully settled on 1 April 2024. Moving forward, our Group will no longer receive any advances from the related party.

Save as disclosed in Notes (1), (3) and (10) above, our Board is of the view that all our Group's related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties. This was determined based on the following:

(a) sales of our products to Engecrol Moditech and Semut Technology were based on comparable selling price charged to our third party customers; and

(b) purchase price of our products from Engecrol Moditech as well as the provision of engineering services provided by ADV Systems and Periforce Asia were based on comparable price charged by the aforementioned related parties to their customers.

Our Board also confirms that there are no material related party transactions entered into but not yet effected as at LPD.

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

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

(a) Recurrent related party transactions

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

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

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

(b) Other related party transactions

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

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

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

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

For related party transactions that require shareholders' approval, the Directors, major shareholders and/or persons connected with such Director or major shareholder, which have any interest, direct or indirect, in the proposed related party transaction will abstain from deliberating and voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transactions, the Director or major shareholder concerned will also abstain from deliberating and voting in respect of his direct and/or indirect shareholdings. The relevant Directors who are deemed interested or conflicted in such transactions shall also abstain from our Board deliberations and voting on the Board resolutions relating to these transactions.

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

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. If a member of our Audit and Risk Management Committee has an interest in any related party transaction, he is to abstain from participating in the review and approval process in relation to that transaction. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any related party transaction entered into by us.

10.2 OTHER TRANSACTIONS

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

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for FYE 2020 to 2023 and up to LPD.

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

10.2.2 Outstanding loans (including guarantees of any kind)

(a) Outstanding loans and/or balances

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

(b) Guarantees

Our Promoter, substantial shareholder and Managing Director, Lim Thou Lai, has provided personal guarantees for the banking and hire purchase facilities extended by Malayan Islamic Berhad, OCBC Bank (Malaysia) Berhad, Affin Bank Berhad and OCBC Al-Amin Bank Berhad ("**Financiers**") to our Group:

Financier	Type of Facilities	Purposes	Outstanding balance as at LPD	Facility limit / amount	Guarantor(s)
			RM'000		
Malayan Islamic Berhad	3 term financing facilities	For working capital purposes and to part finance Factory 3	6,004	8,850	Lim Thou Lai
OCBC Bank (Malaysia) Berhad	2 trade facilities	For purchase of goods, products or materials and importation of machinery or equipment. As performance / tender / advance payment / payment guarantee bonds or other guarantees as approved by the bank	6,355	57,000	Lim Thou Lai
Affin Bank Berhad	7 hire purchase facilities	Purchase of motor vehicles	261	480	Lim Thou Lai

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

Financier	Type of Facilities	Purposes	Outstanding balance as at LPD	Facility limit / amount	Guarantor(s)
			RM'000		
OCBC Al-Amin Bank Berhad	5 hire purchase facilities	Purchase of machineries and equipment	546	1,218	Lim Thou Lai
			13,166	**67,548**	

In conjunction with our Listing, we have applied to the Financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the Financiers.

As at LPD, we have received conditional approvals from all the Financiers for the release and/or discharge the above guarantees. The approvals from the Financiers are subject to, amongst others:

(i) the successful listing of our Group;

(ii) Lim Thou Lai shall remain in the management team of our Group (imposed by OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad only); and

(iii) provision of a written confirmation and evidence from Kawan Engineering that all the banks are ranked pari-passu (imposed by OCBC Bank (Malaysia) Berhad and OCBC Al-Amin Bank Berhad only).

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

10.2.3 Transactions entered into with M & A Securities

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

(a) Agreement dated 20 May 2022 between Kawan and M & A Securities for the appointment of M & A Securities as Adviser, Sponsor and Placement Agent for our Listing; and

(b) Underwriting Agreement dated 3 April 2024 entered into between our Company and M & A Securities for the underwriting of 46,750,000 Issue Shares.

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11. CONFLICT OF INTEREST

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

As at LPD, none of our Directors and substantial shareholders has any interest, direct or indirect, in:

(a) other businesses and corporations which are carrying on a similar trade as our Group; and

(b) the business of our customers and suppliers.

It is our Directors' fiduciary duty to avoid conflict and in order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nominating Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nominating Committee will then first evaluate if such Director's involvement gives rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest of a Director, our Nominating Committee will then:

(a) immediately inform our Audit and Risk Management Committee and Board of the conflict of interest situation;

(b) after deliberation with our Audit and Risk Management Committee, to make recommendations to our Board to direct the conflicted Director to:

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

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

In relation to (b)(ii) above, the conflicted Director and persons connected to him (if applicable) shall be absent from any Board discussion relating to the recommendation of our Nominating Committee and the conflicted Director and persons connected to him (if applicable) shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of our Board, be present at our Board meeting to answer any questions.

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

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

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

11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

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

(b) Rosli Dahlan Saravana Partnership has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors for our Listing;

(c) Baker Tilly Monteiro Heng PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and

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

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our historical financial information throughout FYE 2020 to 2023 has been prepared in accordance with MFRS and IFRS. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

Our Company was incorporated in Malaysia under the Act on 26 October 2022 as a private limited company under the name of Kawan Renergy Sdn Bhd. On 28 July 2023, we converted into a public limited company and adopted our present name.

Kawan and its subsidiaries (other than Magenko Group, which was acquired during FYE 2022) have been under the common control of our Promoters throughout FYE 2020 to 2023 and are regarded as continuing entities. As such, the historical financial information of our Group for FYE 2020 to 2023 is presented based on our Group's audited combined financial statements.

12.1.1 Combined statements of comprehensive income

The following table summarises our combined statements of comprehensive income for FYE 2020 to 2023, which have been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition", and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	48,823	64,041	139,184	98,379
Cost of sales	(41,355)	(53,964)	(117,668)	(74,382)
GP	**7,468**	**10,077**	**21,516**	**23,997**
Other income	171	737	2,563	2,115
Administrative expenses	(1,983)	(1,932)	(3,408)	(5,734)
Other operating expenses	(181)	(225)	(2,448)	(1,785)
Operating profits	**5,475**	**8,657**	**18,223**	**18,593**
Finance income	321	364	568	777
Finance costs	(123)	(84)	(222)	(450)
PBT	**5,673**	**8,937**	**18,569**	**18,920**
Income tax expense	(1,248)	(2,054)	(4,341)	(5,618)
PAT/total comprehensive income	**4,425**	**6,883**	**14,228**	**13,302**
EBIT[(1)]	5,475	8,657	18,223	18,593
EBITDA[(1)]	6,646	9,865	20,031	21,507
GP margin (%)[(2)]	15.3	15.7	15.5	24.4
PBT margin (%)[(3)]	11.6	14.0	13.3	19.2
PAT margin (%)[(3)]	9.1	10.7	10.2	13.5
Effective tax rate (%)[(4)]	22.0	23.0	23.4	29.7
EPS (sen)[(5)]	0.8	1.3	2.6	2.4

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) EBIT and EBITDA are calculated as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT	4,425	6,883	14,228	13,302
Less:				
Interest income	(321)	(364)	(568)	(777)
Add:				
Finance costs	123	84	222	450
Income tax expense	1,248	2,054	4,341	5,618
EBIT	**5,475**	**8,657**	**18,223**	**18,593**
Add:				
Depreciation	1,171	1,208	1,808	2,914
EBITDA	**6,646**	**9,865**	**20,031**	**21,507**

(2) GP margin is calculated based on GP over revenue.

(3) PBT or PAT margin is calculated based on PBT or PAT over revenue.

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

(5) Calculated based on PAT over our enlarged share capital of 550,000,000 Shares after our IPO.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 31 October 2020, 2021, 2022 and 2023, which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition", and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	As at 31 October			
	2020	2021	2022	2023
Assets	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Non-current asset				
Property, plant and equipment	7,422	8,982	21,834	22,344
Total non-current asset	**7,422**	**8,982**	**21,834**	**22,344**
Current assets				
Inventories	2,615	2,311	2,338	2,451
Current tax assets	143	-	-	-
Trade and other receivables	17,481	16,995	43,724	22,805
Contract assets	3,741	6,544	12,567	15,447
Cash and short-term deposits	23,367	29,986	41,331	44,746
Total current assets	**47,347**	**55,836**	**99,960**	**85,449**
Total assets	**54,769**	**64,818**	**121,794**	**107,793**
Equity and liabilities				
Equity attributable to owners of the Group				
Share capital / Invested equity	6,500	10,000	10,200	10,200
Merger deficit	-	-	(200)	(200)
Retained earnings	28,522	28,905	35,133	43,435
Total equity	**35,022**	**38,905**	**45,133**	**53,435**
Non-current liabilities				
Loans and borrowings	34	676	7,267	6,324
Deferred income	-	-	-	67
Deferred tax liabilities	230	276	52	1,103
Total non-current liabilities	**264**	**952**	**7,319**	**7,494**
Current liabilities				
Loans and borrowings	2,518	2,987	5,514	4,411
Deferred income	-	-	-	8
Current tax liabilities	-	279	2,392	1,023
Trade and other payables	8,681	11,839	46,160	12,524
Contract liabilities	8,284	9,856	15,276	28,898
Total current liabilities	**19,483**	**24,961**	**69,342**	**46,864**
Total liabilities	**19,747**	**25,913**	**76,661**	**54,358**
Total equity and liabilities	**54,769**	**64,818**	**121,794**	**107,793**

12. FINANCIAL INFORMATION *(Cont'd)*

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for FYE 2020 to 2023, which has been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition", and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flow from operating activities				
PBT	5,673	8,937	18,569	18,920
Adjustments for:				
Depreciation of property, plant and equipment	1,171	1,208	1,808	2,914
Gain on disposal of property, plant and equipment	(7)	(34)	-	(135)
Gain on lease termination	-	-	-	(1)
Impairment loss on trade receivables	181	168	2,448	-
Bad debt recovered	-	(430)	-	-
Amortisation of government grant income	-	-	-	(3)
Finance costs	123	84	222	450
Finance income	(321)	(364)	(568)	(777)
Property, plant and equipment written off	<0.1	-	<0.1	-
Reversal of impairment losses on trade receivables	-	-	-	(127)
Net unrealised gain on foreign exchange	(69)	(220)	(918)	(1,774)
Bargain purchase on acquisition of subsidiaries	-	-	(1,506)	-
Waiver of debt	-	-	(50)	-
Bad debt written off	-	-	<0.1	350
Operating profit before changes in working capital	**6,751**	**9,349**	**20,005**	**19,817**
Changes in working capital:				
Inventories	(46)	304	(26)	(113)
Trade and other receivables	(2,573)	748	(27,326)	20,816
Trade and other payables	(1,228)	1,668	25,611	(26,169)
Contract assets	1,571	(2,803)	(6,023)	(2,880)
Contract liabilities	6,509	1,571	5,420	13,622
Net cash generated from operations	**10,984**	**10,837**	**17,661**	**25,093**
Income tax paid	(1,440)	(1,586)	(2,453)	(5,936)
Interest received	321	364	568	777
Net cash from operating activities	**9,865**	**9,615**	**15,776**	**19,934**
Cash flow used in investing activities				
Acquisition of subsidiary, net of cash acquired	-	-	590	-
Purchase of property, plant and equipment	(766)	(2,482)	(3,614)	(3,567)

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Proceed from disposal of property, plant and equipment	15	62	-	839
Proceeds from government grants related to assets	-	-	-	78
Change in pledged deposits	(47)	(44)	(27)	(4,048)
Net cash used in investing activities	**(798)**	**(2,464)**	**(3,051)**	**(6,698)**
Cash flow used in financing activities				
Proceeds from the issuance of ordinary shares	-	-	<0.1	-
Interest paid	(123)	(84)	(222)	(450)
Payment of lease liabilities	(537)	(256)	(239)	(554)
Drawdown of bankers' acceptances	10,047	8,630	18,100	8,950
Payment of bankers' acceptances	(11,457)	(8,130)	(16,690)	(10,200)
Drawdown of term loans	-	562	-	-
Repayment of term loans	-	(10)	(203)	(804)
Net changes in amount owing to a director	46	-	40	(17)
Net changes in amount owing to a shareholder	-	(9)	-	550
Dividends paid	(1,000)	(1,500)	(3,000)	(13,000)
Net cash used in financing activities	**(3,024)**	**(797)**	**(2,214)**	**(15,525)**
Net increase / (decrease) in cash and cash equivalents	6,043	6,354	10,511	(2,289)
Cash and cash equivalents at the beginning of the financial year	15,776	21,888	28,463	39,781
Effect of exchange rate changes on cash and cash equivalent	69	221	807	1,656
Cash and cash equivalents at the end of the financial year(1)	**21,888**	**28,463**	**39,781**	**39,148**

Note:

(1) Cash and cash equivalents comprised of the following:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Short-term deposits	15,308	22,866	27,230	31,162
Less: Pledged deposits	(1,479)	(1,523)	(1,550)	(5,598)
	13,829	21,343	25,680	25,564
Cash and bank balances	8,059	7,120	14,101	13,584
	21,888	**28,463**	**39,781**	**39,148**

12. FINANCIAL INFORMATION *(Cont'd)*

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

The following discussion and segmental analysis of our combined financial statements for FYE 2020 to 2023 should be read with the Accountants' Report included in Section 13.

12.2.1 Overview of our operations

(a) Principal activities

We are an engineering solutions provider principally involved in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants ("**design, fabrication, installation and/or commissioning solutions**"). As an engineering solutions provider, our solutions encompass our Group's technical capability to analyse our customer's need and proactively propose suitable design solutions which are customised to meet our customers' engineering requirements. In addition to proposing design solutions, our Group's solutions also include the capability to provide in-house fabrication, installation and/or commissioning of the industrial process equipment, process plants as well as renewable energy and co-generation plants. Our business activities are further elaborated in Section 7.2.1.1.

Our core business activities for design, fabrication, installation and/or commissioning solutions involve the following:

(a) Design and fabrication of industrial process equipment

We design and fabricate industrial process equipment that are used to facilitate and/or support industrial production and processing (e.g. food processing, oleochemical and chemical processing, oil and gas, waste recovery and utilities) as well as power plant operations (e.g. power generation and co-generation). The industrial process equipment that we design and fabricate comprise heat exchangers, pressure vessels as well as boilers and heaters. Our industrial process equipment is fabricated and sold as standalone equipment to our customers for installation into their production and processing operations.

(b) Design, fabrication, installation and commissioning of process plants

We design, fabricate, install and commission process plants that are used to facilitate and/or support industrial production and processing. This comprises the integration of multiple industrial process equipment to form a process plant. Our offering of process plants focuses within the area of food processing, oleochemical and chemical processing, and waste recovery.

(c) Design, fabrication, installation and commissioning of renewable energy and co-generation plants

We design, fabricate, install and commission renewable energy and co-generation plants. This comprises the integration of multiple industrial process equipment to form a renewable energy or co-generation plant. Renewable energy plants generate electricity using renewable resources such as thermal energy (i.e. heat), biogas and biomass, while co-generation plants use fuel such as natural gas to generate electricity and thermal energy.

12. FINANCIAL INFORMATION *(Cont'd)*

In addition to the provision of design, fabrication, installation and/or commissioning solutions, we also provide repair and maintenance services which include the replacement of spare parts and components as well as general upkeep of the industrial process equipment fabricated by our Group as well as by other fabricators. Our repair and maintenance services are provided as and when required by our customers on a purchase order basis. For repair and maintenance services which are covered under warranty, the cost will be borne by our Group.

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

(b) Revenue

Our revenue comprises revenue from the design, fabrication, installation and/or commissioning solutions segment and sale of electricity from power generation.

Our Group recognises revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services. Revenue recognition of our Group is applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer).

In accordance with MFRS 15 Revenue from Contracts with Customers Paragraph 17, the Combination of Contracts refers to multiple contracts with the same customer or related parties if it is required to determine whether these contracts entered into at or around the same time should be combined or aggregated. Generally, contracts should be combined if they meet specific criteria, such as:

(i) They are negotiated as a package with a single commercial objective.
(ii) The amount to be paid in one contract depends on the performance of the other contract(s).
(iii) The goods or services promised in the contract (or some goods or services promised in each of the contracts) are a single performance obligation.

