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Creating Winning Business Solutions

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7 November 2022

The Board of Directors
ITMAX System Berhad
No. 30-G & 30-3, Jalan Radin Bagus 3
Seri Petaling
57000 Kuala Lumpur
Wilayah Persekutuan
Malaysia

Dear Sirs/Madams

Independent Assessment of the Public Space Networked Systems Industry in Malaysia

We are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include the development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers of public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as the independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above for inclusion in the prospectus of ITMAX System Berhad concerning its listing on the Main Market of Bursa Securities. We have prepared this report independently and objectively and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, availability of up-to-date information, secondary information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibility for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Our report may include assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information and primary market research, and after careful analysis of data and information, the industry is subject to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from The University of New South Wales, Australia and a degree in Master of Business Administration from The New South Wales Institute of Technology (now known as University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and Institute of Managers and Leaders. He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing on Bursa Securities.

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Date of report: 7 November 2022

INDEPENDENT ASSESSMENT OF THE PUBLIC SPACE NETWORKED SYSTEMS INDUSTRY IN MALAYSIA

1. INTRODUCTION

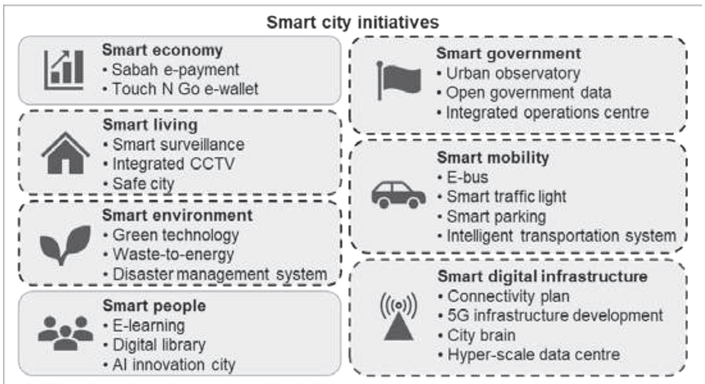
- ITMAX System Berhad together with its subsidiary, (ITMAX Group) is primarily involved in public space networked systems focusing on lighting, traffic management and video surveillance, as well as communications network services, which may be part of a smart city's infrastructure. Public space mainly refers to the space that is generally accessible to the public such as roads and parks, and is mostly under the jurisdiction of federal, state, federal territory or local governments (also referred to as local authorities). ITMAX Group is involved in some of Kuala Lumpur's smart city initiatives. As such, this report will focus on public space networked systems as well as smart cities.

2. SMART CITY

- In 2020, around 75.1% of the Malaysian population live in urban areas such as Kuala Lumpur, Putrajaya, Selangor, Penang and Malacca *(Latest available data. Source: Department of Statistics Malaysia (DOSM))*. The high urbanisation rate has led to urban challenges such as traffic congestion, pollution and inefficient deployment of urban services.

- A smart city refers to an urbanised area that uses information and communications technology (ICT) and technological advancement to address urban issues including improving quality of life, promoting economic growth, developing a sustainable and safe environment, and encouraging efficient urban management practices. In 2019, Kementerian Perumahan dan Kerajaan Tempatan (KPKT) or Ministry of Housing and Local Government has launched the Malaysia Smart City Framework (MSCF) as a guide and reference for local governments to streamline and coordinate the development of smart cities in Malaysia. There are 155 local governments across 13 states and three federal territories in Malaysia.

- Smart city initiatives or blueprints are introduced by the state, federal territory and local governments including Selangor, Penang, Sarawak, Malacca, Kuala Lumpur, Putrajaya, Ipoh, Cyberjaya Iskandar region (Johor) and Kuching. The components of Malaysia's smart cities, along with some projects under the specific component are depicted in the diagram provided.



CCTV = Closed-circuit television; AI = Artificial intelligence
Source: Ministry of Housing and Local Government (KPKT)
ITMAX Group is involved in these smart city initiatives

- Smart city anchors on the primary and basic infrastructures, as well as connected to modern digital infrastructures that correlate data from multiple sources to generate new values and efficiencies.

- ITMAX Group is involved in **Smart Living** with its networked video surveillance facilities under smart surveillance and integrated closed-circuit television (CCTV) projects, **Smart Environment** with its networked lighting system with the incorporation of light-emitting diode (LED) street lights under the green technology projects, **Smart Government** with its integrated networked systems and platform under the integrated operations centre projects, **Smart Mobility** with its networked traffic management system under the smart traffic light projects and **Smart Digital Infrastructure** with its fibre optic network in Kuala Lumpur under the connectivity plan projects.

3. SMART CITY PROJECTS

- As of June 2021, there are approximately 100 smart city projects implemented or are in progress across Malaysia (*Source: KPKT)*. Some projects include:

  - The Jalinan Digital Negara (JENDELA), or National Digital Network (2021-2025) project, is a national level initiative designed to improve Malaysia's digital connectivity by boosting the efficiency of the national infrastructure, optimising spectrum usage, and setting the foundation for the roll-out of fifth-generation (5G) wireless technology. From September 2020 to September 2022, some of the digital infrastructure performance under the JENDELA project is as follows:

	Sept – Dec 2020	Jan – Dec 2021	Jan – Jun 2022	Jul – Sep 2022	Total
New 4G towers	944	263	120	89	1,416

Following are the targets for the JENDELA Phase 1 by the end of 2022, as well as achievements as of 30 September 2022:

	Premises passed with fibre connectivity	Mobile broadband speed	4G coverage
Target	7.5 million	35 Mbps (mean)	96.9%
Achievement	7.4 million	52.5 Mbps (mean)	95.8%*

** As of 30 June 2022 (latest available data); Mbps = Megabits per second*
(*Source: Malaysian Communications and Multimedia Commission)*

  - Smart Selangor (2020-2025) project is a state-level initiative designed to improve economic productivity and state's liveability, as well as to implement sustainability measures that promote environmentally conscious communities. There are over 60 initiatives identified in the Smart Selangor Action Plan 2025, which are framed around four components of a smart city, namely smart digital infrastructures, smart economy, smart government and smart communities to foster innovation and digitalisation, as well as to build capacity of its communities. *(Source: KPKT)*

  - Kuala Lumpur Smart City Master Plan (2021-2025), a city-level initiative to develop Kuala Lumpur Intelligent City (KLiC), to allow Dewan Bandaraya Kuala Lumpur (DBKL), or Kuala Lumpur City Hall and Kuala Lumpur's citizens to access city data and services. KLiC will integrate all internal systems and data to efficiently manage city services. *(Source: DBKL)*

  - Kuala Lumpur Safe City (2004-2024) project, a city-level initiative designed to provide a safe and efficient environment for enforcement personnel to work and quickly respond to incidents and emergencies, as well as efficient monitoring and analytics using artificial intelligence and other predictive systems. The focus of the plan is to make use of interconnected web devices, software and cloud storage systems to improve security and surveillance in hotspot areas. *(Source: KPKT)*

4. NETWORKED SYSTEMS IN PUBLIC SPACE

- A network allows devices to connect and communicate with multiple devices via any medium, which could be fixed, wireless or fixed wireless depending on the type of network. Some common types of network include local area network, metropolitan area network, wide area network and the Internet.

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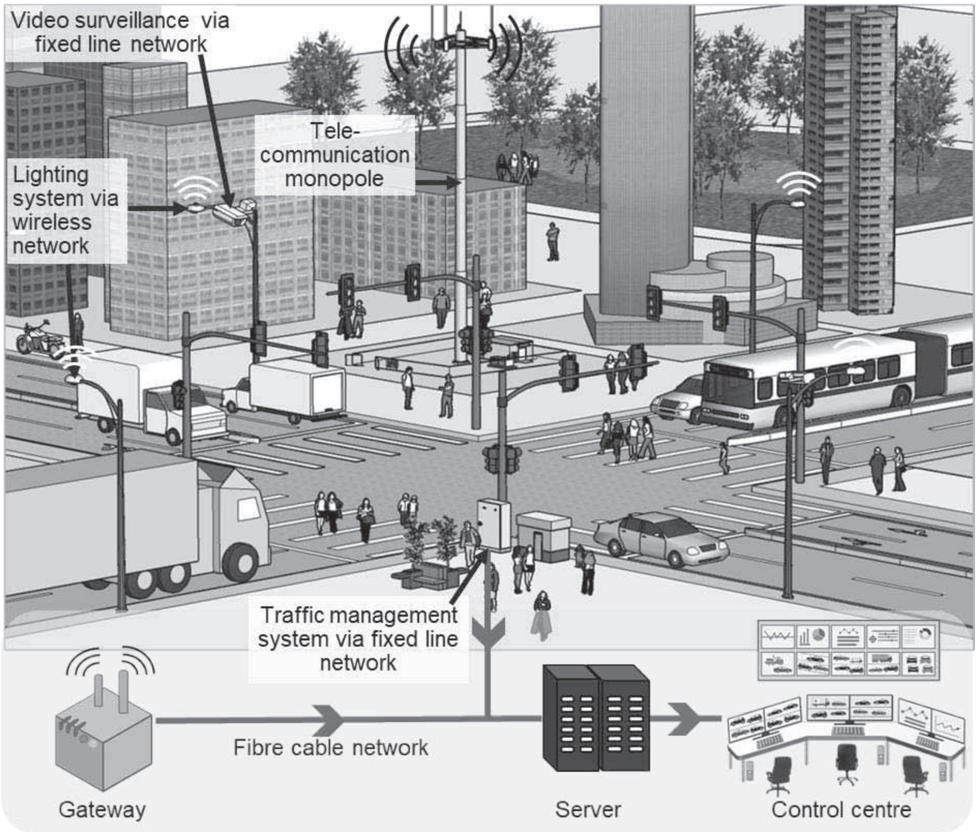
- Networked systems are built from multiple computing components, connected through a range of transmission systems over a wired or wireless network, to perform an application goal. The following diagram depicts some public space networked systems:



  - **Networked lighting system,** where the system is used by city planners to configure and schedule lights at a specific timeframe by dimming, on or off, as well as monitoring the performance of the lighting system remotely at a control centre.

  - **Networked traffic management system**, where the system is used to manage traffic behaviour in real-time by utilising various optimising and queuing routines as well as technologies, to facilitate efficient and safe traffic and pedestrian flow.

  - **Networked video surveillance system**, which involves recording, identifying and monitoring a scene in real-time which may include looking for specified behaviours of people and vehicles that may be improper or for identification purposes.

  - **Telecommunication towers and monopoles** to hold wireless telecommunication equipment at vantage points for receiving and transmitting signals.

  - **Telecommunication networks** to provide connectivity among devices, where the network may be wired or wireless.

- ITMAX Group is involved in networked lighting, traffic management and video surveillance systems and owns a telecommunication fibre optic network as well as several telecommunication towers and monopoles.

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5. MALAYSIA'S DIGITAL ECONOMY

- On 19 February 2021, the Government launched the Malaysia Digital Economy Blueprint (MyDIGITAL) to transform Malaysia into a digitally-driven, high-income nation and a regional leader in the digital economy. MyDIGITAL is designed to complement national development policies such as the 12th Malaysia Plan and Shared Prosperity Vision 2030, with the expectation to attract RM70 billion investment in digitalisation and to create 500,000 jobs by 2025.

- Moving forward from the launch of MyDIGITAL, the development of the digital infrastructures will be supported by some of the following initiatives:

  - allocation of RM21 billion over the next five years to strengthen the existing connectivity via the JENDELA project, where the fixed-line optical fibre network is expected to cover 7.5 million premises by the end of 2022 and 9 million premises by the end of 2025;

  - a total of RM1.65 billion to be invested by several telecommunication companies to strengthen connectivity to the international submarine cable network until 2023; and

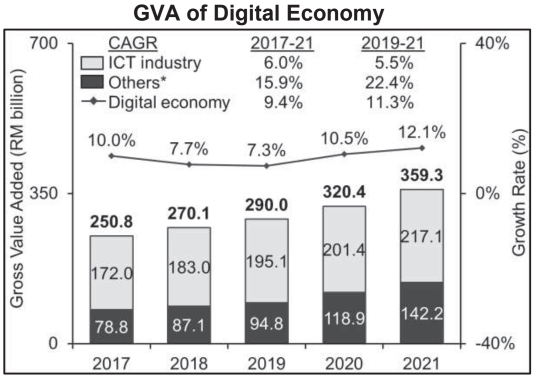
  - allocation of RM15 billion over ten years for the implementation of 5G wireless technology nationwide.

- Expansion of fibre networks will provide high-speed and reliable broadband services, thereby enhancing the electronic communications and applications that are crucial for transmitting data. The expansion of fibre networks is essential to support the growing demand for digital technology amid greater digitalisation in the economy.

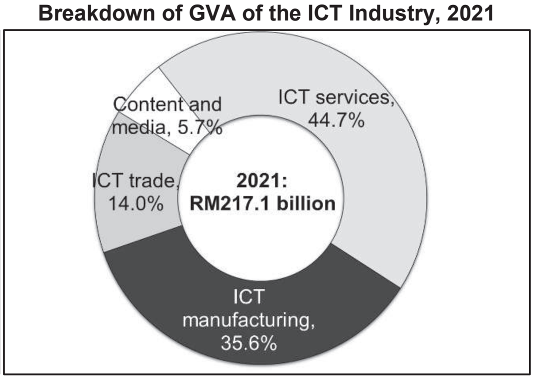
- The contribution of the digital economy is measured by the total gross value added (GVA) of the ICT industry and e-commerce of other industries. GVA measures the value of output produced by ICT economic activities excluding the value of intermediate input.

- Between 2017 and 2021, the contribution of the digital economy to Malaysia's economy grew at a CAGR of 9.4%. In 2021, the contribution of the digital economy to Malaysia's economy grew by 12.1%, representing 23.2% of the total Gross Domestic Product (GDP) of Malaysia, of which 60.4% was contributed by the ICT industry, while 39.6% was accounted for by e-commerce from other industries.

GVA of Digital Economy



Breakdown of GVA of the ICT Industry, 2021

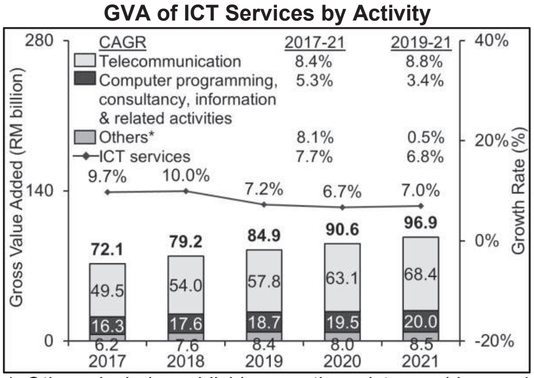


** Others include e-commerce from other industries (Source: DOSM)*

- The ICT industry is divided into ICT manufacturing, ICT trade, ICT services, and content and media products. In 2021, ICT services represented 44.7% of the total GVA of ICT industry, followed by ICT manufacturing, ICT trade as well as content and media products with 35.6%, 14.0% and 5.7% respectively. *(Source: DOSM)*

- Overall, the GVA of ICT services grew at a CAGR of 7.7% between 2017 and 2021. Under the ICT services segment, telecommunication services was the main segment representing 70.6% of the GVA of ICT services, followed by computer programming, consultancy, information and related activities, and others with 20.7% and 8.8% respectively. ITMAX Group is mainly involved in providing networked systems which fall within ICT services, particularly in the computer programming, consultancy, information and related activities segment.

GVA of ICT Services by Activity



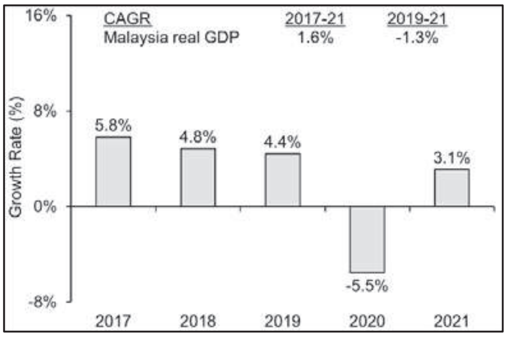
** Others include publishing, motion picture, video and television programme production, sound recording and music publishing, programming and broadcasting (Source: DOSM)*

6. MALAYSIA'S ECONOMY

- The establishment and implementation of networked systems in public spaces involve substantial investments and resources from the local government, where its revenue is dependent on the general well-being of the economy. Real GDP indicates the value of all finished goods and services made within a country or sector without the impact of price inflation or deflation. In 2020, the real GDP of Malaysia's economy declined by 5.5% as a result of the containment measures following the COVID-19 pandemic.

- In 2021, Malaysia's economy recovered and grew by 3.1% despite the reimposition of containment measures as more essential economic sectors were allowed to operate. In the first half of (H1) 2022, Malaysia's real GDP grew by 6.9%, underpinned by favourable momentum in the domestic economy, steady expansion in external sector activities and continued improvement in the labour market conditions. Overall, the real GDP of Malaysia's economy is expected to grow between 6.5% and 7.0% in 2022, and forecasted to grow between 4.0% and 5.0% in 2023 (*Source: Ministry of Finance (MOF)).*

Real GDP growth of Malaysia's economy



(Source: DOSM)

7. GOVERNMENT EXPENSES AND BUDGETS

7.1 Public infrastructures

- The installation of public infrastructures such as street lighting, traffic management and video surveillance systems is dependent mainly on road networks, particularly paved roads and highways, as well as expense allocation from relevant authorities. In 2020, Malaysia's road network covers approximately 198,400km of paved roads and recorded a growth of 4.3% from 2019 *(Latest available data. Source: DOSM)*. In 2020, the length of tolled highways amounted to approximately 2,000km, recording a marginal decline of 0.1% from 2019 *(Latest available data. Source: Malaysian Highway Authority)*.

- Between 2014 and 2018, electricity sales for public lighting grew at a CAGR of 2.4%, indicating a positive trend for street lighting systems in Malaysia *(Latest available data. Source: Energy Commission)*. Additionally, in 2020, 157,723 units of LED lights were installed by Tenaga Nasional Berhad (TNB) under the streetlight re-lamping project, bringing the cumulative total at year-end to 483,776 units across Peninsular Malaysia. In 2021, a total of 579,080 units of LED lightings were installed under the streetlight re-lamping project at all the 41 approved cities, as well as 25,000 units through the Lampu Jalan Kampung programme. *(Source: TNB).*

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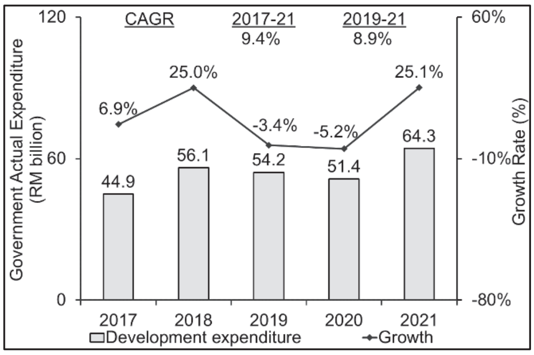
7.2 Federal level expenses

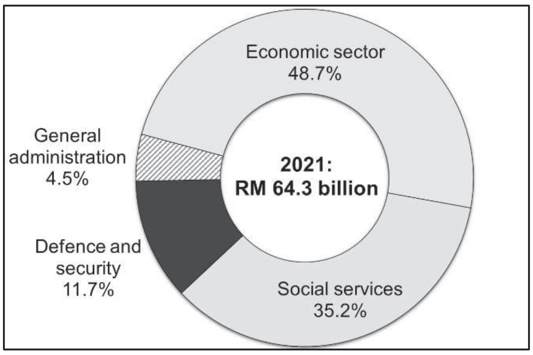
- The federal government is accountable for managing a nation's annual budget, public finance management and many other responsibilities that govern the social and economic development of the nation. In 2021, the federal government's total expenditure was RM295.8 billion, where operating and development expenditures accounted for 78.3% and 21.7% of the total expenditure respectively. The development expenditure at the federal level would indicate the future plan of Malaysia, thereby influencing the implementation of policies at the state level.

- As the year 2021 marked the first year of the 12th Malaysia Plan, development expenditure grew by 25.1% amounting to RM64.3 billion to fund new and ongoing projects and programmes planned under the economic, social, security and general administration sectors.

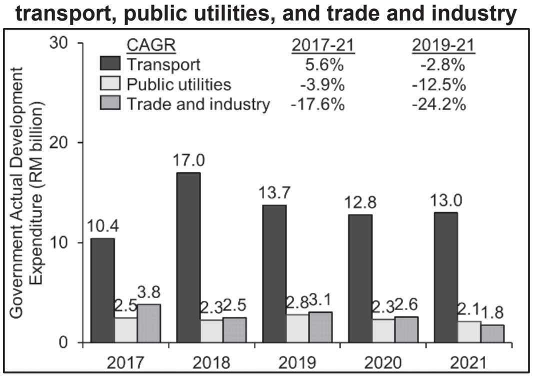
Federal government development expenditure



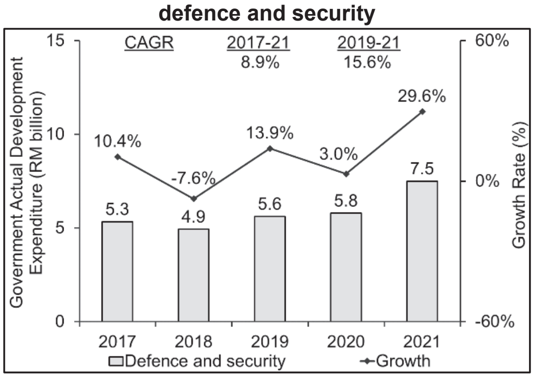
Breakdown of development expenditure, 2021



Federal government development expenditure for transport, public utilities, and trade and industry



Federal government development expenditure for defence and security



(Source: Bank Negara Malaysia (BNM))

- In 2021, the federal government continued to focus on the economic sector which accounted for 48.7% of the development expenditure. The expenses were mainly spent on enhancing public transportation and communication network infrastructure, developing public utilities, escalating trade and industrial activities as well as boosting agriculture. Among the economic sector, transport, public utilities, as well as trade and industry subsectors accounted for 41.5%, 6.8% and 5.6% of the development expenditure for the economic sector in 2021 respectively.

- The expenditure for the transport sector is mainly to finance major ongoing projects such as the Electrified Double Track Gemas-Johor Bahru and Pan Borneo Highway projects, as well as upgrading federal roads throughout Malaysia. The expenditure for public utilities, and trade and industry subsectors are mainly for upgrading works and construction of sewage treatment plants, providing and improving electricity and water supply, as well as encouraging and enhancing technological adoption among businesses. (*Source: MOF)*.

- In 2021, the federal government increased the expense incurred for the defence and security sector by 29.6% to RM7.5 billion. The bulk of the expenses is used for upgrading military and security equipment, as well as maintaining and upgrading the security integrated network system. The expense incurred for the general administration sector amounted to RM2.9 billion, mainly to empower digitalisation in the public sector, as well as enhancement and maintenance of government buildings, infrastructure and facilities. *(Source: MOF)*.

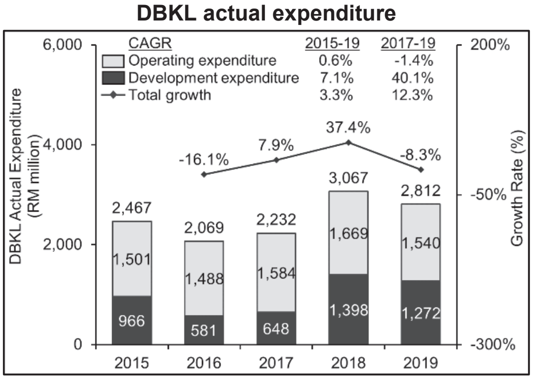
- Under Budget 2022, RM75.6 billion will be allocated for development expenses, while the economic sector remains the largest recipient at 53.2% of development expenditure. The focus continues to be on projects related to transport, trade and industry, as well as public utility subsectors. A sum of RM15.5 billion will be allocated for the transport subsector to construct, refurbish and maintain key infrastructures such as highways, roads, railways, bridges, ports and airports. A sum of RM3.2 billion will be allocated to the public utility subsector to improve the telecommunication access, as well as the supply of electricity and water. A sum of RM9.0 billion will be allocated to the security sector to enhance the network systems and services, as well as upgrade of military assets and security equipment. *(Source: MOF)*.

