12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The audited combined financial statements for the FY Under Review and FP Under Review were prepared in accordance with the approved accounting standards in Malaysia - Malaysian Financial Reporting Standards ("**MFRS**") and International Financial Reporting Standards ("**IFRS**"). The audited financial statements of the companies within our Group for the FY Under Review and FP 2023 were not subject to any audit qualification, modification and disclaimer. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results or cash flows.

12.1.1 Historical Combined Statements of Profit or Loss

The table below sets out SDCG Group's historical combined statements of profit or loss and other comprehensive income for the FY Under Review and FP Under Review.

	Audited			Unaudited	Audited
	FY 2020	**FY 2021**	**FY 2022**	**FP 2022**	**FP 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	14,709	17,594	18,648	10,748	16,806
Cost of sales	(8,678)	(8,535)	(7,970)	(5,265)	(7,694)
GP	**6,031**	**9,059**	**10,678**	**5,483**	**9,112**
Other income	23	360	41	7	22
Administrative expenses	(3,105)	(2,817)	(3,624)	(2,702)	(3,788)
Other expenses	(119)	(161)	(306)	(230)	(273)
Finance costs	(81)	(33)	(48)	(34)	(51)
Net impairment gain/(losses) on financial asset	12	(117)	(282)	(133)	(393)
PBT	**2,761**	**6,291**	**6,459**	**2,391**	**4,629**
Income tax expense	(777)	(2,066)	(1,275)	(486)	(1,221)
PAT	**1,984**	**4,225**	**5,184**	**1,905**	**3,408**
PAT attributable to:					
Owners of the Company	1,999	4,217	5,195	2,113	3,408
Non-controlling interests [(1)]	(15)	8	(11)	(208)	-
	1,984	**4,225**	**5,184**	**1,905**	**3,408**
GP margin (%)[(2)]	41.00	51.49	57.26	51.01	54.22
PBT margin (%)[(3)]	18.77	35.76	34.64	22.25	27.54
PAT margin (%)[(4)]	13.49	24.01	27.80	17.72	20.28
EBIT[(5)]	2,819	6,315	6,498	2,425	4,680
EBITDA[(5)]	3,645	7,764	8,171	3,689	5,887
EPS					
• Basic and diluted[(6)] (sen)	0.47	0.99	1.23	0.66[(7)]	1.07[(7)]

Notes:

(1) For FY 2020 and FY 2021, the equity interest of 30% in KED were held by Ed Kamil Bin Md Bashah, Khoirol Suhardi Bin Shaaban and Mohd Hanafy Bin Rasimon, each of whom held 10% equity interest. They ceased to be the shareholders of KED on 30 December 2022 and KED became the wholly-owned subsidiary of SDC.

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

(3) PBT margin is computed based on PBT over revenue.

(4) PAT margin is computed based on PAT over revenue.

(5) EBIT and EBITDA are computed as follows:

	Audited			*Unaudited*	*Audited*
	FY 2020	***FY 2021***	***FY 2022***	***FP 2022***	***FP 2023***
	RM'000	***RM'000***	***RM'000***	***RM'000***	***RM'000***
Profit for the financial year	*1,984*	*4,225*	*5,184*	*1,905*	*3,408*
Less:					
Interest income	*(23)*	*(9)*	*(9)*	*-*	*-*
Add:					
Finance costs	*81*	*33*	*48*	*34*	*51*
Tax expense	*777*	*2,066*	*1,275*	*486*	*1,221*
EBIT	***2,819***	***6,315***	***6,498***	***2,425***	***4,680***
Add:					
Depreciation	*826*	*1,449*	*1,673*	*1,264*	*1,207*
EBITDA	***3,645***	***7,764***	***8,171***	***3,689***	***5,887***

(6) Calculated based on PAT attributable to the owners of the Company divided by the enlarged issued share capital of 423,822,460 after the IPO.

(7) Calculated based on annualised PAT attributable to the owners of the Company for the FP 2022 and FP 2023.

12.1.2 Historical Combined Statements of Financial Position

The table below sets out SDCG Group's historical combined statements of financial position for the FY Under Review and FP Under Review.

	Audited			
	FY 2020	**FY 2021**	**FY 2022**	**FP 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Assets				
Non-currents assets				
Property, plant and equipment	7,846	7,979	6,616	5,465
Current assets				
Inventories	1,277	1,243	2,011	3,015
Trade receivables	5,498	7,239	7,489	9,671
Other receivables, deposits, and prepayments	190	831	319	1,539
Current tax assets	822	141	30	180
Fixed deposits with licensed banks	515	524	533	537
Cash and bank balances	697	1,621	1,451	1,229
Total current assets	**8,999**	**11,599**	**11,833**	**16,171**
Total assets	**16,845**	**19,578**	**18,449**	**21,636**

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FY 2020	FY 2021	FY 2022	FP 2023
	RM'000	RM'000	RM'000	RM'000
Equity				
Share capital	1,000	1,000	1,000	1,000
Retained profits	13,096	15,312	14,258	17,665
Equity attributable to owners of the Company	**14,096**	**16,312**	**15,258**	**18,665**
Non-controlling interests	83	91	-	-
Total equity	**14,179**	**16,403**	**15,258**	**18,665**
Liabilities				
Non-current liabilities				
Hire purchase payables	-	241	185	139
Term loans	907	818	619	482
Deferred tax liabilities	183	330	-	-
Total non-current liabilities	**1,090**	**1,389**	**804**	**621**
Current liabilities				
Trade payables	914	1,190	1,451	1,480
Other payables and accruals	470	368	386	583
Hire purchase payables	-	54	59	61
Term loans	192	174	198	207
Bank overdrafts	*	*	1	*
Current tax liabilities	-	-	292	19
Total current liabilities	**1,576**	**1,786**	**2,387**	**2,350**
Total liabilities	**2,666**	**3,175**	**3,191**	**2,971**
Total equity and liabilities	**16,845**	**19,578**	**18,449**	**21,636**
Net assets	**14,179**	**16,403**	**15,258**	**18,665**

(*) Amount is less than RM500

12.1.3 Historical Combined Statements of Cash Flows

The table below sets out SDCG Group's historical combined statements of cash flows for the FY Under Review and FP Under Review.

	Audited			
	FY 2020	FY 2021	FY 2022	FP 2023
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
PBT	2,761	6,291	6,459	4,629
Adjustments for:				
Bad debt written off	5	-	-	72
Depreciation of property, plant and equipment	826	1,449	1,673	1,207
Impairment losses on trade receivables	297	117	282	393

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FY 2020	**FY 2021**	**FY 2022**	**FP 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest expenses	81	33	48	51
Reversal of impairment losses on trade receivables	(309)	-	-	-
Gain on disposal of property, plant and equipment	-	(30)	(32)	-
Unrealised loss/(gain) on foreign exchange	6	(1)	*	*
Interest income	(23)	(9)	(9)	-
Operating profit before working capital changes	3,644	7,850	8,421	6,352
Changes in working capital:				
Decrease /(Increase) in inventories	411	34	(768)	(1,004)
Decrease/(Increase) in trade and other receivables	2,514	(2,499)	(20)	(3,860)
(Decrease)/Increase in trade and other payables	(228)	174	249	219
Cash from operations	6,341	5,559	7,882	1,707
Tax paid	(1,467)	(1,368)	(1,202)	(1,671)
Tax refunded	-	130	-	26
Net cash from operating activities	**4,874**	**4,321**	**6,680**	**62**
Cash flows for investing activities				
Interest received	8	-	-	-
Additions of fixed deposit with tenure more than 3 months	-	-	-	(4)
Advances to a related party	-	-	-	(7)
Proceeds from disposal of property, plant and equipment	-	30	32	-
Withdrawal of fixed deposits with licensed banks	593	-	-	-
Purchase of property, plant and equipment	(2,846)	(1,270)	(310)	(56)
Net cash used for investing activities	**(2,245)**	**(1,240)**	**(278)**	**(67)**
Cash flows for financing activities				
Advances from a related party	-	-	-	7
Proceeds from issuance of ordinary shares:-				
- the Company	-	-	-	*
Drawdown of term loans	2,299	-	-	-
Dividend paid	-	(2,000)	(6,300)	-
Net repayment of banker's acceptance	(590)	-	-	-

	Audited			
	FY 2020	FY 2021	FY 2022	FP 2023
	RM'000	RM'000	RM'000	RM'000
Repayment of term loans	(3,276)	(107)	(174)	(129)
Repayment of hire purchase payables	-	(17)	(51)	(44)
Interest paid	(81)	(33)	(48)	(51)
Net cash used for financing activities	**(1,648)**	**(2,157)**	**(6,573)**	**(217)**
Net increase/ (decrease) in cash and cash equivalents	981	924	(171)	(222)
Effects of foreign exchange rate changes	-	-	*	*
Cash and cash equivalents at beginning of financial years	(284)	697	1,621	1,451
Cash and cash equivalents at end of the financial years	**697**	**1,621**	**1,451**	**1,229**

(*) Amount is less than RM500

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

The following discussion and analysis of our financial condition and results of operations should be read together with the Accountants' Report and related notes as set out in Section 14 of this Prospectus.

12.2.1 Overview of our business operations

We are principally involved in the provision and maintenance of BMS and solar thermal systems and energy saving services. Our BMS are focused on systems integration of building facilities to provide automation, energy savings services as well as centralising the management of the building facilities such as centralised air conditioning, lighting, elevator and escalator, electrical and communications, process utilities and security and access. Our solar thermal systems are focused on solar thermal hot water system mainly for heavy users of hot water such as hospitals, and in some cases, it includes retrofitting fluorescent lighting to use LED lights as a means to reduce electricity consumption.

Please refer to Section 7 of this Prospectus for further information on our business operations.

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12.2.2 Overview of our financial results

For the FY Under Review and FP Under Review, our revenue was mainly derived from the two segments as follows:

(i) BMS

Type of services	Revenue recognition
System integration	Revenue from systems integration of BMS is recognised over time in the period in which the services are rendered using output method by reference to the construction progress based on the physical proportion of the supply and installation work certified by professional consultants or our customers.
Maintenance of BMS	Revenue from maintenance of BMS is recognised over time in the period in which the services rendered.

(ii) Solar thermal systems and energy saving services

Type of services	Revenue recognition
Energy performance services	Revenue from energy performance services is recognised over time as the customer simultaneously receives and consumes the benefits provided by the facilities installed by the Group as stipulated in the contracts.
Installation of solar thermal hot water systems	Revenue from installation of solar thermal hot water systems is recognised over time in the period in which the services are rendered using output method by reference to the construction progress based on the physical proportion of the supply and installation work approved by our customers.
Maintenance of solar thermal hot water and cooling systems	Revenue from maintenance of solar thermal hot water and cooling systems is recognised over time in the period in which the services rendered.

Between FY 2020 and FY 2022, our revenue increased at a CAGR of 12.60% from RM14.71 million in FY 2020 to RM18.65 million in FY 2022. In FP 2023, revenue from BMS segment increased by RM5.86 million or 92.18% from RM6.36 million in FP 2022 to RM12.22 million in FP 2023. For FY 2022 and FP 2023, revenue from the BMS segment accounted for 67.88% (RM12.66 million) and 72.68% (RM12.22 million) of our total revenue respectively, and this was mainly from systems integration of BMS. Meanwhile, revenue from solar thermal systems and energy saving services segment represented RM5.55 million or 29.74% of our total revenue for FY 2022 and RM4.24 million or 25.23% of our total revenue for FP 2023, which was mainly contributed by energy performance services.

Our maintenance of other systems and equipment mainly gas fired chillers accounted for RM0.44 million or 2.38% of our total revenue for FY 2022 and RM0.35 million or 2.09% of our total revenue for FP 2023.

12. FINANCIAL INFORMATION (CONT'D)

12.2.3 Segmental analysis by revenue

(i) Revenue by business activities and products

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
BMS	**10,876**	**73.94**	**9,056**	**51.47**	**12,659**	**67.88**	**6,356**	**59.14**	**12,215**	**72.68**
- Systems integration of BMS	8,992	61.13	7,372	41.90	10,478	56.19	4,766	44.35	10,457	62.22
- Maintenance of BMS	1,884	12.81	1,684	9.57	2,181	11.69	1,590	14.79	1,758	10.46
Solar thermal systems and energy saving services	**2,894**	**19.68**	**7,962**	**45.26**	**5,545**	**29.74**	**4,074**	**37.90**	**4,240**	**25.23**
- Energy performance services	2,699	18.35	4,911	27.92	5,148	27.61	3,907	36.35	4,045	24.07
- Installation of solar thermal hot water systems	53	0.36	2,893	16.44	223	1.20	54	0.50	74	0.44
- Maintenance of solar thermal hot water and cooling systems	142	0.97	158	0.90	174	0.93	113	1.05	121	0.72
Maintenance of other systems and equipment	**939**	**6.38**	**576**	**3.27**	**444**	**2.38**	**318**	**2.96**	**351**	**2.09**
- Gas fired chillers	939	6.38	576	3.27	444	2.38	318	2.96	351	2.09
Total	**14,709**	**100.00**	**17,594**	**100.00**	**18,648**	**100.00**	**10,748**	**100.00**	**16,806**	**100.00**

12. FINANCIAL INFORMATION (CONT'D)

(ii) Revenue by geographical markets

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	14,334	97.45	17,408	98.94	18,587	99.67	10,748	100.00	16,663	99.15
Other countries	375	2.55	186	1.06	61	0.33	-	-	143	0.85
- *Singapore*	*375*	*2.55*	*186*	*1.06*	-	-	-	-	-	-
- *Brunei*	-	-	-	-	*61*	*0.33*	-	-	*143*	*0.85*
Total	**14,709**	**100.00**	**17,594**	**100.00**	**18,648**	**100.00**	**10,748**	**100.00**	**16,806**	**100.00**

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(iii) Commentaries on revenue

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

For FY 2021, our revenue increased by RM2.89 million or 19.61% to RM17.59 million (FY 2020: RM14.71 million) and this was contributed by the solar thermal systems and energy saving services segment.

