

13. ACCOUNTANTS' REPORT



Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA)
Chartered Accountants (AF 0117)
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12 April 2024

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The Board of Directors
Kawan Renergy Berhad
No. 18, Lebuhr Perusahaan 1
IGB Industrial Park
31200 Ipoh
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Dear Sirs,

Reporting Accountants' opinion on the Combined Financial Statements contained in the Accountants' Report of Kawan Renergy Berhad ("Kawan" or the "Company")

Opinion

We have audited the accompanying combined financial statements of the Company and its combining entities as defined in Note 2 to the combined financial statements (collectively known as the "Group"), which comprise of the combined statements of financial position as at 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023 of the Group, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years ended 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023, and notes to the combined financial statements, including a summary of significant accounting policies, as set out on pages 6 to 97.

In our opinion, the accompanying combined financial statements contained in the Accountants' Report gives a true and fair view of the combined financial positions of the Group as at 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023 and of its financial performance and its cash flows for the financial years then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia.

Basis for Opinion

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

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENEGY BERHAD
(Incorporated in Malaysia)

Independence and Other Ethical Responsibilities

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

Responsibilities of the Directors for the Combined Financial Statements

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

In preparing the combined financial statements of the Group, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

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

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

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

- identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

13. ACCOUNTANTS' REPORT (Cont'd)



KAWAN RENERGY BERHAD
(Incorporated in Malaysia)

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Reporting Accountants' report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Reporting Accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

This report is made solely to the board of directors of the Company and has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the Prospectus of the Company in connection with the listing and quotation of the entire issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other persons for the content of this report.

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA & AF 0117)
Chartered Accountants

Paul Tan Hong
No. 03459/11/2025 J
Chartered Accountant

Kuala Lumpur

Date: 12 April 2024

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

STATEMENT BY DIRECTORS

We, **LIM THOU LAI** and **HENG SIEW AUN**, being two of the directors of KAWAN RENERGY BERHAD, do hereby state that in the opinion of the directors, the accompanying combined financial statements are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position of the Group as at 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023 and of its financial performance and cash flows for the financial years ended 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023.

Signed on behalf of the Board of Directors accordance with a resolution of the directors:



.....
LIM THOU LAI
Director



.....
HENG SIEW AUN
Director

Kuala Lumpur

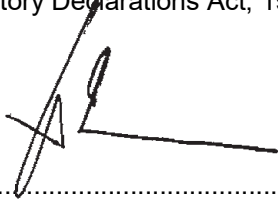
Date: 12 APR 2024

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

STATUTORY DECLARATION

I, **LIM THOU LAI**, being the director primarily responsible for the financial management of KAWAN RENERGY BERHAD, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying combined financial statements are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.




.....
LIM THOU LAI

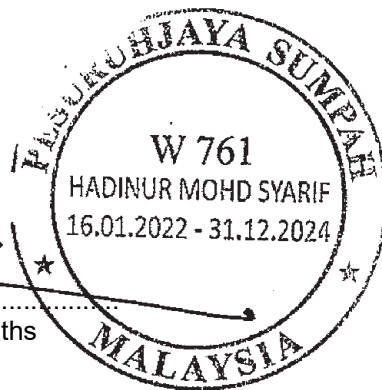
Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on

12 APR 2024

Before me,



.....
Commissioner for Oaths



CHAMBERS TWENTY - FIVE
NO 25, JALAN TUNKU, BUKIT TUNKU
50480 KUALA LUMPUR

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**COMBINED STATEMENTS OF FINANCIAL POSITION**

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
ASSETS					
Non-current asset					
Property, plant and equipment	5	7,422	8,982	21,834	22,344
Total non-current asset		7,422	8,982	21,834	22,344
Current assets					
Inventories	6	2,615	2,311	2,338	2,451
Current tax assets		143	-	-	-
Trade and other receivables	7	17,481	16,995	43,724	22,805
Contract assets	8	3,741	6,544	12,567	15,447
Cash and short-term deposits	9	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	10	6,500	10,000	10,200	10,200
Merger deficit	11	-	-	(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	12	34	676	7,267	6,324
Deferred income	13	-	-	-	67
Deferred tax liabilities	14	230	276	52	1,103
Total non-current liabilities		264	952	7,319	7,494
Current liabilities					
Loans and borrowings	12	2,518	2,987	5,514	4,411
Deferred income	13	-	-	-	8
Current tax liabilities		-	279	2,392	1,023
Trade and other payables	15	8,681	11,839	46,160	12,524
Contract liabilities	8	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

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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Revenue	16	48,823	64,041	139,184	98,379
Cost of sales		(41,355)	(53,964)	(117,668)	(74,382)
Gross profit		7,468	10,077	21,516	23,997
Other income	17	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 profit		5,475	8,657	18,223	18,593
Finance income	18	321	364	568	777
Finance costs	19	(123)	(84)	(222)	(450)
Profit before tax	20	5,673	8,937	18,569	18,920
Income tax expense	22	(1,248)	(2,054)	(4,341)	(5,618)
Profit for the financial year, representing total comprehensive income for the financial year		4,425	6,883	14,228	13,302
Earnings per share (RM)					
- Basic and diluted	23	0.68	0.79	1.41	1.30

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

13. ACCOUNTANTS' REPORT (Cont'd)
KAWAN RENERGY BERHAD
 Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	← Attributable to owners of the Group →			Total equity RM
		Share capital RM	Merger deficit RM	Retained earnings RM	
At 1 November 2019		6,500	-	25,597	32,097
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income for the financial year		-	-	4,425	4,425
Transaction with owners					
Dividend paid on shares	24	-	-	(1,500)	(1,500)
At 31 October 2020		6,500	-	28,522	35,022
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income for the financial year		-	-	6,883	6,883
Transaction with owners					
Issue of ordinary shares	10	3,500	-	(3,500)	-
Dividend paid on shares	24	-	-	(3,000)	(3,000)
At 31 October 2021		10,000	-	28,905	38,905
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income for the financial year		-	-	14,228	14,228
Transaction with owners					
Issuance of ordinary shares	10	200	(200)	-	-
Dividend paid on shares	24	-	-	(8,000)	(8,000)
At 31 October 2022		10,200	(200)	35,133	45,133

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Note	← Attributable to owners of the Group →			Total equity RM
		Share capital RM	Merger deficit RM	Retained earnings RM	
At 31 October 2022		10,200	(200)	35,133	45,133
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income for the financial year		-	-	13,302	13,302
Transaction with owners					
Dividend paid on shares	24	-	-	(5,000)	(5,000)
At 31 October 2023		10,200	(200)	43,435	53,435

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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Cash flows from operating activities				
Profit before tax	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 losses on trade receivables	181	168	2,448	-
Bad debt recovered	-	(430)	-	-
Amortisation of government grant income	-	-	-	(3)
Finance cost	123	84	222	450
Finance income	(321)	(364)	(568)	(777)
Property, plant and equipment written off	*	-	*	-
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	-	-	*	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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Cash flows from investing activities					
Purchase of property, plant and equipment	(a)	(766)	(2,482)	(3,614)	(3,567)
Acquisition of subsidiary, net of cash acquired		-	-	590	-
Proceeds 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 flows from financing activities					
Proceeds from issuance of ordinary shares	(b)	-	-	*	-
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 equivalents		69	221	807	1,656
Cash and cash equivalents at the end of the financial year	9	21,888	28,463	39,781	39,148

* Less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**

(a) Purchase of property, plant and equipment:

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Purchase of property, plant and equipment	5	814	2,797	11,764	4,216
Financed by way of lease arrangements		(48)	(315)	(1,350)	(649)
Financed by way of term loan		-	-	(6,800)	-
Cash payments on purchase of property, plant and equipment		766	2,482	3,614	3,567

(b) Reconciliation of changes in liabilities arising from financing activities are as follows:

	1.11.2019 RM'000	Cash flow RM'000	Non-cash Acquisition RM'000	31.10.2020 RM'000
Lease liabilities	751	(537)	48	262
Bankers' acceptances	3,700	(1,410)	-	2,290
Amount owing to a director	(46)	46	-	-
Amount owing to a shareholder	9	-	-	9
	4,414	(1,901)	48	2,561

	1.11.2020 RM'000	Cash flow RM'000	Non-cash Acquisition RM'000	31.10.2021 RM'000
Lease liabilities	262	(256)	315	321
Bankers' acceptances	2,290	500	-	2,790
Term loans	-	552	-	552
Amount owing to a shareholder	9	(9)	-	-
	2,561	787	315	3,663

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**

- (b) Reconciliation of changes in liabilities arising from financing activities are as follows:
-
- (continued)

	1.11.2021 RM'000	Cash flow RM'000	← Non-cash →		31.10.2022 RM'000
			Acquisition RM'000	Waiver of debt RM'000	
Lease liabilities	321	(239)	1,350	-	1,432
Bankers' acceptances	2,790	1,410	-	-	4,200
Term loans	552	(203)	6,800	-	7,149
Amount owing to a director	-	40	28	(50)	18
	<u>3,663</u>	<u>1,008</u>	<u>8,178</u>	<u>(50)</u>	<u>12,799</u>

	1.11.2022 RM'000	Cash flow RM'000	← Non-cash →		31.10.2023 RM'000
			Acquisition RM'000	Termination of lease RM'000	
Lease liabilities	1,432	(554)	649	(87)	1,440
Bankers' acceptances	4,200	(1,250)	-	-	2,950
Term loans	7,149	(804)	-	-	6,345
Amount owing to a director	18	(17)	-	-	1
Amount owing to a shareholder	-	550	-	-	550
	<u>12,799</u>	<u>(2,075)</u>	<u>649</u>	<u>(87)</u>	<u>11,286</u>

- (c) Total cash outflows for leases

During the financial year, the Group had total cash outflows for lease of RM993,288 (2022: RM3,283,237; 2021: RM410,083 and 2020: RM705,720).

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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS**1. GENERAL INFORMATION**

Kawan Renergy Berhad (the "Company") was incorporated on 26 October 2022 as a private limited liability company and is domiciled in Malaysia. The Company was converted to a public company limited by shares on 28 July 2023. The registered office of the Company is located at Unit 30-01, Level 30, Tower A The Vertical Business Suite Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur. The principal place of business of the Company is located at No. 18, Lebuhr Perusahaan 1, Kawasan Perindustrian IGB, 31200 Chemor, Perak.

The principal activity of the Company is investment holding. The details of the combining entities are as follows:

Combining Entities	Principal place of business/ country of incorporation	Principal activities
Kawan Renergy Berhad	Malaysia	Investment holding.
Kawan Engineering Sdn. Bhd.	Malaysia	Design, fabrication, installation and/or commissioning of industrial process equipment and process plants.
Kawan Green Energy Sdn. Bhd.	Malaysia	Design, fabrication, installation and/or commissioning of renewable energy and co-generation plants.
Magenko Renewables (Asia) Sdn. Bhd.	Malaysia	Dormant. Independent power producer ("IPP") involved in power generation and sale of electricity.
Magenko Renewables (Penang) Sdn. Bhd.	Malaysia	Dormant. IPP involved in power generation and sale of electricity.
Magenko Renewables (Ipoh) Sdn. Bhd.	Malaysia	IPP involved in power generation and sale of electricity.

Magenko Renewables (Asia) Sdn. Bhd. was the holding company of Magenko Renewables (Penang) Sdn. Bhd. and Magenko Renewables (Ipoh) Sdn. Bhd. (collectively referred to as "Magenko Group").

13. ACCOUNTANTS' REPORT (Cont'd)

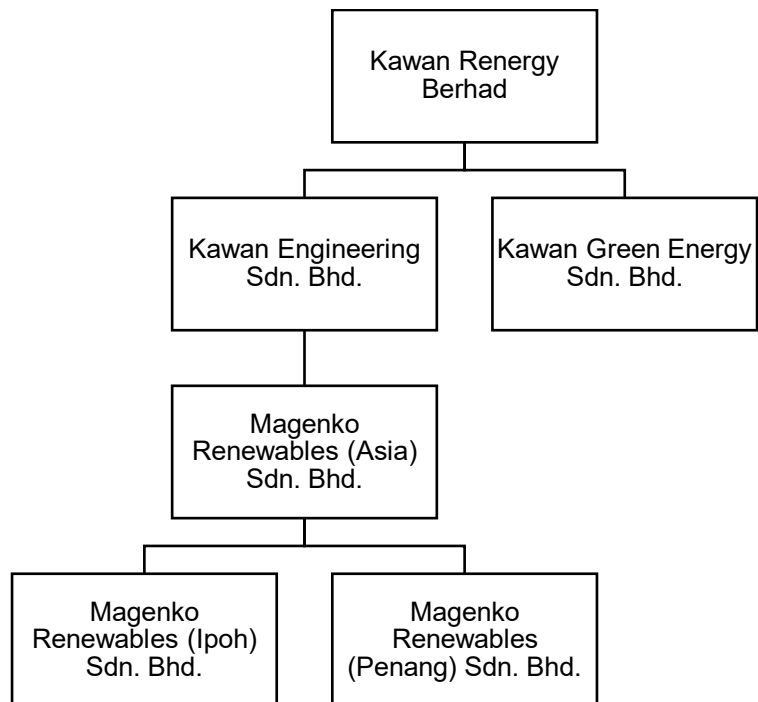
KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

The Initial Public Offering group structure is as illustrated below:



13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****1. GENERAL INFORMATION (CONTINUED)**

There have been no significant changes in the nature of these principal activities during the financial years under review.

The combined financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 12 April 2024.

Acquisition of Magenko Group

On 1 August 2022, Kawan Engineering Sdn. Bhd. acquired 100% equity shares of Magenko Renewables (Asia) Sdn. Bhd., representing 50,000 ordinary shares for a total purchase consideration of RM50,000.

(i) Fair value of identifiable assets acquired and liabilities recognised:

	2022 RM'000
Total assets	3,590
Total liabilities	(2,034)
Total identifiable net assets acquired	1,556
Bargain purchase on acquisition of subsidiaries	(1,506)
	<u>50</u>

(ii) Effects of acquisition on cash flows:

	2022 RM'000
Fair value of consideration transferred	50
Less: Cash and cash equivalent of a subsidiary acquired	(640)
Net cash inflow from acquisition	<u>(590)</u>

(iii) Effects of acquisition in statements of comprehensive income

From the date of acquisition, the subsidiary's contributed revenue and loss net of tax are as follows:

	2022 RM'000
Revenue	41
Loss for the financial year	<u>(334)</u>

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION**

The combined financial statements of the Group (as defined herein) for the financial years ended ("FYE") 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023 have been prepared pursuant to the listing of and quotation for the entire issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad which consist of the financial statements of the following entities under common control for each of the financial years.

Combining entities	Audited FYE 31 October			
	2020	2021	2022	2023
Kawan Renergy Berhad	@	@	√, ^	√, ^
Kawan Engineering Sdn. Bhd.	√, ^	√, ^	√, ^	√, ^
Kawan Green Energy Sdn. Bhd.	*	*	√, ^	√, ^
Magenko Renewables (Asia) Sdn. Bhd.	N/A	N/A	#, √	#, √
Magenko Renewables (Ipoh) Sdn. Bhd.	N/A	N/A	#, √	#, √
Magenko Renewables (Penang) Sdn. Bhd.	N/A	N/A	#, √	#, √

√ The combined financial statements of the Group include the financial statements of these combining entities for the respective financial years.

