12. FINANCIAL INFORMATION

12.1 REPORTING ACCOUNTANTS' REPORT ON THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

GRANT THORNTON MALAYSIA PLT
CHARTERED ACCOUNTANTS
Member Firm of Grant Thornton International Ltd.

Grant Thornton

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Prepared for inclusion in the Prospectus)

Grant Thornton Malaysia PLT
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Date: 27 March 2024

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

Dear Sirs,

3REN BERHAD

REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position of 3REN Berhad ("3REN" or "Company") and its subsidiaries ("3REN Group" or "Group") as at 30 September 2023, together with the notes and assumptions thereto (which we have stamped for the purpose of identification), have been compiled and prepared by the Directors of the Company ("Directors") for inclusion in the prospectus of the Company ("Prospectus") in connection with the initial public offering ("IPO") and 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") ("the Listing").

The applicable criteria on the basis of which the Directors have compiled the Pro Forma Consolidated Statements of Financial Position are in accordance with the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in Note 1 to the Pro Forma Consolidated Statements of Financial Position ("Applicable Criteria").

The Pro Forma Consolidated Statements of Financial Position as at 30 September 2023 have been compiled by the Directors, for illustrative purposes only, to show the effects of the Listing on the Consolidated Statement of Financial Position presented had the Listing been effected and completed on that date. As part of this process, financial information about the Group's Consolidated Statement of Financial Position has been extracted by the Directors from the audited financial statement of the Group for the financial period ended 30 September 2023, on which the audit reports have been issued without modification.

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

The Directors of the Company are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis of the Applicable Criteria.

Audit | Tax | Advisory

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 (GTIL), 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.

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Reporting Accountants' Independence and Quality Management

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.

Our firm applies Malaysian Approved Standard on Quality Management, ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements and accordingly, the firm is required to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been properly compiled, in all material respect, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements ("ISAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"*, issued by International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis of the Applicable Criteria.

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

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

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

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

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

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

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Reporting Accountants' Responsibility (Cont'd)

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

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

Other Matter

This report has been prepared solely for inclusion in the Prospectus in connection with the IPO and the Listing. It is not intended to be used for any other purposes. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

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

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

Penang

3REN BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2023

The Pro Forma Consolidated Statements of Financial Position of 3REN Berhad ("3REN" or "Company") and its subsidiaries ("3REN Group" or "Group") as at 30 September 2023 as set out below are provided for illustrative purposes only to show the effects of the events and transactions as set out in Note 2 to the Pro Forma Consolidated Statements of Financial Position, had the events and transactions took place on 30 September 2023, and should be read in conjunction with the accompanying notes.

	Note	Audited	Pro Forma I	Pro Forma II	Pro Forma III
		As at 30 September 2023	After Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	After Pro Forma I and Proposed Public Issue ("IPO")	After Pro Forma II and Proposed Utilisation of Proceeds from IPO
		RM	RM	RM	RM
ASSETS					
Non-current assets					
Property, plant and equipment		-	17,975,353	17,975,353	17,975,353
Intangible assets		-	4,624,844	4,624,844	4,624,844
Right-of-use assets		-	999,176	999,176	999,176
Trade receivable		-	1,800,197	1,800,197	1,800,197
Contract assets		-	971,111	971,111	971,111
		-	**26,370,681**	**26,370,681**	**26,370,681**
Current assets					
Inventories		-	4,558,060	4,558,060	4,558,060
Trade receivables		-	22,602,554	22,602,554	22,602,554
Other receivables, deposits and prepayments	**3.1**	-	2,878,793	2,878,793	1,937,293
Contract assets		-	4,177,437	4,177,437	4,177,437
Contract costs		-	675,771	675,771	675,771
Current tax assets		-	1,475,839	1,475,839	1,475,839
Fixed deposits with licensed banks		-	9,870,396	9,870,396	9,870,396
Cash and bank balances	**3.2**	2	1,350,212	[●]	[●]
		2	**47,589,062**	[●]	[●]
TOTAL ASSETS		**2**	**73,959,743**	[●]	[●]
EQUITY AND LIABILITIES					
Equity					
Share capital	**3.3**	2	54,000,002	[●]	[●]
(Accumulated losses)/Retained profits	**3.4**	(25,952)	44,340,756	44,340,756	[●]
Merger reserve		-	(44,340,000)	(44,340,000)	(44,340,000)
Total equity		**(25,950)**	**54,000,758**	[●]	[●]

GRANT THORNTON MALAYSIA PLT FOR IDENTIFICATION PURPOSES ONLY

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The Pro Forma Consolidated Statements of Financial Position of 3REN Berhad ("3REN" or "Company") and its subsidiaries ("3REN Group" or "Group") as at 30 September 2023 as set out below are provided for illustrative purposes only to show the effects of the events and transactions as set out in Note 2 to the Pro Forma Consolidated Statements of Financial Position, had the events and transactions took place on 30 September 2023, and should be read in conjunction with the accompanying notes. (Cont'd)

		Audited	Pro Forma I	Pro Forma II	Pro Forma III
	Note	As at 30 September 2023	After Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	After Pro Forma I and Proposed Public Issue ("IPO")	After Pro Forma II and Proposed Utilisation of Proceeds from IPO
		RM	RM	RM	RM
Non-current liabilities					
Deferred income		-	1,231	1,231	1,231
Borrowings	**3.5**	-	11,194,077	11,194,077	[●]
Lease liabilities		-	251,606	251,606	51,606
Deferred tax liabilities		-	1,546,000	1,546,000	1,546,000
		-	**12,992,914**	**12,992,914**	**[●]**
Current liabilities					
Trade payables		-	1,059,535	1,059,535	1,059,535
Other payables and accruals		25,952	2,037,949	2,037,949	2,037,949
Contract liabilities		-	2,751,995	2,751,995	2,751,995
Borrowings		-	684,738	684,738	684,738
Lease liabilities		-	202,182	202,182	202,182
Deferred income		-	672	672	672
Current tax liabilities		-	229,000	229,000	229,000
		25,952	**6,966,071**	**6,966,071**	**6,966,071**
TOTAL LIABILITIES		**25,952**	**19,958,985**	**19,958,985**	**[●]**
TOTAL EQUITY AND LIABILITIES		**2**	**73,959,743**	**[●]**	**[●]**
Issued ordinary shares (unit)		2	540,000,000	650,000,000	650,000,000
Net assets per share (RM)		(12,975)	0.10	[●]	[●]
Borrowings (RM)		-	11,878,815	11,878,815	[●]
Gearing ratio (Times) [#]		-	0.22	[●]	[●]

[#] Computed based on total borrowings of the Group over total equity attributable to owners of the Company.

GRANT THORNTON MALAYSIA PLT
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3REN BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2023

1. BASIS OF PREPARATION

The Pro Forma Consolidated Statements of Financial Position of 3REN Group as at 30 September 2023 together with the notes thereon, for which the Directors is solely responsible, have been prepared for illustrative purpose only for the purpose of inclusion in the Prospectus of the Company in connection with the initial public offering ("IPO") and the listing and quotation of the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Proposed Listing").

The Pro Forma Consolidated Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited Combined Financial Statements of 3REN for the financial period ended 30 September 2023 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of Chapter 9, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("SC") and adjusted for the impact of the events and transactions as set out in Note 2 to the Pro Forma Consolidated Statement of Financial Position had these events and transactions took place on 30 September 2023.

2. LISTING SCHEME

In conjunction with, and as an integral part of the Listing, the Company undertook the following:

(i) Pro Forma I: Subsequent Events, Proposed RCPS Conversion and Proposed Acquisitions

Pro Forma 1 incorporates the effects of the following Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions.

(a) **Subsequent Event I: Disposal of APM Metal Technologies Sdn. Bhd. ("APM Metal")**

On 18 December 2023, Sophic Automation Sdn. Bhd. ("Sophic Automation") had completed the disposal of its entire equity interest, representing 30% equity interest in APM Metal for a total cash consideration of RM20,000, which is also the net carrying amount of the investment as at 30 September 2023.

(b) **Subsequent Event II: Proposed Dividends**

On 2 November 2023, Sophic Automation had declared and paid the following dividends:

(i) third interim single tier dividend of RM9.75 per ordinary share amounting to RM4,875,000 paid on 30 November 2023 in respect of the financial year ended 31 December 2023; and

(ii) first interim single tier dividend of approximately RM0.0142 per RCPS amounting to RM125,000 paid on 26 December 2023 in respect of the financial year ended 31 December 2023.

(c) **Proposed Conversion of Redeemable Convertible Preference Shares ("RCPS") of Sophic Automation ("Proposed RCPS Conversion")**

Pursuant to the Proposed Listing, Malaysian Technology Development Corporation Sdn. Bhd. proposed to convert its entire 8,800,000 RCPS held in Sophic Automation into 71,700 new ordinary shares in Sophic Automation ("Sophic Automation Shares").

The new Sophic Automation Shares issued pursuant to the above shall rank *pari passu* in all respect with the existing ordinary shares Sophic Automation Shares except that the new Sophic Automation Shares will not be entitled to any dividends, rights, allotments or other distributions declared, made or paid prior to the date of allotment of the new Sophic Automation Shares.

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2. LISTING SCHEME (CONT'D)

(i) **Pro Forma I: Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions (cont'd)**

(d) **Proposed Acquisition I: Acquisition of Sophic Automation**

On 20 March 2024, 3REN entered into a conditional share sale agreement for the acquisition of 571,700 ordinary shares (after the Proposed RCPS Conversion) in Sophic Automation, representing the entire equity interest of Sophic Automation, for a total purchase consideration of RM49.0 million to be fully satisfied by the issuance of 489,999,998 new ordinary shares in 3REN at an issue price of RM0.10 per share.

The total purchase consideration of RM49.0 million was arrived at 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 after adjusting for the Subsequent Events and Proposed RCPS Conversion as disclosed in Note 2(i)(a) to Note 2(i)(c) to the Pro Forma Consolidated Statements of Financial Position.

(e) **Proposed Acquisition II: Acquisition of Sophic MSC Sdn. Bhd. ("Sophic MSC")**

On 20 March 2024, 3REN entered into a conditional share sale agreement with Sophic Automation and Mr. Liew Chee Kin for the acquisition of 100,000 ordinary shares in Sophic MSC, representing the entire equity interest of Sophic MSC for a purchase consideration of RM4.0 million. The purchase consideration will be fully satisfied via the issuance of 40,000,000 new ordinary shares in 3REN at an issue price of RM0.10 per share. The shares allotted to Sophic Automation will be novated proportionately to the shareholders of Sophic Automation in accordance with their respective shareholdings in Sophic Automation prior to their disposal to 3REN.

The total purchase consideration of RM4.0 million was arrived at 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.

(f) **Proposed Acquisition III: Acquisition of Pinkypye Sdn. Bhd. ("Pinkypye")**

On 20 March 2024, 3REN entered into a conditional share sale agreement with Sophic Automation for the acquisition of 25 ordinary shares in Pinkypye, representing the entire equity interest in Pinkypye for a purchase consideration of RM1,000,000. The purchase consideration will be fully satisfied by the issuance of 10,000,000 new ordinary shares in 3REN at an issue price of RM0.10 per share. The shares allotted to Sophic Automation will be novated proportionately to the shareholders of Sophic Automation in accordance with their respective shareholdings in Sophic Automation prior to their disposal to 3REN.

The total purchase consideration of RM1.0 million was arrived at 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.

The proposed acquisitions of Sophic Automation, Sophic MSC and Pinkypye are collectively referred herein as the "Proposed Acquisitions".

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

3REN BERHAD
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2. LISTING SCHEME (CONT'D)

(i) **Pro Forma I: Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions (cont'd)**

For the purpose of accounting for the Proposed Acquisitions, the Company has adopted the merger accounting principles as the consolidated entities are under common control by the same parties before and after the IPO. Under merger method of accounting, the difference between the cost of investment recorded by the Company (i.e., the consideration for the acquisition of its subsidiaries) and the share capital of its subsidiaries are accounted for as merger reserve, computed as follows:

	RM
Consideration for the acquisition of:	
Sophic Automation	49,000,000
Sophic MSC	4,000,000
Pinkypye	1,000,000
	54,000,000
Less : Issued share capital as at 30 September 2023 of Sophic Automation	(9,625,000)
Acquisition of Minority interest of Sophic MSC	(35,000)
Merger reserve	44,340,000

(ii) **Pro Forma II: Proposed Initial Public Offering ("IPO")**

(a) **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 indicative 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.

(b) **Offer for Sale**

The Offer for Sale 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 RM[●] per share.

The Company will not receive any proceeds from the Offer for Sale. The total gross proceeds from the Offer for Sale of approximately RM[●] will accrue entirely to the Selling Shareholders.

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3REN BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
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2. LISTING SCHEME (CONT'D)

(ii) **Pro Forma II: Proposed Initial Public Offering ("IPO") (Cont'd)**

(c) **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.

(iii) **Pro Forma III: Proposed Utilisation of Proceeds from IPO**

The total gross proceeds from the Public Issue of RM[●] is expected to be utilised as follows:

Details of proposed use of proceeds	Estimated timeframe for use from the date of the Proposed Listing	RM	% of total proceeds from the Proposed Public Issue
Setting up of new Delivery Centres [(a)]	Within 36 months	[●]	[●]
Research and development ("R&D") expenditure [(a)]	Within 24 months	[●]	[●]
Establishment of new Singapore office [(a)]	Within 36 months	[●]	[●]
Repayment of bank borrowings [(b)]	Within 6 months	[●]	[●]
Working capital requirements [(a)]	Within 24 months	[●]	[●]
Estimated listing expenses [(c)]	Immediate	[●]	[●]
Total estimated proceeds		[●]	[●]

Notes:

(a) As at 29 February 2024, being the latest practicable date prior to the date of the Prospectus ("LPD"), the Group has yet to enter into any contractual binding lease agreement to lease the space required for setting up its new Delivery Centres or new marketing and sales office in Singapore. The Group has also not issued any purchase order for the acquisition of capital expenditure, overhead cost or hiring of new staff in respect of the new Delivery Centres, new Singapore office, R&D expenditure and planned utilisation of working capital.

Accordingly, the utilisation of proceeds earmarked for the aforementioned are not reflected in the pro forma consolidated statements of financial position but will remain under cash and bank balances.

(b) Included in the repayment of bank borrowings is early settlement of term loans which were drawn down to part finance the purchase and renovation cost of the Group's existing properties. The early settlement will not attract any fees as stipulated in the respective offer letters, while the actual interest savings amount may vary depending on the prevailing applicable interest rate and the outstanding balance at that point of time and are not reflected in the pro forma consolidated statements of financial position.

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

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2. LISTING SCHEME (CONT'D)

(iii) **Pro Forma III: Proposed Utilisation of Proceeds from IPO (cont'd)**

(c) The estimated listing expenses comprise the following:

Details	**RM**
Professional fees	[●]
Fees payable to authorities	[●]
Underwriting commission, brokerage fees and placement fees	[●]
Other fees and expenses relating to IPO and Listing	[●]
Total estimated listing expenses	[●]

The estimated listing expenses of RM[●]million will be allocated to the share capital account as these are directly attributable expenses relating to issuance of the new shares and the remaining estimated listing expenses of RM[●] will be charged to profit or loss.

As at 30 September 2023, the Group has paid approximately RM941,500 of the estimated listing expenses and it is recorded under the prepayment account.

If the actual listing expenses are higher than the estimated, the deficit will be funded out from portion out from the portion allocated for working capital requirements. Conversely, if the actual listing expenses are lower than the estimated, the excess will be utilised for working capital requirements.

3. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

3.1 **OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The movements of the other receivables, deposits and prepayments are as follows:

	RM
As at 30 September 2023	-
Pursuant to Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	2,878,793
As per Pro Forma I and II	2,878,793
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Reversal of estimated listing expenses prepaid *	(941,500)
As per Pro Forma III	1,937,293

* The estimated listing expenses prepaid comprised of professional fees and miscellaneous expenses relating to the IPO.

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

3REN BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2023

3. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

3.2 CASH AND BANK BALANCES

The movements of the cash and bank balances are as follows:

	RM
As at 30 September 2023	2
Pursuant to Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	1,350,210
As per Pro Forma I	1,350,212
Pursuant to Proceeds from IPO	[●]
As per Pro Forma II	[●]
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Estimated listing expenses	[●]
- Repayment of bank borrowings	[●]
As per Pro Forma III	[●]

3.3 SHARE CAPITAL

The movements of the share capital are as follows:

	No. of Shares (units)	RM
As at 30 September 2023	2	2
Pursuant to Proposed Acquisition of Sophic Automation (Note 2(i)(d))	489,999,998	49,000,000
Pursuant to Proposed Acquisition of Sophic MSC (Note 2(i)(e))	40,000,000	4,000,000
Pursuant to Proposed Acquisition of Pinkypye (Note 2(i)(f))	10,000,000	1,000,000
As per Pro Forma I	540,000,000	54,000,002
Pursuant to IPO	110,000,000	[●]
As per Pro Forma II	650,000,000	[●]
Pursuant to Proposed Utilisation of Proceeds from IPO		
- Portion of estimated listing expenses set-off against share capital	-	[●]
As per Pro Forma III	650,000,000	[●]

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

3REN BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2023

3. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

3.4 (ACCUMULATED LOSSESS)/RETAINED PROFITS

The movements of the (accumulated losses)/retained profits are as follows:

	RM
As at 30 September 2023	(25,952)
Pursuant to Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	44,366,708
As per Pro Forma I and II	44,340,756
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Portion of estimated listing expenses set-off against profit or loss	[●]
As per Pro Forma III	[●]

3.5 NON-CURRENT - BORROWINGS

The movements of the non-current borrowings are as follows:

	RM
As at 30 September 2023	-
Pursuant to Subsequent Events and Proposed RCPS Conversion and Proposed Acquisitions	11,194,077
As per Pro Forma I and II	11,194,077
Pursuant to Proposed Utilisation of Proceeds from IPO	
- Repayment of bank borrowings	[●]
As per Pro Forma III	[●]

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

12.2 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated under the Act on 5 April 2021 and our Group was formed upon completion of the Acquisitions on [●].

Our historical combined financial statements for the Financial Periods Under Review have been prepared in accordance with the MFRS and IFRS without any audit qualification. Our Group's historical combined financial information is prepared based on the combined financial statements of our Group for the Financial Periods Under Review as extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

Our Group's historical combined financial information have been prepared as if our Group has been operating as a single economic entity throughout the Financial Periods Under Review, since our Group is under the common control of our Promoters throughout the Financial Periods 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 our Promoters prior to that date.

The financial results of Agensi Pekerjaan Sophic Sdn Bhd ("**APS**"), Alpha Core Sdn Bhd ("**ACSB**"), APM Metal Technologies (M) Sdn Bhd ("**APM**"), Easy Remote Solution Sdn Bhd ("**ERS**"), Inno OPX Sdn Bhd *(formerly known as Turcomp Sophic Sdn Bhd)* ("**IOSB**"), Joman Sdn Bhd ("**JSB**"), Mnosys Sdn Bhd ("**MSB**") and SVN Automation (collectively to be referred to as "**Carved-Out Entities**") do not form part of the combined financial statements as we have disposed of our entire equity interests in ACSB, APM, ERS, IOSB, JSB, MSB and SVN Automation on 26 April 2023, 18 December 2023, 11 May 2021, 17 March 2023, 11 May 2021, 11 May 2021 and 3 February 2023 respectively. Meanwhile, APS has been liquidated on 29 June 2022. For the purpose of preparing the combined financial statements, the investments 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.

12.2.1 Historical Combined Statements of Profit or Loss and Other Comprehensive Income

The summary of our audited combined statements of profit or loss and other comprehensive income for the Financial Periods Under Review is as follows:-

	Audited			Unaudited	Audited
	FYE 2020 (RM'000)	**FYE 2021 (RM'000)**	**FYE 2022 (RM'000)**	**FPE 2022 (RM'000)**	**FPE 2023 (RM'000)**
Revenue	63,020	74,164	103,598	73,373	67,180
Cost of sales	(44,111)	(52,366)	(79,405)	(58,536)	(49,204)
GP	**18,909**	**21,798**	**24,193**	**14,837**	**17,976**
Other income	49	2,231	258	200	127
Allowance for expected credit losses on receivables	-	(39)	-	-	(4)
Other operating expenses	(3,951)	(6,558)	(9,012)	(6,520)	(8,267)
R&D expenses	(502)	(98)	(1,184)	(1,006)	(1,254)
Operating profit	14,505	17,334	14,255	7,511	8,578
Finance costs	(200)	(141)	(412)	(290)	(422)
Finance income	209	153	183	126	217
PBT	**14,514**	**17,346**	**14,026**	**7,347**	**8,373**
Tax expense	(3,263)	(1,273)	(1,960)	(1,693)	(1,791)
Profit for the year/period	**11,251**	**16,073**	**12,066**	**5,654**	**6,582**
PAT attributable to:					
- Owners of the Company	11,251	16,073	12,037	5,744	6,582
- Non-controlling interests	-	-	29	(90)	-
	11,251	**16,073**	**12,066**	**5,654**	**6,582**

	Audited			Unaudited	Audited
	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FYE 2022 (RM'000)	FPE 2022 (RM'000)	FPE 2023 (RM'000)
EBITDA [(1)]	14,901	17,768	15,207	8,179	10,287
GP margin (%) [(2)]	30.00	29.39	23.35	20.22	26.76
PBT margin (%) [(3)]	23.03	23.39	13.54	10.01	12.46
PAT margin (%) [(4)]	17.85	21.67	11.62	7.83	9.80
Basic EPS (sen) [(5)]	2.08	2.98	2.23	1.06	1.22
Diluted EPS (sen) [(6)]	1.73	2.47	1.85	0.88	1.01
Effective tax rate (%)	22.48	7.34	13.98	23.04	21.39
Dividend paid (RM'000)	-	750	3,000	-	5,000

Notes:-

(1) The table below sets forth a reconciliation of our PBT to EBITDA:-

	Audited			Unaudited	Audited
	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FYE 2022 (RM'000)	FPE 2022 (RM'000)	FPE 2023 (RM'000)
PBT	14,514	17,346	14,026	7,347	8,373
Adjusted for:					
Finance costs	200	141	412	290	422
Amortisation of intangible assets	-	22	235	165	433
Depreciation of PPE and right-of-use assets	396	412	717	503	1,276
Finance income	(209)	(153)	(183)	(126)	(217)
EBITDA	14,901	17,768	15,207	8,179	10,287

(2) Computed based on GP divided by revenue.

(3) Computed based on PBT divided by revenue.

(4) Computed based on PAT attributable to owners of the Company divided by revenue.

(5) Basic EPS is computed based on PAT attributable to owners of the Company divided by the issued share capital of 540,000,000 Shares before the IPO.

(6) Diluted EPS is computed based on PAT attributable to owners of the Company divided by the issued share capital of 650,000,000 Shares after the IPO.

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12.2.2 Historical Combined Statements of Financial Position

The historical combined statements of financial position as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 are as follows:-

	Audited As At			
	31.12.2020 (RM'000)	**31.12.2021 (RM'000)**	**31.12.2022 (RM'000)**	**30.9.2023 (RM'000)**
ASSETS				
Non-current assets				
Property, plant and equipment	2,753	8,462	17,716	17,975
Intangible assets	-	1,693	3,578	4,625
Right-of-use assets	614	643	1,224	999
Deferred tax assets	483	-	-	-
Other investments (1)	906	1,572	1,918	20
Trade receivable	-	-	-	1,800
Contract assets	-	-	-	971
Total non-current assets	4,756	12,370	24,436	26,390
Current assets				
Inventories	2,888	3,072	4,945	4,558
Trade receivables	16,698	18,308	26,250	22,603
Other receivables, deposits and prepayments	1,418	2,056	2,777	2,879
Contract assets (2)	253	1,396	4,387	4,177
Contract cost (3)	-	1,360	748	676
Current tax assets	73	900	1,864	1,476
Fixed deposits with licensed banks	7,665	9,283	7,872	9,871
Cash and bank balances	12,518	15,967	8,204	6,330
Total current assets	41,513	52,342	57,047	52,570
TOTAL ASSETS	**46,269**	**64,712**	**81,483**	**78,960**
EQUITY AND LIABILITIES				
Share capital	-	*	*	*
Invested equity (4)	9,660	9,660	9,660	9,660
Retained profits	24,970	40,293	47,759	49,341
TOTAL EQUITY	**34,630**	**49,953**	**57,419**	**59,001**
Non-current liabilities				
Deferred income	-	2	2	1
Borrowings	3,160	7,042	11,690	11,194
Lease liabilities	-	34	403	252
Deferred tax liabilities	2	536	1,217	1,546
Total non-current liabilities	3,162	7,614	13,312	12,993
Current liabilities				
Trade payables	3,426	2,001	723	1,059
Other payables and accruals	903	2,303	2,762	2,038
Contract liabilities (2)	795	1,953	4,530	2,752
Borrowings	658	546	908	685
Lease liabilities	33	39	262	202
Deferred income	-	1	1	1
Dividend payable	-	-	1,566	-
Current tax liabilities	2,662	302	-	229
Total current liabilities	8,477	7,145	10,752	6,966
TOTAL LIABILITIES	**11,639**	**14,759**	**24,064**	**19,959**
TOTAL EQUITY AND LIABILITIES	**46,269**	**64,712**	**81,483**	**78,960**

* Represents RM2.00.

Notes:-

(1) Other investments represent the Group's investments in the Carved-Out Entities which have been disposed of during the Financial Periods Under Review (save for APM which was disposed of in December 2023).

(2) Contract assets/liabilities comprise of the following:-

(a) Contract assets/liabilities which arose from revenue contracts where there is a timing difference 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 or vice versa and this occurs for sales contracts where recognition of revenue is over time; or

(b) Contract liabilities arising from deposits received from customer where work has not been carried out or not completed.

(3) Contract costs represent costs incurred in fulfilling contract with the Group's customers which has yet to be recognised as cost in the profit or loss.

(4) Deemed as invested equity based on number of shares on combined basis.

12.3 CAPITALISATION AND INDEBTEDNESS

The following table sets out our Group's capitalisation and indebtedness as at 31 January 2024 after taking into consideration the effects of our Listing Scheme and the utilisation of proceeds from the Public Issue:-

	Unaudited as at 31.01.2024 (RM'000)	(I) After the Listing Scheme (RM'000)	(II) After (I) and Utilisation of Proceeds (RM'000)
Indebtedness			
Current			
Secured and Guaranteed			
Term loans	-	[•]	[•]
Hire purchase	-	[•]	[•]
Unsecured and Unguaranteed			
Lease liabilities	-	[•]	[•]
Non-Current			
Secured and Guaranteed			
Term loans	-	[•]	[•]
Hire purchase	-	[•]	[•]
Unsecured and Unguaranteed			
Lease liabilities	-	[•]	[•]
Total indebtedness	**-**	**[•]**	**[•]**
Capitalisation			
Equity	28	[•]	[•]
Total capitalisation	**28**	**[•]**	**[•]**
Total capitalisation and indebtedness	**28**	**[•]**	**[•]**
Gearing ratio (times) *	-	[•]	[•]

* Calculated based on total indebtedness divided by total capitalisation.

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

The management's discussion and analysis on our Group's financial condition and results of operations for the Financial Periods Under Review should be read in conjunction with the historical combined financial statements and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus. There are no accounting policies which are peculiar to our Group in regards to the nature of the business or the industry which our Group is involved in.

The discussion contains data derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the discussion on risk factors as set out in Section 9 of this Prospectus.

12.4.1 Overview of Our Operations

Our Company is an investment holding company whilst our Group, through our subsidiaries, is principally involved in the following business segments:-

(a) engineering support services for IC assembly and testing;

(b) design, development and sale of digitalised solutions;

(c) product engineering services; and

(d) design, development and sale of automated equipment.

Please refer to Section 7 of this Prospectus for further information about our business activities, products and services.

12.4.2 Review of Results of Operations

(a) Revenue

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 our customer. We apply judgement in identifying the performance obligations and estimating the point of revenue recognition under different contractual agreements.

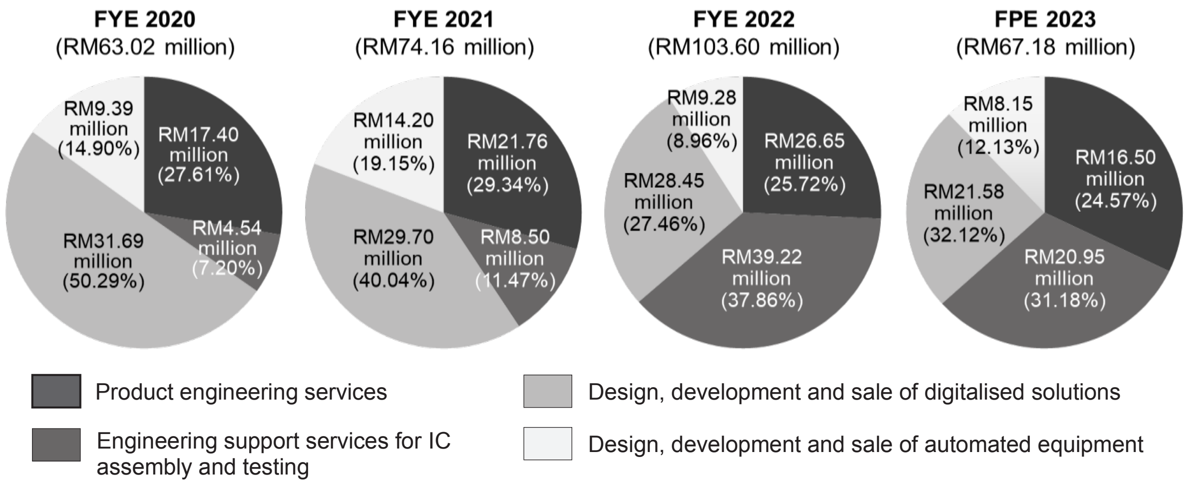
Revenue from engineering support services for IC assembly and testing and product engineering services is recognised over time when control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Revenue from the design, development and sale of digitalised solutions and automated equipment is recognised when a contract exists and when, or as, it satisfies a performance obligation by transferring control of the goods to a customer. For point in time contracts, revenue is recognised when the transfer of controls of the goods have been passed to the customer. For over time contracts, revenue is recognised by reference to the stage of completion of the contract at the end of each reporting period.

(i) Revenue by business segment

The breakdown of our Group's revenue by business segment is as follows:-

Business Segment	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Engineering support services for IC assembly and testing	4,542	7.21	8,504	11.47	39,220	37.86	28,597	38.98	20,947	31.18
Design, development and sale of digitalised solutions	31,686	50.28	29,698	40.04	28,452	27.46	20,848	28.41	16,503	24.57
Product engineering services	17,401	27.61	21,757	29.34	26,649	25.72	19,423	26.47	21,583	32.12
Design, development and sale of automated equipment	9,391	14.90	14,205	19.15	9,277	8.96	4,505	6.14	8,147	12.13
Total revenue	**63,020**	**100.00**	**74,164**	**100.00**	**103,598**	**100.00**	**73,373**	**100.00**	**67,180**	**100.00**



We recorded revenue of RM63.02 million, RM74.16 million, RM103.60 million and RM67.18 million during the Financial Periods Under Review respectively. Our Group's total revenue increased at a CAGR of 28.21%, from RM63.02 million in FYE 2020 to RM103.60 million in FYE 2022, mainly contributed by the increased sales from the engineering support services for IC assembly and testing as well as the product engineering services segments.