BMS

Revenue from BMS segment decreased by RM1.82 million or 16.73% to RM9.06 million in FY 2021 (FY 2020: RM10.88 million). This was mainly due to the following:

- decrease in revenue contribution from systems integration of BMS by RM1.62 million or 18.02% to RM7.37 million in FY 2021 (FY 2020: RM8.99 million). This was mainly attributed to the completion of the Business School Project in FY 2020 where the revenue contribution from this project decreased by RM1.66 million from RM1.78 million in FY 2020 to RM0.12 million in FY 2021.

  The decrease in revenue was moderated by the commencement of 7 BMS projects (each with a contract value less than RM1 million) in FY 2021 and the revenue contribution from these projects collectively accounted for RM1.37 million in FY 2021.

The decrease in revenue from the BMS segment was also partly due to the decrease of RM0.20 million in maintenance of BMS services to RM1.68 million in FY 2021 (FY 2020: RM1.88 million). This was mainly due to the lower maintenance services rendered in FY 2021.

Solar thermal systems and energy saving services

Revenue from solar thermal systems and energy saving services segment increased by RM5.07 million or 175.12% to RM7.96 million in FY 2021 (FY 2020: RM2.89 million). This was mainly due to the following:

- increase in revenue contribution from the installation of solar thermal hot water systems by RM2.84 million to RM2.89 million in FY 2021. The increase was mainly contributed by the revenue recognition of RM2.73 million from the Ampang Hospital Project which commenced in FY 2021 and was completed in the same year.

- increase in revenue contribution of RM2.21 million or 81.96% to RM4.91 million in FY 2021 from energy performance services attributed to the following:

  . increase in revenue from energy performance service contracts to the concessionaires for Sibu Hospital, Hospital 3 and Miri Hospital which collectively increased by RM1.33 million in FY 2021. The revenue recognition from these 3 projects commenced in FY 2020 following the completion of installations of hybrid solar thermal hot water systems and retrofitting of LED lighting in the respective hospitals between May 2020 and July 2020.

  . commencement of the revenue recognition from the energy performance service contract to the concessionaire for the Sarawak

Heart Centre following the completion of the installation of hybrid solar thermal hot water systems and retrofitting of LED lighting in March 2021 and the revenue recognised was RM0.93 million in FY 2021.

Maintenance of gas fired chillers

Revenue contribution from maintenance of gas fired chillers decreased by RM0.36 million or 38.66% to RM0.58 million in FY 2021 (FY 2020: RM0.94 million). This was mainly due to the decrease in revenue from the maintenance of gas fired chillers at a district cooling plant in Putrajaya. The decline in revenue was due to the lower maintenance rates charged which declined by 58.76% from year 1 to year 2 as stipulated in the 5-year maintenance contract.

Comparison between FY 2021 and FY 2022

For FY 2022, our revenue increased by RM1.05 million or 5.99% to RM18.65 million (FY 2021: RM17.59 million) and this was contributed by the BMS segment.

BMS

Revenue from BMS segment increased by RM3.60 million or 39.79% to RM12.66 million in FY 2022 (FY 2021: RM9.06 million). This was mainly due to the following:

- increase in revenue contribution of RM3.11 million or 42.13% to RM10.48 million in FY 2022 (FY 2021: RM7.37 million) from systems integration of BMS. The increase was mainly attributed to the commencement of the Financial Institution Project in November 2022 as well as the Ministry of Education 2 Project and Ministry of Health Project which commenced in November 2022. The revenue contribution of these three projects collectively accounted for RM3.24 million in FY 2022.

- increase in revenue contribution of RM0.50 million or 29.51% to RM2.18 million in FY 2022 (FY 2021: RM1.68 million) from the maintenance of BMS mainly for increases in services rendered to our existing customers.

Solar thermal systems and energy saving services

Revenue contribution from solar thermal systems and energy saving services segment decreased by RM2.42 million or 30.36% to RM5.55 million in FY 2022 (FY 2021: RM7.96 million). This was mainly due to the decrease in revenue contribution from the installation of solar thermal hot water systems by RM2.67 million or 92.29% to RM0.22 million in FY 2022 (FY 2021: RM2.89 million). The decrease was mainly attributed to the completion of the Ampang Hospital Project which contributed RM2.73 million to our revenue in FY 2021.

The decrease in revenue was partially offset by an increase in recognised from the provision of energy performance services by RM0.24 million or 4.83% to RM5.15 million in FY 2022 (FY 2021: RM4.91 million). This was mainly attributed to the increase of RM0.31 million in revenue from energy performance service contract to the concessionaire for Sarawak Heart Centre as the revenue recognition commenced in FY 2021 following the completion of installation of hybrid solar thermal hot water systems and retrofitting of LED lighting in March 2021.

Maintenance of gas fired chillers

Revenue contribution from the maintenance of gas fired chillers decreased by RM0.13 million or 22.92% to RM0.44 million in FY 2022 (FY 2021: RM0.58 million). This was mainly due to the completion of the maintenance contract for one of the district cooling plants in Putrajaya.

Comparison between FP 2022 and FP 2023

For FP 2023, our revenue increased by RM6.06 million or 56.36% to RM16.81 million (FP 2022: RM10.75 million) and this was mainly contributed by the BMS segment.

BMS

Revenue from BMS segment increased by RM5.86 million or 92.18% to RM12.22 million in FP 2023 (FP 2022: RM6.36 million), mainly due to the increase in revenue contribution of RM5.69 million from systems integration of BMS. This was mainly attributed to the commencement of the following projects between August 2022 and March 2023:

- the Semiconductor Project which commenced in August 2022, as well as the Ministry of Education 2 Project and the Ministry of Health Project which commenced in November 2022, and the revenue from these projects collectively accounted for RM3.65 million in FP 2023.

- the Conference and Residential Complex Project and Cyberjaya Data Centre Project, both of which commenced in March 2023 and collectively contributed revenue of RM3.35 million in FP 2023.

The increase was partially moderated by the decrease in revenue contribution by RM0.79 million in FP 2023 from the Healthcare University Project following the completion of the project in July 2022 as well as decrease in revenue of RM0.26 million from the Putrajaya Hotel ICT Project which was completed in August 2023. In addition, the decrease was partially attributed to the absence of revenue from the Business School Project which recorded a revenue of RM0.61 million in FP 2022 following the finalisation of the statement of final accounts.

Solar thermal systems and energy saving services

Revenue contribution from solar thermal systems and energy saving services segment increased by RM0.17 million or 4.08% to RM4.24 million in FP 2023 (FP 2022: RM4.07 million). This was mainly due to the increase in the revenue from the provision of energy performance services by RM0.14 million or 3.53% to RM4.05 million in FP 2023 (FP 2022: RM3.91 million) arising from the increase in revenue from energy performance service contracts to the concessionaires for Hospital 1 and Hospital 3. The increase in revenue from the Hospital 1 Contract in FP 2023 was due to the higher monthly payment amount for the last 5 months as stipulated in the contract. Meanwhile, the increase in revenue for Hospital 3 Contract in FP 2023 was mainly due to the end-of-year adjustment incurred for the previous FY 2021 arising from the shortfall in the actual energy savings and the guaranteed energy savings which resulted in a lower revenue for FP 2022.

Maintenance of other systems and equipment

Revenue contribution from the maintenance of other systems and equipment increased by RM0.03 million or 10.38% to RM0.35 million in FP 2023 (FP 2022: RM0.32 million). This was mainly due to the commencement of a maintenance of gas fired chiller project in Brunei which commenced in October 2022 and this project contributed revenue of RM0.14 million in FP 2023. The increase in revenue from maintenance of gas fired chillers was partially offset by the decrease in revenue of RM0.11 million from the maintenance of gas fired chillers in Putrajaya following the completion of the maintenance contract for one of the district cooling plants.

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12.2.4 Cost of Sales

(i) Cost of sales by business activities

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
BMS	**7,123**	**82.08**	**4,979**	**58.34**	**5,768**	**72.37**	**3,592**	**68.22**	**6,366**	**82.74**
- System integration of BMS	7,006	80.73	4,862	56.97	5,628	70.61	3,479	66.08	6,238	81.08
- Maintenance of BMS	117	1.35	117	1.37	140	1.76	113	2.14	128	1.66
Solar thermal systems and energy saving services	**1,186**	**13.67**	**3,311**	**38.79**	**1,881**	**23.60**	**1,382**	**26.25**	**1,165**	**15.14**
- Energy performance services	990	11.41	1,726	20.22	1,723	21.62	1,290	24.50	1,080	14.04
- Installation of solar thermal hot water systems	136	1.57	1,569	18.38	104	1.30	64	1.22	44	0.57
- Maintenance of solar thermal hot water and cooling systems	60	0.69	16	0.19	54	0.68	28	0.53	41	0.53
Maintenance of other systems and equipment	**369**	**4.25**	**245**	**2.87**	**321**	**4.03**	**291**	**5.53**	**163**	**2.12**
- Gas fired chillers	369	4.25	245	2.87	321	4.03	291	5.53	153	1.99
- Chilled water system	-	-	-	-	-	-	-	-	10	0.13
Total	**8,678**	**100.00**	**8,535**	**100.00**	**7,970**	**100.00**	**5,265**	**100.00**	**7,694**	**100.00**

(ii) Cost of sales by cost component

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Material and equipment costs	3,369	38.82	2,893	33.90	3,352	42.06	2,149	40.82	4,779	62.11
Subcontractor costs	4,397	50.67	4,056	47.52	2,948	36.98	1,980	37.61	1,559	20.26
Depreciation costs[(1)]	719	8.29	1,302	15.25	1,393	17.48	1,042	19.79	1,043	13.56
Others[(2)]	193	2.22	284	3.33	277	3.48	94	1.78	313	4.07
Total	**8,678**	**100.00**	**8,535**	**100.00**	**7,970**	**100.00**	**5,265**	**100.00**	**7,694**	**100.00**

Notes:

(1) Depreciation costs consist of depreciation of our hybrid solar thermal hot water systems and retrofitted LED lighting. Based on our operating model for this business segment, we capitalised all the costs incurred for the hybrid solar thermal hot water systems energy savings facilities. Depreciation is recognised based on facilities installed and use over the estimated useful life of assets during the contract period.

(2) Including freight charges, customs fees as well as consultation fees.

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(iii) Commentaries for cost of sales

Our cost of sales mainly consists of the following:

- **Material and equipment costs**

Material and equipment costs mainly consists of ICT hardware and software, equipment and materials for BMS, as well as equipment for the solar thermal hot water system including solar thermal collector modules, solar pumps and other pumps, and solar thermal control systems.

For the FY 2021, our materials and equipment costs declined by RM0.48 million or 14.15% to RM2.89 million (FY 2020: RM3.37 million). This was mainly due to the decrease in purchases of materials and equipment for the installation of BMS which was reflected in the decrease in revenue from systems integration of BMS of 18.02% in FY 2021. The decrease in material and equipment costs for BMS was partially offset by the increase in purchases of materials and equipment for the installation of solar thermal hot water systems mainly for the Ampang Hospital Project.

For the FY 2022, our material and equipment costs increased by RM0.46 million or 15.87% to RM3.35 million (FY 2021: RM2.89 million). This was mainly due to the increase in the purchases of materials and equipment for the installation of BMS which was reflected in the increase in revenue from systems integration of BMS by 42.13% in FY 2022.The increase was partially moderated by the decrease in material and equipment costs incurred for the installation of solar thermal hot water systems following the completion of the installation of solar thermal hot water systems for the Ampang Hospital Project. This was reflected in the decrease in revenue from the installation of solar thermal hot water systems of 92.29% in FY 2022.

For the FP 2023, our material and equipment costs increased by RM2.63 million or 122.59% to RM4.78 million (FP 2022: RM2.15 million). This was mainly due to the increase in the purchases of materials and equipment for the installation of BMS as reflected in the increase in revenue from systems integration of BMS of 119.41% in FP 2023.

- **Subcontractor costs**

Our subcontractor costs mainly comprised third-party subcontractors we engaged to carry out the installation works for the integration of BMS systems including hacking and wet works to install power and communication cables, connecting all the BMS ICT hardware, equipment and devices, interfacing with existing equipment and systems, and providing power and communications termination points for future addition of ICT hardware and equipment. We also engaged third-party subcontractors to carry out installation works for solar thermal hot water systems including hacking and wet works to install solar thermal collector modules and other equipment, as well as supplying piping materials, power and IT cables and wires, all of which are carried out under our management and supervision.

For the FY 2021, our subcontractor costs decreased by RM0.34 million or 7.76% to RM4.06 million (FY 2020: RM4.40 million). This was mainly due to the decrease in subcontractor costs incurred for the installation works for the integration of BMS systems following the completion of the Business School

Project. This was reflected in the decrease in revenue contribution from this segment in FY 2021. The decrease in subcontractor costs incurred for the installation works for system integration of BMS systems was partially offset by the increase in subcontractor costs incurred for the installation of solar thermal hot water systems mainly for the Ampang Hospital Project.

For the FY 2022, our subcontractor costs decreased by RM1.11 million or 27.32% to RM2.95 million (FY 2021: RM4.06 million). This was mainly due to the decrease in subcontractor costs incurred for the installation of solar thermal hot water systems in FY 2022 following the completion of the installation of solar thermal hot water systems for the Ampang Hospital Project.

For the FP 2023, our subcontractor costs decreased by RM0.42 million or 21.22% to RM1.56 million (FP 2022: RM1.98 million). This was mainly due to the lower subcontractor costs incurred for the maintenance of our energy performance service contracts.

- **Depreciation costs**

Depreciation costs mainly consist of depreciation of the concession assets for the hybrid solar thermal hot water systems and retrofitting of LED lighting for the energy performance services.