- In H1 2022, the federal government has incurred RM30.5 million of development expenditure, which increased by 7.4% compared to H1 2021. The expenditure for transport, public utilities, as well as trade and industry recorded 17.5%, -29.9% and -17.6% of growth/decline respectively. *(Source: BNM)*.

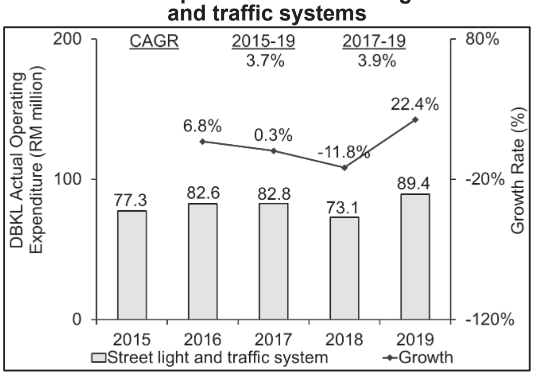
7.3 State and territory level expenses and budgets

- ITMAX Group's public space networked systems are mainly in Kuala Lumpur while some are also in Selangor and Sabah.

DBKL actual expenditure



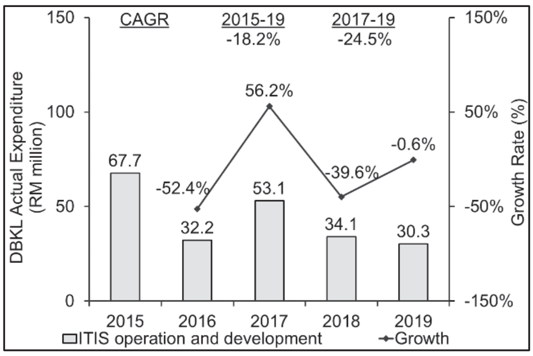
DBKL expenditure for street lights and traffic systems



Note: Latest available data *(Source: DBKL)*

- The local governments are responsible for among others, providing basic infrastructure and public utilities, urban planning, public health and waste management. In 2019, DBKL's total expenditure was RM2.8 billion, where operating expenditure and development expenditure accounted for 54.8% and 45.2% of the total expenditure respectively. Between 2015 and 2019, DBKL's expenditure for street lights and traffic systems grew at a CAGR of 3.7%, which indicated the constant effort of DBKL to operate street lights and traffic systems.

DBKL expenditure for ITIS operation and development

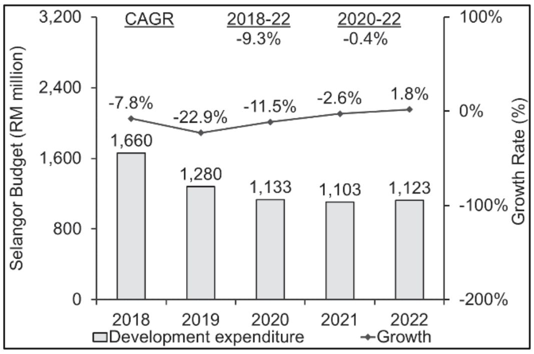


Note: Latest available data *(Source: DBKL)*

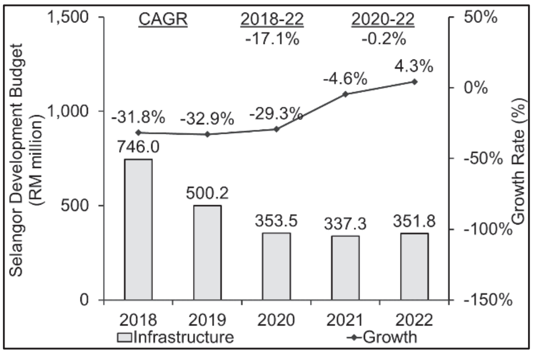
- Integrated Transport Information System (ITIS) is a traffic information system to monitor real-time traffic flow using various equipment including detectors, CCTV cameras and communication systems, and analysis of data to provide useful traffic information to road users. Between 2015 and 2019, DBKL's expenditure for ITIS declined at an average annual rate of 18.2%.

- Additionally, under Kuala Lumpur Safe City initiative, DBKL has initiated coverage to over 5,000 CCTV and integrated them with a centralised observatory for crime prevention, as well as traffic and flash flood monitoring through a control centre by June 2021 *(Source: KPKT)*.

Selangor government development budget



Selangor government development budget for infrastructure

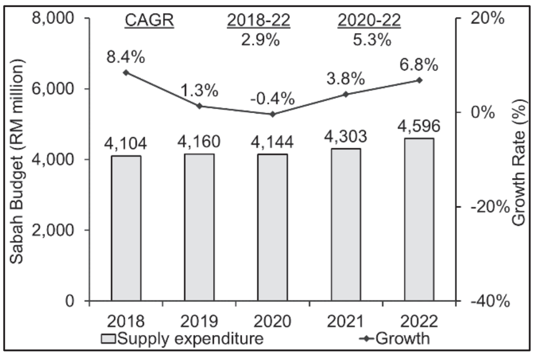


(Source: Selangor government)

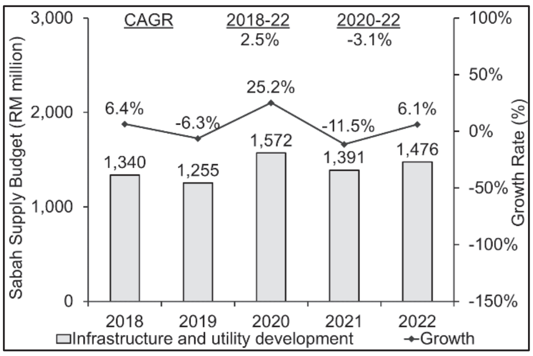
- In 2022, the Selangor government has announced its budget of RM2.3 billion, where 52.1% and 47.9% of the total budget will be allocated to operating expenditure and development expenditure respectively. Particularly, infrastructure development remained the priority for social development, which accounted for 31.3% of the development expenditure amounting to RM351.8 million. *(Source: Selangor government)*.

- Additionally, under the Smart Selangor initiative, the Selangor government planned to install an additional 2,000 units of smart CCTV in Selangor by 2025 to provide quality security services and secure public facilities. As of November 2021, a cumulative of 414 units of smart CCTV have been installed. In 2022, an additional 200 units are expected to be installed with a total cost of RM5 million, including the operating costs. *(Source: Selangor government)*.

DBKK supply budget



DBKK supply budget for infrastructure and utility



(Source: Dewan Bandaraya Kota Kinabalu (DBKK), or Kota Kinabalu City Hall)

- In 2022, DBKK tabled an estimated supply expenditure of RM4.6 billion and an estimated revenue collection of RM4.7 billion, thereby enabling a surplus budget of RM 110.7 million in 2022. Out of the estimated supply expenditure, a total of RM 1.5 billion was allocated for infrastructure and utility development, which accounted for 32.1% of the estimated supply expenditure. Some of the development projects include the implementation of a treated water supply development project, a main pipe upgrading programme, as well as water tank upgrading programme. *(Source: DBKK).*

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- Additionally, following the launch of MSCF in 2019, DBKK will establish smart city solutions to create a digital economy ecosystem and promote digital culture, which is in line with the principles of the Sabah Maju Jaya Roadmap. *(Source: DBKK).*

8. COMPETITIVE LANDSCAPE

- As of 7 November 2022, there were 30 ordinary members registered with the Malaysia Smart Cities Alliance Association (MSCA). MSCA members comprise academicians, governments and industry players. MSCA is a platform established for the council members to deliberate on Smart City issues and challenges and creates opportunities for networking among the stakeholders. Not all operators involved in smart city projects are registered with MSCA.

- Below is a list of the public space networked system providers in Malaysia, listed in descending order of revenue. This list is used to provide an indication and is not exhaustive.

Company name	(1)FYE	(2)Revenue (RM '000)	(2)GP (RM '000)	(2)GP Margin	(2)NP/(NL) (RM '000)	(2)NP/(NL) Margin
EV-Dynamic S/B (3)	Dec-21	177,900	22,974	12.9%	3,033	1.7%
Signify Malaysia S/B (4)	Dec-21	151,901	31,382	20.7%	2,455	1.6%
TNB Research S/B (5)	Dec-21	93,369	24,996	26.8%	3,255	3.5%
ITMAX Group	**Dec-21**	**79,759**	**53,359**	**66.9%**	**29,237**	**36.7%**
ITRAMAS Corporation S/B (6)	Dec-20*	63,083	12,221	19.4%	1,232	2.0%
Industronics Bhd (7)	Dec-21	40,368	4,211	10.4%	(4,771)	(11.8%)
Turbine Technique (M) S/B (8)	Mar-20*	29,020	11,132	38.4%	2,886	9.9%
Norangkasa Enterprise S/B (9)	Jul-20*	25,864	2,054	7.9%	263	1.0%
VADS Lyfe S/B (10)	Dec-21	19,673	9,558	48.6%	7,941	40.4%

** latest available information from SSM; FYE = financial year ended; GP = gross profit; NP = net profit after tax; NL = net loss after tax; S/B = Sdn Bhd; Bhd = Berhad.*
(1) Latest available information from annual report, Companies Commission of Malaysia (SSM) and ITMAX Group.
(2) At the Group or company level, which may include other business activities, products and services.
(3) A subsidiary of EVD Bhd, a listed entity on Bursa Securities. Involved in the provision of ICT system solutions for transportation infrastructures, integrated security systems and engineering services.
(4) A subsidiary of Signify N.V., a listed entity on Euronext Amsterdam. Involved in trading and servicing of lighting products, sales and trading of components, parts, accessories and raw materials for lighting products and sales and trading of accessories used in conjunction with electric lamps or lighting products.
(5) A subsidiary of Tenaga National Berhad, a listed entity on Bursa Securities. Involved in research and development, consultancy and other services.
(6) Holding company of ITRAMAS Technology S/B and ITRAMAS International S/B, which are involved in designing, developing, installing and servicing of intelligent transportation systems, trading in related products and all types of businesses and activities related to renewable energy and energy efficiency.
(7) Listed on Bursa Securities. Involved in designing, manufacturing and installation of electronics and microprocessor-controlled products, telecommunication systems, audio-video multimedia systems, intelligent transportation systems and ICT related systems.
(8) Involved in the business of tender, contractor, buying and selling of electrical and mechanical engineering products and parts and also trading in such parts.
(9) Involved in the business of maintenance contractor and other related activities. (2021 information is not available in SSM as Norangkasa is an exempted private company since 21 July 2021)
(10) A subsidiary of Telekom Malaysia Berhad, a listed entity on Bursa Securities. Involved in the provision of ICT, system security services, integrated security management system, and build, provide and manage the smart building services including smart tenant services for building owners, operators, residents and visitors.

- Apart from ITMAX Group, the companies above were selected based on the following criteria:
  (a) provider of at least one public space networked lighting, traffic management and/or video surveillance systems in Malaysia; and
  (b) revenue of at least RM19.0 million for their latest available financial year.

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9. MARKET SIZE AND SHARE

Gross value added - 2021	Market size in Malaysia [(a)]	ITMAX Group's revenue [(b)] [(1)]	Market share of ITMAX Group [(c)]
Digital economy [(2)]	RM359.3 billion	RM80 million	Less than 1%
ICT services [(3)]	RM96.9 billion	RM80 million	Less than 1%
Computer programming, consultancy, information and related activities [(4)]	RM20.0 billion	RM80 million	Less than 1%

Sources: (a) DOSM; (b) ITMAX Group; (c) Vital Factor analysis
(1) Based on ITMAX Group's revenue for FYE 31 December 2021. (2) ITMAX Group is involved in smart city initiatives, which is part of the digital economy. (3) ITMAX Group is involved in ICT through its networked systems and communications network services, which is part of ICT services. (4) ITMAX Group develops their software in-house for lighting and traffic management controllers, command centre, and the integration of their lighting, traffic management and video surveillance systems, which is part of computer programming, consultancy information and related services.

10. INDUSTRY CONSIDERATION FACTORS

- One of the factors for the implementation of public space networked systems includes the emergence of smart cities in the national development agenda that affects the urban development policy and planning at state and local levels. In Malaysia, several states such as Selangor, Penang, Sarawak and Malacca have introduced their own local smart city blueprints after the launch of the MSCF in 2019. In 2021, the contribution of the digital economy to Malaysia's economy grew by 12.1%, representing 23.2% of the total GDP of Malaysia.

- The development of smart cities anchors on the primary and basic infrastructures, as well as connected and modern digital infrastructures. The performance of the public space networked systems industry is dependent upon the general well-being of the economy, the performance of the construction of infrastructures, as well as government allocation of the expenses relating to infrastructures at federal and state levels.

- In 2021, the real GDP of Malaysia's economy recovered and grew by 3.1% despite the reimposition of containment measures. In H1 2022, Malaysia's real GDP grew by 6.9% compared to H1 2021, underpinned by favourable momentum in the domestic economy, steady expansion in external sector activities and continued improvement in the labour market conditions. Overall, in 2022, the real GDP of Malaysia's economy is expected to grow between 6.5% and 7.0%, and forecasted to grow between 4.0% and 5.0% in 2023 (*Source: MOF*).

- The performance of the construction of infrastructures would impact the progress of installing public space networked systems. Moving forward, the development of digital infrastructures will be supported by MyDIGITAL's initiatives to expand the fibre networks that provide high-speed and reliable broadband services, thereby enhancing electronic communications and applications that are crucial for transmitting data. This includes a digitally-enabled government and some of the targets are 80% end-to-end online government services, 80% usage of cloud storage across government and all ministries and agencies to provide cashless payment option in 2022. Additionally, under Budget 2022, the 5G services will be expanded to 36% of high-density areas including in major cities in Johor, Selangor, Penang, Sabah and Sarawak.

- The establishment and implementation of networked systems in public spaces involve substantial investments and resources from local governments, which are largely based on the government allocation of the expenses relating to infrastructures at federal and state levels. As Malaysia enters the second year of the 12th Malaysian Plan, development expenditure for 2022 will continue to be distributed to projects with high impact to promote economic growth, create a conducive investment climate and safeguard the wellbeing of the people. The focus of the Budget 2022 remains to be on projects related to transport, trade and industry, as well as energy and public utility subsectors.

9. RISK FACTORS

Before investing in our Shares, you should pay particular attention to the fact that we and to a large extent, our business and operations are subject to the regulatory, industry and business risks. Our operations are also subject to a number of factors, many of which are outside our control. Before making an investment decision, you should carefully consider, along with other matters in this Prospectus, the risks and investment considerations set out below.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our business, results of operations and financial condition are dependent on contracts with Datuk Bandar Kuala Lumpur for provision of works and services to DBKL

Our Group's revenue is substantially derived from the works and services provided to DBKL in connection with contracts with Datuk Bandar Kuala Lumpur, the details of which are set out in Section 7.20 of this Prospectus. The revenue from the works and services provided to DBKL accounted for RM23.1 million (62.2%), RM28.9 million (60.7%), RM58.4 million (73.2%) and RM38.5 million (94.5%) of our revenue for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and FPE 30 June 2022, respectively.

As at the LPD, our Group has entered into three (3) contracts with Datuk Bandar Kuala Lumpur to provide works and services to DBKL. See Section 7.20 of this Prospectus for the salient terms of these three (3) contracts.

The loss of DBKL as our customer may adversely affect our business, results of operations and financial condition. However, our Group and DBKL are, to a certain extent mutually dependent on each other. In addition, we have subsisting contracts, long term relationship with DBKL and track record of meeting DBKL's requirements and quality standards. See Section 7.17 of this Prospectus for further details relating to the mutual dependency, relationship and our track record with DBKL.

There can be no assurance that DBKL will continue to extend the contracts or enter into new contracts with us upon their expiry in the future. Should this occur, we will need to source for new contracts with our other existing customers and/or new customers to substitute the loss of revenue from DBKL in a timely manner.

9.1.2 We may be exposed to risk of security breaches

Our public space networked system collects traffic and public surveillance camera data, and stores such data in our storage servers set up for our customers. The data is collected on behalf of our customers such data is owned by our customers who are required to comply with applicable legal requirements relating to the collection and use of such data, and we do not collect any third party traffic or surveillance data for our own use or purposes. Nevertheless, storage of such data electronically may be exposed to risks of security breaches, including computer viruses, malware attacks, espionage, hacking, cyber intrusions and unauthorised access to restricted information by our employees. Security breaches on our public space networked systems may lead to unexpected capital expenditure and cause a loss in our revenue and reputation. Additionally, we may be subject to lawsuits if the security breaches are caused by our own negligence.

We do however implement appropriate measures to minimise the risk of potential security breaches such as the use of system and data security protocols as well as firewalls and other data security equipment. In addition, we locate our storage servers at the premises of our customers. Such servers are only physically accessible by our customers and a limited number of our employees, each of whom have entered into non-disclosure agreements with us. Nevertheless, there can be no assurance that there will be no security breaches in the future which could potentially lead to an adverse impact on our Group as described above.

Our network facilities comprise physical equipment and devices such as video cameras, large wall display panels and network infrastructure including our fibre optic cables and network devices such as switches, routers, firewalls, transmitters, repeaters and data storage servers that receive, process, store and transmit data are potentially vulnerable to physical and electronic intrusions, eavesdropping, cyber-attacks or other destructive or disruptive actions. In the event of any one or combination of these occurrences, we may be subject to legal actions, liabilities, losses and/or could also harm our reputation which may negatively affect our financial performance.

Since the commencement of our business and up to the LPD, to the best of our knowledge, there has been no occurrence of any security breach attributable to us which has led to leakage of data collected by our networked system or interrupted provision of services.

9.1.3 We may be exposed to possible intellectual property infringement

We face the risk of intellectual property infringement to our networked traffic management system. We rely on patents, trademark and copyright to protect the intellectual property rights in our systems.

As at the LPD, we own the patents with the title of "a system for intelligent traffic control" and "a system for controlling traffic signals", the details of which are set out in Section 7.22 of this Prospectus. We have also applied for various patent applications relating to traffic control and lighting control system as set out in Section 7.22 of this Prospectus.

Our trademark "Trafficsens" has been registered with MyIPO under class 9 and class 42, and is protected under the Trade Marks Act, 1976. As at the LPD, we have also submitted various trademark applications to MYIPO, the details of which are set out in Section 7.22 of this Prospectus. Further, we enjoy copyright protection for our systems under the general category of literary work pursuant to the Copyright Act, 1987.

However, there can be no assurance that we will be able to protect or effectively enforce our proprietary rights against unauthorised use of our intellectual property. There is also no assurance that our ongoing patents and trademarks application will be successful. Our trademark application in respect of "City Crew" has received a provisional refusal on 7 November 2022 and we are intending to submit an appeal to MyIPO in respect of such provisional refusal by 7 January 2023. Further, if any third party uses our trademarks or registers identical trademarks to conduct activities in competition with our business, this may confuse our customers and negatively affect our reputation and brands resulting in an adverse impact on our business and financial performance.

Since the commencement of our business and up to the LPD, to the best of our knowledge, there has been no occurrence of any intellectual property infringement to our networked traffic management system.

9.1.4 Our profitability is dependent on project-based contracts which are not recurrent in nature

Our revenue increased at a CAGR of 46.4% from RM37.2 million for the FYE 31 December 2019 to RM79.8 million for the FYE 31 December 2021, while our GP margin increased from 18.4% in the FYE 31 December 2019 to 52.9% and 66.9% for the FYEs 31 December 2020 and 2021 respectively. There can be no assurance that we will be able to continue to sustain these growth trends.

Some of our projects are non-recurrent in nature and are secured on a project-by-project basis. Our Group's ability to compete for and secure sizeable contracts is one of our main contributors to our success as well as ongoing growth and future profitability.

We cannot guarantee that we will be able to continue to secure new contracts after the completion of the existing awarded contracts and that we will always be able to maintain similar levels of profitability every year. In addition, the number and scale of projects and the amount of revenue that we are able to derive therefrom are affected by a series of factors, including but not limited to changes in our customers' businesses, economic downturn and lack of funds on the part of project owners. Consequentially, our revenue may vary significantly from period to period depending on the actual volume of our business, variation orders for additional and/or reduction of works or unexpected project cancellations, delays or postponement of projects.

It is critical for our Group to secure new contracts of similar or large value or similar number of projects on a continuous basis to maintain competitiveness in our industry. In the event that we are unable to secure new contracts or obtain contract values or sizes comparable to existing ones, our financial performance and results of operations will be materially impacted. Therefore, the historical financial performance and financial condition of our Group may not be indicative of our future financial performance.

9.1.5 Our asset ownership operating model for the provision of networked facilities requires high investment cost and continuing operating costs during the contract period

Our operating model for the provision of networked facilities is based on asset ownership where we charge a fee for the usage of our facilities and value-added features. Under our asset ownership operating model, in addition to providing physical facilities, we are responsible for providing technical support and maintaining the facilities to ensure availability and minimum downtime of the facilities in accordance with the SLA. In this respect, we bear the continuing operating costs comprising 24 hours a day seven (7) days a week technical support and maintenance costs during the contract period. The operating costs incurred in relating the provision of networked facilities was RM0.9 million, RM4.7 million, RM7.9 million and RM4.3 million for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and FPE 30 June 2022, respectively. As at 30 June 2022, we have invested RM117.5 million in our networked facilities comprising physical assets such as video surveillance facilities including approximately 8,600 video cameras, large wall display panels and network devices such as switches, routers, splitters, firewalls, transmitters, repeaters and storage arrays while infrastructure includes fibre optic networks, towers and poles, and ducts, data storage servers, as well as system and application software and integrated platform management solutions.

In the event that we are unsuccessful in commercialising our services or securing new customers for the assets invested or fail to meet our SLA, we would not be able to meet the minimum returns on investment to cover our capital expenditure. For further details, see Sections 4.6.4 and 7.19.2 of this Prospectus.

9.1.6 We are subject to LAD claims if we fail to complete our projects within the stipulated contract period

We are subject to certain agreed timeliness and budgets for our projects. However, the timely completion of our projects including supply and installation works are dependent on many external factors including, among others, the timing for site possession, obtaining permits or approvals from regulatory authorities, delivery of equipment and materials, workplace hazards and accidents, weather conditions, outbreaks, epidemics or pandemics. Any adverse developments in respect of these factors or a combination of these factors can potentially lead to interruptions on our on-site operations or delays in completing a project, our customers may impose LAD on us which in turn would have a material impact on our reputation, business operations, results of operations and financial condition.

As at the LPD, we have not experienced any LAD claims from our customers. We have applied and obtained approvals for extension of time from our customers for the completion of our on-going projects without impositions of LAD due to lockdowns imposed by the Malaysian Government to curb the spread of the COVID-19 pandemic. See Section 7.20 for further details on the projects that were granted extension of time to complete.

Notwithstanding the above, there can be no assurance that we will be able to continuously complete our projects on time and there is no guarantee that our business operations and financial performance will not be affected by such delay in project completion.

9.1.7 We are dependent on our Executive Directors, Key Senior Management and Key Technical Personnel for the continuing success of our Group

Our growth and success depend, to a significant extent, on the experience, business relationship, expertise and industry know-how expertise of our Executive Directors, Key Senior Management and Key Technical Personnel.

Our Group is led by our Executive Directors who are assisted by our Key Senior Management and Key Technical Personnel who have extensive knowledge and experience in our industry. Our Executive Directors are responsible for providing strategic direction and oversight over our Group's business growth. Our Key Senior Management and Key Technical Personnel are responsible in the day-to-day operations as well as executing and implementing our Group's business strategies and plans to drive future growth. See Sections 5.2.2, 5.4.2 and 5.5.2 of this Prospectus for the profiles of our Executive Directors, Key Senior Management and Key Technical Personnel.

The loss of any of our Executive Directors, Key Senior Management and Key Technical Personnel without suite able and timely replacement or our inability to attract, hire and retain suitable candidates as replacement for positions within our Key Senior Management and Key Technical Personnel may adversely affect our continued ability to compete effectively against other industry players as well as implement our business strategies and plans which could have a material adverse effect on our business, results of operations, financial condition and prospects.

There has been no incident of departure on any of our Executive Directors, Key Senior Management and/or Key Technical Personnel which has adversely affected our business operations in the past.