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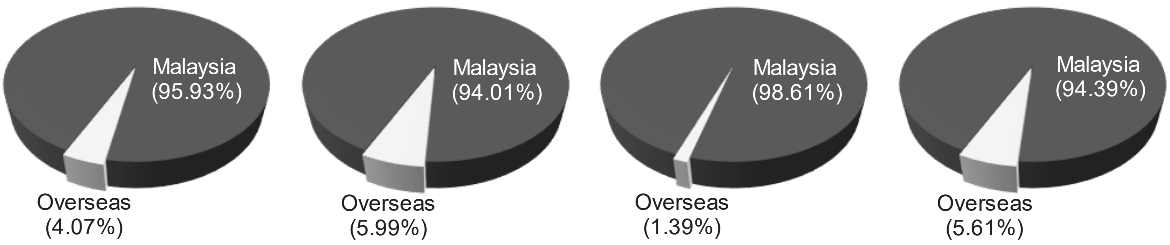
(ii) Revenue by geographical locations

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

Geographical Locations	Audited						Unaudited		Audited	
	FYE 2020		**FYE 2021**		**FYE 2022**		**FPE 2022**		**FPE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Local										
Malaysia	60,458	95.93	69,723	94.01	102,159	98.61	72,298	98.53	63,411	94.39
Overseas										
Singapore	76	0.12	439	0.59	259	0.25	236	0.32	1,513	2.25
Philippines	-	-	-	-	-	-	-	-	983	1.46
USA	26	0.04	368	0.50	232	0.22	129	0.18	797	1.19
China	125	0.20	315	0.42	318	0.31	316	0.43	381	0.57
Thailand	1,355	2.15	2,655	3.58	420	0.41	286	0.39	-	-
Vietnam	665	1.06	366	0.50	94	0.09	72	0.10	67	0.10
Canada	-	-	-	-	80	0.08	-	-	-	-
Costa Rica	315	0.50	288	0.39	36	0.03	36	0.05	25	0.04
India	-	-	10	0.01	-	-	-	-	-	-
Taiwan	-	-	-	-	-	-	-	-	3	*
	2,562	4.07	4,441	5.99	1,439	1.39	1,075	1.47	3,769	5.61
Total revenue	**63,020**	**100.00**	**74,164**	**100.00**	**103,598**	**100.00**	**73,373**	**100.00**	**67,180**	**100.00**

* *Negligible*

FYE 2020 **FYE 2021** **FYE 2022** **FPE 2023**



For the Financial Periods Under Review, our revenue was substantially contributed by sales to customers in Malaysia across all business segments. Revenue from the local sales represented 95.93% (RM60.46 million), 94.01% (RM69.72 million), 98.61% (RM102.16 million) and 94.39% (RM63.41 million) of our total revenue for the FYE 2020, FYE 2021, FYE 2022 and FPE 2023 respectively with the balance 4.07% (RM2.56 million), 5.99% (RM4.44 million), 1.39% (RM1.44 million) and 5.61% (RM3.77 million) contributed from export sales to customers in the foreign countries.

The revenue contribution from overseas markets increased by RM1.88 million or 73.44% in FYE 2021, mainly attributable to our digitalised solutions provided to a Thailand-based subsidiary of Top Glove group of companies. However, in FYE 2022, overseas revenue recorded a decrease of RM3.00 million or 67.57% mainly due to the fulfilment of the said order as well as lower orders from the overseas customers.

Commentaries on revenue

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

Our revenue increased by RM11.14 million or 17.68% to RM74.16 million in FYE 2021. This was primarily due to:

(aa) the higher revenue from the design, development and sale of automated equipment segment of RM4.81 million or 51.26% mainly driven by:

- higher sales of automated test and handler equipment by RM3.78 million where we sold a total of 20 units of equipment compared to 19 units in FYE 2020 during the year to both local and foreign customers. Notably, during the year, we sold 10 units of equipment to Customer A (FYE 2020: 7 units) and 7 units to Intel group of companies (FYE 2020: 3 units);

- higher sales of automated material management system equipment by RM0.91 million to several local customers. During the year, we sold a total of 55 units of equipment compared to 27 units in FYE 2020 including 45 units sold to Intel group of companies (FYE 2020: 23 units); and

- higher sales of automated visual inspection equipment by RM0.12 million where we sold a total of 10 units equipment during the year (FYE 2020: 12 units) to several local customers. In particular, we sold 5 units of equipment to Intel group of companies (FYE 2020: 2 units);

(bb) the higher revenue from the product engineering services segment by RM4.36 million or 25.03% mainly attributable to the increased orders from Intel group of companies and KellyOCG. During the FYE 2021, we recorded sales of:

- RM12.32 million from post-silicon validation services (FYE 2020: RM10.81 million);

- RM6.72 million from NPI services (FYE 2020: RM5.42 million); and

- RM2.72 million from software development services (FYE 2020: RM1.17 million).

Our total workforce that has been assigned to fulfil these orders has increased in tandem with the increased orders, from 388 personnel as at 31 December 2020 to 436 personnel as at 31 December 2021 including a total of 393 contractual workers (FYE 2020: 357); and

(cc) the higher revenue from the engineering support services for IC assembly and testing segment of RM3.96 million or 87.23% compared to previous year mainly due to higher orders received from Intel group of companies due to higher demand for its ICs or chips. Our total contract-based workforce that has been assigned to fulfil these orders has been increased in line with the higher orders, from 151 workers as at 31 December 2020 to 214 workers as at 31 December 2021,

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which was partially offset by:

(dd) the decrease in the sales from the design, development and sale of digitalised solutions segment by RM1.99 million or 6.27%. The decrease was mainly attributable to the:

- reduction in sales of command and control centre solutions by RM5.27 million which was mainly due to the completion of an intelligent operation centre and video analytics project for Customer B in FYE 2020 where we recorded RM5.98 million in revenue during that year (FYE 2021: nil) and lower sales orders from Customer A of RM1.32 million (FYE 2020: RM4.47 million) mainly due to fulfilment of orders during that year. The decrease was partially offset by an increase in sales of command and control centre solutions provided to Top Glove group of companies, including its Thailand-based subsidiary amounting to RM6.95 million (FYE 2020: RM5.79 million),

which was partially offset by:

- increase in sales of workforce efficiency solutions by RM1.71 million mainly due to higher orders received from several local and foreign customers. During the year, we recorded sales of RM0.97 million from Intel group of companies (FYE 2020: RM0.05 million) and RM0.55 million from Customer A (FYE 2020: RM0.56 million); and

- increase in sales of operational efficiency solutions by RM1.57 million mainly due to higher orders received from several local and foreign customers. In particular, we recorded sales of RM12.33 million from Intel group of companies (FYE 2020: RM11.78 million), RM0.15 million from Customer A (FYE 2020: RM0.52 million) and RM0.08 million from Customer C (FYE 2020: RM nil).

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

For the FYE 2022, our revenue increased by RM29.43 million or 39.69% to RM103.60 million. This increase was mainly contributed by higher sales from:

(aa) the engineering support services for IC assembly and testing segment by RM30.72 million or 361.19% compared to previous year mainly due to higher orders secured from Intel group of companies, including additional projects taken over from another supplier of the Intel group of companies. Due to the time constraints faced in fulfilling the demand and job scope of these additional orders, we increased our total contract-based workforce from 214 personnel as at 31 December 2021 to 873 personnel as at 31 December 2022; and

(bb) the higher revenue from the product engineering services segment by RM4.89 million or 22.48% mainly attributable to increased orders from Intel group of companies and KellyOCG. During the FYE 2022, we recorded sales of:

- RM12.30 million from post-silicon validation services (FYE 2021: RM12.32 million);

- RM10.11 million from NPI services (FYE 2021: RM6.72 million); and

- RM4.24 million from software development services (FYE 2021: RM2.72 million).

Our total workforce that has been assigned to fulfil these orders has also increased from 436 personnel as at 31 December 2021 to 694 personnel as at 31 December 2022 including a total of 519 contract-based workers (FYE 2021: 393),

which was partially offset by:

(cc) the lower sales from the design, development and sale of automated equipment segment of RM4.93 million or 34.69% mainly due to lower sales of:

- automated test and handler equipment by RM4.26 million mainly due to lower sales volume of 16 units compared to 20 units in FYE 2021 to both local and foreign customers. Notably, during the year, we sold 2 units of equipment to Customer A (FYE 2021: 10 units), 1 unit to Customer C (FYE 2021: nil) and 4 units to Intel group of companies (FYE 2021: 7 units); and

- automated material management system equipment by RM0.82 million to several local customers. During the year, we sold a total of 29 units of equipment compared to 55 units in FYE 2021 including 24 units to Intel group of companies (FYE 2021: 45 units) and 1 unit to Customer C (FYE 2021: nil),

which was partially offset by higher sales from automated visual inspection equipment by RM0.16 million where we sold a total of 6 units of equipment compared to 10 units in FYE 2021 during the year to several local customers; and

(dd) the decrease in the sales from the design, development and sale of digitalised solutions segment by RM1.25 million or 4.20%. The decrease was mainly attributable to:

- reduction in overall sales of command and control centre solutions by RM4.85 million which was mainly due to lower orders from several customers. Notably, during the year, we recorded sales of RM0.80 million from Customer A (FYE 2021: RM1.32 million), RM2.59 million from Top Glove group of companies (including its Thailand-based subsidiary) (FYE 2021: RM6.95 million) and RM0.83 million from Intel group of companies (FYE 2021: RM nil),

which was partially offset by:

- increase in sales of workforce efficiency solutions by RM0.65 million mainly due to higher orders received from several local and foreign customers. Notably, during the year, we recorded sales of RM0.53 million from Customer A (FYE 2021: RM0.55 million), RM0.55 million from Customer C (FYE 2021: RM nil) and RM0.43 million from Intel group of companies (FYE 2021: RM0.98 million); and

- increase in sales of operational efficiency solutions by RM2.95 million mainly due to higher orders received from several local and foreign customers. In particular, we recorded sales of RM15.77 million from Intel group of companies (FYE 2021: RM12.33 million), RM0.11 million from Customer A (FYE 2021: RM0.15 million) and RM nil from Customer C (FYE 2021: RM0.08 million).

Comparison between FPE 2022 and FPE 2023

Our revenue decreased by RM6.19 million or 8.44% to RM67.18 million in FPE 2023. This was primarily due to:

(aa) the lower revenue from the engineering support services for IC assembly and testing segment by RM7.65 million or 26.75% compared to previous period mainly due to lower orders received from Intel group of companies which could be due to lower global demand for chips caused by excess inventory especially in the 1st half of 2023. Our total contract-based workforce has decreased from 1,365 workers as at 30 September 2022 to 777 workers as at 30 September 2023;

(bb) the lower revenue from the design, development and sale of digitalised solutions segment by RM4.35 million or 20.84%. The decrease was mainly attributable to the:

- reduction in sales of operational efficiency solutions by RM4.65 million mainly due to lower orders received from several local and foreign customers. In particular, we recorded sales of RM6.74 million from Intel group of companies (FPE 2022: RM13.33 million), RM0.65 million from Customer A (FPE 2022: RM0.10 million) and RM0.10 million from a new Singapore-based customer acquired during the period, namely, Customer E (FPE 2022: RM nil).

- reduction in sales of workforce efficiency solutions by RM1.68 million mainly due to lower orders received from several local and foreign customers. Notably, during the period, we recorded sales of RM0.31 million from Customer A (FPE 2022: RM0.33 million), RM nil from Customer C (FPE 2022: RM0.07 million) and RM nil from Intel group of companies (FPE 2022: RM0.31 million);

which was partially offset by:

- increase in sales of command and control centre solutions by RM1.71 million which was mainly due to higher orders from several local and foreign customers. In particular, we recorded sales of RM1.35 million from our new Singapore-based customer, namely, Customer E (FPE 2022: RM nil), RM0.44 million from Customer A (FPE 2022: RM0.60 million), RM0.24 million from Top Glove group of companies (including its Thailand-based subsidiary) (FPE 2022: RM1.32 million) and RM0.17 million from Intel group of companies (FPE 2022: RM0.50 million); and

- increase in sales of asset management system solutions by RM0.27 million which was mainly due to orders received from several customers including RM0.06 million from Intel group of companies (FPE 2022: RM nil),

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which was partially offset by:

(cc) the higher revenue from the design, development and sale of automated equipment segment of RM3.64 million or 80.84% mainly driven by:

- higher sales of automated test and handler equipment by RM3.94 million where we sold a total of 50 units of equipment compared to 12 units in FPE 2022 during the period to both local and foreign customers. Notably, we sold 30 units of equipment to a new Malaysia-based customer, namely, Customer D (FPE 2022: nil), 1 unit of equipment to Customer C (FPE 2022: 1 unit) and 1 unit to Intel group of companies (FPE 2022: 4 units); and

- higher sales of automated material management system equipment by RM0.37 million to several local customers. During the period, we sold a total of 9 units of equipment compared to 28 units in FPE 2022, including 2 units to Customer C (FPE 2022: nil) and 1 unit to Intel group of companies (FPE 2022: 24 units)

which was partially offset by lower sales from automated visual inspection equipment by RM0.67 million where we sold a total of 1 unit of equipment both during the period and in FPE 2022 to a local customer; and

(dd) the higher revenue from the product engineering services segment by RM2.16 million or 11.12% mainly attributable to higher orders from Intel group of companies and KellyOCG especially on post-silicon validation and NPI services. The segment, which is part of the IC design segment of IDMs, appears unaffected materially by the lower global demand for ICs or chips especially in the 1st half of 2023.

During the FPE 2023, we recorded sales of:

- RM7.68 million from post-silicon validation services (FPE 2022: RM5.54 million);

- RM9.38 million from NPI services (FPE 2022: RM8.02 million); and

- RM4.52 million from software development services (FPE 2022: RM5.86 million).

Our total workforce that has been assigned to fulfil these orders has increased from 549 personnel as at 30 September 2022 to 701 personnel as at 30 September 2023 including a total of 511 contract-based workers (FPE 2022: 405).

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(b) Cost of sales

(i) Cost of sales by business segment

The breakdown of our Group's cost of sales by business segment is as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Business Segment	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Engineering support services for IC assembly and testing	3,584	8.12	7,571	14.46	37,899	47.73	28,573	48.81	18,689	37.98
Design, development and sale of digitalised solutions	22,602	51.24	20,807	39.73	17,939	22.59	15,125	25.84	10,104	20.54
Product engineering services	11,142	25.26	13,751	26.26	17,172	21.63	11,717	20.02	14,929	30.34
Design, development and sale of automated equipment	6,783	15.38	10,237	19.55	6,395	8.05	3,121	5.33	5,482	11.14
Total	**44,111**	**100.00**	**52,366**	**100.00**	**79,405**	**100.00**	**58,536**	**100.00**	**49,204**	**100.00**

(ii) Cost of sales by category

The breakdown of our Group's cost of sales by category is as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Category	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Labour costs *	18,595	42.16	25,157	48.04	58,534	73.71	42,871	73.24	37,309	75.83
Material costs	11,771	26.68	12,573	24.01	10,217	12.87	7,866	13.44	7,784	15.82
Outsourcing costs	11,471	26.00	13,696	26.15	9,860	12.42	7,112	12.15	3,850	7.82
Other costs	2,274	5.16	940	1.80	794	1.00	687	1.17	261	0.53
Total	**44,111**	**100.00**	**52,366**	**100.00**	**79,405**	**100.00**	**58,536**	**100.00**	**49,204**	**100.00**

Note:-

* Breakdown of labour costs by business segment:

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	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
Business Segment	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Engineering support services for IC assembly and testing	3,275	17.61	7,376	29.33	37,455	63.99	28,403	66.25	18,483	49.54
Design, development and sale of digitalised solutions	3,899	20.97	3,098	12.31	3,573	6.10	2,731	6.37	2,791	7.48
Product engineering services	10,501	56.47	13,613	54.11	16,225	27.72	11,030	25.73	14,712	39.43
Design, development and sale of automated equipment	920	4.95	1,070	4.25	1,281	2.19	707	1.65	1,323	3.55
Total	**18,595**	**100.00**	**25,157**	**100.00**	**58,534**	**100.00**	**42,871**	**100.00**	**37,309**	**100.00**

Our Group's total cost of sales increased from RM44.11 million for FYE 2020 to RM52.37 million for FYE 2021, which recorded an increase of RM8.26 million or 18.73%. For FYE 2022, our total cost of sales further increased to RM79.41 million, which was at an increase of RM27.04 million or 51.63%. Our total cost of sales for FPE 2023 stood at RM49.20 million, which was lower than that for FPE 2022 by RM9.33 million or 15.94%. Our cost of sales fluctuated in tandem with our revenue during the Financial Periods Under Review.

