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**13. ACCOUNTANTS' REPORT**

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**3REN BERHAD**  
**(Registration No.: 202101012445 (1412744-K))**  
(Incorporated in Malaysia)

**ACCOUNTANTS' REPORT ON THE  
COMBINED FINANCIAL STATEMENTS**

**GRANT THORNTON MALAYSIA PLT**  
**CHARTERED ACCOUNTANT'S**  
**Member Firm of Grant Thornton International Ltd.**

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

Date: 27 March 2024

The Board of Directors  
**3REN Berhad**  
 170-09-01 Livingston Tower  
 Jalan Argyll  
 10050 Georgetown  
 Penang

Dear Sirs,

**Grant Thornton Malaysia PLT**

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 51 Jalan Sultan Ahmad Shah  
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 Malaysia

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**Reporting Accountants' Opinion On The Combined Financial Statements Contained In The Accountants' Report of 3REN Berhad. ("the Company" or "3REN")**

**Opinion**

We have audited the accompanying combined financial statements of the Company and its combining entities (collectively known as "the Group"), which comprises the combined statements of financial position as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years/period then ended and material accounting policies and other explanatory notes, as set out on pages 4 to 72.

The combined financial statements of the Group have been prepared solely to comply with the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion into the Prospectus of the Company in connection with the listing of and quotation of the entire enlarged share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and for no other purposes.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined statements of financial position of the Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, and of their combined financial performance and combined cash flows for the financial years/period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

**Basis for Opinion**

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

**Independence and Other Ethical Responsibilities**

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

**Chartered Accountants**

Grant Thornton Malaysia PLT [201906003682 [LLP0022494-LCA] & AF 0737] is a Limited Liability Partnership and is a member firm of Grant Thornton International Ltd (GTL), a private company limited by guarantee, incorporated in England and Wales.

Grant Thornton Malaysia PLT was registered on 1 January 2020 and with effect from that date, Grant Thornton Malaysia [AF 0737], a conventional partnership was converted to a Limited Liability Partnership.

**13. ACCOUNTANTS' REPORT** (cont'd)**Responsibilities of the Directors for the Combined Financial Statements**

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

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

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

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

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

- Identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the Financial Information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.

13. ACCOUNTANTS' REPORT (cont'd)



**Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements (cont'd)**

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

- Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

**Restriction on Distribution and Use**

This report is made solely to the Company for inclusion in the Prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.



Grant Thornton Malaysia PLT  
AF: 0737  
201906003682 (LLP0022494-LCA)  
Chartered Accountants



Terence Lau Han Wen  
No. 03298/04/2025 J  
Chartered Accountant

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

Registration No.: 202101012445 (1412744-K)

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF FINANCIAL POSITION**

	Note	----- Audited -----			
		30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	17,975,353	17,716,138	8,462,091	2,753,434
Intangible assets	5	4,624,844	3,578,303	1,693,148	-
Right-of-use assets	6	999,176	1,224,028	642,602	613,757
Deferred tax assets	7	-	-	-	483,000
Other investments	8	20,000	1,917,500	1,572,500	905,923
Trade receivable	9	1,800,197	-	-	-
Contract assets	10	971,111	-	-	-
		<u>26,390,681</u>	<u>24,435,969</u>	<u>12,370,341</u>	<u>4,756,114</u>
<b>Current assets</b>					
Inventories	11	4,558,060	4,944,621	3,072,455	2,888,297
Trade receivables	9	22,602,554	26,250,336	18,308,411	16,698,477
Other receivables, deposits and prepayments	12	2,878,793	2,777,353	2,055,599	1,417,519
Contract assets	10	4,177,437	4,386,575	1,395,660	252,517
Contract costs	13	675,771	748,016	1,359,840	-
Current tax assets		1,475,839	1,863,553	900,000	73,375
Fixed deposits with licensed banks	14	9,870,396	7,872,196	9,282,617	7,664,682
Cash and bank balances	15	6,330,212	8,204,100	15,967,542	12,518,228
		<u>52,569,062</u>	<u>57,046,750</u>	<u>52,342,124</u>	<u>41,513,095</u>
<b>TOTAL ASSETS</b>		<u><b>78,959,743</b></u>	<u><b>81,482,719</b></u>	<u><b>64,712,465</b></u>	<u><b>46,269,209</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	16.1	2	2	2	-
Invested equity	16.2	9,660,000	9,660,000	9,660,000	9,660,000
Retained profits	17	49,340,756	47,759,108	40,293,159	24,970,120
<b>Total equity</b>		<u><b>59,000,758</b></u>	<u><b>57,419,110</b></u>	<u><b>49,953,161</b></u>	<u><b>34,630,120</b></u>

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

Registration No.: 202101012445 (1412744-K)

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

	Note	Audited			
		30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Non-current liabilities</b>					
Deferred income	18	1,231	1,734	2,406	-
Borrowings	19	11,194,077	11,689,764	7,041,632	3,159,877
Lease liabilities	6	251,606	403,113	33,788	-
Deferred tax liabilities	7	1,546,000	1,216,876	536,000	2,000
		<u>12,992,914</u>	<u>13,311,487</u>	<u>7,613,826</u>	<u>3,161,877</u>
<b>Current liabilities</b>					
Trade payables	20	1,059,535	723,728	2,001,383	3,425,614
Other payables and accruals	21	2,037,949	2,762,167	2,303,266	903,371
Contract liabilities	10	2,751,995	4,529,729	1,953,045	795,232
Borrowings	19	684,738	907,870	545,810	657,755
Lease liabilities	6	202,182	261,956	39,099	33,240
Deferred income	18	672	672	672	-
Dividend payable		-	1,566,000	-	-
Current tax liabilities		229,000	-	302,203	2,662,000
		<u>6,966,071</u>	<u>10,752,122</u>	<u>7,145,478</u>	<u>8,477,212</u>
<b>TOTAL LIABILITIES</b>		<u>19,958,985</u>	<u>24,063,609</u>	<u>14,759,304</u>	<u>11,639,089</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>78,959,743</u>	<u>81,482,719</u>	<u>64,712,465</u>	<u>46,269,209</u>

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**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

Registration No.: 202101012445 (1412744-K)

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**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

		<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>Audited</b> -----  <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	<b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
	<b>Note</b>					
Revenue	22	67,179,837	73,373,159	103,598,022	74,163,750	63,019,927
Cost of sales		<u>(49,203,515)</u>	<u>(58,536,321)</u>	<u>(79,404,827)</u>	<u>(52,366,482)</u>	<u>(44,111,363)</u>
<b>Gross profit</b>		17,976,322	14,836,838	24,193,195	21,797,268	18,908,564
Other income		127,103	200,341	257,791	2,231,211	49,971
Allowance for expected credit losses on receivables		(4,541)	-	-	(39,107)	-
Other operating expenses		(8,266,749)	(6,519,872)	(9,011,793)	(6,557,904)	(3,951,095)
Research and development expenses		<u>(1,254,041)</u>	<u>(1,005,828)</u>	<u>(1,184,420)</u>	<u>(98,038)</u>	<u>(502,263)</u>
<b>Operating profit</b>		8,578,094	7,511,479	14,254,773	17,333,430	14,505,177
Finance costs		(421,969)	(290,387)	(411,528)	(140,542)	(200,111)
Finance income		<u>216,587</u>	<u>125,750</u>	<u>183,057</u>	<u>153,012</u>	<u>208,766</u>
<b>Profit before tax</b>	23	8,372,712	7,346,842	14,026,302	17,345,900	14,513,832
Tax expense	24	<u>(1,791,064)</u>	<u>(1,693,276)</u>	<u>(1,959,979)</u>	<u>(1,272,861)</u>	<u>(3,263,251)</u>
<b>Profit for the financial period/year, representing total comprehensive income for the financial period/year</b>		<u>6,581,648</u>	<u>5,653,566</u>	<u>12,066,323</u>	<u>16,073,039</u>	<u>11,250,581</u>

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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(Incorporated in Malaysia)

**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	Note	Audited	Unaudited	Audited		
		1.1.2023 to 30.9.2023 RM	1.1.2022 to 30.9.2022 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
<b>Total comprehensive income attributable to:</b>						
Owner of the Company		6,581,648	5,743,924	12,036,666	16,073,039	11,250,581
Non-controlling interests		-	(90,358)	29,657	-	-
		<u>6,581,648</u>	<u>5,653,566</u>	<u>12,066,323</u>	<u>16,073,039</u>	<u>11,250,581</u>
<b>Basic earnings per ordinary shares (sen)</b>	25	<u>1.01</u>	<u>0.88</u>	<u>1.85</u>	<u>2.47</u>	<u>1.73</u>

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

**3REN BERHAD**  
**Registration No.: 202101012445 (1412744-K)**  
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**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	Share Capital * RM	Invested Equity RM	Retained Profits RM	Total RM	Non- controlling Interests RM	Total Equity RM
Balance as at 1 January 2020	-	3,560,000	13,719,539	17,279,539	-	17,279,539
Transaction with owners: Allotment of redeemable convertible preference shares ("RCPS")	16	6,100,000	-	6,100,000	-	6,100,000
Total comprehensive income for the financial year	-	-	11,250,581	11,250,581	-	11,250,581
Balance as at 31 December 2020/1 January 2021	-	9,660,000	24,970,120	34,630,120	-	34,630,120
Total comprehensive income for the financial year	-	-	16,073,039	16,073,039	-	16,073,039
Transaction with owners: Dividends	26	-	(750,000)	(750,000)	-	(750,000)
Issuance of shares	16	-	-	-	-	2
Balance as at 31 December 2021/1 January 2022	2	9,660,000	40,293,159	49,953,161	-	49,953,161
Total comprehensive income for the financial year	-	-	12,036,666	12,036,666	29,657	12,066,323
Transaction with owners: Dividends	26	-	(4,566,000)	(4,566,000)	-	(4,566,000)
Non-controlling interest arising from acquisition of Pinkypye Sdn. Bhd. ("Pinkypye")	-	-	-	-	(34,364)	(34,364)
Balance carried forward	2	9,660,000	47,763,825	57,423,827	(4,707)	57,419,120

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

**3REN BERHAD**  
**Registration No.: 202101012445 (1412744-K)**  
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**COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

	Note	Share Capital * RM	Invested Equity RM	Retained Profits RM	Total RM	Non-controlling Interests RM	Total Equity RM
Balance brought forward	2		9,660,000	47,763,825	57,423,827	(4,707)	57,419,120
Transaction with owners: Acquisition of Pinkypye's non-controlling interest	-		-	(4,717)	(4,717)	4,707	(10)
Balance as at 31 December 2022/1 January 2023	2		9,660,000	47,759,108	57,419,110	-	57,419,110
Total comprehensive income for the financial period	16		-	6,581,648	6,581,648	-	6,581,648
Transaction with owners: Dividends	26		-	(5,000,000)	(5,000,000)	-	(5,000,000)
Balance as at 30 September 2023	2		9,660,000	49,340,756	59,000,758	-	59,000,758

\* Issuance of shares pursuant to the incorporation of 3REN.