^ The combined financial statements of the Group for the respective financial years have been prepared based on the audited financial statements which were audited by Baker Tilly Monteiro Heng PLT.

* No financial statements were available as Kawan Green Energy Sdn. Bhd. was incorporated on 15 April 2022.

Magenko Group of Companies was acquired on 1 August 2022, the consolidated financial statements have been prepared based on the audited financial statements which were audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.

@ No financial statements were available as Kawan Renergy Berhad was incorporated on 26 October 2022.

N/A Not applicable as the acquisition took place on 1 August 2022.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)**

The audited financial statements of all the combining entities within the Group for the relevant years reported above were not subject to any modifications. The combined financial statements of the Group for the relevant periods were prepared in a manner as if the entities under common control were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of entities within the Group, if later.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory ("commonly controlled entities"). Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the commonly controlled entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

The financial information presented in the combined financial statements may not correspond to those in the combined financial statements of the Group had the relevant transactions to legally constitute a group been incorporated in the combined financial statements for the respective financial years. Such financial information in the combined financial statements does not purport to predict the financial position, results and the cash flows of the entities under common control for those financial years.

The combined financial statements are prepared under the historical cost convention except otherwise indicated in the summary of significant accounting policies.

The accounting policies applied by the Group are consistently applied for all the financial years presented in these combined financial statements.

2.1 Statement of compliance

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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.2 Changes in accounting policies**

The Group has adopted MFRS 16 *Leases* which is effective for annual periods beginning on after 1 January 2019 and amendment to MFRS 16 *Leases* which is effective for annual periods beginning on or after 5 June 2020 or/and 6 April 2021.

MFRS 16 Leases

Effective 1 January 2019, MFRS 16 has replaced MFRS 117 *Leases* and IC Int 4 *Determining whether an Arrangement contains a Lease*.

Under MFRS 117, leases are classified either as finance leases or operating leases. A lessee recognises on its combined statements of financial position assets and liabilities arising from finance leases. For operating leases, lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. Instead, all leases are brought onto the combined statements of financial position except for short-term and low value asset leases.

The Group has applied MFRS 16 using the modified retrospective approach with any cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 November 2019). As such, the comparative information was not restated and continues to be reported under MFRS 117 and IC Int 4.

Definition of a lease

MFRS 16 changes the definition of a lease mainly to the concept of control. MFRS 16 defines that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Impact of the adoption of MFRS 16

The application of MFRS 16 resulted in changes in accounting policies and adjustments to the amounts recognised in the combined financial statements as at the date of initial application. Other than the enhanced new disclosures relating to leases, which the Group has complied with in the current financial year, the application of this standard does not have any significant effect on the combined financial statements of the Group, except for those as discussed below.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.2 Changes in accounting policies (continued)****(i) Classification and measurement**

As a lessee, the Group previously classified leases as operating or finance leases based on their assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group.

On adoption of MFRS 16, for all their leases other than short-term and low value asset leases, the Group:

- recognised the right-of-use assets and lease liabilities in the combined statements of financial position as at the date of initial application;
- recognised depreciation of right-of-use assets and interest on lease liabilities in profit or loss for the current financial year; and
- separated the total amount of cash paid for leases into principal and interest portions (presented within financing activities) in the combined statements of cash flows for the current financial year.

For leases that were classified as operating lease under MFRS 117

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

The right-of-use assets were adjusted at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

For leases that were classified as finance lease under MFRS 117

The Group recognised the carrying amount of the lease assets and finance lease liabilities under MFRS 117 immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

(ii) Short-term lease and low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of buildings that have a lease term of 12 months or less and leases of low value assets based on the value of the underlying asset when new, such as office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective

- (a) The Group has not adopted the following new MFRS and amendments/ improvements to MFRSs that have been issued, but yet to be effective:

<u>New MFRS</u>	Effective for financial periods beginning on or after
MFRS 17 Insurance Contracts	1 January 2023
<u>Amendments/Improvements to MFRSs</u>	
MFRS 1 First-time Adoption of MFRSs	1 January 2023 [#]
MFRS 3 Business Combinations	1 January 2023 [#]
MFRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 January 2023 [#]
MFRS 7 Financial Instruments: Disclosures	1 January 2023 [#] / 1 January 2024
MFRS 9 Financial Instruments	1 January 2023 [#]
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 15 Revenue from Contracts with Customers	1 January 2023 [#]
MFRS 16 Leases	1 January 2024
MFRS 17 Insurance Contracts	1 January 2023
MFRS 101 Presentation of Financial Statements	1 January 2023/ 1 January 2023 [#] / 1 January 2024

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)**

- (a) The Group has not adopted the following new MFRS and amendments/ improvements to MFRSs that have been issued, but yet to be effective: (continued)

		Effective for financial periods beginning on or after
<u>Amendments/Improvements to MFRSs (continued)</u>		
MFRS 107	Statements of Cash Flows	1 January 2023#/ 1 January 2024
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023
MFRS 112	Income Taxes	1 January 2023
MFRS 116	Property, Plant and Equipment	1 January 2023#
MFRS 119	Employee Benefits	1 January 2023#
MFRS 121	The Effects of Changes in Foreign Exchange Rate	1 January 2025
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023#
MFRS 132	Financial Instruments: Presentation	1 January 2023#
MFRS 136	Impairment of Assets	1 January 2023#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2023#
MFRS 138	Intangible Assets	1 January 2023#
MFRS 140	Investment Property	1 January 2023#

Amendments as to the consequence of effective of MFRS 17 Insurance Contracts

- (b) The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs are summarised below.

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)**

- (b) The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs are summarised below. (continued)

Amendments to MFRS 16 Leases

The amendments clarify how an entity should subsequently measure the leaseback liability that arise in a sale and leaseback transaction. Although MFRS 16 includes requirements on how to account for a sale and leaseback at the date the transaction takes place, it has not specified how to measure the sale and leaseback transaction when reporting after that date.

The amendments add subsequent measurement requirements for the right-of-use assets and lease liability arising from a sale and leaseback transaction by clarifying that a seller-lessee in a sale and leaseback transaction shall apply paragraphs 29 to 35 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 to the lease liability arising from the leaseback. The amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction.

Amendments to MFRS 101 Presentation of Financial Statements

The amendments include specifying that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period; clarifying that classification of liability is unaffected by the likelihood of the entity to exercise its right to defer settlement of the liability for at least twelve months after the reporting period; clarifying how lending conditions affect classification of a liability; and clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

In another amendments, an entity is required to disclose its material accounting policy information rather than significant accounting policies. The amendments, amongst others, also include examples of circumstances in which an entity is likely to consider an accounting policy information to be material to its financial statements. To support this amendments, MFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy information disclosures. The guidance and examples provided in the MFRS Practice Statement 2 highlight the need to focus on entity-specific information and demonstrate how the four-step materiality process can address standardised (or boilerplate) information and duplication of requirements of MFRSs in the accounting policy information disclosures.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)**

- (b) The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs are summarised below. (continued)

Amendments to MFRS 101 Presentation of Financial Statements (continued)

The latest amendments to MFRS 101 clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. As such, the amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require an entity to disclose information about these covenants in the notes to the financial statements.

Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments revise the definition of accounting estimates to clarify how an entity should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because the changes in accounting estimates are applied prospectively to transactions, other events, or conditions from the date of that change, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to MFRS 112 Income Taxes

The amendments specify how an entity should account for deferred tax on transactions such as leases and decommissioning obligation.

In specified circumstances, MFRS 112 exempts an entity from recognising deferred tax when it recognises assets or liabilities for the first time. There had been some uncertainties about whether the exemption from recognising deferred tax applied to transactions such as leases and decommissioning obligations – transactions for which an entity recognises both an asset and a liability. The amendments clarify that the exemption does not apply and that entity is required to recognise deferred tax on such transactions.

In another amendments, it gives entities temporary relief from recognising and disclosing accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's ("OECD") international tax reform; and introduces targeted disclosure requirements to help investors better understand an entity's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

13. ACCOUNTANTS' REPORT (*Cont'd*)

KAWAN RENERGY BERHAD Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

- (b) The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs are summarised below. (continued)

Amendments to MFRS 112 Income Taxes (continued)

Applying the temporary relief, entities neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. The relief will help to ensure consistency in the financial statements while easing into the implementation of the rules by allowing time for entities to assess how they are affected.

Amendments to MFRS 107 Statement of Cash Flows and MFRS 7 Financial Instruments: Disclosures

Amendments to MFRS 107 and MFRS 7 respond to investors' concerns that some supplier finance arrangements – also referred to as supply chain finance, trade payables finance or reverse factoring arrangements – used by entities are not sufficiently visible, hindering investors' analysis.

The disclosure requirements require entities to disclose information that would enable users of financial statements to assess how supplier finance arrangements affect an entity's operations; including the effects supplier finance arrangements have on an entity's liability, cash flows and exposures to liquidity risk. The new disclosure requirements would also inform users of financial statements on how an entity might be affected if the arrangements were no longer available to it.

Amendments to MFRS 121 The Effects of Changes in Foreign Exchange Rates

Amendments to MFRS 121 respond to stakeholder feedback and concerns about diversity in practice in accounting for a lack of exchangeability between currencies.

Applying the Amendments, entities will be applying a consistent approach in determining if a currency can be exchanged into another currency. These amendments provide guidance on the spot exchange rate to use when a currency is not exchangeable into another currency and the disclosures entities need to provide to enable users of financial statements to understand the impact on the entities' financial performance, financial position and cash flows as a result of a currency being not exchangeable into another currency.

- (c) The initial application of the above applicable new MFRS and amendments/improvements to MFRSs are not expected to have any material impact on the combined financial statements.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**2. BASIS OF PREPARATION (CONTINUED)****2.4 Functional and presentation currency**

The combined financial statements of the Group are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The combined financial statements are presented in Ringgit Malaysia ("RM"), which is also the Group's functional currency, unless otherwise stated.

2.5 Basis of measurement

The combined financial statements of the Group have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the combined financial statements of the Group.

3.1 Basis of combination

The combined financial statements comprise the financial statements of the Company, Kawan Engineering Sdn.Bhd., Kawan Green Energy Sdn.Bhd., Magenکو Renewables (Asia) Sdn. Bhd., Magenکو Renewables (Penang) Sdn. Bhd. and Magenکو Renewables (Ipoh) Sdn. Bhd.. The financial statements used in the preparation of the combined financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the financial statements from the date of the Group obtains control of the acquirees until the date the Group loss control of the acquirees.

The Group applies the acquisition method of accounting except for those business combinations which were accounted for using merger method of accounting. Three subsidiaries (i.e. Magenکو Renewables (Asia) Sdn. Bhd., Magenکو Renewables (Penang) Sdn. Bhd. and Magenکو Renewables (Ipoh) Sdn. Bhd.) are consolidated using acquisition method of accounting, the rest of the operating entities are accounted for using the merger method of accounting.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.1 Basis of combination (continued)**

A business combination involving entities under common control is a business combination in which all the combining entities are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Combining entities acquired which have met the criteria for pooling of interest are accounted for using merger accounting policies. Under the merger method of accounting, the results of combining entities are presented as if the business combination had been affected throughout the current and previous financial years.

The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between the costs of acquisition over the nominal value of share capital of the combining entities is taken to reorganisation reserve or merger deficit.

(a) Subsidiaries and business combination

Entities under a reorganisation does not result in any change in economic substance. Accordingly, the combined financial statements of the Group is a continuation of the Group and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the combined financial statements at the pre-combination carrying amounts, without restatement to fair value;
- the retained earnings, and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the differences arising from the change in equity structure of the Group will be accounted for in other reserves.

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.1 Basis of combination (continued)****(a) Subsidiaries and business combination (continued)**

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

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

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, a joint venture or a financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Transactions eliminated on combination

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

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.2 Foreign currency transactions****Translation of foreign currency transactions**

Foreign currency transactions are translated to the functional currency of the Group using the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3.3 Financial instruments

Financial instruments are recognised in the combined statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instruments.

Except for the trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15 *Revenue from Contracts with Customers*.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract; it is a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured as FVPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

13. ACCOUNTANTS' REPORT (*Cont'd*)

KAWAN RENERGY BERHAD Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

(a) Subsequent measurement

The Group categorises the financial instruments as follows:

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income ("FVOCI") with recycling of cumulative gains and losses upon derecognition
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at FVPL

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group reclassifies financial assets when and only when its business models for managing those assets change.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

• Amortised cost

Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment is in accordance with Note 3.9(a). Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)****(a) Subsequent measurement (continued)**

The Group categorises the financial instruments as follows: (continued)

(i) Financial assets (continued)Debt instruments (continued)

- **FVOCI**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. The policy for the recognition and measurement of impairment is in accordance with Note 3.9(a). Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

- **FVPL**

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the combined statements of financial position at fair value with net changes in fair value recognised in the profit or loss.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows: (continued)

(i) Financial assets (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Upon initial recognition, the Group can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

(ii) Financial liabilities

The Group classifies its financial liabilities in the following measurement categories:

- Financial liabilities at FVPL
- Financial liabilities at amortised cost

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at FVPL are measured at fair value with the gain or loss recognised in profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)****(a) Subsequent measurement (continued)**

The Group categorises the financial instruments as follows: (continued)

(ii) Financial liabilities (continued)Financial liabilities at amortised cost

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 *Financial Instruments* and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of *MFRS 15 Revenue from Contracts with Customers*.

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets shall be recognised and derecognised as applicable, using trade date accounting (i.e. the date the Group commits itself to purchase or sell an asset).

Trade date accounting refers to:

- (i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)****(d) Derecognition**

A financial asset or a part of it is derecognised when, and only when:

- (i) the contractual rights to receive cash flows from the financial asset expire; or
- (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4 Property, plant and equipment****(a) Recognition and measurement**

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

All property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Buildings	33
Plant and machinery	7 – 10
Motor vehicles	5
Furniture and fittings	10
Office equipment	5 – 10
Computers and software	2.5 – 5
Renovation	10
Right-of-use assets	2 – 99

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4 Property, plant and equipment (continued)****(d) Derecognition**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in profit or loss.

3.5 Leases**(a) Definition of lease**

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

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

(b) Lessee accounting

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Right-of-use asset

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

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjust for any remeasurement of the lease liabilities. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the Group expects to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts from the commencement date of the underlying asset. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.5 Leases (continued)****(b) Lessee accounting (continued)**Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.5 Leases (continued)****(b) Lessee accounting (continued)**Lease liability (continued)

Variable lease payments that do not depend on an index or a rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "other operating expenses" in the combined statements of comprehensive income.

The Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value assets. The Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.6 Inventories

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

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- raw materials: purchase costs on a first-in first-out basis.
- work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis.

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

3.7 Contract assets/(liabilities)

Contract asset is the right to consideration for goods or services transferred to the customers when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(a).