Commentaries on cost of sales

(1) Labour costs

Labour costs represent the key component of our cost of sales accounting for 42.16%, 48.04%, 73.71% and 75.83% of our Group's total cost of sales for FYE 2020, 2021, 2022 and FPE 2023 respectively. Labour costs consist of salaries, wages, bonuses, allowances, social security contributions, defined contribution plans and other related costs and benefits in relation to both permanent and contract-based workforce involved in the operations of the Group.

For engineering support services for IC assembly and testing, and product engineering services segments, labour costs form the largest component of the cost of sales, representing more than 90% of the cost of sales.

For FYE 2021, our labour costs increased by RM6.56 million or 35.27% mainly due to the increase in total headcount within our Group where our total workforce has increased from 642 personnel as at 31 December 2020 to 795 personnel as at 31 December 2021 including a total of 612 contract workers (FYE 2020: 512) to cater to the increase in business activities across most of our business segments in particular the engineering support services for IC assembly and testing, and product engineering services segments. The net increase in employees hired during the year included 144 technical or skilled personnel such as engineers, developers, technicians and manufacturing specialists.

The increase in labour costs was mainly contributed by engineering support services for IC assembly and testing, and product engineering services segments, which were driven by higher number of workforce as explained in our analysis of revenue in Section 12.4.2(a) of this Prospectus, higher overtime for shift coverage arising from stringent resource planning (including quarantine requirements and adherence to standard operating procedures of customer) and higher turnover of employees especially during the COVID-19 pandemic and MCO imposed by our Government. Such increase was coupled by the overall effect of group-wide increment of salary package.

Notwithstanding the above, the increase in labour costs was partially offset by the decrease in labour costs of digitalised solutions segment following the transfer of a total of 16 technical personnel comprising software engineers and developers, programmers, data analyst and software architect to the R&D department following the setup of our in-house R&D team in FYE 2021 as explained in Section 12.4.2(g) of this Prospectus. Further, our Group also received RM1.24 million in FYE 2021 (FYE 2020: RM0.69 million) being the Government's wage subsidy program as part of the economic stimulus package during the COVID-19 pandemic.

For FYE 2022, our labour costs increased by RM33.38 million or 132.67% mainly due to the increase in total headcount within our Group where our total workforce has increased from 795 personnel as at 31 December 2021 to 1,737 personnel as at 31 December 2022 including a total of 1395 contract workers (FYE 2021: 612) in tandem with the increase in orders from the engineering support services for IC assembly and testing, and product engineering services segments. The net increase in employees hired during the year included 930 technical personnel such as engineers, developers, technicians and manufacturing specialists, most of which were assigned to the additional projects (under the engineering support services business segment) taken over from another supplier of Intel group of companies, which came with increased scope of work and timeline constraints. Our Group recruited additional headcounts in a short period of time to fulfil the orders/projects within the stipulated timeline and as a result, our labour costs also increased significantly during the year. Besides, the increase in labour costs was also due to group-wide increment of salary package and other costs such as overtime for shift coverage arising from stringent resource planning as well as effects from the mandatory increase in the minimum wage in Malaysia to RM1,500 which took effect on 1 May 2022 involving a total of 367 of our employees.

The increase in our labour costs was partially offset by salary and training incentives and grant amounting to RM0.14 million received from MDEC in FYE 2022.

For FPE 2023, our labour costs decreased by RM5.56 million or 12.97% mainly due to the decrease in total headcount within our Group where our total workforce has reduced from 2,081 personnel as at 30 September 2022 to 1,634 personnel as at 30 September 2023 including a total of 1,294 contract workers (FPE 2022: 1,770) as a result of lower sales from engineering support services segment as explained in Section 12.4.2(a) of this Prospectus. This was partially offset by the increase in labour costs for product engineering services, design, development and sale of digitalised solutions and automated equipment segments. Our Group also received grant of RM0.11 million from the Northern Corridor Implementation Authority (NCIA) through the NCER Talent Enhancement Programme (NTEP) and RM0.09 million from Malaysia Digital Economy Corporation Sdn Bhd (MDEC) through its Global Technology Grant programme.

(2) Material costs

The material costs accounted for 26.68%, 24.01%, 12.87% and 15.82% of our Group's total cost of sales for FYE 2020, 2021, 2022 and FPE 2023 respectively.

The material costs are mainly incurred for our design, development and sale of digitalised solutions and automated equipment segments, and they include mechanical, electrical and pneumatic components as well as computer related devices (including smart wearable devices).

For FYE 2021, our material costs increased by RM0.80 million or 6.80% as a result of increase in purchase of materials, parts and components to meet the increased orders of automated equipment from both our local and foreign customers.

For FYE 2022, our material costs reduced by RM2.36 million or 18.77% mainly due to lower purchases of materials as a result of decrease in orders for our automated equipment.

For FPE 2023, our material costs decreased slightly by RM0.08 million or 1.02%, mainly due to lower purchases of materials for our digitalised solutions. This was offset by the increase in materials purchased for automated equipment by RM2.05 million or 186.52% following higher orders for our automated equipment.

We sourced our materials from both local and overseas suppliers depending on cost competitiveness, lead time and availability of materials with the desired specifications and customer requirements.

(3) Outsourcing costs

Outsourcing costs accounted for 26.00%, 26.15%, 12.42% and 7.82% of our Group's total cost of sales for FYE 2020, 2021, 2022 and FPE 2023 respectively. Our outsourcing costs include subcontracted fabrication work for mechanical parts, engineering work and electrical wiring services mainly for design, development and sale of digitalised solutions and automated equipment.

For FYE 2021, our outsourcing costs increased by RM2.23 million or 19.44% as our Group outsourced higher volume of fabrication and engineering work to fulfil the increased orders for Top Glove group of companies and fabrication of customised mechanical and machine parts and wiring work to fulfil higher orders of automated equipment during the year.

For FYE 2022, our outsourcing costs decreased by RM3.84 million or 28.03% mainly due to lower sales from digitalised solutions and automated equipment delivered to customers, and also as a result of internalisation of certain engineering works through our wholly-owned subsidiary, Pinkypye.

For FPE 2023, our outsourcing costs decreased by RM3.26 million or 45.85% as a result of internalisation of certain engineering works through our wholly-owned subsidiary, Pinkypye. The decrease was also partly contributed by lower sales from the design, development and sale of digitalised solutions.

(4) Other costs

Other costs accounted for 5.16%, 1.80%, 1.00% and 0.53% for FYE 2020, 2021, 2022 and FPE 2023 respectively. Other costs comprise mainly software licenses and cloud subscription, personal protective equipment, packaging and logistics, purchase taxes, custom duties, and other consumables including bolts and nuts, screws, batteries, and cables.

For FYE 2021, other costs decreased by RM1.33 million or 58.59% mainly attributable to the software licenses and cloud subscription fee amounted to RM1.46 million incurred in FYE 2020 for the intelligent operation center and video analytics project for Customer B as explained in our analysis of revenue in Section 12.4.2(a) of this Prospectus. This cost was borne by our Group during project execution up to the completion of the project in FYE 2020. The decrease in other costs for FYE 2021 was partially offset by an increase in purchases of personal protective equipment and packaging and logistic costs.

For FYE 2022, other costs decreased slightly by RM0.15 million or 15.96% mainly due to lower purchase of software licenses and cloud subscription fee for certain digitalised solutions during the development stage.

For FPE 2023, other costs decreased by RM0.43 million or 62.32% mainly due to the decrease in purchases of personal protective equipment, packaging and logistic costs as well as other consumables.

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12. FINANCIAL INFORMATION

(c) GP and GP Margin

Our Group's GP and GP margin by business segment are as follows:-

	Audited									Unaudited			Audited		
	FYE 2020			FYE 2021			FYE 2022			FPE 2022			FPE 2023		
Business Segment	GP (RM'000)	%	% of GP Margin	GP (RM'000)	%	% of GP Margin	GP (RM'000)	%	% of GP Margin	GP (RM'000)	%	% of GP Margin	GP (RM'000)	%	% of GP Margin
Engineering support services for IC assembly and testing	958	5.07	21.09	933	4.28	10.97	1,321	5.46	3.37	24	0.16	0.08	2,258	12.56	10.78
Design, development and sale of digitalised solutions	9,084	48.04	28.67	8,891	40.79	29.94	10,513	43.46	36.95	5,723	38.57	27.45	6,399	35.60	38.77
Product engineering services	6,259	33.10	35.97	8,006	36.73	36.80	9,477	39.17	35.56	7,706	51.94	39.67	6,654	37.02	30.83
Design, development and sale of automated equipment	2,608	13.79	27.77	3,968	18.20	27.93	2,882	11.91	31.07	1,384	9.33	30.72	2,665	14.82	32.71
Total	**18,909**	**100.00**	**30.00**	**21,798**	**100.00**	**29.39**	**24,193**	**100.00**	**23.35**	**14,837**	**100.00**	**20.22**	**17,976**	**100.00**	**26.76**

Our Group does not maintain GP and GP margin by geographical location. Accordingly, such information is not provided.

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Commentaries on GP and GP margin

Our Group's total GP has increased from RM18.91 million for FYE 2020 to RM21.80 million and RM24.19 million for FYE 2021 and FYE 2022 respectively in tandem with the increase in our Group's revenue over the same period, from RM63.02 million to RM103.60 million. For FPE 2023, our GP has increased from RM14.84 million for FPE 2022 to RM17.98 million despite lower revenue registered during the same period. This was mainly due to lower cost of sales incurred by the Group from RM58.54 million in FPE 2022 to RM49.20 million in FPE 2023, in particular, our labour cost which has been reduced by RM5.56 million for the first 9 months of 2023.

Our Group's overall GP margin has been reduced from 30.00% in FYE 2020 to 29.39% in FYE 2021 and 23.35% in FYE 2022. This was primarily due to the reduction in GP margin for the engineering support services for IC assembly and testing segment where it had registered GP margins of 21.09%, 10.97% and 3.37% for FYE 2020 to FYE 2022 respectively. The significant reduction in our overall GP margin especially in FYE 2022 was mainly due to higher labour cost incurred where during that year we recruited additional headcounts (mostly contract-based workers) in a short period of time to fulfil the additional engineering support services orders/projects that we took over from another supplier of Intel group of companies, which came with increased scope of work and timeline constraints.

Conversely, the GP margins for the design, development and sale of both digitalised solutions and automated equipment segments (where most of them involved certain level of customisations according to our customers' requirements and needs) have been on increasing trends, with the former registering GP margins of 28.67%, 29.94% and 36.95% and the latter recording GP margins of 27.77%, 27.93% and 31.07% for the FYE 2020, FYE 2021 and FYE 2022, respectively.

On the other hand, the GP margins for the product engineering services segment have been relatively stable, registering between 35.56% and 36.80% from FYE 2020 to FYE 2022.

<u>**Comparison between FYE 2020 and FYE 2021**</u>

Our Group's GP increased by RM2.89 million or 15.28% from RM18.91 million for FYE 2020 to RM21.80 million for FYE 2021 in line with the increase in our revenue. Notwithstanding the above, our Group's overall GP margin decreased marginally from 30.00% for FYE 2020 to 29.39% for FYE 2021. The decrease in GP margin was mainly attributable to the following:-

(1) Engineering support services for IC assembly and testing

Our GP for engineering support services for IC assembly and testing decreased slightly by RM0.03 million or 2.61% from RM0.96 million for FYE 2020 to RM0.93 million for FYE 2021 in spite of an increase of RM3.96 million or 87.23% in revenue for FYE 2021. This was mainly due to higher cost of sales (in particular the labour costs) which had increased by RM3.99 million or 111.24% which had eroded our GP margin from 21.09% in FYE 2020 to 10.97% in FYE 2021. This was mainly caused by higher overtime for shift coverage arising from stringent resource planning (including quarantine requirements and adherence to standard operating procedures of customer) and higher turnover of employees especially during the COVID-19 pandemic and MCO imposed by the Government of Malaysia.

As a result, our Group incurred additional costs for re-hiring, providing on-the-job training and certification of new employees to meet the requirements imposed by Intel group of companies.

(2) Design, development and sale of digitalised solutions

Our GP for design, development and sale of digitalised solutions decreased slightly by RM0.19 million or 2.12% from RM9.08 million for FYE 2020 to RM8.89 million for FYE 2021. Nevertheless, our GP margin improved from 28.67% in FYE 2020 to 29.94% in FYE 2021 as our cost of sales reduced by RM1.80 million or 7.94% in line with the decrease in revenue by RM1.99 million or 6.27% in FYE 2021 as explained in our analysis of revenue in Section 12.4.2(a) of this Prospectus.

The improvement in GP margin was mainly attributable to the decrease in material costs of RM1.95 million, labour costs of RM0.80 million in FYE 2021 and other costs which only incurred in FYE 2020, particularly the expense for software licenses and cloud subscription fee for the intelligent operation center and video analytics project for Customer B which was borne by our Group during project execution up to the completion of the project in FYE 2020. The decrease was partially offset by the increase in outsourcing costs of RM2.08 million due to higher volume of outsourced fabrication and engineering work to fulfil the increased orders for Top Glove group of companies

(3) Product engineering services

Our GP for product engineering services increased by RM1.75 million or 27.91% from RM6.26 million for FYE 2020 to RM8.01 million for FYE 2021, which was mainly attributable to the increase in revenue by RM4.36 million or 25.03%. Our GP margin also increased from 35.97% in FYE 2020 to 36.80% in FYE 2021 despite the increase in our cost of sales for product engineering services from RM11.14 million for FYE 2020 to RM13.75 million for FYE 2021, an increase of RM2.61 million or 23.42%, which was mainly contributed by higher labour costs of RM3.11 million or 29.64% where the total employees under this segment increased from 388 as at 31 December 2020 to 436 as at 31 December 2021.

(4) Design, development and sale of automated equipment

Our GP for design, development and sale of automated equipment increased by RM1.36 million or 52.15% from RM2.61 million for FYE 2020 to RM3.97 million for FYE 2021. This was attributable to the increase in revenue of RM4.81 million or 51.26% driven by the higher sales volume of automated equipment where our Group delivered a total of 85 units of automated equipment during FYE 2021 (FYE 2020: 58). Our GP margin also increased from 27.77% in FYE 2020 to 27.93% in FYE 2021 despite the increase in our cost of sales by RM3.45 million or 50.92% from RM6.78 million for FYE 2020 to RM10.24 million for FYE 2021, which was mainly due to higher material costs of RM2.78 million and outsourced fabrication and engineering work of RM0.63 million in FYE 2021.