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

Registration No.: 202101012445 (1412744-K)

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS**

	----- Audited -----			
	1.1.2023 to 30.9.2023 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	8,372,712	14,026,302	17,345,900	14,513,832
Adjustments for:				
Accretion of interest on lease liabilities	21,570	6,064	5,485	4,414
Allowance for expected credit loss	4,541	-	39,107	-
Amortisation of intangible assets	432,587	235,275	21,705	-
Bargain purchase	-	51,560	-	-
Deferred income	(503)	(672)	-	-
Depreciation of property, plant and equipment	1,061,526	631,864	364,206	348,982
Depreciation of right-of-use assets	214,067	84,952	47,677	47,440
Dividend income	-	-	(1,040,000)	-
Fair value loss/(gain) on other investments, net	27,000	83,000	(1,036,873)	-
Interest expense	400,807	405,464	135,057	195,697
Interest income	(216,587)	(183,057)	(153,012)	(208,766)
(Gain)/Loss on disposal of property, plant and equipment	(199)	(15,841)	19,160	-
Gain on lease modification	(407)	-	-	-
Property, plant and equipment written off	-	-	167,277	-
Rent concession	-	-	-	(3,177)
Unrealised (gain)/ loss on foreign exchange	(70,314)	(25,880)	1,429	-
Unwinding discounts on contract assets	105,749	-	-	-
Unwinding discounts on trade receivables	210,709	-	-	-
Operating profit before working capital changes	10,563,258	15,299,031	15,917,118	14,898,422
Changes in:				
Inventories	386,561	(1,872,166)	(184,158)	(832,226)
Receivables	1,574,957	(8,421,141)	(2,287,121)	(8,205,542)
Payables	(1,954,411)	(1,262,490)	(24,336)	1,330,182
Contract assets	(867,722)	(2,990,915)	(1,143,143)	3,883,860
Contract costs	72,245	611,824	(1,359,840)	-
Contract liabilities	(1,777,734)	2,576,684	1,157,813	(1,372,372)
Deferred income	-	-	3,078	-
Balance carried forward	7,997,154	3,940,827	12,079,411	9,702,324

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**COMBINED STATEMENTS OF CASH FLOWS (CONT'D)**

	Note	----- Audited -----			
		1.1.2023 to 30.9.2023 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
Balance brought forward		7,997,154	3,940,827	12,079,411	9,702,324
Interest paid		(400,807)	(405,464)	(135,057)	(195,697)
Interest received		216,587	183,057	153,012	208,766
Income tax paid		(1,495,716)	(2,544,861)	(3,442,284)	(1,949,058)
Income tax refunded		650,490	-	-	-
Net cash from operating activities		6,967,708	1,173,559	8,655,082	7,766,335
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of interest of non-controlling interests		-	(10)	-	-
Addition to intangible assets		(1,479,128)	(2,120,430)	(1,714,853)	-
Cash flow effects of acquiring Pinkypye	A	-	113,654	-	-
Dividend income		-	-	1,040,000	-
Net changes in other investments		1,870,500	(428,000)	370,297	-
Placement of fixed deposit with licensed bank		(591,548)	(21,196)	(19,592)	(254,171)
Proceed from disposal of property, plant and equipment		200	85,000	7,189	-
Purchase of property, plant and equipment	B	(1,213,742)	(9,034,548)	(6,266,489)	(632,335)
Net cash used in investing activities		(1,413,718)	(11,405,530)	(6,583,448)	(886,506)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid		(5,000,000)	(3,000,000)	(750,000)	-
Net change in hire purchase loans	C	(149,683)	(205,902)	(149,120)	(25,314)
Net drawdown of term loan	C	(676,136)	4,297,194	4,068,727	141,533
Payment of lease liabilities	C	(221,659)	(80,260)	(42,360)	(39,183)
Proceed from issuance of ordinary shares		-	-	2	-
Proceeds from issuance of RCPS		-	-	-	6,100,000
Net cash (used in)/from financing activities		(6,047,478)	1,011,032	3,127,249	6,177,036
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		(493,488)	(9,220,939)	5,198,883	13,056,865

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

**3REN BERHAD**

Registration No.: 202101012445 (1412744-K)

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS (CONT'D)**

	----- Audited -----			
	1.1.2023 to 30.9.2023 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	(493,488)	(9,220,939)	5,198,883	13,056,865
<b>Effect of foreign exchange rate changes</b>	26,252	25,880	(1,429)	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	<u>14,974,553</u>	<u>24,169,612</u>	<u>18,972,158</u>	<u>5,915,293</u>
<b>CASH AND CASH EQUIVALENTS AT END</b>	<u>14,507,317</u>	<u>14,974,553</u>	<u>24,169,612</u>	<u>18,972,158</u>
<b>The cash and cash equivalents are represented by:</b>				
Fixed deposits with licensed banks	9,870,396	7,872,196	9,282,617	7,664,682
Cash and bank balances	6,330,212	8,204,100	15,967,542	12,518,228
Bank overdraft	-	-	-	(149,797)
	<u>16,200,608</u>	<u>16,076,296</u>	<u>25,250,159</u>	<u>20,033,113</u>
Less: Fixed deposit pledged to licensed banks and with maturity more than 3 months	<u>(1,693,291)</u>	<u>(1,101,743)</u>	<u>(1,080,547)</u>	<u>(1,060,955)</u>
	<u>14,507,317</u>	<u>14,974,553</u>	<u>24,169,612</u>	<u>18,972,158</u>

**A. Cash flow effects of acquiring Pinkypye**

	1.1.2022 to 31.12.2022 RM
Cost of investment in Pinkypye	(15)
Cash and cash equivalents of Pinkypye	<u>113,669</u>
	<u>113,654</u>

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**COMBINED STATEMENTS OF CASH FLOWS (CONT'D)****B. Purchase of property, plant and equipment**

	Note	Audited			
		1.1.2023 to 30.9.2023 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
Total acquisition cost		1,320,742	9,953,448	6,266,489	722,335
Acquired under hire purchase	C	<u>(107,000)</u>	<u>(918,900)</u>	<u>-</u>	<u>(90,000)</u>
		<u>1,213,742</u>	<u>9,034,548</u>	<u>6,266,489</u>	<u>632,335</u>

**C. Liabilities arising from financing activities**

Reconciliation between the opening and closing balances in the combined statements of financial position for liabilities arising from financing activities follows:

	Audited			
	Balance at beginning RM	Net cash flows RM	Others <sup>1</sup> RM	Balance at end RM
<b>Audited</b>				
<b>30.9.2023</b>				
Hire purchase loans	843,591	(149,683)	107,000	800,908
Lease liabilities	665,069	(221,659)	10,378	453,788
Term loans	<u>11,754,043</u>	<u>(676,136)</u>	<u>-</u>	<u>11,077,907</u>
	<u>13,262,703</u>	<u>(1,047,478)</u>	<u>117,378</u>	<u>12,332,603</u>
<b>31.12.2022</b>				
Hire purchase loans	130,593	(205,902)	918,900	843,591
Lease liabilities	72,887	(80,260)	672,442	665,069
Term loans	<u>7,456,849</u>	<u>4,297,194</u>	<u>-</u>	<u>11,754,043</u>
	<u>7,660,329</u>	<u>4,011,032</u>	<u>1,591,342</u>	<u>13,262,703</u>

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**COMBINED STATEMENTS OF CASH FLOWS (CONT'D)****C. Liabilities arising from financing activities (cont'd)**

	----- Audited -----			
	Balance at beginning RM	Net cash flows RM	Others <sup>1</sup> RM	Balance at end RM
<b>31.12.2021</b>				
Hire purchase loans	279,713	(149,120)	-	130,593
Lease liabilities	33,240	(42,360)	82,007	72,887
Term loans	3,388,122	4,068,727	-	7,456,849
	<u>3,701,075</u>	<u>3,877,247</u>	<u>82,007</u>	<u>7,660,329</u>
<b>31.12.2020</b>				
Hire purchase loans	215,027	(25,314)	90,000	279,713
Lease liabilities	71,186	(39,183)	1,237	33,240
Term loans	3,246,589	141,533	-	3,388,122
	<u>3,532,802</u>	<u>77,036</u>	<u>91,237</u>	<u>3,701,075</u>

<sup>1</sup> Others consist of non-cash movement as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Accretion of interest	21,570	6,064	5,485	4,414
Addition of lease liabilities	-	666,378	76,522	-
Acquisition of property, plant and equipment through hire purchase loans	107,000	918,900	-	90,000
Lease modification	(11,192)	-	-	-
Rent concession	-	-	-	(3,177)
	<u>117,378</u>	<u>1,591,342</u>	<u>82,007</u>	<u>91,237</u>

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**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD****Registration No.: 202101012445 (1412744-K)**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS****1. GENERAL INFORMATION****1.1 Introduction**

This report has been prepared solely to comply with the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion in the prospectus of 3REN Berhad ("the Company" or "3REN") in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing"), via an initial public offering ("IPO") by the Company.

**1.2 Background**

The Company was incorporated on 5<sup>th</sup> April 2021 under the Companies Act 2016 in Malaysia as a private limited company and subsequently converted into a public limited company on 19 February 2024. The Company was incorporated as a special purpose vehicle for the purpose of acquiring Sophic Automation Sdn. Bhd. ("Sophic Automation"), Sophic MSC Sdn. Bhd. ("Sophic MSC") and Pinkypye as disclosed in Note 1.5 below, pursuant to the listing.

The registered office of the Company is located at 170-09-01, Livingston Tower, Jalan Argyll, 10050 George Town, Penang.

The principal place of business of the Company is located at No. 9 Jalan Industri Tangkas 1, Taman Industri Tangkas, 14000 Bukit Mertajam, Pulau Pinang.

**1.3 Principal activities**

The Company's principal activity is that of investment holding. The details of the subsidiaries as at the date of report are as follows:

<u>Name of companies</u>	<u>Country of incorporation/Principal place of business</u>	<u>Date of incorporation</u>	<u>Effective equity interest</u>	<u>Principal activities</u>
Sophic Automation	Malaysia	07.11.2007	100%	Provision of automation solutions and engineering services.
Sophic MSC	Malaysia	29.11.2011	100%	Provision of automation solutions.
Pinkypye	Malaysia	13.09.2021	100%	Provision of precision machining and related services.



**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****1. GENERAL INFORMATION (CONT'D)****1.4 Movement of Share Capital of 3REN**

The share capital of 3REN as at the latest practicable date – 29 February 2024 (“LPD”) is RM2 comprising 2 ordinary shares. The movement of 3REN share capital since its incorporation are set out below:

<u>Date of Allotment</u>	<u>No. of Shares allotted</u>	<u>Consideration/Type of issue</u> RM	<u>Cumulative share capital</u> RM
5 April 2021	2	2 / Subscribers shares	2
[●]	489,999,998	49,000,000 / Consideration for the Acquisition of Sophic Automation	49,000,002
[●]	40,000,000	4,000,000 / Consideration for the Acquisition of Sophic MSC	53,000,002
[●]	10,000,000	1,000,000 / Consideration for the Acquisition of Pinkpye	54,000,002

As at the LPD, 3REN does not have any outstanding warrant, option, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment of shares.

Upon completion of the IPO, the enlarged share capital of 3REN will increase from RM2 comprising 2 ordinary shares to RM[●] comprising 650,000,000 ordinary shares.

**1.5 Internal restructuring**

Prior to the IPO, the following internal restructuring exercise was undertaken:

**(a) Acquisition of Sophic Automation**

On 20 March 2024, 3REN entered into a conditional share sale agreement with Lee Chee Hoo, Koh Dim Kuan, Malaysian Technology Development Corporation Sdn. Bhd. (“MTDC”) and Low Chee Onn to acquire the entire equity interest in Sophic Automation comprising 571,700 ordinary shares for a purchase consideration of RM49,000,000. The purchase consideration was satisfied by the issuance of 489,999,998 new ordinary shares in the Company at an issue price of RM0.10 per ordinary share as follows:

	<b>No. of Shares</b>	<b>RM</b>
Lee Chee Hoo	244,264,998	24,426,500
Koh Dim Kuan	149,989,000	14,998,900
Low Chee Onn	34,300,000	3,430,000
MTDC	61,446,000	6,144,600
	<u>489,999,998</u>	<u>49,000,000</u>

The acquisition was completed on [●]. Thereafter, Sophic Automation became a wholly-owned subsidiary of 3REN. The total purchase consideration of RM49,000,000 was arrived on a “willing-buyer willing-seller” basis after taking into consideration the audited net assets (“NA”) of Sophic Automation as at 30 September 2023 of RM49,085,615, adjusted for the proposed RCPS Conversion and interim dividends declared and paid amounting to RM5.0 million.

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD****Registration No.: 202101012445 (1412744-K)**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****1. GENERAL INFORMATION (CONT'D)****1.5 Internal restructuring (cont'd)****(b) Acquisition of Sophic MSC**

On 20 March 2024, 3REN entered into a conditional share sale agreement with Sophic Automation and Liew Chee Kin to acquire the entire equity interest in Sophic MSC comprising 100,000 ordinary shares for a purchase consideration of RM4,000,000. The purchase consideration was satisfied by the issuance of 40,000,000 new ordinary shares in the Company at an issue price of RM0.10 per share as follows:

	<b>No. of Shares</b>	<b>RM</b>
Sophic Automation	26,000,000	2,600,000
Liew Chee Kin	<u>14,000,000</u>	<u>1,400,000</u>
	<u>40,000,000</u>	<u>4,000,000</u>

Pursuant to the share sale agreement dated 20 March 2024, the entire 26,000,000 ordinary shares allotted to Sophic Automation pursuant to the acquisition of Sophic MSC was subsequently novated as follows:

	<b>No. of Shares</b>	<b>RM</b>
Lee Chee Hoo	12,961,000	1,296,100
Koh Dim Kuan	7,959,000	795,900
Low Chee Onn	1,820,000	182,000
MTDC	<u>3,260,000</u>	<u>326,000</u>
	<u>26,000,000</u>	<u>2,600,000</u>

The acquisition was completed on [●]. Thereafter, Sophic MSC became a wholly-owned subsidiary of 3REN. The total purchase consideration of RM4,000,000 was arrived on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of Sophic MSC as at 30 September 2023 of RM3,978,690.