For the FY 2021, the depreciation costs increased by RM0.58 million or 81.08% to RM1.30 million (FY 2020: RM0.72 million). This was mainly due to the completion of installations of hybrid solar thermal hot water systems and retrofitting of LED lighting for Sibu Hospital, Hospital 3 and Miri Hospital between May 2020 and July 2020.

For the FY 2022, the depreciation costs increased by RM0.09 million or 6.99% to RM1.39 million (FY 2021: RM1.30 million). This was mainly attributed to the completion of installations of the hybrid solar thermal hot water system for the Sarawak Heart Centre in March 2021.

For the FP 2023, the depreciation costs remained at approximately RM1.04 million.

- **Other cost of sales**

Our other cost of sales mainly comprised freight charges, customs fees as well as consultation fees for our BMS projects.

For the FY 2021, other cost of sales increased by RM0.09 million or 47.92% to RM0.28 million (FY2020; RM0.19 million) which was mainly due to the higher freight charges and customs fees incurred.

For the FY 2022, other cost of sales decreased by approximately RM7,000 which was mainly due to the lower freight charges incurred.

For the FP 2023, other cost of sales increased by RM0.22 million or 222.68% to RM0.31 million (FP2022: RM0.09 million) and this was mainly due to higher custom fees incurred for the purchases of materials and equipment for the installation of BMS.

12. FINANCIAL INFORMATION (CONT'D)

12.2.5 Segmental Analysis by GP

(i) GP and GP margin by business activities

	FY 2020			FY 2021			FY 2022		
	RM'000	%	GP margin (%)	RM'000	%	GP margin (%)	RM'000	%	GP margin (%)
BMS	**3,753**	**62.23**	**34.51**	**4,077**	**45.01**	**45.02**	**6,891**	**64.54**	**54.44**
- System integration of BMS	1,986	32.93	22.09	2,510	27.71	34.05	4,850	45.42	46.29
- Maintenance of BMS	1,767	29.30	93.79	1,567	17.30	93.05	2,041	19.12	93.58
Solar thermal systems and energy saving services	**1,708**	**28.32**	**59.02**	**4,651**	**51.34**	**58.41**	**3,664**	**34.31**	**66.08**
- Energy performance services	1,709	28.34	63.32	3,185	35.16	64.85	3,425	32.08	66.53
- Installation of solar thermal hot water systems	(83)	(1.38)	(156.60)	1,324	14.61	45.77	119	1.11	53.36
- Maintenance of solar thermal hot water and cooling systems	82	1.36	57.75	142	1.57	89.87	120	1.12	68.97
Maintenance of gas fired chillers	**570**	**9.45**	**60.70**	**331**	**3.65**	**57.47**	**123**	**1.15**	**27.70**
Total	**6,031**	**100.00**	**41.00**	**9,059**	**100.00**	**51.49**	**10,678**	**100.00**	**57.26**

12. FINANCIAL INFORMATION (CONT'D)

	FP 2022			FP 2023		
	RM'000	**%**	**GP margin (%)**	**RM'000**	**%**	**GP margin (%)**
BMS	**2,764**	**50.41**	**43.49**	**5,849**	**64.19**	**47.88**
- System integration of BMS	1,287	23.47	27.00	4,219	46.30	40.35
- Maintenance of BMS	1,477	26.94	92.89	1,630	17.89	92.72
Solar thermal systems and energy saving services	**2,692**	**49.10**	**66.08**	**3,075**	**33.75**	**72.52**
- Energy performance services	2,617	47.73	66.98	2,965	32.54	73.30
- Installation of solar thermal hot water systems	(10)	(0.18)	(18.52)	30	0.33	40.54
- Maintenance of solar thermal hot water and cooling systems	85	1.55	75.22	80	0.88	66.12
Maintenance of other systems and equipment	**27**	**0.49**	**8.49**	**188**	**2.06**	**53.56**
- Gas fired chillers	27	0.49	8.49	198	2.17	56.41
- Chilled water system	-	-	-	(10)[1]	(0.11)	- [1]
Total	**5,483**	**100.00**	**51.01**	**9,112**	**100.00**	**54.22**

Note:

(1) Refers to the expenses incurred for a contract to provide maintenance services for a chilled water system. No revenue has been recorded for this said project in FP 2023.

12. FINANCIAL INFORMATION (CONT'D)

(ii) GP and GP margin by geographical markets

	FY 2020			FY 2021			FY 2022		
	RM'000	**%**	**GP margin (%)**	**RM'000**	**%**	**GP margin (%)**	**RM'000**	**%**	**GP margin (%)**
Malaysia	6,090	100.98	42.49	9,003	99.38	51.72	10,617	99.43	57.12
Other countries	(59)	(0.98)	(15.73)	56	0.62	30.11	61	0.57	100.00
- *Singapore*	*(59)*	*(0.98)*	*(15.73)*	*56*	*0.62*	*30.11*	-	-	-
- *Brunei*	-	-	-	-	-	-	*61*	*0.57*	*100.00*
Total	**6,031**	**100.00**	**41.00**	**9,059**	**100.00**	**51.49**	**10,678**	**100.00**	**57.26**

	FP 2022			FP 2023		
	RM'000	**%**	**GP margin (%)**	**RM'000**	**%**	**GP margin (%)**
Malaysia	5,483	100.00	51.01	9,005	98.83	54.04
Other countries	-	-	-	107	1.17	74.83
- *Singapore*	-	-	-	-	-	-
- *Brunei*	-	-	-	*107*	*1.17*	*74.83*
Total	**5,483**	**100.00**	**51.01**	**9,112**	**100.00**	**54.22**

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(iii) Commentaries for GP and GP margin

Comparison between FY 2020 and FY 2021

For FY 2021, our GP increased by RM3.03 million or 50.21% to RM9.06 million (FY 2020: RM6.03 million) and this was mainly contributed by both BMS and solar thermal systems and energy saving services segments. Meanwhile, our GP margin improved from 41.00% in FY 2020 to 51.49% in FY 2021.

BMS

GP from BMS segment increased by RM0.32 million or 8.63% to RM4.08 million in FY 2021 (FY 2020: RM3.75 million), mainly attributed to the increase in GP from systems integration of BMS by RM0.52 million or 26.38%. This was mainly due to the increase in GP from various projects which recorded gross losses in the previous year in FY 2020 including the Putrajaya Hotel ICT Project and the Ministry of Education 1 Project. These two projects collectively contributed to the increase in GP by RM1.57 million to RM1.07 million in FY 2021 (FY 2020: gross loss of RM0.49 million). The increase in GP from these two projects were mainly due to the lower cost incurred in FY 2021 which were mainly related to post installation testing and commissioning works as compared to FY 2020. The higher cost incurred in FY 2020 was mainly relating to materials as well as supply and installation costs which constituted the bulk of the costs. Although these projects recorded gross losses in FYE 2020, the overall projects still remain profitable.

The Increase in GP from BMS segment was partially offset by the decrease in GP contribution from Putrajaya Hotel Project and the Business School Project by a collective RM0.91 million in FY 2021. This was also reflected in the decrease of 90.02% in revenue from these two projects in FY 2021.

The GP margin from our BMS segment improved from 34.51% in FY 2020 to 45.02% in FY 2021. This was mainly attributed to the improvement in GP margin coupled with higher GP contributions from various projects which previously recorded a gross loss as the bulk of supply and installation costs were incurred in the previous financial year including the two projects mentioned above.

Solar thermal systems and energy saving services

GP from solar thermal systems and energy saving services segment increased by RM2.94 million or 172.31% to RM4.65 million in FY 2021 (FY 2020: RM1.71 million) which was also reflected in the increase of 175.12% in our revenue from this segment. The increase in GP was mainly attributed to the following:

- increase in GP of RM1.48 million in FY 2021 from our energy performance service contracts to concessionaires which was also reflected in the increase in revenue from this segment by RM2.21 million in FY 2021. This was following the commencement of the use of the hybrid solar thermal hot water system and retrofitted lightings for Sarawak Heart Centre upon completion of installation in March 2021. In addition, the concessionaires for Sibu Hospital, Hospital 3 and Miri Hospital also commenced the use of the said facilities upon completion of installation between May 2020 and July 2020.
- increase in GP of RM1.41 million in FY 2021 from the installation of solar thermal hot water systems which was mainly contributed by the GP from Ampang Hospital Project which commenced and was completed in FY 2021.

The GP margin from solar thermal systems and energy saving services segment declined from 59.02% in FY 2020 to 58.41% in FY 2021. This was mainly attributed to the following:

- increase in GP contribution from the installation of solar thermal hot water system projects which was associated with a lower GP margin of 45.77% compared 64.83% for the energy performance services in FY 2021. For FY 2021, the GP contribution from the installation of solar thermal hot water system projects was higher at 14.61% or RM1.32 million of our total GP in FY 2021 as compared to a gross loss of RM0.08 million in FY 2020.

- The decline in GP margin from solar thermal systems and energy saving services segment was moderated by the improvement in GP margin from our energy performance services which improved from 63.32% in FY 2020 to 64.85% in FY 2021. This was mainly due to lower cost incurred for the maintenance of the solar thermal hybrid hot water systems and LED lighting installed and retrofitted under the energy performance service contracts mainly for the Sibu Hospital, Hospital 3 and Miri Hospital that commenced the use upon completion of installation between May 2020 and July 2020. The improvement in GP margin from the energy performance services was also partly contributed by the Sarawak Heart Centre which commenced the use upon completion of installation in March 2021.

Maintenance of other systems and equipment

GP from maintenance of gas fired chillers decreased by RM0.24 million or 41.93% to RM0.33 million in FY 2021 (FY 2020: RM0.57 million), which was also reflected in the decrease of 38.66% in revenue from this segment. The GP margin for maintenance of gas fired chillers declined from 60.70% in FY 2020 to 57.47% in FY 2021 mainly due to subcontractor costs incurred for the maintenance of gas fired chillers in FY 2021. This was reflected in the higher proportion of cost incurred against the revenue generated from maintenance of gas fired chillers of 42.53% in FY 2021 as compared to 39.30% in FY 2020.

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

For FY 2022, our GP increased by RM1.62 million or 17.87% to RM10.68 million (FY 2021: RM9.06 million) and this was mainly contributed by the BMS segment. Meanwhile, our GP margin improved from 51.49% in FY 2021 to 57.26% in FY 2022.

BMS

GP from BMS segment increased by RM2.81 million or 69.02% to RM6.89 million in FY 2022 (FY 2021: RM4.08 million). This was mainly attributed to the following:

- increase in GP by RM2.34 million or 93.23% from systems integration of BMS which was mainly contributed by the Financial Institution Project, Ministry of Education 2 Project and Ministry of Health Project which commenced installations in FY 2022. These three projects collectively contributed GP of RM2.49 million in FY 2022.

- increase in GP by RM0.47 million or 30.25% from the maintenance of BMS which was also reflected in the increase in revenue by 29.51% in FY 2022 mainly attributed to the increase in maintenance services rendered to existing customers.

The GP margin from BMS segment improved from 45.02% for FY 2021 to 54.44% in FY 2022, mainly attributed to the improvement in GP margin as well as increased GP contribution from systems integration of BMS of three on-going projects in FY 2022 associated with higher GP margin including the Financial Institution Project, Ministry of Education 2 Project and Ministry of Health Project which commenced in FY 2022. These projects command higher GP margins as our scope of work for these said projects are wider as it involves the integration of various systems including security and car park systems.

Solar thermal systems and energy saving services

GP from solar thermal systems and energy saving services segment decreased by RM0.99 million or 21.22% to RM3.66 million in FY 2022 (FY 2021: RM4.65 million). This was mainly due to the decrease in GP of RM1.21 million from the installation of solar thermal hot water systems following the completion of the Ampang Hospital Project in FY 2021.

The decrease in GP was partially offset by the increase in GP of RM0.24 million or 7.54% in FY 2021 from energy performance services, which was also reflected in the increase in revenue of 4.83% from this segment in FY 2022. This was mainly attributed to the increase in GP from the energy performance services for Sarawak Heart Centre which commenced the use of the hybrid solar thermal hot water system and/or retrofitted lightings upon completion of installation in March 2021.

The GP margin from solar thermal systems and energy saving services segment improved from 58.41% in FY 2021 to 66.08% in FY 2022. This was mainly attributed to the following:

- increase in GP margin from the installation of solar thermal hot water systems which increased from 45.77% in FY 2021 to 53.36% in FY 2022 following the completion of the Ampang Hospital Project which was associated with a lower GP margin in FY 2021.

- improvement in GP margin from the energy performance services which improved from 64.85% in FY 2021 to 66.53% in FY 2022, mainly attributed to the improvement in GP margin from the Sarawak Heart Centre which commenced the use of the hybrid solar thermal hot water system and retrofitting LED lightings upon completion of installation in March 2021.

Maintenance of other systems and equipment

GP from maintenance of gas fired chillers decreased by RM0.21 or 62.84% to RM0.12 million in FY 2022 (FY 2021: RM0.33 million), which was also reflected in the decrease of 22.92% in revenue from this segment. The GP margin declined from 57.47% in FY 2021 to 27.70% in FY 2022 and this was mainly due to the higher cost incurred for maintenance of gas fired chillers.

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

For FP 2023, our GP increased by RM3.63 million or 66.19% to RM9.11 million in FP 2023 (FP 2022: RM5.48 million) and this was mainly contributed by the BMS segment. Meanwhile, our GP margin improved from 51.01% in FP 2022 to 54.22% in FP 2023.

BMS

GP from BMS segment increased by RM3.09 million or 111.61% to RM5.85 million in FP 2023 (FP 2022: RM2.76 million), which was also reflected in the increase of 92.18% in our revenue from this segment. This was mainly due to the GP contribution from various systems integration projects which commenced between August 2022 and March 2023 as follows:

- the Conference and Residential Complex Project and Cyberjaya Data Centre Project which commenced in March 2023 and the GP contribution from these two projects collectively accounted for RM1.69 million in FP 2023.