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Comparison between FYE 2021 and FYE 2022

Our Group's GP increased by RM2.39 million or 10.99% from RM21.80 million for FYE 2021 to RM24.19 million for FYE 2022. Notwithstanding the above, our Group's overall GP margin decreased from 29.39% for FYE 2021 to 23.35% for FYE 2022. The decrease in GP margin was mainly attributable to the following:-

(1) Engineering support services for IC assembly and testing

Our GP for engineering support services for IC assembly and testing increased by RM0.39 million or 41.59% from RM0.93 million for FYE 2021 to RM1.32 million for FYE 2022. However, our GP margin reduced from 10.97% in FYE 2021 to 3.37% in FYE 2022 despite an increase in revenue of RM30.72 million or 361.19%. This was mainly due to higher cost of sales which surged by RM30.33 million or 400.58% in particular the labour costs.

The surge in both revenue and cost of sales mainly resulted from higher orders secured from Intel group of companies including additional projects taken over from another supplier of the Intel group of companies. The said additional orders came with increased scope of work and timeline constraints which required the recruitment of a larger number of contract-based personnel. We recruited additional headcounts in a short period of time to fulfil the orders/projects within the stipulated timeline and as a result, our labour costs also increased significantly during the year. Besides, the increase in labour costs was also due to group-wide increment of salary package and other costs such as overtime costs as well as effects from the mandatory increase in the minimum wage in Malaysia to RM1,500 which took effect on 1 May 2022 involving a total of 362 of our contract-based workforce.

(2) Design, development and sale of digitalised solutions

Our GP for design, development and sale of digitalised solutions increased from RM8.89 million for FYE 2021 to RM10.51 million for FYE 2022, representing an increase of RM1.62 million or 18.24%. The improvement in GP was mainly attributable to the reduction in cost of sales by RM2.87 million or 13.78% which outweighed the decrease in revenue of RM1.25 million or 4.20% which was explained in Section 12.4.2(a) of this Prospectus.

The decrease in cost of sales was mainly due to the reduction in outsourcing costs for engineering work by RM3.32 million, mainly on the control and electrical panel. Such decrease was partially offset by the increase in labour costs by RM0.48 million within this business segment for FYE 2022.

As a result, our GP margin improved from 29.94% in FYE 2021 to 36.95% in FYE 2022.

(3) Product engineering services

Our GP for product engineering services increased from RM8.01 million for FYE 2021 to RM9.48 million for FYE 2022, which recorded an upswing of RM1.47 million or 18.37%.

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Our revenue for FYE 2022 increased by RM4.89 million or 22.48% as explained in our analysis of revenue in Section 12.4.2(a) of this Prospectus whist our cost of sales was higher by RM3.42 million or 24.88% in FYE 2022. The increase in cost of sales was mainly attributable to the increase of RM2.61 million in labour costs and RM0.81 million in purchase of materials and outsourcing costs for engineering work in FYE 2022. The increase in labour costs was mainly due to group-wide increment of salary package and other costs such as overtime costs.

The higher cost of sales had reduced our GP margin from 36.80% in FYE 2021 to 35.56% in FYE 2022.

(4) Design, development and sale of automated equipment

Our GP for design, development and sale of automated equipment decreased by RM1.09 million or 27.37% from RM3.97 million for FYE 2021 to RM2.88 million for FYE 2022, however our GP margin improved from 27.93% in FYE 2021 to 31.07% in FYE 2022.

The reduction in GP was mainly due to lower revenue by RM4.93 million or 34.69% where we recorded a lower sales volume of 51 units of automated equipment as compared to 85 units in the previous year. Our cost of sales decreased by RM3.84 million or 37.53% from RM10.24 million for FYE 2021 to RM6.40 million for FYE 2022 mainly on account of the decrease in purchases of materials of RM2.80 million such as computer related devices, mechanical, electrical and pneumatic parts and outsourcing costs of RM1.23 million. Our improvement in GP margin was also contributed by higher cost efficiency from the setup of in-house precision machining facilities following the acquisition of Pinkypye in 2022.

Comparison between FPE 2022 and FPE 2023

For FPE 2023, our Group's GP increased by RM3.14 million or 21.16% from RM14.84 million for FPE 2022 to RM17.98 million for FPE 2023, with an improvement in GP margin from 20.22% in FPE 2022 to 26.76% in FPE 2023. The increase in GP margin was mainly attributable to the following:-

(1) Engineering support services for IC assembly and testing

Our GP for engineering support services for IC assembly and testing increased by RM2.24 million from RM0.02 million for FPE 2022 to RM2.26 million for FPE 2023 despite the decrease in revenue for this business segment by 26.75% from RM28.60 million to RM20.95 million. Our GP margin also improved from 0.08% in FPE 2022 to 10.78% in FPE 2023 despite registering lower revenue by RM7.65 million. This was mainly due to lower cost of sales in particular the labour costs which reduced by RM9.92 million in FPE 2023. Due to the lower orders from Intel group of companies, we have implemented several cost-optimisation measures (which include non-renewal and transfer of contract-based personnel to another department such as the Product Engineering Services team) with the aim of improving our overall competency and operating efficiency in the delivery of engineering support services.

Accordingly, we have reduced our total contract-based headcounts under this segment from 1,365 workers as at 30 September 2022 to 777 workers as at 30 September 2023.

(2) Design, development and sale of digitalised solutions

Our GP for design, development and sale of digitalised solutions stood at RM6.40 million for FPE 2023 (FPE 2022: RM5.72 million), which was higher by RM0.68 million or 11.81%. The increase in GP was mainly attributable to the reduction in cost of sales by RM5.02 million which outweighed the decrease in revenue of RM4.35 million as explained in Section 12.4.2(a) of this Prospectus.

In particular, the decrease in cost of sales was mainly driven by the reduction in outsourcing costs by RM3.08 million as a result of internalisation of certain engineering works, through our wholly-owned subsidiary, Pinkypye (which was previously undertaken by external suppliers), lower purchases of materials of RM1.69 million and decrease in other costs, which were partially offset by higher labour cost due to group-wide increment of salary package. The lower cost of sales had driven up our GP margin from 27.45% in FPE 2022 to 38.77% in FPE 2023.

(3) Product engineering services

Our GP for product engineering services decreased by RM1.05 million or 13.65% from RM7.71 million for FPE 2022 to RM6.65 million for FPE 2023, in spite of an increase in revenue by RM2.16 million as explained in Section 12.4.2(a) of this Prospectus.

Our cost of sales for product engineering services increased from RM11.72 million for FPE 2022 to RM14.93 million for FPE 2023, which reflected an increase of RM3.21 million mainly contributed by a hike in labour costs of RM3.68 million due to the additional net headcounts 142 personnel during the period, which was partially offset by the reduction in material costs of RM0.48 million in FPE 2023.

The higher cost of sales had reduced our GP margin from 39.67% in FPE 2022 to 30.83% in FPE 2023.

(4) Design, development and sale of automated equipment

Our GP for design, development and sale of automated equipment increased by RM1.28 million or 92.56% from RM1.38 million for FPE 2022 to RM2.67 million for FPE 2023. This was attributable to the increase in revenue by RM3.64 million driven by the higher sales volume of automated equipment where our Group delivered a total of 60 units of automated equipment during FPE 2023 (FPE 2022: 41 units). Our cost of sales increased by RM2.36 million from RM3.12 million for FPE 2022 to RM5.48 million for FPE 2023 in tandem with the increase in revenue in this business segment. As a result, our GP margin improved from 30.72% in FPE 2022 to 32.71% in FPE 2023.

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(d) Other income

The detailed breakdown of our other income for the Financial Periods Under Review is as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Dividend income	-	-	1,040	43.62	-	-	-	-	-	-
Fair value gain on other investments			1,047	43.92	17	3.85	18	5.52	-	-
Gain on disposal of PPE	-	-	-	-	16	3.63	16	4.91	*	-
Realised gain in foreign exchange	6	2.32	8	0.34	4	0.90	18	5.52	26	7.56
Unrealised gain in foreign exchange	-	-	-	-	26	5.90	30	9.20	70	20.35
Finance income	209	81.01	153	6.42	183	41.50	126	38.65	217	63.08
Miscellaneous income ^	43	16.67	136	5.70	195	44.22	118	36.20	31	9.01
Total	**258**	**100.00**	**2,384**	**100.00**	**441**	**100.00**	**326**	**100.00**	**344**	**100.00**

Notes:-

* Less than RM1,000.

^ Miscellaneous income comprises market development fund received from principal, scrap sales, hiring incentives from PENJANA, sundry income and rental rebate.

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

For the FYE 2021, our Group's other income increased by RM2.13 million or 824.03% to RM2.38 million. This was mainly attributable to:-

(i) the dividend income declared by certain former subsidiaries (classified under other investments) amounting to RM1.04 million; and

(ii) the gain on the fair value of other investments of RM1.05 million resulted from the recognition of one of our Carved-Out Entities under MFRS 9 at fair value,

which was partially offset by the lower interest income of RM0.06 million.

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

For the FYE 2022, the Group's other income decreased by RM1.94 million or 81.50%, mainly due to the following:-

(i) the absence of any dividend income (FYE 2021: RM1.04 million); and

(ii) the lower gain on the fair value of other investments of RM0.02 million (FYE 2021: RM1.05 million) resulted from the recognition of one of our Carved-Out Entities under MFRS 9 at fair value,

which was partially offset by the following:-

(i) the gain on disposal of a motor vehicle of RM0.02 million;

(ii) the increase in miscellaneous income of RM0.06 million mainly from sales of scrap materials; and

(iii) the increase in finance income of RM0.03 million .

Comparison between FPE 2022 and FPE 2023

For the FPE 2023, our Group's other income increased by RM0.02 million or 5.52% to RM0.34 million. This was mainly attributable to:-

(i) the decrease in miscellaneous income of RM0.09 million mainly due to the absence of scrap sales and hiring incentives from PENJANA;

(ii) the absence of any fair value gain on other investments (FPE 2022: RM0.02 million); and

(iii) the absence of any gain on disposal of motor vehicle (FPE 2022: RM0.02 million),

which was partially offset by the increase in interest income of RM0.09 million.

(e) Allowance for expected credit losses on receivables

The allowance for expected credit losses on our trade receivables during the Financial Periods Under Review is as follows:-

	Audited			Unaudited	Audited
	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FYE 2022 (RM'000)	FPE 2022 (RM'000)	FPE 2023 (RM'000)
Allowance for expected credit losses on receivables	-	(39)	-	-	(4)

For the FYE 2021, our Group provided an allowance for expected credit losses on trade receivables of RM0.04 million (FYE 2020: nil) in accordance with MFRS 9 for several local customers.

For the FYE 2022, our Group did not provide any additional allowance for expected credit losses on trade receivables (FYE 2021: RM0.04 million).

For the FPE 2023, our Group provided an allowance for expected credit losses on trade receivables of RM0.004 million (FPE 2022: nil).

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(f) Other operating expenses

The breakdown of our other operating expenses for the Financial Periods Under Review is as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs and welfare	1,480	37.46	2,028	30.93	3,628	40.26	2,466	37.82	3,079	37.25
Directors' remuneration	861	21.79	1,019	15.54	1,253	13.90	967	14.83	849	10.27
Depreciation of PPE and right-of-use assets	396	10.02	412	6.28	717	7.96	503	7.72	1,276	15.44
COVID-19 related expenses (1)	11	0.28	471	7.18	431	4.78	428	6.56	3	0.03
Marketing expenses	231	5.85	353	5.38	532	5.90	340	5.21	676	8.18
Staff recruitment and training expenses	100	2.53	536	8.17	404	4.48	276	4.23	114	1.38
Road tax and insurance	196	4.96	292	4.45	371	4.12	218	3.34	347	4.20
License, subscription and related fees to authorities	161	4.07	353	5.38	365	4.05	418	6.41	416	5.03
Office supplies, upkeep and maintenance	84	2.13	121	1.85	246	2.73	110	1.69	169	2.04
Professional fees (2)	73	1.85	178	2.71	189	2.10	155	2.38	209	2.53
Medical expenses	47	1.19	83	1.27	182	2.02	106	1.63	253	3.06
Rental expenses (3)	56	1.42	149	2.27	186	2.06	141	2.16	122	1.47
Utilities	98	2.48	118	1.80	148	1.64	84	1.29	219	2.65
Loss on disposal of PPE	-	-	19	0.29	-	-	-	-	-	-
PPE written off	-	-	167	2.55	-	-	-	-	-	-
Fair value changes in other investments	-	-	10	0.15	(5) 100	1.11	(5) 100	1.53	27	0.33
Impairment loss on goodwill	-	-	-	-	52	0.58	52	0.80	-	-
Realised and unrealised loss on foreign exchange	29	0.73	7	0.11	-	-	3	0.05	-	-
Scholarship and sponsorship fee	9	0.23	36	0.55	7	0.08	7	0.11	7	0.08
Unwinding of discount on contract asset	-	-	-	-	-	-	-	-	106	1.28
Unwinding of discount on trade receivable	-	-	-	-	-	-	-	-	210	2.54
Others (4)	119	3.01	206	3.14	201	2.23	146	2.24	185	2.24
Total	**3,951**	**100.00**	**6,558**	**100.00**	**9,012**	**100.00**	**6,520**	**100.00**	**8,267**	**100.00**

Notes:-

(1) Comprise expenses for COVID-19 tests, purchase of COVID-19 related test kits, personal protective equipment and sanitisation expenses.

(2) Comprise audit fees, ISO certification and audit fee, legal and consultancy fee, secretarial, tax and other professional fees.

(3) Comprise short-term leases of premises, equipment, motor vehicle and storage with contract term of less than 12 months.

(4) Comprise out-of-pocket expenses and disbursements, filing fee, donations, quit rent and assessment, search fee, storage charges, tender fee, bank charges and other administrative expenses.

(5) Relates to loss on the fair value of other investments resulted from the recognition of our Carved-Out Entities under MFRS 9 at fair value.

Comparison between FYE 2020 and FYE 2021

Our other operating expenses increased by RM2.61 million or 65.98% in FYE 2021 mainly due to the following:-

(i) increase in staff costs and welfare by RM0.55 million, attributable to annual salary increment and bonus, and the increase in overall headcount in our business development and human resource departments;

(ii) increase in COVID-19 related expenses by RM0.46 million incurred during the year;

(iii) increase in staff recruitment and training expenses by RM0.44 million in line with the surge in number of headcounts of the Group as explained in Section 12.4.2(b) of this Prospectus. This includes higher costs for background screening on potential candidates as part of our recruitment process and higher training costs to equip our employees with the necessary skillsets and technical knowledge to meet our customers' expectations;

(iv) PPE written off of RM0.17 million in relation to renovation cost;

(v) increase in directors' remuneration by RM0.16 million due to higher salary and bonus; and

(vi) increase in professional fees of RM0.11 million mainly due to legal fee, consultancy fee, filing of patent and increase in audit and secretarial fees of the Group.

Comparison between FYE 2021 and FYE 2022

Our other operating expenses increased by RM2.45 million or 37.42% in FYE 2022 mainly due to the following:-

(i) increase in staff costs and welfare by RM1.57 million, mainly attributable to higher sales commission in line with the increase in revenue during the year, higher payroll-related costs with the addition of 5 headcounts in finance, human resources and administration departments, additional staff costs resulting from the acquisition of Pinkypye and group-wide salary increment and bonus;

(ii) increase in depreciation of PPE and right-of-use assets by RM0.31 million mainly contributed by the purchase of buildings and renovation, purchase of machinery, office equipment, computers, furniture and fittings and motor vehicles;

(iii) increase in directors' remuneration by RM0.23 million due to higher salary and bonus; and

(iv) increase in marketing expenses by RM0.18 million for marketing and business development activities following the upliftment of COVID-19 travel restrictions imposed by the Malaysian Government.