Contract liability is the obligation to transfer goods or services to customer for which the Group has received the consideration or has billed the customer.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8 Cash and cash equivalents**

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash and bank balances and deposits and other short-term, highly liquid investments with a maturity of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

3.9 Impairment of assets**(a) Impairment of financial assets and contract assets**

Financial assets measured at amortised cost, contract assets or a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 *Financial Instruments* which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group measures loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables and contract assets, the Group applies the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than the credit term.

13. ACCOUNTANTS' REPORT (Cont'd)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.9 Impairment of assets (continued)****(a) Impairment of financial assets and contract assets (continued)**

The Group considers a financial asset to be in default when:

- the borrower is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
- the contractual payment of the financial asset is more than the credit term unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.9 Impairment of assets (continued)****(a) Impairment of financial assets and contract assets (continued)**

Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of impairment losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedure for recovery of amounts due.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories and contract assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group makes an estimate of the assets' recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset of a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.9 Impairment of assets (continued)****(b) Impairment of non-financial assets (continued)**

Where the carrying amount of an asset exceeds the recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

For other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.10 Share capital/Invested equity

An equity instrument is a contract that evidence a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.11 Employee benefits**(a) Short-term employee benefits**

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

(b) Defined contribution plans

As required by law, the Group contributes to the Employees Provident Fund ("EPF"), the national defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.12 Provisions**

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

If the effect of the time value of the money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

3.13 Revenue and other income

The Group recognises revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue recognition of the Group is applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer). For practical expedient, the Group applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if the 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.

The Group measures revenue at its transaction price, being the amount of consideration to which the Group expects to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as sales and services tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer. If the transaction price includes variable consideration, the Group uses the expected value method by estimating the sum of probability-weighted amounts in a range or possible consideration amounts, or the most likely outcome method, depending on which method the Group expects to better predict the amount of consideration to which it is entitled.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, the Group estimates it by using the adjusted market assessment approach.

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.13 Revenue and other income (continued)**

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group has assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

Financing components

The Group has applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components if the Group expects that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

(a) Design, fabrication, installation and/or commissioning solutions

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 construction costs incurred for work performed to date bear to the estimated total construction costs (an input method).

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

The Group recognised 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 invoice is issued or timing for billing is due to passage of time. If the milestone billing exceeds the revenue recognised to date and any deposit or advances received from customers then the Group recognise a contract liability for the difference.

(b) Power generation and sale of electricity

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).

13. ACCOUNTANTS' REPORT (Cont'd)

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Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.13 Revenue and other income (continued)****(c) Interest income**

Interest income is recognised using the effective interest method.

3.14 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Where the grant relates to an asset, it is recognised as deferred income in the statements of financial position and transferred to profit or loss over the expected useful life of the related asset. Where the grant relates to an expense item, it is recognised in profit or loss, under the heading of "other income", on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The benefit derived from a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.15 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.16 Income tax

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

(a) Current tax

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

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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.16 Income tax (continued)****(b) Deferred tax**

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the combined statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

13. ACCOUNTANTS' REPORT (Cont'd)

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Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.16 Income tax (continued)****(c) Sales and services tax**

Revenue, expenses and assets are recognised net of the amount of sales and services tax except:

- where the sales and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statements of financial position.

3.17 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.18 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The managing director of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

3.19 Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Fair value measurements (continued)

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of combined financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity that have the most significant effect on the Group's combined financial statements, or areas where assumptions and estimates that have a significant risk of resulting in a material adjustment to the Group's combined financial statements within the next financial year are disclosed as follows:

(a) Construction revenue

The Group recognised construction revenue in profit or loss by using the progress towards complete satisfaction of performance obligation. The stage of completion is determined by the proportion that construction costs incurred for work performed to date bear to the estimated total construction costs.

Significant judgment is required in determining the progress towards complete satisfaction of performance obligation, the extent of construction costs incurred, the estimated total construction revenue and expenses, as well as the recoverability of the construction projects. In making the judgment, the Group evaluates based on past experience and by relying on the work of specialists.

The carrying amounts of the contract assets and contract liabilities are disclosed in Note 8.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(b) Impairment of financial assets and contract assets

The impairment provisions for financial assets and contract assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimate at the end of each reporting period.

The Group uses a provision matrix to calculate expected credit losses for trade receivable and contract assets. The provision rate depends on the number of days that a trade receivable is past due. The Group uses the grouping according to the customer segments that have similar loss patterns. The criteria include geographical region, product type, customer type and rating, collateral or trade credit insurance.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

The information about the expected credit losses on the Group's financial assets and contract assets are disclosed in Note 25(b)(i).

13. ACCOUNTANTS' REPORT (Cont'd)
KAWAN RENENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)
5. PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computers and software RM'000	Right-of-use assets RM'000	Total RM'000
Cost										
At 1 November 2019		1,931	4,665	8,291	1,539	942	212	413	-	17,993
Adoption of MFRS 16		(1,931)	-	-	-	-	-	-	1,931	-
At 1 November 2019		-	4,665	8,291	1,539	942	212	413	1,931	17,993
Additions		-	-	519	116	-	5	126	48	814
Disposals		-	-	-	(42)	-	-	-	-	(42)
Written off		-	-	-	(168)	-	-	-	-	(168)
At 31 October 2020		-	4,665	8,810	1,445	942	217	539	1,979	18,597
Accumulated depreciation										
At 1 November 2019		303	1,333	6,370	1,084	616	148	352	-	10,206
Adoption of MFRS 16		(303)	-	-	-	-	-	-	303	-
At 1 November 2019		-	1,333	6,370	1,084	616	148	352	303	10,206
Depreciation charge for the financial year	20	-	140	635	182	62	12	91	49	1,171
Disposals		-	-	-	(34)	-	-	-	-	(34)
Written off		-	-	-	(168)	-	-	-	-	(168)
At 31 October 2020		-	1,473	7,005	1,064	678	160	443	352	11,175

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN REENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computers and software RM'000	Right-of-use assets RM'000	Total RM'000
Carrying amount									
At 1 November 2019	-	3,332	1,921	455	326	64	61	1,628	7,787
At 31 October 2020	-	3,192	1,805	381	264	57	96	1,627	7,422

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN REENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computers and software RM'000	Right-of-use assets RM'000	Total RM'000
Cost									
At 1 November 2020		4,665	8,810	1,445	942	217	539	1,979	18,597
Additions		1,427	732	515	90	12	20	-	2,796
Disposals		-	(35)	(171)	-	-	-	-	(206)
Derecognition		-	-	-	-	-	-	(47)	(47)
At 31 October 2021		6,092	9,507	1,789	1,032	229	559	1,932	21,140
Accumulated depreciation									
At 1 November 2020		1,473	7,005	1,064	678	160	443	352	11,175
Depreciation charge for the financial year	20	150	639	222	69	12	69	47	1,208
Disposals		-	(35)	(143)	-	-	-	-	(178)
Derecognition		-	-	-	-	-	-	(47)	(47)
At 31 October 2021		1,623	7,609	1,143	747	172	512	352	12,158
Carrying amount									
At 1 November 2020		3,192	1,805	381	264	57	96	1,627	7,422
At 31 October 2021		4,469	1,898	646	285	57	47	1,580	8,982

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN REENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computers and software RM'000	Renovation RM'000	Right-of-use assets RM'000	Total RM'000
Cost										
At 1 November 2021		6,092	9,507	1,789	1,032	229	559	-	1,932	21,140
Acquisition of subsidiaries		-	8,880	-	-	11	4	41	253	9,189
Additions		5,609	2,182	455	513	132	41	-	2,832	11,764
Written off		-	-	-	-	-	(3)	-	-	(3)
At 31 October 2022		<u>11,701</u>	<u>20,569</u>	<u>2,244</u>	<u>1,545</u>	<u>372</u>	<u>601</u>	<u>41</u>	<u>5,017</u>	<u>42,090</u>
Accumulated depreciation										
At 1 November 2021		1,623	7,609	1,143	747	172	512	-	352	12,158
Acquisition of subsidiaries		-	6,135	-	-	11	4	2	141	6,293
Depreciation charge for the financial year	20	239	1,004	332	93	19	49	1	71	1,808
Written off		-	-	-	-	-	(3)	-	-	(3)
At 31 October 2022		<u>1,862</u>	<u>14,748</u>	<u>1,475</u>	<u>840</u>	<u>202</u>	<u>562</u>	<u>3</u>	<u>564</u>	<u>20,256</u>
Carrying amount										
At 1 November 2021		<u>4,469</u>	<u>1,898</u>	<u>646</u>	<u>285</u>	<u>57</u>	<u>47</u>	<u>-</u>	<u>1,580</u>	<u>8,982</u>
At 31 October 2022		<u>9,839</u>	<u>5,821</u>	<u>769</u>	<u>705</u>	<u>170</u>	<u>39</u>	<u>38</u>	<u>4,453</u>	<u>21,834</u>

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN REENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computers and software RM'000	Renovation RM'000	Right-of-use assets RM'000	Total RM'000
Cost										
At 1 November 2022		11,701	20,569	2,244	1,545	372	601	41	5,017	42,090
Additions		838	1,607	865	126	31	620	-	129	4,216
Disposals		(730)	-	(293)	(2)	-	-	-	-	(1,025)
Termination		-	-	-	-	-	-	-	(132)	(132)
At 31 October 2023		11,809	22,176	2,816	1,669	403	1,221	41	5,014	45,149
Accumulated depreciation										
At 1 November 2022		1,862	14,748	1,475	840	202	562	3	564	20,256
Depreciation charge for the financial year	20	343	1,916	308	103	25	85	4	130	2,914
Disposals		(28)	-	(293)	-	-	-	-	-	(321)
Termination		-	-	-	-	-	-	-	(44)	(44)
At 31 October 2023		2,177	16,664	1,490	943	227	647	7	650	22,805
Carrying amount										
At 1 November 2022		9,839	5,821	769	705	170	39	38	4,453	21,834
At 31 October 2023		9,632	5,512	1,326	726	176	574	34	4,364	22,344

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(a) Assets pledged as security**

Leasehold land and buildings with a carrying amount of RM13,177,790 (2022: RM12,724,925; 2021: RM4,677,193 and 2020: RM4,796,039) has been pledged as security to secure term loans of the Group as disclosed in Note 12(b).

Leased assets are pledged as security for the related lease liabilities as disclosed in Note 12(a).

(b) Right-of-use assets

The Group leases buildings for their office space and worker hostel. The leases for office space and worker hostel generally have lease term between two (2) to three (3) years included option to renew and has included the potential future cash flows of exercising the extension options in the lease liabilities.

Information about the leases for which the Group is a lessee are presented below:

	Leasehold land RM'000	Building RM'000	Total RM'000
Carrying amount			
At 1 November 2019	1,628	-	1,628
Additions	-	48	48
Depreciation charge for the financial year	(25)	(24)	(49)
At 31 October 2020	1,603	24	1,627
Depreciation charge for the financial year	(25)	(22)	(47)
At 31 October 2021	1,578	2	1,580
Acquisition of subsidiaries	112	-	112
Additions	2,700	132	2,832
Depreciation charge for the financial year	(45)	(26)	(71)
At 31 October 2022	4,345	108	4,453
Additions	-	129	129
Depreciation charge for the financial year	(78)	(52)	(130)
Termination	-	(88)	(88)
At 31 October 2023	4,267	97	4,364

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****6. INVENTORIES**

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
At lower of cost and net realisable value:				
Raw materials	2,615	2,311	2,338	2,338
Work in progress	-	-	-	113
	2,615	2,311	2,338	2,451

The cost of inventories of the Group recognised as an expense in cost of sales during the financial year was RM34,776,567 (2022: RM76,032,096; 2021: RM29,269,346 and 2020: RM21,009,020).

7. TRADE AND OTHER RECEIVABLES

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Trade					
Trade receivables	(a)	15,746	15,818	42,481	20,621
Less: Impairment losses for trade receivables		(181)	(205)	(2,653)	(151)
		15,565	15,613	39,828	20,470
Non-trade					
Other receivables		456	134	174	767
Deposits		215	181	360	302
Prepayments	(b)	1,245	1,067	3,362	1,266
		1,916	1,382	3,896	2,335
Total trade and other receivables		17,481	16,995	43,724	22,805

(a) Trade receivables

Trade receivables are non-interest bearing and normal credit term offered by the Group ranges from 7 to 120 days (2022, 2021 and 2020: 30 to 120 days) from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****7. TRADE RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)****(a) Trade receivables (continued)**Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the reconciliation of the movement in the impairment of trade receivables is as follow:

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
At 1 November		-	181	205	2,653
Charge for the financial year					
- Individually assessed	18	181	11	2,327	-
- Collectively assessed		-	157	121	-
Reversal of impairment losses		-	-	-	(127)
Written off		-	(144)	-	(2,375)
At 31 October		<u>181</u>	<u>205</u>	<u>2,653</u>	<u>151</u>

The information about the credit exposures are disclosed in Note 25(b)(i).

(b) Prepayment

Being advance payment for the purchase of raw materials.

8. CONTRACT ASSETS/(LIABILITIES)

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Contract assets relating to construction service contracts	3,741	6,544	12,567	15,447
Contract liabilities relating to construction service contracts	(8,284)	(9,856)	(15,276)	(28,898)

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENEGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(a) Significant changes in contract balances

	← Audited as at 31 October →							
	2020		2021		2022		2023	
	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000
Revenue recognised that was included in contract liabilities at the beginning of the financial year	-	1,617	-	7,799	-	9,414	-	13,825
Increase due to billing issued to customers, but revenue not recognised	-	(8,170)	-	(9,324)	-	(14,834)	-	(27,245)
Increase as as result of changes in the measure of progress	(194)	44	(1)	(47)	(175)	*	(190)	(202)
Increase due to revenue recognised for unbilled goods or services transferred to customers	2,948	-	6,211	-	12,138	-	14,874	-
Transfer from contract assets recognised at the beginning of the period to receivables	(4,325)	-	(3,407)	-	(5,940)	-	(11,804)	-

* Less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(b) Revenue recognised in relation to contract balances

	← Audited as at 31 October →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Revenue recognised that was included in contract liabilities at the beginning of the financial year	1,617	7,799	9,414	13,825

9. CASH AND SHORT-TERM DEPOSITS

	← Audited as at 31 October →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	8,059	7,120	14,101	13,584
Short-term deposits	15,308	22,866	27,230	31,162
	<u>23,367</u>	<u>29,986</u>	<u>41,331</u>	<u>44,746</u>

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise of the following:

	← Audited as at 31 October →			
	2020	2021	2022	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)
	<u>13,829</u>	<u>21,343</u>	<u>25,680</u>	<u>25,564</u>
Cash and bank balances	8,059	7,120	14,101	13,584
	<u>21,888</u>	<u>28,463</u>	<u>39,781</u>	<u>39,148</u>

Included in the deposits placed with licensed banks of the Group RM5,598,338 (2022: RM1,550,148; 2021: RM1,523,487 and 2020: RM1,478,995) is pledged with licensed bank for bank facilities as disclosed in Note 12.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****10. SHARE CAPITAL/INVESTED EQUITY**

	Number of ordinary shares				Amount			
	2020 Unit	2021 Unit	2022 Unit	2023 Unit	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Issued and fully paid-up: (no par value)								
At 1 November	6,500	6,500	10,000	10,200	6,500	6,500	10,000	10,200
Issued during the financial year	-	3,500	200	-	-	3,500	200	-
At 31 October	6,500	10,000	10,200	10,200	6,500	10,000	10,200	10,200

For the purpose of this report, the total number of shares as at 31 October 2023 and 31 October 2022 represent the aggregate number of issued shares of Kawan Engineering Sdn. Bhd., Kawan Green Energy Sdn. Bhd. and Kawan Renergy Berhad.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. All ordinary shares rank equally with regard to the Group's residual assets.