If these criteria are met, the contracts should be considered a single performance obligation for accounting purposes.

However, there was no combination of contracts during FYE 2020 to 2023.

For practical expedient, our Group applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if our Group reasonably expects that the effects on the combined financial statements would not differ materially from recognising revenue on the individual contracts (or performance obligations) within that portfolio. Similar characteristic is referring to when a company or group has a portfolio of contracts or performance obligations that are very similar in nature.

Design, fabrication, installation and/or commissioning solutions segment

Revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards complete satisfaction of a performance obligation is determined by the proportion of project costs incurred for work performed to date bear to the estimated total project costs (an input method). Project costs in this context are the expenses associated with a project. They can include labour costs, material costs, equipment costs, subcontractor fees, permits, and any other expenses related to the construction of the plant.

12. FINANCIAL INFORMATION *(Cont'd)*

Sales are made with credit terms, which is consistent with market practice, therefore, no element of financing is deemed present. Our Group becomes entitled to invoice customers based on achieving a series of performance-related milestones.

Our Group recognises a contract asset for any excess of revenue recognised to date over the billings-to-date. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point when the invoice is issued or the timing for billing is due to the passage of time. If the milestone billing exceeds the revenue recognised to date and any deposit or advances received from customers, then the Group recognises a contract liability for the difference.

Sale of electricity from power generation

Revenue from a contract to provide services is recognised over time as the services are rendered because the customer receives and uses the benefits simultaneously. This is determined based on the time elapsed (output method).

(c) Cost of sales

Our cost of sales comprises mainly raw materials costs, subcontractor and outsourced service costs, staff-related costs, consumables, fittings and accessories as well as handling, freight, forwarding and transportation.

(d) Other income

Other income comprises mainly unrealised and realised gain on foreign exchange and bad debts recovered.

(e) Administrative expenses

Administrative expenses comprise mainly staff-related costs, depreciation of property, plant and equipment, and upkeep of property, plant and equipment.

(f) Other operating expenses

Other operating expenses comprise mainly impairment losses on trade receivables.

(g) Finance income

Finance income comprises mainly interest received from short-term deposits.

(h) Finance costs

Finance costs comprise interest on term financing, bankers' acceptances and lease liabilities.

(i) Recent developments

Save for the Group Internal Restructuring, and payment of dividend declared in FYE 2023 of RM5.0 million, there were no other significant events subsequent to our audited combined financial statements for FYE 2023 and there are no other significant events that may have a material effect on our financial position and results for FYE 2023.

12. FINANCIAL INFORMATION *(Cont'd)*

(j) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during FYE 2020 to 2023. In addition, the audited financial statements of our subsidiaries for FYE 2020 to 2023 were not subject to any audit qualifications.

(k) Significant factors affecting our business

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

(i) The project-based nature of our Group's business may result in the fluctuation of our Group's performance

We are principally involved in the design, fabrication, installation and/or commissioning of industrial process equipment, process plants as well as renewable energy and co-generation plants. Our Group's sales are derived based on purchase orders whereby our customers will purchase our products on a project-to-project basis or on an as-needed basis. We do not enter into any long-term contracts with our customers due to the nature of our business and the prevailing customer practices where the demand for our products is subject to our customers' needs as and when required.

The project-based nature of our Group's business may result in the fluctuation of our Group's sales and result in uncertainties over our overall financial performance. In addition, there is no assurance that we are able to sustain our existing order book in the future or that purchase orders that have been made by our customers can be fulfilled due to cancellation by our customers or our Group's shortage of resources. Please refer to Section 12.12 for further details on our order book. While our Group continuously seeks to maintain and strengthen existing business relationships and establish relationships with new customers to expand our customer base, any adverse economic conditions, or slowdowns in the manufacturing or engineering-related industries, may negatively impact our sales, which will subsequently result in a decline in our financial performance.

(ii) We are exposed to warranty claims and product liability claims by our customers

The industrial process equipment, process plant, and renewable energy and co-generation plants provided by our Group must conform to our customers' specifications and perform according to our customers' requirements. We generally provide a standard warranty period of 12 months from delivery to our customers for our industrial process equipment, process plants as well as renewable energy and co-generation plants. Save for consumables and wear and tear parts (e.g. gaskets, mechanical seals and bearings) which are not covered under our warranty, the warranty provided to customers encompasses workmanship and material defect.

During this period, we will rectify and/or replace faulty or damaged parts at our cost. If we are required to rectify defects during the warranty period, which will result in substantial costs being borne by us, the margin from the particular project will be reduced. In FYE 2020 to 2023, we incurred RM4,040, Nil, RM12,239 and RM83,477, respectively in product rectification during our customers' warranty periods.

We may also be subject to product liability claims from our customers for the losses or damages suffered as a result of product defects. As insurance coverage for product liability is not available in the market, we are not insured for losses, claims and liabilities arising from or in connection with product defects. As such, the cost to reimburse the losses or to rectify the damages incurred will be borne by our Group which may adversely affect our financial performance and position. In FYE 2020 to 2023, our Group has not received any product liability claims by our customers.

(iii) Our business operations are exposed to unexpected interruptions or delays caused by equipment failures, fire and environmental factors (including natural disasters and outbreak of diseases)

We rely on a diverse range of machinery and equipment to fabricate our industrial process equipment. These machinery and equipment may, on occasion, be out of service due to unanticipated failures or damages sustained during operations. Our business is also subject to disruptions due to fire, which may cause damage or destruction to all or part of our manufacturing facilities as well as our machinery and equipment. Further, we may also be affected by the occurrence of unexpected power failure which may affect our fabrication activities as we will not be able to operate our machinery and equipment.

Environmental factors such as natural disasters (e.g. floods or storms) may also lead to interruptions to the operations at our factories and/or damages to our machinery and equipment and affect our ability to meet the agreed upon delivery schedule to our customers.

Our business operations may also be affected by the outbreak of diseases such as the COVID-19 pandemic. Details on the interruptions to our business operations arising from the COVID-19 pandemic are as set out in Section 7.7. Any implementation or tightening of movement restriction arising from the outbreak of diseases which results in the suspension of operations and/or reduction of workforce may affect our business operations. Further, any delays in our delivery schedules and procurement activities may adversely impact our ability to fulfil orders in a timely manner, and subsequently affecting our revenue recognition.

In the event that we are required to halt our operations due to the abovementioned incidences, we will still be required to incur operating expenses such as labour costs and utility costs. Our Group's operations and financial performance may be adversely affected should the interruptions occur for a prolonged period of time. Further, we may also need to incur additional expenses if our machinery and equipment sustain unanticipated failures or damages and need to be repaired or replaced.

During FYE 2020 to 2023 and up to LPD, we have not experienced any major interruptions to our business operations caused by unexpected machinery and equipment failures, fire and environmental factors that have adversely affected our business operations and/or financial performance. If we encounter such events, our business operations and/or financial performance may be adversely affected.

12. FINANCIAL INFORMATION *(Cont'd)*

12.2.2 Review of our results of operations

(a) Revenue

Analysis of revenue by business segment

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Design, fabrication, installation and/or commissioning solutions								
- Industrial process equipment	30,041	61.5	32,183	50.3	54,344	39.0	48,439	49.2
- Process plants	18,782	38.5	31,858	49.7	43,388	31.2	27,708	28.2
- Renewable energy and co-generation plants	-	-	-	-	41,411	29.8	22,050	22.4
Sub-total[1]	48,823	100.0	64,041	100.0	139,143	100.0	98,197	99.8
Other[2]	-	-	-	-	41	<0.1	182	0.2
	48,823	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**

Notes:

(1) The number of job orders provided by our Group had contributed to the revenue was during FYE 2020, FYE 2021, FYE 2022 and FYE 2023 are 402, 491, 528 and 497, respectively. For avoidance of doubt, if our design, fabrication, installation and/or commissioning solutions are provided to the same job order over the past 4 FYEs, it is counted as 1 job order for each financial year.

(2) Comprised sale of electricity revenue from the power generation following the acquisition of Magenko Group in August 2022. The landfill gas power plant began operations in 2016. The landfill gas power plant captures and converts the methane gas released from the decomposition of organic waste in the landfill, for the generation of electricity. The landfill gas power plant has an installed capacity of 1.2MW and a net export capacity of 1MW, and is operating under the FiT mechanism. Under the FiT mechanism, we are allowed to sell the electricity produced from our plant to the distribution licensee at a predetermined rate of RM0.3880/kWh until 2032. In addition, the total FiT that Magenko Ipoh is entitled to receive in each year during the effective period, as specified in the Feed-In Approval, is limited to the total FiT payable to Magenko Ipoh based on the renewable energy generated up to the declared annual availability of the particular year. Since the acquisition of Magenko Group in 2022, all electricity generated from Bercham Plant have been sold to the distribution licensee.

12. FINANCIAL INFORMATION *(Cont'd)*

Analysis of revenue by industry[1]

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Oleochemical and chemical[2]	34,020	69.7	40,415	63.1	75,393	54.2	61,763	62.8
Power	3,844	7.9	3,824	6.0	48,015	34.5	20,417	20.8
Utilities	6,564	13.4	12,822	20.0	10,794	7.8	9,020	9.1
Oil and gas	1,810	3.7	1,254	2.0	4,077	2.9	1,455	1.5
Others[3]	2,585	5.3	5,726	8.9	905	0.6	5,724	5.8
	48,823	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**

Notes:

(1) Revenue categorised by product application industry.

(2) Includes waste recovery industry.

(3) Others comprise mainly food processing and glove industries.

Analysis of revenue by geographical market[1]

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	**42,022**	**86.1**	**60,548**	**94.5**	**122,594**	**88.1**	**80,597**	**81.9**
Overseas								
- Indonesia	1,350	2.8	1,411	2.2	8,533	6.1	1,426	1.5
- Singapore	1,509	3.1	1,447	2.3	7,299	5.2	1,037	1.1
- Japan	3,266	6.7	617	1.0	352	0.3	34	<0.1
- USA	-	-	-	-	39	<0.1	13,312	13.5
- Others[2]	676	1.3	18	<0.1	367	0.3	1,973	2.0
	6,801	**13.9**	**3,493**	**5.5**	**16,590**	**11.9**	**17,782**	**18.1**
Total revenue	**48,823**	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**

Notes:

(1) Revenue by the geographical market is based on the place of domicile of our customers. The design and fabrication of our projects will be performed in Malaysia. However, we will purchase the equipment from overseas if we are unable to design and fabricate it. The installation and commissioning works of our projects will be carried out at our customer's project site in Malaysia or overseas.

(2) Others comprise mainly New Zealand, South Africa and Germany.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2020 and FYE 2021

Our revenue for FYE 2021 and FYE 2020 was derived solely from the design, fabrication, installation and/or commissioning solutions segment, mainly contributed by the oleochemical and chemical industry as well as utilities industry. These industries collectively contributed RM53.2 million or 83.1% of our total revenue for FYE 2021 (FYE 2020: RM40.6 million or 83.1% of our total revenue). There were 491 job orders during FYE 2021 (FYE 2020: 402 job orders).

The local market was our main revenue contributor, which recorded RM60.5 million or 94.5% of our total revenue for FYE 2021 (FYE 2020: RM42.0 million or 86.1%).

Design, fabrication, installation and/or commissioning solutions

Our revenue from the design, fabrication, installation and/or commissioning solutions segment increased by RM15.2 million or 31.1% to RM64.0 million for FYE 2021 (FYE 2020: RM48.8 million), mainly attributable to the following:

(i) higher revenue from the design, fabrication, installation and commissioning of process plants, which increased by RM13.1 million or 69.7% to RM31.9 million for FYE 2021 (FYE 2020: RM18.8 million), mainly due to the following projects:

(aa) increase in revenue from projects for the oleochemical and chemical industry of RM6.4 million, which was mainly contributed by:

(a) higher progress from food emulsifier plant, chemical plant and waste oil recovery plant projects from our existing local customers, which collectively contributed to the growth in revenue of RM12.9 million for FYE 2021; and

(b) new waste oil recovery plant, short path distillation plant and storage tank farm projects secured from our local customers during FYE 2021, which collectively contributed to the growth in revenue of RM4.3 million.

The above increases were narrowed by lower revenue from Jadi Imaging Technologies Sdn Bhd, which declined by RM10.3 million for FYE 2021 as their chemical plant, raw water treatment plant and waste water treatment plant projects were completed during FYE 2020;

(bb) a new compounding plant project for the glove industry secured from a local customer, which contributed RM2.2 million of our revenue for FYE 2021;

(cc) increase in revenue from sugar refinery plant and biogas purification projects for the food industry from our existing customer, Periforce Sdn Bhd, which recorded increased revenue of RM1.2 million; and

(dd) a new EFB dryer plant project for the power industry secured from an Indonesian customer for its Indonesia operations, which contributed RM0.9 million to our revenue for FYE 2021.

(ii) higher revenue for the design and fabrication of industrial process equipment which increased by RM2.1 million or 7.0% to RM32.1 million for FYE 2021 (FYE 2020: RM30.0 million) primarily due to more job orders during FYE 2021, which increased from 270 job orders in FYE 2020 to 326 job orders in FYE 2021 as well as higher value projects secured. Revenue from projects for the utilities industry increased by RM5.3 million for FYE 2021 largely contributed by pressure vessel, boiler and heater projects secured from 9 local customers and a Singaporean customer, which collectively contributed incremental revenue of RM5.2 million.

The above increase was partially offset by decrease in revenue from projects for the power industry by RM2.1 million. Within this power industry, we recorded a decrease in revenue of RM3.3 million from a heat exchanger project secured from Murum Hydro Power Generation Sdn Bhd, a local customer. Such decrease was partially offset by a new heat exchanger project secured from a local customer, which contributed to RM1.4 million revenue.

There was no revenue from the design, fabrication, installation and commissioning solutions for renewable energy and co-generation plants for FYE 2020 and 2021.

Comparison between FYE 2021 and FYE 2022

Our revenue further improved by RM75.2 million or 117.5% to RM139.2 million for FYE 2022 (FYE 2021: RM64.0 million), mainly contributed by the design, fabrication, installation and/or commissioning solutions for industrial process equipment, process plants and renewable energy and co-generation plants. There were 528 job orders during FYE 2022 (FYE 2021: 491 job orders).

The design, fabrication, installation and/or commissioning solutions segment continued to be our largest revenue contributor, which recorded RM139.1 million or 99.9% of our total revenue for FYE 2022 (FYE 2021: RM64.0 million or 100.0%).

The local market remains the primary revenue contributor for FYE 2022, which recorded RM122.6 million or 88.1% of our total revenue (FYE 2021: RM60.5 million or 94.5%), which was determined based on the place of domicile of our customers.

Design, fabrication, installation and/or commissioning solutions

Our revenue from the design, fabrication, installation and/or commissioning solutions segment continued to grow by RM75.1 million or 117.5% to RM139.2 million for FYE 2022 (FYE 2021: RM64.0 million). The said increase was attributable to the following:

(i) higher revenue from the design, fabrication, installation and commissioning of renewable energy and co-generation plants of RM41.4 million (FYE 2021: Nil) from a new co-generation power plant project for the power industry secured from Ramatex Textiles Industrial Sdn Bhd and a new co-generation power plant project for the oleochemical and chemical industry secured from Munzing Malaysia Sdn Bhd.

(ii) higher revenue for the design and fabrication of industrial process equipment which increased by RM22.2 million or 69.2% to RM54.3 million for FYE 2022 (FYE 2021: RM32.1 million) primarily due to more job orders during FYE 2022, which increased from 326 job orders in FYE 2021 to 343 job orders in FYE 2022 as well as higher value projects secured, predominantly due to the following:

(aa) increase in revenue from projects for the oleochemical and chemical industry of RM16.3 million, mainly contributed by pressure vessel and heat exchanger projects secured from 2 Indonesian customers, a Singaporean customer and 3 existing local customers, which collectively contributed to incremental revenue of RM17.0 million for FYE 2022;

(bb) increase in revenue from projects for the power industry of RM5.8 million, mainly contributed by heat exchanger projects secured from 3 local customers, which collectively contributed to incremental revenue of RM6.8 million for FYE 2022; and

(cc) increase in revenue from projects for the oil and gas industry of RM2.8 million, mainly contributed by pressure vessel projects secured from 2 local customers, which collectively contributed to incremental revenue of RM2.8 million for FYE 2022.