This was partially offset by the decrease in staff recruitment and training expenses by RM0.13 million as there was less reliance on recruitment agencies to carry out recruitment activities for the Group to meet the increased demand in headcount in tandem with our business growth. The recruitment processes had been performed internally since the expansion of our human resources team.

Comparison between FPE 2022 and FPE 2023

Our other operating expenses increased by RM1.75 million or 26.79% in FPE 2023 mainly due to the following:-

(i) increase in depreciation of PPE and right-of-use assets by RM0.77 million, mainly arising from the full period of 9 months depreciation of buildings, machinery and renovation as well as right-of-use assets for FPE 2023;

(ii) increase in staff costs and welfare by RM0.61 million, mainly attributable to annual salary increment and higher expense on staff welfare;

(iii) increase in marketing expenses by RM0.34 million mainly due to higher travelling expenses for marketing and business development activities overseas;

(iv) incurrence of unwinding of discount on contract asset amounting to RM0.11 million due to the long-term payment arrangement over 36 months for the design and development of command and control centre solutions for a flood monitoring system and pump house project for a local city council in Malaysia;

(v) incurrence of unwinding of discount on trade receivable amounting to RM0.21 million due to an indulgence granted to Customer D to settle the outstanding sum over a period of 24 months beginning from December 2023;

(vi) increase in medical expenses by RM0.15 million specifically on outpatient medical fees for both permanent and contract-based employees of our Group;

(vii) increase in utilities by RM0.14 million incurred at our new facilities at Tangkas 9 Plant and Setia Spice Office; and

(viii) increase in road tax and insurance of RM0.13 million mainly due to the increase in life and medical insurance expense for both permanent and contract-based employees of our Group.

This was partially offset by the decrease in COVID-19 related expenses by RM0.43 million and staff recruitment and training expenses by RM0.16 million.

(g) R&D expenses

R&D expenses comprise both amortisation of intangible assets (purchases of materials and staff costs relating to R&D that were incurred and capitalised prior to the respective financial years/periods) and expenses relating to R&D that were incurred in the respective financial years/periods and charged out to profit or loss especially expenses incurred in the research phase in relation to the proof of concept undertaken where our R&D team formulates, designs, evaluates and performs final selection of materials, processes or systems for our digitalised solutions and automated equipment.

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The breakdown of our R&D expenditures for the Financial Periods Under Review are as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Amortisation of intangible assets (1)	-	-	22	22.45	235	19.85	165	16.40	433	34.53
Research expenses (2)	502	100.00	76	77.55	949	80.15	841	83.60	821	65.47
Total	**502**	**100.00**	**98**	**100.00**	**1,184**	**100.00**	**1,006**	**100.00**	**1,254**	**100.00**

Notes:-

(1) Refers to amortisation of R&D expenditures that were capitalised in previous years (intangible assets) on a straight-line basis over the estimated commercial lives of 5 to 10 years from the commencement of the commercialisation of the products/solutions.

(2) Refers to staff costs for R&D personnel and materials purchased during research phase of internal projects that were incurred and expensed off during the Financial Periods Under Review.

Comparison between FYE 2020 and FYE 2021

Our R&D expenses decreased by RM0.40 million or 80.48% mainly due to the capitalisation of development costs associated with development of new software and applications deployed in digitalised solutions, as well as development of automated equipment, with the feasibility for commercialisation. Our Group established an in-house R&D team with the transfer of 16 personnel comprising software engineers and developers, programmers, data analyst and software architect in 2021 to carry out new software and system developments and solution enhancements, which gave rise to the capitalisation of internally generated intangible assets for FYE 2021. In the previous financial years, our Group did not capitalise any R&D expenditure prior to the setup of the R&D department.

For FYE 2021, a total of RM1.71 million of intangible assets related to development expenditure were amortised due to the commercialisation of certain development projects such as the material assembly module with robotics automation and inspection system during the financial year.

Comparison between FYE 2021 and FYE 2022

Our R&D expenses increased by RM1.09 million or 1,108.16% for FYE 2022 due to the following:-

(i) Increase in amortisation of intangible assets of RM0.21 million mainly due to full-year amortisation expenses for FYE 2022 along with additional development costs commencing amortisation following their commercialisation during the financial year.

(ii) Increase in research expenses of RM0.87 million comprising RM0.74 million being the R&D staff costs and RM0.21 million for purchase of materials used for proof-of-concept activities.

Comparison between FPE 2022 and FPE 2023

Our R&D expenses increased by RM0.25 million or 24.65% for FPE 2023 mainly due to an increase in amortisation of intangible assets of RM0.27 million following the commercialisation of development projects undertaken for the design and development of digitalised solutions and automated equipment.

(h) Finance costs

Our finance costs for the Financial Periods Under Review are as follows:-

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:										
- Bankers' acceptance	4	2.00	-	-	-	-	-	-	-	-
- Bank overdraft	*	-	1	0.71	1	0.24	*	-	-	-
- Flexitab ^	39	19.50	-	-	-	-	-	-	-	-
- Hire purchase	5	2.50	11	7.80	33	8.01	24	8.28	26	6.16
- Lease liabilities	5	2.50	6	4.26	6	1.46	4	1.38	21	4.98
- Term loans	144	72.00	123	87.23	372	90.29	262	90.34	375	88.86
- Others	3	1.50	-	-	-	-	-	-	-	-
Total	**200**	**100.00**	**141**	**100.00**	**412**	**100.00**	**290**	**100.00**	**422**	**100.00**

Notes:-

* Represents amount of less than RM1,000.

^ Flexitab is a trade financing facility to finance the sales and purchase of services (intangible goods), and charges/payments incurred to enable delivery of goods/services.

Comparison between FYE 2020 and FYE 2021

Our finance costs decreased by RM0.06 million or 29.50% from RM0.20 million for FYE 2020 to RM0.14 million for FYE 2021. The decrease was mainly due to the following:-

(i) Our Group did not utilise the trade financing facilities (including bankers' acceptance and Flexitab) for working capital purposes in FYE 2021.

(ii) Our Group incurred lower interest expense on term loans by RM0.02 million as the term loan in relation to a project financing had been fully settled in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our finance costs increased by RM0.27 million or 192.20% from RM0.14 million for FYE 2021 to RM0.41 million for FYE 2022. This was mainly attributable to the following:-

(i) Our Group incurred higher interest expense on hire purchases by RM0.02 million due to additions in motor vehicles in FYE 2022.

(ii) Our Group incurred higher interest expense on term loans by RM0.25 million which was mainly attributable to drawdown of term loans of RM4.86 million.

Comparison between FPE 2022 and FPE 2023

Our finance costs increased by RM0.13 million or 45.52% from RM0.29 million for FPE 2022 to RM0.42 million for FPE 2023. This was mainly attributable to the following:-

(i) Our Group incurred higher interest expense on lease liabilities by RM0.02 million due to the full period of 9 months lease payments on rental of properties during FPE 2023.

(ii) Our Group incurred higher interest expense on term loans by RM0.11 million, mainly attributable to the drawdown of a term loan amounting to RM0.80 million to part finance renovation work of Tangkas 9 Plant.

(i) PBT, PAT and effective tax rate

The PBT, PAT and effective tax rate for the Financial Periods Under Review is set out below:-

	Audited			Unaudited	Audited
	FYE 2020	**FYE 2021**	**FYE 2022**	**FPE 2022**	**FPE 2023**
PBT (RM'000)	14,514	17,346	14,026	7,347	8,373
PBT margin (%)	23.03	23.39	13.54	10.01	12.46
Tax expense (RM'000)	3,263	1,273	1,960	1,693	1,791
Effective tax rate (%)	22.48	7.34	13.98	23.04	21.39
Statutory tax rate (%)	24.00	24.00	24.00	24.00	24.00
PAT (RM'000)	11,251	16,073	12,037	5,744	6,582
PAT margin (%)	17.85	21.67	11.62	7.83	9.80

Comparison between FYE 2020 and FYE 2021

Our Group's PBT increased by RM2.83 million or 19.51%. The increase was mainly attributable to the increase in GP and other income of RM2.89 million and RM2.13 million (comprised mostly dividend income from other investments and fair value gain on other investments) respectively as compared to FYE 2020. The decrease in R&D expenses and finance costs of RM0.40 million and RM0.06 million respectively had also contributed to the increase in PBT. Nevertheless, the increase in PBT was partially moderated by higher other operating expenses of RM2.61 million (mainly due to higher salary related costs, staff recruitment, training related costs and COVID-19 related expenses).

Despite the slight decrease in GP margin, our Group's PBT margin increased marginally from 23.03% for FYE 2020 to 23.39% for FYE 2021, mainly due to higher other income.

For FYE 2021, our Group's effective tax rate of 7.34% was lower than the 22.48% recorded for FYE 2020 as well as the statutory tax rate of 24.0%. This was primarily due to:-

(i) Sales of certain automated equipment and digitalised solutions amounting to RM8.60 million which were not subject to income tax as our Group has been granted with new pioneer status incentives in 2021;

(ii) Over provision of income tax expense of RM0.99 million in prior year; and

(iii) Certain income not subject to tax amounting to RM1.70 million mainly due to dividend income from other investments and fair value gain on other investments,

which was partially offset by:

(iv) Certain expenses that were not tax deductible amounting to RM0.35 million such as depreciation and amortisation expenses and professional fee; and

(v) Under provision of deferred tax expense of RM0.49 million in prior year mainly due to under-estimation of capital allowance on our qualifying fixed assets.

In line with the higher PBT and lower tax expenses by RM1.99 million, our Group's PAT for FYE 2021 increased by RM4.82 million or 42.86% from RM11.25 million for FYE 2020 to RM16.07 million. Similarly, our PAT margin also improved from 17.85% for FYE 2020 to 21.67% for FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our Group's PBT decreased by RM3.32 million or 19.14% despite registering higher GP by RM2.40 million for FYE 2022. The decrease was mainly attributable to higher other operating expenses incurred by RM2.45 million (mainly due to higher salary related costs and depreciation charges) and lower other income earned by RM1.96 million (mostly due to absence of dividend income from other investments and lower fair value gain on other investments) as compared to FYE 2021. There was also an increase in R&D expenses and finance costs by RM1.09 million and RM0.27 million respectively which further contributed to the decrease in our PBT for FYE 2022.

Correspondingly, our Group's PBT margin decreased from 23.39% for FYE 2021 to 13.54% for FYE 2022 mainly due to the decrease in our Group's GP margin as analysed in Section 12.4.2(c) of this Prospectus as well as higher other operating expenses and lower other income as explained above.

For FYE 2022, our Group's effective tax rate of 13.98% was higher than the 7.34% recorded for FYE 2021 but lower than the statutory tax rate of 24.0%. This was mainly due to:-

(i) Sales of certain automated equipment and digitalised solutions amounting to RM5.55 million which were not subject to income tax due to the pioneer status tax incentives;

(ii) Over provision of deferred tax expense of RM0.02 million in prior year mainly due to over-estimation of capital allowance on our qualifying fixed assets; and

(iii) Certain expenses that were not tax deductible amounting to RM0.59 million such as depreciation and amortisation expenses and professional fee,

which was partially offset by:

(iv) Certain income not subject to tax amounting to RM0.07 million mainly comprising fair value gain on other investments, gain on disposal of PPE and gain in foreign exchange; and

(v) Over provision of income tax expense of RM0.15 million in prior year.

In line with the lower PBT and higher tax expenses by RM0.69 million, our Group's PAT for FYE 2022 decreased by RM4.04 million or 25.11% from RM16.07 million for FYE 2021 to RM12.04 million for FYE 2022. Similarly, our PAT margin also decreased from 21.67% for FYE 2021 to 11.62% for FYE 2022.

Comparison between FPE 2022 and FPE 2023

Our Group's PBT increased by RM1.03 million or 13.96%. The increase was mainly attributable to the increase in GP and other income of RM3.14 million and RM0.02 million respectively as compared to FPE 2022 as explained in Sections 12.4.2(c) and 12.4.2(d) respectively of this Prospectus. Nevertheless, the increase in PBT was partially moderated by higher other operating expenses (mainly due to higher salary related costs and depreciation charges), R&D expenses and finance costs of RM1.75 million, RM0.25 million and RM0.13 million respectively.

Correspondingly, our Group's PBT margin increased from 10.01% for FPE 2022 to 12.46% for FPE 2023 mainly due to the increase in our Group's GP margin as analysed in Section 12.4.2(c) of this Prospectus.

For FPE 2023, our Group's effective tax rate of 21.39% was lower than the 23.04% recorded for FPE 2022 as well as the statutory tax rate of 24.0%. This was primarily due to:-

(i) Sales of certain automated equipment and digitalised solutions amounting to RM2.31 million which were not subject to income tax due to the pioneer status tax incentives;

(ii) Over provision of deferred tax expense of RM0.01 million in prior year mainly due to over-estimation of capital allowance on our qualifying fixed assets; and

(iii) Certain income not subject to tax amounting to RM0.07 million mainly comprising gain in foreign exchange,

which was partially offset by:

(iv) Certain expenses that were not tax deductible amounting to RM0.72 million such as depreciation and amortisation expenses and professional fee;

(v) Deferred tax assets on unabsorbed tax losses and unabsorbed capital allowances amounting to RM0.52 million not recognised; and

(vi) Under provision of income tax expense of RM0.07 million in prior year.

In line with the higher PBT during the financial period, our Group's PAT for FPE 2023 increased by RM0.84 million or 14.59% from RM5.74 million for FPE 2022 to RM6.58 million for FPE 2023. Similarly, our PAT margin also improved from 7.83% for FPE 2022 to 9.80% for FPE 2023.

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12.4.3 Significant Factors Affecting Our Financial Condition and Results of Operations

Our financial condition and results of operations have been, and are expected to be affected by, amongst others, the following factors:-

(a) Dependency on certain major customers

We are dependent on certain major customers, namely Intel group of companies and KellyOCG that collectively contributed between 55.38% and 80.86% to our revenue during the Financial Periods Under Review. Please refer to Section 7.17 of this Prospectus for further details on our major customers.

We do not enter into long term contracts with our customers. Our sales are based on purchase orders that we receive from our customers from time to time. As a result, our Group's future financial performance, to a certain extent, depends on our ability to retain and secure repeat orders from these major customers and/or new orders from prospective customers, on a consistent basis. Additionally, the loss of any customers or significant delays, deferment, reduction or cancellation in orders, if not replaced in a timely manner with new customers or orders of similar quantum, may adversely affect the Group's business operations and financial performance.

(b) Availability of skilled personnel

Our success depends, to a certain extent, on our ability to attract and retain skilled personnel with the right technical expertise and skillset that is aligned with our business core values. Hence, our ability to operate and compete may be adversely affected if we are unable to attract, train, motivate and retain them. We may offer competitive remuneration, attractive incentives and the LTIP to attract, reward and retain our skilled personnel. Such increased costs may in turn adversely affect our business and financial performance.

(c) Rapid technological changes

The industry in which we operate, namely, semiconductor and electronics industry, is characterised by rapid technological evolution, evolving industry standards and changes in customer requirements, which could render our existing technologies and solutions obsolete going forward. Our ability to keep abreast with the latest technology and continue to develop or market new/enhanced solutions in a timely manner is vital to us in keeping up with the change in technology and market demands. While we have not faced any major technological disruptions in the past, we cannot assure that such disruptions will not occur in the future which may adversely affect the Group's business and financial performance.

(d) Impact of interest rates fluctuation

Our Group's business and financial performance for the Financial Periods Under Review have not been materially affected by fluctuations in interest rates as our Group is not heavily reliant on borrowings as we maintained net cash position throughout the Financial Periods Under Review. However, a significant hike in interest rates would raise the cost of borrowings and our finance costs, which may have an adverse impact on our Group's future financial performance if in the event we take up additional borrowings to finance our operations and capital expenditure in the future.