9.1.8 We are generally dependent on subcontractors to carry out certain works for our projects

We generally depend on our subcontractors for civil and infrastructural works and installation and construction works such as M&E works. While we are generally dependent on subcontractors to carry out certain works, we are not dependent on any single subcontractor.

For the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and FPE 30 June 2022, our subcontracting services costs represented approximately 49.5%, 32.0%, 27.5% and 39.8% of our purchases, respectively. However, such costs may vary significantly from year-to-year due to the volume of projects on hand as well as the demand for such services to complement our project capabilities.

Our subcontractors are appointed based on the project requirements as well as our past working experience and business relationship with them.

While we have a number of subcontractors and have established a selection process, we may not be able to monitor their performance directly or closely. However, we have implemented a set of quality control assurance and procedures to supervise and monitor the works performed by our subcontractors. Nonetheless, the engagement of subcontractors may expose us to certain risks, including but not limited to, difficulties in overseeing the performance of subcontractors effectively, possibilities of subcontractors failing to complete their contracted scope of works or inability to hire suitable subcontractors in a timely manner and within our budget. All these risks may impact on our profitability, financial performance and may result in disputes and litigation.

As our subcontractors do not have direct contractual relationships with our customers, we are liable for the risks of our subcontractors' non-performance, poor quality of works, defects or delays caused by them. In addition, if the costs required to rectify the defects caused by our subcontractors are significant, it may have an impact on our financial performance. We may be liable for the costs of remedial works which in turn would increase our costs for the projects as well as delay in our project delivery.

As at the LPD, we have not encountered any claims from our customers due to non-performance or defects of works by our subcontractors. Although we endeavour to maintain the quality of our works including our subcontractors works, there can be no assurance that our works will always be satisfactory in accordance to our customers' expectations and requirements.

9.1.9 We are exposed to interest rate fluctuations

All our borrowings are interest-bearing obligations. As a result, any hike in interest rates would affect our financial results. Our finance cost primarily comprises of interest charges on banking facilities, mainly term loans and revolving credit. As at 30 June 2022, our Group's total borrowings was RM94.0 million, of which all are interest-bearing, comprising RM93.2 million (99.1%) was based on floating interest rates and the remaining RM0.8 million (0.9%) was based on fixed rates.

Our finance cost had increased from approximately RM97,000 for the FYE 31 December 2019 to RM1.1 million for the FYE 31 December 2021 mainly attributed to the increase in interest expense on our term loans by RM0.8 million due to the drawdowns of our term loans for the purchase and installation of networked video surveillance facilities. In other words, any drawdown for new borrowings, increase in draw down of the existing borrowings and/or increase in interest rates may impact our financial performance. For further details on our borrowings and finance cost, see Sections 12.2.10 and 12.2.12 of this Prospectus, respectively.

9.1.10 We are exposed to foreign currency exchange fluctuations

We have purchased materials and services including subcontractors' costs in USD and SGD during the Financial Years Under Review and FPE 30 June 2022. Our business is exposed to the risk of foreign exchange fluctuations since 22.7% (RM7.7 million), 25.1% (RM14.9 million), 13.6% (RM8.9 million) and 9.2% (RM2.8 million) of our purchases of materials and services including subcontractors' costs for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and FPE 30 June 2022, respectively were transacted mainly in USD. Any adverse movements in exchange rates between RM and USD would adversely affect our results of operation.

As at the LPD, we do not have any foreign currency forward hedging contracts. See Section 12.2.21 of this Prospectus for further information on the impact of foreign currency exchange during the Financial Years Under Review.

9.1.11 We are relying on certain registration, approvals, licences and permits

We require various licences, permits and approvals including registration with the CIDB, the MOF and licences issued by the Energy Commission and MCMC for our business operations. These licences, permits and approvals are subject to periodic renewal. See Section 7.24 of this Prospectus for further details of our major licences, permits and approvals, including the respective issuing authorities, expiration dates and status of compliance.

We leverage on existing registrations, approvals, licences and permits to continue our core business operations. We must comply with the restrictions and conditions imposed by the relevant authorities for us to maintain the validity of such approvals, permits and licences. In the event we fail to comply with the applicable requirements or any required conditions, our registration, approvals, licences and permits may be cancelled or suspended or subject to penalties. Delay in renewing such registrations, approvals, licences and permits upon expiry may also result in temporary suspension or restriction of our business operations. Therefore, any revocation and/or failure to obtain renewals for such registrations, approvals, licences and permits which are required for our business activities will have a material impact on our ability to continue business operations.

Further, as disclosed in Section 7.24 of this Prospectus, both the NSP and NFP individual licences issued by the MCMC to our Company contain an express condition that the foreign shareholding, if any, in our Company shall not be more than 49% ("**Foreign Shareholding Condition**"). Such Foreign Shareholding Condition will continue to apply following the listing of our Company on Bursa Securities. Prior to our Listing, all our Shares are held by local Malaysian shareholders and upon our Listing, our Promoters and substantial shareholders (who are Malaysians) will collectively hold more than 51% of our issued Shares. However, as we are a public company whose Shares will be traded on Bursa Securities following our Listing, we will have limited control over the level of foreign shareholding in our Company, save for potential specific share placements to local investors to address the condition (which may require an extended period time to complete due to regulatory approvals and market conditions for our Shares). There is a risk that we may not be in a position to ensure continued compliance with the Foreign Shareholding Condition at all times, which could result in our licences issued by the MCMC being revoked or suspended.

As at the LPD, we have not experienced any instance in the past where our registrations, approvals, licences and permits have been revoked or suspended prior to their expiration or where renewals of such registrations, approvals, licences and permits were unsuccessful.

9.1.12 Our insurance coverage may not be adequate to cover all losses or cover liabilities arising from potential claims and litigations

We are aware of the adverse consequences arising from inadequate insurance coverage that could potentially affect our business operations and financial performance. The operation of our projects involves risks and hazards, including equipment failures, natural disasters and environmental hazards. These hazards can cause significant personal injury or death, severe damage to and destruction to property, plant and equipment and damage to environment and suspension of operations. Therefore, we may face liabilities or fines as a result of damages suffered by third-parties.

We maintain insurance to cover a variety of risks associated with our business needs and operations. While we believe that our insurance coverage commensurate with our business nature and risk profile, there can be no assurance that our insurance coverage may be adequate to cover all losses or liabilities that might arise in our business operations.

In addition, some of our insurance policies are subject to periodic review by our insurers. Thus, there can be no assurance that we are able to renew these policies on similar terms and amount desired at reasonable rates. The outcome of any claim is subject to negotiations among the relevant parties and the result of claims may be unfavourable to us. If we are held liable for uninsured losses or the amount of claims for insured losses exceeds the limit of our insurance coverage, our business and financial condition will be affected. In other words, there can be no assurance that our insurance coverage will sufficiently protect against all potential claims and liabilities.

For the Financial Years Under Review, we have not encountered any events that resulted in any insurance claims of a material nature.

9.1.13 Impact of the prolonged COVID-19 pandemic and possible similar future outbreaks on our business operations and results of operations

In December 2019, an outbreak of COVID-19 occurred in China and spread to other nations globally. The World Health Organisation declared COVID-19 a pandemic on 11 March 2020. The COVID-19 pandemic has resulted in, among others, travel and transportation restrictions, prolonged closures of work places, businesses and lockdowns in certain countries.

During the first phase of MCO, our business operations was temporarily suspended for 37 days from 18 March 2020 to 23 April 2020. STS resumed operations from 24 April 2020 while we resumed operations from 29 April 2020 according to the specified guidelines and SOP based on the letter of approval from the MITI dated 23 April 2020 and 28 April 2020 respectively.

The temporary suspension resulted in a delay in onsite installation works which impacted the timing of submission of progress billings on work done. In addition, this also affected our assembly operations of controllers due to the temporary closure during the MCO. Nonetheless, there was no material impact on our results of operations and financial condition.

Any prolonged crisis or similar future outbreaks with restrictive measures such as the MCO affecting a significantly large population may result in similar interruptions to our Group's business operations, which could adversely affect our business operations, results of operations, financial performance as well as implementation of our business strategies and plans.

9.1.14 The Promoters will be able to exert significant influence over our Company

Our Selling Shareholder, Sena Holdings which is owned by our Promoters i.e. Tan Sri Tan and TWL, will hold 51.3% of our enlarged issued Shares upon our Listing. As a result, Tan Sri Tan and TWL will be able to control our business direction and management. Tan Sri Tan and TWL via their interests in Sena Holdings may have significant influence over, among others, the election of our Directors, the timing and payment of dividends as well as having voting control over our Group. As such, they will likely influence the outcome of certain matters requiring the vote of our shareholders except where they are required to abstain from voting either by law and/or by the relevant guidelines or regulations. We cannot assure you that the interests of these Promoters will be aligned with those of our other shareholders.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are subject to competition from other public space networked system providers

We compete with other public space networked system providers that may be able to offer similar facilities. Some competitors may compete with us based on, among others, better or more innovative technologies, more value added services and/or lower pricing.

Competitive bidding from our competitors may result in us losing the tenders against our competitors. We may also have to lower our prices to match our competitors in order to retain our existing contracts.

We are confident that we will be able to maintain our competitive advantage by focusing on providing high value-added services and continuous system development and improvement. Nevertheless, there can be no assurance that we will be able to compete effectively with current and new entrants into our industry in the future and that the level of competition will not intensify in the future.

9.2.2 We are subject to political, economic, social and regulatory changes

Our business may be affected by political, economic, social and regulatory changes. Such developments include, but are not limited to, changes in interest rates, fluctuation in exchange rates, political leadership, geopolitical events such as the Russian-Ukraine conflict, global economic downturn, expropriation, nationalisation, and unfavourable change in Government policy and regulations. Any adverse developments of such nature could materially and adversely affect our business, results of operations and financial condition.

Our business is also vulnerable to certain risks inherent in our industry. We may be affected by the entry of new players, constraints in skilled labour supply and increase in labour costs, changes in law and tax legislation affecting our projects and changes in business and credit conditions. Our business may also be affected by epidemics or pandemics, such as COVID-19, which may interrupt our business operations.

We seek to mitigate these risks through prudent management policies, active R&D, securing and maintaining good business relationships with our customers and suppliers, and effective human resource management. However, there can be no assurance that our business, results of operations and financial condition will not be adversely affected by any change in any of these environments.

9.2.3 We may not be able to adapt to technological developments in our industry

Our industry is subject to rapid technological changes such as, among others, introduction of fifth generation wireless telecommunications, low-power wireless data networks, artificial intelligence applications and sensors such as those used in traffic management systems. Our ability to keep pace with these technological changes and remain technologically competitive will influence our revenue and profits. Our future success is dependent on our ability to enhance our products and systems in a timely manner, responding to changing customer needs brought about by technological changes.

There can be no assurance that our adoption of new and relevant technologies, as well as our R&D can be successfully completed on time to adapt to technological developments to meet our customers' expectation.

9.3 RISKS RELATING TO OUR SHARES AND OUR LISTING

9.3.1 Our Listing may not result in an active liquid market for our Shares

There can be no assurance as to the liquidity of the market will develop upon our Listing or, if developed, that such market will be sustained. There can be no assurance that our IPO Price will correspond to the price in which our Shares will be traded on the Main Market of Bursa Securities upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

In addition, there can be no assurance that the market price of our Shares will reflect our operations and financial condition, our growth prospects or the growth prospects of the industry in which we operate in.

9.3.2 Our Share price and trading volume may be volatile

The market price and trading volume of our Shares could be affected by numerous factors, including the following:

- general market, political and economic conditions;
- trading liquidity of our Shares;
- differences in our actual financial and operating results and those expected by investors and analysts;
- changes in market valuations of listed shares in general or shares of comparable companies to ours;
- perceived prospects of our business and the industry in which we operate;
- adverse media reports regarding us or our shareholders;
- changes in government policy, legislation or regulation; and
- general operational and business risks.

In addition, many of the risks described in this Prospectus could materially and adversely affect the market price of our Shares. If we are not able to declare or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of your investment in our Shares may be reduced. Furthermore, if the trading volume of our Shares is low, price fluctuation may be exacerbated.

Over the past few years, the Malaysian, regional and global equity markets have experienced significant price and volume volatility that has affected the share price of many companies where the share price of many companies have experienced wide fluctuations which were not always related to the operating performance of these companies, including fluctuations as a result of developments in other markets. There can be no assurance that the price and trading of our Shares will not be subject to similar fluctuations.

9.3.3 The sale of a substantial number of our Shares in the public market following our Listing could materially affects the price of our Shares

Following our Listing, we have an issue of 1,028,000,000 Shares, of which up to 320,000,000 Shares, representing 31.1% of the issued Shares, will be held by investors participating in our Listing and not less than 708,000,000 Shares, representing 68.9% of the issued Shares will be held by our Promoters. Save for the restrictions pursuant to the moratorium and lock-up arrangements as set out in Sections 2.2 and 4.8.3 of this Prospectus respectively, our Shares sold in our IPO will be traded on the Main Market of Bursa Securities without restriction following our Listing.

Our Promoters and other shareholders, including the Selling Shareholder, could dispose of some or all of our Shares that they hold after the moratorium period pursuant to their own investment objectives. If our shareholders sell or are perceived as intending to sell, a substantial amount of our Shares that they hold, the market price for our Shares could be adversely affected.

9.3.4 There can be no assurance that we will declare and pay dividends in the future

Our ability to declare dividends will depend on, among others, our future financial performance, distributable reserves and cash flows. This, in turn, is dependent on our results of operations, capital requirements and on our ability to implement our business strategies and plans, demand for and selling prices of our products, general economic conditions, and other factors specific to our industry, many of which are beyond our control. As such, there can be no assurance that we will be able to declare and pay dividends to our shareholders.

The payment of our dividends and the receipt of dividends from our subsidiary may also be affected by the passing of new laws, adoption of new regulations and other events outside our control, and we or our subsidiary may not continue to meet the applicable legal and regulatory requirements for the payment of dividends in the future. In addition, changes in accounting standards may also affect our ability to pay dividends.

Dividend payments are not guaranteed and our Board may decide, at its sole and absolute discretion, at any time and for any reason, not to pay dividends. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of your investment in our Shares may be reduced.

For a description of our dividend policy, see Section 12.5 of this Prospectus.

9.3.5 Delay in, or termination of, our Listing

The occurrence of certain events, including the following, may cause a delay in, or termination of our Listing:

- the Joint Underwriters' exercise of their rights under the Retail Underwriting Agreement, or the Joint Bookrunners' exercise of their rights under the Placement Agreement, to discharge themselves of their obligations under such agreements;

- our inability to meet the minimum public shareholding spread requirement under the Listing Requirements of having at least 25.0% of the total number of our Shares for which our Listing is sought being in the hands of at least 1,000 public shareholders holding at least 100 Shares each at the point of our Listing; or

- the revocation of the approvals from the relevant authorities for our Listing for whatever reason.

Where prior to the issuance and allotment/transfer of the IPO Shares:

(i) the SC issues a stop order under Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and we and the Selling Shareholder shall repay all monies paid in respect of the applications for the IPO Shares within 14 days of the date of service of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or

(ii) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, investors will not receive any IPO Shares, and all monies paid in respect of all applications for the IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment/transfer of the IPO Shares and the proceeds from the Public Issue form part of our share capital:

(i) the SC issues a stop order under Section 245(1) of the CMSA, any issue of the IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or

(ii) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of our share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by way of special resolution in a general meeting and supported by either (a) consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances, or (b) a solvency statement from our Directors.

9.3.6 Forward-looking statements in this Prospectus are subject to uncertainties and contingencies

This Prospectus contains forward-looking statements. All statements, other than statements of historical facts, included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Group for future operations are forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such factors include, among others, general economic and business conditions, competition, the impact of new laws and regulations affecting our industry and government initiatives. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are not historical facts. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements of our Group, or industry results, to be materially different from any future results, performance, achievements or industry results expressed or implied by such forward-looking statements.

The inclusion of such forward-looking statements in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

10. RELATED PARTY TRANSACTIONS

10.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

10.1.1 Material related party transactions

Save as disclosed below, there are no other material related party transactions entered into by our Group which involves the interests, direct or indirect, of our Directors, major shareholders and/or persons connected with them for the Financial Years Under Review, the FPE 30 June 2022 and up to the LPD:

			Transaction value				
Transacting party	**Nature of relationship**	**Nature of transaction**	**FYE 31 December 2019**	**FYE 31 December 2020**	**FYE 31 December 2021**	**FPE 30 June 2022**	**From 1 July 2022 up to the LPD**
			RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Our Company (purchaser) and Tan Sri Tan and Puan Sri Lim (vendors)	**Interested Director and substantial shareholder** • Tan Sri Tan Tan Sri Tan is also a director and substantial shareholder of STS.	Acquisition of the entire equity interest in STS, comprising 3,000,000 STS Shares, by our Company from the Sellers for a purchase consideration of RM59,357,908 which was satisfied by the issuance of 388,800 new Shares at an issue price of RM152.67 per Share to Sena Holdings, being the company jointly nominated by the Sellers to receive and hold the consideration shares, in accordance with the terms of the share sale agreement dated 22 June 2022 between our Company and the Sellers.	-	-	-	-	59,358

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

Transacting party	Nature of relationship	Nature of transaction	Transaction value				
			FYE 31 December 2019	FYE 31 December 2020	FYE 31 December 2021	FPE 30 June 2022	From 1 July 2022 up to the LPD
			RM'000	RM'000	RM'000	RM'000	RM'000
Our Company (purchaser) and Tan Sri Tan and Puan Sri Lim (vendors) (*Cont'd*)		The purchase consideration represents a PB Multiple of approximately one (1) time of the latest audited NA of STS as at 31 December 2021. See Section 6.1.2 of this Prospectus for further details on the Pre-IPO Restructuring.					
Sena Letrik	**<u>Interested Director and/or substantial shareholder</u>** • Tan Sri Tan • TSC Tan Sri Tan is also a director and substantial shareholder of Sena Letrik while TSC is the alternate director to Tan Sri Tan in Sena Letrik.	During the FYE 31 December 2020, Sena Letrik utilised its letter of credit facility amounting to approximately RM4.0 million for the purchase and importation of the UPS on behalf of our Company. We have subsequently obtained our letter of credit facility on 26 July 2021.	64 (representing 4.1% of our Group's PAT)	4,290 (representing 33.9% of our Group's PAT)	789 (representing 2.7% of our Group's PAT)	268 (representing 1.7% of our Group's PAT)	217

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

			Transaction value				
Transacting party	**Nature of relationship**	**Nature of transaction**	**FYE 31 December 2019**	**FYE 31 December 2020**	**FYE 31 December 2021**	**FPE 30 June 2022**	**From 1 July 2022 up to the LPD**
			RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Sena Letrik (*Cont'd*)		In addition, there were also general administrative expenses paid by Sena Letrik on behalf of our Group during the Financial Years Under Review, the FPE 30 June 2022 and up to the LPD, which are not material and recurrent in nature.					

Our Directors confirm that all the above material related party transactions were carried out on arm's length basis as the respective considerations were fixed at the prevailing market rate and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not detrimental to our non-interested shareholders.

Our Directors also confirm that there are no other material related party transactions that have been entered by our Group that involves the interest, direct or indirect, of our Directors, major shareholders and/or persons connected to them but not yet affected up to the date of this Prospectus.

After our Listing, we will be required to seek our shareholders' approval each time we enter into a material related party transaction in accordance with the Listing Requirements. However, if such related party transactions can be deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such recurrent related party transactions during the validity period of the mandate.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any recurrent related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosure in our annual report with regard to any recurrent related party transaction entered into by us.

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

There are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for the Financial Years Under Review, the FPE 30 June 2022 and up to the LPD.

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

10.1.3 Material loans and financial assistance (including guarantees of any kind) made to or for the benefit of related parties

Save as disclosed below, our Group has not granted any loans or financial assistance (including guarantees of any kind) to or for the benefit of our related parties for the Financial Years Under Review, the FPE 30 June 2022 and up to the LPD:

			Outstanding balances				
Transacting party	Nature of relationship	Nature of transaction	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 June 2022	As at the LPD
			RM'000	RM'000	RM'000	RM'000	RM'000
ARSB	**Interested Director and/or substantial shareholder** • Tan Sri Tan • TWL • TSC Tan Sri Tan and TWL are also directors and shareholders of ARSB while TSC is a director of ARSB.	Settlement of the purchase consideration under the Disposal Agreement via the assumption by ARSB of the amount owing by Datin Afinaliza to our Company such that the amount owing by Datin Afinaliza became an amount owing by ARSB to our Company instead. ARSB had fully settled this amount on 27 December 2021.	2,250	2,250	-	-	-

10.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

10.2.1 Audit and Risk Management Committee review

Our Audit and Risk Management Committee reviews related party transactions and conflicts of interest situations that may arise within our Company or Group. Our Audit and Risk Management Committee reviews the procedures set by our Company to monitor related party transactions to ensure the integrity of these transactions, procedures or course of conducts. In reviewing the related party transactions, the following, among others, will be considered:

(a) the rationale and the cost/benefit to our Company is first considered;

(b) where possible, comparative quotes will be taken into consideration;

(c) that the transactions are based on normal commercial terms and not more favourable to the related parties than those generally available to third parties dealing on an arm's length basis; and

(d) that the transactions are not detrimental to our Company's non-interested shareholders.

All reviews by our Audit and Risk Management Committee are reported to our Board for its further action.

10.2.2 Our Group's policy on related party transactions

Related party transactions by their very nature, involve conflicts of interest between our Group and the related parties with whom our Group has entered into such transactions. Some of the officers and the directors of our Group are also officers, directors and in some cases, shareholders of the related parties of our Group, as disclosed in this Prospectus and, with respect to these related party transactions, may individually and in aggregate have conflicts of interest. It is the policy of our Group that all related party transactions are carried out on normal commercial terms which are not more favourable to the related parties than those generally available to the public dealing on an arm's length basis with our Group and are not detrimental to our Company's non-interested shareholders.

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situations and intend for the framework to be guided by the Listing Requirements and MCCG upon our Listing. The procedures which may form part of the framework including, among others, the following:

(i) our Board shall ensure that majority of our Board members are Independent Directors and will undertake an annual assessment of our Independent Directors;

(ii) our Directors will be required to declare any direct or indirect interest that they may have in any business enterprise that is engaged in or proposed to be engaged in a transaction with our Group, whether or not they believe it is a material transaction. Upon such disclosure, the interested Director shall be required to abstain from deliberation and voting on any resolution related to the related party transaction; and

(iii) all existing or potential related party transactions would have to be disclosed by the interested party for management reporting. Our management will propose the transactions to our Audit and Risk Management Committee for evaluation and assessment who would, in turn, make a recommendation to our Board.

11. CONFLICT OF INTEREST

11.1 INTEREST IN ENTITIES CARRYING ON A SIMILAR TRADE AS OUR GROUP OR WHICH ARE OUR CUSTOMERS OR SUPPLIERS

11.1.1 Involvement of our Directors and substantial shareholders in entities which carry on a similar trade as our Group

As at the LPD, save as disclosed below, our Directors and substantial shareholders do not have any interest, direct or direct, in any entities which are carrying on a similar trade as our Group:

Name of company	Nature of trade	Principal activities	Nature of interest
Sena Letrik	Our Group and Sena Letrik are both registered contractors with the CIDB	Electrical works contractors and general trading	**Interested Director and/or substantial shareholder** • Tan Sri Tan • TSC Tan Sri Tan is our Director and substantial shareholder. He is also a director and shareholder of Sena Letrik. TSC is our Director. She is also an alternate director to Tan Sri Tan in Sena Letrik.

Our Board is of the view that any potential conflict of interest situation which may arise through the interests of Tan Sri Tan and TSC in Sena Letrik is mitigated due to the following:

(i) our Company and Sena Letrik focus on different areas of contracting works and the licences and approvals obtained differ in scope of approved works. Sena Letrik is a general electrical works contractor whereas our Group focuses on contracting works relating to provision of public space network system;

(ii) the involvement of TSC in Sena Letrik will not affect her commitment and responsibilities to our Group as she is not involved in the day-to-day management of Sena Letrik and Sena Letrik has its own independent and standalone management team to undertake its day-to-day management and operations;

(iii) Tan Sri Tan, being a Non-Executive Director, is not involved in the day-to-day management and operation of our Group which may include any deliberation in relation to the transactions with Sena Letrik; and

(iv) both Tan Sri Tan and TSC will abstain from deliberation and voting at our Board meetings in relation to transactions with Sena Letrik.