The abovementioned increases were partially offet by the decrease in revenue of RM2.1 million related to the pressure vessel projects for the food industry from Periforce Sdn Bhd due to no further work being performed as our Group are currently engaged in a litigation case with Periforce Sdn Bhd.

(iii) higher revenue for the design, fabrication, installation and commissioning of process plants which increased by RM11.5 million or 36.1% to RM43.4 million for FYE 2022 (FYE 2021: RM31.9 million), mainly due to higher percentage of completion for an ongoing chemical plant project for the oleochemical and chemical industry from Munzing Malaysia Sdn Bhd which recorded incremental revenue of RM18.0 million. Such increase was partially offset by the following:

(aa) zero revenue in FYE 2022 from a chemical plant project for the oleochemical and chemical industry from Vast Evolve Sdn Bhd, a local customer, which was completed during FYE 2021 (FYE 2021: RM4.4 million); and

(bb) RM2.1 million decrease in revenue from an ongoing compounding system project for the glove industry secured from a local customer in line with its progress.

Comparison between FYE 2022 and FYE 2023

Our revenue decreased by RM40.8 million or 29.3% to RM98.4 million for FYE 2023 (FYE 2022: RM139.2 million), and was mainly contributed by the design, fabrication, installation and/or commissioning solutions for industrial process equipment, process plants and renewable energy and co-generation plants. There were 497 job orders during FYE 2023 (FYE 2022: 528 job orders).

This design, fabrication, installation and/or commissioning solutions segment continued to be our largest revenue contributor, which recorded RM98.2 million or 99.8% of our total revenue for FYE 2023 (FYE 2022: RM139.1 million or 99.9% of our total revenue).

12. FINANCIAL INFORMATION *(Cont'd)*

The local market was our main revenue contributor for FYE 2023, which recorded RM80.6 million or 81.9% of our total revenue (FYE 2022: RM122.6 million or 88.1%), which was determined based on the place of domicile of our customers.

Design, fabrication, installation and/or commissioning solutions

Our revenue from the design, fabrication, installation and/or commissioning solutions segment decreased by RM40.9 million or 29.4% to RM98.2 million for FYE 2023 (FYE 2022: RM139.1 million), mainly attributable to the following:

(i) lower revenue for the design, fabrication, installation and commissioning of renewable energy and co-generation plants, which decreased by RM19.3 million or 46.6% to RM22.1 million for FYE 2023 (FYE 2022: RM41.4 million), mainly due to the decrease in revenue from a co-generation power plant project for Ramatex Textiles Industrial Sdn Bhd by RM20.0 million in line with progress milestones.

(ii) lower revenue for the design, fabrication, installation and commissioning of process plants, which decreased by RM15.7 million or 36.2% to RM27.7 million for FYE 2023 (FYE 2022: RM43.4 million), mainly due to the net effects of the following:

(aa) decrease in revenue from projects for the oleochemical and chemical industry of RM16.3 million, primarily from:

(a) decrease in revenue by RM16.1 million from an ongoing chemical plant project from Munzing Malaysia Sdn Bhd, as it involved mainly testing and commissioning works during FYE 2023. These stages of progress have lower revenue allocated as compared to the stage of procurement of raw materials during FYE 2022;

(b) decrease in revenue by RM4.0 million from a ongoing food emulsifier plant project from a local customer as the project was completed during the second half of FYE 2022. However, there were some variation orders for this project during FYE 2023 resulting in revenue recorded of RM0.2 million;

(c) decrease in revenue by RM1.9 million from an ongoing waste oil recovery plant project from a local customer as the fabrication works were completed during the second half of FYE 2022;

(d) decrease in revenue by RM1.5 million from a project for modification for short path distillation plant, from a local customer. This is an ongoing project where we charge based on works performed, and there were fewer modification works undertaken during FYE 2023; and

(e) no further revenue from a storage tank farm project from a local customer which was completed during the second half of FYE 2022 (FYE 2022: RM1.3 million).

Such decreases were partially offset by a new calcium soap plant project from Oiltek Sdn Bhd ("**Oiltek**"), which recorded increased revenue of RM6.9 million.

(bb) decrease in revenue from projects for the power industry of RM3.3 million mainly due to the completion of the biogas purification plant, reactor and utility plant as well as the heat exchanger for power plant projects from 3 local customers during the second half of FYE 2022 (FYE 2022: RM3.5 million).

Such decreases were partially offset by the increase in revenue from projects for other industries of RM4.4 million mainly due to 2 new esterification plant and sugar refinery plant projects for the food industry secured from 2 local customers, which collectively contributed RM4.3 million of our revenue for FYE 2023.

(iii) lower revenue for the design and fabrication of industrial process equipment, which decreased by RM5.9 million or 10.9% to RM48.4 million for FYE 2023 (FYE 2022: RM54.3 million), despite more job orders during FYE 2023, which increased from 343 job orders in FYE 2022 to 377 job orders in FYE 2023 as lower value projects were secured. The lower revenue was mainly due to the following:

(aa) decrease in revenue from projects for the power industry of RM4.4 million, mainly contributed by heat exchanger, boiler and heater projects from 2 local customers, which collectively decreased by RM4.8 million in line with progress;

(bb) decerase in revenue from projects for the oil and gas industry of RM2.4 million, mainly contributed by pressure vessel projects from 2 local customers, which collectively decreased by RM2.2 million in line with progress milestones; and

(cc) decrease in revenue from projects for the utility industry of RM1.6 million, mainly contributed by pressure vessel, boiler and heater projects from 3 local customers, which collectively decreased by RM1.3 million in line with progress milestones.

Such decreases were partially offset by the increase in revenue from projects for the oleochemical and chemical industry of RM2.1 million, mainly contributed by pressure vessel projects secured from a USA customer, which contributed to incremental revenue of RM13.1 million of our revenue for FYE 2023, and partially offset by pressure vessel and heat exchanger projects secured from 2 Indonesian customers and a Singaporean customer, which collectively decreased by RM10.8 million in line with progress milestones.

Others

Following the acquisition of Magenko Group in August 2022, our Group recorded revenue of RM0.2 million in FYE 2023 for 12 months (FYE 2022: RM0.04 million for 3 months) from the sale of electricity from power generation.

12. FINANCIAL INFORMATION *(Cont'd)*

(b) Cost of sales, GP and GP margin

Analysis of cost of sales by cost component

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials	21,009	50.8	29,269	54.2	76,036	64.6	34,779	46.8
Consumables, fittings and accessories[(1)]	1,360	3.3	2,758	5.1	4,066	3.5	3,781	5.1
Subcontractor and outsourced services	10,611	25.7	11,479	21.3	18,715	15.9	17,109	23.0
Depreciation of property, plant and equipment and right-of-use assets	869	2.1	882	1.6	1,348	1.1	2,424	3.3
Handling, freight, forwarding and transportation	1,135	2.7	1,721	3.2	6,632	5.6	2,534	3.4
Staff-related	4,354	10.5	5,261	9.8	7,169	6.1	9,303	12.5
Others[(2)]	2,017	4.9	2,594	4.8	3,702	3.2	4,452	5.9
	41,355	**100.0**	**53,964**	**100.0**	**117,668**	**100.0**	**74,382**	**100.0**

Notes:

(1) Consumables, fittings and accessories comprise mainly welding wire and welding electrodes.

(2) Others comprise mainly travelling, diesel, fuel, petrol, parking and toll, product testing fees, short-term leases mainly for accommodation for foreign workers, tools and machinery, utilities, upkeep of tools and machinery and license fees.

Analysis of cost of sales by business segment

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Design, fabrication, installation and/or commissioning solutions								
- Industrial process equipment	23,977	58.0	27,147	50.3	43,777	37.2	36,855	49.6
- Process plants	17,378	42.0	26,817	49.7	34,952	29.7	22,298	30.0
- Renewable energy and co-generation plants	-	-	-	-	38,576	32.8	13,935	18.7
	41,355	**100.0**	**53,964**	**100.0**	**117,305**	**99.7**	**73,088**	**98.3**
Other[(1)]	-	-	-	-	363	0.3	1,294	1.7
	41,355	**100.0**	**53,964**	**100.0**	**117,668**	**100.0**	**74,382**	**100.0**

Note:

(1) Other comprises sale of electricity from the power generation following the acquisition of Magenko Group in August 2022. Hence, cost of sales for this business segment was not applicable for FYE 2020 and 2021.

12. FINANCIAL INFORMATION *(Cont'd)*

Analysis of GP and GP margin by business segment

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Design, fabrication, installation and/or commissioning solutions								
- Industrial process equipment	6,064	20.2	5,036	15.6	10,567	19.4	11,584	23.9
- Process plants	1,404	7.5	5,041	15.8	8,436	19.4	5,410	19.5
- Renewable energy and co-generation plants	-	-	-	-	2,835	6.8	8,115	36.8
	7,468	**15.3**	**10,077**	**15.7**	**21,838**	**15.7**	**25,109**	**25.6**
Other[(1)]	-	-	-	-	(322)	(785.4)	(1,112)	(611.0)
	7,468	**15.3**	**10,077**	**15.7**	**21,516**	**15.5**	**23,997**	**24.4**

Note:

(1) Other comprises sale of electricity from the power generation following the acquisition of Magenko Group in August 2022. Hence, GP and GP margin for this business segment was not applicable for FYE 2020 and 2021.

Our raw materials costs, subcontractor costs and outsourced services fees, consumables, fittings and accessories as well as handling, freight, forwarding and transportation are variable costs which will fluctuate in tandem with our revenue.

Comparison between FYE 2020 and FYE 2021

Analysis by cost component

Our cost of sales increased by RM12.6 million or 30.4% to RM54.0 million for FYE 2021 (FYE 2020: RM41.4 million), mainly attributable to the following:

(i) increase in raw materials costs by RM8.3 million or 39.5% to RM29.3 million for FYE 2021 (FYE 2020: RM21.0 million), mainly due to the increase in global steel prices due to strong demand for steel products coupled with a shortage in raw materials such as iron ore and scrap metal;

(ii) increase in cost of consumables, fittings and accessories by RM1.4 million or 100.0% to RM2.8 million for FYE 2021 (FYE 2020: RM1.4 million), mainly due to the resumption of our factory operations following the relaxation of MCO;

(iii) increase in cost of handling, freight, forwarding and transportation by RM0.6 million or 54.5% to RM1.7 million for FYE 2021 (FYE 2020: RM1.1 million), primarily resulting from more deliveries following the relaxation of MCO as well as the increase in freight charges;

(iv) increase in subcontractor costs and outsourced services fees by RM0.9 million or 8.5% to RM11.5 million for FYE 2021 (FYE 2020: RM10.6 million) to support our business growth; and

(v) increase in staff-related costs by RM0.9 million or 20.5% to RM5.3 million for FYE 2021 (FYE 2020: RM4.4 million), mainly due to annual salary increment and increase in average monthly employee headcount to 97 for FYE 2021 (FYE 2020: 82). Additionally, higher wages and overtime costs were incurred for FYE 2021 due to labour shortage during the COVID-19 pandemic.

Analysis by business segment

Our cost of sales increased by RM12.6 million or 30.4% to RM54.0 million for FYE 2021 (FYE 2020: RM41.4 million), and our GP increased by RM2.6 million or 34.7% to RM10.1 million for FYE 2021 (FYE 2020: RM7.5 million), which grew in tandem with our revenue growth rate of 31.1%. As a result, we recorded a GP margin of 15.3% for FYE 2020 and 15.7% for FYE 2021, which were relatively stable.

Our cost of sales from the design, fabrication, installation and commissioning of process plants increased by RM9.4 million or 54.0% to RM26.8 million for FYE 2021 (FYE 2020: RM17.4 million), which rate is lower than our revenue growth of 69.7%. The said increase was mainly attributable by the following 3 ongoing projects and 1 new project for the oleochemical and chemical industry from our local customers, which collectively recorded incremental cost of sales of RM12.7 million, in line with the progress of these projects during FYE 2021:

(i) an ongoing food emulsifier plant project from Unioleon Sdn Bhd;

(ii) an ongoing waste oil recovery plant project from Vast Evolve Sdn Bhd;

(iii) an ongoing chemical plant project from Munzing Malaysia Sdn Bhd; and

(iv) a new waste oil recovery plant project secured from a local customer.

Our GP for the design, fabrication, installation and commissioning of process plants increased by RM3.7 million or 264.3% to RM5.1 million for FYE 2021 (FYE 2020: RM1.4 million). We recorded an improved GP margin increase from 7.5% for FYE 2020 to 15.8% for FYE 2021. This was because our depreciation of property plant and equipment, contract wages, and staff-related costs increased at rates lower than the revenue growth rate as they are relatively fixed in nature. Additionally, 2 niche projects for a waste oil recovery plant and food emulsifier plant yielded better margins.

Our cost of sales for the design and fabrication of industrial process equipment increased by RM3.2 million or 13.3% to RM27.2 million for FYE 2021 (FYE 2020: RM24.0 million), mainly attributable by pressure vessel and heat exchanger projects for the oleochemical and chemical industry from 2 local customers, including Oiltek.

Despite our revenue for the design and fabrication of industrial process equipment having increased during FYE 2021, our GP decreased by RM1.1 million or 18.0% to RM5.0 million for FYE 2021 (FYE 2020: RM6.1 million), and the GP margin declined to 15.6% for FYE 2021 (FYE 2020: 20.2%). The lower GP margin for this business activity in FYE 2021 was mainly attributable to higher staff-related costs for FYE 2021, mainly due to increase in headcount, higher wages and overtime costs incurred for FYE 2021 due to labour shortage during the COVID-19 pandemic.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2021 and FYE 2022

Analysis by cost component

Our cost of sales increased by RM63.7 million or 118.0% to RM117.7 million for FYE 2022 (FYE 2021: RM54.0 million), mainly attributable to the following:

(i) increase in raw materials costs by RM46.7 million or 159.4% to RM76.0 million for FYE 2022 (FYE 2021: RM29.3 million), mainly for the supply of 3 units of gas turbines for the design, fabrication, installation and commissioning of a new co-generation power plant project for the power industry secured from Ramatex Textiles Industrial Sdn Bhd, and a new co-generation power plant project for the oleochemical and chemical industry secured from Munzing Malaysia Sdn Bhd during FYE 2022;

(ii) increase in subcontractor costs and outsourced services fees by RM7.2 million or 62.6% to RM18.7 million for FYE 2022 (FYE 2021: RM11.5 million), mainly due to the design, fabrication, installation and commissioning of the above 2 new co-generation power plant projects carried out during FYE 2022, which subcontractor costs were lower during the initial stages in FYE 2021;

(iii) increase in handling, freight, forwarding and transportation by RM4.9 million or 288.2% to RM6.6 million for FYE 2022 (FYE 2021: RM1.7 million) to support our increase in business activities. Additionally, such increase was also mainly due to sales and services tax of RM2.8 million paid to customs during FYE 2022 for the purchase of 2 units of gas turbines for the co-generation power plant project with Ramatex Textiles Industrial Sdn Bhd;

(iv) increase in consumables, fittings and accessories by RM1.3 million or 46.4% to RM4.1 million for FYE 2022 (FYE 2021: RM2.8 million) in tandem with our business growth; and

(v) the staff-related costs increased by RM1.9 million or 35.8% to RM7.2 million for FYE 2022 (FYE 2021: RM5.3 million), mainly due to annual salary increment and increase in average monthly employee headcount to 121 employee (FYE 2021: 97).