On 15 March 2021, the Company increased its number of ordinary shares from 6,500,000 to 10,000,000 by way of bonus issue of seven (7) ordinary shares for every thirteen (13) existing ordinary shares ("Bonus Issue"). The Bonus Issue was issued as fully paid, at NIL consideration by way of capitalisation of the Company's reserves.

On 15 April 2022, the Company issued 200,000 new ordinary shares at a price of RM1 per ordinary share as subscriber share.

The Group did not issue any debentures during the years.

11. MERGER DEFICIT

The merger deficit arose from the differences between the carrying value of the investment and the nominal value of the share of the subsidiary upon consolidation under the merger accounting principles.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**12. LOANS AND BORROWINGS**

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Non-current:					
Lease liabilities	(a)	34	220	935	807
Term loans	(b)	-	456	6,332	5,517
		34	676	7,267	6,324
Current:					
Lease liabilities	(a)	228	101	497	633
Term loans	(b)	-	96	817	828
Bankers' acceptances	(c)	2,290	2,790	4,200	2,950
		2,518	2,987	5,514	4,411
Total loans and borrowings					
Lease liabilities	(a)	262	321	1,432	1,440
Term loans	(b)	-	552	7,149	6,345
Bankers' acceptances	(c)	2,290	2,790	4,200	2,950
		2,552	3,663	12,781	10,735

(a) Lease liabilities

Future minimum lease payments together with the present value of net minimum lease payments are as follows:

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Minimum lease payments:				
Not later than one year	229	108	555	688
Later than one year and not later than five years	35	243	988	846
	264	351	1,543	1,534
Less: Future finance charges	(2)	(30)	(111)	(94)
Present value of minimum lease payments	262	321	1,432	1,440

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**12. LOANS AND BORROWINGS (CONTINUED)****(a) Lease liabilities (continued)**

Future minimum lease payments together with the present value of net minimum lease payments are as follows: (continued)

	← Audited as at 31 October →			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Present value of minimum lease payments payable:				
Not later than one year	228	101	497	633
Later than one year and not later than five years	34	220	935	807
	262	321	1,432	1,440
Less: Amount due within twelve months	(228)	(101)	(497)	(633)
Amount due after twelve months	34	220	935	807

(b) Term loans

Term loan 1 of the Group of RM339,778 (2022: RM448,076; 2021: RM552,635 and 2020: RMNil) bears interest at 3.50% (2022: 3.50%; 2021: 3.50% and 2020: Nil%) per annum and is repayable by monthly instalments over 60 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Secure against individual guarantee by a director of the Group; and
- (ii) Secure against government guarantee provided by Syarikat Jaminan Pembiayaan Perniagaan Berhad ("SJPP").

Term loan 2 of the Group of RM6,005,421 (2022: RM6,701,607; 2021 and 2020: RMNil) bears interest at 4.25% (2022: 3.75%; 2021 and 2020: Nil%) per annum and is repayable by monthly instalments over 96 months commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over leasehold land and buildings of the Group as disclosed in Note 5; and
- (ii) Secure against individual guarantee by a director of the Group.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**12. LOANS AND BORROWINGS (CONTINUED)****(c) Bankers' acceptances**

Bankers' acceptances bear interest from 4.54% to 4.63% (2022: 3.60% to 4.08%; 2021: 3.00% and 2020: 3.15%) per annum and is secured and supported as follows:

- (i) Legal charge over the leasehold land and building of the Group as disclosed in Note 5;
- (ii) Legal charge over fixed deposits together with all interest as disclosed in Note 9; and
- (iii) Joint and several guarantee by a director of the Group.

13. DEFERRED INCOME

	Audited as at 31 October 2023 RM'000
Non-current	
Government grants:	
At 1 November	-
Received during the financial year	78
Released to profit or loss	(3)
Less: Amount to be released within twelve months	(8)
At 31 October	<u>67</u>
Current	
Government grants	<u>8</u>
At 31 October (current and non-current)	<u>75</u>

Government grants relates to assets

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

14. DEFERRED TAX LIABILITIES

Deferred tax relates to the following:

	As at 1 November 2019 RM'000	Recognised in profit or loss (Note 22) RM'000	As at 31 October 2020 RM'000
Deferred tax liabilities:			
Property, plant and equipment	423	(193)	230
	<u>423</u>	<u>(193)</u>	<u>230</u>
	As at 1 November 2020 RM'000	Recognised in profit or loss (Note 22) RM'000	As at 31 October 2021 RM'000
Deferred tax liabilities:			
Property, plant and equipment	230	46	276
	<u>230</u>	<u>46</u>	<u>276</u>
	As at 1 November 2021 RM'000	Recognised in profit or loss (Note 22) RM'000	As at 31 October 2022 RM'000
Deferred tax liabilities:			
Property, plant and equipment	276	413	689
	<u>276</u>	<u>413</u>	<u>689</u>
Deferred tax assets:			
Impairment loss for trade receivable	-	(637)	(637)
	<u>-</u>	<u>(637)</u>	<u>(637)</u>
	276	(224)	52
	<u>276</u>	<u>(224)</u>	<u>52</u>
	As at 1 November 2022 RM'000	Recognised in profit or loss (Note 22) RM'000	As at 31 October 2023 RM'000
Deferred tax liabilities:			
Property, plant and equipment	689	25	714
Unrealised foreign exchange	-	426	426
	<u>689</u>	<u>451</u>	<u>1,140</u>
Deferred tax assets:			
Impairment loss for trade receivable	(637)	600	(37)
	<u>(637)</u>	<u>600</u>	<u>(37)</u>
	52	1,051	1,103
	<u>52</u>	<u>1,051</u>	<u>1,103</u>

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**14. DEFERRED TAX LIABILITIES (CONTINUED)**Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Audited as at 31 October	
	2022	2023
	RM'000	RM'000
Temporary difference arising from:		
Property, plant and equipment	(3,822)	(2,780)
Unused tax losses	1,342	1,500
Unabsorbed capital allowance	7,800	7,806
	5,320	6,526

The availability of unused tax losses for offsetting against future taxable profits of the respective subsidiaries are subject to requirements under Income Tax Act, 1967 and guidelines issued by the tax authority.

Pursuant to Section 8 of the Finance Act 2021 (Act 833), the amendment to Section 44(5F) of Income Tax Act 1967, the time limit on the carried forward unused tax losses has been extended to maximum 10 consecutive years. This amendment is deemed to have effect for the year of assessment 2019 and subsequent year of assessment.

Any unused tax losses brought forward from year of assessment 2018 can be carried forward for another 10 consecutive years of assessment (i.e. from year of assessments 2019 to 2028).

The unused tax losses are available indefinitely for offset against future taxable profits of the Group except for certain unused tax losses which are available for utilisation up to the following financial year:

	Audited as at 31 October	
	2022	2023
	RM'000	RM'000
2028	1,047	1,047
2031	161	161
2032	134	134
2033	-	158
	1,342	1,500

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**15. TRADE AND OTHER PAYABLES**

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Trade					
Trade payables	(a)	5,691	7,804	36,606	10,282
Retention sum		413	78	77	260
		6,104	7,882	36,683	10,542
Non-trade					
Other payables		257	384	407	452
Accruals		811	573	1,052	979
Amount owing to a shareholder	(b)	9	-	-	550
Amount owing to a director	(b)	-	-	18	1
Dividend payables		1,500	3,000	8,000	-
		2,577	3,957	9,477	1,982
Total trade and other payables		8,681	11,839	46,160	12,524

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 7 to 90 days (2022, 2021 and 2020: 7 to 90 days).

(b) Amount owing to a shareholder and a director

Amount owing to a shareholder and a director are unsecured, non-interest bearing, repayable on demand and is expected to be settled in cash.

For explanations on the Group's liquidity risk management processes, refer to Note 25(b)(ii).

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**16. REVENUE**

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Design, fabrication, installation and/or commissioning solutions	48,823	64,041	139,143	98,197
Power generation and sales of electricity	-	-	41	182
	<u>48,823</u>	<u>64,041</u>	<u>139,184</u>	<u>98,379</u>
Timing of revenue recognition:				
Over time	<u>48,823</u>	<u>64,041</u>	<u>139,184</u>	<u>98,379</u>

17. OTHER INCOME

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Insurance claimed	-	-	-	5
Net realised foreign exchange gain	45	-	22	-
Net unrealised foreign exchange gain	69	220	918	1,774
Reversal of impairment losses on trade receivables	-	-	-	127
Gain on disposal of property, plant and equipment	7	34	-	135
Gain on lease termination	-	-	-	1
Bad debt recovered	-	430	-	-
Rental concession	2	-	-	-
Bargain purchase on acquisition of subsidiaries	-	-	1,506	-
Waiver of debt	-	-	50	-
Amortisation of government grant income	-	-	-	3
Miscellaneous	48	53	67	70
	<u>171</u>	<u>737</u>	<u>2,563</u>	<u>2,115</u>

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**18. FINANCE INCOME**

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Interest income	321	364	568	777

19. FINANCE COSTS

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Bankers' acceptances	91	64	111	92
Lease liabilities	32	7	22	83
Term loans	-	13	89	275
	123	84	222	450

20. PROFIT BEFORE TAX

Other than disclosed elsewhere in the combined financial statements, the following items have been charged in arriving at profit before tax:

	Note	← Audited as at 31 October →			
		2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Auditors' remuneration:					
- Current year		34	34	66	66
Bad debts written off		-	-	*	350
Depreciation of property, plant and equipment	5	1,171	1,208	1,808	2,914
Employee benefits expenses	21	5,246	6,060	8,262	10,911
Impairment losses on trade receivables	7	181	168	2,448	-
Net realised foreign exchange loss		-	57	-	1,435
Incorporation fees		-	-	2	-
Property, plant and equipment written off		*	-	*	-

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**20. PROFIT BEFORE TAX (CONTINUED)**

Other than disclosed elsewhere in the combined financial statements, the following items have been charged in arriving at profit before tax: (continued)

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Expenses relating to short-term lease:				
- Premises	21	14	147	144
Expenses relating to lease of low value assets:				
- Office equipment	13	10	13	19
Expenses relating to variable lease payment:				
- Office equipment	-	13	36	23
- Motor vehicles	4	-	3	2
- Premises	25	17	-	-
- Tools and machinery	74	95	123	167

* Less than RM1,000

21. EMPLOYEE BENEFITS EXPENSES

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Salaries, bonuses and allowances	4,667	5,306	7,357	9,761
Defined contribution plans	421	552	632	852
Other staff related expenses	158	202	273	298
	5,246	6,060	8,262	10,911
Included in employee benefits expenses are directors' remuneration:				
Fees	-	-	-	12
Salaries, bonuses and allowances	236	221	230	243
Defined contribution plans	26	29	27	30
Other staff related expenses	1	1	1	1
	263	251	258	286

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. INCOME TAX EXPENSE

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Combined statements of comprehensive income				
Current income tax:				
- Current income tax charge	1,446	2,008	4,383	4,717
- Adjustment in respect of prior years	(5)	*	182	(150)
	<u>1,441</u>	<u>2,008</u>	<u>4,565</u>	<u>4,567</u>
Deferred tax (Note 14):				
- Origination of temporary differences	(27)	80	(271)	947
- Adjustment in respect of prior years	(166)	(34)	47	104
	<u>(193)</u>	<u>46</u>	<u>(224)</u>	<u>1,051</u>
Income tax expense recognised in profit or loss	<u>1,248</u>	<u>2,054</u>	<u>4,341</u>	<u>5,618</u>

* Less than RM1,000

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% (2022, 2021 and 2020: 24%) of the estimated assessable profit for the financial year.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**22. INCOME TAX EXPENSE (CONTINUED)**

The reconciliations from the tax amount at the statutory income tax rate to the Group's tax expense are as follows:

	Audited as at 31 October			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Profit before tax	5,673	8,937	18,569	18,920
Tax at Malaysian statutory income tax rate of 24%	1,362	2,145	4,457	4,541
Adjustments:				
Income not subject to tax	(16)	(156)	(595)	(21)
Non-deductible expenses	73	99	173	855
Deferred tax assets not recognised	-	-	77	289
Adjustment in respect of current income tax of prior years	(5)		182	(150)
Adjustment in respect of deferred tax of prior years	(166)	(34)	47	104
Income tax expense	1,248	2,054	4,341	5,618

* Less than RM1,000

23. EARNINGS PER SHARE**Basic earnings per ordinary share and diluted earnings per ordinary share**

Basic earnings per ordinary share are based on the profit for the financial years attributable to owner of the Group and the weighted average number of ordinary shares outstanding during the financial years.

Diluted earnings per ordinary share are based on the profit for the financial year attributable to owners of the Group and the weighted average number of ordinary shares outstanding during the financial years plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

23. EARNINGS PER SHARE (CONTINUED)

Basic earnings per ordinary share and diluted earnings per ordinary share (continued)

The basic and diluted earnings per ordinary share are computed as follow:

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Profit attributable to owners of the Group	4,425	6,883	14,228	13,302
Weighted average number of ordinary shares for basic and diluted earnings per shares [^]	6,500	8,705	10,109	10,200
Basic and diluted earnings per share (RM)	0.68	0.79	1.41	1.30

[^] For the purpose of calculating the earnings per ordinary share for the financial years ended 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023, the weighted average number of ordinary shares is the aggregate share capital of the combining entities constituting the Group.

24. DIVIDENDS

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Recognised during the financial year:				
Dividends on ordinary shares:				
- Single-tier final dividend for the financial year ended 31 October 2020: 23.08 sen per ordinary share, paid on 5 February 2021	1,500	-	-	-
- Single-tier interim dividend for the financial year ended 31 October 2021: 30.00 sen per ordinary share, paid on 27 January 2022	-	3,000	-	-

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**24. DIVIDENDS (CONTINUED)**

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Recognised during the financial year: (continued)				
- Single-tier interim dividend for the financial year ended 31 October 2022: 80.00 sen per ordinary share, paid on 18 January 2023	-	-	8,000	-
- Single-tier interim dividend for the financial year ended 31 October 2023: 50.00 sen per ordinary share, paid on 28 August 2023	-	-	-	5,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>

25. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned at amortised cost:

	Carrying amount RM	Amortised cost RM
At 31 October 2020		
Financial assets		
Trade and other receivables, less prepayments	16,236	16,236
Cash and short-term deposits	23,367	23,367
	<u>39,603</u>	<u>39,603</u>
Financial liabilities		
Loans and borrowings	(2,552)	(2,552)
Trade and other payables	(8,681)	(8,681)
	<u>(11,233)</u>	<u>(11,233)</u>

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(a) Categories of financial instruments (continued)**

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned at amortised cost: (continued)

	Carrying amount RM	Amortised cost RM
At 31 October 2021		
Financial assets		
Trade and other receivables, less prepayments	15,928	15,928
Cash and short-term deposits	29,986	29,986
	<u>45,914</u>	<u>45,914</u>
Financial liabilities		
Loans and borrowings	3,663	3,663
Trade and other payables	11,839	11,839
	<u>15,502</u>	<u>15,502</u>
At 31 October 2022		
Financial assets		
Trade and other receivables, less prepayments	40,362	40,362
Cash and short-term deposits	41,331	41,331
	<u>81,693</u>	<u>81,693</u>
Financial liabilities		
Loans and borrowings	(12,781)	(12,781)
Trade and other payables	(46,160)	(46,160)
	<u>(58,941)</u>	<u>(58,941)</u>
At 31 October 2023		
Financial assets		
Trade and other receivables, less prepayments	21,539	21,539
Cash and short-term deposits	44,746	44,746
	<u>66,285</u>	<u>66,285</u>
Financial liabilities		
Loans and borrowings	(10,735)	(10,735)
Trade and other payables	(12,524)	(12,524)
	<u>(23,259)</u>	<u>(23,259)</u>

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management**

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders. The Group does not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management.