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(e) Impact of inflation

Our Group's business and financial performance for the Financial Periods Under Review were not materially affected by the impact of inflation. Nevertheless, there can be no assurance that future inflation would not have an impact on our business and financial performance.

(f) Changes in government, economic, fiscal, monetary policies, regulatory risk and occurrence of force majeure events

Our business is subject to risks relating to government, political, economic, fiscal or monetary policies and regulatory risks, geopolitical events, as well as occurrence of force majeure events in Malaysia or countries where our customers are based. Any unfavourable changes in such government policies, economic conditions, or fiscal or monetary policies may materially affect our business operations and financial performance.

12.4.4 Significant Changes on the Financial Position and Results

Saved as disclosed in this Prospectus, there is no significant change that has occurred, which may have a material effect on our financial position and results during the period subsequent to the FPE 2023 and up to the LPD.

12.5 LIQUIDITY AND CAPITAL RESOURCES

12.5.1 Working Capital

Our operations have been financed by a combination of internal and external sources of funds. Our internal sources of funds comprise cash generated from our business operations, while our external sources of funds mainly consist of financing facilities from financial institutions. These funds are mainly used to finance our business operations and growth.

Based on the statements of our financial position as at 30 September 2023, we had cash and cash equivalents and total borrowings of RM14.51 million and RM11.88 million respectively. As at 31 December 2020, 31 December 2021 and 31 December 2022 and 30 September 2023, our current ratios were 4.90 times, 7.33 times, 5.30 times and 7.55 times respectively. As at the LPD, our Group had available banking facilities amounting to RM21.31 million of which RM8.54 million are yet to be utilised.

Based on the above and taking into consideration of our sources of funds and the expected cash flow to be generated from our business operations as well as the estimated net proceeds to be raised from the Public Issue, our Board is of the opinion that our Group will have adequate working capital to meet our present and foreseeable future working capital requirements for a period of 12 months from the date of this Prospectus.

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12.5.2 Cash and Cash Equivalents

The table below sets out the summary of our combined cash and cash equivalents for the Financial Periods Under Review and should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus:-

	Audited			
	FYE 2020 (RM'000)	**FYE 2021 (RM'000)**	**FYE 2022 (RM'000)**	**FPE 2023 (RM'000)**
Net cash from operating activities	7,766	8,655	1,173	6,968
Net cash used in investing activities	(886)	(6,583)	(11,406)	(1,414)
Net cash from/(used in) financing activities	6,177	3,127	1,011	(6,047)
Net increase/(decrease) in cash and cash equivalents	**13,057**	**5,199**	**(9,222)**	**(493)**
Effect of foreign exchange rate changes	-	(1)	26	27
Cash and cash equivalents at beginning of the financial years/period	5,915	18,972	24,170	14,974
Cash and cash equivalents at end of the financial years/period	**18,972**	**24,170**	**14,974**	**14,508**
Cash and cash equivalents at end of the financial years/period comprises:-				
Fixed deposits with licensed banks	7,665	9,283	7,872	9,871
Cash and bank balances	12,518	15,967	8,204	6,330
Bank overdraft	(150)	-	-	-
	20,033	25,250	16,076	16,201
Less: Fixed deposits pledged to licensed banks as securities	(1,061)	(1,080)	(1,102)	(1,693)
Cash and cash equivalents at the end of the financial years/period	**18,972**	**24,170**	**14,974**	**14,508**

Our cash and cash equivalents are held in RM and/or USD. There are no legal, financial or economic restrictions on the ability of our subsidiaries to transfer/receive funds to/from our Company, subject to availability of distributable reserves and compliance with financial covenants, in the form of cash dividends, loans or advances.

(a) Net cash from operating activities

<u>FYE 2020</u>

For FYE 2020, our net cash from operating activities was RM7.77 million. Our operating profit before working capital changes of RM14.90 million was adjusted for the following key items:-

(i) Increase in inventories by RM0.83 million due to higher work-in-progress for automated equipment (mainly comprised automated test and handler equipment) and digitalised solutions (mainly comprised command and control centre) which were subsequently delivered in the following financial year.

(ii) Increase in trade receivables by RM7.59 million mainly due to the higher sales generated towards the last quarter of FYE 2020.

(iii) Increase in other receivables, deposits and prepayments by RM0.61 million mainly due to higher downpayments made to certain suppliers.

(iv) Increase in trade payables by RM1.02 million mainly due to higher purchases attributable to the design, development and sale of digitalised solutions and automated equipment segments towards the last quarter of FYE 2020.

(v) Increase in other payables and accruals by RM0.31 million mainly due to the receipt of a grant from MTDC of RM0.20 million and higher accruals for payroll related costs.

(vi) Decrease in contract assets by RM3.88 million mainly attributable to the completion of an intelligent operation centre and video analytics project for a city council in Malaysia in FYE 2020 as analysed in Section 12.4.2(a) of this Prospectus.

(vii) Decrease in contract liabilities by RM1.37 million following the completion of certain digitalised solutions (comprising command and control centre and operational efficiency solutions) as well as delivery, commissioning and upgrading of automated equipment, namely the automated visual inspection equipment, for certain customers.

(viii) Net interest income of RM0.01 million.

(ix) Income tax paid of RM1.95 million.

FYE 2021

For FYE 2021, our Group's operating profit before changes in working capital was RM15.92 million. After adjusting for the following key items, our net cash generated from operating activities stood at RM8.66 million:-

(i) Increase in inventories by RM0.18 million mainly due to higher purchase of raw materials for the design, development and sale of digitalised solutions and automated equipment segments.

(ii) Increase in trade receivables by RM1.61 million mainly due to higher billings to customers in the last quarter of FYE 2021 compared to the corresponding period in FYE 2020.

(iii) Increase in other receivables, deposits and prepayments by RM0.64 million mainly due to additional deposit for utilities, performance bond for a project with the local council, downpayment for acquisition of PPE and prepayment for IPO expenses.

(iv) Increase in contract assets by RM1.14 million mainly pertaining to unbilled revenue from product engineering services rendered for the last quarter of FYE 2021.

(v) Increase in contract costs by RM1.36 million mainly attributable to the costs incurred to fulfil contracts with certain customers in accordance with MFRS 15 which has yet to be charged out to profit or loss as at year end.

(vi) Decrease in trade payables by RM1.42 million mainly due to prompt payments made to our suppliers in order to maintain good business relationships with our suppliers and secure the continuity of our supplies.

(vii) Increase in other payables and accruals by RM1.40 million mainly due to the acquisition of a motor vehicle and higher accruals for payroll related costs.

(viii) Increase in contract liabilities by RM1.16 million mainly attributable to the advance billings for certain automated equipment for certain customers which were subsequently delivered and commissioned in FYE 2022.

(ix) Net interest income of RM0.02 million.

(x) Income tax paid of RM3.44 million.

FYE 2022

For FYE 2022, our Group's operating profit before changes in working capital was RM15.30 million. After adjusting for the following key items, our net cash generated from operating activities stood at RM1.17 million:-

(i) Increase in inventories by RM1.87 million mainly due to higher closing inventories for digitalised solutions (mainly command and control centre for a project with a local city council in Malaysia) and automated equipment (mainly automated test and handler equipment and automated material management system).

(ii) Increase in trade receivables by RM7.94 million mainly due to higher billings to customers in the last quarter of FYE 2022 compared to the corresponding period in FYE 2021.

(iii) Increase in other receivables, deposits and prepayments by RM0.72 million mainly due to prepayment for IPO expenses, insurances and levy.

(iv) Decrease in trade payables by RM1.28 million mainly due to prompt payments made to our suppliers in order to maintain good business relationships with our suppliers and secure the continuity of our supplies.

(v) Increase in other payables and accruals by RM0.46 million mainly due to higher accruals for payroll related costs.

(vi) Increase in contract assets by RM2.99 million mainly attributable to the increase in unbilled revenue from engineering support services and product engineering services segments rendered for the last quarter of FYE 2022.

(vii) Decrease in contract costs by RM0.61 million mainly due to certain costs that has been charged out to profit or loss during the financial year whilst less cost was incurred but has yet to be charged out as at year end.

(viii) Increase in contract liabilities by RM2.58 million mainly due to higher deposits received from customers for our digitalised solutions and automated equipment.

(ix) Net interest expense of RM0.22 million mainly arising from higher finance costs.

(x) Income tax paid of RM2.54 million.

FPE 2023

For FPE 2023, our Group's operating profit before changes in working capital was RM10.56 million. After adjusting for the following key items, our net cash from operating activities stood at RM6.97 million:-

(i) Decrease in inventories by RM0.39 million mainly due to lower closing inventories consisting of automated equipment (mainly automated test and handler equipment and automated material management system).

(ii) Decrease in trade receivables by RM1.85 million mainly due to lower billings particularly towards the end of the FPE 2023.

(iii) Increase in other receivables, deposits and prepayments by RM0.10 million mainly due to higher prepayment for IPO expenses.

(iv) Increase in trade payables by RM0.34 million due to higher purchases towards the end of FPE 2023.

(v) Decrease in other payables and accruals by RM0.72 million mainly due to lower accruals for payroll-related costs and the absence of other payables for the acquisition of machineries.

(vi) Increase in contract assets by RM0.87 million mainly attributable to the unbilled revenue for the digitalised solutions provided to one of our customers.

(vii) Decrease in contract costs by RM0.07 million mainly due to certain cost that has been charged out to profit or loss during the financial period.

(viii) Decrease in contract liabilities by RM1.78 million mainly due to higher conversion of deposits received from customers into revenue for FPE 2023 and lower deposits received from customers.

(ix) Net interest expense of RM0.18 million mainly arising from higher finance costs.

(x) Net income tax paid of RM0.85 million.

(b) Net cash used in investing activities

FYE 2020

For FYE 2020, our Group recorded net cash used in investing activities of RM0.89 million due to additional placement of fixed deposits of RM0.25 million with a licensed bank and cash outflow on the purchase of PPE of RM0.63 million comprising office equipment, computers, furniture and fittings, renovation and motor vehicles.

FYE 2021

For FYE 2021, our net cash used in investing activities was RM6.58 million mainly attributable to the following:-

(i) RM1.71 million being development expenditure incurred for FYE 2021, which was related to the development of digitalised solutions and automated equipment.

(ii) Cash inflow of RM1.04 million being dividend income declared by 2 of our former subsidiaries (classified under other investments);

(iii) Net cash inflow of RM0.37 million on other investments, where there was cash inflow of RM0.83 million from the disposal of other investments and partially offset by the cash outflow from addition in other investments of RM0.46 million (which were subsequently divested).

(iv) Cash outflow from the purchase of PPE which amounted to RM6.27 million, which were related to the purchase of Tangkas 9 Plant, office equipment, computers, furniture and fittings, renovation, and motor vehicle.

FYE 2022

For FYE 2022, our net cash used in investing activities was RM11.41 million mainly attributable to the following:-

(i) RM2.12 million being development expenditure incurred for FYE 2022, which were related to the development of certain digitalised solutions and automated equipment.

(ii) Cash inflow of RM0.11 million from the effects of acquisition by Sophic Automation of Pinkypye which was completed during the year.

(iii) Cash outflow on acquisition of other investments of RM0.43 million, which were subsequently disposed of.

(iv) Cash outflow from the purchase of PPE amounted to RM9.03 million mainly attributable to the purchase of Tangkas 3 Plant, Stellar Suites Office, computer numerical control precision machinery, office equipment, computers, furniture and fittings, renovation and motor vehicles.

FPE 2023

For FPE 2023, our net cash used in investing activities was RM1.41 million mainly attributable to the following:-

(i) RM1.48 million being development expenditure incurred for FPE 2023, which were related to the development of certain digitalised solutions.

(ii) Cash inflow of RM1.87 million from the disposals of other investments.

(iii) Cash outflow of RM0.59 million for the placement of fixed deposits with licensed banks.

(iv) Cash outflow from the purchase of PPE amounted to RM1.21 million mainly attributable to the purchase of office equipment, computers, furniture and fittings, renovation and additional cost incurred in capital work-in-progress.

(c) Net cash generated from financing activities

FYE 2020

For the FYE 2020, our Group recorded net cash from financing activities of RM6.18 million which was mainly attributable to:-

(i) Proceeds from the issuance of the second tranche RCPS to MTDC of RM6.10 million.

(ii) Drawdown of a new term loan of RM1.0 million to finance working capital of our Group.

This was, however, partially offset by the following:-

(i) Repayment of term loans of RM0.86 million.

(ii) Repayment of hire purchase loans of RM0.02 million for motor vehicles.

(iii) Cash outflow of RM0.04 million for payments of lease liabilities.

FYE 2021

For FYE 2021, our Group recorded net cash from financing activities of RM3.13 million, which was mainly attributable to the drawdown of a new term loan of RM4.50 million to part finance the purchase of Tangkas 9 Plant. This was partially offset by the following:-

(i) Repayment of term loans of RM0.43 million.

(ii) Repayment of hire purchase loans of RM0.15 million for motor vehicles.

(iii) Payment of lease liabilities of RM0.04 million.

(iv) Payment of dividend of RM0.75 million.

FYE 2022

For FYE 2022, our Group recorded net cash from financing activities of RM1.01 million mainly attributable to the following:-

(i) Payment of dividend of RM3.00 million.

(ii) Repayment for hire purchase loans of RM0.21 million for motor vehicles.

(iii) Payment of lease liabilities of RM0.08 million.

This was partially offset by the net drawdown of term loans of RM4.30 million. The details of drawdown of term loans are as follows:-

(i) RM3.33 million to part finance the purchase of Tangkas 3 Plant.

(ii) RM1.03 million to part finance the purchase of Stellar Suites Office.

(iii) RM0.50 million for working capital purposes.

FPE 2023

For FPE 2023, our net cash used in financing activities was RM6.05 million mainly attributable to the following:-

(i) Payment of dividend of RM5.0 million.

(ii) Repayment for hire purchase loans of RM0.15 million for motor vehicles.

(iii) Net payment for term loans of RM0.68 million.

(iv) Payment of lease liabilities of RM0.22 million.

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12.5.3 Borrowings

Our Group's total outstanding interest-bearing borrowings as at 30 September 2023 amounted to RM11.88 million, details of which are set out below:-

Type	Purpose	Tenure	Effective interest rate per annum (%)	As at 30 September 2023		
				Payable within 12 months (RM'000)	Payable after 12 months (RM'000)	Total (RM'000)
Term loans	Finance the purchase of properties, renovation cost and working capital	Between 84 and 180 months	3.00 – 8.15	467	10,611	11,078
Hire purchase	Finance the purchase of motor vehicles	Not more than 5 years	3.78 – 6.40	218	583	801
Total				**685**	**11,194**	**11,879**
Gearing ratio as at 30 September 2023 (times) *						0.20

Note:-

* Based on total interest-bearing borrowings divided by total equity as at 30 September 2023 of RM59.0 million.

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency.

There has been no default or any known events that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of our Group throughout the Financial Periods Under Review and up to the LPD.

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

12.5.4 Financial Instruments, Treasury Policies and Objectives

For the Financial Periods Under Review, save for our banking facilities offered by licensed financial institutions as set out in Section 12.5.3 of this Prospectus, we have not utilised any other financial instruments. We maintain foreign currency bank accounts to receive proceeds of our sales and to make payments for our purchases which are denominated in USD.

We finance our operations through a combination of cash generated from operations, share capital and external sources of funds. Our external sources of funds mainly comprise credit extended by our suppliers/principals and banking facilities extended by licensed financial institutions.