- GP contribution from two projects namely the Semiconductor Project which commenced in August 2022, as well as the Ministry of Education 2 Project and Ministry of Health Project which commenced in November 2022. The GP from these two projects collectively contributed RM0.86 million to our GP in FP 2023.

The GP margin from BMS segment improved from 43.49% for FP 2022 to 47.88% in FP 2023. This was mainly attributed to the GP contributions from systems integration of BMS projects which was associated with higher GP margins and this includes the Conference and Residential Complex Project and Cyberjaya Data Centre Project, both of which commenced in March 2023. These projects command higher GP margins as our scope of work for these said projects are wider as it involves the integration of various systems including security and car park systems.

Solar thermal systems and energy saving services

GP from solar thermal systems and energy saving services segment increased by RM0.38 million or 14.23% to RM3.08 million in FP 2023 (FP 2022: RM2.69 million). This was mainly attributed to the increase in GP by RM0.35 million or 13.30% from the provision of energy performance services. This was mainly contributed by the improvement in GP from the energy performance service contracts to the concessionaires for Hospital 1 and Hospital 3, which was reflected in the increase in revenue from these two contracts.

The GP margin from solar thermal systems and energy saving services segment improved from 66.08% in FP 2022 to 72.52% in FP 2023. This was mainly due to lower cost incurred for the maintenance of the solar thermal hybrid hot water systems and LED lighting installed and retrofitted under the energy performance service contracts.

Maintenance of other systems and equipment

GP from maintenance of other systems and equipment increased by RM0.16 million to RM0.19 million in FP 2023 (FP 2022: RM0.03 million). This was mainly due to the increase in GP that was contributed by the maintenance of gas fired chillers project in Brunei which commenced in October 2022. The GP margin from maintenance of other systems improved from 8.49% in FP 2022 to 53.56% in FP 2023 which was mainly attributed to the maintenance of gas fired chillers project in Brunei as mentioned above.

12.2.6 Other income

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Interest income	23	100.00	9	2.50	9	21.95	7	100.00	11	50.00
Unrealised gain on foreign exchange	-	-	1	0.28	*	*	*	*	*	*
Gain on disposal of fixed asset	-	-	30	8.33	32	78.05	-	-	-	-
Others(1)	-	-	320	88.89	*	*	*	*	11	50.00
Total	**23**	**100.00**	**360**	**100.00**	**41**	**100.00**	**7**	**100.00**	**22**	**100.00**

* *Less than RM1,000 or 0.01%.*

Note:

(1) The grant received from the United Nations Industrial Development Organisation for the completion of installation of hybrid solar thermal hot water system for Sarawak Heart Centre which amounted to RM0.32 million in FY 2021 and the insurance claim of approximately RM11,000 in FP 2023.

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

Our other income increased by RM0.34 million to RM0.36 million in FY 2021 (FY 2020: RM0.02 million). This was mainly due to the grant received from the United Nations Industrial Development Organisation for the completion of installation of hybrid solar thermal hot water system for Sarawak Heart Centre amounting to RM0.32 million in FY 2021.

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

Our other income decreased by RM0.32 million to RM0.04 million in FY 2022 (FY 2021: RM0.36 million). This was mainly due to the absence of the grant received in FY 2021 as mentioned above.

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

Our other income increased by approximately RM15,000 to RM22,000 in FP 2023 (FP 2022: RM7,000). This was mainly pertaining to insurance claim from the main contractor relating to a theft incident for our Semiconductor Project which amounted to approximately RM11,000 in FP 2023. The increase was also partially contributed by the increase in interest income of approximately RM4,000 in FP 2023.

12. FINANCIAL INFORMATION (CONT'D)

12.2.7 Administrative and other expenses, and net impairment gain/loss on financial asset

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Administrative expenses	**3,105**	**96.31**	**2,817**	**94.59**	**3,624**	**92.21**	**2,702**	**92.16**	**3,788**	**93.27**
Staff costs	1,620	50.25	1,542	51.78	1,998	50.84	1,523	51.95	2,291	56.41
Directors' remuneration	551	17.09	516	17.33	619	15.75	479	16.34	484	11.92
Travelling expenses	182	5.65	183	6.14	235	5.98	169	5.76	288	7.09
Professional fees	280	8.68	257	8.63	228	5.80	171	5.83	214	5.27
Other administrative expenses(1)	472	14.64	319	10.71	544	13.84	360	12.28	511	12.58
Other expenses	**119**	**3.69**	**161**	**5.41**	**306**	**7.79**	**230**	**7.84**	**273**	**6.73**
Depreciation(2)	107	3.32	147	4.94	279	7.10	222	7.57	164	4.04
Realised loss on foreign exchange	1	0.03	14	0.47	27	0.69	8	0.27	37	0.92
Unrealised loss on foreign exchange	6	0.19	-	-	-	-	-	-	-	-
Bad debts written off	5	0.15	-	-	-	-	-	-	72	1.77
Total expenses	**3,224**	**100.00**	**2,978**	**100.00**	**3,930**	**100.00**	**2,932**	**100.00**	**4,061**	**100.00**
Net impairment gain/(loss) on financial asset	**12**		**(117)**		**(282)**		**(133)**		**(393)**	

Notes:

(1) Including office expenses, medical expenses, upkeep of motor vehicles and equipment, membership and registration fee, utilities, insurance and bank charges for the FY Under Review and FP Under Review, sales and marketing expenses and write-off of IPO listing expenses for FY 2020, as well as general administrative support services in FY 2022.

(2) Refers to the depreciation of our motor vehicles, office building, renovation, computers, furniture and fittings, office equipment and machineries.

Comparison between FY 2020 and FY 2021

Our administrative and other expenses decreased by RM0.25 million or 7.63% to RM2.98 million in FY 2021 (FY 2020: RM3.22 million). This was mainly due to the decrease in other administrative expenses of RM0.15 million, mainly due to the decrease in sales and marketing expenses. The decrease was also partly due to the decrease in staff costs by RM0.08 million mainly decrease in allowances.

Comparison between FY 2021 and FY 2022

Our administrative and other expenses increased by RM0.95 million or 31.97% to RM3.93 million in FY 2022 (FY 2021: RM2.98 million). This was mainly contributed by the following:

- increase in staff costs by RM0.46 million due to increases in salaries and bonus payments in FY 2022, as well as increase in the number of employees from 38 employees in FY 2021 to 40 employees in FY 2022.

- increase in other administrative expenses by RM0.23 million, mainly due to RM0.15 million paid to SPE for the provision of general administrative support services.

- increase in depreciation costs by RM0.13 million due to accumulated depreciation cost of our office building for FY 2017 to FY 2022.

- increase in directors' remuneration by RM0.10 million due to the increase in salary as well as bonus payments in FY 2022.

There was a net impairment loss on financial assets of RM0.12 million and RM0.28 million in FY 2021 and FY 2022 respectively, namely trade receivables which were recognised based on the expected credit losses ("ECL") computed in accordance with 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.

Comparison between FP 2022 and FP 2023

Our administrative and other expenses increased by RM1.13 million or 38.51% to RM4.06 million in FP 2023 (FP 2022: RM2.93 million). This was mainly contributed by the following:

- increase in staff costs by RM0.77 million due to the increase in salaries in FP 2023, as well as increase in the number of employees from 41 employees in FP 2022 to 51 employees in FP 2023.

- increase in travelling expenses by RM0.12 million mainly petrol claims.

- increase in other administrative expenses by RM0.15 million mainly due to increase in office expenses and upkeep of motor vehicles and equipment.

- bad debt written off of RM0.07 million pertaining to initial payment made to a subcontractor for the purchase of equipment for two energy performance service contracts.

There was a net impairment loss on trade receivables of RM0.39 million in FP 2023 comprising RM0.25 million of provision for doubtful debt pertaining to trade receivables from a customer whom we have an on-going litigation as at the LPD, as well as RM0.14 million which were recognised based on the ECL computed in accordance with MFRS 9. For further details on the material litigation with the customer, please refer to Section 15.6 of this Prospectus.

12.2.8 Finance costs

	FY 2020		FY 2021		FY 2022		FP 2022		FP 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:										
- Term loans	3	3.70	29	87.88	35	72.92	24	70.59	43	84.31
- Bank overdrafts	58	71.61	*	*	*	*	*	*	*	*
- Bankers' acceptance	11	13.58	-	-	-	-	-	-	-	-
- Invoice financing	9	11.11	-	-	-	-	-	-	-	-
- Hire purchase	-	-	4	12.12	13	27.08	10	29.41	8	15.69
Total	**81**	**100.00**	**33**	**100.00**	**48**	**100.00**	**34**	**100.00**	**51**	**100.00**

* *Less than RM1,000 or 0.01%.*

Comparison between FY 2020 and FY 2021

Our finance costs decreased by RM0.05 million or 59.26% to RM0.03 million in FY 2021 (FY 2020: RM0.08 million). This was mainly due to the decrease in interest expense on bank overdrafts by RM0.06 million due to lower utilisation in FY 2021.

Comparison between FY 2021 and FY 2022

Our finance costs increased by RM0.02 million or 45.45% to RM0.05 million in FY 2022 (FY 2021: RM0.03 million). This was mainly due to the increase in interest expense on hire purchase and term loans for working capital purposes.

Comparison between FP 2022 and FP 2023

Our finance costs increased by RM0.02 million or 50.00% to RM0.05 million in FP 2023 (FP 2022: RM0.03 million). This was mainly due to the increase in interest expense on term loans for working capital purposes.

12. FINANCIAL INFORMATION (CONT'D)

12.2.9 PBT, taxation and PAT

	FY 2020	FY 2021	FY 2022	FP 2022	FP 2023
PBT (RM'000)	2,761	6,291	6,459	2,391	4,629
PBT margin (%)	18.77	35.76	34.64	22.25	27.54
Taxation (RM'000)	777	2,066	1,275	486	1,221
Effective tax rate (%)	28.14	32.84	19.74	20.33	26.38
Statutory tax rate (%)	24.00	24.00	24.00	24.00	24.00
PAT (RM'000)	1,984	4,225	5,184	1,905	3,408
PAT margin (%)	13.49	24.01	27.80	17.72	20.28

Comparison between FY 2020 and FY 2021

Our PBT increased by RM3.53 million or 127.85% to RM6.29 million in FY 2021 (FY 2020: RM2.76 million), mainly due to the increase of RM3.03 million in our GP in FY 2021. Our PBT margin improved from 18.77% in FY 2020 to 35.76% in FY 2021, mainly attributed to the improvement in our GP margin from 41.00% in FY 2020 to 51.49% in FY 2021 coupled with the increase in other income as well as decrease in administrative expenses.

In FY 2021, our effective tax rate was 32.84% which was higher than the statutory tax rate of 24.00%, mainly due to the under provision of current and deferred taxation in the previous year.

Our PAT increased by RM2.24 million or 112.95% to RM4.23 million in FY 2021 (FY 2020: RM1.98 million) following from the improvement in our PBT. Similarly, our PAT margin improved from 13.49% in FY 2020 to 24.01% in FY 2021.

Comparison between FY 2021 and FY 2022

Our PBT increased by RM0.17 million or 2.67% to RM6.46 million in FY 2022 (FY 2021: RM6.29 million), mainly attributed to the increase in our GP by 17.87%. Our PBT margin declined slightly from 35.76% in FY 2021 to 34.64% in FY 2022, mainly due to the decline in other income coupled with the increase in administrative and other expenses.

In FY 2022, our effective tax rate was 19.74% which was lower than the statutory tax rate of 24.00% and this was mainly due to the over provision of deferred taxation in the previous year.

Our PAT increased by RM0.96 million or 22.70% to RM5.18 million in FY 2022 (FY 2021: RM4.23 million) while PAT margin improved from 24.01% in FY 2021 to 27.80% in FY 2022. This was mainly due to the decrease in taxation arising from the over provision of deferred taxation as mentioned above.

Comparison between FP 2022 and FP 2023

Our PBT increased by RM2.24 million or 93.60% to RM4.63 million in FP 2023 (FP 2022: RM2.39 million), mainly due to the increase of RM3.63 million in our GP in FP 2023. Our PBT margin improved from 22.25% in FP 2022 to 27.54% in FP 2023, mainly attributed to the improvement in GP margin from 51.01% in FP 2022 to 54.22% in FP 2023. However, this was partially offset by the increase in our administrative and other expenses.

In FP 2023, our effective tax rate was 26.38% which was higher than the statutory tax rate of 24.00% and this was mainly due to RM0.12 million of deferred tax assets which were not recognised during the financial year.

Our PAT increased by RM1.50 million or 78.90% to RM3.41 million in FP 2023 (FP 2022: RM1.91 million) following the improvement in our PBT. Similarly, PAT margin improved from 17.72% in FP 2022 to 20.28% in FP 2023.

12.3 SIGNIFICANT FACTORS AFFECTING OUR GROUP'S OPERATIONS AND FINANCIAL PERFORMANCE

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

(i) Our business and financial performance are dependent on our ability to continually secure new and sizeable projects to ensure the sustainability and growth of our business

The nature of our business comprises project based revenue and ad hoc maintenance services which generate non-recurrent revenue. In addition, we have businesses that generate recurrent revenue including energy performance services and maintenance services. Our business is typically based on competitive bidding or requests for proposals. As such, we have to continually submit bids and proposals to compete against other service providers in order to secure new projects. There is a risk that we may not be able to secure sufficient new and sizeable projects to sustain or grow our business which would materially affect our future financial performance.