(i) Credit risk

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

Trade receivables and contract assets

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables and contract assets are represented by their carrying amounts in the combined statements of financial position.

The carrying amount of trade receivables and contract assets are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile

The Group determine the credit risk concentration of its trade receivables on an ongoing basis. At the end of the reporting period, the Group has a significant concentration of credit risk in the form of three (3) (2022: five (5); 2021: two (2) and 2020: five (5)) trade receivable, representing approximately 45.3% (2022: 82.6%; 2021: 35.1% and 2020: 54.0%) of the Group's trade receivables.

The Group applies the simplified approach to provide for impairment losses prescribed by MFRS 9 *Financial Instruments*, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix are as follows:

	Contract assets RM'000	Trade receivables						Total RM'000
		Current RM'000	1 to 30 days past due RM'000	31 to 60 days past due RM'000	61 to 90 days past due RM'000	91 to 120 days past due RM'000	> 120 days past due RM'000	
At 31 October 2020								
Expected credit loss rate	0%	0%	0%	0%	0%	0%	7%	7%
Gross carrying amount at default	3,741	2,893	3,321	3,176	3,576	164	2,616	15,746
Impairment losses	-	-	-	-	-	-	(181)	(181)
Net balance	3,741	2,893	3,321	3,176	3,576	164	2,435	15,565

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix are as follows:
(continued)

	Contract assets RM'000	Trade receivables						Total RM'000
		Current RM'000	1 to 30 days past due RM'000	31 to 60 days past due RM'000	61 to 90 days past due RM'000	91 to 120 days past due RM'000	> 120 days past due RM'000	
At 31 October 2021								
Expected credit loss rate	0%	1%	2%	0%	3%	1%	1%	8%
Gross carrying amount at default	6,544	3,770	3,078	2,238	331	373	6,028	15,818
Impairment losses	-	(48)	(52)	(5)	(11)	(2)	(87)	(205)
Net balance	6,544	3,722	3,026	2,233	320	371	5,941	15,613

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix are as follows:
(continued)

	Contract assets RM'000	Trade receivables						Total RM'000
		Current RM'000	1 to 30 days past due RM'000	31 to 60 days past due RM'000	61 to 90 days past due RM'000	91 to 120 days past due RM'000	> 120 days past due RM'000	
At 31 October 2022								
Expected credit loss rate	0%	5%	3%	3%	0%	0%	47%	58%
Gross carrying amount at default	12,567	3,237	1,089	740	29,624	2,595	5,196	42,481
Impairment losses	-	(155)	(37)	(23)	(2)	(5)	(2,431)	(2,653)
Net balance	12,567	3,082	1,052	717	29,622	2,590	2,765	39,828

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix are as follows:
(continued)

	Contract assets RM'000	Trade receivables						Total RM'000
		Current RM'000	1 to 30 days past due RM'000	31 to 60 days past due RM'000	61 to 90 days past due RM'000	91 to 120 days past due RM'000	> 120 days past due RM'000	
At 31 October 2023								
Expected credit loss rate	0%	1%	0%	1%	2%	4%	4%	11%
Gross carrying amount at default	15,447	3,376	13,540	609	322	120	2,654	20,621
Impairment losses	-	(23)	(15)	(4)	(5)	(5)	(99)	(151)
Net balance	15,447	3,353	13,525	605	317	115	2,555	20,470

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)****Other receivables and other financial assets**

For other receivables and other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other financial assets is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than the credit term in making a contractual payment.

As at the end of the reporting date, the Group considers the other receivables and other financial assets as low credit risk and any loss allowance would be negligible. Refer to Note 3.9(a) for the Group's other accounting policies for impairment of financial assets.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(ii) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arise primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arise principally from trade and other payables and loans and borrowings.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group's finance department also ensures that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows:

	Carrying amount RM	Contractual cash flows			Total RM
		On demand or within 1 year RM	Between 1 and 5 years RM	More than 5 years RM	
At 31 October 2020					
Trade and other payables	8,681	8,681	-	-	8,681
Lease liabilities	262	229	35	-	264
Bankers' acceptances	2,290	2,290	-	-	2,290
	11,233	11,200	35	-	11,235
At 31 October 2021					
Trade and other payables	11,839	11,839	-	-	11,839
Lease liabilities	321	108	243	-	351
Term loans	552	122	489	10	621
Bankers' acceptances	2,790	2,790	-	-	2,790
	15,502	14,859	732	10	15,601

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(ii) Liquidity risk (continued)**Maturity analysis (continued)

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows: (continued)

	Carrying amount RM	Contractual cash flows			Total RM
		On demand or within 1 year RM	Between 1 and 5 years RM	More than 5 years RM	
At 31 October 2022					
Trade and other payables	46,160	46,160	-	-	46,160
Lease liabilities	1,432	555	988	-	1,543
Term loans	7,149	1,079	4,205	3,004	8,288
Bankers' acceptances	4,200	4,200	-	-	4,200
	58,941	51,994	5,193	3,004	60,191
At 31 October 2023					
Trade and other payables	12,524	12,524	-	-	12,524
Lease liabilities	1,440	688	846	-	1,534
Term loans	6,345	1,079	4,075	2,212	7,366
Bankers' acceptances	2,950	2,950	-	-	2,950
	23,259	17,241	4,921	2,212	24,374

(iii) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when sales, purchases and bank balances that are denominated in a foreign currency).

The Group takes advantage of any natural effects of its foreign currencies revenues and expenses by maintaining current accounts in foreign currencies.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) **Financial risk management (continued)**

(iii) **Foreign currency risk (continued)**

The Group's unhedged financial assets and liabilities that are not denominated in their functional currencies are as follows:

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
<u>Trade receivables</u>				
United States Dollar ("USD")	2,137	896	29,120	2,369
Singapore Dollar ("SGD")	269	388	1,239	1,888
Euro ("EUR")	-	79	-	-
	2,406	1,363	30,359	4,257
<u>Cash and short-term deposits</u>				
USD	2,500	1,062	4,798	6,579
SGD	310	196	842	1,129
EUR	766	127	145	123
Great British Pound ("GBP")	8	9	8	9
	3,584	1,394	5,793	7,840
<u>Trade payables</u>				
USD	-	213	27,801	86
SGD	-	7	-	-
EUR	-	79	-	-
	-	299	27,801	86

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Foreign currency risk (continued)

Sensitivity analysis for foreign currency risk

The Group's principal foreign currency exposure mainly relates to USD, SGD, EUR and GBP.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, SGD, EUR and GBP with all other variables held constant on the Group's total equity and profit for the financial years.

	Change in rate	Effect on profit for the financial year/ equity RM'000
31 October 2020		
USD	+5%	176
	-5%	(176)
SGD	+5%	22
	-5%	(22)
EUR	+5%	29
	-5%	(29)
GBP	+5%	*
	-5%	*
<hr/>		
31 October 2021		
USD	+5%	66
	-5%	(66)
SGD	+5%	22
	-5%	(22)
EUR	+5%	5
	-5%	(5)
GBP	+5%	*
	-5%	*
<hr/>		

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Foreign currency risk (continued)

Sensitivity analysis for foreign currency risk (continued)

	Change in rate	Effect on profit for the financial year/ equity RM'000
31 October 2022		
USD	+5%	232
	-5%	(232)
SGD	+5%	79
	-5%	(79)
EUR	+5%	6
	-5%	(6)
GBP	5%	*
	-5%	*
31 October 2023		
USD	+5%	337
	-5%	(337)
SGD	+5%	115
	-5%	(115)
EUR	+5%	5
	-5%	(5)
GBP	5%	*
	-5%	*

* Less than RM1,000

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**25. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iv) Interest rate risk**

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their long-term loans and borrowings with floating interest rates.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial year.

	Carrying amount RM'000	Change in basis points	Effect on profit for the financial year/ equity RM'000
31 October 2021			
Term loans	552	+50	(2)
		-50	2
			<hr/>
31 October 2022			
Term loans	7,149	+50	(27)
		-50	27
			<hr/>
31 October 2023			
Term loans	6,345	+50	(24)
		-50	24
			<hr/>

(c) Fair value measurement

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

There have been no transfers between Level 1, Level 2 and Level 3 during the financial years.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****25. FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value measurement (continued)**

The following table provide the fair value measurement hierarchy of the Group's financial instruments:

	Carrying amount RM	Fair value of financial instruments not carried at fair value			Total RM
		Level 1 RM	Level 2 RM	Level 3 RM	
At 31 October 2021					
Financial liability					
Term loans	456	-	-	604	604
At 31 October 2022					
Financial liability					
Term loans	6,332	-	-	5,376	5,376
At 31 October 2023					
Financial liability					
Term loans	5,517	-	-	4,707	4,707

Level 3 fair valueFair value of financial instruments not carried at fair value

The fair value of term loans is determined using the discounted cash flows method based on discount rates that reflects the issuer's borrowing rate as at the end of the reporting period.

26. RELATED PARTIES**(a) Identification of related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

26. RELATED PARTIES (CONTINUED)

(a) Identification of related parties (continued)

Related parties of the Group include:

- (i) Entity in which a person connected to a director that has substantial financial interests;
- (ii) Entity in which a director that has substantial financial interests;
- (iii) A persons connected to a director;
- (iv) A director;
- (v) Shareholders; and
- (vi) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows:

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Sale of goods/services				
Entity in which a person connected to a director that has substantial financial interest	102	156	1,225	89
Entity in which a director that has substantial financial interest	-	-	4,153	379
	102	156	5,378	468
Purchase of goods/services				
A director and a person connected to a director that has substantial financial interest	75	286	-	-
Entity in which a director that has substantial financial interest	57	31	535	771
	132	317	535	771

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**26. RELATED PARTIES (CONTINUED)****(b) Significant related party transactions (continued)**

Significant related party transactions other than disclosed elsewhere in the combined financial statements are as follows: (continued)

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Purchase of assets				
A person connected to a director that has substantial financial interest	-	730	-	-
A director and a person connected to a director that has substantial financial interest	-	650	-	-
	-	1,380	-	-
Dividend paid				
Shareholders	1,500	3,000	8,000	5,000
Advances from				
A shareholder	-	-	-	550

(c) Compensation of key management personnel

	← Audited as at 31 October →			
	2020 RM'000	2021 RM'000	2022 RM'000	2023 RM'000
Fees	-	-	-	12
Salaries, bonuses and allowance	838	840	915	1,011
Defined contribution plans	99	112	106	124
Other staff related expenses	6	6	6	8
	943	958	1,027	1,155

The estimated value of benefits-in-kind provided to the key management personnel of the Group during the financial year amounted to RM59,304 (2022: RM41,304; 2021: RM31,825 and 2020: RM54,625).

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**27. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended.

The Group monitors capital using net gearing ratio. The net gearing ratio is calculated as net debts divided by total equity. The net gearing ratio as at 31 October 2020, 31 October 2021, 31 October 2022 and 31 October 2023 are as follows:

		← Audited as at 31 October →			
		2020	2021	2022	2023
		RM'000	RM'000	RM'000	RM'000
	Note				
Loans and borrowings	12	2,552	3,663	12,781	10,735
Less: Cash and short-term deposits	9	(23,367)	(29,986)	(41,331)	(44,746)
Net debts		<u>(20,815)</u>	<u>(26,323)</u>	<u>(28,550)</u>	<u>(34,011)</u>
Total equity		<u>35,022</u>	<u>38,905</u>	<u>45,133</u>	<u>53,435</u>
Net gearing ratio		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

There were no changes in the Group's approach to capital management during the financial years under review.

The Group is required to maintain a gearing ratio of no more than 3 times to comply with a bank covenant. The Group has not breached the covenant.

28. SEGMENT INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by directors for the purpose of making decisions about resource allocation and performance assessment.

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**28. SEGMENT INFORMATION (CONTINUED)**

The two reportable operating segments are as follow:

Segments	Product and services
Design, fabrication installation and/or commissioning solution	Design, fabrication, installation and/or commissioning of industrial process equipment and process plants
Power generation and sale of electricity	IPP involved in power generation and sale of electricity

Segment assets and liabilities

Segment assets and liabilities are not included in the internal reports that are reviewed by the directors, hence no disclosures are made on segment assets and liabilities.

	Design, fabrication, installation and/or commissioning solution RM'000	Power generation and sales of electricity RM'000	Total RM'000
31 October 2020			
Revenue:			
Revenue from external customer	48,823	-	48,823
Segment profit	7,468	-	7,468
Other income			171
Unallocated expenses			(2,164)
Finance income			321
Finance costs			(123)
Income tax expense			(1,248)
Profit for the financial year			4,425
Results:			
<i>Included in the measure of segment profit is:</i>			
Employee benefits expense			5,246
Depreciation of property, plant and equipment			1,171

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Design, fabrication, installation and/or commissioning solution RM'000	Power generation and sales of electricity RM'000	Total RM'000
31 October 2021			
Revenue:			
Revenue from external customer	64,041	-	64,041
Segment profit	10,077	-	10,077
Other income			737
Unallocated expenses			(2,157)
Finance income			364
Finance costs			(84)
Income tax expense			(2,054)
Profit for the financial year			6,883
Results:			
<i>Included in the measure of segment profit is:</i>			
Employee benefits expense			6,060
Depreciation of property, plant and equipment			1,208

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Design, fabrication, installation and/or commissioning solution RM'000	Power generation and sales of electricity RM'000	Total RM'000
31 October 2022			
Revenue:			
Revenue from external customer	139,143	41	139,184
Segment profit	21,838	(322)	21,516
Other income			2,563
Unallocated expenses			(5,856)
Finance income			568
Finance costs			(222)
Income tax expense			(4,341)
Profit for the financial year			14,228
Results:			
<i>Included in the measure of segment profit is:</i>			
Employee benefits expense			8,262
Depreciation of property, plant and equipment			1,808

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Design, fabrication, installation and/or commissioning solution RM'000	Power generation and sales of electricity RM'000	Total RM'000
31 October 2023			
Revenue:			
Revenue from external customer	98,197	182	98,379
Segment profit	25,107	(1,110)	23,997
Other income			2,115
Unallocated expenses			(7,519)
Finance income			777
Finance costs			(450)
Income tax expense			(5,618)
Profit for the financial year			13,302
Results:			
<i>Included in the measure of segment profit is:</i>			
Employee benefits expense			10,911
Depreciation of property, plant and equipment			2,914

13. ACCOUNTANTS' REPORT (Cont'd)**KAWAN RENERGY BERHAD**

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**28. SEGMENT INFORMATION (CONTINUED)**Geographical information

Revenue information based on the geographical location of customers are as follows:

	Revenue RM'000	Non-current assets RM'000
At 31 October 2020		
Malaysia	42,022	7,422
Japan	3,266	-
Indonesia	1,350	-
Singapore	1,509	-
United States	-	-
Others	676	-
	48,823	7,422
31 October 2021		
Malaysia	60,548	8,982
Japan	617	-
Indonesia	1,411	-
Singapore	1,447	-
United States	-	-
Others	18	-
	64,041	8,982
31 October 2022		
Malaysia	122,594	21,834
Japan	352	-
Indonesia	8,533	-
Singapore	7,299	-
United States	39	-
Others	367	-
	139,184	21,834
31 October 2023		
Malaysia	80,597	22,344
Japan	34	-
Indonesia	1,426	-
Singapore	1,037	-
United States	13,312	-
Others	1,973	-
	98,379	22,344

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHADAccountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)**28. SEGMENT INFORMATION (CONTINUED)**Information about major customer

For design, fabrication, installation and/or commissioning solution, revenue from four (4) (2022: two (2); 2021: Nil and 2020: one (1)) customers represented approximately RM55,341,041 (2022: RM62,983,903; 2021: RMNil and 2020: RM10,520,879) of the Group's total revenue.

29. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**(a) Claim against Periforce Sdn. Bhd. ("Periforce")**

On 15 May 2023, Kawan Engineering Sdn. Bhd. initiated a claim against Periforce for the amount of RM2,326,676 being the outstanding sum owed by Periforce for the supply of cranes and installation services provided by Kawan Engineering Sdn. Bhd.. Periforce had failed to pay the amount owing or any part thereof despite multiple demands made by Kawan Engineering Sdn. Bhd.. Thereafter, as a winding up petition was filed against Periforce in March 2022, Kawan Engineering Sdn. Bhd. initiated the claim against Periforce as the guarantors and principal debtors to recover the amount owing. The parties are currently in the midst of exchanging affidavits and written submissions. The hearing was held on 11 March 2024 and the court has fixed 30 May 2024 to deliver its decision.

(b) Acquisition of Kawan Engineering Sdn. Bhd.

On 13 July 2023, Kawan Renergy Berhad entered into a conditional share sale agreement with Kawan Engineering Sdn. Bhd.'s vendor to acquire the entire equity interest of Kawan Engineering Sdn. Bhd. for a total purchase consideration of RM45,144,000 which was satisfied by the issuance of 439,999,999 shares in Kawan Renergy Berhad at RM0.1026 per share.

The purchase consideration of RM45,144,000 was arrived at on a willing buyer-willing seller basis based on the net assets of Kawan Engineering Sdn. Bhd. as at 31 October 2022.

13. ACCOUNTANTS' REPORT (Cont'd)

KAWAN RENERGY BERHAD

Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

30. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

(a) Declaration of dividends

On 18 January 2024, Kawan Engineering Sdn. Bhd. declared single-tier interim dividend of RM0.50 per ordinary share, amounting to RM5,000,000 in respect of the financial year ended 31 October 2024 and paid on 18 January 2024.

On 2 February 2024, Kawan Engineering Sdn. Bhd. declared single-tier interim dividend of RM0.50 per ordinary share, amounting to RM5,000,000 in respect of the financial year ended 31 October 2024 and paid on 2 February 2024.

(b) Letter of demand from Crawford & Adjusters (Malaysia) Sdn. Bhd. ("Crawford")

On March 7, 2024, Crawford representing MSIG Insurance (Malaysia) Sdn. Bhd. ("MSIG") sent a letter to Kawan Engineering Sdn. Bhd. claiming subrogation for damages resulting from a fire incident on 6 January 2023 and 7 January 2023. They alleged that welding defects in equipment supplied by Kawan Engineering Sdn. Bhd. caused the damage, resulting in a total loss of RM3,142,529, including the insured's claim of RM3,032,075, adjusters' fees, and forensic investigators' fees.

The equipment in question, a vacuum economizer, was sold to Oiltek Sdn. Berhad ("Oiltek") by Kawan Engineering Sdn. Bhd. and installed at Pacific Oils & Fats Industries Sdn. Bhd. ("Pac Oils")'s facility by Southern Corner Sdn. Bhd. ("Southern Corner"). Despite the vacuum economizer was manufactured with design approval and hydrostatic tested as per American Society of Mechanical Engineers code by the Department of Occupational Safety and Health Malaysia, a fire occurred during commissioning, damaging the plant. The similar equipment is still being sold to date, to Oiltek in many of their projects within and outside Malaysia, all of which have been operating safely. Kawan Engineering Sdn. Bhd. obligations were toward Oiltek, not Pac Oils or Southern Corner.

In response, Kawan Engineering Sdn. Bhd. denied liability, asserting that they had no contractual relationship with Pac Oils or Southern Corner regarding the equipment installation. Kawan Engineering Sdn. Bhd. provided a replacement unit to Oiltek after the incident as a gesture of goodwill as well as to foster long standing relationship with Oiltek.

No legal proceedings have been initiated against Kawan Engineering Sdn. Bhd., and the Board of Directors believes the claim will not have any material adverse impact to the Group's business operations and financial performance.

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION



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12 April 2024

The Board of Directors
Kawan Renergy Berhad
No. 18, Lebuhr Perusahaan 1
IGB Industrial Park
31200 Ipoh
Perak, Malaysia

Dear Sirs,

KAWAN RENERGY BERHAD (“Kawan” or the “Company”) AND ITS COMBINING ENTITIES

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 OCTOBER 2023 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma combined statements of financial position of Kawan and its combining entities, namely Kawan Engineering Sdn. Bhd., Kawan Green Energy Sdn. Bhd., Magenکو Renewables (Asia) Sdn. Bhd., Magenکو Renewables (Penang) Sdn. Bhd. and Magenکو Renewables (Ipoh) Sdn. Bhd. (the “Group”) for which the directors of Kawan are solely responsible. The pro forma combined statements of financial position consist of the pro forma combined statements of financial position as at 31 October 2023 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Kawan have compiled the pro forma combined statements of financial position are as described in Note 2 to the pro forma combined statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia (“Prospectus Guidelines”) (“Applicable Criteria”).

The pro forma combined statements of financial position of the Group has been compiled by the directors of Kawan, for illustrative purposes only, for inclusion in the prospectus of Kawan (“Prospectus”) in connection with the listing of and quotation for the entire enlarged issued share capital of Kawan on the ACE Market of Bursa Malaysia Securities Berhad comprising the Public Issue and the Offer for Sale (“Listing”), after making certain assumptions and such adjustments to show the effects on the pro forma combined financial position of the Group as at 31 October 2023 adjusted for the listing scheme and utilisation of proceeds as described in Notes 1.2 and 3.2.1 respectively.

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)



KAWAN RENENERGY BERHAD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 October 2023 Included in a Prospectus

As part of this process, information about Group's pro forma combined statements of financial positions has been extracted by the directors of Kawan from the audited combined financial statements of the Group for the Financial Year Ended ("FYE") 31 October 2023, on which a reporting accountants' report dated 12 April 2024 has been issued.

The audited combined financial statements of Kawan and its combining entities for the FYE 31 October 2023 were reported by us to its members without any modifications.

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

The directors of Kawan are responsible for compiling the pro forma combined statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma combined statements of financial position has been compiled, in all material respects, by the directors of Kawan based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Kawan have compiled, in all material respects, the pro forma combined statements of financial position based on the Applicable Criteria.

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)



KAWAN RENENERGY BERHAD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 October 2023 Included in a Prospectus

Reporting Accountants' Responsibilities (continued)

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma combined statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma combined statements of financial position. In providing this opinion, we do not accept any responsibility for such reports or opinion beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

The purpose of the pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Kawan in the compilation of the pro forma combined statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to listing scheme as described in Note 1.2 to the pro forma combined statements of financial position, and to obtain sufficient appropriate evidence about whether:

- (a) the pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited combined financial statements of the Group for the FYE 31 October 2023, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its audited financial statements for the FYE 31 October 2023; and
- (b) each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events and transactions in respect of which the pro forma combined statements of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma combined statements of financial position.

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

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)



KAWAN RENEGY BERHAD AND ITS COMBINING ENTITIES

Reporting Accountants' Report on the Compilation of the
Pro Forma Combined Statements of Financial Position
as at 31 October 2023 Included in a Prospectus

Opinion

In our opinion:

- (a) the pro forma combined statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position, based on the audited combined financial statements of the Group for the FYE 31 October 2023, and in a manner consistent with both the format of the combined financial statements and the accounting policies adopted by the Group in the preparation of its audited combined financial statements for the FYE 31 October 2023; and
- (b) each material adjustment made to the information used in the preparation of the pro forma combined statements of financial position of the Group is appropriate for the purpose of preparing the pro forma combined statements of financial position.

Other Matters

This report has been prepared for inclusion in the Prospectus of Kawan in connection with the Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Baker Tilly Monteiro Heng".

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

A handwritten signature in black ink, appearing to read "Paul Tan Hong".

Paul Tan Hong
No. 03459/11/2025 J
Chartered Accountant

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

1. INTRODUCTION

The pro forma combined statements of financial position of Kawan Renergy Berhad ("Kawan" or the "Company") and its combining entities, namely Kawan Engineering Sdn. Bhd. ("Kawan Engineering"), Kawan Green Energy Sdn. Bhd., Magenکو Renewables (Asia) Sdn. Bhd., Magenکو Renewables (Penang) Sdn. Bhd. and Magenکو Renewables (Ipoh) Sdn. Bhd. (hereinafter collectively referred to as the "Group") has been compiled by the directors of Kawan, for illustrative purposes only, for inclusion in the prospectus of Kawan in connection with the listing of and quotation for the entire enlarged issued share capital of RM78,144,001 comprising 550,000,000 ordinary shares in Kawan ("Shares(s)") on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities")("Listing").

1.1 Kawan is undertaking a listing of and quotation for its entire enlarged issued share capital of RM78,144,001 comprising 550,000,000 new ordinary shares in Kawan ("Shares") on the ACE Market of Bursa Securities. The Listing comprises the following:

1.2 Listing Scheme

1.2.1 Group Internal Restructuring

a) Acquisition of Kawan Engineering Group ("Acquisition")

On 13 July 2023, the Company had entered into a conditional share sale and purchase agreement to acquire the entire issued share capital of Kawan Engineering comprising 10,000,000 ordinary shares for a purchase consideration of RM45,144,000, which was fully satisfied through the issuance of 439,999,999 new Shares at RM0.10 each to the vendor of Kawan Engineering.

The purchase consideration for the Acquisition of Kawan Engineering Group of RM45,144,000 was arrived based on a "willing-buyer willing-seller" basis, after taking into consideration the audited net assets ("NA") of Kawan Engineering Group as at 31 October 2022. Kawan Engineering became the Company's wholly owned subsidiary upon completion of the acquisition.

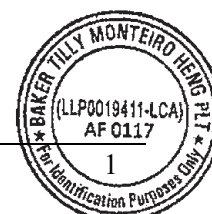
The acquisition was completed on 6 March 2024.

b) Dividend in specie

Upon after the Acquisition, and immediately after its completion, Kawan Engineering Sdn. Bhd. proposes to declare a dividend-in-specie comprising the entire equity interest it hold in Kawan Green Energy Sdn. Bhd., which amounts to RM568,077, being the audited net liabilities of Kawan Green Energy Sdn. Bhd. as at 31 October 2022.

The declaration of dividends do not have an impact on the pro forma combined statements of financial position.

The dividend in specie was completed on 15 March 2024.



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

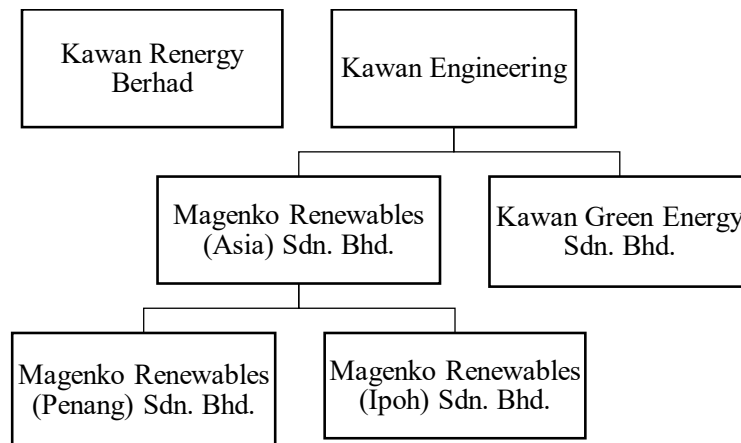
KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

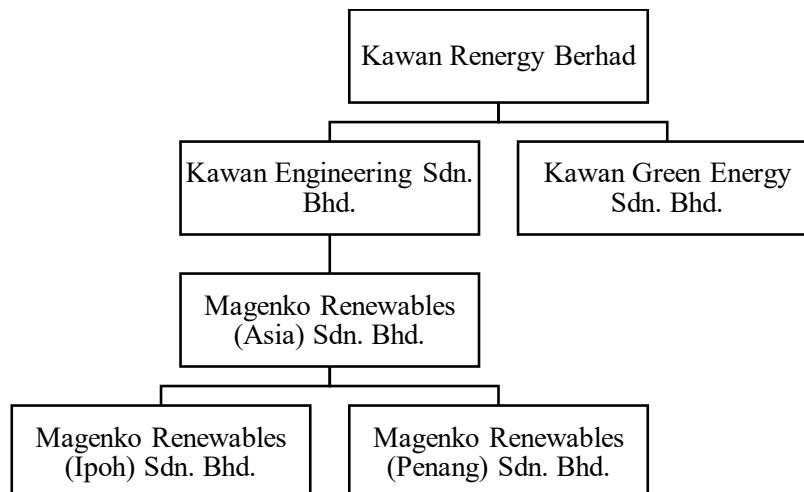
1.2.1 Group Internal Restructuring (continued)

The Group structure before and after the Group Internal Restructuring is illustrated below:

Before the Group Internal Restructuring



After the Group Internal Restructuring



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

1.2.2 Public Issue

The Public Issue of 110,000,000 new Shares, representing 20.0% of the enlarged issued share capital, at an issue price of RM0.30 per new Share will be allocated and allotted in the following manner:

- (i) 27,500,000 new Shares to be issued under the Public Issue ("Issue Share(s)"), representing approximately 5.0% of enlarged share capital, will be offered to the Malaysian Public by way of balloting, of which at least 50.0% will be set aside for Bumiputera public investors;
- (ii) 19,250,000 Issue Shares, representing approximately 3.5% of enlarged share capital, will be made available for application by the eligible directors, employees and persons who have contributed to the success of the Group; and
- (iii) 63,250,000 Issue Shares, representing approximately 11.5% of enlarged share capital will be made available for private placement to the selected investors. approved by the Ministry of International Trade and Industry.