**(c) Acquisition of Pinkypye**

On 20 March 2024, 3REN entered into a conditional share sale agreement with Sophic Automation to acquire the entire equity interest in Pinkypye comprising 25 ordinary shares for a purchase consideration of RM1,000,000. The purchase consideration was satisfied by the issuance of 10,000,000 new ordinary shares in the Company at an issue price of RM0.10 per share.

Pursuant to the share sale agreement dated 20 March 2024, the entire 10,000,000 ordinary shares allotted to Sophic Automation pursuant to the acquisition of Pinkypye was subsequently novated as follows:

	<b>No. of Shares</b>	<b>RM</b>
Lee Chee Hoo	4,985,000	498,500
Koh Dim Kuan	3,061,000	306,100
Low Chee Onn	700,000	70,000
MTDC	<u>1,254,000</u>	<u>125,400</u>
	<u>10,000,000</u>	<u>1,000,000</u>

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

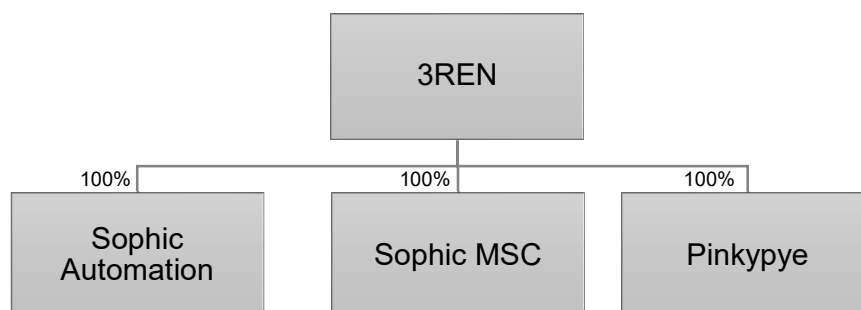
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****1. GENERAL INFORMATION (CONT'D)****1.5 Internal restructuring (cont'd)****(c) Acquisition of Pinkypye (cont'd)**

The acquisition was completed on [●]. Thereafter, Pinkypye became a wholly-owned subsidiary of 3REN. The total purchase consideration of RM1,000,000 was arrived on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of Pinkypye as at 30 September 2023 of RM1,024,044.

Following the completion of the abovementioned acquisitions, the group structure of 3REN Group is as follows:

**1.6 IPO Listing Scheme****(i) Public Issue**

A total of 110,000,000 new 3REN ordinary shares ("Issued Shares") representing 16.92% of the enlarged share capital of 3REN are offered at an issue price of RM[●] per share and shall be allocated in the following manner:

- (a) 32,500,000 Issue Shares, representing 5.00% of the enlarged share capital are made available for application by the Malaysian Public;
- (b) 30,000,000 Issue Shares, representing 4.61% of the enlarged share capital for eligible Directors, employees and persons who have contributed to the Group's success;
- (c) 3,800,000 Issue Shares, representing 0.59% of the enlarged share capital for private placement to Bumiputera investors approved by Ministry of Investment, Trade and Industry Malaysia ("MITI"); and
- (d) 43,700,000 Issue Shares, representing 6.72% of the enlarged share capital for private placement to selected investors.

**(ii) Offer for Sale**

The Offer for Sales comprises an offer for sale up to 45,000,000 shares by certain existing shareholders of the Company ("Selling Shareholders") at an indicative offer price of [●] per share.

**(iii) Listing**

Subsequent to the above, the Company's entire enlarged share capital of RM[●] comprising of 650,000,000 ordinary shares shall be listed on the ACE Market of Bursa Securities.

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****2. BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS**

The combined entities are 3REN, Sophic Automation, Sophic MSC and Pinkypye\* (collectively known as the "Group"). The combined financial statements of the Group have been prepared as if the Group has been operating as a single economic entity throughout the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and financial period ended 30 September 2023, since the combined entities are under common control throughout the financial years/period under review.

\*The combined financial statements only included the financial information for Pinkypye effective from 1 March 2022 since it was not under the control of the Promoters prior to that date.

Carved Out Entities

Throughout the financial years/period under review, Sophic Automation held equity interest in the following subsidiaries/associates (collectively referred herein as "Carved Out Entities"):

<u>Entities</u>	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	%	%	%	%
SAV	-	64	64	64
APSB	-	-	-	100
MSB	-	-	-	100
JSB	-	-	-	100
ERS	-	-	-	75
IOSB	-	49	49	49
Alpha	-	42.5	-	-
APM Metal	30	30	-	-

Abbreviations:

SVN Automation Co. Ltd ("SAV") (formerly known as Sophic Automation Co. Ltd.)

Agensi Pekerjaan Sophic Sdn. Bhd. ("APSB")

Mnosys Sdn. Bhd. ("MSB")

Joman Sdn. Bhd. ("JSB")

Easy Remote Solution Sdn. Bhd. ("ERS") (formerly known as Tofi Solution Sdn. Bhd.)

Inno OPX Sdn. Bhd. ("IOSB") (formerly known as Turcomp Sophic Sdn. Bhd.)

Alpha Core Sdn. Bhd. ("Alpha")

APM Metal Technologies (M) Sdn. Bhd. ("APM Metal")

The financial position, financial performance and cash flows of the Carved Out Entities do not form part of the combined financial statements as they will not be part of the Group post IPO. MSB, JSB and ERS had been disposed in the financial year ended 31 December 2021 while APSB had been liquidated in the financial year ended 31 December 2021. The entire equity interest of SAV, IOSB, Alpha and APM Metal were disposed on 3 February 2023, 17 March 2023, 26 April 2023 and 18 December 2023 respectively.

For the purpose of preparing the combined financial statements, the investment in the Carved Out Entities are presented under other investments in the Combined Statements of Financial Position and are measured at fair value through profit or loss.

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**2. BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**2.1 Statement of Compliance**

For the purpose of preparing this Accountants' Report, the combined financial statements of the Group for the financial years ended 31 December 2020, 31 December 2021, 31 December 2022 and financial period ended 30 September 2023 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") and in compliance with the Guidance Note on "Combined Financial Statements" issued by the Malaysian Institute of Accountant and Chapter 10, Part II Division I: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia.

**2.2 Basis of Measurement**

The combined financial statements of the Group are prepared under the historical cost convention unless otherwise indicated in the notes to the combined financial statements.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the combined financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

### 13. ACCOUNTANTS' REPORT (cont'd)

#### 3REN BERHAD

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#### NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

##### 2. BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS (CONT'D)

###### 2.3 Functional and Presentation Currency

The combined financial statements are presented in Ringgit Malaysia ("RM") which is also the Company's functional currency and its combining entities' functional currency.

###### 2.4 Standards Issued But Not Yet Effective

The Group has not applied the following standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective:

###### **Effective for annual periods beginning on or after 1 January 2024**

*Amendments to MFRS 16 Leases: Lease Liability in a Sale and Leaseback*

*Amendments to MFRS 101 Presentation of Financial Statements: Non-Current Liabilities with Covenants*

*Amendments to MFRS 7 Financial Instruments: Disclosure and MFRS 107 Statement of Cash Flows - Supplier Finance Arrangements*

###### **Effective for annual period beginning on or after 1 January 2025**

*Amendments to MFRS 121 The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability*

###### **Effective date yet to be confirmed**

*Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group will adopt the above accounting pronouncements when they become effective in the respective financial periods. Preliminary assessment indicates that these accounting pronouncements are not expected to have any material impact to the combined financial statements of the Group upon adoption.

##### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of combined financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

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

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**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)**

**3.1 Judgements made in applying accounting policies**

There are no significant areas of critical judgement in applying accounting policies that have any significant effect on the amount recognised in the combined financial statements other than the following:

**(i) Revenue recognition**

Revenue from the sale of goods and rendering of services are recognised at the point in time or over time when control of the goods is transferred and service is rendered to the customer. The management applies judgement in identifying the performance obligations and estimating the point of revenue recognition under different contractual agreements. The details of the different types of revenue are disclosed in Note 22 to the combined financial statements.

**(ii) Internally generated development costs**

Management monitors progress of internally generated research and development projects by using a project management system. Significant judgment is required in distinguishing the research phase from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product under development is uncertain and may be subject to future technical problems after the time of recognition.

**(iii) Determining the lease term of contracts with extension options – Group as lessee**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group has lease contracts that include extension option. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to extend the leases. That is, it considers all relevant factors that create an economic incentive for it to exercise the extensions. After the commencement date, the Group reassesses the lease terms if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to extend.

**13. ACCOUNTANTS' REPORT** *(cont'd)***3REN BERHAD****Registration No.: 202101012445 (1412744-K)**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)****3.2 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the time the estimate is made. Possible changes in these estimates could result in revisions to the valuations of inventories.

**(ii) Provision for expected credit loss ("ECL") of receivables**

The Group uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may be different from customer's actual default in the future.

The information about the ECL on the Group's trade receivables is disclosed on Note 30.3 to the combined financial statements.

**(iii) Leases – Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).



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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**4. PROPERTY, PLANT AND EQUIPMENT**

Audited	Freehold land RM	Buildings RM	Machinery RM	Office equipment, computers, furniture and fittings RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
<b>Cost</b>								
At 1 January 2020	73,800	1,582,140	13,320	559,519	294,916	625,644	-	3,149,339
Additions	-	-	-	451,871	170,868	99,596	-	722,335
At 31 December 2020/ 1 January 2021	73,800	1,582,140	13,320	1,011,390	465,784	725,240	-	3,871,674
Additions	2,900,000	2,317,422	-	443,132	59,375	502,810	43,750	6,266,489
Disposals	-	-	-	(42,516)	-	-	-	(42,516)
Written off	-	-	-	-	(240,738)	-	-	(240,738)
At 31 December 2021/ 1 January 2022/Balance carried forward	2,973,800	3,899,562	13,320	1,412,006	284,421	1,228,050	43,750	9,854,909

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM	Buildings RM	Machinery RM	Office equipment, computers, furniture and fittings RM	Renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
Balance brought forward	2,973,800	3,899,562	13,320	1,412,006	284,421	1,228,050	43,750	9,854,909
Additions	1,600,736	-	1,975,046	604,867	261,970	495,815	5,015,014	9,953,448
Disposals	-	-	-	-	-	(148,198)	-	(148,198)
Reclassification	-	2,314,841	-	250,725	1,002,263	-	(3,567,829)	-
Acquisition of a subsidiary	-	-	-	1,650	-	-	-	1,650
At 31 December 2022/ 1 January 2023	4,574,536	6,214,403	1,988,366	2,269,248	1,548,654	1,575,667	1,490,935	19,661,809
Additions	-	27,675	18,040	586,792	384,306	115,300	188,629	1,320,742
Disposals	-	-	-	(3,380)	-	-	-	(3,380)
Reclassification	-	845,888	-	27,164	632,187	-	(1,505,239)	-
At 30 September 2023	4,574,536	7,087,966	2,006,406	2,879,824	2,565,147	1,690,967	174,325	20,979,171

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

Audited	Freehold land RM	Buildings RM	Machinery RM	Office equipment, computers, furniture and fittings RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
<b>Accumulated depreciation</b>								
At 1 January 2020	-	67,540	12,836	285,756	80,007	323,119	-	769,258
Current charge	-	29,656	240	178,741	67,821	72,524	-	348,982
At 31 December 2020/ 1 January 2021	-	97,196	13,076	464,497	147,828	395,643	-	1,118,240
Current charge	-	29,656	239	207,951	53,838	72,522	-	364,206
Disposals	-	-	-	(16,167)	-	-	-	(16,167)
Written off	-	-	-	-	(73,461)	-	-	(73,461)
At 31 December 2021/ 1 January 2022	-	126,852	13,315	656,281	128,205	468,165	-	1,392,818
Current charge	-	47,891	78,409	311,450	65,075	129,039	-	631,864
Disposals	-	-	-	-	-	(79,038)	-	(79,038)
Acquisition of a subsidiary	-	-	-	27	-	-	-	27
At 31 December 2022/ 1 January 2023/ Balance carried forward	-	174,743	91,724	967,7589	193,280	518,166	-	1,945,671

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM	Buildings RM	Machinery RM	Office equipment, computers, furniture and fittings RM	Renovation RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
Balance brought forward	-	174,743	91,724	967,758	193,280	518,166	-	1,945,671
Current charge	-	103,318	202,281	343,265	313,684	98,978	-	1,061,526
Disposals	-	-	-	(3,379)	-	-	-	(3,379)
At 30 September 2023	-	278,061	294,005	1,307,644	506,964	617,144	-	3,003,818
<b>Net carrying amount</b>								
As at 31 December 2020	73,800	1,484,944	244	546,893	317,956	329,597	-	2,753,434
As at 31 December 2021	2,973,800	3,772,710	5	755,725	156,216	759,885	43,750	8,462,091
As at 31 December 2022	4,574,536	6,039,660	1,896,642	1,301,490	1,355,374	1,057,501	1,490,935	17,716,138
As at 30 September 2023	4,574,536	6,809,905	1,712,401	1,572,180	2,058,183	1,073,823	174,325	17,975,353

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)****(i) Material accounting policy information**

Property, plant and equipment are initially stated at cost and measured subsequently using the cost model less accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated as it has an infinite life.

