Message from GCEO Dato' Daud Ahmad

Project Site Visits By Analysts& Investors

In our effort to create better understanding and appreciation of our projects, the company has arranged two site visits in June 2022. There were many participants consisting representatives for some institutional investors and analysts.

Further to the site visit to WTE plant at Ladang Tanah Merah and LSS2 projects at Kelantan, I am pleased to update and share with all of you about our current ongoing projects and some other information in related to some questions frequently asked by stakeholders recently.

1. SMART WTE PROJECT at Ladang Tanah Merah

Current status

- T&C status is ongoing and warm test has commenced.
- We already started first firing as part of warm test of the WTE.
- The Waste Segregation & Recycling Facilities has been successful tested and commissioned and ready to treat and recycle incoming solid waste. The components of SMART WTE facilities have been in operation and capable of handling incoming solid waste of up to 1000 tonne per day.
- Please also see the latest video which can be downloaded in the link below: *https://drive.google.com/file/d/1qJ49Czx_DSL3nlJqKMIlTKhb-DFQ7ycX/view*

Concessionaire Agreement ("CA") period

- The CA was signed in November 2015 and the agreement only started to become effective in June 2016.
- The CA period is 25 years including the original timeline of 4 years construction period starting from effective date plus 21 years of operation period starting from the COD date.
- The delay due to Covid19 force majeure (Covid19 FM) has affected the construction completion period, just like many other projects.
- Due to Covid19 FM, the project is entitled for extension of COD
- We have been officially given extension of COD date to December 2022.
- The operation period where revenue from energy sales will commence from latest approved COD date i.e. December 2022.

Financing of the plant

- The plant is financed by bank loan at a financing margin ranging between 65%-75% and its remaining portion is through equity/group's internal generated fund.

Future cash inflows

- The cash inflow streams consist of tipping fees and sale of renewable energy. Like many other CA, the project enjoys the right of periodical fee review.
- The tipping fee of the project is subject to fee review every 3 years as a result of our dynamic cashflow modeling.
- The fee review will allow for project viability and reasonable IRR to be maintained.
- The business model & cash flow model of the project have been developed with the support of competent consultants /advisors and reviewed by our banker for the purpose of establishing bankability for project financing.
- The cash flow model also has been reviewed by our Auditor as part of their normal audit process.
- After the operation of the first component of the SMART facility, i.e. the sanitary landfill, we have billed the landfill tipping fee to the government and received monthly payments accordingly.

Intangible assets – RM902milion

- Intangible assets consists of the actual construction costs incurred with the profits from construction of public service infrastructure as well as the interest costs incurred during construction. The profit margin of public service infrastructure is at the market rate which is ranging from 10% to 20%.
- The recognition and reporting of the WTE project cost and revenue require compliance to the prevailing accounting standards.
- Since WTE project is a built, operate, transfer ("BOT") project and falls within the definition of IC Interpretation 12 (Service Concession Arrangements) ("IC12"), we have to adopt this accounting standard & guideline and have to report it accordingly.
- Such adoption of IC12 is not unique to Cypark's project as other party's similar projects are required to comply with.
- The intangible assets reported is in fact for the recognition of our physical landed assets, the SMART WTE Plant, which by concession contract belongs to us legally. However, accounting standard requires the physical assets funded and constructed by us to be treated as intangible assets.
- The common public impression of intangible assets normally associated to goodwill, non-physical, arbitrary valuation, etc, which is not reflecting our assets which is physical, legally owned and established cost.

- Treating the asset intangible accounting wise should not in any way reflect the actual physical asset owned is of lower value or quality.
- We provide below the summary of IC12 and we really hope the summary can provide a clearer picture on the adoption of IC12 and avoid unnecessary speculation.

2. LSS2 Projects

Contract assets

- Most of the contract assets are related to work performed yet to be billed to customers in respects to the LSS2 projects, in which Cypark Ref Sdn Bhd has issued Sukuk Murabahah of RM550 million in 2019 to finance the construction of the projects.
- CREF is the turnkey contractor cum financier for the 3 LSS2 projects.
- The billings will be issued based on agreed terms on deferred payment basis in which the expected inflows will pair and match to the Sukuk obligations.
- The contract assets are fully backed by the assignment of revenue proceeds generated from the sale of renewable energy from the Power Purchase Agreement ("PPA") of the clients.
- Costs incurred during construction phase which include construction costs and sukuk interests are recognized in cost of sales in the income statement accordingly.
- For further details on the Sukuk arrangement, you may refer to the Information Memorandum of this Sukuk Murabahah.
- For the accounting treatments which are in accordance to MFRS 15, please see the summary below, particularly on Para 60, 61 and 64.