Our recurrent business is derived from the provision of energy performance services as well as maintenance of BMS, solar thermal cooling systems and other systems and equipment including gas fired chillers. The periods for our energy performance service contracts typically range between 4 to 6 years. At the end of the concession period, all the assets and systems revert to the customers and there is no option for renewal. While our order book for energy performance services is up to 2025, there is no assurance that we will be able to continually secure new projects to sustain and grow our revenue and profitability. In the event we are unable to do so, this may materially affect our business growth and future financial performance. Please refer to Section 9.1.2 of this Prospectus for further details.

(ii) We may face early termination or suspension of our contracts which may adversely affect our financial performance

Our business operations in BMS, solar thermal systems and energy saving services, and maintenance of other systems and equipment including gas fired chillers are based on contractual agreements with customers and these may be terminated or suspended before our specified scope of works are completed. The early termination or suspension of any contracts may adversely affect our financial performance if we are unable to recover our expenses before the termination of the contract as well as foregone potential revenue and profit.

As we are funding the project investment for the installation of the hybrid solar thermal hot water system and for some contracts, the retrofitting of LED lighting, the early termination of any energy performance service agreement with the concession companies may occur before the payment is sufficient for us to recoup the initial project investment. While the contracts commonly include a stipulation that the customer may pay us a specified sum if they choose to terminate the contracts early, there is no assurance that the payment would be sufficient to recover our initial project investment at the time of the early termination. Please refer to Section 9.1.3 of this Prospectus for further details.

(iii) Our business and financial performance may be affected by increases in the costs of implementing our systems integration of BMS or solar thermal hot water systems or timing of recognising the initial project cost incurred may impact the reporting of financial performance

An increase in the cost of implementing our systems integration of BMS and/or installation of solar thermal hot water systems and/or provision of energy saving and maintenance services may adversely affect our profitability. Increases in costs may be caused by, among others, increases in the costs of labour, equipment, materials, subcontractor's fees and overheads. There is a risk that our profitability may be adversely affected if we are not able to adequately factor in potential price increases of materials and services into our contracts, or if we have to absorb any unanticipated cost increases during the duration of our contracts or if we have to incur cost to carry out additional works based on instructions given by the customer which are still pending confirmation of variation order from the customer. Please refer to Section 9.1.5 of this Prospectus for further details.

For our supply and installation projects, the initial project costs incurred are typically higher arising from purchase of equipment and mobilisation costs before we bill our customers on the works done or services rendered. In this respect, the timing of recognising the cost incurred will have an impact on the reporting of financial performance such as lower reported profits due to higher initial implementation costs incurred during the initial stage of the project while the revenue is only recognised based on services rendered or work done at the later stage. For example, in FY 2020, the low GP margin from our BMS segment was mainly due to the gross losses from various projects including the Putrajaya Hotel ICT Project and the Ministry of Education 1 Project as we incurred higher cost mainly relating to materials as well as supply and installation costs which constituted the bulk of the costs. Please refer to Section 12.2.5(iii) of this Prospectus for further details.

(iv) We may be subject to LAD claims if there were any delays in completing our projects according to the timeline stipulated in the contracts or subject to penalties if the minimum guaranteed savings stipulated in the energy performance service contracts are not achieved

Depending on the contracts, our systems integration of BMS, installation of solar thermal hot water systems and provision of energy savings services include project implementation timelines and milestones. Any delays in meeting specified project implementation timelines and milestones may lead to delays in recognising revenue and receiving payments as well as adversely affecting our reputation. Furthermore, the customer may make claims for LAD against us if we fail to complete the project according to the specified timeline stipulated in the agreements which may adversely affect our financial performance. Please refer to Section 9.1.7 of this Prospectus for further details.

(v) We are subject to credit risk from either delay in collections or non-recoverability of trade receivables or retention sum

We are exposed to delays in collection of non-recoverability of trade receivables and/or retention sum from our customers. Our normal credit terms granted to our customers mainly range from 1 day to 60 days. If customers fail to pay us within the stipulated credit period or fail to pay us at all, we may be required to make an allowance for any impairment losses to our trade receivables or write off our bad debts, either of which would adversely affect our financial performance.

For the FY Under Review and FP 2023, we recorded net impairment loss on trade receivables of RM0.12 million, RM0.28 million and RM0.39 million in FY 2021, FY 2022 and FP 2023 respectively, which was recognised based on the ECL computed in accordance with MFRS 9. As at the LPD, we have subsisting legal proceedings against 4 customers for the recovery of outstanding receivables, of which only 1 legal proceeding is material. Please refer to Section 15.6 of this Prospectus for further details on the material litigation.

(vi) We are subject to defect liability claims which may adversely affect our financial performance

There is a risk that we may incur substantial expenses to make good our customers' defect liability claims. The contracts for our BMS and solar thermal hot water systems and energy saving services include provisions for the customer to make claims against us in the event of poor workmanship, and manufacturing defects in the equipment installed during the defect liability period. The defect liability period for our systems integration of BMS and installation of solar thermal hot water system contracts generally ranges from 12 months to 24 months after the date of the testing and commissioning report or the issuance of acceptance by our customers. We are responsible for making good any defects due to the design, materials, equipment or workmanship at no additional charges to the customer. Please refer to Section 9.1.8 of this Prospectus for further details.

(vii) Impact of foreign exchange

Our business is exposed to the risk of foreign exchange fluctuations where 4.24%, 16.42%, 36.01% and 47.02% of our purchases of materials and services including subcontractors' costs for FY 2020, FY 2021, FY 2022 and FP 2023 respectively were transacted in foreign currencies mainly USD.

The breakdown of our revenue and purchases transacted in RM and other currencies for the FY Under Review and FP 2023 are as follows:

	FY 2020 RM'000	**FY 2021 RM'000**	**FY 2022 RM'000**	**FP 2023 RM'000**
Revenue	**14,709**	**17,594**	**18,648**	**16,806**
RM	14,334	17,408	18,587	16,663
USD	375	186	61	143
Purchases	**10,270**	**8,262**	**7,198**	**7,356**
RM	9,835	6,905	4,606	3,897
USD	335	845	2,326	3,294
RMB	-	299	-	-
SGD	98	213	266	165
EUR	2	-	-	-

The following table demonstrates the sensitivity analysis of our net profit to a reasonably possible change in the foreign currency within our Group, with all other variables held constant:

Effects on PAT	FY 2020 RM	FY 2021 RM	FY 2022 RM	FP 2023 RM
USD/RM				
Strengthen by 5%	5,892	4,473	(18,302)	(28,995)
Weakened by 5%	(5,892)	(4,473)	18,302	28,995
SGD/RM				
Strengthen by 5%	(688)	(4,349)	(902)	(274)
Weakened by 5%	688	4,349	902	274
RMB/RM				
Strengthen by 5%	3,827	-	-	-
Weakened by 5%	(3,827)	-	-	-

Details of our foreign currency exchange gains and losses during the FY Under Review and FP 2023 are as follows:

	FY 2020 RM'000	FY 2021 RM'000	FY 2022 RM'000	FP 2023 RM'000
Realised loss on foreign exchange	(1)	(14)	(27)	(37)
Unrealised gain/(loss) on foreign exchange	(6)	1	*	*
Net gain/(loss)	**(7)**	**(13)**	**(27)**	**(37)**

* *Less than RM1,000.*

Our business is subject to risks related to any favourable 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.

(viii) Impact of interest rates fluctuations

All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. Our finance cost mainly comprises interest expenses on term loans, bank overdrafts, bankers' acceptance, invoice financing and hire purchase that are granted by financial institutions. As at 30 September 2023, our bank borrowings are all interest bearing including RM0.69 million based on floating interest rates and RM0.20 million based on fixed interest rates. We incurred finance cost of RM0.08 million, RM0.03 million, RM0.05 million and RM0.05 million for FY 2020, FY 2021, FY 2022 and FP 2023 respectively.

In this respect, any increase in draw down of borrowings and/or interest rates may impact our financial performance. If we fail or encounter difficulties in meeting our financial obligations when they fall due, this will result in a financial distress condition which will affect our operations and financial performance. For the FY Under Review and FP 2023 and up to the LPD, we have not defaulted on any payments of either the principal or interests in relation to our borrowings.

(ix) Impact of inflation

Our business, financial condition or results of our operations for the FY Under Review and FP 2023 were not materially affected by the impact of inflation. However, there can be no assurance that future inflation would not have an impact on our business operations and financial performance.

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

Our business is subject to risks relating to government, political, economic, fiscal or monetary policies and regulatory risks, geopolitical events, as well as occurrence of force majeure events in Malaysia. Any unfavourable changes in such government policies, economic conditions, or fiscal or monetary policies may materially affect our operations in Malaysia. Please refer to Section 9.2.4 of this Prospectus for further details on this risk.

12.4 LIQUIDITY AND CAPITAL RESOURCES

(i) Working capital

Our business is financed by a combination of internal and external sources of funds. Internal sources of funds comprised cash generated from our business operations while our external sources of funds mainly consist of banking facilities from financial institutions. These funds are mainly used to finance our business operations and growth.

As at 30 September 2023, our cash and bank balances amounted to RM1.23 million and our total borrowings were RM0.89 million. As at 30 September 2023, our gearing ratio is 0.05 times and current ratio is 6.88 times. As at the LPD, we have banking facilities namely trade facilities of RM6.04 million, of which RM5.96 million has yet to be utilised.

Based on the above, expected cash flow to be generated from our operations, the amount that is available under our existing banking facilities, as well as proceeds to be raised from the Public Issue, our Board believes that we have adequate working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus.

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(ii) Cash flow

The following is the summary of our combined statements of cash flow for the FY Under Review and FP 2023. This should be read in conjunction with the Accountants' Report as set out in Section 14 of this Prospectus.

	FY 2020 RM'000	FY 2021 RM'000	FY 2022 RM'000	FP 2023 RM'000
Net cash from operating activities	4,874	4,321	6,680	62
Net cash used for investing activities	(2,245)	(1,240)	(278)	(67)
Net cash used for financing activities	(1,648)	(2,157)	(6,573)	(217)
Net increase/(decrease) in cash and cash equivalents	981	924	(171)	(222)
Effects of foreign exchange translation	-	-	*	*
Cash and cash equivalents at the beginning	(284)	697	1,621	1,451
Cash and cash equivalents at the end	**697**	**1,621**	**1,451**	**1,229**
Details of the cash and cash equivalents:-				
Fixed deposits with licensed banks	515	524	533	537
Cash and bank balances	697	1,621	1,451	1,229
Bank overdrafts	*	*	*	*
	1,212	2,145	1,984	1,766
Less: Fixed deposits pledged to licensed banks	(515)	(524)	(533)	(533)
Less: Fixed deposits with tenure of more than 3 months	-	-	-	(4)
	697	**1,621**	**1,451**	**1,229**

* Less than RM1,000.

(a) Net cash from operating activities

<u>FY 2020</u>

For the FY 2020, our net cash from operating activities was RM4.87 million after taking into account the following:

- decrease in trade and other receivables by RM2.51 million, mainly due to lower revenue and billings in FY 2020;

- decrease in inventories by RM0.41 million, mainly due to the lower purchases of materials and equipment in FY 2020 which was also reflected in the lower revenue in FY 2020 as mentioned above;

- decrease in trade and other payables by RM0.23 million, mainly due to lower purchases of materials and equipment in FY 2020 as mentioned above.

FY 2021

For the FY 2021, our net cash from operating activities was RM4.32 million after taking into account the following:

- increase in trade and other receivables by RM2.50 million, mainly due to the higher outstanding receivables balances of RM7.24 million as at FY 2021 as compared to RM5.50 million as at FY 2020. This was mainly due to higher revenue and billings in the last quarter of FY 2021;

- increase in trade and other payables by RM0.17 million, mainly due to the higher outstanding payables balances of RM1.19 million as at FY 2021 compared to RM0.91 million as at FY 2020. This was mainly due to higher purchases of materials and equipment in the last quarter of FY 2021.

FY 2022

For the FY 2022, our net cash from operating activities was RM6.68 million after taking into account the following:

- increase in inventories by RM0.77 million mainly due to the higher purchases of materials and equipment in the last quarter of FY 2022 to meet the scheduled installations in the following months;

- increase in trade and other payables by RM0.25 million, mainly due to the higher outstanding payables balances of RM1.45 million as at FY 2022 compared to RM1.19 million as at FY 2021. This was mainly due to higher purchases of materials and equipment in the last quarter of FY 2022 as mentioned above.

FP 2023

For the FP 2023, our net cash from operating activities was RM0.06 million after taking into account the following:

- increase in trade and other receivables by RM3.86 million, mainly due to the higher outstanding receivables balances of RM10.89 million as at FP 2023 as compared to RM8.31 million as at FY 2022. This was mainly due to higher revenue and billings between July and September 2023 mainly for the Conference and Residential Complex Project and Cyberjaya Data Centre Project. In addition, the increase was contributed by the increase in other receivables arising from the RM1.18 million of prepayments mainly for IPO listing expenses;

- increase in inventories by RM1.00 million, mainly due to the higher purchases of materials and equipment in FP 2023. The inventory mainly comprises materials for our ongoing BMS projects including Conference and Residential Complex Project and Ampang Office Tower Project, which have an aggregate inventory of RM1.69 million as at 30 September 2023;

- increase in trade and other payables by RM0.22 million, mainly due to increase in other payables arising from the RM0.10 million of deposits from a customer and increase in accruals of RM0.07 million mainly pertaining to staff costs.

For FP 2023, we recorded a relatively low net cash from operating activities of RM62,000. This was mainly due to higher trade receivables balances due to higher revenue and billings between July and September 2023, mainly for the Conference and Residential Complex Project and Cyberjaya Data Centre Project. Of the total net trade receivables of RM6.64 million as at 30 September 2023, 70.14% of the net trade receivables still fall within the credit terms as at 30 September 2023.

Our low cash flow was also due to higher other receivables pertaining mainly to the prepayments for IPO listing expenses. In addition, there were increase in inventories arising from higher purchases of materials and equipment in FP 2023 which was reflected in the increase in purchases of materials and equipment by 61.74% to RM7.36 million in FP 2023 (FP 2022: RM4.55 million).