Depreciation on other property, plant and equipment is calculated on the straight-line method to write off the cost of each asset to their residual value over their estimated useful lives at the following annual rates:

Buildings	1.75% - 2%
Machinery	20%
Office equipment, computers, furniture and fittings	10% - 20%
Renovation	20%
Motor vehicles	10%

Capital work-in-progress represents assets under construction, and which are not ready for commercial use at the end of the reporting period. Capital work-in-progress is stated at cost and is transferred to the relevant category of assets and depreciated accordingly when the assets are completed and ready for commercial use. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

- (ii) The property, plant and equipment pledged to a licensed bank for banking facilities granted to the Group are as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Freehold land	4,574,536	4,574,536	2,973,800	73,800
Buildings	6,809,905	6,039,660	3,772,710	1,484,944
Capital work-in-progress	-	973,276	-	-
	<u>11,384,441</u>	<u>11,587,472</u>	<u>6,746,510</u>	<u>1,558,744</u>

- (iii) The carrying amount of property, plant and equipment acquired under hire purchase are as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Motor vehicles	<u>1,012,910</u>	<u>1,053,500</u>	<u>153,776</u>	<u>304,433</u>

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. INTANGIBLE ASSETS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>At cost</b>				
Balance at beginning	3,835,283	1,714,853	-	-
Additions	1,479,128	2,120,430	1,714,853	-
Balance at end	<u>5,314,411</u>	<u>3,835,283</u>	<u>1,714,853</u>	<u>-</u>
<b>Accumulated amortisation</b>				
Balance at beginning	(256,980)	(21,705)	-	-
Current charge	(432,587)	(235,275)	(21,705)	-
Balance at end	<u>(689,567)</u>	<u>(256,980)</u>	<u>(21,705)</u>	<u>-</u>
<b>Carrying amount</b>	<u>4,624,844</u>	<u>3,578,303</u>	<u>1,693,148</u>	<u>-</u>

The intangible assets represent development cost incurred for digitalised solutions such as command and control centre, operational efficiency solutions, workforce efficiency solutions, asset management system, manufacturing operating system framework etc.

**Material accounting policy information**

Expenditure incurred on projects to develop new products is capitalised as development costs and deferred only when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are recognised in profit or loss as incurred.

Capitalised development costs comprise direct attributable costs incurred for development. Capitalised development costs, considered to have finite useful lives, are stated at cost less accumulated amortisation. Development costs are amortised using the straight-line basis over 5 to 10 years.

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**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

The Group has lease contracts for the rental of office premises and land used in its operations. The lease term of the land is 57 years while the lease term of the office premises is ranged from 2 to 3 years with an option to renew the leases for another 1 year. The Group expects that it is reasonably certain that it will exercise the options to extend the leases and has factored the extension options as part of the lease term for leases of office premise. The lease contracts restrict the Group from assigning and subleasing the leased assets.

Set out below are the carrying amount of the Group's right-of-use assets and lease liabilities recognised and the movements during the financial year:

	Leasehold land RM	Audited Office premises RM	Total RM
<b>Right-of-use assets</b>			
At 1 January 2020	593,659	67,538	661,197
Depreciation	(10,601)	(36,839)	(47,440)
At 31 December 2020/ 1 January 2021	583,058	30,699	613,757
Additions	-	76,522	76,522
Depreciation	(10,601)	(37,076)	(47,677)
At 31 December 2021/ 1 January 2022	572,457	70,145	642,602
Additions	-	666,378	666,378
Depreciation	(10,601)	(74,351)	(84,952)
At 31 December 2022/ 1 January 2023	561,856	662,172	1,224,028
Depreciation	(7,950)	(206,117)	(214,067)
Lease modification	-	(10,785)	(10,785)
At 30 September 2023	553,906	445,270	999,176

	30.9.2023 RM	31.12.2022 RM	Audited 31.12.2021 RM	31.12.2020 RM
<b>Lease liabilities</b>				
Balance at beginning	665,069	72,887	33,240	71,186
Additions	-	666,378	76,522	-
Accretion of interest	21,570	6,064	5,485	4,414
Payments	(221,659)	(80,260)	(42,360)	(39,183)
Lease modification	(11,192)	-	-	-
Rent concession	-	-	-	(3,177)
Balance at end	453,788	665,069	72,887	33,240

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONT'D)**

	I----- Audited -----I			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Represented by:				
Non-current liabilities	251,606	403,113	33,788	-
Current liabilities	202,182	261,956	39,099	33,240
	<u>453,788</u>	<u>665,069</u>	<u>72,887</u>	<u>33,240</u>

**(i) Material accounting policy information**

Right-of-use assets are initially stated at cost and measured subsequently using the cost model less accumulated depreciation and accumulated impairment losses.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the leases and the estimated useful lives of the assets as follows:

Leasehold land	57 years
Office premise	2 to 3 years

The Group applies the short-term lease recognition exemption to its short-term leases of office premise, other premises and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

**(ii) The following are the amounts recognised in profit or loss:**

	I----- Audited -----I			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Depreciation expense of right-of-use assets	(214,067)	(84,952)	(47,677)	(47,440)
Interest expense on lease liabilities	(21,570)	(6,064)	(5,485)	(4,414)
Rent concession <sup>(a)</sup>	-	-	-	3,177
Expenses relating to short-term leases <sup>(b)</sup>	(122,444)	(186,240)	(149,089)	(56,165)
Gain on lease modification	407	-	-	-
	<u>(357,674)</u>	<u>(277,256)</u>	<u>(202,251)</u>	<u>(104,842)</u>



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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONT'D)**

(ii) The following are the amounts recognised in profit or loss (cont'd):

(a) Rent concession is in relation to the rental expenses waived by the landlord during the financial year.

(b) The Group leases premise and equipment with contract term of less than 1 year. These leases are short-term in nature and the Group has elected not to recognise right-of-use asset and lease liabilities for these leases.

The Group's total cash outflows for leases during the financial period/year is RM344,103 (31.12.2022: RM266,500, 31.12.2021: RM191,449, 31.12.2020: RM95,348).

(iii) The right-of-use asset pledged to licensed banks for banking facilities granted is as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Leasehold land	553,906	561,856	572,457	583,058

**7. DEFERRED TAX ASSETS/(LIABILITIES)**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Balance at beginning	(1,216,876)	(536,000)	481,000	(222,434)
Recognised in profit or loss	(339,124)	(704,876)	(528,000)	702,000
	(1,566,000)	(1,240,876)	(47,000)	479,566
Over/(Under) provision in prior year	10,000	24,000	(489,000)	1,434
Balance at end	(1,546,000)	(1,216,876)	(536,000)	481,000

The recognised deferred tax assets/(liabilities), after appropriate offsetting, are as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Deferred tax assets	-	-	-	483,000
Deferred tax liabilities	(1,546,000)	(1,216,876)	(536,000)	(2,000)
	(1,546,000)	(1,216,876)	(536,000)	481,000

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****7. DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)**

The deferred tax assets/(liabilities) are represented by temporary differences arising from:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Property, plant and equipment	(446,000)	(389,000)	(131,000)	(46,000)
Intangible assets	(1,110,000)	(859,000)	(406,000)	-
Contract assets	7,000	7,000	1,000	28,000
Others	3,000	24,124	-	499,000
	<u>(1,546,000)</u>	<u>(1,216,876)</u>	<u>(536,000)</u>	<u>481,000</u>

**8. OTHER INVESTMENTS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Fair value through profit or loss:</b>				
Unquoted shares				
Balance at beginning	1,917,500	1,572,500	905,923	905,923
Additions	-	428,000	458,204	-
Disposals	(1,870,500)	-	(828,500)	-
Fair value (loss)/gain on investment	<u>(27,000)</u>	<u>(83,000)</u>	<u>1,036,873</u>	<u>-</u>
Balance at end	<u>20,000</u>	<u>1,917,500</u>	<u>1,572,500</u>	<u>905,923</u>
Unquoted shares in Malaysia	20,000	351,500	6,500	835,000
Unquoted shares outside Malaysia	<u>-</u>	<u>1,566,000</u>	<u>1,566,000</u>	<u>70,923</u>
	<u>20,000</u>	<u>1,917,500</u>	<u>1,572,500</u>	<u>905,923</u>

Investment in unquoted shares represents investments in the Carved Out Entities owned by Sophic Automation and are recognised at fair value. For the purpose of preparing the combined financial statements, the fair value of these investments is derived from the selling price agreed between Sophic Automation and the buyers under the respective share sales agreements or other equivalent sales contract and fair value gain/(loss) are recorded in the combined statements of comprehensive income in the year the investment is classified as other investment.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****8. OTHER INVESTMENTS (CONT'D)**

Below summarises the transaction between the Group and the Carved Out Entities for the financial period/year under review:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Advances to SAV	-	487,765	-	-
Loan interest charged to:				
- SAV	-	7,194	855	18,233
- ERS	-	-	-	5,638
Rental of vehicle from MSB	-	-	9,000	-
Dividend income received:				
- MSB	-	-	660,000	-
- JSB	-	-	380,000	-
	<u>-</u>	<u>-</u>	<u>380,000</u>	<u>-</u>

**Material accounting policy information**

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

**9. TRADE RECEIVABLES**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Non-current asset</b>				
Trade receivable	1,800,197	-	-	-
<b>Current asset</b>				
Trade receivables	22,646,202	26,289,443	18,347,518	16,873,296
Less: Allowance for expected credit losses				
Balance at beginning	(39,107)	(39,107)	(174,819)	(174,819)
Current year	(4,541)	-	(39,107)	-
Written off	-	-	174,819	-
	<u>(43,648)</u>	<u>(39,107)</u>	<u>(39,107)</u>	<u>(174,819)</u>
Balance at end	<u>22,602,554</u>	<u>26,250,336</u>	<u>18,308,411</u>	<u>16,698,477</u>
Total trade receivables	<u>24,402,751</u>	<u>26,250,336</u>	<u>18,308,411</u>	<u>16,698,477</u>

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****9. TRADE RECEIVABLES (CONT'D)**

The currency profile of the trade receivables is as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Ringgit Malaysia	21,962,651	25,748,784	17,798,321	16,186,438
US Dollar	2,440,100	322,304	510,090	512,039
Singapore Dollar	-	179,248	-	-
	<u>24,402,751</u>	<u>26,250,336</u>	<u>18,308,411</u>	<u>16,698,477</u>

The trade receivables are non-interest bearing and generally on 30 to 120 days (31.12.2022: 30 to 120 days, 31.12.2021: 30 to 120 days, 31.12.2020: 30 to 120 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables is an amount of RM2,317,311 (31.12.2022: Nil, 31.12.2021: Nil, 31.12.2020: Nil) arising from sales during the financial period which have been arranged to be repaid over 24 months commencing December 2023.

**10. CONTRACT ASSETS/(LIABILITIES)**

	Note	----- Audited -----			
		30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Non-current asset</b>					
Contract assets					
- Revenue contracts	10.1	971,111	-	-	-
<b>Current asset</b>					
Contract assets					
- Revenue contracts	10.1	4,177,437	4,386,575	1,395,660	252,517
Total contract assets		<u>5,148,548</u>	<u>4,386,575</u>	<u>1,395,660</u>	<u>252,517</u>
<b>Current liability</b>					
Contract liabilities					
- Revenue contracts	10.2	(123,910)	(140,593)	(46,200)	(261,062)
- Deposits received from customers	10.3	(2,628,085)	(4,389,136)	(1,906,845)	(534,170)
		<u>(2,751,995)</u>	<u>(4,529,729)</u>	<u>(1,953,045)</u>	<u>(795,232)</u>
		<u>2,396,553</u>	<u>(143,154)</u>	<u>(557,385)</u>	<u>(542,715)</u>

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****10. CONTRACT ASSETS/(LIABILITIES) (CONT'D)****10.1 Contract assets - revenue contract \***

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Balance at beginning	4,386,575	1,395,660	252,517	4,136,377
Revenue recognised during the year	43,943,903	65,869,497	38,211,297	27,603,950
Progress billings during the year	<u>(43,181,930)</u>	<u>(62,878,582)</u>	<u>(37,068,154)</u>	<u>(31,487,810)</u>
Balance at end	<u>5,148,548</u>	<u>4,386,575</u>	<u>1,395,660</u>	<u>252,517</u>

**10.2 Contract liabilities - revenue contract \***

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Balance at beginning	140,593	46,200	261,062	-
Revenue recognised during the year	(176,340)	(2,442,379)	(478,862)	(68,938)
Progress billings during the year	<u>159,657</u>	<u>2,536,772</u>	<u>264,000</u>	<u>330,000</u>
Balance at end	<u>123,910</u>	<u>140,593</u>	<u>46,200</u>	<u>261,062</u>

\* Contract assets/liabilities arising from revenue contracts are timing differences between the point where revenue is recognised to the point where invoice/billing is raised to the customer. The timing difference occurs when the billing does not coincide to the actual work performed to date for the customer and this occurs for sales contracts where recognition of revenue is over time.