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

11.1.2 Involvement of our Directors and substantial shareholders in entities which are our customers or suppliers

As at the LPD, save as disclosed below, our Directors and substantial shareholders do not have any interest, direct or indirect, in any entities which are our customers and/or suppliers:

No.	Name of company	Nature of transaction	Principal activities	Nature of interest
1.	Epeteknik Sdn Bhd	Supplier of helipad lighting controller and accessories	Trading and fabrication of information technology products and services	**Interested Director and/or substantial shareholder** Tan Sri Tan is our Director and substantial shareholder. He is also a director and shareholder of Epeteknik Sdn Bhd.
2.	RR Precision Machining Sdn Bhd ("**RRPM**")	Supplier of LED lights	Manufacturing, assembling, supplying and installing of LED lighting fixtures	**Interested Director and/or substantial shareholder** Tan Sri Tan is our Director and substantial shareholder. He is also a director and shareholder of RRPM through his interest in Sena Diecasting Industries Sdn Bhd. TWL is our Director and substantial shareholder. He is also a director of RRPM. TSC is our Director. She is also a director of RRPM.

Our Board is of the view that any potential conflict of interest situation which may arise through the interests of Tan Sri Tan, TWL and TSC in Epeteknik Sdn Bhd and RRPM respectively which are our suppliers during the Financial Years Under Review and the FPE 30 June 2022 ("**Related Suppliers**") is mitigated due to the following:

(i) the Related Suppliers are not our Group's major supplier and the Group is not dependent on purchases from the Related Suppliers as there are other suppliers of such items in the market. Our Group's total purchases during the Financial Years Under Review and the FPE 30 June 2022 from Epeteknik Sdn Bhd and RRPM are as follows:

	Transaction value			
	FYE 31 December 2019	**FYE 31 December 2020**	**FYE 31 December 2021**	**FPE 30 June 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Epeteknik Sdn Bhd[(1)]	13.8 (representing * of our Group's purchases)	65.7 (representing 0.1% of our Group's purchases)	-	-
RRPM[(2)]	129.6 (representing 0.4% of our Group's purchases)	64.5 (representing 0.1% of our Group's purchases)	-	-

Notes:

* *Negligible, less than 0.1%*

(1) Relates to the supply and installation of helicopter hangar equipment, which was a one-off project undertaken by our Company, and is not under the main business segments of our Company. The said project has been completed in the FYE 31 December 2020. Following the completion, there has been no other purchases from Epeteknik Sdn Bhd, save for a one-off purchase by STS of supply and installation of helicopter hangar equipment from Epeteknik Sdn Bhd for an amount of RM5,371 in August 2022.

(2) Relates to the repair and assembly of LED lights for a project which was completed in the FYE 31 December 2020. Following the completion, there has been no other purchases from RRPM.

The transactions with the Related Suppliers are non-recurrent in nature;

(ii) all purchases from the Related Suppliers were carried out on an arm's length basis and on normal commercial terms which are not unfavourable to our Group but comparable to other third party suppliers;

(iii) RRPM is not competing with our Group as it only supplies one of the components for networked lighting system;

(iv) the involvement of TWL and TSC in RRPM will not affect their commitment and responsibilities to our Group as they are not involved in the day-to-day management of RRPM and RRPM has its own independent and standalone management team to undertake its day-to-day management and operations;

(v) Tan Sri Tan, being a Non-Executive Director, is not involved in the day-to-day management and operation of our Group which may include any deliberation in relation to the transactions with Epeteknik Sdn Bhd and RRPM; and

(vi) Tan Sri Tan, TWL and TSC will abstain from deliberation and voting at our Board meetings in relation to transactions with the Related Suppliers.

As set out in Section 10.2.1 of this Prospectus, our Audit and Risk Management Committee will review such conflict of interest that may arise within our Company or our Group including such transaction, procedure or course that raises questions on management integrity. Our Audit and Risk Management Committee will also ensure that any such transactions are carried out on terms that are not detrimental to our Group.

Notwithstanding, the interests that are held by our Directors and substantial shareholders and the interests that may be held by our Directors and substantial shareholders in the future in other businesses or corporations which are carrying on a similar trade as our Group and/or our customers or suppliers may give rise to a conflict of interest situation with our business. Where such interests give rise to a conflict of interest situation, our Directors and substantial shareholders and persons connected to them shall abstain from deliberating and voting on the resolutions relating to these matters or transactions that require the approval of our shareholders in respect of their direct or indirect interest. Such transactions will be carried out on arm's length basis and on normal commercial terms.

11.2 DECLARATION BY ADVISERS ON CONFLICT OF INTEREST

11.2.1 Maybank IB

Maybank IB, being the Principal Adviser, Joint Bookrunner for the Institutional Offering and Managing Underwriter and Joint Underwriter for the Retail Offering, and its related and associated companies ("**Maybank Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and funds management and credit transaction services businesses.

The Maybank Group has engaged and may in the future, engage in transactions with and perform services for our Company and/or our affiliates, in addition to the roles set out in this Prospectus. In addition, in the ordinary course of business, any member of the Maybank Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any member of our Group, our shareholders and/or our affiliates and/or any other entity or person, hold long or short positions in securities issued by our Company and/or our affiliates, and may trade or otherwise effect transactions for its own account or the account of its customers in debt or equity securities or senior loans of any member of our Group and/or our affiliates.

This is a result of the businesses of the Maybank Group generally acting independently of each other, and accordingly, there may be situations where parts of the Maybank Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interest of our Group. Nonetheless, the Maybank Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business, which require, among others, segregation between dealing and advisory activities and Chinese wall between different business divisions.

As at the LPD, Malayan Banking Berhad has extended credit facilities to our Group in its ordinary course of business but none of the proceeds from the Public Issue will be used to repay these credit facilities.

Notwithstanding, Maybank IB is of the view that the abovementioned does not give rise to a conflict of interest situation in its capacity as Principal Adviser, Joint Bookrunner for the Institutional Offering and Managing Underwriter and Joint Underwriter for the Retail Offering due to the following:

(a) Malayan Banking Berhad is a licensed commercial bank and the extension of credit facilities to our Group arose in its ordinary course of business;

(b) the conduct of Malayan Banking Berhad in its banking business is strictly regulated by, among others, Financial Services Act, 2013, Islamic Financial Services Act, 2013 and its own internal control and checks; and

(c) the total aggregate outstanding amount owed by our Group to Malayan Banking Berhad of about RM75.6 million as at the LPD is not material when compared to the audited consolidated NA of Maybank as at 31 December 2021 of RM85.8 billion.

Maybank IB confirms that there is no conflict of interest situation in its capacity as Principal Adviser, Joint Bookrunner for the Institutional Offering and Managing Underwriter and Joint Underwriter for the Retail Offering.

11.2.2 CIMB IB

CIMB IB confirms that there is no existing or potential conflict of interest situation in its capacity as Joint Bookrunner and Joint Underwriter for our IPO.

11.2.3 Am IB

Am IB is a wholly-owned subsidiary of AMMB Holdings Berhad. AMMB Holdings Berhad and its group of companies (collectively", **AmBank Group**") forms a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, commercial banking, private banking, brokerage, securities trading, asset and funds management and credit transactions services businesses. AmBank Group's securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In ordinary course of it businesses, any member of AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the accounts of its other client, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in future, may have interests or take actions that may conflict with the interest of our Group.

As at the LPD, AmBank Group has extended and may in future extend further loan facilities to our Group.

Notwithstanding the above, Am IB is of the opinion that its role as the Joint Underwriter for the IPO is not likely to result in a conflict of interest or potential conflict of interest situation in view that:

(i) AmBank Group form a diversified financial group and are engaged in a wide range of transactions as highlighted above. Am IB is a licensed investment bank and its appointment as the Joint Underwriter for the IPO is in the ordinary course of its business; and

(ii) Each of the entities and departments of the AmBank Group are also subject to internal control and checks, which regulate the sharing of information between entities and departments. Additionally, each department and entity within AmBank Group have separate and distinct operations and decisions are made independent of each other. In addition, the conduct of Am IB is also regulated by Bank Negara Malaysia.

Premised on the above, Am IB confirms that there is no conflict of interest which exists or likely to exist in its capacity as the Joint Underwriter for the IPO.

11.2.4 KPMG PLT

KPMG PLT confirms that there is no existing or potential conflict of interest situation in its capacity as Auditors and Reporting Accountants for our Company in relation to our IPO.

11.2.5 Mah-Kamariyah & Philip Koh

Mah-Kamariyah & Philip Koh confirms that there is no existing or potential conflict of interest situation in its capacity as the legal adviser to our Company as to Malaysian law in relation to our IPO.

11.2.6 Albar & Partners

Albar & Partners confirms that there is no existing or potential conflict of interest situation in its capacity as the legal adviser to the Joint Bookrunners, Managing Underwriter and Joint Underwriters as to Malaysian law in relation to our IPO.

11.2.7 Vital Factor

Vital Factor confirms that there is no existing or potential conflict of interest situation in its capacity as the Independent Business and Market Research Consultants in relation to our IPO.

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The historical financial information for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and FPEs 30 June 2021 and 30 June 2022 presented below have been extracted from the combined financial statements contained in the Accountants' Report included in Section 13 of this Prospectus ("**Combined Financial Statements**"). Our Combined Financial Statements are prepared in accordance with MFRS and IFRS.

The following selected historical combined financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 12.2 of this Prospectus together with the Accountants' Report set out in Section 13 of this Prospectus.

Selected financial information from the historical combined statements of profit or loss and other comprehensive income

	FYE 31 December			FPE 30 June	
	Audited			Unaudited	Audited
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	37,212	47,538	79,759	33,992	40,740
Cost of sales	(30,378)	(22,378)	(26,400)	(9,327)	(11,780)
GP	**6,834**	**25,160**	**53,359**	**24,665**	**28,960**
Other income	268	1,087	537	146	347
Administrative expenses	(4,979)	(8,531)	(10,979)	(4,742)	(7,802)
Net reversal/(loss) on impairment of financial instruments and contract assets	(3)	(156)	(1,123)	(22)	398
Results from operating activities	**2,120**	**17,560**	**41,794**	**20,047**	**21,903**
Finance income	163	264	205	14	78
Finance costs	(97)	(203)	(1,063)	(132)	(1,133)
PBT	**2,186**	**17,621**	**40,936**	**19,929**	**20,848**
Tax expense	(616)	(4,952)	(11,699)	(4,912)	(5,394)
PAT and total comprehensive income for the year attributable to owners of our Company	**1,570**	**12,669**	**29,237**	**15,017**	**15,454**

	FYE 31 December			FPE 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
Supplementary financial information					
EBITDA[1] (RM '000)	2,821	19,681	47,847	22,282	26,119
GP margin[2] (%)	18.4	52.9	66.9	72.6	71.1
EBITDA margin[3] (%)	7.6	41.4	60.0	65.6	64.1
PBT margin[4] (%)	5.9	37.1	51.3	58.6	51.2
PAT margin[5] (%)	4.2	26.7	36.7	44.2	37.9
Basic/Diluted EPS[6] (sen)	0.153	1.232	2.844	1.461	1.503
Effective tax rate (%)	28.2	28.1	28.6	24.6	25.9

Notes:

(1) EBITDA is calculated as PAT plus: (i) tax expense; (ii) finance costs; and (iii) depreciation and amortisation, less (iv) finance income.

The following table reconciles our PAT to EBITDA for the financial years/periods indicated:

	FYE 31 December			***FPE 30 June***	
	2019	***2020***	***2021***	***2021***	***2022***
	RM'000	***RM'000***	***RM'000***		
PAT	*1,570*	*12,669*	*29,237*	*15,017*	*15,454*
Add/(Less):					
Tax expense	*616*	*4,952*	*11,699*	*4,912*	*5,394*
Finance costs	*97*	*203*	*1,063*	*132*	*1,133*
Finance income	*(163)*	*(264)*	*(205)*	*(14)*	*(78)*
*Depreciation and amortisation**	*701*	*2,121*	*6,053*	*2,235*	*4,216*
EBITDA	***2,821***	***19,681***	***47,847***	***22,282***	***26,119***

* *includes depreciation of PPE and right-of-use assets and amortisation of intangible assets*

(2) Computed based on GP divided by revenue.
(3) Computed based on EBITDA divided by revenue.
(4) Computed based on PBT divided by revenue.
(5) Computed based on PAT divided by revenue.
(6) Computed based on PAT divided by our enlarged issued Shares of 1,028,000,000 upon our Listing in each of the respective financial year/periods.

Selected financial information from the historical combined statements of financial position

	As at 31 December			As at 30 June
	Audited			
	2019	**2020**	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total non-current assets	21,808	52,599	99,411	119,718
Total current assets	49,186	56,829	63,707	64,841
Total assets	**70,994**	**109,428**	**163,118**	**184,559**
Total non-current liabilities	14,421	35,078	60,519	71,737
Total current liabilities	38,809	43,667	48,679	51,448
Total liabilities	**53,230**	**78,745**	**109,198**	**123,185**
NA	17,764	30,683	53,920	61,374
Net current assets	10,377	13,162	15,028	13,393
Invested equity	3,750	4,000	4,000	4,000
Retained earnings	14,014	26,683	49,920	57,374
Total equity	**17,764**	**30,683**	**53,920**	**61,374**
Supplementary financial information				
Total borrowings	13,975	37,538	75,053	94,048
Net borrowings(1)	3,495	25,218	51,908	83,491
Gearing ratio(2) (times)	0.8	1.2	1.4	1.5
Net gearing ratio(3) (times)	0.2	0.8	1.0	1.4

Notes:

(1) Computed based on total borrowings less cash and cash equivalents as at the end of the year/period.
(2) Computed based on total borrowings divided by total equity as at the end of the year/period.
(3) Computed based on net borrowings divided by total equity as at the end of the year/period.

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

The following discussion and analysis of our financial condition and results of operations is based on our combined financial information with respect to the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, which have been derived from the Accountants' Report as set out in Section 13 of this Prospectus.

The combined financial statements of our Group for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, and FPE 30 June 2022 consist of the financial statements of ITMAX System for the three (3) year and 6-month period from 1 January 2019 to 30 June 2022, and its combining entity, STS for the period from 1 October 2019 to 30 June 2022 pursuant to the establishment of common control following the acquisition of ITMAX System by ARSB on 1 October 2019.

There are no accounting policies which are peculiar to our Group because of the nature of the business or industry which we are involved in. For further details on the accounting policies of our Group, see Note 2 of the Accountants' Report as set out in Section 13 of this Prospectus.

12.2.1 Overview of our business

We are a provider of public space networked systems focusing on lighting, video surveillance and traffic management, as well as communications network services. Public space mainly refers to the space that is generally accessible to the public such as roads and parks. Public space is mostly under the jurisdiction of Federal, State or local governments.

Our public space networked systems are in line with the Malaysian Government's Smart City Initiatives such as Smart Living with our smart surveillance system incorporating integrated CCTV, Smart Environment with our LED lighting for green technology, Smart Mobility with our traffic management system, Smart Digital Infrastructure with our fibre optic metropolitan area network in Kuala Lumpur for connectivity and our planned data lake as part of hyper-scale data centre, and Smart Government with our integrated system platform for integrated operations centre.

Within the public space networked systems, we are involved in the supply and installation of networked lighting system and networked traffic management system where our operating model is mainly based on a lump sum contract.

We also own assets including video surveillance facilities and fibre optic communications network as well as telecommunication towers and monopoles, and our operating model is based on leasing of these respective facilities and network. We charge a fee for the usage of our facilities and value-added features. For further information on our business, see Section 7.3 of this Prospectus.

12.2.2 Significant factors affecting our financial conditions and results of operations

Significant factors that had affected and are expected to continue to affect our financial condition and results of operations are as follows:

(a) Our revenue contribution and profitability performance could vary from year to year which is attributed to our ability to secure new contracts and continuing operating costs incurred to support and maintain our facilities

Between the FYEs 31 December 2019 and 31 December 2021, our revenue increased at a CAGR of 46.4% from RM37.2 million for the FYE 31 December 2019 to RM79.8 million for the FYE 31 December 2021. Withing the same period, our GP margin increased from 18.4% for the FYE 31 December 2019 to 52.9% and 66.9% for the FYEs 31 December 2020 and 31 December 2021 respectively. There can be no assurance that we will be able to continue to sustain these growth trends.

Our revenue contribution and profitability performance could vary from year to year. As a provider of public space networked systems, we are involved in the supply and installation of networked systems which is mainly based on a lump sum contract. As such, we are dependent on our ability to secure new projects to expand our order book.

For the provision of networked facilities, we are required to ensure our facilities are available for the use by our customers based on leasing arrangements. There will be continuing operating costs to be incurred in providing technical support and maintenance of the facilities to ensure availability and minimum downtime of the facilities. In the event of increases in operating costs such as increased technical resources costs and material costs for maintenance works, this would affect our profitability and financial performance.

(b) Delays in the completion of projects or slowdown in the site progress or suspension or termination of contracts may affect our business, results of operations and financial performance

Our business is subject to the risk of delays in the completion of our projects which may give rise to LAD claims from our customers. The timely completion of our projects including supply and installation works are dependent on among others, delays in site possession, obtaining permits or approvals from regulatory authorities, delays in the delivery of equipment and materials, workplace hazards and accidents, weather conditions, outbreaks, epidemics or pandemics, where any one or a combination of these factors may interrupt our on-site operations. For the Financial Years Under Review, FPE 30 June 2022 and up to the LPD, we have not experienced any LAD claims from our customers. For further details, see Section 9.1.6 of this Prospectus.

Furthermore, our business may also face the risk of suspension or termination of our subsisting contracts by our customers, all of which may adversely affect our financial performance. For the Financial Years Under Review, FPE 30 June 2022 and up to the LPD, we have not experienced any suspension or termination of contracts from our customers.

(c) Ability to secure new projects to ensure continuity of our order book

Our principal business is in the provision of public space networked systems. As such, our business and financial performance are dependent on our ability to continually secure new projects of similar or large value or similar number of projects on a continuous basis to expand our order book and sustain our business. As our public space networked system projects are subject to competitive bidding and tenders, we continue to submit tenders and proposals where we would compete against our peers for new projects.

As at the LPD, we have total unbilled order book of RM598.2 million comprising the provision of networked facilities, mainly the video surveillance facilities for DBKL and PDRM's lockup facilities, leasing of our telecommunication towers and monopoles, as well as supply and installation of public space networked systems. The order book is expected to be recognised progressively between the FYE 31 December 2022 and up to FYE 31 December 2029. Of the total unbilled order book of RM598.2 million, we expect to bill and recognise revenue of approximately RM27.2 million from the LPD to December 2022, RM131.9 million for the FYE 31 December 2023, RM136.5 million for the FYE 31 December 2024, RM107.1 million for the FYE 31 December 2025 and RM195.6 million between the FYEs 31 December 2026 and 31 December 2029.

Our order book is also subject to variation orders for additional works and/or reduction of works or unexpected project cancellations, delays or postponement of projects, any one of these factors would reduce the value of our order books and consequently affect our results of operations and financial condition. For further details, see Section 9.1.4 of this Prospectus.

(d) Reliance on a major customer and our ability to retain our major customers

During the Financial Years Under Review and FPE 30 June 2022, we were dependent on our major customer, DBKL which accounted for RM23.1 million (62.2%), RM28.9 million (60.7%), RM58.4 million (73.2%) and RM38.5 million (94.5%) of our revenue for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, and FPE 30 June 2022 respectively. As at the LPD, we have three (3) subsisting contracts with DBKL with total unbilled order book of RM510.4 million, comprising supply and installation of public space networked systems and provision of networked facilities. In the event of any reduction of contracts or delays or postponement of these projects, in particular the ITIS Contract, from the said customer and if not replaced in a timely manner, would adversely affect our results of operations and financial condition. For further details, see Section 9.1.1 of this Prospectus.

(e) We incur initial development cost in the systems and software that we design and developed and this may affect our profitability

Our R&D team carries out product and software development including systems and application software development, and integrated platform management solutions development for our networked systems. This requires us to incur initial product and software development costs including design and software engineering costs, hardware and labour costs, and overheads for product testing and system simulation and pilot run. For the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, and FPE 30 June 2022, our R&D cost was approximately RM20,000, RM0.2 million, RM0.7 million and RM0.4 million representing 0.3%, 0.8%, 1.3% and 1.3% of our GP respectively. In the event we are unsuccessful in commercialising our products and system solutions, we would not be able to recover our development costs and this would adversely affect our profitability.

(f) Our asset ownership operating model for the provision of networked facilities is exposed to high investment cost and continuing operating cost during the contract period

Our operating model for the provision of networked facilities is based on asset ownership where we charge a fee for the usage of our facilities and value-added features. Under this asset ownership operating model, in addition to providing physical facilities, we are responsible for providing technical support and maintaining the facilities to ensure availability and minimum downtime of the facilities in accordance with the SLA. We bear the continuing operating costs comprising 24 hours a day 7 days a week technical support and maintenance costs during the contract period. As at 30 June 2022, we have invested RM117.5 million in our networked facilities which comprises physical assets such as video surveillance facilities including approximately 8,600 video cameras, large wall display panels and network devices such as switches, routers, splitters, firewalls, transmitters, repeaters and storage arrays while infrastructure includes fibre optic communications network, towers and poles, and ducts, data storage servers, as well as system and application software and integrated platform management solutions.

Moving forward, part of our strategy is to increase our investment in networked infrastructure and expand our business. In the event that we are not successful in commercialising our services, securing new customers for the assets invested or fail to meet our SLA, we would not be able to meet the minimum returns on investment to cover our capital expenditure. For further details, see Sections 4.6.4 and 7.19.2 of this Prospectus.

(g) Impact of inflation

Our financial performance for the Financial Years Under Review and FPE 30 June 2022 were not materially affected by inflation. However, there can be no assurance that inflation will not have an impact on our business and financial performance in the future.

(h) Government/economic/fiscal/monetary policies

Our business is subject to risks relating to government, economic, fiscal or monetary policies in Malaysia where we operate. Any unfavourable changes in government policies, economic conditions, or fiscal or monetary policies may materially affect our operations in Malaysia. For further details, see Section 9.2.2 of this Prospectus.

12.2.3 Significant accounting estimates and judgements

The preparation of financial statements requires our management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

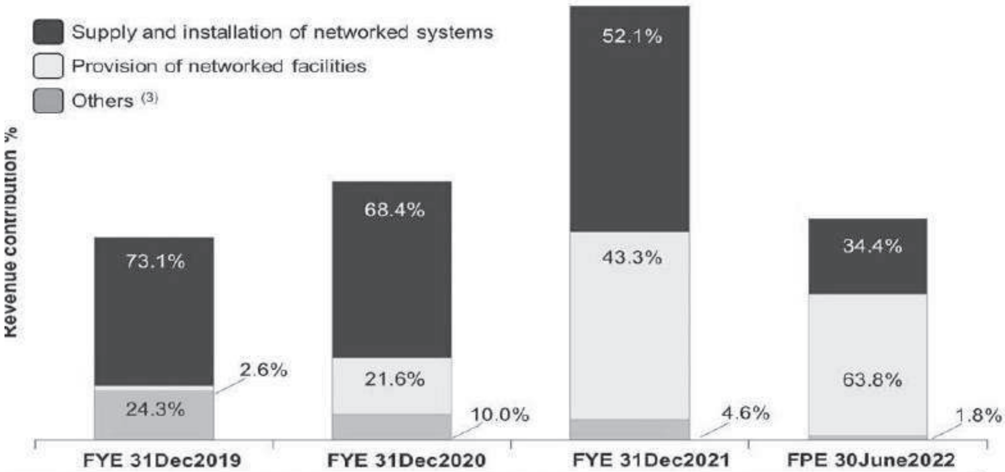
There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the combined financial statements other than those disclosed in the following notes:

- Note 4 – Extension options and incremental borrowing rate in relation to leases; and
- Note 25.4 – Measurement of expected credit loss.

For further details, see Note 1(d) of the Accountants' Report included in Section 13 of this Prospectus.