Analysis by business segment

Our cost of sales increased by RM63.7 million or 118.0% to RM117.7 million for FYE 2022 (FYE 2021: RM54.0 million) in tandem with our revenue growth rate of 117.5%. Our overall GP margin decreased from 15.7% for FYE 2021 to 15.5% for FYE 2022 mainly due to contribution from sale of electricity from power generation, which recorded a gross loss of RM0.3 million and a gross loss margin of 785.4% for FYE 2022. In contrast, our GP margin of 15.7% for design, fabrication, installation and/or commissioning solutions segment was consistent for FYE 2021 and FYE 2022.

During FYE 2022, we secured projects for the design, fabrication, installation and commissioning of renewable energy and co-generation plants, which recorded a total cost of sales of RM38.6 million for FYE 2022 (FYE 2021: Nil) from a new co-generation power plant project for the power industry from Ramatex Textiles Industrial Sdn Bhd, and a new co-generation power plant project for the oleochemical and chemical industry from Munzing Malaysia Sdn Bhd. We recorded a GP margin of 6.8% for this business activity during FYE 2022 (FYE 2021: Nil). The GP margin is lower than our overall GP margin of 15.5%. This was mainly attributable to high raw material costs being purchase of turbines for these projects which we do not have the capacity to fabricate, representing 85.0% of our total cost of sales for this business activity.

Cost of sales for the design and fabrication of industrial process equipment increased by RM16.6 million or 61.0% to RM43.8 million for FYE 2022 (FYE 2021: RM27.2 million), at a rate lower than our revenue growth for this business activity of 69.2%. Thus, our GP margin improved from 15.6% for FYE 2021 to 19.4% for FYE 2022. The improvement in our GP margin for this activity was because our depreciation of property, plant and equipment and staff-related costs are relatively fixed in nature, and therefore increased at rates lower than our revenue growth.

Cost of sales for the design, fabrication, installation and commissioning of process plant increased by RM8.2 million or 30.6% to RM35.0 million for FYE 2022 (FYE 2021: RM26.8 million), at a rate lower than our revenue growth rate of 36.1%. Thus, our GP margin improved from 15.8% for FYE 2021 to 19.4% for FYE 2022. The improvement in our GP margin for this activity was mainly attributable to 2 niche projects, being a chemical plant project and a food emulsifier plant project which yielded better GP margin.

Our sale of electricity from power generation recorded a gross loss of RM0.3 million and a gross loss margin of 785.4% for FYE 2022, as we had newly acquired the business in August 2022, and are in the process of enhancing the output of the Bercham Plant. As such, revenue for FYE 2022 was insufficient to cover the cost of sales, which mostly comprised fixed costs relating to upkeep of plant and machinery and depreciation of property, plant and equipment.

Comparison between FYE 2022 and FYE 2023

Analysis by cost component

Our cost of sales decreased by RM43.3 million or 36.8% to RM74.4 million for FYE 2023 (FYE 2022: RM117.7 million), mainly attributable to the following:

(i) decrease in raw materials costs by RM41.2 million or 54.2% to RM34.8 million for FYE 2023 (FYE 2022: RM76.0 million), mainly due to the following:

  (aa) less raw materials required for a co-generation power plant project for the power industry secured from Ramatex Textiles Industrial Sdn Bhd, in line with progress milestones, compared to the earlier procurement stage where the cost of turbines were recognised;

  (bb) less raw materials required for a chemical plant project for the oleochemical and chemical industry from Munzing Malaysia Sdn Bhd, as the project was at its final stage;

  (cc) completion of a pressure vessel project for the oleochemical and chemical industry from PT Sari Dumai Oleo, an Indonesian customer, in the second half of FYE 2022;

  (dd) deferment by end customer of a pressure vessel project for the oleochemical and chemical industry from Sulzer Singapore Pte Ltd, a Singaporean customer, resulting in less material costs incurred; and

  (ee) less raw materials required for a heat exchanger project for the power industry from a local customer, in line with progress.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) decrease in cost of handling, freight, forwarding and transportation by RM4.1 million or 62.1% to RM2.5 million for FYE 2023 (FYE 2022: RM6.6 million), mainly due to the following:

(aa) higher cost of handling, freight, forwarding and transportation for FYE 2022 was also mainly due to sales and services tax of RM2.8 million paid to customs during FYE 2022 for the purchase of 2 units of gas turbines for the co-generation power plant project with Ramatex Textiles Industrial Sdn Bhd;

(bb) less cost of handling, freight, forwarding and transportation required for a chemical plant project for the oleochemical and chemical industry from Munzing Malaysia Sdn Bhd, as the project was at its final stage; and

(cc) completion of a storage tank farm project for the oleochemical and chemical industry from a local customer during the second half of FYE 2022.

(iii) decrease in subcontractor costs and outsourced services fees by RM1.6 million or 8.6% to RM17.1 million for FYE 2023 (FYE 2022: RM18.7 million), mainly due to the following:

(aa) less contract wages required for a chemical plant project for the oleochemical and chemical industry from Munzing Malaysia Sdn Bhd, as the project was at its final stage;

(bb) completion of a food emulsifier plant project for the oleochemical and chemical industry from Unioleon Sdn Bhd during the second half of FYE 2022;

(cc) completion of a storage tank farm project for the oleochemical and chemical industry from a local customer during the second half of FYE 2022; and

(dd) completion of fabrication work of a waste oil recovery plant for the oleochemical and chemical industry from a local customer during second half of FYE 2022.

Such decreases were partially offset by higher contract wages required for a co-generation power plant project for the power industry secured from Ramatex Textiles Industrial Sdn Bhd, as the project was at the stage of installation and commissioning which required higher contract wages, as compared to procurement of raw materials stage and pressure vessel projects for the oleochemical and chemical industry secured from a USA customer in FYE 2023.

The above decreases were partially offset by:

(i) increase in staff-related costs by RM2.1 million or 29.2% to RM9.3 million for FYE 2023 (FYE 2022: RM7.2 million), mainly attributable to the increase in annual salary increment and increase in average monthly employee headcount to 161 for FYE 2023 (FYE 2022: 121); and

(ii) higher overtime costs were incurred for FYE 2023 mainly attributable to overtime increase in average monthly production and foreign worker headcount to 108 for FYE 2023 (FYE 2022: 72).

12. FINANCIAL INFORMATION *(Cont'd)*

Analysis by business segment

Our cost of sales decreased by RM43.3 million or 36.8% to RM74.4 million for FYE 2023 (FYE 2022: RM117.7 million), at a rate higher than the 29.3% decrease in revenue for FYE 2023. This was primarily caused by the lower raw materials costs and the cost of handling, freight, forwarding and transportation, which decreased at rates higher than the rate of decrease in revenue, as explained above. Consequently, our overall GP margin improved from 15.5% for FYE 2022 to 24.4% for FYE 2023.

Cost of sales for the design and fabrication of industrial process equipment decreased by RM6.9 million or 15.8% to RM36.9 million for FYE 2023 (FYE 2022: RM43.8 million), at a rate that was higher than our decrease in revenue of 10.9%. Thus, our GP margin improved from 19.4% for FYE 2022 to 23.9% for FYE 2023. The lower GP margin for FYE 2022 for this activity was mainly attributable to the 2 projects, being (i) a pressure vessel project for the oleochemical and chemical industry from Sulzer Singapore Pte Ltd, an Singaporean customer; and (ii) a heat exchanger project for the power industry from a local customer. Both projects yielded a lower GP margin.

Cost of sales for the design, fabrication, installation and commissioning of process plant decreased by RM12.7 million or 36.3% to RM22.3 million for FYE 2023 (FYE 2022: RM35.0 million), which decreased in tandem with the decrease in revenue of 36.2%. Thus, our GP margin of 19.4% for FYE 2022 and 19.5% for FYE 2023 were fairly consistent. The marginal improvement in our GP margin for this activity was mainly attributable to 3 niche projects, i.e. a chemical plant project, a calcium soap plant project and an esterification plant project, which yielded better GP margin. Lower GP margin projects contributed mainly by 4 projects in FYE 2023 narrowed the improvement in GP margin. Among these are a food emulsifier plant project and a chemical plant project which yielded lower GP margin primarily due to higher contract wages incurred during FYE 2023, as well as a short path distillation plant project and a chemical plant project which yielded lower GP margin mainly due to these projects being at their initial stage of work.

Cost of sales for the design, fabrication, installation and commissioning of renewable energy and co-generation plants decreased by RM24.7 million or 64.0% to RM13.9 million for FYE 2023 (FYE 2022: RM38.6 million), at a rate higher than our decrease in revenue of 46.6%. Thus, our GP margin increased from 6.8% for FYE 2022 to 36.8% for FYE 2023. The higher GP margin was mainly attributable to the project being focused more on the installation and commissioning in FYE 2023 which yield a better margin as compared to procurement of raw materials in FYE 2022 which yield a lower margin.

Our sale of electricity from power generation recorded a gross loss of RM1.1 million for FYE 2023 (FYE 2022: RM0.3 million) and a gross loss margin of 611.0% for FYE 2023 (FYE 2022: 785.4%). This was attributed to the recent acquisition of the business in August 2022 and ongoing efforts to enhance the output of the Bercham Plant. Consequently, revenue for both FYE 2022 and FYE 2023 was insufficient to cover the cost of sales, primarily consisting of fixed costs related to the upkeep of plant and machinery, staff-related costs and depreciation of property, plant and equipment.

12. FINANCIAL INFORMATION *(Cont'd)*

(c) Other income

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bad debts recovered[1]	-	-	430	58.3	-	-	-	-
Gain on disposal of property, plant and equipment	7	4.1	34	4.6	-	-	135	6.4
Realised gain on foreign exchange	45	26.3	-	-	22	0.9	-	-
Reversal of impairment losses on trade receivables	-	-	-	-	-	-	127	6.0
Unrealised gain on foreign exchange	69	40.4	220	29.9	918	35.8	1,774	83.9
Bargain purchase on acquisition of subsidiaries	-	-	-	-	1,506	58.8	-	-
Others[2]	50	29.2	53	7.2	117	4.5	79	3.7
	171	**100.0**	**737**	**100.0**	**2,563**	**100.0**	**2,115**	**100.0**

Notes:

(1) Being an amount due from a customer written off prior to FYE 2020, and recovered upon obtaining the court judgement favourable to our Group during FYE 2021.

(2) Comprises mainly income from sales of scrap as well as waiver of amounts owing to the former directors of Magenko Group upon our acquisition of Magenko Group during FYE 2022.

Comparison between FYE 2020 and FYE 2021

Our other income of RM0.7 million for FYE 2021 was mainly attributable to the recovery of bad debt amounting to RM0.4 million from a customer upon obtaining a court judgement in favour of our Group during FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our other income of RM2.6 million for FYE 2022 were mainly attributable to the following:

(i) gain on bargain purchase of RM1.5 million (being the difference between the purchase consideration of RM50,000 and the NA position of Magenko Group as at 1 August 2022 of RM1.5 million) arising from the acquisition of Magenko Group, which was completed in August 2022; and

(ii) unrealised gain on foreign exchange of RM0.9 million for FYE 2022 (FYE 2021: RM0.2 million) in relation to our foreign currency bank balances and trade receivables, which are mainly denominated in USD and SGD. As at the end of FYE 2022, RM has weakened against USD and SGD compared to FYE 2021 (As at 31 October 2022: USD1: RM4.7285 and SGD1: RM3.3493; As at 31 October 2021: USD1: RM4.1440 and SGD1: RM3.0824).

Comparison between FYE 2022 and FYE 2023

Our other income decreased by RM0.5 million or 19.2% to RM2.1 million for FYE 2023 (FYE 2022: RM2.6 million), mainly attributable to the one-off gain on bargain purchase of RM1.5 million (being the difference between the purchase consideration of RM50,000 and the NA position of Magenko Group as at 1 August 2022 of RM1.5 million) arising from the acquisition of Magenko Group, which was completed in August 2022.

Such decrease was partially offset by the increase in unrealised gain on foreign exchange of RM0.9 million to RM1.8 million for FYE 2023 (FYE 2022: RM 0.9 million). The gain resulted from higher foreign currency bank balances, mainly denominated in USD.

(d) Administrative expenses

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Depreciation of property, plant and equipment	302	15.2	326	16.9	460	13.5	490	8.5
Insurance and road tax	88	4.5	124	6.4	138	4.0	215	3.8
Office supplies	56	2.8	65	3.4	108	3.2	86	1.5
Professional fee	72	3.6	58	3.0	127	3.7	624	10.9
Staff-related costs	970	48.9	922	47.7	1,312	38.5	1,921	33.5
Tax-related fee	35	1.8	47	2.4	88	2.6	82	1.4
Upkeep of property, plant and equipment	209	10.6	148	7.7	231	6.8	282	4.9
Utilities	74	3.7	64	3.3	76	2.2	103	1.8
Listing expenses	-	-	-	-	362	10.6	1,262	22.0
Others[(1)]	177	8.9	178	9.2	506	14.9	669	11.7
	1,983	**100.0**	**1,932**	**100.0**	**3,408**	**100.0**	**5,734**	**100.0**

Note:

(1) Others mainly comprise of advertisement costs, bank charges, cleaning services, entertainment expenses, quit rent and assessment, levy expenses, tax compound arising from the underestimation of tax for FYE 2022, application fee for the Power System Study which were required for the tender submission of 2MW plant to erect at Factory 3 and temporary occupation license for use of land of Bercham Plant.

Comparison between FYE 2020 and FYE 2021

Our administrative expenses for FYE 2020 were relatively consistent compared to FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our administrative expenses increased by RM1.5 million or 78.9% to RM3.4 million for FYE 2022 (FYE 2021: RM1.9 million), mainly attributable to the following:

(i) increase in staff-related cost of RM0.4 million to RM1.3 million (FYE 2021: RM0.9 million), mainly due to the annual salary increment and increase in average monthly employee headcount to 16 staff for FYE 2022 (FYE 2021: 8);

(ii) listing expenses of RM0.4 million (FYE 2021: Nil);

(iii) increase in depreciation of property, plant and equipment and right-of-use assets of RM0.2 million to RM0.5 million (FYE 2021: RM0.3 million), mainly due to additional motor vehicles purchased during FYE 2022 and full-year depreciation for motor vehicles purchased in FYE 2021; and

(iv) increase in other administrative expenses of RM0.3 million to RM0.5 million for FYE 2022 (FYE 2021: RM0.2 million), mainly due to:

(aa) higher bank charges incurred for the more foreign currency bank guarantees issued in favour of an overseas customer as project-related bonds;

(bb) higher entertainment expenses due to the resumption of business travel as travelling restriction were relaxed;

(cc) net running costs of Mangeko Group from November 2021 to January 2022 borne by our Group as per the agreed terms for the acquisition of Magenko Group; and

(dd) stamp duties paid for the purchase of 2 units of condominium in FYE 2021.

Comparison between FYE 2022 and FYE 2023

Our administrative expenses increased by RM2.3 million or 67.6% to RM5.7 million for FYE 2023 (FYE 2022: RM3.4 million), mainly attributable to the following:

(i) increase in listing expenses of RM0.9 million to RM1.3 million for FYE 2023 (FYE 2022: RM0.4 million) being mainly professional fees;

(ii) increase in staff-related cost of RM0.6 million to RM1.9 million for FYE 2023 (FYE 2022: RM1.3 million), mainly due to annual salary increment and increase in average employee headcount to 20 for FYE 2023 (FYE 2022: 16); and

(iii) increase in professional fees of RM0.5 million to RM0.6 million for FYE 2023 (FYE 2022: RM0.1 million), mainly due to legal fee incurred for banking facilities granted in last quarter of FYE 2022.

(e) Other operating expenses

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Bad debts written off[(1)]	-	-	-	-	-	-	350	19.6
Impairment losses on trade receivables[(2)]	181	100.0	168	74.7	2,448	100.0	-	-
Realised loss on foreign exchange	-	-	57	25.3	-	-	1,435	80.4
	181	**100.0**	**225**	**100.0**	**2,448**	**100.0**	**1,785**	**100.0**

Notes:

(1) Bad debts written off were due to uncollectible outstanding trade debts that had no reasonable expectation of recovery.