**10.3 Contract liabilities - deposits received from customers**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Balance at beginning	4,389,136	1,906,845	534,170	2,167,604
Revenue recognised during the year	(4,389,136)	(1,906,845)	(534,170)	(2,167,604)
Deposit received during the year	<u>2,628,085</u>	<u>4,389,136</u>	<u>1,906,845</u>	<u>534,170</u>
Balance at end	<u>2,628,085</u>	<u>4,389,136</u>	<u>1,906,845</u>	<u>534,170</u>

Deposits received in advance are from customers within the manufacturing operating solutions and services segment.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****10. CONTRACT ASSETS/(LIABILITIES) (CONT'D)****10.4 Unsatisfied performance obligations**

The aggregate amount of unsatisfied performance obligations at the end of the reporting period and the expected timing of recognition of revenue are as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Within one year	6,796,551	11,920,809	5,033,235	3,470,764
Within two years	-	-	99,000	99,000
Balance at end	<u>6,796,551</u>	<u>11,920,809</u>	<u>5,132,235</u>	<u>3,569,764</u>

**11. INVENTORIES**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Raw materials	987,688	523,826	600,448	126,822
Work-in-progress	3,570,372	4,420,795	409,032	2,761,475
Finished goods	-	-	2,062,975	-
	<u>4,558,060</u>	<u>4,944,621</u>	<u>3,072,455</u>	<u>2,888,297</u>

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Recognised in profit or loss:				
Inventories recognised as cost of sales	<u>15,585,447</u>	<u>24,334,034</u>	<u>31,044,164</u>	<u>29,386,071</u>

**Material accounting policy information**

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

Costs of all inventories are determined on the first-in, first-out basis.

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**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Other receivables	355,406	387,656	345,083	626,522
Refundable deposits	364,650	291,134	318,779	39,897
Prepayments	2,158,737	2,098,563	1,391,737	751,100
	<u>2,878,793</u>	<u>2,777,353</u>	<u>2,055,599</u>	<u>1,417,519</u>

The currency profile of other receivables, deposits and prepayments is as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Ringgit Malaysia	2,696,917	2,627,800	1,809,825	984,441
US Dollar	181,876	149,553	245,774	433,078
	<u>2,878,793</u>	<u>2,777,353</u>	<u>2,055,599</u>	<u>1,417,519</u>

**13. CONTRACT COSTS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Costs to fulfil contracts	675,771	748,016	1,359,840	-

Cost to fulfil contracts relates to project related costs incurred that are attributable to on-going projects where revenue have not been recognised. These costs will be charged to profit or loss when the related revenue is recognised.

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**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****14. FIXED DEPOSITS WITH LICENSED BANKS**

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	RM	RM	RM	RM
<b>Unencumbered:</b>				
Fixed deposits with licensed banks	8,980,759	6,770,453	8,202,070	6,603,727
<b>Encumbered:</b>				
Fixed deposits with licensed banks	<u>889,637</u>	<u>1,101,743</u>	<u>1,080,547</u>	<u>1,060,955</u>
	<u>9,870,396</u>	<u>7,872,196</u>	<u>9,282,617</u>	<u>7,664,682</u>

The encumbered fixed deposits are pledged to licensed banks for banking facilities granted to combining entities as disclosed in Note 19 to the financial statements.

The maturities and effective interest rates per annum of the fixed deposits with licensed banks at the end of the reporting period are as follows:

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
Maturities (months)	<u>1-12</u>	<u>1-12</u>	<u>1-12</u>	<u>1-12</u>
Interest rates (%)	<u>1.85 to 3.95</u>	<u>1.85 to 3.15</u>	<u>1.50 to 1.85</u>	<u>1.50 to 3.15</u>

**15. CASH AND BANK BALANCES**

The currency profile of cash and bank balances is as follows:

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
Ringgit Malaysia	5,235,086	8,193,410	15,844,226	12,264,893
US Dollar	<u>1,095,126</u>	<u>10,690</u>	<u>123,316</u>	<u>253,335</u>
	<u>6,330,212</u>	<u>8,204,100</u>	<u>15,967,542</u>	<u>12,518,228</u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**16. SHARE CAPITAL AND INVESTED EQUITY**

16.1 Share capital

	Audited							
	Amount 30.9.2023 RM	Number of shares 30.9.2023	Amount 31.12.2022 RM	Number of shares 31.12.2022	Amount 31.12.2021 RM	Number of shares 31.12.2021	Amount 31.12.2020 RM	Number of shares 31.12.2020
Issued and fully paid shares with no par value	2	2	2	2	2	2	-	-

16.2 Invested equity

	Audited							
	Amount 30.9.2023 RM	Number of shares 30.9.2023	Amount 31.12.2022 RM	Number of shares 31.12.2022	Amount 31.12.2021 RM	Number of shares 31.12.2021	Amount 31.12.2020 RM	Number of shares 31.12.2020
Issued and fully paid shares with no par value	860,000	600,000	860,000	600,000	860,000	600,000	860,000	600,000
RCPS	16.2.1 8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	2,700,000
	<u>9,660,000</u>	<u>9,400,000</u>	<u>9,660,000</u>	<u>9,400,000</u>	<u>9,660,000</u>	<u>9,400,000</u>	<u>9,660,000</u>	<u>3,300,000</u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**16. SHARE CAPITAL AND INVESTED EQUITY (CONT'D)**

16.2.1 RCPS

	Audited							
	Amount 30.9.2023 RM	Number of RCPS 30.9.2023	Amount 31.12.2022 RM	Number of RCPS 31.12.2022	Amount 31.12.2021 RM	Number of RCPS 31.12.2021	Amount 31.12.2020 RM	Number of RCPS 31.12.2020
<b>Issued and fully paid:</b>								
Balance at beginning	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	2,700,000	2,700,000	2,700,000
Issued against share application money *	-	-	-	-	-	6,100,000	6,100,000	-
Balance at end	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	8,800,000	2,700,000
Represented by:								
RCPS Series A	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000
RCPS series B	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000	-
	<u>8,800,000</u>	<u>8,800,000</u>	<u>8,800,000</u>	<u>8,800,000</u>	<u>8,800,000</u>	<u>8,800,000</u>	<u>8,800,000</u>	<u>2,700,000</u>

\* In 2020, Sophic Automation received an amount of RM6,100,000 representing share application money from its existing RCPS holder to subscribe to 6,100,000 new RCPS series B at an issue price of RM1 per share. The allotment was completed on 30 June 2021. The new RCPS series B allotted have similar salient terms as the previous RCPS series A issued.

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD****Registration No.: 202101012445 (1412744-K)**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****16. SHARE CAPITAL AND INVESTED EQUITY (CONT'D)**

The salient features of the RCPS Series A and RCPS series B are as follows:-

- (i) Voting rights similar to ordinary shares on as-converted basis.
- (ii) The RCPS series B shall rank *pari passu* with the RCPS Series A and rank senior to all other issued securities;

At any time upon holder's discretion, the RCPS shall be convertible into ordinary shares in the Group, in full or partially, based on the following formula:

$Z = X/Y$ ; where

Z = Holder's Shareholding Percentage in the Group

X = Investment amount

Y = Sophic Automation's Value

For RCPS series A, Sophic Automation's Value shall be determined based on the weighted average Profit after Tax of Sophic Automation over a 36-months period post-disbursement of Investment Amount, multiplied by a Price/Earnings Multiple of 6.05 times.\*

For RCPS Series B, Sophic Automation's Value shall be determined by application of intrinsic valuation model, i.e. residual income, and using the relative valuation model, i.e., price-to-earnings ratio or enterprise value to sales (EV/S) as indicator. In the case of merger and acquisition ("M&A") where all existing shares are being surrendered and new shares are issued arising from the merging activity of Sophic Automation with another entity, i.e., acquiree or acquirer, the number of ordinary shares issued to RCPS holder or shares value shall be at equal percentage of the initial or recent shareholding, i.e., assuming the M&A occurs subsequent to several rounds or series of fundraising, calculated on a fully diluted basis. In the case of investment being executed at a pre-IPO level where immediate execution of conversion is required by the financial regulatory authority or the exchanges or requested by the RCPS holder, the 2nd Tranche RCPS being converted prior to IPO shall require a minimum of discount to the IPO's price or valuation, to be completed prior to the final submission of IPO information memorandum or prospectus. Any investment via RCPS made at the subsidiary level of a pre-listing entity shall allow the RCPS holder to convert the RCPS at the subsidiary level and immediately swap the ordinary shares to the listed company, wherever RCPS holder is breakeven or gain position. The ordinary shares to be issued to RCPS holder at the listed company level shall be adjusted accordingly to reflect the RCPS holder's current share value based on the company's current market capitalisation, in which, the shareholding percentage that was held by the RCPS holder at the subsidiary level post conversion shall be used as the basis of computation.\*

Notwithstanding the above, the holder reserves the right to adjust the conversion multiples arising from the new equity fund arising by the Group.

\* *Kindly refer below for the latest conversion salient term.*

- (iii) The ordinary shares arising from the conversion of the RCPS shall be upon allotment and issue, rank *pari passu* in all respects, with the then existing issued ordinary shares save and except that they shall not be entitled to any rights, allotments and/or other distributions issued to existing holders of ordinary shares of the Group where the entitlement date (that is the date when such rights, allotments and/or other distributions and declared by the Group) is prior to the date of conversion. Further the amount of the RCPS that will be converted are subject to the initial agreeable conversion rate and/or equity valuation or current paid up capital upon conversion.

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**16. SHARE CAPITAL AND INVESTED EQUITY (CONT'D)**

- (iv) The RCPS is redeemable at an amount equal to the Subscription Monies plus 10% Internal Rate of Return ("IRR") or minimum of 6.5% IRR and minimum annual coupon charges of 4.5% from the investment amount at any time upon occurrence of any events which may adversely affect the investment and/or the Group, at the sole determination of the holder.

In the event of the Group is unable to redeem the RCPS upon the issuance date of the Redemption Notice, the holder reserves the right to cause the existing shareholders to acquire the RCPS from the holder at Subscription Monies plus 10% IRR.

- (v) As the holders of the RCPS shall have the right of first offer to purchase up to their pro-rata share (on an as-converted basis) of any equity securities that may be issued by the Group in future on the same price terms and conditions as the Group offers such securities to other potential investors or existing ordinary shareholders.

The holder as the holders of ordinary shares and RCPS shall also have a right of over-subscription if any shareholder elects not to purchase their pro-rata share.

- (vi) In the event of new shares being approved by the RCPS shareholders, the conversion ratio of RCPS shall be adjusted on a broad-based, weighted-average basis in the event of an issuance below the conversion price of RCPS.

Conversion ratio of RCPS shall be subject to proportional adjustments for stock splits and share dividends, recapitalisation and similar events.

- (vii) The holder as the holders of RCPS shall have the right to participate up to their share (on an as converted basis) in a sale of shares by any of the Group's shareholders on similar terms.

- (viii) In the event of any liquidation, dissolution or winding-up of the Group, the holder shall be entitled to receive in preference to ordinary shareholders, an amount per share equal to 1.50 time of the original issue price (subject to splits, combinations and similar events including but not limited to capital reduction exercise), plus declared and unpaid dividends, if any or the amount holder would have received had holder converted the RCPS to ordinary shares prior to such liquidation or winding ("Initial Payment").

After Initial Payment has been made, the investors and ordinary shareholders will participate rateably.

A sales, lease, conveyance, license or other disposition of all or substantially all of the property or business of the Group with or into any other corporation will be deemed to be a liquidation or purposes of the liquidation preference.