(Collectively hereinafter referred as "Public Issue").

1.2.3 Offer for Sale

A total of 34,500,000 existing shares to be offered under Offer for Sale, representing 6.3% of enlarged share capital, are offered by Kawan to selected investors by way of private placement at RM0.30.

1.3 Listing

Upon completion of the initial public offering, Kawan's entire enlarged issued share capital of approximately RM78,144,001 comprising 550,000,000 Shares will be listed on the ACE Market of Bursa Securities.

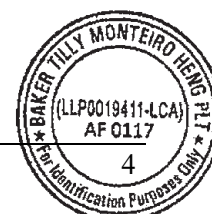


14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

- 2.1 The pro forma combined statements of financial position have been prepared to illustrate the pro forma combined financial position of the Group as at 31 October 2023, adjusted for the Listing Scheme and utilisation of proceeds as described in Notes 1.2 and 3.2.1, respectively.
- 2.2 The pro forma combined statements of financial position have been prepared based on audited combined financial statements of the Group for the financial year ended ("FYE") 31 October 2023.
- 2.3 The audited combined financial statements of the Group for FYE 31 October 2023 were reported by the auditors to their respective members without any modifications.
- 2.4 The pro forma combined statements of financial position of the Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.
- 2.5 The pro forma combined statements of financial position of the Group have been properly prepared on the basis set out in the accompanying notes to the pro forma combined statements of financial position based on the audited combined financial statements of the Group for FYE 31 October 2023, which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

2.6 The pro forma combined statements of financial position of the Group have been prepared in a manner consistent with both the format of the audited combined financial statements and accounting policies adopted by the Group in the preparation of its audited combined financial statements for FYE 31 October 2023 and the adoption of the following new accounting policies, which had been adopted by the Group as the group's accounting policies.

Merger accounting

The subsidiary is accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Subsidiaries acquired which have met the criteria for pooling-of-interests are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the business combination had been effected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to merger reserve or merger deficit.

Acquisition of entities under common control does not result in any change in economic substance. Accordingly, the Group is a continuation of the acquired entities and is accounted for as follows:

- the assets and liabilities of the acquired entities are recognised and measured in the combined financial statements at the pre-combination carrying amounts;
- the retained earnings and other equity balances of acquired entities immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the difference arising from the change in equity structure of the Group will be accounted for in merger reserve or merger deficit.



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES****3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP**

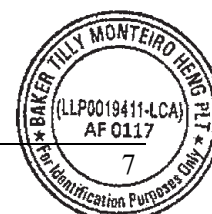
- 3.1 The pro forma combined statements of financial position of the Group as set out below, for which the directors of Kawan are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited combined statements of financial position of the Group as at 31 October 2023, had the Listing Scheme as described in Note 1.2 and the utilisation of proceeds as described in Note 3.2.1 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Audited Combined Statement of Financial Position as at 31 October 2023 RM'000	Pro Forma I			Pro Forma II		Pro Forma III	
		After subsequent event RM'000	After the Group Internal Restructuring RM'000	After I and the Public Issue RM'000	After II and the Utilisation of Proceeds RM'000			
ASSETS								
Non-current asset								
Property, plant and equipment	22,344	22,344	22,344	22,344	22,344	22,344	22,344	22,344
Total non-current asset	22,344	22,344	22,344	22,344	22,344	22,344	22,344	22,344
Current assets								
Inventories	2,451	2,451	2,451	2,451	2,451	2,451	2,451	2,451
Trade and other receivables	22,805	22,805	22,805	22,805	22,805	22,805	22,805	22,805
Contract assets	15,447	15,447	15,447	15,447	15,447	15,447	15,447	15,447
Cash and short-term deposits	44,746	34,746	34,746	34,746	67,746	67,746	59,106	59,106
Total current assets	85,449	75,449	75,449	75,449	108,449	108,449	99,809	99,809
TOTAL ASSETS	107,793	97,793	97,793	97,793	130,793	130,793	122,153	122,153
EQUITY AND LIABILITIES								
Equity attributable to owners of the Group								
Invested equity/ Share capital	10,200	10,200	45,144	78,144	78,144	78,144	77,144	77,144
Merger deficit	(200)	(200)	(35,144)	(35,144)	(35,144)	(35,144)	(35,144)	(35,144)
Retained earnings	43,435	33,435	33,435	33,435	33,435	33,435	31,795	31,795
TOTAL EQUITY	53,435	43,435	43,435	43,435	76,435	76,435	73,795	73,795

Pro Forma Combined Statements of Financial Position

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)
KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES
3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)
3.1 (Continued)

	Audited Combined Statement of Financial Position as at 31 October 2023 RM'000	Pro Forma I Pro Forma II Pro Forma III			
		After subsequent event RM'000	After the Group Internal Restructuring RM'000	After I and the Public Issue RM'000	After II and the Utilisation of Proceeds RM'000
Non-current liabilities					
Loans and borrowings	6,324	6,324	6,324	6,324	807
Deferred income	67	67	67	67	67
Deferred tax liabilities	1,103	1,103	1,103	1,103	1,103
Total non-current liabilities	7,494	7,494	7,494	7,494	1,977
Current liabilities					
Loans and borrowings	4,411	4,411	4,411	4,411	3,928
Deferred income	8	8	8	8	8
Current tax liabilities	1,023	1,023	1,023	1,023	1,023
Trade and other payables	12,524	12,524	12,524	12,524	12,524
Contract liabilities	28,898	28,898	28,898	28,898	28,898
Total current liabilities	46,864	46,864	46,864	46,864	46,381
TOTAL LIABILITIES	54,358	54,358	54,358	54,358	48,358
TOTAL EQUITY AND LIABILITIES	107,793	97,793	97,793	130,793	122,153



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES****3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

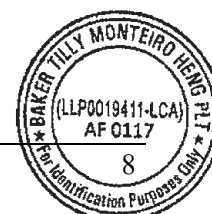
3.1 (Continued)

	Audited Combined Statement of Financial Position as at 31 October 2023 RM'000	After subsequent event RM'000	Pro Forma I	Pro Forma II	Pro Forma III
			After the Group Internal Restructuring RM'000	After I and the Public Issue RM'000	After II and the Utilisation of Proceeds RM'000
Number of ordinary shares assumed to be in issue ('000)	10,200 *	10,200 *	440,000	550,000	550,000

NA [^] (RM'000)	53,435	43,435	43,435	76,435	73,795
NA per ordinary share (RM)	5.24	4.26	0.10	0.14	0.13

[^] attributable to owners of the Group

* represent the aggregate number of issued shares of Kawan Engineering, Kawan Green Energy Sdn. Bhd. and Kawan Renergy Berhad.



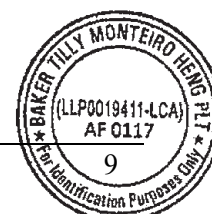
14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES****3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 Notes to the pro forma combined statements of financial position are as follows:

3.2.1 The proceeds from the Public Issue would be utilised in the following manner:

Details of utilisation	RM'000	%	Time frame for utilisation from the date of listing
Not reflected in pro forma combined statements of financial position			
Working capital	15,000	45.46	Within 24 months
Investment into a new 2MW power plant ⁽¹⁾	5,000	15.15	Within 36 months
Improvement of Bercham Plant output ⁽¹⁾	2,500	7.58	Within 15 months
Purchase of additional machinery ⁽¹⁾	500	1.52	Within 12 months
Reflected in pro forma combined statements of financial position			
Repayment of loans and borrowings	6,000	18.18	Within 3 months
Estimated listing expenses	4,000	12.12	Within 1 month
Gross proceeds	33,000	100.00	

⁽¹⁾ As at latest practicable date, the Group has yet to enter into any agreement or issue any purchase order in relation to the proceeds earmarked for investment into a new 2MW power plant, improvement of Bercham Plant output and purchase of additional machinery. Accordingly, the utilisation of proceeds earmarked for the abovementioned purposes are not reflected in the pro forma combined statements of financial position.



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.2 The audited combined statements of financial position of the Group as at 31 October 2023 had been adjusted for the following significant transactions prior to the group internal restructuring:

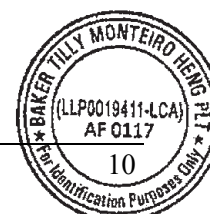
Declaration of dividends

On 18 January 2024, Kawan Engineering declared single-tier interim dividend of RM0.50 per ordinary share, amounting to RM5,000,000 in respect of the FYE 31 October 2024 and paid on 18 January 2024.

On 2 February 2024, Kawan Engineering declared single-tier interim dividend of RM0.50 per ordinary share, amounting to RM5,000,000 in respect of the FYE 31 October 2024 and paid on 2 February 2024.

The declaration of dividends has the following impact on the audited combined statements of financial position of the Group as at 31 October 2023:

	(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Cash and short-term deposits	(10,000)	-
Retained earnings	-	(10,000)
	(10,000)	(10,000)



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 The pro forma combined statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

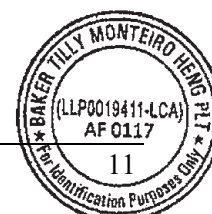
Pro Forma I incorporates the effects of the Group Internal Restructuring as described in Note 1.2.1 on the audited combined statement of financial position of the Group as at 31 October 2023.

The merger reserve arising from the Acquisition is as follows:

	RM'000
Purchase consideration	45,144
Less: Share capital of the Kawan Engineering	(10,000)
Merger deficit	<u>35,144</u>

The Acquisition had the following impact on the pro forma combined statements of financial position of the Group as at 31 October 2023:

	Increase/(Decrease)	
	Effects on	Effects on
	Total Assets	Total Liabilities/
	RM'000	Equity
	RM'000	RM'000
Share capital	-	34,944
Merger deficit	-	(34,944)
	<u>-</u>	<u>-</u>



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES****3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(b) Pro Forma II

Pro Forma II incorporates the cumulative effects of Pro Forma I, the Public Issue and the Offer of Sales as described in Notes 1.2.2 and 1.2.3, respectively.

The Public Issue and the Offer of Sales will have the following impact on the pro forma combined statements of financial position of the Group as at 31 October 2023:

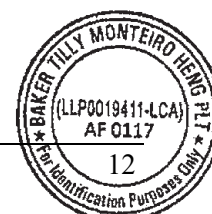
	Increase	
	Effects on Total Assets RM'000	Effects on Equity RM'000
Cash and short-term deposits	33,000	-
Share capital	-	33,000
	33,000	33,000

(c) Pro Forma III

Pro Forma III incorporates the cumulative effects of Pro Forma II and the utilisation of proceeds from the Public Issue of RM33.00 million after netting off RM4.00 million of estimated listing expenses. The remaining proceeds expected from the Public Issue of RM29.00 million will be used in the manner as described in Note 3.2.1.

The proceeds arising from the Public Issue earmarked for working capital, investment into a new 2MW power plant, improvement of Bercham Plant output and purchase of additional machinery of RM23.00 million will be included in the Cash and Short-Term Deposits Account.

As at 31 October 2023, out of the RM4.00 million listing expenses, RM1.36 million has been incurred and charged to the Retained Earnings Account. The remaining estimated listing expense to be incurred of RM1.64 million will be charged to Retained Earnings Account and RM1.00 million will be recognised in Share Capital Account as these are directly attributable expenses relating to the new issuance of Shares.



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENENERGY BERHAD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

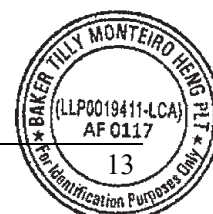
3.2 (Continued)

3.2.3 (Continued)

(c) Pro Forma III (continued)

The utilisation of proceeds will have the following impact on the pro forma combined statements of financial position of the Group as at 31 October 2023:

	(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Liabilities/ Equity RM'000
Cash and short-term deposits	(8,640)	-
Loans and borrowings		
- Current liabilities	-	(483)
- Non-current liabilities	-	(5,517)
Share capital	-	(1,000)
Retained earnings	-	(1,640)
	(8,640)	(8,640)



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

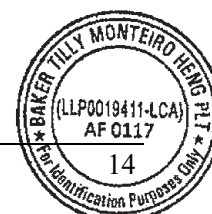
KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Share capital RM'000	Merger reserve RM'000	Retained earnings RM'000
Audited combined statements of financial position of the Group as at 31 October 2023	10,200	(200)	43,435
Arising from declaration of dividends	-	-	(10,000)
After subsequent event	10,200	(200)	33,435
Arising from the Group Internal Restructuring	34,944	(34,944)	-
Per Pro Forma I	45,144	(35,144)	33,435
Arising from the Public Issue	33,000	-	-
Per Pro Forma II	78,144	(35,144)	33,435
Arising from the Utilisation of Proceeds	(1,000)	-	(1,640)
Per Pro Forma III	77,144	(35,144)	31,795



14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and short-term deposits are as follows:

	RM'000
Audited combined statement of financial position of the Group as at 31 October 2023	44,746
Arising from declaration of dividends	(10,000)
After subsequent event	34,746
Arising from Group Internal Restructuring	-
Per Pro Forma I	34,746
Arising from the Public Issue	33,000
Per Pro Forma II	67,746
Arising from the Utilisation of Proceeds	(8,640)
Per Pro Forma III *	59,106

* Included in the cash and short-term deposits is an amount of RM15.0 million, RM5.00 million, RM2.50 million and RM0.50 million arising from the Public Issue earmarked for working capital, investment into a new 2MW power plant, improvement of Bercham Plant output and for purchase of additional machinery purposes, respectively.

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

KAWAN RENERGY BERHAD AND ITS COMBINING ENTITIES

APPROVAL BY BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Kawan Renergy Berhad in accordance with a resolution dated **12 APR 2024**



.....
Lim Thou Lai
Director



.....
Heng Siew Aun
Director



15. STATUTORY AND OTHER INFORMATION

15.1 SHARE CAPITAL

- (a) As at the date of this Prospectus, we only have one class of shares, namely, ordinary shares, all of which rank equally with one another.
- (b) Save for the Pink Form Allocations as disclosed in Section 4.3.3,
- (i) no Director or employee of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiaries; and
- (ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.
- (c) Save for the new Shares issued for the shares subscription and Acquisition as disclosed in Section 6.2(a) and to be issued for the Public Issue as disclosed in Section 4.3.1, no shares of our Company have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.
- (d) Other than our Public Issue as disclosed in Section 4.3.1, there is no intention on the part of our Directors to further issue any Shares on the basis of this Prospectus.
- (e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

15.2 SHARE CAPITAL OF OUR SUBSIDIARIES

Details of our share capital are set out in Section 6.1. Details of the share capital of our subsidiaries are set out below.