(2) Comprises specific impairment loss on individual trade receivables and general impairment loss on trade receivables after excluding those individual trade receivables, which are assessed separately. The specific impairment losses on individual trade receivables were mainly due to (i) customers going into liquidation (particularly for FYE 2022, which amounted to RM2.4 million); (ii) deferred payments from the main contractors resulting from the disputes between the main contractors and the end-customers; (iii) long outstanding debts which are not collectible.

Comparison between FYE 2020 and FYE 2021

Our other operating expenses for FYE 2020 and FYE 2021 were not material.

Comparison between FYE 2021 and FYE 2022

Our other operating expenses increased by RM2.2 million to RM2.4 million for FYE 2022 (FYE 2021: RM0.2 million), mainly attributable to the increase in impairment losses on trade receivables of RM2.2 million to RM2.4 million for FYE 2022 (FYE 2021: RM0.2 million). Such impairment was mainly due to a customer going into liquidation during FYE 2022.

Comparison between FYE 2022 and FYE 2023

Our other operating expenses decreased by RM0.6 million to RM1.8 million for FYE 2023 (FYE 2022: RM2.4 million), mainly attributable to impairment losses on trade receivables of RM2.4 million for FYE 2022, as a customer went into liquidation during FYE 2022.

Such decrease was partially offset by realised loss on foreign exchange of RM1.4 million (FYE 2022: realised gain on foreign exchange of RM0.02 million) largely in relation to our foreign currency trade payables, which were mainly denominated in USD, resulting from the weakening of RM against USD on the dates of payment made.

(f) Finance income

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Interest income	321	100.0	364	100.0	568	100.0	777	100.0

Our interest income over FYE 2020 to 2023 mainly consists of interests received from short-term deposits. The year-on-year increases were due to higher placement of such deposits.

(g) Finance costs

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Interests on:								
Bankers' acceptances	91	74.0	64	76.2	111	50.0	92	20.5
Lease liabilities	32	26.0	7	8.3	22	9.9	83	18.4
Term financing	-	-	13	15.5	89	40.1	275	61.1
	123	**100.0**	**84**	**100.0**	**222**	**100.0**	**450**	**100.0**

Comparison between FYE 2020 and FYE 2021

Our finance costs decreased by RM0.02 million or 20.0% to RM0.08 million for FYE 2021 (FYE 2020: RM0.1 million), mainly attributable to the following:

(i) decrease in bankers' acceptance interests by RM0.03 million to RM0.06 million for FYE 2021 (FYE 2020: RM0.09 million), mainly due to lower utilisation of bankers' acceptance during FYE 2021 as compared to FYE 2020; and

(ii) decrease in lease liabilities interests of RM0.02 million to RM0.01 million for FYE 2021 (FYE 2020: RM0.03 million), mainly due to the full settlement of a hire purchase for the purchase of plant and machinery during FYE 2021, which was partially offset by the additional drawdown of hire purchase facilities during FYE 2021 for the purchase of motor vehicles.

The abovementioned decreases were partially offset by the increase in term financing interest of RM0.01 million for FYE 2021 (FYE 2020: Nil), mainly due to a special relief term financing drawdown during FYE 2021 to finance our working capital.

Comparison between FYE 2021 and FYE 2022

Our finance costs increased by RM0.1 million to RM0.2 million for FYE 2022 (FYE 2021: RM0.08 million), mainly attributable to the following:

(i) increase in bankers' acceptance interests of RM0.05 million to RM0.11 million for FYE 2022 (FYE 2021: RM0.06 million), mainly due to higher utilisation of bankers' acceptance during FYE 2022 as compared to FYE 2021; and

(ii) increase in term financing interests of RM0.08 million to RM0.09 million for FYE 2022 (FYE 2021: RM0.01 million), mainly due to the drawdown of new term financing for the purchase of Factory 3.

Comparison between FYE 2022 and FYE 2023

Our finance costs increased by RM0.2 million to RM0.4 million for FYE 2023 (FYE 2022: RM0.2 million), mainly attributable to the increase in term financing interests of RM0.2 million to RM0.3 million for FYE 2023 (FYE 2022: RM0.1 million), reflecting the full period impact on term financing interests for FYE 2023 resulting from the additional drawdown on term financing during the last quarter of FYE 2022 for the purchase of Factory 3.

(h) PBT and PBT margin

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PBT	5,673	8,937	18,569	18,920
PBT margin (%)	11.6	14.0	13.3	19.2

Comparison between FYE 2020 and FYE 2021

We recorded an increase in PBT of RM3.2 million or 56.1% for FYE 2021. Our PBT margin improved from 11.6% for FYE 2020 to 14.0% for FYE 2021. The improvement was mainly due to higher GP and GP margins, as explained in Section 12.2.2(b), and higher other income resulting from bad debts recovered during FYE 2021, as explained in Section 12.2.2(c).

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2021 and FYE 2022

We recorded an increase in PBT of RM9.7 million or 109.0% for FYE 2022, mainly due to higher GP for FYE 2022 as explained in Section 12.2.2(b), which was partially offset by the increase in administrative expenses for FYE 2022, as explained in Section 12.2.2(d). However, our PBT margin decreased from 14.0% for FYE 2021 to 13.3% for FYE 2022, mainly due to a lower GP margin recorded for FYE 2022, as explained in Section 12.2.2(b) and higher administrative expenses for FYE 2022, as explained in Section 12.2.2(d).

Comparison between FYE 2022 and FYE 2023

We recorded an increase in PBT of RM0.3 million or 1.6% for FYE 2023, mainly due to cost of sales decreased at a rate higher than the decrease in revenue for FYE 2023 as explained in Section 12.2.2(b). Additionally, there were lower other expenses incurred in FYE 2023 as there were no impairment losses on trade receivables incurred during the year. However, this was partially offset by higher administrative expenses mainly from listing expenses and staff related costs during FYE 2023 and lower other income resulting from the gain on bargain purchase, relating to the acquisition of Magenko group in FYE 2022.

(i) Tax expenses

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Tax expenses	1,248	2,054	4,341	5,618
Effective tax rate (%)	22.0	23.0	23.4	29.7
Statutory tax rate (%)	24.0	24.0	24.0	24.0

Tax expenses comprise the current financial year's income tax payable, deferred tax and any under or overprovision of tax expenses in the previous financial year.

Comparison between FYE 2020 and FYE 2021

Our tax expenses increased by RM0.9 million or 75.0% to RM2.1 million for FYE 2021 (FYE 2020: RM1.2 million), mainly due to higher PBT recorded for FYE 2021.

Our effective tax rate of 22.0% for FYE 2020 was lower than the statutory tax rate, mainly attributable to the overprovision of deferred tax expenses for property, plant and equipment in prior financial years of RM0.2 million.

Our effective tax rate of 23.0% for FYE 2021 was lower than the statutory tax rate, mainly attributable to the income not subject to tax of RM0.7 million, which comprised primarily unrealised gain on foreign exchange of RM0.2 million and bad debt recovered of RM0.4 million during FYE 2021. The said bad debt recovered subsequently was adjusted as taxable income in FYE 2022 for tax reporting purposes.

Comparison between FYE 2021 and FYE 2022

Our tax expenses increased by RM2.2 million or 104.8% to RM4.3 million for FYE 2022 (FYE 2021: RM2.1 million), mainly due to higher PBT recorded for FYE 2022, as explained above.

Our effective tax rate of 23.4% for FYE 2022 was lower than the statutory tax rate, mainly attributable to the net effects of the following:

(i) certain income not subject to tax of RM2.5 million, which comprise primarily unrealised gain on foreign exchange of RM0.9 million and gain on bargain purchase of RM1.5 million from the acquisition Magenko Group during FYE 2022; and

(ii) offset by underprovision of income tax in the prior financial year of RM0.2 million.

Comparison between FYE 2022 and FYE 2023

Our tax expenses increased by RM1.3 million or 30.2% to RM5.6 million for FYE 2023 (FYE 2022: RM4.3 million), mainly attributable to higher PBT recorded for FYE 2023, as explained above.

Our effective tax rate of 29.7% for FYE 2023 was higher than the statutory tax rate, mainly attributable to the following:

(i) non-deductible expenses of RM3.6 million mainly being depreciation charges for non-qualifying property, plant and equipment of RM0.4 million, bad debts written off of RM0.4 million, listing expenses of RM1.3 million, legal fees of RM0.5 million, tax compound arising from the underestimation of tax for FYE 2022 of RM0.1 million and entertainment expenses of RM0.1 million. Additionally, RM0.5 million of staff related expenses incurred by Kawan Green were non-deductible as it was still dormant; and

(ii) as no deferred tax assets were provided in respect of our loss-making subsidiaries' unused tax losses during FYE 2023, i.e., Kawan Green and Magenko Group, because it was uncertain whether any future taxable profit will be available for utilising these deferred tax assets by the respective subsidiaries.

12.2.3 Review of financial position

(a) Assets

	Audited			
	As at 31 October			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Non-current asset				
Property, plant and equipment	7,422	8,982	21,834	22,344
Total non-current asset	**7,422**	**8,982**	**21,834**	**22,344**
Current assets				
Inventories	2,615	2,311	2,338	2,451
Current tax assets	143	-	-	-
Trade and other receivables	17,481	16,995	43,724	22,805
Contract assets	3,741	6,544	12,567	15,447
Cash and short-term deposits	23,367	29,986	41,331	44,746
Total current assets	**47,347**	**55,836**	**99,960**	**85,449**
Total assets	**54,769**	**64,818**	**121,794**	**107,793**

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between 31 October 2020 and 31 October 2021

The increase in non-current assets of RM1.6 million was mainly attributable to the increase in property, plant and equipment of RM1.6 million, primarily due to the purchase of property, plant and equipment of RM2.8 million, being mainly building of RM1.4 million largely in relation to 2 units of condominium located in Ipoh, plant and machinery of RM0.7 million and motor vehicles of RM0.5 million, which was partially offset by depreciation of RM1.2 million.

The increase in current assets of RM8.5 million was mainly attributable to the following:

(i) increase in cash and short-term deposits of RM6.6 million, mainly due to the internally generated funds from our business growth; and

(ii) increase in contract assets of RM2.8 million, mainly for work performed ahead of billing milestones.

The above increases were partially offset by the following:

(i) decrease in trade and other receivables of RM0.5 million, mainly attributable to:

  (aa) decrease in other receivables of RM0.3 million primarily due to the reimbursement of preliminary project costs from a customer during FYE 2021; and

  (bb) decrease in prepayments of RM0.2 million being less downpayment paid for foreign purchases; and

(ii) decrease in inventories of RM0.3 million mainly being the raw materials used for our projects during FYE 2021.

Comparison between 31 October 2021 and 31 October 2022

The increase in non-current assets of RM12.9 million was mainly attributable to the following increases in property, plant and equipment:

(i) purchases of RM11.8 million mainly comprising:

  (a) building of RM5.6 million largely in relation to Factory 3, plant and machinery of RM2.2 million, motor vehicles of RM0.5 million, furniture and fittings of RM0.5 million, office equipment of RM0.1 million; and

  (b) right-of-use assets of RM2.8 million largely in relation to a leasehold land of RM2.7 million for Factory 3;

(ii) additional plant and machinery of RM2.9 million from the acquisition of Magenko Group; and

(iii) partially offset by depreciation of RM1.8 million.

12. FINANCIAL INFORMATION *(Cont'd)*

The increase in current assets of RM44.1 million was mainly attributable to the following:

(i) increase in trade and other receivables of RM26.7 million, mainly due to:

(aa) increase in net trade receivables of RM24.2 million as higher billings were issued to customers in the last quarter of FYE 2022 as compared to FYE 2021; and

(bb) increase in prepayments of RM2.3 million being higher downpayment paid for foreign purchases in anticipation of future projects;

(ii) increase in cash and short-term deposits of RM11.3 million contributed by our business growth; and

(iii) increase in contract assets of RM6.1 million, for work performed ahead of billing milestones.

Comparison between 31 October 2022 and 31 October 2023

The increase in non-current assets of RM0.5 million was mainly attributable to the increase in property, plant and equipment of RM0.5 million. This increase was primarily due to the additional costs incurred for property, plant and equipment of RM4.2 million, comprising mainly building costs of RM0.8 million for renovation on buildings, plant and machinery of RM1.6 million, motor vehicles of RM0.9 million, furniture and fittings of RM0.1 million and computer and software of RM0.6 million. However, this increase was partially offset by depreciation of RM2.9 million and the disposal of a condominium located in Ipoh and 2 units of motor vehicles, totalling RM0.7 million.

The decrease in current assets of RM14.6 million was mainly attributable to the following:

(i) decrease in trade and other receivables of RM20.9 million, mainly due to the net effects of the following:

(aa) decrease in trade receivables of RM19.3 million, mainly due to full payment received from Ramatex Textiles Industrial Sdn Bhd for the purchase of 2 units of gas turbines for a co-generation power plant project for the power industry;

(bb) decrease in prepayments of RM2.1 million mainly due to lower downpayment paid for foreign purchases, and stamp duty for the sale and purchase agreement in relation to the purchase of Factory 3 in last quarter of FYE 2022 charged out as expenses upon receiving invoice in FYE 2023; and

(cc) increase in other receivables of RM0.6 million, mainly due to outstanding proceeds from disposal of a unit of condominium located in Ipoh.

The above decreases were partially offset by the following:

(i) increase in contract assets of RM2.8 million, mainly for work performed ahead of billing milestones; and

(ii) increase in cash and short-term deposits of RM3.4 million, mainly due to funds generated from our business operations.

12. FINANCIAL INFORMATION *(Cont'd)*

(b) Liabilities

	Audited			
	As at 31 October			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Loans and borrowings	34	676	7,267	6,324
Deferred income	-	-	-	67
Deferred tax liabilities	230	276	52	1,103
Total non-current liabilities	**264**	**952**	**7,319**	**7,494**
Current liabilities				
Loans and borrowings	2,518	2,987	5,514	4,411
Deferred income	-	-	-	8
Current tax liabilities	-	279	2,392	1,023
Trade and other payables	8,681	11,839	46,160	12,524
Contract liabilities	8,284	9,856	15,276	28,898
Total current liabilities	**19,483**	**24,961**	**69,342**	**46,864**
Total liabilities	**19,747**	**25,913**	**76,661**	**54,358**

Comparison between 31 October 2020 and 31 October 2021

Our total liabilities increased by RM6.2 million or 31.5% to RM25.9 million as at 31 October 2021 (31 October 2020: RM19.7 million), mainly attributable to the following:

(i) increase in trade and other payables of RM3.2 million, mainly due to:

(aa) increase in trade payables of RM2.1 million for higher purchases made in the last quarter of FYE 2021 as compared to FYE 2020;

(bb) increase in dividend payables of RM1.5 million arising from the interim dividend of RM3.0 million for FYE 2021 which was subsequently paid on 27 January 2022; and

(cc) partially offset by the decrease in retention sum of RM0.3 million which was released based on the agreed payment terms upon the fulfilment of remaining contractual obligation, and decrease in the accruals of RM0.2 million mainly in relation to bonuses which were paid;

(ii) increase in contract liabilities of RM1.6 million, being billing milestones achieved ahead of actual work performed; and

(iii) increase in loans and borrowings of RM1.1 million, mainly due to:

(aa) higher drawdown of bankers' acceptances for payments to the suppliers as at 31 October 2021 as compared to 31 October 2020;

(bb) drawdown of new term financing for working capital purposes; and

(cc) additional 6 units of motor vehicles acquired under hire purchase during FYE 2021.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between 31 October 2021 and 31 October 2022

Our total liabilities increased by RM50.8 million or 196.1% to RM76.7 million as at 31 October 2022 (31 October 2021: RM25.9 million), mainly attributable to the following:

(i) increase in trade and other payables of RM34.3 million, mainly due to:

(aa) increase in trade payables of RM28.8 million as higher purchases were made in the last quarter of FYE 2022 as compared to FYE 2021, mainly in relation to the purchase of 2 units of turbines in last quarter of FYE 2022 for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd;

(bb) increase in interim dividend payables of RM5.0 million arising from interim dividend declared of RM8.0 million for FYE 2022 which was subsequently paid on 18 January 2023; and

(cc) increase in accruals of RM0.5 million mainly being bonuses for FYE 2022 and increase in the accrual of contract wages.