- (ix) The holder's equity terms and conditions shall rank higher in priority than the existing institutional investor (if any) wherever relevant which includes but not limited to dividend payment and liquidation preference.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****16. SHARE CAPITAL AND INVESTED EQUITY (CONT'D)****Conversion Notice**

On 14 March 2024, Sophic Automation received a proposal for notice of conversion by MTDC, the RCPS holder, to convert all of its 8,800,000 RCPSs held in Sophic Automation, which comprise of 2,700,000 RCPS Series A and 6,700,000 RCPS series B, into 71,700 new ordinary shares in Sophic Automation based on a conversion rate of 2.1 multiple over the nominal value of the entire RCPS. The proposal put forth by MTDC will supersede the conversion formula as stipulated in (ii) above and is subject to the approval obtain from Bursa Securities and any such other relevant regulatory authorities on the Company's IPO.

**17. RETAINED PROFITS**

The franking of dividends is under the single tier system and therefore, there is no restriction to distribute dividends subject to the availability of retained profits.

**18. DEFERRED INCOME**

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	RM	RM	RM	RM
Balance at beginning	2,406	3,078	-	-
Grant received during the financial year	-	-	3,358	-
Recognised in profit or loss	(503)	(672)	(280)	-
Balance at end	<u>1,903</u>	<u>2,406</u>	<u>3,078</u>	<u>-</u>
Analysed as:				
Non-current	1,231	1,734	2,406	-
Current	672	672	672	-
	<u>1,903</u>	<u>2,406</u>	<u>3,078</u>	<u>-</u>

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**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****19. BORROWINGS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Non-current liabilities</b>				
<u>Term loans</u>				
Total amount payable	11,077,907	11,754,043	7,456,849	3,388,122
Amount due within one year included under current liabilities	(466,900)	(715,277)	(509,419)	(451,922)
	<u>10,611,007</u>	<u>11,038,766</u>	<u>6,947,430</u>	<u>2,936,200</u>
<u>Hire purchase loans</u>				
Total amount payable	865,478	915,730	140,610	314,895
Future finance charges	(64,570)	(72,139)	(10,017)	(35,182)
	<u>800,908</u>	<u>843,591</u>	<u>130,593</u>	<u>279,713</u>
Amount due within one year included under current liabilities	(217,838)	(192,593)	(36,391)	(56,036)
	<u>583,070</u>	<u>650,998</u>	<u>94,202</u>	<u>223,677</u>
	<u>11,194,077</u>	<u>11,689,764</u>	<u>7,041,632</u>	<u>3,159,877</u>
<b>Current liabilities</b>				
Bank overdraft	-	-	-	149,797
Hire purchase loans	217,838	192,593	36,391	56,036
Term loans	466,900	715,277	509,419	451,922
	<u>684,738</u>	<u>907,870</u>	<u>545,810</u>	<u>657,755</u>
Total borrowings	<u>11,878,815</u>	<u>12,597,634</u>	<u>7,587,442</u>	<u>3,817,632</u>

The borrowings (except for hire purchase loans) are secured by way of:

- (i) first legal charge over the properties, plant and equipment as disclosed in Note 4 to the combined financial statements;
- (ii) first legal charge over the leasehold land as disclosed in Note 6 to the combined financial statements;
- (iii) jointly and several guarantee by directors of Sophic Automation; and
- (iv) pledged against fixed deposit as disclosed in Note 14 to the combined financial statements.

The hire purchase loans are secured over the corresponding assets acquired in Note 4 to the combined financial statements.

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**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****19. BORROWINGS (CONT'D)**

A summary of the effective interest rates and the maturities of the borrowings are as follows:

	Effective interest rates per annum (%)	Total RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
<b>30.9.2023</b>						
Hire purchase loans	3.78 to 6.40	800,908	217,838	227,594	355,476	-
Term loans	3.00 to 8.15	11,077,907	466,900	491,195	1,475,741	8,644,071
<b>31.12.2022</b>						
Hire purchase loans	3.78 to 4.17	843,591	192,593	220,490	430,508	-
Term loans	3.00 to 7.90	11,754,043	715,277	758,723	1,931,895	8,348,148
<b>31.12.2021</b>						
Hire purchase loans	4.62 to 5.01	130,593	36,391	38,093	56,109	-
Term loans	3.15 to 6.90	7,456,849	509,419	557,296	1,626,636	4,763,498
<b>31.12.2020</b>						
Banker overdraft	7.40	149,797	149,797	-	-	-
Hire purchase loans	3.85 to 5.01	279,713	56,036	49,661	138,259	35,757
Term loans	3.20 to 6.90	3,388,122	451,922	373,684	1,264,329	1,298,187

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**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****20. TRADE PAYABLES**

The currency profile of trade payables is as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Ringgit Malaysia	1,054,765	679,741	1,902,904	3,280,087
US Dollar	3,357	43,818	26,922	48,219
Singapore Dollar	1,244	-	15,735	12,786
Euro	169	169	55,822	84,522
	<u>1,059,535</u>	<u>723,728</u>	<u>2,001,383</u>	<u>3,425,614</u>

The normal credit terms granted by trade payables range from **30 to 90 days** (31.12.2022: 30 to 90 days; 31.12.2021: 30 to 90 days; 31.12.2020: 30 to 90 days).

**21. OTHER PAYABLES AND ACCRUALS**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Other payables	270,271	503,536	677,453	227,485
Accruals	1,767,678	2,258,631	1,625,813	675,886
	<u>2,037,949</u>	<u>2,762,167</u>	<u>2,303,266</u>	<u>903,371</u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**22. REVENUE**

**22.1 Disaggregation of revenue from contracts with customers**

	<b>Audited</b>	<b>Unaudited</b>	----- Audited -----		
	<b>1.1.2023</b>	<b>1.1.2022</b>	<b>1.1.2022</b>	<b>1.1.2021</b>	<b>1.1.2020</b>
	<b>to</b>	<b>to</b>	<b>to</b>	<b>to</b>	<b>to</b>
	<b>30.9.2023</b>	<b>30.9.2022</b>	<b>31.12.2022</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Type of revenue</b>					
Manufacturing operating solutions and services	45,596,911	53,950,711	76,948,685	52,407,053	45,619,106
Product engineering solutions	<u>21,582,926</u>	<u>19,422,448</u>	<u>26,649,337</u>	<u>21,756,697</u>	<u>17,400,821</u>
<b>Total revenue from contracts with customers</b>	<b><u>67,179,837</u></b>	<b><u>73,373,159</u></b>	<b><u>103,598,022</u></b>	<b><u>74,163,750</u></b>	<b><u>63,019,927</u></b>
<b>Timing of revenue recognition</b>					
At a point in time	24,473,845	24,353,283	35,286,146	35,473,591	35,347,039
Overtime	<u>42,705,992</u>	<u>49,019,876</u>	<u>68,311,876</u>	<u>38,690,159</u>	<u>27,672,888</u>
<b>Total revenue from contracts with customers</b>	<b><u>67,179,837</u></b>	<b><u>73,373,159</u></b>	<b><u>103,598,022</u></b>	<b><u>74,163,750</u></b>	<b><u>63,019,927</u></b>

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**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****22. REVENUE (CONT'D)****22.1 Disaggregation of revenue from contracts with customers (cont'd)**

	Audited 1.1.2023 to 30.9.2023 RM	Unaudited 1.1.2022 to 30.9.2022 RM	----- 1.1.2022 to 31.12.2022 RM	Audited----- 1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
<b>By geographical markets</b>					
Malaysia	63,410,644	72,297,818	102,157,285	69,722,108	60,458,038
Thailand	-	285,653	420,370	2,655,278	1,355,034
Vietnam	67,122	72,181	94,255	365,864	665,371
United States of America	796,806	129,235	232,462	368,049	25,521
China	381,453	315,700	318,405	315,442	125,130
Singapore	1,512,623	236,190	259,158	439,189	75,676
Costa Rica	24,925	36,382	36,382	287,848	315,157
Others	986,264	-	79,705	9,972	-
<b>Total revenue from contracts with customers</b>	<u>67,179,837</u>	<u>73,373,159</u>	<u>103,598,022</u>	<u>74,163,750</u>	<u>63,019,927</u>

**22.2 Contract balances**

The Group's contract balances are disclosed in Note 9 and Note 10 of the combined financial statements.

**22.3 Performance obligations**

The performance obligations of the Group are set out below:

***Manufacturing operating solutions and services***

Manufacturing operating solutions and services comprise revenue from design, development and sales digitalised solutions and of automated equipment and provision of engineering support services for integrated circuit ("IC") assembly and testing.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****22. REVENUE (CONT'D)****22.3 Performance obligations (cont'd)**

The performance obligations of the Group are set out below: (cont'd)

***Manufacturing operating solutions and services (cont'd)***

The Group designs, assembles, integrates, configures, tests and commission production/operational modernisation digital management solutions systems and automated equipment based on customers orders received. The Group recognises revenue when a contract exists and when, or as, it satisfies a performance obligation by transferring control of a product or service to a customer. Contracts are accounted for when they have approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Depending on the substance of the respective contract with customer, the control of the promised goods or services may transfer over time or at point in time.

For point in time contracts, revenue is recognised when the transfer of controls of the goods have been passed to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contract. Under certain circumstances, customer acceptance is conducted at customer's site i.e. to ensure that the equipment purchased can be integrated with the customer's production flow. Under such circumstance, revenue is only recognised once customer acceptance has been received at customer's site.

For over time contracts, revenue is recognised by reference to the stage of completion of the contract at the end of each reporting period. The Group uses both the input and output method to measure progress and the choice of method is dependent on what best depicts the transfer of the asset to the customer.

The Group also considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer, if any.

For certain sales transactions, the Group provides a standard part warranty of one year after delivery. These warranties are assurance type and accounted for under MFRS 137 Provisions, Contingent Liabilities and Contingent Assets. Such warranties provision are not recognised by the Group as it is able to claim any defects from its suppliers over the same period.

The Group is also providing engineering support services during the assembly and testing stage of its customers' production flow. Revenue from contracts with customers is recognised over time when control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

***Product engineering services***

The Group is also involved in the provision of product engineering services, which entails mainly post design validation services during the design stage of its customers' production flow. Revenue from contracts with customers is recognised over time when control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****23. PROFIT BEFORE TAX**

This is arrived at:

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>Audited</b> <b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	----- <b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
<b>After charging:</b>					
Amortisation of intangible assets	432,587	165,373	235,275	21,705	-
Depreciation of property, plant and equipment	1,061,526	441,279	631,864	364,206	348,982
Depreciation of right-of-use assets	214,067	61,910	84,952	47,677	47,440
Fair value loss on other investments, net	27,000	81,500	83,000	-	-
Impairment loss on goodwill	-	51,560	51,560	-	-
Interest expense on:					
- Bankers' acceptance	-	-	-	-	4,391
- Bank overdraft	-	221	451	1,378	339
- Flexitab	-	-	-	-	38,987
- Hire purchase	25,867	23,963	32,845	10,436	4,773
- Lease liabilities	21,570	4,554	6,064	5,485	4,414
- Term loans	374,940	261,649	372,168	123,243	144,207
Loss on disposal of property, plant and equipment	-	-	-	19,160	-
Property, plant and equipment written off	-	-	-	167,277	-
Realised loss on foreign exchange	131	2,629	186	5,677	29,458

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****23. PROFIT BEFORE TAX (CONT'D)**

	Audited	Unaudited	----- Audited -----		
	1.1.2023 to 30.9.2023 RM	1.1.2022 to 30.9.2022 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
Expenses relating to short-term leases					
- Equipment	34,688	32,610	34,435	39,130	31,940
- Premises	74,944	99,084	151,805	100,959	24,225
- Car rental	-	-	-	9,000	-
- Storage	12,812	9,900	-	-	-
Staff costs <sup>(i)</sup>	40,433,680	45,993,463	62,548,078	27,834,754	20,740,479
Unrealised loss on foreign exchange	65	-	-	1,429	-
Unwinding discount on					
- Contract assets	105,749	-	-	-	-
- Trade receivables	210,709	-	-	-	-
<b>And Crediting:</b>					
Deferred income released	503	560	672	280	-
Dividend income	-	-	-	1,040,000	-
Interest income	216,587	125,750	183,057	153,012	208,766
Fair value gain on other investments, net	-	-	-	1,036,873	-
Gain on disposal of property, plant and equipment	199	15,841	15,841	-	-
Gain on lease modification	407	-	-	-	-
Realised gain on foreign exchange	25,785	17,864	4,339	8,375	5,624
Unrealised gain on foreign exchange	70,379	30,359	25,880	-	-

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****23. PROFIT BEFORE TAX (CONT'D)**

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>Audited</b> <b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	----- <b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
(i) Staff costs:					
Salaries, allowances, commission and bonus	35,290,414	40,518,745	55,033,860	24,370,882	18,386,187
EPF contribution	4,473,450	4,727,536	6,458,776	3,029,417	2,055,874
SOCSSO and EIS	669,816	747,182	1,055,442	434,455	298,418
	<u>40,433,680</u>	<u>45,993,463</u>	<u>62,548,078</u>	<u>27,834,754</u>	<u>20,740,479</u>