(b) Net cash used for investing activities

FY 2020

For FY 2020, our net cash used for investing activities was RM2.25 million which was mainly attributed to RM2.85 million for the purchase of equipment, mainly for the installation of the hybrid solar thermal hot water system and retrofitting of LED lightings under the energy performance services. The net cash used was partially offset by the RM0.59 million received from the withdrawal of fixed deposits with licensed banks.

FY 2021

For FY 2021, our net cash used for investing activities was RM1.24 million mainly attributed to RM1.27 million used for the purchase of equipment mainly for the installation of the hybrid solar thermal hot water system and retrofitting of LED lighting under the energy performance services.

FY 2022

For FY 2022, our net cash used for investing activities was RM0.28 million mainly attributed to the purchase of a passenger car of RM0.23 million.

FP 2023

For FP 2023, our net cash used for investing activities was RM0.07 million, mainly attributed to RM0.06 million used for the purchase of equipment mainly for the installation of solar PV systems at our Headquarters in Kajang, Selangor.

(c) Net cash used for financing activities

FY 2020

For FY 2020, our net cash used for financing activities was RM1.65 million, mainly attributed to the net repayment of term loans of RM0.98 million as well as net repayment of banker's acceptance of RM0.59 million. These banking facilities were used for working capital purposes.

FY 2021

For FY 2021, our net cash used for financing activities was RM2.16 million, mainly attributed to the interim dividend payment of RM2.00 million declared in FY 2021.

FY 2022

For FY 2022, our net cash used for financing activities was RM6.57 million, mainly attributed to the dividend payment of RM6.30 million including RM2.00 million of final dividend declared in FY 2021 and RM4.30 million of dividend declared in FY 2022.

FP 2023

For FP 2023, our net cash used for financing activities was RM0.22 million, mainly attributed to the repayment of term loans of RM0.13 million, interest paid of RM0.05 million as well as repayment of hire purchase payables of RM0.04 million.

(iii) Borrowings

As at 30 September 2023, our bank borrowings are all interest bearing including RM0.69 million based on floating interest rates and RM0.20 million based on fixed interest rates. All our bank borrowings are denominated in RM. The breakdown of our bank borrowings is set out below:

			As at 30 September 2023		
Type of borrowings	**Purpose**	**Effective interest rates (%)**	**Payable within 12 months RM'000**	**Payable after 12 months RM'000**	**Total RM'000**
Term loans	Used for working capital purposes	3.50% - 4.55%	207	482	689
Bank overdrafts	Used for working capital purposes	7.10% - 7.40%	*	-	*
Hire purchase	Finance purchase of motor vehicles	4.18%	61	139	200
Total			**268**	**621**	**889**
Gearing ratio[(1)]					**0.05**

* *Less than RM1,000.*

Note:
(1) Calculated based on total borrowings divided by total equity.

The maturity profile of our bank borrowings as at 30 September 2023 are set out below:

	As at 30 September 2023			
Type of borrowings	**Less than 1 year RM'000**	**1 to 5 years RM'000**	**More than 5 years RM'000**	**Total RM'000**
Term loan	207	406	76	689
Bank overdrafts	*	-	-	*
Hire purchase	61	139	-	200
Total	**268**	**545**	**76**	**889**

* *Less than RM1,000.*

Our Group has not defaulted on payments of either interest and/or principal sum in respect of any borrowings during the FY Under Review, FP 2023 and up to the LPD. We also do not encounter any seasonality in our borrowings trend and there is no restriction on our committed borrowing facilities. As at the LPD, we are not in breach of any terms and conditions and covenants associated with credit arrangements or bank loans, which can materially affect our financial results, financial position or business operations, or the investments by holders of our Shares.

As at the LPD, we have banking facilities namely trade facilities of RM6.04 million, of which RM5.96 million has yet to be utilised. Save as disclosed above, our Group did not use any other credit facilities as at the LPD.

(iv) Treasury policies and objectives

Our Group has been funding our operations through cash generated from our business operations, and external sources of funds. The external sources of funds consist primarily of banking facilities from financial institutions. The normal credit terms granted by our suppliers range from 30 days to 60 days. As at the LPD, our Group's borrowings from financial institution mainly consist of term loan and bank overdrafts used for working capital purposes, as well as hire purchase used to finance the purchase of motor vehicles. The interest rates of our bank borrowings are based on the prevailing market rates as at the dates of the respective transactions. As at the LPD, our Group has banking facilities amounting to approximately RM6.04 million, of which RM5.96 million has yet to be fully utilised.

The main objective of our capital management is to maintain a strong credit rating and healthy capital ratio in order to support our business and maximise shareholders' value. We review and maintain our capital structure to maintain the debt-to-equity ratio at an optimal level based on the business requirements and prevailing economic conditions.

(v) Financial instruments for hedging purposes

For FY Under Review, FP 2023 and up to the LPD, our Group does not have any financial instrument for hedging purposes.

(vi) Financial guarantee contracts

As at the LPD, our financial guarantee contracts which comprised bank guarantees for performance bond of various projects for BMS as well as solar thermal systems and energy saving services and the details are as set out below:

	As at LPD RM'000
Bank guarantee for performance bond:	
- Maintenance of BMS and solar thermal hot water systems	81
Total	**81**

(vii) Contingent liabilities

As at the LPD, there is no indirect and/or material contingent liabilities incurred by our Group, which may have a substantial impact on the financial position of our Group.

(viii) Material litigation, claims or arbitration

Save as disclosed in Section 15.6 of this Prospectus, we are not involved in any legal action, proceeding, prosecution or arbitration, either as plaintiff or defendant, which may have a material adverse effect on the business or our financial position, and our Directors are not aware of any legal proceeding, pending or threatened, or of any fact to give rise to any legal proceeding which may have a material adverse effect on our business or financial position. Please refer to Section 15.6 of this Prospectus for further details on the material litigation.

(ix) Material capital commitment

Our capital commitment as at the LPD is as follow:

		Source of funds	
	Capital commitment RM'000	**Internally generated funds/ borrowings RM'000**	**IPO proceeds RM'000**
Approved but not contracted for:			
• Construction of new shop office in Kajang, Selangor	1,900	-	1,900
• Purchase new tools and equipment for our BMS and solar thermal systems and energy saving services	556	-	556
• Purchase ICT software and services to improve our business operations	222	-	222
Total	**2,678**	**-**	**2,678**

(x) Key financial ratios

Our key financial ratios for the FY Under Review and FP 2023 are as follows:

	FY 2020	**FY 2021**	**FY 2022**	**FP 2023**
Average trade receivable turnover period (days)(1)	125	96	103	96
Average trade payable turnover period (days)(2)	34	28	43	42
Average inventory turnover period (days)(3)	62	54	75	89
Current ratio (times)(4)	5.71	6.49	4.96	6.88
Gearing ratio (times)(5)	0.08	0.08	0.07	0.05

Notes:

(1) Computed based on average of the opening and closing net trade receivable over total revenue for the financial year/period and multiplied by 365 days/273 days for each financial year/period.

(2) Computed based on average of the opening and closing net trade payables over total cost of sales for the financial year/period and multiplied by 365 days/273 days for each financial year/period.

(3) Computed based on average of the opening and closing inventory over total cost of sales for the financial year/period and multiplied by 365 days/273 days for each financial year/period.
(4) Computed based on the current assets over the current liabilities.
(5) Computed based on the borrowings over the total equity.

(a) Trade receivables turnover ratio

A summary of our trade receivables for the FY Under Review and FP 2023 are set out as follows:

	FY 2020 RM'000	FY 2021 RM'000	FY 2022 RM'000	FP 2023 RM'000
Trade receivables	5,921	7,779	8,311	10,886
Less: Allowance for impairment loss	*(423)*	*(540)*	*(822)*	*(1,215)*
Less: Retention sum	*(1,580)*	*(1,919)*	*(2,274)*	*(3,034)*
Net trade receivables	3,918	5,320	5,215	6,637
Revenue (RM'000)	14,709	17,594	18,648	16,806
Average trade receivable turnover period (days)[(1)]	125	96	103	96

Note:
(1) Computed based on average of the opening and closing net trade receivable over total revenue for the financial year/period and multiplied by 365 days/273 days for each financial year/period. The average net trade receivables are calculated by adding the closing balance of trade receivables less allowance for impairment loss and retention sum of the financial year/period with that of the previous financial year, and dividing the total by 2, as follows:

	FY 2020 RM'000	*FY 2021 RM'000*	*FY 2022 RM'000*	*FP 2023 RM'000*
Opening net trade receivables	*6,145*	*3,918*	*5,320*	*5,215*
Closing net trade receivables	*3,918*	*5,320*	*5,215*	*6,637*
Average net trade receivables	***5,032***	***4,619***	***5,268***	***5,927***

We deal with our customers on credit terms and the credit terms granted to our customers are assessed and approved on case-to-case basis. The normal credit terms we grant to our customers range from 1 day to 60 days.

Our average trade receivables turnover period decreased from 125 days as at 31 December 2020 to 96 days as at 31 December 2021. This was mainly due to the lower proportion of outstanding balances from our customers for the solar thermal systems and energy saving services segment on the back of higher revenue from this segment which increased by 175.12% in FY 2021.

Our average trade receivables turnover period increased from 96 days as at 31 December 2021 to 103 days as at 31 December 2022, mainly due to higher proportion of outstanding balances from our customers for the solar thermal hot water systems and energy saving services segment on the back of lower revenue from this segment which decreased by 30.36% in FY 2022. This was mainly due to the slow payments from our customers for the solar thermal hot water systems.

Our average trade receivables turnover period improved from 103 days as at 31 December 2022 to 96 days as at 30 September 2023, mainly due to improvement in collections from our customers for the solar thermal hot water systems and energy saving services segment.

For the FY Under Review and FP 2023, our average trade receivable turnover period range between 96 days and 125 days which exceeded the normal credit terms granted to customers range between 1 to 60 days. This was mainly due to slow payments from some of our customers. For the FY Under Review and FP 2023, the past due outstanding receivables accounted for 52.49%, 73.31%, 47.77% and 29.86% of our net trade receivables as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 respectively. As at the LPD, RM6.22 million or 93.70% of our net trade receivables as at 30 September 2023 has been subsequently collected.

The ageing analysis of our trade receivables as at 30 September 2023 and the subsequent collections up to the LPD are set out below:

		Exceeded Credit Period				
	Within Credit Period	**1-30 days**	**31-60 days**	**61-90 days**	**More than 90 days**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade receivables	7,712	1,057	460	61	1,596	10,886
Less: Allowance for impairment loss	*(23)*	*(10)*	*(7)*	*(3)*	*(1,172)*	*(1,215)*
Less: Retention sum	*(3,034)*	-	-	-	-	*(3,034)*
Net trade receivables	4,655	1,047	453	58	424	6,637
% of total net trade receivables	*70.14*	*15.77*	*6.83*	*0.87*	*6.39*	*100.00*
Subsequent collections as at the LPD	(4,503)	(1,028)	(440)	(47)	(201)	(6,219)
Net trade receivables net of subsequent collections	152	19	13	11	223	418
% of total net trade receivables net of subsequent collections	*36.36*	*4.55*	*3.11*	*2.63*	*53.35*	*100.00*

As at the LPD, RM6.22 million or 93.70% of our net trade receivables as at 30 September 2023 has been subsequently collected.

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(b) Trade payables turnover ratio

A summary of our trade payables for the FY Under Review and FP 2023 are set out as follows:

	FY 2020 RM'000	FY 2021 RM'000	FY 2022 RM'000	FP 2023 RM'000
Trade payables	914	1,190	1,451	1,480
Less: Retention sum	*(349)*	*(446)*	*(331)*	*(236)*
Net trade payables	565	744	1,120	1,244
Cost of sales	8,678	8,535	7,970	7,694
Average trade payable turnover period (days) [(1)]	34	28	43	42

Note:

(1) Computed based on average of the opening and closing net trade payables over total cost of sales for the financial year/period and multiplied by 365 days/273 days for each financial year/period. The average net trade payables are calculated by adding the closing balance of trade payables less retention sum of the financial year/period with that of the previous financial year, and diving the total by 2, as follows:

	FY 2020 RM'000	*FY 2021 RM'000*	*FY 2022 RM'000*	*FP 2023 RM'000*
Opening net trade payables	*1,045*	*565*	*744*	*1,120*
Closing net trade payables	*565*	*744*	*1,120*	*1,244*
Average net trade payables	***805***	***655***	***932***	***1,182***

We deal with our suppliers including subcontractors on credit terms and the normal credit terms granted to us range from 30 days to 60 days.

Our average trade payable turnover period improved from 34 days as at 31 December 2020 to 28 days as at 31 December 2021. This was mainly due to improvement in payments to our suppliers.

Our average trade payable turnover period increased from 28 days as at 31 December 2021 to 43 days as at 31 December 2022. This was mainly due to past due outstanding amount to our major suppliers. As at the LPD, the said outstanding amount has been settled.

Our average trade payable turnover period decreased from 43 days as at 31 December 2022 to 42 days as at 30 September 2023. This was mainly due to improvement in payments to our major suppliers.

The ageing analysis of our trade payables as at 30 September 2023 and the subsequent payments up to the LPD are set out below:

	Within Credit Period	Exceeded Credit Period 1-30 days	31-60 days	61-90 days	More than 90 days	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade payables	626	806	37	11	-	1,480
Less: Retention sum	*(236)*	-	-	-	-	*(236)*
Net trade payables	390	806	37	11	-	1,244
% of total net trade payables	*31.35*	*64.79*	*2.97*	*0.88*	-	*100.00*
Subsequent payments as at the LPD	(390)	(806)	(37)	(11)	-	(1,244)
Trade payables net of subsequent payments	-	-	-	-	-	-
% of total trade payables net of subsequent payments	-	-	-	-	-	-

As at the LPD, we have settled all net trade payables for 30 September 2023.