(ii) increase in loan and borrowings of RM9.1 million, mainly due to:

(aa) higher drawdown of bankers' acceptances for payments to the suppliers as at 31 October 2022 as compared to 31 October 2021;

(bb) drawdown of new term financing to purchase Factory 3; and

(cc) additional 5 units of plant and machinery acquired under hire purchase during FYE 2022;

(iii) increase in contract liabilities of RM5.4 million, being billing milestones achieved ahead of actual work performed; and

(iv) increase in current tax liabilities of RM2.1 million, mainly resulting from higher profits recorded for FYE 2022.

Comparison between 31 October 2022 and 31 October 2023

Our total liabilities decreased by RM22.3 million or 29.1% to RM54.4 million as at 31 October 2023 (31 October 2022: RM76.7 million), mainly attributable to the following:

(i) decrease in trade and other payables of RM33.6 million, mainly due to the net effects of the following:

(aa) decrease in trade payables of RM26.2 million, mainly due to full payment made to a supplier for the purchase of 2 units of gas turbines for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd; and

(bb) decrease in interim dividend payables of RM8.0 million which were fully paid during FYE 2023;

(ii) decrease in loans and borrowings of RM2.1 million, mainly due to net payment of bankers' acceptances, repayment of term financing and payments of lease liabilities during FYE 2023; and

12. FINANCIAL INFORMATION *(Cont'd)*

(iii) decrease in current tax liabilities of RM1.4 million, mainly due to final tax assessment for FYE 2022 being paid upon finalisation during FYE 2023.

The above decreases were partially offset by the increase in contract liabilities of RM13.6 million, being billing milestones achieved ahead of actual work performed.

12.2.4 Review of cash flows

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash from operating activities	9,865	9,615	15,776	19,934
Net cash used in investing activities	(798)	(2,464)	(3,051)	(6,698)
Net cash used in financing activities	(3,024)	(797)	(2,214)	(15,525)
Net increase / (decrease) in cash and cash equivalents	6,043	6,354	10,511	(2,289)
Cash and cash equivalents at the beginning of the financial year	15,776	21,888	28,463	39,781
Effect of exchange rate changes on cash and cash equivalent	69	221	807	1,656
Cash and cash equivalents at the end of the financial year	**21,888**	**28,463**	**39,781**	**39,148**

FYE 2020

Net cash for operating activities

For FYE 2020, our Group recorded operating cash flow before working capital changes of RM6.8 million and net operating cash inflows of RM9.9 million after adjusting for the following working capital changes:

(a) decrease in contract assets of RM1.6 million, being work performed pending billing milestones;

(b) increase in contract liabilities of RM6.5 million, being billing milestones achieved ahead of actual work performed; and

(c) interest received of RM0.3 million, mainly from short-term deposits.

The above were partially offset by the following:

(a) increase in trade and other receivables of RM2.6 million, mainly attributable to:

(i) increase in trade receivables of RM1.7 million mainly due to slower collection from customers during the COVID-19 pandemic;

(ii) increase in prepayment of RM0.4 million mainly due to higher downpayment for foreign purchase in anticipation of future projects; and

(iii) increase in other receivables of RM0.4 million mainly due to preliminary project costs incurred during FYE 2020 which were subsequently reimbursed by a customer during FYE 2021;

12. FINANCIAL INFORMATION *(Cont'd)*

(b) decrease in trade and other payables of RM1.2 million, mainly due to the decrease in trade payables of RM0.8 million being lower purchases in the last quarter of FYE 2020 as compared to FYE 2019; and

(c) income tax paid of RM1.4 million.

Net cash for investing activities

For FYE 2020, our Group recorded a net cash outflow of RM0.8 million from investing activities, mainly attributable to the cash payment for additional property, plant and equipment of RM0.8 million during FYE 2020, which comprised mainly plant and machinery of RM0.5 million, motor vehicles of RM0.1 million and computers and software of RM0.1 million.

Net cash for financing activities

For FYE 2020, our Group recorded a net cash outflow of RM3.0 million from financing activities, mainly attributable to the following:

(a) drawdowns of bankers' acceptances of RM10.0 million for payments to the suppliers;

(b) payments of bankers' acceptances of RM11.5 million;

(c) interests paid for loans and borrowings of RM0.1 million;

(d) payments of lease liabilities of RM0.5 million for hire purchase of motor vehicles and plant and machinery and leasing of project accomodation in Klang for workers; and

(e) dividend paid to shareholders of RM1.0 million.

FYE 2021

Net cash for operating activities

For FYE 2021, our Group recorded operating cash flow before working capital changes of RM9.3 million and net operating cash inflows of RM9.6 million, after adjusting for the following cash inflows:

(a) increase in trade and other payables of RM1.7 million, mainly due to:

  (i) the increase in trade payables of RM2.1 million as higher purchases were made in the last quarter of FYE 2021 as compared to FYE 2020; and

  (ii) partially offset by the decrease in retention sum of RM0.3 million resulted from the retention sum released based on the agreed payment terms upon the fulfilment of remaining contractual obligation, and decrease in accruals of RM0.2 million, in relation to bonuses which were paid;

(b) increase in contract liabilities of RM1.6 million, being billing milestones achieved ahead of actual work performed;

12. FINANCIAL INFORMATION *(Cont'd)*

(c) decrease in trade and other receivables of RM0.7 million, mainly due to:

(i) bad debts recovered of RM0.4 million from a customer upon obtaining court judgement in favour of our Group during FYE 2021, which was partially set off by impairment losses on trade receivables of RM0.2 million;

(ii) decrease in other receivables of RM0.3 million primarily due to the reimbursement of preliminary project costs from a customer during FYE 2021; and

(iii) decrease in prepayments of RM0.2 million being less downpayments for foreign purchase;

(d) decrease in inventories of RM0.3 million, mainly being raw materials used for our projects during FYE 2021; and

(e) interest received of RM0.4 million, mainly from short-term deposits.

The above cash inflows were partially offset by the following:

(a) increase in contract assets of RM2.8 million, being work performed pending billing milestones; and

(b) income tax paid of RM1.6 million.

Net cash for investing activities

For FYE 2021, our Group recorded a net cash outflow of RM2.5 million from investing activities, mainly attributable to purchases of additional property, plant and equipment of RM2.5 million during FYE 2021, which comprised mainly buildings of RM1.4 million largely in relation to 2 units of condominiums located in Ipoh, plant and machinery of RM0.7 million, motor vehicles of RM0.2 million and furniture and fittings of RM0.1 million.

Net cash for financing activities

For FYE 2021, our Group recorded a net cash outflow of RM0.8 million from financing activities, mainly attributable to the following:

(a) drawdowns of bankers' acceptances of RM8.6 million for payments to the suppliers;

(b) payments of bankers' acceptances of RM8.1 million;

(c) interests paid for loans and borrowings of RM0.1 million;

(d) payments of lease liabilities of RM0.3 million for hire purchase of motor vehicles and plant and machinery, and leasing of project accomodation in Klang for workers;

(e) dividend paid to shareholders of RM1.5 million; and

(f) drawdown of special relief term financing of RM0.6 million for working capital purposes.

12. FINANCIAL INFORMATION *(Cont'd)*

FYE 2022

Net cash for operating activities

For FYE 2022, our Group recorded operating cash flow before working capital changes of RM20.0 million and net operating cash inflows of RM15.8 million, after adjusting for the following cash inflows:

(a) increase in trade and other payables of RM25.6 million, mainly due to:

  (i) increase in trade payables of RM28.8 million as more purchases were made in the last quarter of FYE 2022 as compared to FYE 2021, which were partially offset by the unrealised loss on foreign exchange for trade payables of RM1.7 million;

  (ii) increase in accrual of RM0.5 million mainly for bonus for FYE 2022 and increase in accrual of contract wages; and

  (iii) partially offset by trade and other payables of RM2.0 million arising from the acquisition of Magenko Group;

(b) increase in contract liabilities of RM5.4 million for billing milestones achieved ahead of actual work performed; and

(c) interest received of RM0.6 million, mainly from short-term deposits.

The above cash inflows were partially offset by the following:

(a) increase in trade and other receivables of RM27.3 million, mainly due to:

  (i) increase in trade receivables of RM26.6 million as higher billings were issued to customers in the last quarter of FYE 2022 in line with our business growth, as compared to FYE 2021, which partially offset by the unrealised gain on foreign exchange for trade receivables of RM1.8 million; and

  (ii) increase in prepayments of RM2.3 million being higher downpayments for foreign purchases in anticipation of future projects;

(b) increase in contract assets of RM6.1 million for work performed pending billing milestones; and

(c) income tax paid of RM2.5 million.

Net cash for investing activities

For FYE 2022, our Group recorded a net cash outflow of RM3.1 million from investing activities, mainly attributable to the cash payment for additional property, plant and equipment of RM3.6 million during FYE 2022, which comprised mainly buildings of RM1.5 million, largely in relation to Factory 3, plant and machinery of RM1.0 million, motor vehicles of RM0.5 million, furniture and fittings of RM0.5 million and office equipment of RM0.1 million.

Such increase was partially offset by the net cash inflow of RM0.6 million from the acquisition of Magenko Group.

12. FINANCIAL INFORMATION *(Cont'd)*

Net cash for financing activities

For FYE 2022, our Group recorded a net cash outflow of RM2.2 million from financing activities, mainly attributable to the following:

(a) drawdown of bankers' acceptances of RM18.1 million for payments to the suppliers;

(b) payments of bankers' acceptances of RM16.7 million;

(c) interests paid for loans and borrowings of RM0.2 million;

(d) payments of lease liabilities of RM0.2 million for hire purchase of motor vehicles and plant and machinery, leasing of a project accomodation in Klang for workers and leasing of offices located in Ipoh;

(e) dividend paid to shareholders of RM3.0 million; and

(f) repayments of term financing of RM0.2 million.

FYE 2023

Net cash for operating activities

For FYE 2023, our Group recorded operating cash flow before working capital changes of RM19.8 million and net operating cash inflows of RM19.9 million after adjusting for the following cash inflows:

(a) decrease in trade and other receivables of RM20.8 million, mainly due to full payment received from Ramatex Textiles Industrial Sdn Bhd for the purchase of 2 units of gas turbines for a co-generation power plant project for the power industry;

(b) increase in contract liabilities of RM13.6 million, being billings issued to customers upon agreed billing milestones; and

(c) interest received of RM0.7 million, mainly from short-term deposits.

The above cash inflows were partially offset by the following:

(a) decrease in trade and other payables of RM26.2 million, mainly due to full payment made to a supplier for the purchase of 2 units of gas turbines for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd;

(b) increase in contract assets of RM2.9 million, being billings issued according to milestones but ahead of work performed; and

(c) income tax paid of RM5.9 million.

12. FINANCIAL INFORMATION *(Cont'd)*

Net cash for investing activities

For FYE 2023, our Group recorded a net cash outflow of RM6.7 million from investing activities, mainly attributable to cash payment for additional property, plant and equipment of RM3.6 million during FYE 2023, which comprised mainly building costs of RM0.8 million for renovation on buildings, plant and machinery of RM1.6 million, motor vehicles of RM0.3 million, furniture and fittings of RM0.1 million and computer and software of RM0.6 million. In addition, more deposits were pledged of RM4.0 million for the banking facilities granted in the last quarter of FYE 2023. Such decreases were partially offset by the proceeds from the disposal of property, plant and equipment of RM0.8 million, comprising a condominium located in Ipoh and 3 units of motor vehicles.

Net cash for financing activities

For FYE 2023, our Group recorded a net cash outflow of RM15.5 million from financing activities, mainly attributable to the following:

(i) drawdowns of bankers' acceptances of RM9.0 million for payments to suppliers;

(ii) payments of bankers' acceptances of RM10.2 million;

(iii) interests paid for loans and borrowings of RM0.5 million;

(iv) payments of lease liabilities of RM0.6 million for hire purchase of motor vehicles and plant and machinery, leasing of a project's accommodation located in Klang and Ipoh for workers and leasing of offices located in Ipoh;

(v) dividend paid to shareholders of RM13.0 million;

(vi) repayments of term financing of RM0.8 million; and

(vii) advances from a shareholder of RM0.6 million for listing expenses incurred by Kawan Renergy Sdn Bhd. The amount was fully repaid on 1 April 2024.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

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

Our Board is confident that our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

(a) our cash and cash equivalent of approximately RM34.0 million as at LPD;

(b) our expected future cash flows from operations;

12. FINANCIAL INFORMATION *(Cont'd)*

(c) our total banking facilities as at LPD of RM65.9 million (excluding finance leases), of which RM13.7 million have been utilised; and

(d) our pro forma gearing level of 0.1 times, based on our pro forma statements of financial position as at 31 October 2023 after the Group Internal Restructuring, Public Issue and utilisation of proceeds.

We carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.4 BORROWINGS

All of our borrowings are secured, interest-bearing and denominated in RM. Our total outstanding borrowings (excluding lease liabilities arising from right-of-use assets of RM0.1 million) as at 31 October 2023 stood at RM10.6 million, details of which are set out below:

	Purpose	Security	Tenure of the facility	Interest rate	As at 31 October 2023
				%	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Term financing	For working capital purposes	(i) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai; and (ii) Government guarantee provided by Syarikat Jaminan Pembiayaan Perniagaan Berhad ("**SJPP**").	5 years	3.5%	112
Term financing	For purchase of Factory 3	(i) Legal charge over our leasehold land and buildings; and (ii) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai.	8 years	4.3%	716
Bankers' acceptances	For working capital purposes	(i) Legal charge over our leasehold land and building; (ii) Legal charge over fixed deposits together with all interest; and (iii) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai.	87 to 90 days	4.5% to 4.6%	2,950
Hire purchases	To finance motor vehicles and plant and machinery	(i) Legal charge over the motor vehicles and plant and machinery.	3 to 5 years	2.2% to 3.6%	581
					4,359

12. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Security	Tenure of the facility	Interest rate	As at 31 October 2023
				%	RM'000
Interest bearing long-term borrowings, payable after 1 year:					
Term financing	For working capital purposes	(i) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai; and (ii) Government guarantee provided by SJPP.	5 years	3.5%	228
Term financing	For purchase of Factory 3	(i) Legal charge over our leasehold land and buildings; and (ii) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai.	8 years	4.3%	5,289
Hire purchases	To finance motor vehicles and plant and machinery	(i) Legal charge over the motor vehicles and plant and machinery.	3 to 5 years	2.2% to 2.6%	763
					6,280
Total borrowings					**10,639**

Gearing (times)

After Group Internal Restructuring but before Public Issue and utilisation of proceeds[(1)]	0.2
After Group Internal Restructuring and utilisation of proceeds[(2)]	<0.1

Notes:

(1) Computed based on our pro forma total equity of RM43.4 million and pro forma borrowings (including lease liabilities) of RM10.7 million in the pro forma statements of financial position after the Group Internal Restructuring, but before Public Issue and utilisation of proceeds.

(2) Computed based on our pro forma total equity of RM73.8 million and pro forma borrowings (including lease liabilities) of RM4.7 million in the pro forma statements of financial position after the Group Internal Restructuring, Public Issue and utilisation of proceeds which includes the repayment of bank borrowings of RM6.0 million.

12. FINANCIAL INFORMATION *(Cont'd)*

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

	Purpose	Tenure	As at 31 October 2023
			RM'000
Lease liabilities payable within 1 year	Rental of project accommodation in Ipoh for workers as well as offices and workers' accomodation in Ipoh	Initial lease of 12, 14 and 24 months with an option to renew for another 12 months	52
Lease liabilities payable after 1 year	Rental of project accommodation in Ipoh for workers and offices and workers' accomodation in Ipoh	Initial lease of 12, 14 and 24 months with an option to renew for another 12 months	44
			96

We also rely on bank guarantees for performance bonds. Such bank guarantees are used for all aspects of the project lifecycle from the start of the project up to completion. Our total bank guarantees as at 31 October 2023 stood at RM1.9 million, details as set out below. All our bank guarantees are secured, interest-bearing and denominated in RM.