15.2.1 Kawan Engineering

Kawan Engineering's share capital as at LPD is RM10,000,000 comprising 10,000,000 ordinary shares. The movements in its share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital RM
2 May 1996	4	RM4 / Subscribers' shares	4
2 May 1996	19,996	RM19,996 / Cash	20,000
28 June 1996	220,000	RM220,000 / Cash	240,000
1 February 1999	160,000	RM160,000 / Cash	400,000
20 February 2006	1,000,000	RM1,000,000 / Cash	1,400,000
28 October 2008	1,100,000	RM1,100,000 / Otherwise than cash	2,500,000
18 August 2015	2,400,000	RM2,400,000 / Otherwise than cash	4,900,000

15. STATUTORY AND OTHER INFORMATION *(Cont'd)*

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital
9 May 2017	1,600,000	RM1,600,000 / Cash	6,500,000
15 March 2021	3,500,000	RM3,500,000 / Otherwise than cash	10,000,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Kawan Engineering. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15.2.2 Kawan Green

Kawan Green's share capital as at LPD is RM200,000 comprising 200,000 ordinary shares. The share capital since incorporation is as follows:

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital RM
15 April 2022	200,000	RM200,000 / Cash	200,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Kawan Green. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15.2.3 Magenko Asia

Magenko Asia's share capital as at LPD is RM50,000 comprising 50,000 ordinary shares. The movements in its share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital RM
10 March 2011	2	RM2 / Cash	2
31 May 2011	49,998	RM49,998 / Cash	50,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Magenko Asia. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15. STATUTORY AND OTHER INFORMATION (Cont'd)**15.2.4 Magenko Ipoh**

Magenko Ipoh's share capital as at LPD is RM100,000 comprising 100,000 ordinary shares. The movements in its share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital RM
10 March 2011	2	RM2 / Cash	2
31 May 2011	49,998	RM49,998 / Cash	50,000
2 December 2011	50,000	RM50,000 / Cash	100,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Magenko Ipoh. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15.2.5 Magenko Penang

Magenko Penang's share capital as at LPD is RM100,000 comprising 100,000 ordinary shares. The movements in its share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration / Type of issue	Cumulative share capital RM
10 March 2011	2	RM2 / Cash	2
31 May 2011	49,998	RM49,998 / Cash	50,000
2 December 2011	50,000	RM50,000 / Cash	100,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Magenko Penang. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15. STATUTORY AND OTHER INFORMATION (*Cont'd*)

15.3 CONSTITUTION

The following provisions are extracted from our Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires.

15.3.1 Changes in share capital and variation of class rights

The provisions in our Constitution dealing with changes in share capital and variation of class rights, which are no less stringent than those required by law, are as follows:

Clause 8 – Variation of Rights

(1) Variation of rights

If at any time the share capital is divided into different classes of shares, the rights attached to each class of shares (unless otherwise provided by the terms of issue of the shares of that class) may only, whether or not our Company is being wound up, be varied:

- (a) with the consent in writing of the holders holding not less than 75.0% of the total voting rights of the holders of that class of shares; or
- (b) by a special resolution passed by a separate meeting of the holders of that class of shares sanctioning the variation.

Clause 12 – Issue of Securities

(1) Allotment of shares or grant of rights

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares but subject always to the Act, the Listing Requirements and this Constitution, the Directors have the right to:

- (a) issue and allot shares in our Company; and
- (b) grant rights to subscribe for shares or options over unissued shares in our Company.

(3) Issue of new shares or securities to Members

- (a) Subject to the Act, the Listing Requirements and any direction to the contrary that may be given by our Company in General Meeting, all new shares or other convertible securities shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from our Company of General Meetings in proportion as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled.
- (b) The offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to our Company.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

(c) The Directors may likewise also dispose of any new share or security which (by reason of the ratio which the new shares or securities bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Constitution.

(4) General mandate for issue of securities

Subject to Rule 6.07 of the Listing Requirements and notwithstanding the existence of a resolution pursuant to Sections 75(1) and 76(1) of the Act, our Company must not issue any shares or convertible securities if the total number of those shares or convertible securities, when aggregated with the total number of any such shares or convertible securities issued during the preceding 12 months, exceeds 10.0% of the total number of issued shares (excluding treasury shares) of our Company except where the shares or convertible securities are issued with the prior shareholder approval in a General Meeting of the precise terms and conditions of the issue.

Clause 46 – Alteration of capital

(3) Purchase of own shares

Our Company shall have the power, subject to and in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines in respect thereof for the time being in force, to purchase its own shares and thereafter to deal with the shares purchased in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines thereunder or issued by Bursa Securities and any other relevant authorities in respect thereof.

15.3.2 Borrowing and voting power of the Directors

The provisions in our Constitution dealing with voting and borrowing powers of our Directors including voting powers in relation to proposals, arrangements or contract in which they are interested in are as follows:

Clause 95 – Power of Directors

Borrowings

(1) borrow money;

Mortgage

(2) mortgage or charge its undertaking, property, and uncalled capital, or any part of the undertaking, property and uncalled capital;

Issue debentures

(3) issue debentures and other securities whether outright or as security; and/or

Lend or advance money

(4) (a) lend and advance money or give credit to any person or company;
(b) guarantee and give guarantees or indemnities for the payment of money or the performance of contracts or obligations by any person or company;

15. STATUTORY AND OTHER INFORMATION (Cont'd)

- (c) secure or undertake in any way the repayment of moneys lent or advanced to or the liabilities incurred by any person or company;

and otherwise to assist any person or company.

Clause 97 – Power of Attorney*Power of attorney*

- (1) The Directors may from time to time by power of attorney appoint any corporation, firm, or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of our Company for the purposes and with the powers, authorities, and discretions (not exceeding those vested in or exercisable by the Directors under this Constitution) and for a period and subject to any conditions as the Directors may think fit.
- (2) Any powers of attorney granted under Clause 97(1) may contain provisions for the protection and convenience of persons dealing with the attorney as the Directors think fit and may also authorise the attorney to delegate all or any of the powers, authorities, and discretions vested in the attorney.

Clause 105 – Directors' Interest in Contracts*Directors' interest in contracts*

- (a) A Director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest.
- (b) Every Director shall observe the provisions of Sections 221 and 222 of the Act relating to the disclosure of the interest of the Directors in contracts or proposed contracts with our Company or of any office or property held by the Directors which might create duties or interest in conflict with their duties or interest as Directors and participation in discussion and voting. Such disclosure of material personal interest by the Directors shall be in the form of a notice. Such notice shall be in the form and manner prescribed under Section 221 of the Act.

Clause 107 – Passing of resolution by the Directors*(1) Passing of resolution by more than one Director*

The Directors may pass a resolution without a Board Meeting, if a majority of the Directors entitled to vote and sign on the resolution signed the resolution, signifying their agreement to the resolution set out in the document.

Clause 118 – Voting at Board Meetings*(1) Directors' decision*

Subject to this Constitution, questions arising at a Board Meeting shall be decided by a majority of votes of Directors present and voting and any such decision shall for all purposes be deemed a decision of the Directors.

(2) Casting of vote

Each Director is entitled to cast 1 vote on each matter for determination.

15. STATUTORY AND OTHER INFORMATION (*Cont'd*)

15.3.3 Remuneration of Directors

The provisions in our Constitution dealing with remuneration of Directors are as follows:

Clause 93 – Remuneration of Directors

(1) *Non-executive Directors' remuneration*

Our Company may from time to time by an ordinary resolution passed at a General Meeting, approve the remuneration of the Directors, who hold non-executive office with the Company, for their services as non-executive Directors.

(2) *Fee*

Subject to Clause 84, the fees of the Directors and any benefits payable to the Directors shall be subject to annual shareholders' approval at a General Meeting.

(3) *Fees for non-executive Directors*

If the fee of each such non-executive Director is not specifically fixed by the Members, then the quantum of fees to be paid to each non-executive Director within the overall limits fixed by the Members, shall be decided by resolution of the Board. In default of any decision being made in this respect by the Board, the fees payable to the non-executive Directors shall be divided equally amongst themselves and such a Director holding office for only part of a year shall be entitled to a proportionate part of a full year's fees. The non-executive Directors shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

(4) *Expenses*

The following expenses shall be determined by the Directors:

- (a) Traveling, hotel and other expenses properly incurred by the Directors in attending and returning from meetings of the Directors or any committee of the Directors or General Meetings of our Company or in connection with the business of our Company; and
- (b) Other expenses properly incurred by the Directors arising from the requirements imposed by the authorities to enable the Directors to effectively discharge their duties.

(5) *Executive Directors' remuneration*

Executive Directors of the Company shall be remunerated in the manner referred to in Clause 84 but such remuneration shall not include a commission on or percentage of turnover.

15. STATUTORY AND OTHER INFORMATION (*Cont'd*)

15.3.4 Transfer of Securities

The provisions in our Constitution dealing with transfer of shares as follows:

Clause 14 – Transfer of Securities

Transfer of securities

The transfer of any Deposited Security or class of Deposited Security of the Company, shall be by way of book entry by the Depository in accordance with the Rules and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, our Company shall be precluded from registering and effecting any transfer of the Deposited Securities.

Clause 17 – Transfer of Shares or Debentures

(1) Instrument of transfer

Subject to this Constitution and other written laws, any Shareholder or debenture holder may transfer all or any of his shares or debentures by instrument of transfer as prescribed under the Act.

(2) Execution of instrument of transfer

The instrument of transfer must be executed by or on behalf of the transferor and the transferee.

(3) Effect the transfer of shares or debentures

The transferor shall remain as the holder of such shares or debentures until the transfer is registered and the name of the transferee is entered in the Register of Members or register of debenture holders in respect of the shares or debentures respectively.

15.4 GENERAL INFORMATION

- (a) Save for the dividends paid to our shareholders in FYE 2020 to 2023 and up to LPD and remuneration of our Directors and key senior management as disclosed in Sections 12.15, 5.2.4 and 5.3.5 respectively, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be paid or given, to any of our Promoters, Directors or substantial shareholders.
- (b) Save as disclosed in Section 10.1, none of our Directors or substantial shareholders have any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the summarised procedures for application of our Shares are set out in Section 16.

15. STATUTORY AND OTHER INFORMATION (Cont'd)

- (d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

15.5 CONSENTS

- (a) The written consents of our Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;
- (b) The written consents of our Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and report relating to the pro forma consolidated financial information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and
- (c) The written consent of our IMR to the inclusion in this Prospectus of its name and the IMR Report, in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

15.6 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) Constitution;
- (b) Audited financial statements of Kawan from the date of incorporation up to 31 October 2022 and FYE 2023;
- (c) Audited financial statements of Kawan Engineering, Kawan Green, Magenکو Asia, Magenکو Ipoh and Magenکو Penang for FYE 2020 to 2023, where applicable;
- (d) Accountants' Report as set out in Section 13;
- (e) Reporting Accountants' Report relating to our pro forma combined financial information as set out in Section 14;
- (f) IMR Report as set out in Section 8;
- (g) Material contracts as set out in Section 6.5;
- (h) Relevant documents for the material litigation referred in Section 12.7; and
- (i) Letters of consent as set out in Section 15.5.

15. STATUTORY AND OTHER INFORMATION *(Cont'd)*

15.7 RESPONSIBILITY STATEMENTS

Our Directors, Promoters and Selling Shareholder have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M & A Securities acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

16.1 OPENING AND CLOSING OF APPLICATION PERIOD

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 29 April 2024

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 14 May 2024

In the event of any change to the timetable, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia, and make an announcement on Bursa Securities' website.

Late applications will not be accepted.

16.2 METHODS OF APPLICATIONS

16.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

Types of Application and category of investors	Application Method
Applications by our eligible Directors, employees and persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.2.2 Placement

Types of Application

Applications by selected investors

Application Method

The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.

Applications by Bumiputera investors approved by MITI

MITI will contact the Bumiputera investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

16.3 ELIGIBILITY

16.3.1 General

You must have a CDS Account and a correspondence address in Malaysia. If you do not have a CDS Account, you may open a CDS Account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS Account must be in your own name. **Invalid, nominee or third party CDS Accounts will not be accepted** for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

16.3.2 Application by Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
 - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

- (ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
 - (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and
- (c) You must submit Applications by using only one of the following methods:
- (i) White Application Form; or
 - (ii) Electronic Share Application; or
 - (iii) Internet Share Application.

16.3.3 Application by eligible Directors, employees and persons who have contributed to the success of our Group

The eligible Directors, employees and persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation as well as detailed procedures on how to subscribe to the allocated IPO Shares. Applicants must follow the notes and instructions on the said documents and where relevant, in this Prospectus.

16.4 APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The **FULL** amount payable is RM0.30 for each IPO Share.

Payment must be made out in favour of "**TIIH SHARE ISSUE ACCOUNT NO. 763**" and crossed "**A/C PAYEE ONLY**" and endorsed on the reverse side with your name and address.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

- (a) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd
(Registration No. 197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
8, Jalan Kerinchi
59200 Kuala Lumpur

- (b) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at Tricor Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur.

So as to arrive not later than 5.00 p.m. on 14 May 2024 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

16.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

The exact procedures, terms and conditions for Electronic Share Application are set out on the ATM screens of the relevant Participating Financial Institutions.

16.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CGS International Securities Sdn Bhd (formerly known as CGS-CIMB Securities Sdn Bhd), Malayan Banking Berhad and Public Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

16.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

- (a) reject Applications which:
 - (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable);
or
 - (ii) are illegible, incomplete or inaccurate; or
 - (iii) are accompanied by an improperly drawn up or improper form of remittance;
or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 16.9 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at any time within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

16.8 OVER / UNDER SUBSCRIPTION

In the event of over-subscription, the Issuing House will conduct a ballot in the manner approved by our Directors to determine the acceptance of Applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting and allocating our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market for our Shares.

The basis of allocation of shares and the balloting results in connection therewith will be furnished by the Issuing House to Bursa Securities, all major Bahasa Malaysia and English newspapers as well as posted on the Issuing House's website at <https://tiih.online> within one market day after the balloting date.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Pursuant to the Listing Requirements we are required to have a minimum of 25.0% of our Company's issued share capital to be held by at least 200 public shareholders holding not less than 100 Shares each upon Listing and completion of our IPO. We expect to achieve this at the point of Listing. In the event the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all Applications will be returned in full (without interest).

In the event of an under-subscription of our Issue Shares by the Malaysian Public and/or eligible Directors, employees and persons who have contributed to the success of our Group, subject to the clawback and reallocation as set out in Section 4.3.4, any of the abovementioned Issue Shares not applied for will then be subscribed by the Underwriter based on the terms of the Underwriting Agreement.

16.9 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful / partially successful in your Application, your Application Monies (without interest) will be refunded to you in the following manner.

16.9.1 For applications by way of Application Forms

- (a) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (b) If your Application is rejected because you did not provide a CDS Account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (a) and (b) above (as the case may be).
- (d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by ordinary/registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (b) above (as the case may be).

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.9.2 For applications by way of Electronic Share Application and Internet Share Application

- (a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (b) You may check your account on the 5th Market Day from the balloting date.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

16.10 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (a) Our IPO Shares allotted to you will be credited into your CDS Account.
- (b) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (c) In accordance with Section 14(1) of the Central Depositories Act, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the Central Depositories Act and Depository Rules.
- (d) In accordance with Section 29 of the Central Depositories Act, all dealings in our Shares will be by book entries through CDS Accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

16.11 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	Issuing House Enquiry Services Telephone at 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tjih.online>, **one Market Day** after the balloting date.

You may also check the status of your Application at the above website, **5 Market Days** after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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