12.2.4 Overview of our results of operations

Figure 12.1 Revenue by Products and Services



Revenue Contribution	FYE 31 December 2019 RM'000	2020 RM'000	2021 RM'000	FPE 30 June 2022 RM'000
Supply and installation of networked systems (1)	**27,211**	**32,498**	**41,555**	**13,995**
Networked lighting system	*22,641*	*23,371*	*33,919*	*10,678*
Networked traffic management system	*4,570*	*8,327*	*7,441*	*2,957*
Other systems (2)	-	*800*	*195*	*360*
Provision of networked facilities	**959**	**10,272**	**34,502**	**26,008**
Networked video surveillance facilities	*623*	*8,680*	*32,423*	*24,880*
Communications network	*336*	*1,592*	*2,079*	*1,128*
Others (3)	**9,042**	**4,768**	**3,702**	**737**
Total Revenue	**37,212**	**47,538**	**79,759**	**40,740**

Notes:
(1) Includes commissioning and/or maintenance.
(2) Includes supply and installation of video surveillance system.
(3) Mainly supply of uninterrupted power supply equipment and traffic controllers.

For the Financial Years Under Review and FPE 30 June 2022, our revenue was mainly derived from the provision of public space networked systems. Our business model comprises two (2) main pillars:

- supply and installation of networked systems which is based on lump sum contracts. The revenue for the supply and installation of networked system is recognised over the contract period and based on the proportion of work done and completed. The revenue is recognised based on output method for the supply and installation works completed and certified by our customers towards the complete satisfaction of our performance obligation under the contract.

  Due to timing differences, there may be instances where we have to perform supply and installation works under the contract but the billings are submitted and have yet to be certified by our customers. In such event, we will recognise the difference in value as a contract asset which will be reclassified to trade receivables at the point it is certified by our customers. Similarly, if the certified progress billings exceed the revenue recognised, we will recognise a contract liability for the difference.

- provision of networked facilities which is based on recurring revenue where we charge a fee for the usage of our facilities and value-added features. The revenue for the provision of networked facilities is recognised based on the agreed fee charge on a monthly basis over the contract period.

For the Financial Years Under Review and FPE 30 June 2022, all of our revenue is transacted in RM.

Between the FYEs 31 December 2019 and 2021, our revenue increased at a CAGR of 46.4% from RM37.2 million for the FYE 31 December 2019 to RM79.8 million for the FYE 31 December 2021.

For the FPE 30 June 2022, revenue from the supply and installation of networked systems represented RM14.0 million (34.4%) of our revenue, mainly comprising the supply and installation of networked lighting systems and networked traffic management systems.

Meanwhile, revenue from the provision of networked facilities accounted for RM26.0 million (63.8%) of our revenue for the FPE 30 June 2022, comprising the provision of networked video surveillance facilities as well as communications network in the form of leasing of telecommunication towers and monopoles.

We also offer other related products to complement our two (2) key business segments in the provision of public space networked systems. This includes sales of our traffic controllers as well as the supply of UPS that are sourced from third parties. For the 30 June 2022, revenue from this segment accounted for RM0.7 million (1.8%) of our revenue.

See Sections 7.3.2 and 12.2.5 of this Prospectus for the analysis of revenue by products and services.

Our revenue is mainly derived from the central region of Peninsular Malaysia covering Kuala Lumpur and Selangor which accounted for 98.4%, 92.6%, 96.9% and 100.0% of our revenue for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, and FPE 30 June 2022 respectively. The remaining 1.6%, 7.4% and 3.1% of our revenue for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021 respectively were derived from East Malaysia, mainly Sabah as well as other regions of Peninsular Malaysia. See Sections 7.3.3 and 12.2.5 of this Prospectus for the breakdown of our revenue by geographical markets.

12.2.5 Revenue

(i) Revenue segmented by products and services

	FYE 31 December					
	2019		2020		2021	
Revenue	RM'000	%	RM'000	%	RM'000	%
Public space networked systems	**28,170**	**75.7**	**42,770**	**90.0**	**76,057**	**95.4**
- Supply and installation of networked systems [(1)]	27,211	73.1	32,498	68.4	41,555	52.1
- Provision of networked facilities	959	2.6	10,272	21.6	34,502	43.3
Others[(2)]	**9,042**	**24.3**	**4,768**	**10.0**	**3,702**	**4.6**
Total	**37,212**	**100.0**	**47,538**	**100.0**	**79,759**	**100.0**

	FPE 30 June			
	2021		2022	
Revenue	RM'000	%	RM'000	%
Public space networked systems	**31,609**	**93.0**	**40,003**	**98.2**
- Supply and installation of networked systems [(1)]	18,656	54.9	13,995	34.4
- Provision of networked facilities	12,953	38.1	26,008	63.8
Others[(2)]	**2,383**	**7.0**	**737**	**1.8**
Total	**33,992**	**100.0**	**40,740**	**100.0**

Notes:

(1) Includes commissioning and/or maintenance.
(2) Mainly sales of traffic controllers and supply of UPS equipment.

(ii) Number of video cameras and traffic controllers installed

	FYE 31 December			FPE 30 June	
	2019	2020	2021	2021	2022
	Units	Units	Units	Units	Units
Video cameras [(1)]	-	900	2,009	1,500	5,781
Traffc controllers [(2)]	10	13	10	8	1

Notes:

(1) Pursuant to the contract for the provision of networked facilities with DBKL for the Financial Years Under Review and FPE 30 June 2022. In addition, pursuant to the contracts for the provision of networked facilities for the PDRM lockup facilities, there were 3,607 units of video cameras installed (out of the 5,781 units of video cameras installed in the FPE 30 June 2022) that are still pending certification as at 30 June 2022. As such, there were no revenue recognised for the 3,607 units of video cameras installed in the FPE 30 June 2022. Furthermore, pursuant to the contracts for the provision of networked facilities for Ampwalk video surveillance facilities, there were 83 units of video cameras installed (out of the 5,781 units of video cameras installed in the FPE 30 June 2022). The contract value of RM0.3 million for the provision of networked facilities for Ampwalk video surveillance facilities has been fully recognised in the FYE 31 December 2021 in accordance with the accounting standards as the main performance obligations of the contract have been fulfilled as at 31 December 2021.

(2) Pursuant to the contract for the supply and installation of networked systems with DBKL.

(iii) Revenue segmented by geographical markets

	FYE 31 December					
	2019		2020		2021	
Revenue	RM'000	%	RM'000	%	RM'000	%
Peninsular Malaysia	**36,688**	**98.6**	**44,249**	**93.1**	**77,331**	**97.0**
Central region	**36,631**	**98.4**	**44,005**	**92.6**	**77,271**	**96.9**
Kuala Lumpur	31,039	83.4	40,771	85.8	68,623	86.0
Selangor	5,592	15.0	3,234	6.8	8,648	10.9
Other regions	**57**[(1)]	**0.2**	**244**[(2)]	**0.5**	**60**[(3)]	**0.1**
East Malaysia	**524**	**1.4**	**3,289**	**6.9**	**2,428**	**3.0**
Sabah	524	1.4	2,919	6.1	2,428	3.0
Sarawak	-	-	370	0.8	-	-
Total	**37,212**	**100.0**	**47,538**	**100.0**	**79,759**	**100.0**

	FPE 30 June			
	2021		2022	
Revenue	**RM'000**	**%**	**RM'000**	**%**
Peninsular Malaysia	**32,429**	**95.4**	**40,740**	**100.0**
Central region	**32,378**	**95.2**	**40,628**	**99.7**
Kuala Lumpur	24,010	70.6	40,217	98.5
Selangor	8,368	24.6	411	1.2
Other regions (4)	**51**	**0.2**	**112**	**0.3**
East Malaysia	**1,563**	**4.6**	**-**	**-**
Sabah	1,563	4.6	-	-
Total	**33,992**	**100.0**	**40,740**	**100.0**

Notes:

(1) Includes Kedah and Terengganu.
(2) Includes Kedah.
(3) Includes Johor and Perak.
(4) Includes Johor.

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our revenue increased by RM10.3 million or 27.7% from RM37.2 million for the FYE 31 December 2019 to RM47.5 million for the FYE 31 December 2020. This was mainly attributed to revenue from the provision of the networked facilities which increased by RM9.3 million or 971.1% from RM1.0 million for the FYE 31 December 2019 to RM10.3 million for the FYE 31 December 2020. This was mainly driven by the increase in revenue from the provision of networked video surveillance facilities of RM8.1 million or 1,293.3% from RM0.6 million for the FYE 31 December 2019 to RM8.7 million for the FYE 31 December 2020 resulting from a higher number of video cameras installed within the surrounding designated areas in Kuala Lumpur and connected to the control centre for use by DBKL where we started to charge for the use of 900 video cameras, 5 VMS and related facilities in October 2020 after the completion of the installation and connection of the said facilities in Kuala Lumpur where these facilities became available for use by our customer pursuant to the provision of networked video surveillance facilities contract with DBKL. The said contract commenced in 2018 where we started to carry out the initial preparation and planning works including the sourcing and site preparations for installation works.

Revenue from the supply and installation of networked systems increased by RM5.3 million or 19.4% from RM27.2 million for the FYE 31 December 2019 to RM32.5 million for the FYE 31 December 2020. This was mainly contributed by the increase in revenue from the supply and installation of networked traffic management systems and networked lighting systems, which collectively increased by RM4.5 million or 16.5% for the FYE 31 December 2020, mainly due to higher number of traffic controllers installed within Kuala Lumpur as well as the supply and installation of networked LED lightings for the rail transit system project.

The increase was also contributed by revenue of RM0.8 million from the commencement of the supply and installation of a PPR networked video surveillance system project for the FYE 31 December 2020 which was completed in the same year. However, this project is still ongoing as we are providing bandwidth services using our fibre optic communications network up to 2024 namely the provision of communications network for Norangkasa Enterprise Sdn Bhd. For further details on the project, see Section 7.7.2.3 of this Prospectus.

Revenue from other related products decreased by RM4.3 million or 47.3% from RM9.0 million for the FYE 31 December 2019 to RM4.8 million for the FYE 31 December 2020. This was mainly due to the decrease in revenue from the supply of UPS equipment sourced from third parties due to lower supply of UPS equipment for the rail transit system project as the sites were not ready to receive the equipment resulted from the delay in completion of site preparation as notified by the customers.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our revenue increased by RM32.2 million or 67.8% from RM47.5 million for the FYE 31 December 2020 to RM79.8 million for the FYE 31 December 2021. This was mainly attributed to the provision of the networked facilities which increased by RM24.2 million or 235.9% from RM10.3 million for the FYE 31 December 2020 to RM34.5 million for the FYE 31 December 2021. This was mainly contributed by the higher number of video cameras (2,909 units) installed and connected to the control centre in the FYE 31 December 2021 for the use by DBKL as compared to the FYE 31 December 2020 (900 units). The increase in number of video cameras installed was based on the installation schedule stipulated in the contract. The charges for the FYE 31 December 2021 were for the entire 2,909 units, comprising 900 units that were completed in the FYE 31 December 2020 and an additional 2,009 units that were completed in the FYE 31 December 2021. We started to charge the customer for the use of the additional cameras installed during the FYE 31 December 2021 as our customers started to use all the facilities.

The revenue growth was also contributed by the supply and installation of networked systems, which increased by RM9.1 million or 27.9% from RM32.5 million for the FYE 31 December 2020 to RM41.6 million for the FYE 31 December 2021. This was mainly contributed by the increase in revenue from the supply and installation of networked lighting systems by RM10.5 million or 45.1% for the FYE 31 December 2021 following the installation of LED street lighting systems within the surrounding areas in Kuala Lumpur as well as the supply and installation of networked LED lightings for the rail transit system project.

The increase in revenue from the supply and installation segment was partially moderated by the decrease in revenue of RM0.9 million or 10.6% from the supply and installation of networked traffic management systems in the FYE 31 December 2021 due to decrease in work order by DBKL.

In addition, revenue from other related products decreased by RM1.1 million or 22.4% from RM4.8 million for the FYE 31 December 2020 to RM3.7 million for the FYE 31 December 2021. This was mainly due to the decrease in revenue from the supply of UPS equipment sourced from third parties for the rail transit system project involving the final installation and commissioning for the supply of the remaining UPS equipment which was fulfilled and completed in the same financial year.

In 2019, we secured the contract as designated supplier of UPS for certain elevated stations of the rail transit system which commenced in the same year.

The supply and delivery of UPS equipment is based on purchase orders and delivery schedule issued by the contractors where we started to supply from 2019 until 2021. The revenue from this contract is recognised based on progress billings on completed works.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our revenue increased by RM6.7 million or 19.9% to RM40.7 million for the FPE 30 June 2022 compared to RM34.0 million for the FPE 30 June 2021. This was mainly contributed by the increase in revenue from the provision of networked facilities which increased by RM13.1 million or 100.8% to RM26.0 million for the FPE 30 June 2022 compared to RM12.9 million for the FPE 30 June 2021, which was contributed by the additional number of video cameras installed during the FPE 30 June 2022 of 2,091 units which has increased the total number of video cameras installed and connected to the control centre for the use by DBKL as at 30 June 2022 to 5,000 units as compared to the FPE 30 June 2021 (1,500 units). The increase in the number of video cameras installed during the FPE 30 June 2022 was based on the installation schedule stipulated in the contract. We started to charge DBKL for the use of the additional video cameras installed during the FPE 30 June 2022 of 2,091 units as DBKL started to use all the facilities.

The increase was partially offset by the decrease in revenue by RM4.7 million or 25.0% from the supply and installation of networked systems to RM14.0 million for the FPE 30 June 2022 compared to RM18.7 million for the FPE 30 June 2021. The decrease in revenue from the supply of installation of networked systems in FPE 30 June 2022 was mainly attributed to the completion of supply and installation of networked lighting systems and traffic controllers in the FYE 31 December 2021 and the revenue charged during the FPE 30 June 2022 was mainly contributed by the maintenance services following the said completion.

In addition, the revenue from other segment also decreased by RM1.6 million or 69.1% to RM0.7 million for the FPE 30 June 2022 compared to RM2.4 million for the FPE 30 June 2021. This was mainly due to the decrease in the supply of traffic light controllers to a contractor for its MRT project as well as the decrease in the supply of UPS equipment following the completion of works done in the FYE 31 December 2021.

12.2.6 Cost of sales

Cost of sales by cost components

	FYE 31 December					
	2019		2020		2021	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Hardware	12,318	40.5	12,715	56.8	12,311	46.6
Subcontracted services	16,609	54.7	6,417	28.7	7,129	27.0
Project overhead	1,235	4.1	2,238	10.0	2,180	8.3
Depreciation and amortisation	216	0.7	1,008	4.5	4,780	18.1
Total	**30,378**	**100.0**	**22,378**	**100.0**	**26,400**	**100.0**

	FPE 30 June			
	2021		2022	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**
Hardware	2,753	29.5	2,842	24.1
Subcontracted services	3,815	40.9	4,516	38.4
Project overhead	1,120	12.0	884	7.5
Depreciation and amortisation	1,639	17.6	3,538	30.0
Total	**9,327**	**100.0**	**11,780**	**100.0**

Cost of sales by products and services

	FYE 31 December					
	2019		2020		2021	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Public space networked systems	23,345	76.8	18,549	82.9	25,343	96.0
Others[(1)]	7,033	23.2	3,830	17.1	1,057	4.0
Total	**30,378**	**100.0**	**22,378**	**100.0**	**26,400**	**100.0**

	FPE 30 June			
	2021		2022	
Cost of sales	**RM'000**	**%**	**RM'000**	**%**
Public space networked systems	8,613	92.3	11,415	96.9
Others[(1)]	714	7.7	365	3.1
Total	**9,327**	**100.0**	**11,780**	**100.0**

Note:

(1) Mainly sales of traffic controllers and supply of UPS equipment.

(a) Hardware including devices, equipment and electrical parts

The cost of sales of hardware mainly comprises the following:

- LED lights, electrical and electronic parts and components including PCBA and cables and wires, as well as plastic enclosures used for assembly of controllers, communication modules for the gateway for networked lighting system;

- video cameras, sensors, electrical and electronic parts and components including PCBA and electrical wiring and harnesses, and metal enclosures used for assembly of controllers, as well as loop vehicle detectors for networked traffic management system; and

- UPS equipment sourced from third party for the rail transit system project.

For the FYE 31 December 2020, our cost of sales of hardware increased by RM0.4 million or 3.2% mainly contributed by the supply and installation of networked systems including networked lighting system and networked traffic management system. Revenue from the supply and installation of networked systems increased by 19.4% for the FYE 31 December 2020. The increase was partly moderated by the decrease in cost of sales of hardware for the supply of UPS.

For the FYE 31 December 2021, our cost of sales of hardware decreased by RM0.4 million or 3.2% mainly due to the decrease in cost of sales of hardware for the supply of UPS which was in tandem with the decrease in revenue from this segment as the sites were not ready to receive the equipment resulted from the delay in completion of site preparation as notified by the customers. The decrease was partly offset by the increase in cost of sales of hardware for the provision of public space networked systems mainly networked lighting systems.

For the FPE 30 June 2022, our cost of sales of hardware increased by RM0.1 million or 3.2% mainly due to the increase in cost of sales for the provision of public space networked systems arising from the maintenance work which involved the replacement of lighting equipment, traffic controllers and related electrical parts.

(b) Subcontracted services

Subcontracted services refer to subcontractors and subcontracted labour engaged to carry out installation and maintenance works for the provision of public space networked systems including supply and installation of networked systems as well as our provision of networked facilities. This mainly includes the subcontractor for the installation of equipment and devices, mechanical and electrical works, as well as subcontracted labour for maintenance works.

For the FYE 31 December 2020, our cost of sales of subcontracted services decreased by RM10.2 million or 61.4% mainly due to completion of upgrading works during the FYE 31 December 2019 including replacement of sodium lights with LED lights for street lighting comprising installation works such as milling and paving the road for the installation of poles and street light fittings.

For the FYE 31 December 2021, our cost of sales of subcontracted services increased by RM0.7 million or 11.1% mainly due to installation works for the controllers for networked lighting systems as well as installation and configuration of traffic controllers for the networked traffic management systems.

For the FPE 30 June 2022, our subcontracted services increased by RM0.7 million or 18.4% mainly attributed to the installation and maintenance works for the replacement of equipment as mentioned above.

(c) Project overhead

Project overhead costs consists of direct labour costs for technical support and maintenance services, consultancy and professional fees, third party wireless network charges for our networked systems, rental and upkeep of machinery and equipment, site expenses.

For the FYE 31 December 2020, our project overhead costs increased by RM1.0 million or 81.2% mainly attributed to cost incurred of RM0.8 million in the years prior to the FYE 31 December 2019 for the video surveillance facilities. This cost was only recognised when the performance obligation per the contract was satisfied in the FYE 31 December 2020. The increase was also contributed by the increase in third party wireless network charges for our networked systems and direct labour costs.

For the FYE 31 December 2021, our project overhead costs decreased by RM0.1 million or 2.6% mainly attributed to one-off cost incurred in the FYE 31 December 2020 as mentioned above. The decrease was partially offset by the increase in project insurance cost as well as direct labour costs.

For the FPE 30 June 2022, our project overhead costs decreased by RM0.2 million or 21.1% mainly due to decrease in direct labour costs and project insurance cost from completion of installation works for the networked lighting systems and networked traffic management systems.

(d) Depreciation and amortisation

Depreciation and amortisation costs consists of mainly depreciation of our networked facilities including video surveillance systems and communication network. Based on our operating model for the provision of networked facilities, we capitalise all the costs incurred for the networked facilities installed. Depreciation is recognised as cost of sales based on number of equipment installed and used over the estimated useful life of the assets during the contract period.

For the FYE 31 December 2020, our depreciation and amortisation costs increased by RM0.8 million or 366.7% which was mainly attributed to the networked video surveillance facilities resulting from the higher number of video cameras installed and connected to the control centre.

For the FYE 31 December 2021, our depreciation and amortisation costs increased by RM3.8 million or 374.2% which was mainly contributed by the higher number of video cameras installed and connected to the control centre from our provision of networked facilities.

For the FPE 30 June 2022, our depreciation and amortisation costs increased by RM1.9 million or 115.9% which was mainly contributed by the higher number of video cameras installed and connected to the control centre for DBKL. The increase in depreciation and amortisation costs has no impact on the GP margin on the provision of networked facilities segment as the revenue from this segment increased by RM13.1 million for the FPE 30 June 2022.

12. FINANCIAL INFORMATION *(Cont'd)*

12.2.7 GP

(i) GP segmented by products and services

	FYE 31 December								
	2019			2020			2021		
	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %
Public space networked systems	4,825	70.6	17.1	24,221	96.3	56.6	50,714	95.0	66.7
Others[(1)]	2,009	29.4	22.2	938	3.7	19.7	2,645	5.0	71.5
Total / Group GP margin	**6,834**	**100.0**	**18.4**	**25,160**	**100.0**	**52.9**	**53,359**	**100.0**	**66.9**

	FPE 30 June					
	2021			2022		
	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %
Public space networked systems	22,996	93.2	72.8	28,588	98.7	71.5
Others[(1)]	1,669	6.8	70.0	372	1.3	50.5
Total / Group GP margin	**24,665**	**100.0**	**72.6**	**28,960**	**100.0**	**71.1**

Note:

(1) Mainly sales of traffic controllers and supply of UPS equipment.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) GP segmented by geographical markets

	FYE 31 December								
	2019			2020			2021		
	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %
Peninsular Malaysia	6,579	96.3	17.9	23,431	93.1	53.0	51,310	96.2	66.4
East Malaysia	255	3.7	48.7	1,728	6.9	59.2	2,049	3.8	84.4
Total / Group GP margin	**6,834**	**100.0**	**18.4**	**25,160**	**100.0**	**52.9**	**53,359**	**100.0**	**66.9**

	FPE 30 June					
	2021			2022		
	GP RM'000	%	GP margin %	GP RM'000	%	GP margin %
Peninsular Malaysia	23,202	94.1	71.5	28,960	100.0	71.1
East Malaysia	1,463	5.9	93.6 [(1)]	-		
Total / Group GP margin	**24,665**	**100.0**	**72.6**	**28,960**	**100.0**	**71.1**

Note:

(1) The high GP margin from East Malaysia was mainly because of minimal labour costs incurred for the supply and installation of networked lighting systems for the FPE 30 June 2021.

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our GP increased by RM18.3 million or 268.2% for the FYE 31 December 2020 while our GP margin increased from 18.4% for the FYE 31 December 2019 to 52.9% for the FYE 31 December 2020.

The improvement in our GP were mainly contributed by the GP from the provision of public space networked systems which increased by RM19.4 million or 402.0% for the FYE 31 December 2020. This was mainly contributed by the supply and installation of networked traffic management systems and networked lighting systems which were installed within the surrounding areas in Kuala Lumpur as well as the provision of public space networked surveillance facilities resulting from the higher number of video cameras installed and connected to the control centre. This was also reflected in the growth of our revenue by 51.8% for the FYE 31 December 2020.

The increase in our GP was partially offset by the decrease in GP contribution from the supply of related products segment by RM1.1 million or 53.3% for the FYE 31 December 2020. This was mainly due to the reduction in orders of UPS for the rail transit system project which was reflected in the decrease in revenue.

For the FYE 31 December 2020, the improvement in our GP margin was mainly driven by the improvement in the high GP margin from the public space networked systems segment where the GP margin from this segment improved from 17.1% for the FYE 31 December 2019 to 56.6% for the FYE 31 December 2020. This was mainly attributed to the increased GP contribution of high margin networked video surveillance facilities where value added features were provided with GP contribution of 30.9% (RM7.8 million) for the FYE 31 December 2020 compared to 1.4% (RM0.1 million) for the FYE 31 December 2019.

The improvement in our GP margin was also contributed by the increase in GP margin from the supply and installation of networked traffic management systems and networked lighting systems that were supplied and installed within Kuala Lumpur. There was a higher number of traffic controllers installed with additional sensor features as well as a higher number of high value LED street lights (21,178 units) with embedded controllers connected to the control centre during the FYE 31 December 2020. The LED Street lights with embedded controllers are used for centralised monitoring and management purposes compared to retrofitting works that were carried out in the FYE 31 December 2019.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our GP increased by RM28.2 million or 112.1% for the FYE 31 December 2021 while GP margin increased from 52.9% for the FYE 31 December 2020 to 66.9% for the FYE 31 December 2021.