	Purpose	Security	Tenure	Interest rate	As at 31 October 2023
				% per month	RM'000
Bank guarantees	As advance payment bond, performance bond, warranty bond and payment guarantee bond favouring awarders and utility approved by the bank in relation to the contract.	(i) Legal charge over our leasehold land and building; (ii) Legal charge over fixed deposits together with all interest; and (iii) Personal guarantee by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai.	2 to 25 months	0.1%, subject to a minimum sum of RM100	1,932

12. FINANCIAL INFORMATION *(Cont'd)*

The liabilities in respect of the bank guarantees will only crystallise and become payable following a call by our customers. During FYE 2020 to 2023, we did not experience any call on the bonds issued to our customers.

As at LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency.

We have not defaulted on payments of principal sums and/or interests in respect of any of our borrowings throughout FYE 2020 to 2023 and up to LPD.

As at LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan, which can materially affect our financial position and results or business operations or the investments by holders of our securities. During FYE 2020 to 2023, we did not experience any clawback or reduction in the facilities limit granted to us by our lenders.

In conjunction with our Listing, we have applied to the financiers to release and/or discharge all the personal guarantees extended by our Promoter, substantial shareholder and Managing Director, Lim Thou Lai to our financiers in respect of our banking facilities. We have obtained conditional release and/or discharge of the said personal guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. The release and/or discharge is subject to, amongst others, the successful completion of our Listing. Until such release and/or discharge are obtained from the respective financiers, our Promoter, substantial shareholder and Managing Director, Lim Thou Lai, will continue to guarantee the banking facilities extended to our Group.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at LPD, save as disclosed in Section 12.4 above, we do not have nor utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers and external sources of funds which mainly comprise borrowings. The principal usages of these bank borrowings are for working capital as well as the purchase of property, plant and equipment.

Save for our hire purchase and special relief term financing which carry fixed interest rate, other borrowings bear variable interest rates based on the bank's base lending rate plus or minus a rate, which varies depending on the different types of bank facilities.

12.6 MATERIAL CAPITAL COMMITMENTS

As at LPD, save for the proposed capital expenditure as set out in Section 4.9.1 which have been approved by our Board but not contracted for, we do not have any other material capital commitments.

12.7 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

(a) Material litigation

Save as disclosed below, we are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant. There is no proceeding pending or threatened or any fact likely to give rise to any proceeding which might materially or adversely affect our financial position or results as at LPD.

(i) Kawan Engineering v Nyew Kam Cheng and Tan Mee Yuan ("Defendants")

On 15 May 2023, Kawan Engineering initiated a claim against the Defendants for the amount of RM2,326,676.05 being the outstanding sum owed by Periforce Sdn Bhd for the supply of cranes and installation services provided by Kawan Engineering to Periforce Sdn Bhd in 2020 ("**Transaction**"). Tan Mee Yuan is the director and both the Defendants are the shareholders of Periforce Sdn Bhd. The Defendants had provided joint and several guarantees to Kawan Engineering for purposes of the said Transaction. Subsequently, Periforce Sdn Bhd had failed, neglected and refused to pay the amount owing or any part thereof despite multiple demands made by Kawan Engineering. Thereafter, as a winding up petition was filed against Periforce Sdn Bhd in March 2022, Kawan Engineering initiated the claim against the Defendants as the guarantors and principal debtors to recover the amount owing. On 11 July 2023, the solicitors acting for Kawan Engineering filed an ex-parte application to obtain an order for substituted service subsequent to the failed attempt to serve the writ and statement of claim on the Defendants via acknowledgment of receipt (AR) registered post. The application for substituted service was allowed by the Ipoh High Court on 24 July 2023. The Defendants subsequently entered appearance on 25 August 2023. On 5 October 2023, the Defendants filed an application to transfer the case from Ipoh High Court to Shah Alam High Court, which was allowed by the Ipoh High Court on 6 November 2023. Kawan Engineering then filed an application for summary judgment on 18 December 2023 and the Defendants filed an application for discovery of documents on 19 December 2023. The hearing was held on 11 March 2024 and the Shah Alam High Court has fixed 30 May 2024 to deliver its decision.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) Potential claim by MSIG Insurance (Malaysia) Bhd ("MSIG")

On 7 March 2024, Crawford & Adjusters (Malaysia) Sdn Bhd, representing MSIG (the insurers of Pacific Oils & Fats Industries Sdn Bhd ("**Pac Oils**"), Southern Corner Sdn Bhd ("**Southern Corner**") and relevant subcontractors, collectively "**Insured**"), issued a letter to Kawan Engineering in respect of a subrogation recovery claim ("**Recovery Letter**"). Based on the Recovery Letter, it was alleged that the loss and damage suffered by the Insured arising from a fire incident on 6 and 7 January 2023 was due to the welding defects by Kawan Engineering as the manufacturer to design, fabricate and supply a vacuum economizer and as a result, MSIG has, upon subrogation of the Insured's rights, suffered a total loss of RM3,142,529.08 which include the Insured's claim of RM3,032,075.34 as well as the adjusters' fees and forensic investigators' fees amounting to RM102,071.52 and RM8,382.22 respectively.

For the avoidance of doubt, the vacuum economizer was sold and supplied to Oiltek by Kawan Engineering which was subsequently sold to Pac Oils as part of an edible oil refinery plant. Pac Oils had engaged Southern Corner to install the said equipment. The vacuum economizer was manufactured with design approval, and it was hydrostatic tested as per ASME code by DOSH. Todate, the similar equipment has been sold, and is still being sold, to Oiltek in many of their other projects locally and outside Malaysia, all of which have been operating safely.

It was noted that the fire incident occurred during the commissioning of the said plant by Oiltek, causing damage to part of the plant. There was no privity of contract and/or communication whatsoever between Kawan Engineering and Pac Oils or Southern Corner regarding the installation of the said equipment. In this regard, Kawan Engineering's contractual obligation and warranty for the equipment is toward Oiltek only, for workmanship and material.

Notwithstanding the above and following the fire incident, Oiltek had approached Kawan Engineering to supply a replacement unit of the said vacuum economizer. As a gesture of goodwill as well as to foster our long standing relationship with Oiltek, Kawan Engineering supplied a replacement unit at a discounted price.

Based on the above and in response to the Recovery Letter by Crawford, on 25 March 2024, the solicitors acting for Kawan Engineering have issued a letter of reply denying and resisting the above mentioned claim on the basis, inter alia, that there is no legal ground for Kawan Engineering to be liable for the fire incident and damages arising therefrom as the said equipment was installed and commissioned by a third party, and Kawan Engineering is not a party to any agreements or arrangements between Oiltek and its customers or their subcontractors such as Pac Oils and Southern Corner.

Notably, no documents in substantiation of its claims have been enclosed in the Recovery Letter.

As at LPD, no legal proceedings have been initiated against our Group in respect of the Recovery Letter and/or any uninsured losses suffered by the Insured. Premised on the foregoing, our Board is of the view that the said claim will not have any material adverse impact to our Group's business operations and financial performance.

(b) Contingent liabilities

As at LPD, saved for the bank guarantees as disclosed in Section 12.4, there are no material contingent liabilities incurred by our Group, which upon becoming enforceable may have a material effect on our financial position.

12.8 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYE 2020 to 2023 are as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
Trade receivables turnover (days)[(1)]	111	89	73	112
Trade payables turnover (days)[(2)]	71	56	77	148
Current ratio (times)[(3)]	2.4	2.2	1.4	1.8
Gearing ratio (times)[(4)]	0.1	0.1	0.3	0.2

Notes:

(1) Computed based on the average trade receivables and net of allowances for impairment loss as at the financial year end over revenue for the respective financial years, multiplied by 365/366 days for each financial year.

(2) Computed based on the average trade payables as at the financial year end over cost of sales (excluded depreciation of property, plant and equipment and right-of-use assets, staff-related costs and other cost of sales) for the respective financial years, multiplied by 365/366 days for each financial year.

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

(4) Computed based on total interest-bearing borrowings (excluding lease liabilities for right-of-use assets) over total equity as at the end of each financial year.

12.8.1 Trade receivables turnover

Our average trade receivables' turnover period for FYE 2020 to FYE 2023 is stated as below:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade receivables	14,045	15,565	15,613	39,828
Closing trade receivables	15,565	15,613	39,828	20,470
Average trade receivables	14,805	15,589	27,721	30,149
Revenue	48,823	64,041	139,184	98,379
Trade receivables turnover period (days)	111	89	73	112

Our trade receivables comprise amounts receivable for the design, fabrication, installation and/or commissioning solutions segment and power generation and sale of electricity segment. Our Group's normal credit term to customers ranged from 7 to 120 days from the date of our invoice.

12. FINANCIAL INFORMATION *(Cont'd)*

Our Group has established policies on credit control involving comprehensive credit evaluations, setting up appropriate credit limits, ensuring that sales are made to customers with good credit history, and regular review of customers' outstanding balances and payment trends. Our Group considers the risk of material loss in the event of non-performance by the customers to be unlikely. Our Group uses ageing analysis to monitor the credit quality of the trade receivables.

Our trade receivables turnover period for FYE 2020 to 2023 are within our normal credit term period.

Our trade receivables turnover period decreased from 111 days for FYE 2020 to 89 days for FYE 2021, mainly attributable to the improvement in collections from customers during FYE 2021 as compared to FYE 2020 where there were slow payments from certain customers in due to the COVID-19 pandemic.

Our trade receivables turnover period for the decreased from 89 days for FYE 2021 to 73 days for FYE 2022, mainly attributable to improved collections from customers during FYE 2022 as a result of our Group enhancing our debt monitoring processes and tightening credit terms granted to our customers.

Our trade receivables turnover period increased from 73 days for FYE 2022 to 112 days for FYE 2023, mainly attributable to the higher outstanding balances brought forward from FYE 2022, primarily from Ramatex Textiles Industrial Sdn Bhd for the purchase of 2 units of gas turbines for a co-generation power plant project for the power industry, which was fully received during FYE 2023. For avoidance of doubt, the higher trade receivables turnover period was not due to slower collections from our customers.

The ageing analysis of our trade receivables as at 31 October 2023 is as follows:

	Trade receivables as at 31 October 2023		**Collection from 1 November 2023 to LPD**	**Balance trade receivables as at LPD**
	RM'000	**Percentage of trade receivables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**
Neither past due nor impaired	3,353	16.4	1,495	1,858
Past due but not impaired:				
- less than 30 days	13,525	66.0	11,106	2,419
- 31 to 60 days	605	3.0	568	37
- over 60 days	2,987	14.6	1,783	1,204
	17,117	83.6	13,457	3,660
	20,470	**100.0**	**14,952**	**5,518**

As at LPD, RM15.0 million or 73.2% of our trade receivables as at 31 October 2023 have been collected. The remaining balances of RM5.5 million have yet to be collected as at LPD, comprise mainly the following:

(a) RM3.8 million will be settled upon customer's acceptance of the completed works; and

(b) The remaining balances are mainly in the progress of entering into settlement arrangement with our Group.

12. FINANCIAL INFORMATION *(Cont'd)*

We are of the view that we are able to collect the majority of the outstanding amount. Our customers have generally been paying within the credit period granted. Save as disclosed in Section 12.7, our Group has not encountered any major disputes with our trade receivables.

Our net impairment loss on trade receivables for FYE 2020 to 2023 are as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impairment losses on trade receivables	[1]181	[2]168	[3]2,448	-
Reversal of impairment losses on trade receivables	-	-	-	[4]127

Notes:

[1] Relates to conflicts between main contractors and the end customers, which affected our Group as a subcontractor to collect the debts, and long outstanding debts which are not collectible.

[2] Comprise mainly general impairment loss on trade receivables.

[3] Comprise specific impairment loss resulted from the liquidation of a customer in FYE 2022 of RM2.3 million and general impairment loss on trade receivables.

[4] Comprise reversal of general impairment loss on trade receivable.

12.8.2 Trade payables turnover

Our average trade payables' turnover period for FYE 2020 to 2023 is as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade payables	7,205	6,104	7,882	36,683
Closing trade payables	6,104	7,882	36,683	10,542
Average trade payables	6,655	6,993	22,283	23,613
Cost of sales[1]	34,115	45,227	105,449	58,203
Average trade payables turnover period (days)	71	56	77	148

Note:

[1] Excluding depreciation of property, plant and equipment and right-of-use assets, staff-related costs and other cost of sales.

Trade payables comprise amounts outstanding for trade purchases. The credit terms granted to our Group for trade purchases ranged from 7 to 90 days. To maintain good relationship with our suppliers, we will pay the suppliers as they fall due. Our trade payables turnover period for FYE 2020 to 2022 were within the normal credit terms granted by our suppliers.

12. FINANCIAL INFORMATION *(Cont'd)*

Our trade payables turnover period decreased from 71 days for FYE 2020 to 56 days for FYE 2021 as we were no longer subject to the restrictions faced during the MCO in FYE 2020 and were able to expedite our documentation processing period for FYE 2021.

Our trade payable turnover period increased from 56 days for FYE 2021 to 77 days for FYE 2022, mainly attributable to higher purchases in last quarter of FYE 2022, mainly in relation 2 units of gas turbines in the last quarter of FYE 2022 for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd.

Our trade payable turnover period increased from 77 days for FYE 2022 to 148 days for FYE 2023, mainly attributable to the higher outstanding balances brought forward from FYE 2022 primarily from a supplier for the purchase of 2 units of gas turbines for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd, which was fully settled during FYE 2023. For avoidance of doubt, the higher trade payables turnover period was not due to slower payments to our suppliers/sub-contractors.

The ageing analysis of our trade payables as at 31 October 2023 is as follows:

	Trade payables as at 31 October 2023		**Payment from 1 November 2023 to LPD**	**Balance trade payables as at LPD**
	RM'000	**Percentage of trade payables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**
Within credit period	5,436	51.6	5,127	309
Exceeding credit period:				
- 1 to 30 days	4,066	38.6	4,031	35
- 31 to 60 days	638	6.0	604	34
- More than 60 days	402	3.8	190	212
	5,106	48.4	4,825	281
	10,542	**100.0**	**9,952**	**590**

As at LPD, we have outstanding trade payables of RM0.6 million, representing 5.7% of our trade payables as at 31 October 2023. These remaining unsettled balances of RM0.6 million comprise mainly the following:

(a) RM0.4 million payables from suppliers, which are pending work acceptance documents and/or document clearance; and

(b) retention sum of RM0.2 million for projects were not due as at LPD.

As at LPD, we do not have any material disputes in respect of our trade payables and no material legal proceedings to demand for payment have been initiated by our suppliers against us.

12. FINANCIAL INFORMATION *(Cont'd)*

12.8.3 Inventory turnover

Our inventories comprise raw materials.

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening inventories	2,569	2,615	2,311	2,338
Closing inventories	2,615	2,311	2,338	2,451
Average inventories	2,592	2,463	2,325	2,395

Our inventories consist of commonly used raw materials (mainly metal plates, metal tubes and pipes). We purchase raw materials in line with our project needs. However, we maintain a minimal inventory level for commonly used raw materials that are not specifically allocated for any projects. As such, these inventory balances are not commensurate with our project needs, and we did not record any material changes in our average inventories for FYE 2020 to 2023. The movements in inventory levels for FYE 2020 to FYE 2023 were primarily due to such raw materials being used for our projects or being replenished. Accordingly, we do not analyse inventory turnover based on the above balances against our cost of sales.