(c) Inventory turnover ratio

The breakdown of our inventories for the FY Under Review and FP 2023 are as follows:-

	FY 2020	FY 2021	FY 2022	FP 2023
Inventory (RM000)	1,277	1,243	2,011	3,015
Cost of sales (RM'000)	8,678	8,535	7,970	7,694
Average inventory turnover period (days)[(1)]	62	54	75	89

Note:

(1) Computed based on average of the opening and closing inventory over total cost of sales for the financial year/period and multiplied by 365 days/273 days for each financial year/period, as follows:

	FY 2020	*FY 2021*	*FY 2022*	*FP 2023*
	RM'000	***RM'000***	***RM'000***	***RM'000***
Opening inventories	*1,688*	*1,277*	*1,243*	*2,011*
Closing inventories	*1,277*	*1,243*	*2,011*	*3,015*
Average inventories	***1,483***	***1,260***	***1,627***	***2,513***

Our inventory comprises the materials and equipment for our business operations including ICT hardware and software, equipment and materials for the BMS, as well as equipment for the solar thermal hot water systems including solar thermal collector modules, solar pump and other pumps, and the solar thermal control systems.

Our average inventory turnover period decreased from 62 days as at 31 December 2020 to 54 days as at 31 December 2021, mainly due to the lower purchases of materials and equipment in FY 2021.

Our average inventory turnover period increased from 54 days as at 31 December 2021 to 75 days as at 31 December 2022. This was mainly due to the increase in purchases of materials and equipment in the last quarter of FY 2022 to meet the scheduled installations in the following months.

Our average inventory turnover period increased from 75 days as at 31 December 2022 to 89 days as at 30 September 2023. This was mainly due to the increase in purchases of materials and equipment in FP 2023 which was reflected in the increase in purchases of materials and equipment by 61.74% to RM7.36 million in FP 2023 (FP 2022: RM4.55 million). The inventory mainly comprises materials for our ongoing BMS projects including the Conference and Residential Complex Project and Ampang Office Tower Project.

(d) Current ratio

The summary of our current ratio for the FY Under Review and FP 2023 are as follows:-

	FY 2020	FY 2021	FY 2022	FP 2023
Current assets (RM'000)	8,999	11,599	11,833	16,171
Current liabilities (RM'000)	1,576	1,786	2,387	2,350
Current ratio (times)[1]	5.71	6.49	4.96	6.88

Note:
(1) Computed based on the current assets over the current liabilities.

As at 31 December 2021, our current ratio was 6.49 times which was higher compared to 5.71 times as at 31 December 2020. This was mainly due to the increase in our current assets by RM2.60 million mainly attributed to the increase in trade receivables, as well as higher cash and bank balances as at 31 December 2021.

As at 31 December 2022, our current ratio was 4.96 times which was lower compared to 6.49 times as at 31 December 2021. This was mainly due to the current tax liabilities of RM0.29 million as well as higher trade payables as at 31 December 2021.

As at 30 September 2023, our current ratio was 6.88 times which was higher compared to 4.96 times as at 31 December 2022. This was mainly due to the increase in our current assets by RM4.34 million, mainly attributed to the increase in trade and other receivables as well as inventories.

12. FINANCIAL INFORMATION (CONT'D)

(e) Gearing ratio

The summary of our gearing ratio for the FY Under Review and FP 2023 are as follows:-

	FY 2020	FY 2021	FY 2022	FP 2023
Borrowings (RM'000)	1,099	1,287	1,062	889
Total equity (RM'000)	14,719	16,403	15,258	18,665
Gearing ratio (times)(1)	0.08	0.08	0.07	0.05

Note:
(1) Computed based on the borrowings over the total equity.

Our gearing ratio remained at 0.08 times as at 31 December 2021. This was mainly due to the increase of RM2.22 million in retained profits which increased from RM13.10 million as at 31 December 2020 to RM15.31 million as at 31 December 2021.

Our gearing ratio improved to 0.07 times as at 31 December 2022 and this was mainly due to the decrease in outstanding bank borrowings to RM1.06 million as at 31 December 2022 compared to RM1.29 million as at 31 December 2021.

Our gearing ratio decreased to 0.05 times as at 30 September 2023 and this was mainly due to the increase of RM3.41 million in retained profits which increased from RM14.26 million as at 31 December 2022 to RM17.67 million as at 30 September 2023. This was also partly due to the decrease in outstanding bank borrowings to RM0.89 million as at 30 September 2023 compared to RM1.06 million as at 31 December 2022.

12.5 ACCOUNTING POLICIES AND AUDIT QUALIFICATION

There was no accounting policy adopted which is peculiar to our Group because of the nature of our business or the industry we operate in during the FY Under Review and FP 2023. The Accountants' Report did not contain any audit qualification for the FY Under Review and FP 2023.

12.6 TREND ANALYSIS

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

(i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position, operations, liquidity and capital resources, saved as disclosed in this section and Sections 7 and 9 of this Prospectus;

(ii) material commitment for capital expenditure;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in this section and Sections 7 and 9 of this Prospectus;

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

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical combined financial statements not indicative of the future financial performance and position, save as disclosed in this Section and Sections 7 and 9 of this Prospectus.

12.7 ORDER BOOK

As at the LPD, we have a total unbilled order book of RM24.66 million, the details of which are set out below:

	Unbilled order book as at the LPD	**Expected timeline to be recognised**		
		FY 2024	**FY 2025**	**FY 2026**
By business segment	**RM'000**	**RM'000**	**RM'000**	**RM'000**
BMS	**15,557**	**15,058**	**473**	**26**
- System integration of BMS	14,290	14,081	209	-
- Maintenance of BMS	1,267	977	264	26
Solar thermal systems and energy saving services	**7,021**	**5,166**	**1,786**	**69**
- Energy performance services	6,693	5,029	1,664	-
- Installation of solar thermal hot water systems	-	-	-	-
- Maintenance of solar thermal hot water and cooling systems	328	137	122	69
Maintenance of other systems and equipment	**2,080**	**2,058**	**22**	**-**
Total	**24,658**	**22,282**	**2,281**	**95**

12.8 DIVIDEND POLICY

We allow our shareholders to participate in the profits of our Group as well as leaving adequate reserves for the future growth of our Group. Nonetheless, our Company does not have any formal dividend policy.

Our Group's ability to distribute dividends to our shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for the working capital of our business. Our ability to declare and pay dividends is subject to the discretion of our Board. Our Directors will take into consideration, among others, the following factors when recommending or declaring any dividends:

(i) the availability of adequate reserves and cash flows;

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

(iii) our anticipated future operating conditions and expansion taking into consideration projected capital expenditure and investment plans;

(iv) our working capital requirements;

(v) any contractual restrictions and/or commitments; and

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

As at the LPD, save for any applicable financial covenants (in particular, the financial institutions' consent for declaration of dividends from our subsidiaries in Malaysia to us) and the Act, and subject to the availability of distributable profits and reserves, there are no dividend restrictions imposed on us or our Subsidiaries. The existing financial covenants would not affect the future dividend payments of our Company.

Nevertheless, our Company is a holding company and we conduct substantially all of our operations through our Subsidiaries. Accordingly, an important source of our income and subsequently an important factor in our ability to pay dividends is the amount of dividends and distributions that our Company receives from our Subsidiaries. As such, the ability of our Subsidiaries to pay dividends or make other distributions to our Company in the future will depend on their operating results, earnings, capital requirements, general financial condition and any applicable laws.

The dividends declared and paid by our Group for the FY Under Review and FP 2023 are set out below:

	FY 2020 RM'000	**FY 2021 RM'000**	**FY 2022 RM'000**	**FP 2023 RM'000**
Dividends declared	-	4,000	4,300	-
Dividends paid	-	2,000	6,300[(2)]	-
PAT	1,984	4,225	5,184	3,408
Dividend payout ratio[(1)]	-	47.34%	121.53%	-

Notes:

(1) Computed as dividends paid divided by PAT.

(2) Including RM2.00 million of final dividend declared in FY 2021 and RM4.30 million of dividend declared in FY 2022.

The dividends declared and paid for the FY 2021 and FY 2022 were funded via internally generated funds.

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 modification (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 further dividends declared by our Board, if any, will not differ materially from historical dividend levels.

SDC has declared a dividend up to RM2.00 million for the FY 2023. The said dividend was paid in December 2023 and was funded via our internally generated funds.

Save as disclosed above, there are no other Pre-IPO Dividends to be declared and to be paid up to the date of the Listing.

12.9 CAPITALISATION AND INDEBTEDNESS

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

(i) our unaudited statements of financial position as at 30 November 2023; and

(ii) after adjusted for our IPO and utilisation of proceeds arising from the IPO.

	Audited as at 30 September 2023 RM'000	Unaudited as at 30 November 2023 RM'000	After our IPO and use of proceeds RM'000
Indebtedness (1)			
Current			
Term loans	207	208	[●]
Bank overdraft	*	*	[●]
Hire purchases	61	62	[●]
Total Current	268	270	[●]
Non-current			
Term loans	482	447	[●]
Hire purchases	139	128	[●]
Total Non-current	621	575	[●]
Total indebtedness	889	845	[●]
Capitalisation			
Shareholders' equity	18,665	21,037	[●]
Total capitalisation	18,665	21,037	[●]
Total capitalisation and indebtedness	**19,554**	**21,882**	[●]
Gearing ratio (2)	0.05	0.04	[●]

(*) Amount is less than RM500

Notes:
(1) All of our indebtedness is either secured and/or guaranteed.
(2) Computer based on based on the borrowings over the total equity.

Our shareholders' equity increased by RM[●] million as a result of the issue of new IPO Shares.

Total indebtedness will remain the same after the IPO as there is no portion of the IPO proceeds intended to be utilised for repayment of bank borrowings.

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13. REPORTS ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
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Date: 29 JAN 2024

The Board of Directors
Solar District Cooling Group Berhad
Wisma SDC, No. 25, Jalan Kajang Perdana 3/2,
Taman Kajang Perdana,
43000 Kajang,
Selangor Darul Ehsan.

Dear Sirs/Madam,

SOLAR DISTRICT COOLING GROUP BERHAD ("SDCG" OR "THE COMPANY')
REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of SDCG and its subsidiaries (collectively known as "the Group") as at 30 September 2023 and the related notes (as set out in Appendix A which we have stamped for the purpose of identification) prepared by the Board of Directors of the Company for inclusion in the prospectus in connection with the listing of and quotation for the entire issued share capital of SDCG on the ACE Market of Bursa Malaysia Securities Berhad ("**Listing**").

The applicable criteria on the basis of which the Board of Directors of the Company has compiled the Pro Forma Combined Statements of Financial Position are described in Note 3 of Appendix A. The Pro Forma Combined Statements of Financial Position are prepared in accordance with the requirements Chapter 9 of the Prospectus Guidelines issued by the Securities Commission Malaysia ("the Prospectus Guidelines") and the Guidance Note for issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants ("Guidance Note").

The Pro Forma Combined Statements of Financial Position have been compiled by the Board of Directors of the Company to illustrate the impact of the events or transactions as set out in Note 5 of Appendix A as if the events have occurred or the transactions have been undertaken on 30 September 2023. As part of this process, information about the Group's financial position as at 30 September 2023 has been extracted by the Board of Directors of Company from the audited financial statements of the Company and its combining entities as at 30 September 2023.

THE BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors of the Company is responsible for compiling the Pro Forma Combined Statements of Financial Position on the basis as set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

Crowe

REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

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

Our firm applies International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants and accordingly maintains a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by the Prospectus Guidelines issued by the Securities Commission Malaysia, about whether the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, by the Board of Directors of the Company on the basis as set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines and the Guidance Note.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagement 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 Board of Directors of the Company has compiled, in all material respects, the Pro Forma Combined Statements of Financial Position on the basis set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

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

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

Crowe

REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONT'D)

A reasonable assurance engagement to report on whether the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines, involves performing procedures to assess whether the applicable criteria used by the Board of Directors of the Company in the compilation of the Pro Forma Combined Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Combined Statements of Financial Position reflect 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 Combined Statements of Financial Position have been compiled, and other relevant engagement circumstances.

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

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

OPINION

In our opinion, Pro Forma Combined Statements of Financial Position of the Group have been compiled, in all material respects, on the basis set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

OTHER MATTER

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

Yours faithfully,

Crowe Malaysia

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Ung Voon Huay
03233/09/2024 J
Chartered Accountant

Kuala Lumpur

13. REPORTS ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023

					Pro Forma 1		Pro Forma 2		Pro Forma 3
	Note	SDCG Audited As at 30 September 2023 RM'000	SDC* Audited As at 30 September 2023 RM'000	Proposed Acquisition of SDC RM'000	After Proposed Acquisition of SDC RM'000	Public Issue RM'000	After Pro Forma 1 and Public Issue RM'000	Utilisation of Proceeds RM'000	After Pro Forma 2 and Utilisation of Proceeds RM'000
ASSETS									
NON-CURRENT ASSETS									
Property, plant and equipment		-	5,465	-	5,465	-	5,465	-	5,465
CURRENT ASSETS									
Inventories		-	3,015	-	3,015	-	3,015	-	3,015
Trade receivables		-	9,671	-	9,671	-	9,671	-	9,671
Other receivables, deposits and prepayments		-	1,539	-	1,539	-	1,539	-	1,539
Current tax assets		-	180	-	180	-	180	-	180
Fixed deposits with licensed banks		-	537	-	537	-	537	-	537
Cash and bank balances	6.1	#	1,229	-	1,229	[•]	[•]	[•]	[•]
		-	16,171	-	16,171	[•]	[•]	[•]	[•]
TOTAL ASSETS		-	21,636	-	21,636	[•]	[•]	[•]	[•]

Notes:-
(*) - Extracted from the SDC's Combined Financial Statements for the financial period ended 30 September 2023.