**Directors' emoluments are as shown below:**

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>Audited</b> <b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	----- <b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
Fees	45,000	69,107	84,107	59,115	86,000
Salaries, allowances and bonus	718,065	800,798	1,040,968	858,191	692,105
EPF contribution	85,440	96,827	128,014	102,024	82,584
Expenses included in staff costs	848,505	966,732	1,253,089	1,019,330	860,689
Benefit-in-kind	-	17,625	23,500	15,800	22,300
<b>Total</b>	<u>848,505</u>	<u>984,357</u>	<u>1,276,589</u>	<u>1,035,130</u>	<u>882,989</u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**24. TAX EXPENSE**

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>Audited</b> -----  <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	<b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
Malaysia income tax: Based on results for the financial year					
- Current tax	(1,396,000)	(1,204,173)	(1,430,000)	(1,247,000)	(4,112,336)
- Deferred tax relating to the origination and reversal of temporary differences	(339,124)	(664,000)	(704,876)	(528,000)	702,000
	(1,735,124)	(1,868,173)	(2,134,876)	(1,775,000)	(3,410,336)
(Under)/Over provision in prior years					
- Current tax	(65,940)	150,897	150,897	991,139	145,651
- Deferred tax	10,000	24,000	24,000	(489,000)	1,434
	(55,940)	174,897	174,897	502,139	147,085
	<u>(1,791,064)</u>	<u>(1,693,276)</u>	<u>(1,959,979)</u>	<u>(1,272,861)</u>	<u>(3,263,251)</u>

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**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****24. TAX EXPENSE (CONT'D)**

The reconciliation of tax expense of the Group is as follows:

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>Audited</b> -----  <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	<b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
Profit before tax	<u>8,372,712</u>	<u>7,346,842</u>	<u>14,026,302</u>	<u>17,345,900</u>	<u>14,513,832</u>
Income tax at Malaysia statutory tax rate of 24%	(2,009,451)	(1,763,242)	(3,366,312)	(4,163,016)	(3,483,320)
Expenses not deductible for tax purposes	(171,733)	(252,123)	(141,082)	(83,756)	(8,143)
Income not subject to tax	16,559	18,742	17,667	407,548	-
Pioneer income not subject to tax	553,912	254,586	1,332,823	2,064,224	81,127
Deferred tax assets not recognised	(124,411)	(126,136)	-	-	-
Utilisation of deferred tax assets not recognised	<u>-</u>	<u>-</u>	<u>22,028</u>	<u>-</u>	<u>-</u>
	(1,735,124)	(1,868,173)	(2,134,876)	(1,775,000)	(3,410,336)
Over/(Under) provision of deferred tax in prior years	10,000	24,000	24,000	(489,000)	1,434
(Under)/Over provision of current tax in prior years	<u>(65,940)</u>	<u>150,897</u>	<u>150,897</u>	<u>991,139</u>	<u>145,651</u>
	<u>(1,791,064)</u>	<u>(1,693,276)</u>	<u>(1,959,979)</u>	<u>(1,272,861)</u>	<u>(3,263,251)</u>



**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD****Registration No.: 202101012445 (1412744-K)**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****24. TAX EXPENSE (CONT'D)**

The Group has been granted the following tax incentives under the Promotion of Investments Act, 1986:

- (i) Sophic Automation has been granted full income tax exemption for 10 years with effect from 21 January 2021 to undertake the activity of manufacturing automated guided vehicle or automated mobile robot, automated intelligent vision inspection system, automated intelligent material management system, intelligent command center system and automated intelligent handling and testing system and 70% income tax exemption for 5 years with effect from 21 January 2021 to undertake the activity of manufacturing augmented reality smart glass; and
- (ii) Sophic MSC has been granted 100% income tax exemption for 10 years effective from 17 May 2012 in relation to research, development and commercialisation of machine monitoring system and visitor management system, and provision of implementation, maintenance and technical services related to the abovementioned solutions. However, due to the changes of guidelines on MSC Malaysia financial incentives, the incentive had expired on 30 June 2021.

**25. EARNINGS PER SHARE****Basic earnings per share**

The calculation of basic earnings per share for the financial periods/years ended was based on the profit attributable to owners of the Company and dividend against the number of ordinary shares expected to be in issue upon completion of the IPO exercise as follows:

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	-----  <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>Audited</b> <b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	-----  <b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
Profit attributable to owners of the Company	<u>6,581,648</u>	<u>5,743,924</u>	<u>12,036,666</u>	<u>16,073,039</u>	<u>11,250,581</u>
Weighted average number of shares (units)	<u>650,000,000</u>	<u>650,000,000</u>	<u>650,000,000</u>	<u>650,000,000</u>	<u>650,000,000</u>
Basic earnings per share (sen)	<u>1.01</u>	<u>0.88</u>	<u>1.85</u>	<u>2.47</u>	<u>1.73</u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**26. DIVIDENDS**

	<b>Audited</b> <b>1.1.2023</b> <b>to</b> <b>30.9.2023</b> <b>RM</b>	<b>Unaudited</b> <b>1.1.2022</b> <b>to</b> <b>30.9.2022</b> <b>RM</b>	----- <b>1.1.2022</b> <b>to</b> <b>31.12.2022</b> <b>RM</b>	<b>Audited</b> <b>1.1.2021</b> <b>to</b> <b>31.12.2021</b> <b>RM</b>	----- <b>1.1.2020</b> <b>to</b> <b>31.12.2020</b> <b>RM</b>
In respect of financial year ended 31 December 2020: A single tier interim dividend of RM0.50 per share	-	-	-	250,000	-
In respect of financial year ended 31 December 2021: A single tier interim dividend of RM1.00 per share	-	-	-	500,000	-
In respect of financial year ended 31 December 2022: A single tier first interim dividend of RM6.00 per share	-	3,000,000	3,000,000	-	-
Dividend-in-specie *	-	-	1,566,000	-	-
Balance carried forward	-	3,000,000	4,566,000	750,000	-

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****26. DIVIDENDS (CONT'D)**

	Audited 1.1.2023 to 30.9.2023 RM	Unaudited 1.1.2022 to 30.9.2022 RM	----- Audited -----  1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
Balance brought forward	-	3,000,000	4,566,000	750,000	-
In respect of financial period ended 30 September 2023:					
First single tier interim dividend of RM5.00 per share	2,500,000	-	-	-	-
Second single tier interim dividend of RM5.00 per share	2,500,000	-	-	-	-
	<u>5,000,000</u>	<u>3,000,000</u>	<u>4,566,000</u>	<u>750,000</u>	<u>-</u>

\* The dividend-in-specie is in relation to the disposal of Sophic Automation's entire equity interests in SAV to its present shareholders pursuant to the Capital Transfer Agreement ("Agreement") dated 9 November 2022 entered between Sophic Automation and its present shareholders. According to the Agreement, the disposal price of SAV will be set off against the dividend-in-specie declared by Sophic Automation ("Set off"). The Set off has been completed on 9 November 2022, while the disposal of SAV has been completed on 3 February 2023 upon successful registration of the change in members of SAV with the Business Registration Office under the Department of Planning and Investment of Ho Chi Minh City, Vietnam.

Subsequent to the financial period ended 30 September 2023, Sophic Automation had declared the following dividends on 2 November 2023:

- (i) Third interim single tier dividend of RM9.75 per ordinary share amounting to RM4,875,000 paid on 30 November 2023; and
- (ii) First interim single tier dividend of approximately RM0.01 per RCPS amounting to RM125,000 paid on 26 December 2023.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****27. OPERATING SEGMENT**

The Group has two reportable segments which comprise its major business segments. These business segments are involved in different activities and managed by segment managers who report directly to the Group's executive directors. The reportable segments are as follows:-

**Reportable segments****Activities**

Manufacturing operating solutions and services	-	Engineering support services for IC assembly and testing - Design, development and sale of digitalised solutions - Design, development and sale of automated equipment
Product engineering services	-	Product engineering services

Management monitors its business units separately up to segment results for the purpose of making decisions about performance assessment. Segment assets and liabilities information are not presented to the decision makers by management as management does not distinguish assets and liabilities into the two operating segments. Hence, no disclosure is made on segment assets and liabilities.

	<b>Manufacturing operating solutions and services RM</b>	<b>Product engineering services RM</b>	<b>Elimination RM</b>	<b>Total RM</b>
<b>Audited</b>				
<b>1.1.2023 to 30.9.2023</b>				
<b>Revenue</b>	45,596,911	21,582,926	-	67,179,837
<b>Segment results</b>	4,116,793	4,495,734	-	8,612,527
Finance costs				(421,969)
Finance income				216,587
Investing results*				(27,000)
Loss arising from non-reportable segment**				<u>(7,433)</u>
<b>Profit before tax</b>				8,372,712
Tax expense				<u>(1,791,064)</u>
<b>Profit for the financial period</b>				<u><u>6,581,648</u></u>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**27. OPERATING SEGMENT (CONT'D)**

	<b>Manufacturing operating solutions and services RM</b>	<b>Product engineering services RM</b>	<b>Elimination RM</b>	<b>Total RM</b>
<b>Unaudited</b>				
<b>1.1.2022 to 30.9.2022</b>				
<b>Revenue</b>	53,950,711	19,422,448	-	73,373,159
<b>Segment results</b>	1,256,230	6,265,175	-	7,521,495
Finance costs				(290,387)
Finance income				125,750
Investing results*				(3,500)
Loss arising from non-reportable segment**				<u>(6,426)</u>
<b>Profit before tax</b>				7,346,842
Tax expense				<u>(1,693,276)</u>
<b>Profit for the financial period</b>				<u>5,653,566</u>
<b>Audited</b>				
<b>1.1.2022 to 31.12.2022</b>				
<b>Revenue</b>	76,948,685	26,649,337	-	103,598,022
<b>Segment results</b>	7,061,334	7,330,837	(45,331)	14,346,840
Finance costs				(411,528)
Finance income				183,057
Investing results*				(83,000)
Loss arising from non-reportable segment**				<u>(9,067)</u>
<b>Profit before tax</b>				14,026,302
Tax expense				<u>(1,959,979)</u>
<b>Profit for the financial year</b>				<u>12,066,323</u>

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****27. OPERATING SEGMENT (CONT'D)**

	<b>Manufacturing Operating Solutions and Services RM</b>	<b>Product engineering services RM</b>	<b>Elimination RM</b>	<b>Total RM</b>
<b>Audited</b>				
<b>1.1.2021 to 31.12.2021</b>				
<b>Revenue</b>	52,407,053	21,756,697	-	74,163,750
<b>Segment results</b>	9,264,014	6,001,995	-	15,266,009
Finance costs				(140,542)
Finance income				153,012
Investing results*				2,076,873
Loss arising from non-reportable segment**				<u>(9,452)</u>
<b>Profit before tax</b>				17,345,900
Tax expense				<u>(1,272,861)</u>
<b>Profit for the financial year</b>				<u><b>16,073,039</b></u>
<b>Audited</b>				
<b>1.1.2020 to 31.12.2020</b>				
<b>Revenue</b>	45,619,106	17,400,821	-	63,019,927
<b>Segment results</b>	9,320,562	5,184,615	-	14,505,177
Finance costs				(200,111)
Finance income				<u>208,766</u>
<b>Profit before tax</b>				14,513,832
Tax expense				<u>(3,263,251)</u>
<b>Profit for the financial year</b>				<u><b>11,250,581</b></u>

\* Investing results include dividend income and fair value gain/(loss) on other investments.

\*\* Non-reportable segment comprises the results of the Company, being an investment holding company.

**Geographical segments**

Revenue of the Group based on geographical location of its customers are disclosed in Note 22 of the combined financial statements.

The Group's non-current assets are entirely located in Malaysia.

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****27. OPERATING SEGMENT (CONT'D)****Major customers**

The following are major customers with revenue equal or more than 10% of the Group's revenue for the relevant reporting periods:

	----- Audited -----			
	1.1.2023 to 30.9.2023 RM	1.1.2022 to 31.12.2022 RM	1.1.2021 to 31.12.2021 RM	1.1.2020 to 31.12.2020 RM
Customer A	39,036,415	69,227,149	33,577,779	24,312,214
Customer B	-	-	11,612,058	11,569,915
Customer C	10,654,835	14,547,739	12,200,012	10,588,082
	<u>49,691,250</u>	<u>83,774,888</u>	<u>57,389,849</u>	<u>46,470,211</u>

A customer is defined as an entity or group of entities under the same ultimate holding company.