12.8.4 Current ratio

Our current ratio throughout FYE 2020 to 2023 is as follows:

	Audited			
	As at 31 October			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	47,347	55,836	99,960	85,449
Current liabilities	19,483	24,961	69,342	46,864
Net current assets	**27,864**	**30,875**	**30,618**	**38,585**
Current ratio (times)	2.4	2.2	1.4	1.8

Our current ratio ranges which exceeds 1 time for FYE 2020 to FYE 2023. This indicates that our Group can meet our current obligations as our current assets, such as inventories and trade receivables, which can be readily converted into cash, together with our fixed deposits and bank balances, are enough to meet immediate current liabilities.

Our current ratio decreased from 2.2 times as at 31 October 2021 to 1.4 times as at 31 October 2022, mainly attributable to the net effects of the following:

(a) increase in trade and other receivables of RM26.6 million, mainly due to (i) increase in net trade receivables of RM24.2 million as higher billings were issued to customers in the last quarter of FYE 2022 as compared to FYE 2021; and (ii) increase in prepayments of RM2.3 million being higher downpayment paid for foreign purchases in anticipation of future projects;

(b) increase in cash and short-term deposits of RM11.3 million contributed by our business growth;

(c) increase in contract assets of RM6.1 million, for work performed ahead of billing milestones;

(d) increase in trade and other payables of RM34.3 million, mainly due to (i) increase in trade payables of RM28.8 million as higher purchases were made in the last quarter of FYE 2022 as compared to FYE 2021, mainly in relation to the purchase of 2 units of turbines in last quarter of FYE 2022 for a co-generation power plant project for power industry secured from Ramatex Textiles Industrial Sdn Bhd; (ii) increase in interim dividend payables of RM5.0 million arising from interim dividend declared of RM8.0 million for FYE 2022 which was subsequently paid on 18 January 2023; and (iii) increase in accruals of RM0.5 million mainly being bonuses for FYE 2022 and increase in the accrual of contract wages; and

(e) increase in contract liabilities of RM5.4 million, being billing milestones achieved ahead of actual work performed.

Our current ratio increased from 1.4 times as at 31 October 2022 to 1.8 times for 31 October 2023, mainly attributable to the net effects of the following:

(a) decrease in trade and other receivables of RM20.9 million, mainly due to (i) decrease in trade receivables of RM19.4 million due to full payment received from a customer for a co-generation power plant project; and (ii) decrease in prepayments of RM2.1 million being less downpayment paid for foreign purchases, and stamp duty for the sale and purchase agreement in relation to the purchase of Factory 3 in last quarter of FYE 2022 charged out as expenses upon receiving invoice in FYE 2023;

(b) increase in contract assets of RM2.8 million, mainly for work performed ahead of billing milestones;

(c) increase in cash and short-term deposits of RM3.4 million, mainly due to funds generated from our business operations;

(d) decrease in trade and other payables of RM33.6 million, mainly due to (i) decrease in trade payables of RM26.2 million, mainly due to full payment made to a supplier for the purchase of 2 units of gas turbines for a co-generation power plant project; and (ii) decrease in interim dividend payables of RM8.0 million which were fully paid during FYE 2023; and

(e) increase in contract liabilities of RM13.6 million, being billing milestones achieved ahead of actual work performed.

12.8.5 Gearing ratio

Our gearing ratio throughout FYE 2020 to 2023 is as follows:

	Audited			
	As at 31 October			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total borrowings[(1)]	2,552	3,663	12,781	10,735
Total equity	35,022	38,905	45,133	53,435
Gearing ratio (times)	0.1	0.1	0.3	0.2

Note:

(1) Computed based on total interest-bearing borrowings (including lease liabilities for right-of-use assets) over total equity as at the end of each financial year.

Our gearing ratio of 0.1 times as at 31 October 2020 and 0.1 times as at 31 October 2021 were fairly consistent.

Our gearing ratio increased from 0.1 times as at 31 October 2021 to 0.3 times as at 31 October 2022, mainly attributable to the increase in loan and borrowings of RM9.1 million, relating to (a) higher drawdown of bankers' acceptances for payments to the suppliers; (b) drawdown of new term financing to purchase Factory 3; and (c) the acquisition of 5 units of plant and machinery acquired under hire purchase.

Our gearing ratio decreased from 0.3 times for FYE 2022 to 0.2 times for FYE 2023, mainly attributable to the increase in our total equity arising from PAT of RM13.3 million for FYE 2023; and decrease in loans and borrowings of RM2.1 million, mainly due to net repayment of bankers' acceptances, repayment of term financing and payments of lease liabilities during FYE 2023.

12.9 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Save for policies in relation to COVID-19 pandemic, there were no government, economic, fiscal or monetary policies or factors which had materially affected our operations during FYE 2020 to 2023. There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward.

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

12.10 IMPACT OF INFLATION

During FYE 2020 to 2023, our financial performance was not materially affected by inflation. However, there is no assurance that our financial performance will not be adversely affected by inflation moving forward. Any significant increase in our costs of sales in the future may adversely affect our operations and performance if we are unable to pass on the higher costs to our customers through an increase in selling prices.

12.11 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR OPERATIONS

(a) Impact of foreign exchange rates

For FYE 2020 to 2023, our local sales were the largest contributor to our Group's revenue at approximately 86.1%, 94.5%, 88.1% and 81.9% respectively. Our customers are primarily based in Malaysia with the exception for a few foreign customers that are mainly from Indonesia, Singapore, Japan, New Zealand, South Africa and Germany based on their countries of domicile.

12. FINANCIAL INFORMATION *(Cont'd)*

The breakdown of our revenue and purchases by currencies for FYE 2020 to 2023 are as follows:

	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales denominated in:								
MYR	42,523	87.1	58,663	91.6	95,615	68.7	63,694	64.7
USD	5,676	11.6	2,744	4.3	37,754	27.1	22,504	22.9
SGD	624	1.3	619	1.0	5,815	4.2	2,565	2.6
EUR	-	-	2,015	3.1	-	-	9,616	9.8
	48,823	**100.0**	**64,041**	**100.0**	**139,184**	**100.0**	**98,379**	**100.0**
Purchases denominated in :								
MYR	28,381	83.1	35,527	79.1	67,779	64.3	44,723	76.7
SGD	84	0.2	396	0.9	456	0.3	960	1.6
USD	5,565	16.3	4,558	10.1	36,778	34.9	11,152	19.1
EUR	132	0.4	3,963	8.8	376	0.4	1,436	2.5
GBP	-	-	480	1.1	86	0.1	45	0.1
CNY	<0.1	<0.1	-	-	-	-	-	-
	34,162	**100.0**	**44,924**	**100.0**	**105,475**	**100.0**	**58,316**	**100.0**

We are exposed to transactional currency exposure as 11.6%, 4.3%, 27.1% and 22.9% of our total revenue were denominated in USD for FYE 2020, 2021, 2022 and 2023 respectively. In addition, 16.3%, 10.1%, 34.9% and 19.1% of our purchases were denominated in USD for FYE 2020, 2021, 2022 and 2023 respectively.

If the USD significantly appreciates against the RM, we will record a higher revenue and higher cost of goods sold in RM after conversion. Conversely, if the USD significantly depreciates against the RM, we will record a lower revenue and lower cost of goods sold in RM after conversion.

For FYE 2020, 2021, 2022 and 2023, our gains and losses from foreign exchange fluctuations are as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Realised gain / (loss) on foreign exchange	45	(57)	22	(1,435)
Unrealised gain on foreign exchange	69	220	918	1,774
Net gain	**114**	**163**	**940**	**339**

We currently do not have a formal policy with respect to our foreign exchange transactions. Exposure on foreign exchange is monitored on an ongoing basis, and our Group endeavours to keep the net exposure at an acceptable level. Our Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

12. FINANCIAL INFORMATION *(Cont'd)*

Our Group does not use any financial instruments to hedge our exposure to fluctuation in foreign currency exchange rates. As at LPD, we have not entered into any foreign exchange contracts as we endeavor to naturally hedge our foreign currency payment against our foreign currency receipts. Nonetheless, we are subject to foreign exchange fluctuation risk for any mismatch in the purchases from our foreign suppliers and revenue from our foreign sales. A depreciation of the RM against the foreign currencies will lead to higher costs of sales for our Group, and vice versa with respect to our sales collections. In such an event, our financial performance may be adversely affected due to the reduced GP margin from higher costs of sales or lower revenue collected.

(b) Impact of interest rates

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

Any reasonably possible change in the interest rates of floating rate term financing at the end of the reporting period does not have material impact on the profit after taxation and other comprehensive income of our Group.

Our Group's financial results for FYE 2020 to FYE 2023 were not materially affected by fluctuations in interest rates. However, should we undertake significant bank borrowings, a major increase in interest rates would raise the cost of borrowings and our finance costs, which may have an adverse effect on the performance of our Group.

(c) Impact of commodity prices

Our Group's primary purchases are auxiliary parts and equipment, subcontractor and outsourced services as well as steel plates which constitute between 54.6% and 84.6% of our total purchases in FYE 2020 to 2023 as set out in Section 7.10:

	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
Purchases	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Auxiliary parts and Equipment[1]	11,659	34.1	15,607	34.7	24,873	23.6	19,834	34.0
Subcontractor and outsourced services[2]	10,611	31.1	11,479	25.6	18,715	17.7	17,109	29.3
Steel plates	6,632	19.4	10,850	24.2	14,088	13.3	9,189	15.8
Steel tubes	2,765	8.1	2,509	5.6	7,995	7.6	5,252	9.0
Turbines	-	-	-	-	29,102	27.6	615	1.1
Consumables, fittings and accessories[3]	1,360	4.0	2,758	6.1	4,066	3.9	3,781	6.5
Handling, freight, forwarding and transportation	1,135	3.3	1,721	3.8	6,632	6.3	2,534	4.3
Other[4]	-	-	-	-	4	<0.1	2	<0.1
Total	**34,162**	**100.0**	**44,924**	**100.0**	**105,475**	**100.0**	**58,316**	**100.0**

Notes:

(1) Comprise auxiliary parts such as pumps, valves, pipes and fittings (e.g. flanges), control, instruments, electrical cables, belt conveyor, filter plate, tubesheet and agitators, as well as auxiliary equipment such as smokeless incinerators, dryers, filters, multiple-effect evaporators, biogas reactors, scrubbers, gasifiers, motors, chillers, separators, vacuum pumps, plate heat exchangers and sifters.

(2) Comprise mainly labour supply at our customer's site for installation and commissioning works.

(3) Consumables, fittings and accessories comprise mainly welding wire and welding electrodes.

(4) Comprises lubricant oil for Bercham Plant.

The prices of certain raw materials such as steel plates and steel tubes are subject to price fluctuations as a result of, amongst others, global demand and supply conditions, as well as global and regional economic conditions. As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, and in turn, affecting our financial performance should we fail to pass the increase in cost to our customers.

In FYE 2021, the increase in steel prices, which moved in tandem with global steel prices, resulted in the increase in our raw materials costs and subsequently our cost of sales. Please refer to Section 12.2.2(b) for further details on the price fluctuations of our raw materials. Notwithstanding this, we did not experience any material adverse impact on our financial performance in FYE 2021 as we were able to pass the increase in costs to our customers in a timely manner. Save for the aforementioned, we have not encountered any substantial increase in raw materials prices that have had a material adverse impact on our financial performance in FYE 2020 to 2023. Nonetheless, there is no assurance that such incident will not occur in the future and that we will be able to pass on the increase in cost to our customers in a timely manner, or at all. In such event, our financial performance may be adversely affected.

12.12 ORDER BOOK

As at LPD, we had secured a total unbilled order book amounting to RM72.9 million for the design, fabrication, installation and/or commissioning solutions segment:

	Unbilled order book as at LPD	**Revenue to be recognised in FYE 2024**	**Revenue to be recognised in FYE 2025**	**Revenue to be recognised in FYE 2026**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Industrial process equipment	37,022	33,368	3,574	80
Process plants	17,256	15,094	2,148	14
Renewable energy and co-generation plants	18,653	3,360	15,293	-
	72,931	**51,822**	**21,015**	**94**

As at LPD, our Group is in an early discussion for an industrial process equipment, co-generation power plant and 2 process plant projects, collectively valued at an estimated RM113.0 million. Concurrently, we have tendered for 5 process plants projects, with a cumulative estimated value of RM81.6 million.

12.13 DIRECTORS' DECLARATION ON OUR FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) our revenue will remain sustainable with an upward growth trend, in line with the anticipated growth in the industrial process equipment industry and biogas industry as set out in the IMR Report;

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

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

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

12.14 TREND INFORMATION

As at LPD, after all reasonable enquires, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations, save as disclosed in Sections 7.8, 12.9, 12.10 and 12.11;

(b) material commitments for capital expenditure disclosed in Section 12.6;

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 7.8 and 9;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discussed in Sections 12.2 and 12.11; and

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 12.2, 12.9 and 12.11.

Based on the above, our Board is optimistic about the future prospects of our Group given our competitive strengths as set out in Section 7.15, the outlook of the industrial process equipment industry and biogas industry in Malaysia as set out in the IMR Report in Section 8 and our commitment to implement the business strategies and future plans as set out in Section 7.16.

12. FINANCIAL INFORMATION *(Cont'd)*

12.15 DIVIDEND POLICY

Our Group presently does not have any formal dividend policy and the declaration of dividends and other distribution are subject to the discretion of our Board. It is our Board's policy to recommend dividends to allow our shareholders to participate in the profits of our Group. However, our ability to pay dividends or make other distributions to our shareholders in the future years is subject to various factors such as having profits and excess funds, which are not required to be retained to fund our business.

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our subsidiaries, present and future. The payment of dividends by our subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of directors deem relevant.

Our Board will consider the following factors (which may not be exhaustive) when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(a) the level of cash and level of indebtedness;

(b) required and expected interest expense, cash flows, profits, return on equity and retained earnings;

(c) our expected results of operations and future level of operations;

(d) our projected levels of capital expenditure and other investment plans; and

(e) the prior consent from our lenders, if required.

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

Subject to the Act, our Company, in a general meeting, may from time to time approve dividend or other distribution. However, no dividend or distribution shall be declared in excess of the amount recommended by our Board. Further, under the Act, our Company may not declare or pay dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(a) our Company is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than its liabilities.

12. FINANCIAL INFORMATION *(Cont'd)*

For FYE 2020 to 2023 and up to LPD, our Group declared and paid the following dividends:

	Audited				Unaudited
	FYE 2020	FYE 2021	FYE 2022	FYE 2023	1 November 2023 up to LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Dividends declared	1,500	3,000	8,000	5,000	10,000
Dividends paid[(1)]	1,000	1,500	3,000	13,000	10,000

Note:

(1) The balance of dividends declared which were not paid in each respective financial year were subsequently paid in the following financial year. As at LPD, there is no outstanding dividends declared but remained unpaid.

Subsequent to 31 October 2023 and up to the LPD, our Group declared and paid dividend of RM5.0 million in both January and February 2024, in respect of FYE 2024. The dividends above were funded by our internally generated funds. Further to the above, we do not intend to declare and pay any dividends from LPD up to the point of our Listing.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.16 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 March 2024 and after adjusting for the effects of the Group Internal Restructuring and Public Issue including the utilisation of proceeds.

	Unaudited	I	II	III
	As at 31 March 2024	After the Group Internal Restructuring	After I and the Public Issue	After II and the utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Share capital	10,200	45,144	78,144	77,144
Total capitalisation	**10,200**	**45,144**	**78,144**	**77,144**
Indebtedness				
Current				
Secured and guaranteed:				
Term loans	839	839	839	73
Bank acceptances	1,800	1,800	1,800	1,800
Unsecured and guaranteed:				
Lease liabilities	713	713	713	713
Non-current				
Secured and guaranteed:				
Term loans	5,234	5,234	5,234	-
Unsecured and guaranteed:				
Lease liabilities	891	891	891	891
Total indebtedness	**9,477**	**9,477**	**9,477**	**3,477**
Total capitalisation and indebtedness	**19,677**	**54,621**	**87,621**	**80,621**
Gearing ratio (times)[(1)]	0.9	0.2	0.1	0.1

Note:

(1) Calculated based on total indebtedness divided by total capitalisation.