(#) - Amount represents RM100.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

	Notes	SDCG Audited As at 30 September 2023 RM'000	SDC* Audited As at 30 September 2023 RM'000	Proposed Acquisition of SDC RM'000	Pro Forma 1 After Proposed Acquisition of SDC RM'000	Public Issue RM'000	Pro Forma 2 After Pro Forma 1 and Public Issue RM'000	Utilisation of Proceeds RM'000	Pro Forma 3 After Pro Forma 2 and Utilisation of Proceeds RM'000
EQUITY AND LIABILITIES									
EQUITY									
Share capital	6.2	#	1,000	14,258	15,258	[•]	[•]	[•]	[•]
Merger deficit	6.3	-	-	(14,258)	(14,258)	-	(14,258)	-	(14,258)
Retained profits	6.4	(10)	17,675	-	17,665	-	17,665	[•]	[•]
TOTAL EQUITY		(10)	18,675	-	18,665	[•]	[•]	[•]	[•]
LIABILITIES									
NON-CURRENT LIABILITIES									
Hire purchase payables		-	139	-	139	-	139	-	139
Term loans		-	482	-	482	-	482	-	482
		-	621	-	621	-	621	-	621

Notes:-
(*) - Extracted from the SDC's Combined Financial Statements for the financial period ended 30 September 2023.

(#) - Amount represents RM100.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

	SDCG Audited As at 30 September 2023 RM'000	SDC* Audited As at 30 September 2023 RM'000	Proposed Acquisition of SDC RM'000	Pro Forma 1 After Proposed Acquisition of SDC RM'000	Public Issue RM'000	Pro Forma 2 After Pro Forma 1 and Public Issue RM'000	Utilisation of Proceeds RM'000	Pro Forma 3 After Pro Forma 2 and Utilisation of Proceeds RM'000
CURRENT LIABILITIES								
Trade payables	-	1,480	-	1,480	-	1,480	-	1,480
Other payables and accruals	10	573	-	583	-	583	-	583
Hire purchase payables	-	61	-	61	-	61	-	61
Term loans	-	207	-	207	-	207	-	207
Bank overdraft	-	-	-	-	-	-	-	-
Current tax liabilities	-	19	-	19	-	19	-	19
	10	2,340	-	2,350	-	2,350	-	2,350
TOTAL LIABILITIES	10	2,961	-	2,971	-	2,971	-	2,971
TOTAL EQUITY AND LIABILITIES	-	21,636	-	21,636	[•]	[•]	[•]	[•]

Note:-
(*) - Extracted from the SDC's Combined Financial Statements for the financial period ended 30 September 2023.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

	SDCG Audited As at 30 September 2023	SDC* Audited As at 30 September 2023	Proposed Acquisition of SDC	Pro Forma 1 After Proposed Acquisition of SDC	Public Issue	Pro Forma 2 After Pro Forma 1 and Public Issue	Utilisation of Proceeds	Pro Forma 3 After Pro Forma 2 and Utilisation of Proceeds
Share capital (RM'000)	#	1,000	14,258	15,258	[•]	[•]	[•]	[•]
Merger deficit (RM'000)	-	-	(14,258)	(14,258)	-	(14,258)	-	(14,258)
Retained profits (RM'000)	(10)	17,675	-	17,665	-	17,665	[•]	[•]
Net Assets (NA)/Total equity attributable to owners of the Company (RM'000)	(10)	18,675	-	18,665	[•]	[•]	[•]	[•]
Number of shares ('000)	^	1,000	305,152	305,152	118,670	423,822	-	423,822
NA per Share (RM)	-	19	-	0.06	[•]	[•]	-	[•]
Total borrowings (RM'000)	-	889	-	889	-	889	-	889
Gearing (times)	-	0.05	-	0.05	-	[•]	-	[•]

Notes:-
(*) - Extracted from the SDC's Combined Financial Statements for the financial period ended 30 September 2023.

(#) - Amount represents RM100.

(^) - At 25 April 2023 (date of incorporation), SDCG issued 100 Shares at RM1 each.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023

1. ABBREVIATIONS

Unless the context otherwise requires, the following abbreviations shall apply throughout this report:

Abbreviations

SDCG or the Company	:	Solar District Cooling Group Berhad Registration No.: 202301015665 (1509587-U)
SDCG Group or The Group	:	Solar District Cooling Group Berhad and its subsidiaries Kejuruteraan Efektif Dinamik Sdn. Bhd. Registration No.: 201401042378 (1118545-H) Solar District Cooling Sdn. Bhd. Registration No.: 200301004597 (607017-T)
SDC	:	Solar District Cooling Sdn. Bhd.
KED	:	Kejuruteraan Efektif Dinamik Sdn. Bhd.
Proposed Acquisition of SDC	:	Proposed acquisition by the Company of the entire issued share capital of SDC from the shareholders of SDC, namely Edison Kong and Eileen Liuk, for a total purchase consideration of RM15,257,618, which will be entirely satisfied by the issuance of 305,152,360 new Shares at an issue price of RM0.05 per Share
IPO	:	Initial public offering of the Shares in conjunction with the Listing, comprising the Public Issue
Listing	:	Admission to the Official List and the listing of and quotation for the entire enlarged issued share capital of SDCG on the ACE Market of Bursa Securities
SDCG Shares or Shares	:	Ordinary shares in SDCG
SSA	:	Share Sale Agreement
FYE	:	Financial year ended
Public Issue	:	The public issue of 118,670,000 new Shares at the IPO Price
RM and Sen	:	Ringgit Malaysia and sen, respectively
Vendors	:	Collectively, Edison Kong and Eileen Liuk
LPD	:	3 January 2024, being the latest practicable date

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

2. INTRODUCTION

The Pro Forma Combined Statements of Financial Position as at 30 September 2023 together with the notes thereon, for which the Board of Directors of the Company are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the Prospectus in connection with the Listing and should not be relied upon for any other purposes.

3. BASIS OF PREPARATION

The Pro Forma Combined Statements of Financial Position as at 30 September 2023 is prepared based on the audited combined statements of financial position of the Group as at 30 September 2023 which, was prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with the format of the financial statements and accounting policies of the Group.

The financial statements used in the preparation of these pro forma statements of financial position were not subject to any audit qualification, modification, disclaimer of opinion or emphasis of matter.

The Pro Forma Combined Statements of Financial Position together with the related notes thereon, have been prepared solely to illustrate the impact of the events and transactions set out in Note 5 to the Pro Forma Combined Statements of Financial Position had the events occurred or transactions been undertaken on 30 September 2023. The Pro Forma Combined Statements of Financial Position are not necessarily indicative of the financial positions that would have been attained had the Listing actually occurred at the respective dates.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

4. LISTING SCHEME

4.1 Proposed Acquisition of SDC

In conjunction with the Listing, the Company had on 11 August 2023 entered into a conditional SSA with the Vendors to acquire the entire issued share capital of SDC for a purchase consideration of RM15,257,618. The purchase consideration was satisfied via the issuance of 305,152,360 new Shares at an issue price of RM0.05 per Share to the Vendors as follows:

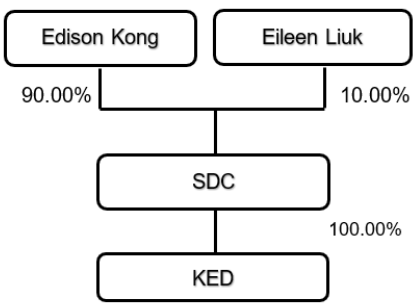
Vendors	No. of shares acquired	% of share capital	Purchase consideration (RM)	No of new Shares issued
Edison Kong	900,000	90.00	13,731,856	274,637,124
Eileen Liuk	100,000	10.00	1,525,762	30,515,236
Total	**1,000,000**	**100.00**	**15,257,618**	**305,152,360**

The purchase consideration of RM15,257,618 was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited net assets of SDC, as at 31 December 2022 of RM15,257,618.

Upon the completion of the Proposed Acquisition of SDC, SDC and its subsidiary, KED will become our wholly-owned subsidiaries of SDCG. As at the date of LPD, the Proposed Acquisition of SDC is pending fulfilment of the conditions precedent in the SSA for the Proposed Acquisition of SDC.

The Group structure before and after the Listing are illustrated as follows:

(i) Before the Proposed Acquisition of SDC and Listing



Appendix A

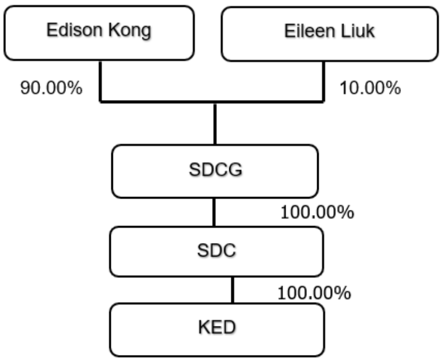
SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

4. LISTING SCHEME (CONT'D)

4.1 Proposed Acquisition of SDC (Cont'd)

(ii) After the Proposed Acquisition of SDC and before the Listing



The Proposed Acquisition of SDC is pending completion as it is conditional upon the fulfilment of conditions precedent which includes amongst others, the approval from Bursa Securities for the Listing. Upon completion, SDC and its subsidiary, KED will become our wholly-owned subsidiaries. As at the LPD, the Group does not have any other subsidiary company, joint-venture or associated company.

The following proposals will be undertaken in conjunction with, and as an integral part of the Listing:

4.2 Public Issue

The Public Issue of 118,670,000 Issue Shares, representing approximately 28.00% of the enlarged total number of Shares of SDCG at the IPO Price per Share allocated in the following manner:-

- 21,192,000 Public Issue Shares will be made available for application by the Malaysian Public by way of balloting;
- 21,192,000 Public Issue Shares will be made available for application by the eligible directors, employees and persons who have contributed to the success of the Group; and
- 76,286,000 Public Issue Shares will be made available for application by way of private placement to selected investors.

4.3 Listing

The admission of the listing of and quotation for the entire enlarged issued share capital of SDCG of [•] comprising 423,822,460 Shares on the ACE Market of Bursa Malaysia Securities Berhad.

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

5. PRO FORMA ADJUSTMENTS TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

5.1 Pro Forma 1

Pro Forma 1 incorporates the effects of the Proposed Acquisition of SDC as set out in Note 4.1 to the pro forma statements of financial position.

5.2 Pro Forma 2

Pro Forma 2 incorporates the effects of Pro Forma 1 and Public Issue as set out in Note 4.2 to the pro forma statements of financial position.

5.3 Pro Forma 3

Pro Forma 3 incorporates the effects of Pro Forma 2 and the utilisation of proceeds from Public Issue. The proceeds from the Public Issue will be utilised as follows:-

Details of use of proceeds	Amount of proceeds		Estimated timeframe for the use of proceeds from the date of Listing
	RM'000	%	
Expansion of our Headquarters #	[•]	[•]	Within 24 Months
Tender bonds and/or performance bonds for future projects #	[•]	[•]	Within 24 Months
Purchase of materials for solar thermal systems and energy saving services #	[•]	[•]	Within 24 Months
General working capital #	[•]	[•]	Within 24 Months
Capital expenditure #	[•]	[•]	Within 24 Months
Estimated listing expenses *^	[•]	[•]	Within 3 months
	[•]	[•]	

Notes:-

- *As at the LPD, these utilisations of proceeds are not adjusted in the Pro Forma 3 to the statements of financial position as they are not supported by any purchase order or any other contractual binding agreement, and hence, they remained in the cash and bank balances.*

* - *If the actual listing expenses are higher than estimated, the deficit will be funded by internally generated funds or working capital. Conversely, if the actual listing expenses are lower than amount budgeted, the excess will be utilised for the general working capital requirements.*

^ - *The estimated listing expenses of [•] directly attributable to the Public Issue will be set off against share capital and the remaining estimated listing expenses of [•] that is attributable to the Listing will be expensed off to statements of profit or loss and other comprehensive income.*

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

6. EFFECTS ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION

6.1 Cash and bank balances

	RM'000
As at 30 September 2023/Pro Forma 1	1,229
Pursuant to Public Issue	[•]
As per Pro Forma 2	[•]
Pursuant to Utilisation of Proceeds	
- Estimated listing expenses^	[•]
As per Pro Forma 3	[•]

6.2 Share capital

	Number of ordinary shares '000	Amount of share capital RM'000
As at 30 September 2023*	-	-
Add: Ordinary shares issued pursuant to the Proposed Acquisition of SDC	305,152	15,258
As per Pro Forma 1	305,152	15,258
Pursuant to Public Issue	118,670	[•]
As per Pro Forma 2	423,822	[•]
Pursuant to Utilisation of Proceeds		
- Estimated listing expenses^	-	[•]
As per Pro Forma 3	423,822	[•]

6.3 Merger deficit

	RM'000
As at 30 September 2023	-
Pursuant to Proposed Acquisition of SDC	(14,258)
As per Pro Forma 1, 2 and 3	(14,258)

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

NOTES TO THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (CONT'D)

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

6.4 Retained profits

	RM'000
As at 30 September 2023/Pro Forma 1 and 2	17,665
Pursuant to Utilisation of Proceeds	
- Estimated listing expenses^	[•]
As per Pro Forma 3	[•]

Notes:-

^ - *The estimated listing expenses of [•] directly attributable to the Public Issue will be set off against share capital and the remaining estimated listing expenses of [•] that is attributable to the Listing will be expensed off to the statements of profit or loss and other comprehensive income.*

* - *At 25 April 2023 (date of incorporation), SDCG issued 100 Shares at RM1 each.*

Appendix A

SOLAR DISTRICT COOLING GROUP BERHAD

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Solar District Cooling Group Berhad in accordance with a resolution dated 04 DEC 2023

On behalf of the Board of Directors,

Kong Kam Onn **Liuk Ing Hong**