**28. RELATED PARTY DISCLOSURES****(i) Related party transaction**

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Disposal of SAV to certain directors	1,566,000	-	-	-

**(ii) Compensation of key management personnel**

The Group has no other members of key management personnel apart from the Board of Directors which compensation has been shown in Note 23 to the combined financial statements.

Key management personnel are those persons including directors having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**29. CAPITAL COMMITMENT**

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	RM	RM	RM	RM
Contracted but not provided for:				
Property, plant and equipment	142,535	242,230	1,360,406	-
Approved but not provided for:				
Property, plant and equipment	-	-	3,700,000	-

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**30. FINANCIAL INSTRUMENTS**

**30.1 Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as financial assets and financial liabilities at amortised cost ("AC").

	Audited			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	Carrying amount RM	Carrying amount RM	Carrying amount RM	Carrying amount RM
	AC RM	AC RM	AC RM	AC RM
<b>Financial assets</b>				
Trade receivables	24,402,751	26,250,336	18,308,411	16,698,477
Other receivables and refundable deposits	720,056	678,790	663,862	666,419
Fixed deposits with licensed banks	9,870,396	7,872,196	9,282,617	7,664,682
Cash and bank balances	6,330,212	8,204,100	15,967,542	12,518,228
	<u>41,323,415</u>	<u>43,005,422</u>	<u>44,222,432</u>	<u>37,547,806</u>
	41,323,415	43,005,422	44,222,432	37,547,806

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**30. FINANCIAL INSTRUMENTS (CONT'D)**

**30.1 Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as financial assets and financial liabilities at amortised cost ("AC"). (cont'd)

	30.9.2023		31.12.2022		31.12.2021		31.12.2020	
	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM
Trade payables	1,059,535	1,059,535	723,728	723,728	2,001,383	2,001,383	3,425,614	3,425,614
Other payables and accruals	2,037,949	2,037,949	2,762,167	2,762,167	2,303,266	2,303,266	903,371	903,371
Borrowings	11,878,815	11,878,815	12,597,634	12,597,634	7,587,442	7,587,442	3,817,632	3,817,632
	14,976,299	14,976,299	16,083,529	16,083,529	11,892,091	11,892,091	8,146,617	8,146,617

The table below provides an analysis of financial instruments categorised as financial asset at fair value through profit or loss ("FVTPL").

	30.9.2023		31.12.2022		31.12.2021		31.12.2020	
	Carrying amount RM	FVTPL RM	Carrying amount RM	FVTPL RM	Carrying amount RM	FVTPL RM	Carrying amount RM	FVTPL RM
<b>Financial asset</b>								
Other investments	20,000	20,000	1,917,500	1,917,500	1,572,500	1,572,500	905,923	905,923

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.2 Financial risk management**

The Group is exposed to a variety of financial risks arising from its operation and use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

**30.3 Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises principally from its trade receivables.

**(i) Credit risk concentration profile**

The Group's major concentration of credit risk that accounted for 10% or more of total trade receivables at the end of each reporting period is as follows:

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	RM	RM	RM	RM
Number of customers	1	2	2	5
Percentage of trade receivables	<u>48%</u>	<u>69%</u>	<u>66%</u>	<u>87%</u>

**(ii) Exposure to credit risk**

At the end of each reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position of the Group after deducting any allowance for impairment losses.

**(iii) Assessment of impairment losses**

The Group extends credit terms to customers that range between 30 to 120 days. Credit period extended to its customers is based on careful evaluation of the customers' financial condition and credit history. Receivables are monitored on an on-going basis via the Group's management reporting procedures and action will be taken for long outstanding debts. In order to further minimise its exposure to credit risk, the Group may request deposits from its customers or request for progressive payments as the work is performed.

The Group assesses ECL on trade receivables based on a provision matrix, the expected loss rates are based on the payment profile for sales in the past as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

As at the end of the reporting period, the maximum exposure to the credit risk arising from trade receivables is presented by the carrying amounts in the combined statements of financial position.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.3 Credit risk (cont'd)****(iii) Assessment of impairment losses (cont'd)**

The ageing of trade receivables of the Group are as follows:

	----- Audited -----		
	Gross RM	Allowance for expected credit losses RM	Net RM
<b>30.9.2023</b>			
Not past due	19,818,099	-	19,818,099
Past due 1 to 30 days	765,068	-	765,068
Past due 31 to 60 days	349,179	-	349,179
Past due 61 to 91 days	715,124	-	715,124
Past due more than 90 days	2,755,281	-	2,755,281
Individually impaired	4,584,652 43,648	- (43,648)	4,584,652 -
	24,446,399	(43,648)	24,402,751
<b>31.12.2022</b>			
Not past due	19,049,091	-	19,049,091
Past due 1 to 30 days	3,221,120	-	3,221,120
Past due 31 to 60 days	985,032	-	985,032
Past due 61 to 91 days	436,004	-	436,004
Past due more than 90 days	2,559,089	-	2,559,089
Individually impaired	7,201,245 39,107	- (39,107)	7,201,245 -
	26,289,443	(39,107)	26,250,336

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.3 Credit risk (cont'd)****(iii) Assessment of impairment losses (cont'd)**

The ageing of trade receivables of the Group are as follows: (cont'd)

	Gross RM	Audited Allowance for expected credit losses RM	Net RM
<b>31.12.2021</b>			
Not past due	8,559,129	-	8,559,129
Past due 1 to 30 days	3,270,672	-	3,270,672
Past due 31 to 60 days	1,265,224	-	1,265,224
Past due 61 to 91 days	616,962	-	616,962
Past due more than 90 days	4,596,424	-	4,596,424
	9,749,282	-	9,749,282
Individually impaired	39,107	(39,107)	-
	<u>18,347,518</u>	<u>(39,107)</u>	<u>18,308,411</u>
<b>31.12.2020</b>			
Not past due	8,763,424	-	8,763,424
Past due 1 to 30 days	4,916,800	-	4,916,800
Past due 31 to 60 days	731,201	-	731,201
Past due 61 to 91 days	1,358,310	-	1,358,310
Past due more than 90 days	928,742	-	928,742
	7,935,053	-	7,935,053
Individually impaired	174,819	(174,819)	-
	<u>16,873,296</u>	<u>(174,819)</u>	<u>16,698,477</u>

Trade receivables that are neither past due nor impaired are creditworthy customers with good payment record. None of the trade receivables that are neither past due nor impaired has been renegotiated during the financial year.

The Group has trade receivables amounting to RM4,584,652 (31.12.2022: RM7,201,245 31.12.2021: RM9,749,282, 31.12.2020: RM7,935,053) that are past due at the end of the reporting period but not impaired as the management is of the view that these past due amounts will be collected in due course.

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amounts is possible, the amount considered irrecoverable is written off against the receivable directly.

**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.4 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all repayment and funding needs are met. As part of their overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments:

	----- Audited -----					
	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
<b>30.9.2023</b>						
<i>Non-derivative financial liabilities</i>						
Trade payables	1,059,535	1,059,535	1,059,535	-	-	-
Other payables and accruals	2,037,949	2,037,949	2,037,949	-	-	-
Borrowings	11,878,815	17,125,139	1,202,422	1,202,422	3,081,369	11,638,926
Lease liabilities	453,788	478,448	218,816	207,706	51,926	-
	<b>15,430,087</b>	<b>20,701,071</b>	<b>4,518,722</b>	<b>1,410,128</b>	<b>3,133,295</b>	<b>11,638,926</b>
<b>31.12.2022</b>						
<i>Non-derivative financial liabilities</i>						
Trade payables	723,728	723,728	723,728	-	-	-
Other payables and accruals	2,762,167	2,762,167	2,762,167	-	-	-
Borrowings	12,597,634	17,456,540	1,414,168	1,434,181	3,567,756	11,040,435
Lease liabilities	665,069	711,478	288,486	215,286	207,706	-
	<b>16,748,598</b>	<b>21,653,913</b>	<b>5,188,549</b>	<b>1,649,467</b>	<b>3,775,462</b>	<b>11,040,435</b>

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

**30. FINANCIAL INSTRUMENTS (CONT'D)**

**30.4 Liquidity risk (cont'd)**

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments: (cont'd)

	----- Audited -----					
	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
<b>31.12.2021</b>						
<i>Non-derivative financial liabilities</i>						
Trade payables	2,001,387	2,001,387	2,001,387	-	-	-
Other payables and accruals	2,303,266	2,303,266	2,303,266	-	-	-
Borrowings	7,587,442	9,710,155	776,183	826,775	2,236,087	5,871,110
Lease liabilities	72,887	77,660	42,360	35,300	-	-
	<b>11,964,982</b>	<b>14,092,468</b>	<b>5,123,196</b>	<b>862,075</b>	<b>2,236,087</b>	<b>5,871,110</b>
<b>31.12.2020</b>						
<i>Non-derivative financial liabilities</i>						
Trade payables	3,425,614	3,425,614	3,425,614	-	-	-
Other payables and accruals	903,371	903,371	903,371	-	-	-
Borrowings	3,817,632	4,428,625	799,897	545,432	1,620,827	1,462,469
Lease liabilities	33,240	35,300	35,300	-	-	-
	<b>8,179,857</b>	<b>8,792,910</b>	<b>5,164,182</b>	<b>545,432</b>	<b>1,620,827</b>	<b>1,462,469</b>

**13. ACCOUNTANTS' REPORT (cont'd)****3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.5 Interest rate risk**

The Group's fixed rate instruments are exposed to a risk of change in their fair values due to changes in interest rates. The Group's floating rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The interest rate profile of the Group's interest-bearing financial instruments based on the carrying amount as at the end of the reporting period are as follows:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
<b>Fixed rate instruments</b>				
Financial assets	9,870,396	7,872,196	9,282,617	7,664,682
Financial liabilities	<u>800,908</u>	<u>843,591</u>	<u>130,593</u>	<u>279,713</u>
<b>Floating rate instruments</b>				
Financial liabilities	<u>11,077,907</u>	<u>11,754,043</u>	<u>7,456,849</u>	<u>3,537,919</u>

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss nor designates derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

**Cash flow sensitivity analysis for variable rate instruments**

An increase of 25 basis points would have decreased the profit before tax and equity of the Group by the amount shown below and a corresponding decrease would have an equal but opposite effect:

	----- Audited -----			
	30.9.2023 RM	31.12.2022 RM	31.12.2021 RM	31.12.2020 RM
Decrease in profit before tax	(27,695)	(29,385)	(18,642)	(8,845)
Decrease in equity	<u>(21,048)</u>	<u>(22,333)</u>	<u>(14,168)</u>	<u>(6,722)</u>

**30.6 Foreign currency risk**

The Group is exposed to foreign currency risk mainly on sales and purchases that are denominated in currencies other than the Group's functional currency. The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes. The currency giving rise to this risk is primarily US Dollar ("USD").



**13. ACCOUNTANTS' REPORT** (cont'd)**3REN BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. FINANCIAL INSTRUMENTS (CONT'D)****30.6 Foreign currency risk (cont'd)****Sensitivity analysis for foreign currency risk**

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rates against Ringgit Malaysia, with all other variables held constant, of the Group's profit before tax. A 10% strengthening of the RM against the following currencies at the end of the reporting period would have decreased profit before tax and equity by the amount shown below and a corresponding weakening of the RM would have an equal but opposite effect.

	----- Audited -----			
	30.9.2023	31.12.2022	31.12.2021	31.12.2020
	RM	RM	RM	RM
USD	(371,375)	(43,873)	(85,226)	(71,716)
Others	141	(17,908)	4,008	2,558
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Decrease in profit before tax/equity	<u>(371,234)</u>	<u>(61,781)</u>	<u>(81,218)</u>	<u>(69,158)</u>

**31. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

The carrying amounts of the financial assets (other than other investments) and financial liabilities of the Group as at the end of the reporting period approximate their fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The carrying amounts of the non-current portion of hire purchase loans and lease liabilities are reasonable approximation of fair value due to the insignificant impact of discounting.

**32. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management policy is to maintain a strong capital base to support its business and to maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions or expansion of the Group. The Group may adjust the capital structure by issuing new shares, returning capital to shareholders, adjusting the amount of dividends to be paid to shareholders or sell assets to reduce debts. No changes were made to the objective, policy and process during the financial years under review.

As at the end of the reporting period, the Group has not breached any of the debt covenants imposed by its lenders.

**33. SUBSEQUENT EVENTS**

There is no other subsequent event since the end of the reporting period to the date of the report save for the implementation of the IPO as disclosed in the Note 1 to the combined financial statements, the conversion proposal received from MTDC disclosed in Note 16 to the combined financial statements and the dividends declared on 2 November 2023 disclosed in Note 26 to the combined financial statements.