The improvements in our GP were mainly contributed by the provision of public space networked systems which increased by RM26.5 million or 109.4% for the FYE 31 December 2021 which was in line with the growth in our revenue from the said segment of 77.8% for the FYE 31 December 2021. This was mainly attributed to the provision of public space networked facilities arising from the higher number of video cameras installed and connected with value-added features and services such as artificial intelligence feature, data analytics and networked infrastructure. The improvement in our GP was also partly contributed by the supply and installation of public space networked systems which increased by RM6.7 million or 43.5% for the FYE 31 December 2021 mainly contributed by the supply and installation of networked lighting systems which was in line with the growth in revenue of 27.9% for the FYE 31 December 2021 mainly contributed by the supply and installation of networked lighting systems.

As for the improvements in our GP margin for the FYE 31 December 2021, this was mainly driven by an increase in GP contribution from high margin video surveillance facilities that was provided. This was demonstrated by the increased GP contribution of the said high margin facilities where value added features were provided which increased from 30.9% (RM7.8 million) for the FYE 31 December 2020 to 51.0% (RM27.2 million) for the FYE 31 December 2021.

The increase in our GP margin was also partly contributed by the increase in GP margin from the supply of other related products segment from 19.7% for the FYE 31 December 2020 to 71.4% for the FYE 31 December 2021. This was mainly attributed to the high margin for the supply of the UPS equipment arising from the remaining work which was completed during the FYE 31 December 2021 which mainly involved final installation and commissioning.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our GP increased by RM4.3 million or 17.4% for the FPE 30 June 2022 while GP margin decreased to 71.1% for the FPE 30 June 2022 compared to 72.6% for the FPE 30 June 2021.

The increase in GP was mainly contributed by the provision of public space networked systems which increased by RM5.6 million or 24.3% for the FPE 30 June 2022 in line with the growth in revenue from the said segment by 26.6% for the FPE 30 June 2022. This was mainly attributed to the provision of public space networked facilities arising from the higher number of video cameras installed and connected to the control centre with value-added features and services such as artificial intelligence feature, data analytics and networked infrastructure.

The increase was partially moderated by the decrease in GP by RM6.0 million or 50.1% for the FPE 30 June 2022 from the supply and installation of public space networked systems arising from the completion of installation of networked lighting systems and traffic management systems in the FYE 31 December 2021. This was reflected in the decrease in revenue from the supply and installation of networked systems by 25.0% for the FPE 30 June 2022 as the revenue charged during the FPE 30 June 2022 was mainly contributed by the maintenance services following the completion of supply and installation of the said systems.

GP from other segment also decreased by RM1.3 million or 77.7% for the FPE 30 June 2022 mainly attributed to the decrease in sales of traffic controllers and UPS equipment. This was reflected in the decrease in revenue by 69.1% for the FPE 30 June 2022 as there was a decrease in supply of traffic light controllers to a contractor for its MRT project as well as the decrease in the supply of UPS equipment following the completion of works done.

The decrease in GP margin for the FPE 30 June 2022 was mainly due to the cost of maintenance works incurred including hardware cost and subcontracted cost for the replacement of lighting equipment and traffic controllers and related electrical parts during the maintenance period as mentioned earlier. This was reflected in the increase in cost of sales of hardware and subcontracted services by 3.2% and 18.4% respectively for the FPE 30 June 2022.

12.2.8 Other and finance income

	FYE 31 December					
	2019		2020		2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Other income	268	62.2	1,087	80.5	537	72.4
- Rental income[(1)]	252	58.5	252	18.7	277	37.3
- Sundry sales	3	0.7	-	-	141	19.0
- Gain on foreign exchange	8	1.9	552	40.9	56	7.6
- Wage subsidy	-	-	237	17.5	-	-
- Others[(2)]	5	1.1	46	3.4	63	8.5
Finance income[(3)]	163	37.8	264	19.5	205	27.6
Total	**431**	**100.0**	**1,351**	**100.0**	**742**	**100.0**

	FPE 30 June			
	2021		2022	
	RM'000	**%**	**RM'000**	**%**
Other income	146	91.2	347	81.6
- Rental income[(1)]	*129*	*80.6*	*139*	*32.7*
- Sundry sales	-	-	*167*	*39.3*
- Gain on foreign exchange	-	-	*36*	*8.5*
- Wage subsidy	-	-	-	-
- Others[(2)]	*17*	*10.6*	*5*	*1.2*
Finance income[(3)]	14	8.8	78	18.4
Total	**160**	**100.0**	**425**	**100.0**

***Notes**:*

(1) Relate to sub-lease of two (2) units of shop lots and one (1) unit of office (which our Group rents from third parties) to Optimax Eye Specialist Centre (Segamat) Sdn Bhd and Optimax Eye Specialist Centre (Kluang) Sdn Bhd (both being our related parties), and a third party respectively. The sub-leasing of the two (2) units of shop lots to the related parties are not regarded as material related party transactions and it is carried out on arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to third parties and are not detrimental to our non-interested shareholders.

(2) Including income from rent concession for the FYEs 31 December 2020 and 31 December 2021 under MFRS 16, income from disposal of motor vehicle in the FYE 31 December 2021 and FPE 30 June 2021, reimbursement on the claims that overpaid to staff for the Financial Years Under Review and FPE 30 June 2021, as well as gain on lease modification for the FPE 30 June 2022.

(3) Refers to interest income of financial assets as disclosed under Note 18 of the Accountants' Report included in Section 13 of this Prospectus.

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our other income and finance income increased by RM0.9 million or 213.5% for the FYE 31 December 2020 mainly attributed to the gains on foreign exchange of RM0.5 million as well as wage subsidy of RM0.2 million for the period from April 2020 to September 2020 under the stimulus package introduced by the Malaysian Government in 2020 in response to the COVID-19 pandemic. For further details, see Note 20 of the Accountants' Report included in Section 13 of this Prospectus. The gains on foreign exchange was mainly due to the movement of the foreign exchange arising from the purchases of input materials from China which was transacted in USD.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our other income and finance income decreased by RM0.6 million or 45.1% for the FYE 31 December 2021 mainly attributed to the lower gains on foreign exchange as well as the wage subsidy received in the FYE 31 December 2020. The lower gains on foreign exchange is due to the movement of the foreign exchange arising from the purchases of input materials from China which was transacted in USD.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our other income and finance income increased by RM0.3 million or 165.6% for the FPE 30 June 2022 mainly attributed to the sundry sales comprising sundry income arising from reimbursement by our customer (who had agreed to such reimbursement) of the sales and service tax charged by our supplier and sales of hardware based on request, gain on foreign exchange and finance income. The gain on foreign exchange was mainly due to the movement of the foreign exchange arising from the purchases of input materials from China which was transacted in USD.

12.2.9 Administrative expenses and net gain/loss on impairment of financial instruments

	FYE 31 December					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'00 0**	**%**	**RM'000**	**%**
Administrative expenses:						
Staff related costs	3,023	60.7	4,982	58.4	6,981	63.6
Depreciation of PPE and right-of-use assets	324	6.5	1,101	12.9	1,257	11.4
Professional fees	554	11.1	1,419	16.6	736	6.7
Office expenses	490	9.8	470	5.5	586	5.3
Stamp duty	17	0.3	4	*	482	4.4
Motor vehicle expenses	157	3.2	170	2.0	282	2.6
Travelling and entertainment expenses	206	4.1	158	1.9	270	2.5
Others[(1)]	208	4.3	227	2.7	385	3.5
Total	**4,979**	**100.0**	**8,531**	**100.0**	**10,979**	**100.0**
Net gain/(loss) on impairment of financial instruments	**(3)**		**(156)**		**(1,123)[(2)]**	

	FPE 30 June			
	2021		2022	
	RM'000	**%**	**RM'000**	**%**
Administrative expenses:				
Staff related costs	2,779	58.6	4,069	52.2
Depreciation of PPE and right-of-use assets	596	12.6	679	8.7
Professional fees	312	6.6	1,660	21.3
Office expenses	256	5.4	264	3.4
Stamp duty	2	0.1	2	*
Motor vehicle expenses	130	2.7	111	1.4
Travelling and entertainment expenses	132	2.8	282	3.6
Others(1)	535	11.2	735	9.4
Total	**4,742**	**100.0**	**7,802**	**100.0**
Net gain/(loss) on impairment of financial instruments	**(22)**		**398**	

***Notes**:*

(1) Mainly bank charges, loss on foreign exchange rate, general insurance and advertisement expenses.

(2) Comprises RM1.08 million impairment in contract assets and RM0.04 million impairment in trade receivables.

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our administrative expenses increased by RM3.6 million or 71.3% for the FYE 31 December 2020 mainly attributed to the following:

- increase in staff related costs of RM2.0 million mainly due to the business combination with STS pursuant to the establishment of common control following the acquisition of ITMAX System by ARSB on 1 October 2019;

- increase in professional fees by RM0.9 million mainly contributed by audit and consultancy fees arising from the appointment of a new auditor for our Group for the FYE 31 December 2020 and consultancy works including the identification and evaluation of appropriate sites for the erection of telecommunication monopoles in Perak as well as technical services for communications network; and

- increase in depreciation of PPE and right-of-use assets by RM0.8 million contributed by the increase in leasing of land for our telecommunication towers as well as motor vehicles, and rental of office buildings for our office use including head office, project office, R&D and administrative office.

There was a net loss on impairment of financial instruments, namely trade receivables of approximately RM3,000 and RM0.2 million for the FYEs 31 December 2019 and 31 December 2020 respectively based on the expected credit loss ("**ECL**") computation under MFRS 9. The amount of ECL was assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables. The increase in net loss on impairment of financial instruments for the FYE 31 December 2020 was mainly attributable to impairment loss on trade receivables that was past due for more than 12 months mainly outstanding from customers who are contractors that purchased traffic management controllersdespite several attempts by our Group to collect the amount owing although the products had already been delivered and accepted, and there were no disputes by the customers on the products.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our administrative expenses increased by RM2.4 million or 28.7% for the FYE 31 December 2021 mainly attributed to the increase in staff related cost of RM2.0 million due to the increase in the number of employees from 86 employees in the FYE 31 December 2020 to 98 employees in the FYE 31 December 2021, as well as bonus payment. In addition, the increase in administrative expenses was partly attributed to increase in stamp duty mainly due to the revolving credit and term loan facilities secured and used for the purchase and installation of networked video surveillance facilities.

There was a net loss on impairment of financial instruments, namely contract assets and trade receivables of RM1.1 million for the FYE 31 December 2021 based on the ECL computation under MFRS 9. The amount of ECL was assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables and contract assets. The increase in net loss on impairment of financial instruments for the FYE 31 December 2021 was mainly attributable to contract assets amounting to RM1.08 million where the progress claims were already issued but yet to be certified after six (6) months because a customer who is a contractor but not one of the customers mentioned in Section 12.2.9(a) of this Prospectus, took a longer time to process and validate the progress claims although there were no disputes on the progress claims issued. Of the RM1.08 million, RM0.4 million was subsequently certified by the customer in FPE 30 June 2022. The remaining RM0.68 million is expected to be certified in two (2) stages by the first quarter of 2023 based on the request by the customer to facilitate the certification and payments in stages.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our administrative expenses increased by RM3.1 million or 64.5% for the FPE 30 June 2022 mainly attributed to the following:

- increase in professional fees by RM1.3 million mainly contributed by expenses related to the Listing; and

- increase in staff related costs of RM1.3 million mainly attributed to the increase in the number of employees to 121 employees in the FPE 30 June 2022 compared to 100 employees in the FYE 30 June 2021 as well as salary increment and related costs.

There was a gain on impairment of financial instruments of RM0.4 million mainly attributed to a reversal of the impairment loss provided earlier related to the progress claims that were yet to be certified in the FYE 31 December 2021. There was a loss on impairment of financial instruments namely trade receivables of approximately RM22,000 for the FPE 30 June 2021 mainly outstanding from customers who are contractors that purchased traffic management controllers despite several attempts by our Group to collect the amount owing although the products had already been delivered and accepted, and there were no disputes by the customers on the products.

12.2.10 Finance cost

	FYE 31 December					
	2019		**2020**		**2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Interest expense on:						
- Term loans	-	-	-	-	751	70.7
- Lease liabilities (1)	32	32.3	154	75.9	214	20.2
- Bank overdraft	28	29.2	13	6.4	-	-
Bank guarantee charges	-	-	36	17.7	88	8.3
Others (2)	37	38.5	-	-	9	0.8
Total	**97**	**100.0**	**203**	**100.0**	**1,063**	**100.0**

	FPE 30 June			
	2021		**2022**	
	RM'000	**%**	**RM'000**	**%**
Interest expense on:				
- Term loans	-	-	1,029	90.8
- Lease liabilities (1)	109	82.6	102	9.0
Bank guarantee charges	18	13.6	2	0.2
Others (2)	5	3.8	-	-
Total	**132**	**100.0**	**1,133**	**100.0**

***Notes**:*

(1) Comprising lease interest which refers to the interest rate used to discount the estimated cash flows for the lease liabilities under MFRS 16 which are the right-of-use assets comprising the land leased for our telecommunication towers as well as rented offices, as well as interest expense on finance lease liabilities being interest charged on hire purchases.

(2) Comprises bank charges and commitment fees.

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our finance cost increased by RM0.1 million or 109.3% for the FYE 31 December 2020 mainly attributed to the lease interest which increased by RM0.1 million in relation to interest on the right-of-use assets arising from the increase in leasing of land for our telecommunication towers.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our finance cost increased by RM0.9 million or 423.6% for the FYE 31 December 2021 mainly attributed to the increase in interest expense on term loans by RM0.8 million. The term loans were used for the purchase and installation of networked video surveillance facilities.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our finance cost increased by RM1.0 million or 758.3% for the FPE 30 June 2022 mainly attributed to the increase in interest expense on term loans. The term loans including RM23.6 million drawn down in the FPE 30 June 2022 were used for the purchase and installation of networked video surveillance facilities.

12.2.11 PBT, PAT and effective tax rate

	FYE 31 December			FPE 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
PBT (RM'000)	2,186	17,621	40,936	19,929	20,848
PBT margin	5.9%	37.1%	51.3%	58.6%	51.2%
Total taxation (RM'000)	616	4,952	11,699	4,912	5,394
Effective tax rate	28.2%	28.1%	28.6%	24.6%	25.9%
PAT (RM'000)	1,570	12,669	29,237	15,017	15,454
PAT margin	4.2%	26.7%	36.7%	44.2%	37.9%

(a) FYE 31 December 2020 compared to FYE 31 December 2019

Our PBT increased by RM15.4 million or 706.1% for the FYE 31 December 2020 which was also reflected in the increase of our GP by 268.2% for the FYE 31 December 2020. The increase was mainly contributed by the provision of public space networked systems including the supply and installation of networked lighting systems and networked traffic management systems as well as the provision of public space networked surveillance facilities resulting from the higher number of video cameras installed within the surrounding designated areas in Kuala Lumpur for DBKL.

Our PBT margin improved from 5.9% for the FYE 31 December 2019 to 37.1% for the FYE 31 December 2020. Similarly, our PAT margin improved from 4.2% for the FYE 31 December 2019 to 26.7% for the FYE 31 December 2020. The improvement in our PBT margin and PAT margin were mainly contributed by the high GP margin from the provision of networked facilities segment as well as improvements in our GP margin from the supply and installation of networked systems as mentioned above. See Section 12.2.7 of this Prospectus for further details on our GP margin.

For the FYE 31 December 2019, our effective tax rate was 28.2% which was higher than the statutory tax rate of 24.0%. This was mainly due to under-provision of current tax in prior years.

For the FYE 31 December 2020, our effective tax rate was 28.1% which was higher than the statutory tax rate of 24.0%. This was mainly due to the increase in non-deductible expenses of approximately RM0.7 million, comprising mainly depreciation of PPE and right-of-use assets as well as amortisation of intangible assets pertaining to development costs incurred mainly for staff resources costs.

(b) FYE 31 December 2021 compared to FYE 31 December 2020

Our PBT increased by RM23.3 million or 132.3% for the FYE 31 December 2021 which was also in line with the increase in our GP by 112.1% for the FYE 31 December 2021. The increase was mainly driven by the provision of public space networked surveillance facilities resulting from the higher video cameras installed. The increase was also contributed by the increase in our GP from the supply and installation segment mainly for the public space networked lighting systems.

Our PBT margin improved from 37.1% for the FYE 31 December 2020 to 51.3% for the FYE 31 December 2021. Similarly, our PAT margin improved from 26.7% for the FYE 31 December 2020 to 36.7% for the FYE 31 December 2021. The improvement was mainly contributed by the increase in GP contribution from the high margin services for the provision of networked video surveillance facilities where the GP contribution increased from RM7.8 million for the FYE 31 December 2020 to RM27.2 million for the FYE 31 December 2021. See Section 12.2.7 of this Prospectus for further details on our GP margin.

For the FYE 31 December 2021, our effective tax rate was 28.6% which was higher than the statutory tax rate of 24.0%. This was mainly attributed to over provision of deferred tax in prior years and under provision of current tax in prior years.

(c) FPE 30 June 2022 compared to FPE 30 June 2021

Our PBT increased by RM0.9 million or 4.6% for the FPE 30 June 2022 which was also reflected in the increase in our GP by 17.4% for the FPE 30 June 2022. The increase was mainly driven by the the increase in revenue and GP from the provision of public space networked facilities resulting from the higher number of video cameras installed.

Our PBT margin decreased to 51.2% for the FPE 30 June 2022 compared to 58.6% for the FPE 30 June 2021. This was mainly due to the maintenance work costs incurred for the replacement of lighting equipment and traffic controllers and related electrical parts during the maintenance period as mentioned earlier. Furthermore, this was also partly attributed to the increase in administrative expenses and finance cost for the FPE 30 June 2022 as mentioned earlier.

12.2.12 Liquidity and capital resources

(i) Working capital

Our business has been financed by a combination of internal and external sources of funds. Internal sources comprised of shareholders' equity and cash generated from our operations while external source was mainly banking facilities from financial institutions. The utilisation of these funds was for our business operations and growth.

Based on our audited combined statements of financial position as at 30 June 2022, we have:

(i) cash and bank balances and deposits with licensed banks of RM10.6 million;

(ii) working capital of RM13.0 million, being the difference between current assets of RM64.8 million and current liabilities of RM51.8 million; and

(iii) credit facilities, consisting of term loans and revolving credits with a total credit limit of RM148.8 million, of which RM44.5 million has yet to be utilised as at the LPD.

After taking into consideration the funding requirements for our committed capital expenditures, our future plans as set out in Section 7.19 of this Prospectus, our existing level of cash and bank balances and deposits with licensed banks, credit facilities available, expected cash flows to be generated from our operations and the estimated net proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for 12 months from the date of this Prospectus.

(ii) Cash flow

The following is our cash flow for the Financial Years Under Review and FPE 30 June 2022 based on our audited Combined Financial Statements which should be read in conjunction with the Accountants' Report included in Section 13 of this Prospectus.

	FYE 31 December			FPE 30 June
	2019 RM'000	**2020 RM'000**	**2021 RM'000**	**2022 RM'000**
Net cash from operating activities	4,326	10,737	38,284	2,529
Net cash used in investing activities	(1,690)	(30,793)	(55,144)	(23,519)
Net cash from financing activities	1,543	22,052	27,685	8,402
Net increase /(decrease) in cash and cash equivalents	4,179	1,996	10,825	(12,588)
Cash and cash equivalents at the beginning of the financial year/period	6,145	10,324	12,320	23,145
Cash and cash equivalent at end of the financial year/period	**10,324**	**12,320**	**23,145**	**10,557**

All of our cash and cash equivalents are held in RM. Save for any applicable financial covenants and the Act, and subject to the availability of distributable profits and reserves, there are no legal, financial or economic restrictions on our subsidiary's ability to transfer funds to our Company in the form of cash dividends, loans or advances.

(a) Net cash from operating activities

FYE 31 December 2019

For the FYE 31 December 2019, our net cash from operating activities was RM4.3 million after taking into account the following:

- increase in contract assets by RM10.4 million due to the increase in claims that were submitted to our customers which have yet to be certified by them. This was mainly for the supply and installation of networked systems including networked lighting systems and networked traffic management system to DBKL.

- decrease in trade and other receivables by RM8.1 million mainly due to collections from customers.

- net cash of RM5.0 million which resulted from combination with the working capital of STS.

- increase in contract costs of RM1.8 million mainly attributed to higher cost incurred for our supply and installation works that were completed for the networked systems including networked lighting systems and networked traffic management system which were pending the submission of claims to DBKL as at 31 December 2019.

- increase in trade and other payables by RM1.5 million mainly attributed to higher purchases of input materials of LED lightings for our subsequent planned on-site installation works for the FYE December 2020.

FYE 31 December 2020

For the FYE 31 December 2020, our net cash from operating activities was RM10.7 million after taking into account the following:

- increase in inventories by RM8.2 million mainly due to higher purchases of input materials of video cameras and LED lightings for our subsequent planned on-site installation works for the FYE 31 December 2021.

- decrease in contract assets by RM7.0 million mainly due to the increase in billings issued and certified for our supply and installation works. There were mainly for networked lighting systems and networked traffic management system.

- increase in prepayment and other assets by RM4.6 million mainly due to an advance payment of RM4.6 million to our major supplier based in Hong Kong, Power Great Trading Limited ("**PGTL**"), for the purchase of LED lightings and related devices. This advance payment to PGTL is not common as this is based on the request by this particular supplier. We have not received such request from our other suppliers. We do not have any contractual agreement with PGTL with regards to the advance payment.

- decrease in trade and other receivables by RM4.3 million mainly attributed to repayments from related parties and directors. This mainly arose from the repayment of RM4.0 million of advances that was given to a company related to our shareholders prior to the FYE 31 December 2019 which have been settled as at the LPD.

- increase in contract cost of RM1.6 million mainly attributed to higher cost incurred for our supply and installation works that were completed for the networked systems including networked lighting systems and networked traffic management system which were pending the submission of claims to DBKL as at 31 December 2020.

FYE 31 December 2021

For the FYE 31 December 2021, our net cash from operating activities was RM38.3 million after taking into account the following:

- decrease in payables by RM11.3 million mainly due to higher payments to suppliers and subcontractors for the last quarter of the FYE 31 December 2021. These were mainly for the purchases of video cameras and related equipment, purchases of computer hardware and software and payments for subcontracted services.

  The decrease was also partly attributed to decrease in balance advance payment received which was partially set off against claims that we submitted and certified by DBKL for the supply and installation of traffic management systems during the financial year. The balance advance payment received was RM1.4 million as at 31 December 2020 compared to RM5.4 million as at 31 December 2019.

- decrease in prepayment and other assets by RM4.4 million as there were no advance payments made during the FYE 31 December 2021.

- increase in contract assets by RM3.6 million mainly due to an increase in billings that were submitted which have yet to be certified by customers. These were mainly for networked lighting systems and networked traffic management systems.

- decrease in contract cost of RM3.0 million mainly attributed to the billings and claims submitted as at 31 December 2021 for the supply and installation of networked lighting systems.

- decrease in trade and other receivables of RM1.9 million mainly attributed to the higher collections for the provision of video surveillance facilities as well as supply and installation of networked systems.

  The decrease was also partly attributed to the decrease in amount due from directors and related parties including the amount owing from our holding company of RM2.3 million which have been settled during the FYE 31 December 2021. See Section 10.1.3 of this Prospectus for further details.

FPE 30 June 2022

For the FPE 30 June 2022, our net cash from operating activities was RM2.5 million after taking into account the following:

- increase in trade and other receivables of RM11.2 million mainly attributed to the higher billings issued to customers for the provision of networked video surveillance facilities in June 2022.

- decrease in payables by RM6.4 million mainly due to higher payments to suppliers and subcontractors in June 2022. These were mainly for the purchases of video cameras and related equipment, purchases of computer hardware and software, and payments for subcontracted services.

- increase in contract assets by RM2.6 million mainly attributed to the increase in claims that were submitted related to the maintenance works done for the networked lighting systems and networked traffic management systems, which have yet to be certified by the customer.

- decrease in inventories by RM1.2 million mainly attributed to higher usage of inventories for our networked video surveillance facilities as there was a total of 5,764 units of video cameras installed during the FPE 30 June 2022.

(b) Net cash from investing activities

FYE 31 December 2019

For the FYE 31 December 2019, our net cash used in investing activities was RM1.7 million which was mainly attributed to the purchase and installation of networked video surveillance facilities such as video cameras and related infrastructures including poles and power cables.