Our main capital management policy is to maintain sufficient working capital to finance our business and operations, coupled with adequate banking facilities to meet our commitments for operating and capital expenditure. Our combination of internal and external sources of funds include cash generated from operations, bank borrowings and lease liabilities. The primary objective is to have sustainable shareholders' equity and working capital to ensure we have the ability to continue as a going concern and grow our business in order to maximise shareholder's value. We review and manage our capital structure to maintain the debt-to-equity ratio at an optimum level based on the business requirements and prevailing economic conditions.

12.5.5 Material Capital Commitment

As at the LPD, save as disclosed in Section 7.19 of this Prospectus, we do not have any material capital commitments for capital expenditure contracted or known to be contracted, which may have a material adverse effect on the financial position of our Group.

12.5.6 Material Litigation, Claims or Arbitration

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

12.5.7 Contingent Liabilities

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

12.6 KEY FINANCIAL RATIOS

The key financial ratios of our Group for the Financial Periods Under Review are as follows:-

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FPE 2023**
Trade receivables turnover period (days)	97	91	93	99
Trade payables turnover period (days)	29	14	4	6
Inventory turnover period (days)	36	37	75	80
Current ratio (times)	4.90	7.33	5.30	7.55
Gearing ratio (times)	0.11	0.15	0.22	0.20

12.6.1 Trade Receivables Turnover Period

A summary of our trade receivables for the Financial Periods Under Review is set out as follows:-

	Audited			
	FYE 2020 (RM'000)	**FYE 2021 (RM'000)**	**FYE 2022 (RM'000)**	**FPE 2023 (RM'000)**
Trade receivables	16,698	18,308	26,250	24,403
Revenue	63,020	74,164	103,598	67,180
Trade receivables turnover period (days) *	**97**	**91**	**93**	**99**

Note:-

* Computed based on the closing balance of trade receivables divided by the revenue for the respective financial years / period, multiplied by 365 days / 273 days respectively.

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The normal credit period granted to our customers ranges from 30 to 120 days from the date of our invoice, which are mainly assessed and approved on a case-to-case basis, taking into consideration various factors such as business relationship with the customers, creditworthiness (including payment history) of the customers, transaction volume, market reputation as well as customers' ability to pay.

Our trade receivables turnover period stood at 97 days, 91 days, 93 days and 99 days for the FYE 2020, FYE 2021, FYE 2022 and FPE 2023 respectively, which fell within the normal credit term granted to our customers.

For the FYE 2021, our trade receivables turnover period improved to 91 days from 97 days in FYE 2020 mainly due to improvement in collections from our customers. For the FYE 2022, our trade receivables turnover period increased by 2 days to 93 days (FYE 2021: 91 days) mainly due to higher billings from our major customers in the fourth quarter of FYE 2022. In addition, 72.57% of our trade receivables in FYE 2022 were not past due.

For FPE 2023, our trade receivables turnover period increased by 6 days to 99 days (FYE 2022: 93 days) mainly due to slower collection from our customers as the semiconductor industry experienced a slowdown in FPE 2023. In addition, 81.21% of our trade receivables in FPE 2023 were not past due.

The ageing analysis of our Group's trade receivables as at 30 September 2023:-

	Within Credit Period (RM'000)	**Exceeded Credit Period**				**Total (RM'000)**
		1-30 days (RM'000)	**31-60 days (RM'000)**	**61-90 days (RM'000)**	**> 90 days (RM'000)**	
As at 30 September 2023						
Trade receivables	19,818	766	349	715	2,799	24,447
Less: Allowances for doubtful debts	-	-	-	-	(44)	(44)
Net trade receivables	19,818	766	349	715	2,755	24,403
% of net trade receivables (%)	81.21	3.14	1.43	2.93	11.29	100.00
As at the LPD						
Less: Trade receivables collected	(17,299)	(305)	(216)	(561)	(893)	(19,274)
% of net trade receivables (%)	(70.89)	(1.25)	(0.88)	(2.30)	(3.66)	(78.98)
Net trade receivables outstanding as at LPD	**2,519**	**461**	**133**	**154**	**1,862**	**5,129**
% of net trade receivables (%)	10.32	1.89	0.55	0.63	7.63	21.02

Our net trade receivables stood at RM24.40 million as at 30 September 2023, out of which RM4.58 million or 18.79% exceeded the credit terms granted.

As at LPD, we have collected RM19.27 million, representing 78.98% of our net trade receivables as at 30 September 2023.

Included in the net trade receivables is an amount of RM2.32 million owing by Customer D. We have granted an indulgence (through an instalment payment agreement) to Customer D to settle the outstanding sum over a period of 24 months beginning from December 2023.

Our Board is of the opinion that the remaining outstanding trade receivables are recoverable after taking into consideration the customers' historical payments trend and the fact that our customers have not defaulted on payments throughout the Financial Periods Under Review.

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12.6.2 Trade Payables Turnover Period

A summary of our trade payables for the Financial Periods Under Review is set out as follows:-

	Audited			
	FYE 2020 (RM'000)	**FYE 2021 (RM'000)**	**FYE 2022 (RM'000)**	**FPE 2023 (RM'000)**
Trade payables	3,426	2,001	723	1,059
Cost of sales	44,111	52,366	79,405	49,204
Trade payables turnover period (days) *	**29**	**14**	**4**	**6**

Note:-

* Computed based on the closing balance of trade payables divided by the cost of sales for the respective financial years / period, multiplied by 365 days / 273 days.

The normal credit period granted to our Group by our suppliers/principals generally ranges from 30 days to 90 days. Our trade payables turnover period stood at 29 days, 14 days, 4 days and 6 days for the FYE 2020, FYE 2021, FYE 2022 and FPE 2023 respectively, which is below the normal credit periods granted by our suppliers/principals. It is our practice to make prompt payments to our suppliers/principals in order to foster good business relationships with them to secure the adequacy/continuity of our supplies.

Our trade payables turnover periods improved throughout the Financial Periods Under Review as we have paid our suppliers/principals within shorter timeframe than our normal credit terms granted to our Group. We also made upfront payment and/or cash on delivery to certain suppliers/principals depending on cost competitiveness, lead time and availability of materials with the desired specifications and customers' requirements.

Our trade payables turnover periods had been decreasing over the FYEs 2020, 2021 and 2022 as the composition of cost of sales made up of material costs, outsourcing costs and other costs had been declining while labour costs had been increasing over the financial years. This was consistent with the growth of revenue by business activities over the FYEs 2020, 2021 and 2022 which was analysed in Section 12.4.2(a) in this Prospectus.

For FPE 2023, our trade payables turnover period increased slightly to 6 days (FYE 2022: 4 days) as we continue to maintain prompt payments to our suppliers.

The ageing analysis of our trade payables as at 30 September 2023 is as follows:-

	Within Credit Period (RM'000)	**Exceeded Credit Period**				**Total (RM'000)**
		1-30 days (RM'000)	**31-60 days (RM'000)**	**61-90 days (RM'000)**	**> 90 days (RM'000)**	
<u>As at 30 September 2023</u>						
Trade payables	1,059	-	-	-	-	1,059
% of trade payables (%)	100.00	-	-	-	-	100.00
<u>As at the LPD</u>						
Less: Trade payables settled	1,024	-	-	-	-	1,024
% of trade payables (%)	96.69	-	-	-	-	96.69
Trade payables outstanding as at LPD	**35**	**-**	**-**	**-**	**-**	**35**
% of trade payables (%)	3.31	-	-	-	-	3.31

As at LPD, we have settled 96.69% of our trade payables which were outstanding as at 30 September 2023.

12.6.3 Inventory Turnover Period

The breakdown of our inventories for the Financial Periods Under Review are as follows:-

	Audited			
	FYE 2020 (RM'000)	**FYE 2021 (RM'000)**	**FYE 2022 (RM'000)**	**FPE 2023 (RM'000)**
Inventories:				
Raw materials	127	600	524	988
Work-in-progress	2,761	409	4,421	3,570
Finished goods	-	2,063	-	-
	2,888	3,072	4,945	4,558
Cost of sales (1)	29,385	31,044	24,334	15,586
Inventory turnover period (days) (2)	**36**	**37**	**75**	**80**

Notes:-

(1) Excluding the engineering support services for IC assembly and testing, and product engineering services as these business activities are service-based.

(2) Computed based on the closing inventories of the respective financial years/periods divided by the cost of sales (excluding the engineering support services for IC assembly and testing, and product engineering services) of the respective financial years / period multiplied by 365 days / 273 days.

Our inventory mainly consists of the following:-

(a) Raw materials such as mechanical, electrical and pneumatic components, computer related devices, metal parts, consumables and tools.

(b) Work-in-progress and finished goods comprising mainly digitalised solutions and automated equipment.

We do not analyse the inventory turnover period for our Group's engineering support services for IC assembly and testing, and product engineering services as the business activities involved are service-based.

Our inventory turnover period for the FYE 2020 and FYE 2021 were consistent between 36 days to 37 days.

Our inventory turnover period increased from 37 days for FYE 2021 to 75 days for FYE 2022 mainly attributable to higher work-in-progress for the ongoing development of certain automated test and handler equipment, automated material management system, and the command and control centre solution for a flood monitoring system and pump house project for a local city council.

For FPE 2023, our inventory turnover period increased to 80 days (FYE 2022: 75 days) mainly due to lower cost of sales and increase in inventory of raw materials namely mechanical, electrical and pneumatic components, and computer related devices used for our digitalised solutions and automated equipment that were purchased towards the end of FPE 2023.

12.6.4 Current Ratio

The summary of our Group's current ratio for the Financial Periods Under Review is as follows:-

	Audited As At			
	31.12.2020 (RM'000)	**31.12.2021 (RM'000)**	**31.12.2022 (RM'000)**	**30.9.2023 (RM'000)**
Current assets	41,513	52,342	57,047	52,570
Current liabilities	8,477	7,145	10,752	6,966
Current ratio (times) (1)	**4.90**	**7.33**	**5.30**	**7.55**

Note:-

(1) Computed based on total current assets divided by total current liabilities as at the end of the respective financial years/period.

Our current ratios for the Financial Periods Under Review was maintained between 4.90 times and 7.55 times, indicating that our Group is capable of meeting our current obligations as our current assets such as inventories and trade receivables, which can be readily converted into cash, together with our cash and bank balances and fixed deposits are sufficient to meet our short terms current liabilities.

12.6.5 Gearing Ratio

The summary of our Group's gearing ratio for the Financial Periods Under Review is as follows:-

	Audited As At			
	31.12.2020 (RM'000)	**31.12.2021 (RM'000)**	**31.12.2022 (RM'000)**	**30.9.2023 (RM'000)**
Total interest-bearing borrowings (1)	3,818	7,588	12,598	11,879
Total equity	34,630	49,953	57,419	59,001
Gearing ratio (times) (2)	**0.11**	**0.15**	**0.22**	**0.20**

Notes:-

(1) Including term loans, hire purchase loans and bank overdraft.

(2) Computed based on the total interest-bearing borrowings divided by the total equity of the Group as at the respective financial years/period ended.

Our Group's gearing ratio increased from 0.11 times as at 31 December 2020 to 0.15 times as at 31 December 2021 mainly due to the increase in our borrowings of RM3.77 million or 98.72%. This was mainly attributable to a drawdown of term loan of RM4.50 million to part finance the purchase of Tangkas 9 Plant and partially moderated by the repayments of term loans and hire purchase.

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Our Group's gearing ratio further increased from 0.15 times as at 31 December 2021 to 0.22 times as at 31 December 2022 due to the increase in our bank borrowings by RM5.01 million or 66.05%. The increase was mainly attributable to the following:-

(a) net increase in terms loans of RM4.30 million mainly contributed by the following drawdowns:-

   (i) RM3.33 million to part finance the purchase of Tangkas 3 Plant;

   (ii) RM1.03 million to part finance the purchase of Stellar Suites Office; and

   (iii) RM0.50 million for working capital purposes; and

(b) net increase in hire purchase of RM0.71 million for the purchase of motor vehicles.

For FPE 2023, our Group's gearing ratio decreased slightly from 0.22 times as at 31 December 2022 to 0.20 times as at 30 September 2023 mainly due to repayments of bank borrowings, partially offset by drawdowns of a term loan of RM0.80 million which part financed the renovation works of our headquarters and a hire purchase of RM0.11 million for the acquisition of a motor vehicle.

12.7 TREND INFORMATION

As at the LPD, our Board confirms that there are no:-

(a) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations, other than those discussed in Sections 7, 9 and 12 of this Prospectus;

(b) material commitments for capital expenditure;

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group operations, other than those discussed in Sections 7, 9 and 12 of this Prospectus;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue and/or profits, other than those disclosed in this Section 12, the information on our Group as set out in Sections 6 and 7 of this Prospectus and our future plans and strategies as set out in Section 7.19 of this Prospectus;

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not necessarily indicative of the future financial performance and position; and

(f) known trends, demand, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our liquidity and capital resources.

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12.8 ORDER BOOK

We do not maintain an order book as we do not have any long-term contracts with our customers as our sales are made based on confirmed purchased orders. As at the LPD, we have outstanding secured purchase orders amounting up to RM38.39 million, all of which are expected to be fulfilled and recognised as revenue for the FYE 2024.

12.9 DIVIDEND POLICY

It is our Company's policy to recommend dividends to allow our shareholders to participate in the profits of our Group. Nonetheless, our Company does not have any formal dividend policy. Our ability to distribute dividends or make other distributions to our shareholders is subject to various factors, such as actual profits registered for the year and the availability of funds in excess of working capital requirements for our businesses.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

The dividends declared and paid by Sophic Automation during the Financial Periods Under Review are set out below:-

	FYE 2020 (RM'000)	FYE 2021 (RM'000)	FYE 2022 (RM'000)	FPE 2023 (RM'000)
Dividend declared	-	(1) 750	(2) 4,566	(3) 5,000
Dividend paid	-	(1) 750	(2) 3,000	(3) 5,000
Dividend payout ratio (%) (4)	-	4.7%	37.9%	76.0%

Notes:-

(1) Dividends declared in FYE 2021 comprised the following:-

(a) interim dividend amounting to RM0.25 million in respect of FYE 2020 which was paid out in FYE 2021; and

(b) interim dividend amounting to RM0.50 million in respect of FYE 2021 which was paid out in FYE 2021.

(2) Dividends declared in FYE 2022 comprised the following:-

(a) interim dividend amounting to RM3.00 million in respect of FYE 2022 which was paid out in FYE 2022; and

(b) dividend-in-specie of amounting to RM1.57 million pursuant to the disposal of 64% equity interest held by Sophic Automation in SVN Automation to its shareholders, namely Lee Chee Hoo, Koh Dim Kuan and Low Chee Oon, via the Capital Transfer Agreement entered into between Sophic Automation and the parties above on 9 November 2022.

(3) Interim dividends amounting to RM5.00 million declared in FPE 2023 in respect of FYE 2023 which was paid out in FPE 2023.

(4) Computed based on dividends declared divided by the PAT of the Company.

In addition, our Group has declared further interim dividends amounting to RM5.00 million in November 2023 in respect of FYE 2023 which was paid out in November and December 2023.

The dividends paid were funded entirely via our Group's internally generated funds.

Save as disclosed above, the Group has not and will not declare or pay any dividend or any pre-IPO dividend prior to the completion of the Listing. Our Board do not foresee that dividends paid subsequent to FPE 2023 would affect the execution and implementation of our future plans or strategies moving forward.

Investors should note that the intention to recommend dividends should not be treated as a legal obligation on our Directors or the Company to do so. The level of dividends previously declared or paid should not be treated as an indication of our Company's future dividend policy. There can be no assurance that the Company will be in the position to declare and pay consistent dividends in the future nor can there be any certainty on timing of any dividend payments in the future.

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