FYE 31 December 2020

For the FYE 31 December 2020, our net cash used in investing activities was RM30.8 million. This was mainly attributed to the following:

- RM29.0 million used to fund the purchase and installation of networked video surveillance facilities such as video cameras and related infrastructures including poles and power cables;

- RM1.5 million was a fixed deposit pledged to banks for banking facilities, namely term loans; and

- RM0.2 million was used for our R&D activities comprising development costs incurred mainly for staff resources costs.

FYE 31 December 2021

For the FYE 31 December 2021, our net cash used in investing activities was RM55.1 million. This was mainly attributed to the following:

- RM49.2 million was used to fund the purchase and installation of networked video surveillance facilities such as video cameras and related infrastructures including poles and power cables;

- RM5.3 million was a fixed deposit pledged to banks for banking facilities such as term loans and revolving credit; and

- RM0.7 million was used for our R&D activities comprising development costs incurred mainly for staff resources cost.

FPE 30 June 2022

For the FPE 30 June 2022, our net cash used in investing activities was RM23.5 million. This was mainly attributed to the following:

- RM23.0 million was used to fund the purchase and installation of networked video surveillance facilities such as video cameras and related infrastructures including poles and power cables.
- RM0.4 million was used for our R&D activities comprising development costs incurred mainly for staff resources cost.
- RM0.1 million was interest arising from fixed deposit pledged with the banks for banking facilities.

(c) Net cash from financing activities

FYE 31 December 2019

For the FYE 31 December 2019, our net cash from financing activities was RM1.5 million. This was mainly attributed to RM2.0 million drawn down from a term loan for the purchase and installation of networked video surveillance facilities.

FYE 31 December 2020

For the FYE 31 December 2020, our net cash from financing activities was RM22.1 million. This was mainly attributed to RM23.2 million drawn down from a term loan for the purchase and installation of networked video surveillance facilities.

The net cash from financing activities was partially offset by the following:

- RM0.6 million was used for payment of lease liabilities mainly for rental payments. The rental payments comprise of rental paid to landowners for the leasing of land for our telecommunication towers in Perak and rental payment of our offices in Sri Petaling, Kuala Lumpur.
- others comprising RM0.5 million was mainly used for the repayment of term loans and RM0.2 million for interest paid for banking facilities.

In addition, there were proceeds of RM0.3 million raised from issuance of Shares to ARSB.

FYE 31 December 2021

For the FYE 31 December 2021, our net cash from financing activities was RM27.7 million. This was mainly attributed to RM45.4 million drawn down from a term loan and revolving credit facility for the purchase and installation of networked video surveillance facilities.

The net cash from financing activities was partially offset by the following:

- RM9.6 million was used for the repayment of loans and borrowings mainly term loans and revolving credits.

- RM6.0 million was used for dividend payments to ARSB.

- others comprising RM1.1 million for interest paid for banking facilities, RM0.8 million for payment of lease liabilities mainly for rental payments for the leasing of land for our telecommunications towers in Perak and our offices in Sri Petaling, Kuala Lumpur, and RM0.3 million for repayment of hire purchases of motor vehicles.

FPE 30 June 2022

For the FPE 30 June 2022, our net cash from financing activities was RM8.4 million. This was mainly attributed to RM23.6 million drawn down from the term loans, invoice financing and revolving credit facilities for the purchase and installation of networked video surveillance facilities.

The net cash from financing activities was partially offset by the following:

- RM5.4 million was used for the repayment of loans and borrowings mainly term loans.
- RM8.0 million was used for dividend payments to ARSB.

- others comprising RM1.1 million for interest paid for banking facilities, RM0.4 million for payment of lease liabilities mainly for rental payments for the leasing of land for our telecommunications towers in Perak and our offices in Sri Petaling, Kuala Lumpur, and RM0.2 million for repayment of hire purchases of motor vehicles.

(iii) Borrowings

As at 30 June 2022, our Group's total borrowings was RM94.1 million, as follows:

	As at 30 June 2022		
Type of borrowings	**Payable within 12 months**	**Payable after 12 months**	**Total**
Term loans [(1)]	18,476	64,859	83,335
Revolving credit [(2)]	7,993	-	7,993
Invoice financing [(2)]	1,920	-	1,920
Hire purchase liabilities	345	455	800
Total	**28,734**	**65,314**	**94,048**
Gearing ratio [(4)]			**1.5**

***Notes**:*

(1) Term loans were mainly utilised for the purchase and installation of networked video surveillance facilities as well as related infrastructures in the FYE 31 December 2021.

(2) Revolving credit was specifically used for purchase and installation of networked video surveillance facilities, while invoice financing was used for the purchase of software for the development of an underground utility management software system as the supplier requested for the payment to be made using banking facilities.

(3) Calculated based on total borrowings divided by total equity.

As at 30 June 2022, our Group's floating and fixed rate borrowings are set out below:

	RM'000
Floating rate borrowings [(1)]	93,248
Fixed rate borrowings [(2)]	800
Total	**94,048**

***Notes**:*

(1) Include term loans and revolving credit.
(2) Include hire purchase liabilities.

Our Group has not defaulted on any payment of either principal sums and/or interest in relation to the borrowings for the Financial Years Under Review, FPE 30 June 2022 and up to the LPD.

The maturity profile and interest rates of our borrowings as at 30 June 2022 are set out below:

	Term loan	**Revolving credit**	**Invoice financing**	**Hire purchase liabilities**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Under 1 year	18,476	7,993	1,920	345	**29,052**
1 - 2 years	19,354	-	-	235	**19,589**
2 - 5 years	45,212	-	-	220	**45,432**
More than 5 years	293	-	-	-	**293**
Total	**83,335**	**7,993**	**1,920**	**800**	**94,048**
Contractual interest rates/incremental borrowing rates	4.38% - 4.72%	4.38%	4.72%	2.07% - 3.28%	

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

12.2.13 Financial instrument, treasury policies and objectives

As at the LPD, save as disclosed in Section 12.2.12(iii) of this Prospectus, our Group does not use any other financial instruments.

Our Group's operations have been funded through shareholders' equity, cash generated from our operations and external sources of funds. The external source of funds consists of banking facilities from financial institutions. The normal credit term granted by our suppliers ranges from 30 days to 90 days for the FPE 30 June 2022.

As at the LPD, our Group's banking facilities from financial institutions mainly consist of the following:

- term loans and revolving credit used for the purchase and installation of networked video surveillance facilities; and

- lease liabilities used for the purchase of motor vehicles under the hire purchases contracts.

The interest rates for our bank borrowings are based on the market rates prevailing at the dates of the respective transactions. As at the LPD, our Group has available banking facilities of RM148.8 million including term loans and revolving credit, of which RM44.5 million has yet to be utilised.

The main objective of our capital management is to ensure sustainable shareholders' equity to ensure our ability to support and grow our business in order to maximise shareholders' value. We review and manage of our capital structure to maintain our gearing ratio at an optimal level based on our business requirements and prevailing economic conditions.

12.2.14 Material litigation and contingent liabilities

(i) Material litigation

Neither we nor our subsidiary are engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the 12 months immediately preceding the date of this Prospectus.

(ii) Contingent liabilities

As at the LPD, we do not have any other material contingent liabilities which, upon becoming enforceable, may have a material adverse impact on our results of operations or financial position.

12.2.15 Key financial ratios

Our key financial ratios for the Financial Years Under Review and FPE 30 June 2022 are as follows:

	FYE 31 December			FPE 30 June
	2019	2020	2021	2022
Trade receivable turnover period (days)[(1)]	77	70	28	77
Trade payable turnover period (days)[(2)]	311	214	134	109
Inventory turnover period (days)[(3)]	34	70	59	55
Current ratio (times)[(4)]	1.3	1.3	1.3	1.3
Gearing ratio (times)[(5)]	0.8	1.2	1.4	1.5

***Notes**:*

(1) Based on trade receivables as at the respective financial year/period ends over total revenue of the respective financial years/period, and multiplied by 365 days/181 days.
(2) Based on trade payables as at the respective financial year/period ends over total purchases of the respective financial years/period, and multiplied by 365 days/181 days.
(3) Based on inventory as at the respective financial year/period ends over total purchases of the respective financial years/period, and multiplied by 365 days/181 days.
(4) Based on current assets over current liabilities.
(5) Based on total borrowings over total equity.

(i) Trade receivables

We deal with our customers on credit terms. The credit terms that we generally grant to our customers are as follows:

	FYE 31 December			FPE 30 June
	2019	2020	2021	2022
Normal credit terms (days)	30	30	30	30

Our trade receivables turnover period decreased from 77 days for the FYE 31 December 2019 to 70 days for the FYE 31 December 2020, which exceeded our credit terms.

The trade receivables turnover period of 77 days for the FYE 31 December 2019 was mainly attributed to slow payments where 65.8% (RM5.2 million) of the total trade receivables were past due and these were mainly attributed to the following customers:

- RM4.2 million due from Norangkasa Enterprise Sdn Bhd for the supply and installation of networked lighting systems for the rail transit system project, sales of traffic controllers and provision of bandwidth services for the PPR flats in Kuala Lumpur. We have been working closely with this customer since 2012. The customer continues to make quarterly payment. As at the LPD, the outstanding receivables have been fully settled.

- RM1.5 million due from Trans Resources Corporation Sdn Bhd mainly for the supply and installation of networked lighting systems for the rail transit system project. As at the LPD, the outstanding receivables have been fully settled.

The trade receivables turnover period of 70 days for the FYE 31 December 2020 was mainly attributed to slow payments where 54.0% (RM4.9 million) of the total trade receivables were past due and these were mainly attributed to the following customers:

- RM3.5 million due from Norangkasa Enterprise Sdn Bhd for the supply and installation for the networked lighting systems for the rail transit system project and provision of bandwidth services for the PPR flats in Kuala Lumpur. As at the LPD, the outstanding receivables have been fully settled.

- RM2.0 million due from DBKK mainly for the supply and installation of networked lighting systems. As at the LPD, the outstanding receivables have been fully settled.

Our trade receivables turnover period improved from 70 days for the FYE 31 December 2020 to 28 days for the FYE 31 December 2021, mainly attributed to the improvements in collections from customers. This is further demonstrated by the fact that our total trade receivables of RM6.1 million only represented 7.6% of our revenue despite the increase in our revenue by 67.8% for the FYE 31 December 2021. For the FYE 31 December 2021, 46.2% (RM2.8 million) of the total trade receivables were past due and these were mainly attributed to:

- RM1.9 million due from Norangkasa Enterprise Sdn Bhd for the supply and installation for the networked lighting systems for the rail transit system project and provision of bandwidth services for the PPR flats in Kuala Lumpur due to slow payments from Norangkasa Enterprise Sdn Bhd. As at the LPD, this entire amount has been collected.

- RM0.7 million due from DBKK mainly for the supply and installation of networked lighting systems. As at the LPD, all the outstanding amount have been fully collected.

Our trade receivables turnover period increased from 28 days for the FYE 31 December 2021 to 77 days for the FPE 30 June 2022, mainly attributed to higher billings to customers for the provision of video surveillance facilities in June 2022. Of this, 12.9% (RM2.2 million) of the total trade receivables were past due and these were mainly attributed to:

- RM0.9 million due from Norangkasa Enterprise Sdn Bhd mainly for the provision of bandwidth services for the PPR flats in Kuala Lumpur due to slow payments from Norangkasa Enterprise Sdn Bhd. As at the LPD, this entire amount has been collected.

- RM0.4 million due from DBKK mainly for the supply and installation of networked lighting systems. As at the LPD, this entire amount has been collected.

- RM0.4 million due from DBKL mainly for the maintenance works for the networked lighting systems and this amount was still outstanding as at the LPD.

- RM0.4 million due from a Bank Kerjasasama Rakyat Malaysia Berhad mainly for the supply and installation of networked video surveillance systems. As at the LPD, this entire amount has been collected.

The ageing analysis of our Group's trade receivables as at 30 June 2022 is as follows:

	Trade receivables as at 30 June 2022[1]	**Subsequent collections up to the LPD**	**Net trade receivables after subsequent collections up to the LPD**
	RM'000	**RM'000**	**RM'000**
Not past due	15,043	14,532	511
1 - 30 days	492	492	-
31 - 60 days	149	144	5
61 - 90 days	276	254	22
91 - 120 days	516	516	-
More than 120 days	801	449	351
Total	**17,276**	**16,387**	**889**

***Note**:*

(1) Excluded retention sums of RM7.1 million as at 30 June 2022.

As at the LPD, RM16.4 million or 94.9% of our total trade receivables as at 30 June 2022 has been subsequently collected. Of the remaining outstanding amount, 57.5% (RM0.5 million) falls within the credit period while the remaining 42.5% (RM0.4 million) had exceeded credit period which was mainly amount due from DBKL.

Our Board is of the view that the remaining outstanding trade receivables of RM0.9 million as at the LPD is recoverable and no provision for impairment is required after taking into consideration our relationship with these customers and their historical payment trend.

(ii) Trade payables

We deal with our suppliers comprising material suppliers and subcontractors on credit terms. Our suppliers including material suppliers and subcontractors generally grant us credit terms as follows:

	FYE 31 December			FPE 30 June
	2019	**2020**	**2021**	**2022**
Normal credit terms (days)	30 to 90	30 to 90	30 to 90	30 to 90

Our trade payables turnover period improved from 311 days for the FYE 31 December 2019 to 214 days for the FYE 31 December 2020 which exceeded the credit terms granted.

The trade payable turnover period of 311 days for the FYE 31 December 2019 was mainly attributed to the following outstanding amount as at 31 December 2019:

- RM16.7 million owing to PGTL, one of our major suppliers for the Financial Year Under Review, who is based in Hong Kong. We use PGTL to source various products from China. PGTL was agreeable for the payment by our Group to exceed the credit terms granted because of the amount of purchases made by us from PGTL. In addition, we have an understanding with PGTL that we will continue to purchase products such as LED lights, CCTV enclosures and related parts from PGTL to fulfil our obligations under the various DBKL contracts due to PGTL's ability to procure the required products on competitive pricing. However, our Group is not dependent on PGTL as we are able to purchase similar products from other suppliers. The purchases from PGTL were made via purchase orders without any long term contractual agreement.

- RM3.9 million owing to a supplier, IT Usaha Engineering Sdn Bhd, for the purchase of UPS which are past due mainly pending testing and commissioning works to be certified by our customer. As at the LPD, the amount owing has been fully settled.

- RM1.1 million owing to a supplier for the purchase of UPS which are past due mainly pending testing and commissioning works to be certified by our customer. As at the LPD, the amount owing has been fully settled.

The trade payables turnover period of 214 days for the FYE 31 December 2020 was mainly attributed to the following outstanding amount as at 31 December 2020:

- RM12.4 million owing to PGTL mainly for the purchases of LED lights, CCTV enclosures and related parts which are past due mainly attributed to our mutual agreement for the payment arrangement as mentioned above.

- RM6.9 million owing to a supplier, Hikvision (M) Sdn Bhd, for the purchases of video cameras and related equipment which are past due mainly due to finalisation of documentation for payment processing. As at the LPD, the amount owing has been fully settled.

- RM5.7 million of amount owing to a subcontractor for civil works, CMS Construction (M) Sdn Bhd, which are past due mainly pending testing and commissioning works to be certified by our customer. As at the LPD, the amount owing has been fully settled.

Our trade payables turnover period improved from 214 days for the FYE 31 December 2020 to 134 days for the FYE 31 December 2021 which was mainly due to improvement in payments to trade payables. The trade payables turnover period of 134 days for the FYE 31 December 2021 was mainly attributed to the following outstanding amount as at 31 December 2021:

- RM7.6 million owing to PGTL mainly for the purchases of LED lights and parts as well as display units which are past due mainly attributed to our mutual agreement for the payment arrangement as mentioned above. As at the LPD, the amount owing to PGTL has reduced to RM3.1 million.

- RM4.6 million owing to a supplier of video cameras and related equipment, Hikvision (M) Sdn Bhd, which are past due mainly due to finalisation of documentation for payment processing. As at the LPD, the amount owing has been fully settled.

- RM2.5 million of amount owing to a subcontractor for civil works, CMS Construction (M) Sdn Bhd, which are past due mainly pending testing and commissioning works to be certified by our customer. As at the LPD, the amount owing has been fully settled.

Our trade payables turnover period improved from 134 days for the FYE 31 December 2021 to 109 days for the FPE 30 June 2022 which was mainly due to improvement in payments to trade payables. The trade payables turnover period of 109 days for the FPE 30 June 2022 was mainly attributed to the following:

- RM8.1 million owing to PGTL mainly for the purchases of LED lights and parts as well as display units which are past due mainly attributed to our mutual agreement for the payment arrangement as mentioned earlier. As at the LPD, RM3.2 million of the said amount owing has been fully settled.

- RM2.5 million owing to a supplier of video cameras and related equipment, Hikvision (M) Sdn Bhd, which are past due mainly due to finalisation of documentation for payment processing. As at the LPD, the amount owing has been fully settled.

The ageing analysis of our Group's trade payables as at 30 June 2022 is as follows:

	Trade payables as at 30 June 2022[(1)]	Subsequent payments up to the LPD	Net trade payables after subsequent payments up to the LPD
	RM'000	**RM'000**	**RM'000**
Not past due	792	317	475
1 - 30 days	4,334	3,518	816
31 - 60 days	1,833	1,787	46
61 - 90 days	2,201	2,044	157
91 - 120 days	4,691	1,427	3,264
More than 120 days	3,888	3,239	649
Total	**17,741**	**12,333**	**5,407**

Note:

(1) Excluded retention sums of RM0.8 million as at 30 June 2022.

As at the LPD, RM12.3 million of our trade payables outstanding as at 30 June 2022 has been subsequently paid. The remaining outstanding amount of RM5.4 million that falls within the credit period accounted for 8.8% (RM0.5 million) of the remaining outstanding amount while the remaining 91.2% (RM4.9 million) had exceeded credit period. The outstanding amount that exceeded credit period was mainly the past due amount owing to PGTL mainly attributed to our mutual understanding for the payment arrangement as mentioned above. There is no risk of legal dispute from PGTL as periodic payments have been made consistently to PGTL and PGTL has been continuously supplying products to us without any disputes.

(iii) Inventory

	FYE 31 December			FPE 30 June
	2019	**2020**	**2021**	**2022**
Inventory turnover period (days) [(1)]	34	70	59	55
Raw materials	*28*	*68*	*58*	*54*
Work-in-progress	*8*	*3*	*1*	*1*
Finished goods	*1*	*1*	*	*

Note:

* *Less than 1 day*
(1) Based on inventory as at the respective financial years/period over total purchases of the respective financial years/period, and multiplied by 365 days/181 days.

Our inventory mainly comprises the following:

- Raw materials comprising mainly input materials for our supply and installation works including LED lights, video cameras, sensors, display panels, data storage facilities, as well as electrical and electronic parts and components including PCBA, cables, electrical wiring and harnesses, plastic and metal enclosures for the assembly of controllers.

- Work-in-progress which were partially completed such as electronic subassembly modules of the lighting and traffic management controllers.

- Finished goods comprising mainly completed lighting and traffic management controllers in box-build form.

Our inventory turnover period increased from 34 days for the FYE 31 December 2019 to 70 days for the FYE 31 December 2020. This was mainly due to higher purchases of input materials including video cameras and LED lightings for our subsequent planned on-site installation works in the FYE 31 December 2021. Although the installation work is still ongoing in accordance with the schedule stipulated in the contract, the said inventories has since been used for the planned on-site installation works in the FYE 31 December 2021.

Our inventory turnover period improved from 70 days for the FYE 31 December 2020 to 59 days for the FYE 31 December 2021. This was mainly contributed by the higher usage of inventories for our networked video surveillance facilities where 2,555 units of video cameras were installed in the FYE 31 December 2021 as compared to 605 units in the FYE 31 December 2020.

Our inventory turnover period improved from 59 days for the FYE 31 December 2021 to 55 days for the FPE 30 June 2022. This was mainly contributed by the higher usage of inventories for our networked video surveillance facilities as there was a total of 5,764 units of video cameras installed during the FPE 30 June 2022.

(iv) Current ratio

Our current ratio was 1.3 times for the Financial Years Under Review and FPE 30 June 2022.

(v) Gearing ratio

Our gearing ratio increased from 0.8 times for the FYE 31 December 2019 to 1.2 times for the FYE 31 December 2020. This was mainly attributed to higher borrowings due to draw down of term loans of RM23.2 million for the purchase and installation of networked video surveillance facilities.

Our gearing ratio increased slightly from 1.2 times for the FYE 31 December 2020 to 1.4 times for the FYE 31 December 2021. This was mainly attributed to higher borrowings due to draw down of term loans and revolving credit of RM45.4 million for the purchase and installation of networked video surveillance facilities.

The increase was partially offset by an increase in our retained earnings by 87.1%, from RM26.7 million for the FYE 31 December 2020 to RM49.9 million for the FYE 31 December 2021.

Our gearing ratio increased slightly from 1.4 times for the FYE 31 December 2021 to 1.5 times for the FPE 30 June 2022. This was mainly attributed to higher borrowings due to draw down of term loans and invoice financing for the purchase and installation of networked video surveillance facilities. The increase was partially offset by an increase in our retained earnings by 14.9%, from RM49.9 million for the FYE 31 December 2021 to RM57.4 million for the FPE 30 June 2022.

12.2.16 Trend analysis

Save as disclosed in this section and in Sections 7, 8 and 9 of this Prospectus, to the best of our Board's knowledge and belief, there are no other known trends, uncertainties, demands, commitments or events and factors that are reasonably likely to have a material effect on our business, financial condition and results of operations or that would make our Group's historical financial statements not indicative of future financial performance. Accordingly, taking into consideration of our Group's future business strategies and plans and the expected increase in depreciation in line with the increase in our capital expenditure, we do not expect any material adverse impact to our revenue recognition and operating expenses moving forward.

12.2.17 Significant changes/events

(a) Acquisition

On 22 June 2022, the Company entered into a conditional share sale agreement with the Sellers for the acquisition of the entire equity interest of STS comprising 3,000,000 STS Shares for a purchase consideration of RM59,357,908. The said purchase consideration has been fully satisfied by the issuance of 388,800 new Shares at an issue price of approximately RM152.67 per Share credited as fully paid-up to Sena Holdings, being the sole company jointly nominated by the Sellers to receive and hold such new Shares.

(b) Declaration of dividend

Subsequent to the FYE 31 December 2021, a second single-tier interim dividend of RM8.00 per Share amounting to RM8,000,000 was declared on 3 January 2022 and paid on 4 January 2022 in respect of the FYE 31 December 2021. Our combined financial statements as set out in the Accountants' Report do not reflect the second single-tier interim dividend which will be accounted for in the FYE 31 December 2022.

See Section 12.5 of this Prospectus for further details on dividends declared and paid under the Financial Years Under Review and FPE 30 June 2022.

(c) Conversion of status

Our Company was incorporated on 9 April 2001 as a private limited company under the name of Alfaville (M) Sdn Bhd. Our company changed its name to ITMAX System Sdn Bhd on 26 October 2001. On 29 June 2022, our Company was converted to a public limited company.

See Note 29 of the Accountants' Report included in Section 13 of this Prospectus for further details on the subsequent events.

12.2.18 Order book

As at the LPD, we have 19 subsisting contracts with total unbilled order book of RM598.2 million, the details of which are set out below:

		Expected timeline to be recognised				
	Unbilled order book as at the LPD	FYE 31 December 2022	FYE 31 December 2023	FYE 31 December 2024	FYE 31 December 2025	FYE 31 December 2026-2029
	RM million	RM million	RM million	RM million	RM million	RM million
By business segment						
Supply and installation of networked systems	74.0 (100.0%)	8.0 (10.8%)	25.6 (34.6%)	19.4 (26.2%)	19.4 (26.2%)	1.6 (2.2%)
Provision of networked facilities	488.1 (100.0%)	12.3 (2.5%)	97.1 (19.9%)	97.1 (19.9%)	87.6 (18.0%)	194.0 (39.7%)
Others [(1)]	36.1 (100.0%)	6.9 (19.1%)	9.2 (25.5%)	20.0 (55.4%)	-	-
Total	**598.2 (100.0%)**	**27.2 (4.5%)**	**131.9 (22.0%)**	**136.5 (22.8%)**	**107.0 (17.9%)**	**195.6 (32.7%)**

Note:

(1) Refers to the development of underground utility management software project.

12.2.19 Capital expenditures and divestures

Capital expenditures

Our capital expenditures for the Financial Years Under Review, FPE 30 June 2022 and up to the LPD are set out below:

	FYE 31 December			FPE 30 June	From 1 July up to the LPD
	2019	2020	2021	2022	
	RM'000	RM'000	RM'000	RM'000	RM'000
Networked equipment	1,683	29,896	50,251	23,240	16,568
Plant and equipment	41	166	240	414	209
Telecommunication towers and monopoles	-	-	252	306	326
Motor vehicles	306	98	412	-	491
Furniture, fixture and fittings	12	14	29	82	78
Renovation	-	-	11	28	140
	2,042	**30,174**	**51,195**	**24,070**	**17,812**

Our capital expenditure was primarily funded via a combination of bank borrowings and internally generated funds.

For the FYE 31 December 2019, our capital expenditure of RM2.0 million mainly comprised the following:

- RM1.7 million for the purchase and installation of networked equipment including video cameras, large wall display panels, network devices including switches, routers, splitters, firewalls, transmitters, repeaters and storage arrays, data storage servers, as well as related infrastructures such as poles and power cables. These were networked video surveillance facilities installed in Kuala Lumpur which were connected to the control centre for use by DBKL.

- RM0.3 million mainly for the purchase of two (2) units of motor vehicles.

For the FYE 31 December 2020, our capital expenditure of RM30.2 million mainly comprised the following:

- RM29.9 million for the purchase and installation of networked equipment and related infrastructures as mentioned above.

- RM0.3 million for the purchase of plant and equipment such as computers and office equipment and one (1) unit of motor vehicle.

For the FYE 31 December 2021, our capital expenditure of RM51.2 million mainly comprised the following:

- RM50.3 million for the purchase and installation of networked equipment and related infrastructures including networked video surveillance facilities for use by DBKL in Kuala Lumpur as mentioned above, new video surveillance facilities purchased and installed at PDRM's lockup facilities in the southern and northern zones of Peninsular Malaysia.

- RM0.9 million mainly for the purchase of four (4) units of motor vehicles, plant and equipment including office equipment and renovation of office, as well as purchase and installation of 14 telecommunication monopoles and two (2) telecommunication towers in Perak and one (1) telecommunication monopole in Selangor respectively.

For the FPE 30 June 2022, our capital expenditure of RM24.1 million mainly comprised the following:

- RM23.2 million for the purchase and installation of networked equipment and related infrastructures including networked video surveillance facilities for use by DBKL in Kuala Lumpur as well as new video surveillance facilities purchased and installed at PDRM's lockup facilities in the southern and northern zones of Peninsular Malaysia.

- RM0.9 million mainly for the purchase of plant and equipment including office equipment and renovation of office, as well as purchase and installation of two (2) units of telecommunications monopoles in Kuala Lumpur and Selangor.

From 1 July up to the LPD, our capital expenditures of RM17.8 million mainly comprised the purchase and installation of networked equipment and related infrastructures including networked video surveillance facilities for use by DBKL in Kuala Lumpur and for PDRM's lockup facilities in the southern and northern zones of Peninsular Malaysia as mentioned above.

Capital divestitures

For the Financial Years Under Review, FPE 30 June 2022 and up to the LPD, we do not have material capital divestitures.

12.2.20 Material commitment for capital expenditures

As at the LPD, our Group's material commitments for capital expenditure are set out below:

	RM'000
Approved but not contracted for:	
Testing tools and calibration instruments and software	1,000
Network infrastructure	39,500
New testing laboratory	2,000
Smart city and smart campus pilot projects	3,000
Total	**45,500**

The capital commitments above will be funded by the proceeds from the Public Issue. See Section 4.6 of this Prospectus for further details.

12.2.21 Financial risk management

We are exposed to market risks arising from our operations and use of financial instruments. Our key market risk exposures are to interest rate risk and foreign currency risk.

Interest rate risk

All our borrowings are interest-bearing obligations. Any hike in interest rates would affect our financial performance. Our finance cost mainly comprises interest charges on banking facilities, mainly term loans and revolving credit that are granted by bank and financial institutions. As at 30 June 2022, our Group's total borrowings was RM94.0 million, of which all were interest bearing, comprising RM93.2 million based on floating interest rates and the remaining RM0.8 million based on fixed rates. Our finance cost increased from approximately RM97,000 for the FYE 31 December 2019 to RM1.1 million for the FYE 31 December 2021 mainly attributed to the increase in interest expense on our term loans by RM0.8 million due to the drawdowns of our term loans for the purchase and installation of networked video surveillance facilities. In this respect, any increase in draw down of borrowings and/or interest rates may impact our financial performance.

For the Financial Years Under Review, FPE 30 June 2022 and up to the LPD, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings. For further details, see Sections 9.1.9 and 9.2.2 of this Prospectus.

Foreign currency risk

Our business is exposed to the risk of foreign exchange fluctuations where 22.7%, 25.1%, 13.6% and 9.2% of our purchases of materials and services including subcontractors' costs for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021, and FPE 30 June 2022 respectively were transacted in USD. Any adverse changes in exchange rates between RM and USD would have a negative impact on our financial performance.

Details of our foreign currency exchange gains and losses during the Financial Years Under Review and FPE 30 June 2022 are as follows:

	FYE 31 December			**FPE 30 June**
	2019	**2020**	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised gain/(loss) on foreign exchange	(53)	4	(16)	43
Unrealised gain/(loss) on foreign exchange	8	548	14	(454)
Net gain/(loss)	**(45)**	**552**	**(2)**	**(411)**

Our business is subject to risks relating to any unfavourable foreign currency exchange rate fluctuations which could materially affect our financial performance. As at the LPD, we do not have any foreign currency forward hedging contracts. For further details, see Sections 9.1.10 and 9.2.2 of this Prospectus.

12.3 CAPITALISATION AND INDEBTEDNESS

The table below presents our capitalisation and indebtedness as at 31 October 2022 and on the assumption that our IPO, our Listing and the use of proceeds from the Public Issue as set out in Section 4.6 of this Prospectus had occurred on 31 October 2022.

The pro forma financial information below does not represent our actual capitalisation and indebtedness as at 31 October 2022 and is provided for illustrative purposes only.

	Unaudited	**Pro forma**
	As at 31 October 2022	**After the Public Issue and use of proceeds**
	RM'000	**RM'000**
Indebtedness		
Current		
Unsecured and unguaranteed		
Lease liabilities	652	652
Secured and guaranteed		
Term loans*	18,415	18,415
Revolving credits	8,162	-
Hire purchase liabilities**	318	318
Non-current		
Unsecured and guaranteed		
Lease liabilities	2,211	2,211
Secured and guaranteed		
Term loans*	58,974	58,974
Hire purchase liabilities**	331	331
Total indebtedness	**89,063**	**80,901**
Total shareholders' equity / capitalisation	**76,659**	(1)**273,175**
Total capitalisation and indebtedness	**165,722**	**354,076**
Gearing ratio (times)(2)	1.16	0.30

* *Joint and several guarantee by our Directors and Sena Letrik which has been uplifted on 2 November 2022.*

** *Joint and several guarantee by our Director which has been uplifted on 7 November 2022.*

Notes:

(1) *Calculated after taking into account the Acquisition, the Public Issue based on the Retail Price and the estimated fees and expenses for our IPO and our Listing.*

(2) *Computed based on total indebtedness divided by total shareholders' equity/ capitalisation.*

As at 31 October 2022, approximately RM7.8 million representing 8.8% of our indebtedness is secured by fixed deposits.

12.4 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF ITMAX SYSTEM

KPMG

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
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The Board of Directors
ITMAX System Berhad
No. 30-G & 30-3, Jalan Radin Bagus 3
Bandar Baru Seri Petaling
57000 Kuala Lumpur

Date: 10 November 2022

Dear Sir/Madam,

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")

Report on the compilation of pro forma combined statement of financial position for inclusion in the Company's prospectus in connection with the initial public offering of up to 320,000,000 ordinary shares in the Company ("Shares") ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued Shares on the Main Market of Bursa Malaysia Securities Berhad ("Prospectus") ("Listing")

We have completed our assurance engagement to report on the compilation of the pro forma combined statement of financial position of the Group as at 30 June 2022 ("Pro Forma Financial Position") prepared by the management of the Company. The Pro Forma Financial Position and the related notes as set out in Attachment A, have been stamped by us for identification purposes. The applicable criteria on the basis of which the Board of Directors of the Company (the "Directors") have compiled the Pro Forma Financial Position are described in the notes to the Pro Forma Financial Position. The Pro Forma Financial Position is prepared in accordance with the requirements of Chapter 9 of the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and the Guidance Note for Issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants.

The Pro Forma Financial Position has been compiled by the Directors for inclusion in the Prospectus solely to illustrate the impact of the transactions as set out in the notes of Attachment A on the Group's combined statement of financial position as at 30 June 2022, as if the transactions had taken place as at 30 June 2022. As part of this process, information about the Group's combined financial position has been extracted by the Directors from the audited combined financial statements of the Group for the financial period ended 30 June 2022, on which an auditors' report dated 10 November 2022 has been issued.

KPMG

ITMAX System Berhad ("ITMAX System" or the "Company")
Report on the compilation of pro forma combined statement of financial position for inclusion in the Prospectus in connection with the Listing
10 November 2022

Directors' Responsibility for the Pro Forma Financial Position

The Directors are responsible for compiling the Pro Forma Financial Position on the basis described in the notes of Attachment A as required by the Prospectus Guidelines.

Reporting Accountants' 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) (IESBA Code), 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 adopted by the Malaysian Institute of Accountants, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion as required by the Prospectus Guidelines about whether the Pro Forma Financial Position has been compiled, in all material respects, by the Directors on the basis described in the notes of Attachment A.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 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 have compiled, in all material respects, the Pro Forma Financial Position on the basis described in the notes of Attachment A.

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 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 Financial Position.

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

KPMG

Reporting Accountants' Responsibilities (continued)

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

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

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Financial Position has been compiled, and other relevant engagement circumstances.

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

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

Opinion

In our opinion, the Pro Forma Financial Position has been compiled, in all material respects, on the basis described in the notes of Attachment A.

Other Matter

Our report on the Pro Forma Financial Position has been prepared in connection with the Listing and should not be relied upon for any other purposes.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Foong Mun Kong
Approval Number: 02613/12/2022 J
Chartered Accountant

Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

Pro Forma Financial Position

The pro forma combined statement of financial position of the Group as at 30 June 2022 ("Pro Forma Financial Position") as set out below has been prepared for illustrative purposes only to show the effects of the transactions referred to in Note 2 had these transactions been effected on 30 June 2022, and should be read in conjunction with the said notes to the Pro Forma Financial Position.

	Notes	As at 30 June 2022* RM'000	Pro Forma I After the Pre-IPO Restructuring RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the use of proceeds RM'000
Assets					
Plant and equipment		115,866	115,866	115,866	115,866
Right-of-use assets		2,744	2,744	2,744	2,744
Intangible asset		945	945	945	945
Contract assets		163	163	163	163
Total non-current assets		119,718	119,718	119,718	119,718
Inventories		9,376	9,376	9,376	9,376
Contract assets		9,993	9,993	9,993	9,993
Contract costs		853	853	853	853
Trade and other receivables		26,559	26,559	26,559	26,559
Prepayments and other assets		541	541	541	541
Fixed deposits with licensed banks		6,962	6,962	6,962	6,962
Cash and cash equivalents	3(a)	10,557	10,557	214,449	198,047
Total current assets		64,841	64,841	268,733	252,331
Total assets		184,559	184,559	388,451	372,049

** Extracted from the audited combined financial statements of the Group for the financial period ended 30 June 2022.*

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Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

Pro Forma Financial Position (continued)

	Notes	As at 30 June 2022* RM'000	Pro Forma I After Pre-IPO Restructuring RM'000	Pro Forma II After Pro Forma I and the IPO RM'000	Pro Forma III After Pro Forma II and the use of proceeds RM'000
Equity					
Share capital	3(b)	1,000	60,358	261,254	261,254
Invested equity	3(c)	3,000	-	-	-
Retained earnings	3(d)	57,374	57,374	51,968	51,968
Merger reserve	3(e)	-	(56,358)	(56,358)	(56,358)
Total equity attributable to owners of the Group		61,374	61,374	256,864	256,864
Liabilities					
Loans and borrowings		65,314	65,314	65,314	65,314
Lease liabilities		2,132	2,132	2,132	2,132
Deferred tax liabilities		4,291	4,291	4,291	4,291
Total non-current liabilities		71,737	71,737	71,737	71,737
Loans and borrowings	3(f)	28,734	28,734	28,734	20,734
Lease liabilities		743	743	743	743
Trade and other payables	3(g)	20,152	20,152	28,554	20,152
Contract liabilities		22	22	22	22
Current tax liabilities		1,797	1,797	1,797	1,797
Total current liabilities		51,448	51,448	59,850	43,448
Total liabilities		123,185	123,185	131,587	115,185
Total equity and liabilities		184,559	184,559	388,451	372,049

** Extracted from the audited combined financial statements of the Group for the financial period ended 30 June 2022.*

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Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

Notes to the Pro Forma Financial Position

The pro forma combined statement of financial position of the Group as at 30 June 2022 ("Pro Forma Financial Position") has been prepared for inclusion in the Company's prospectus in connection with the initial public offering of up to 320,000,000 ordinary shares in the Company ("Shares") ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued Shares on the Main Market of Bursa Malaysia Securities Berhad ("Prospectus") ("Listing") and should not be relied upon for any other purposes.

1. Basis of preparation

The applicable criteria on the basis of which the Board of Directors of the Company (the "Directors") have compiled the Pro Forma Financial Position are as described below. The Pro Forma Financial Position is prepared in accordance with the requirements of Chapter 9 of the Prospectus Guidelines issued by the Securities Commission Malaysia and the Guidance Note for Issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants.

The Pro Forma Financial Position has been prepared based on the audited combined financial statements of the Group for the financial period ended 30 June 2022, which was prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"), and in a manner consistent with the format of the statement of financial position and the accounting policies adopted by the Group, and adjusted for the events and transactions detailed in Note 2.

The pro forma adjustments are appropriate for the purpose of preparing the Pro Forma Financial Position.

The auditors' report dated 10 November 2022 on the audited combined financial statements of the Group for the financial period ended 30 June 2022 was not subject to any qualification, modification or disclaimer of opinion.

The Pro Forma Financial Position is not necessarily indicative of the financial position that would have been attained had the IPO actually occurred at the respective dates. The Pro Forma Financial Position has been prepared for illustrative purposes only.

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2. Pro forma adjustments to the Pro Forma Financial Position

The Pro Forma Financial Position illustrates the effects of the following events or transactions:

2.1 Pro Forma I – Pre-IPO Restructuring

The Pre-IPO Restructuring entails the following:

(i) Acquisition of STS

On 21 October 2022, the Company had completed the acquisition of the entire issued share capital of Sena Traffic Systems Sdn Bhd of RM3,000,000 comprising 3,000,000 ordinary shares from Tan Sri Dato' Dr. Tan Boon Hock and Puan Sri Datin Lim Sho Hoo (the "Sellers") for a purchase consideration of RM59,357,908 ("Acquisition of STS"). The said purchase consideration has been fully satisfied by the issuance of 388,800 new Shares at an issue price of approximately RM152.67 per Share, credited as fully-paid up to Sena Holdings Sdn Bhd ("Sena Holdings"), being the sole company jointly nominated by the Sellers.

The Acquisition of STS is accounted for using book value accounting. Under book value accounting, the difference between the consideration paid and the share capital of the acquiree is accounted for as merger reserve.

(ii) Subdivision

Following the completion of the Acquisition of STS, ITMAX System had undertaken a subdivision of 1,388,800 Shares into 837,446,400 Shares to facilitate the Listing.

2.2 Pro Forma II – IPO

The IPO entails the initial public offering of up to 320,000,000 Shares which comprises the following transactions:

(i) Public Issue

The public issue of up to 190,553,600 new ordinary shares in the Company ("Issue Share(s)") at a price of RM1.07 per Issue Share.

(ii) Offer for Sale

The offer for sale by Sena Holdings (the "Selling Shareholder") of up to 129,446,400 existing ordinary shares in the Company ("Offer Share(s)") at a price of RM1.07 per Offer Share by way of private placement to selected investors.

The Company will not receive any proceeds from the Offer for Sale. The total gross proceeds of approximately RM138,507,648 from the Offer for Sale will accrue entirely to the Selling Shareholder.

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Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

2. Pro forma adjustments to the Pro Forma Financial Position (continued)

2.2 Pro Forma II – IPO (continued)

(iii) Estimated listing expenses

The estimated listing expenses comprises the following:

	RM'000
Professional fees:	*3,941*
Fees to authorities:	*838*
Other fees and expenses such as printing, advertising, prospectus, and roadshow expenses incurred in connection with the Public Issue:	*795*
Brokerage, underwriting and placement fees:	*4,240*
	9,814

The total estimated listing expenses to be borne by the Company is approximately RM9.81 million. As at 30 June 2022, RM1.41 million has been paid and recognised in the profit or loss account of the Group. The balance of the estimated listing expenses of RM8.40 million has been accrued in trade and other payables in which RM3.00 million directly attributable to the Public Issue will be debited against the share capital of the Group, and the remaining estimated listing expenses of RM5.40 million will be charged to the profit or loss of the Group.

2.3 Pro Forma III - Use of proceeds

The total gross proceeds from the Public Issue of RM203,892,352 is intended to be used as follows:

	RM'000
Capital expenditure(1)	157,000
Working capital	29,078
Repayment of borrowings(2)	8,000
Estimated listing expenses(3)	9,814
	203,892

Notes:

(1) The breakdown of capital expenditure amounting to RM157.0 million is set out below:

	RM'000
Smart city application expansion to other local governments, federal ministries and existing customers	*85,000*
Expansion of research & development capabilities	*12,500*
Expansion into enterprise market	*20,000*
Network and telecommunication infrastructure expansion	*39,500*
	157,000

As at the latest practicable date of 10 November 2022, the Company has yet to enter into any contractual binding arrangements or issued any purchase orders in relation to the above capital expenditure. Accordingly, the use of proceeds earmarked for capital expenditure is not reflected in the Pro Forma Financial Position.

(2) The use of proceeds earmarked by the Company for the repayment of borrowings is in relation to an outstanding amount owing in respect of a revolving credit facility granted by Hong Leong Bank Berhad for the purchase of network equipment.

(3) The total estimated listing expenses to be borne by the Company is approximately RM9.81 million. As at 30 June 2022, RM1.41 million has been paid and recognised in the profit or loss account of the Group. The balance of the estimated listing expenses of RM8.40 million has been accrued in trade and other payables and upon completion of the Listing, this amount will be paid using the proceeds from the Public Issue.

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Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

2. Pro forma adjustments to the Pro Forma Financial Position (continued)

2.4 Long Term Incentive Plan ("LTIP")

In conjunction with the Listing, ITMAX System will establish an LTIP which entails the granting of Executives Share Grant Scheme shares ("ESGS Shares") and Employees' Share Option Scheme options ("ESOS Options") to eligible directors and eligible executives of the Group (including directors of STS) ("LTIP Eligible Person(s)").

The LTIP shall be administered by a committee to be appointed by the Directors ("LTIP Committee") and governed by the rules, terms and conditions of the LTIP, as may be modified and/ or amended from time to time ("By-Laws"). The aggregate maximum number of Shares which may be made available under the LTIP shall not in aggregate exceed 10% of the total number of issued Shares at any point of time during the duration of the LTIP.

The LTIP is not illustrated in the Pro Forma Financial Position as the ESGS Shares and ESOS Options under the LTIP have yet to be granted as of the date of this report.

3. Effects on the Pro Forma Financial Position

(a) Movement in cash and cash equivalents

	RM'000
Balance as at 30 June 2022 / Pro Forma I	10,557
Effects of Pro Forma II:	
- Proceeds from the Public Issue	203,892
Pro Forma II	214,449
Effects of Pro Forma III:	
- Repayment of borrowings	(8,000)
- Remaining estimated listing expenses to be paid	(8,402)
Pro Forma III	198,047

(b) Movement in share capital

	RM'000
Balance as at 30 June 2022	1,000
Effects of Pro Forma I	
- Acquisition of STS	59,358
Pro Forma I	60,358
Effects of Pro Forma II:	
- Public Issue	203,892
- Estimated listing expenses directly attributable to the Public Issue	(2,996)
Pro Forma II and III	261,254

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Attachment A

ITMAX System Berhad ("ITMAX System" or the "Company") and its combining entity, Sena Traffic Systems Sdn Bhd ("STS") (collectively, the "Group")
Pro Forma Financial Position and the notes thereon

3. Effects on the Pro Forma Financial Position (continued)

(c) Movement in invested equity

	RM'000
Balance as at 30 June 2022	3,000
Effects of Pro Forma I:	
- Acquisition of STS	(3,000)
Pro Forma I, II and III	-

(d) Movement in retained earnings

	RM'000
Balance as at 30 June 2022 / Pro Forma I	57,374
Effects of Pro Forma II:	
- Estimated listing expenses charged to profit or loss of the Group	(5,406)
Pro Forma II and III	51,968

(e) Movement in merger reserve

	RM'000
Balance as at 30 June 2022	-
Effects of Pro Forma I:	
- Acquisition of STS	(56,358)
Pro Forma I, II and III	(56,358)

(f) Movement in loan and borrowings – current

	RM'000
Balance as at 30 June 2022 / Pro Forma I and II	28,734
Effects of Pro Forma III:	
- Repayment of borrowings	(8,000)
Pro Forma III	20,734

(g) Movement in trade and other payables – current

	RM'000
Balance as at 30 June 2022 / Pro Forma I	20,152
Effects of Pro Forma II:	
- Estimated listing expenses accrued	8,402
Pro Forma II	28,554
Effects of Pro Forma III:	
- Reversal of accrued estimated listing expenses and payment of estimated listing expenses using proceeds from Public Issue	(8,402)
Pro Forma III	20,152

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12.5 DIVIDEND POLICY

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

The actual dividend that our Board may recommend or declare in any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by our Board. In considering the level of dividend payments, if any, upon recommendation by our Board, we intend to consider various factors including:

(i) our level of cash, gearing and return on equity and retained earnings;
(ii) our expected financial performance;
(iii) our projected levels of capital expenditure and other investment plans;
(iv) our working capital requirements; and
(v) any contractual restrictions and/or commitments.

We target a payout ratio of at least 20.0% of our PAT attributable to owners of our Company of each financial year on a consolidated basis, subject to any applicable law, licence conditions, financial covenants and contractual obligations and provided that such distribution will not be detrimental to our cash requirements or any plans approved by our Board.

As at the LPD, save for any applicable financial covenants and the Act, and subject to the availability of distributable profits and reserves, there are no dividend restrictions imposed on us or our subsidiary.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our future dividends which are subject to modifications (including non-declaration thereof) at our Board's discretion. We cannot assure you that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that future dividends declared by our Board, if any, will not differ materially from historical dividend levels. See Section 9 of this Prospectus for factors which may affect or restrict our ability to pay dividends.

The following table sets out the dividends declared and/or paid by our Company for the Financial Years Under Review, FPE 30 June 2022 and up to the LPD, and the corresponding dividend payout ratio:

	FYE 31 December			**FPE 30 June**	**From 1 July 2022 up to the LPD**
	2019	**2020**	**2021**	**2022**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Dividends declared and/or paid	-	-	14,000[(2)]	-	-
PAT	1,570	12,669	29,237	15,454	-
Dividend payout ratio[(1)] (%)	-	-	47.9	-	-

***Notes**:*

(1) Computed based on dividends declared and/or paid divided by PAT.

(2) Represents dividends paid by our Company to our shareholders comprising a first interim dividend of RM6.0 million which was declared on 25 November 2021 and paid on 27 December 2021 and a second interim dividend of RM8.0 million which was declared on 3 January 2022 and paid on 4 January 2022. The second interim dividend will be accounted for in the FYE 31 December 2022 and the effects has been reflected in the pro forma combined statements of financial position of our Company. The dividend was funded entirely from internally generated funds and paid out of the retained earnings of our Company in accordance with Section 131(1) of the Act. The dividend will not affect the execution and implementation of our business strategies and plans.