Different streams of cash inflows for coming 21 years upon COD

- Turnkey contract sum of RM225mil each for 3 projects [with deferred payments arrangement]
- Interest revenue
- O&M contract sum of RM1.2 million per annum each for floating solar projects and RM1.5 million per annum for ground mounter project for tenure of 21 years
- The business model and cash flow model have been properly developed by our very experienced team. Relevant assumptions used in the business model including irradiance, design, equipment, etc. have been reviewed by a reputable international solar specialist consultant such as Jacobs to ensure the business model is reasonable and viable.
- The relevant information was also used for the purpose of Sukuk rating by RAM.
- With the review process by many parties including ST during tender exercise, it can be concluded the business model has been properly developed and reviewed.

We appreciate those who attended our project visits and take effort to understand our business model and project status to avoid being misled by untrue rumors or inaccurate analysis especially when done without proper source of information.

We will continue to give timely update to all the stakeholders.

Best regards,
Dato’ Daud Ahmad
GCEO
29 June 2022

INTANGIBLE ASSET RECOGNISED PURSUANT TO IC INTERPRETATION 12 SERVICE CONCESSION ARRANGEMENTS ("IC 12")

- IC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements.
- Infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.
- The intangible asset model, as defined in IC 12, applies to service concession arrangements where the grantor has not provided a contractual guarantee in respect of the amount receivable for constructing and operating the asset. Under this model, during construction or upgrade phase, the Group records an intangible asset representing the right to charge users of the public service and recognised profits from the construction or upgrade of the public service infrastructure. Income and expenses associated with construction contracts are recognised in accordance with MFRS 15 Revenue from Contracts with Customers.
- Borrowing costs incurred in connection with an arrangement falling within the scope of IC 12 will be expensed as incurred, unless the Group recognises an intangible asset under the interpretation. In this case, borrowing costs are capitalised in accordance with the general rules of MFRS 123 Borrowing Costs.
- On 9 November 2015, a wholly-owned subsidiary of the Company, Cypark Smart Technology Sdn. Bhd. ("CST") entered into a Concession Agreement ("CA") with the Solid Waste and Public Cleansing Management Corporation and the Government of Malaysia, which was represented by the Ministry of Housing and Local Government. Pursuant to the Solid Waste and Public Cleansing Management Act 2007 (Act 672) and on a Public Private Partnership basis, the Government awarded to CST, the rights to undertake the design, construction, maintenance, operation and management of Solid Waste Modular Advanced Recovery and Treatment Systems incorporating Waste-to-Energy system (the "SMART WTE System") at Ladang Tanah Merah, Negeri Sembilan under Build-Operate-Manage-Transfer concept for a period of 25 years, subject to the terms and conditions of the CA.
- The SMART WTE System entails SMART WTE technology and design which utilises 100% clean technology concepts and system to produce renewable source for the production of renewable energy. The system consists of the following:
    - Waste Receiving Facility
    - Waste Segregation Facility
    - Waste Recycling Facility
    - Waste to Energy Plant
    - Fully Anaerobic Bioreactor System
    - Sanitary Landfill
- Under the CA, the Government shall deliver the municipal waste from designated scheme areas to CST for treatment and disposal at the SMART WTE System. CST is entitled to be paid an agreed fee as defined in the CA known as tipping fees. CST shall also be generating revenue from sales of electricity for converting the waste to clean renewable energy under the Sustainable Energy Development Authority Malaysia ("SEDA") Act. CST has successfully secured the Feed-in Tariff ("FiT") quota to supply 25MW renewable energy from waste to energy source by SEDA pursuant to Section 7 of the Renewable Energy Act 2011. Intangible asset represents fair value of the consideration receivable for the construction of the SMART WTE System during the construction stage on a mark-up basis of the cost incurred in connection with the CA.
- As the concession asset is still under construction, hence the intangible asset is not amortised until it is complete or ready for it to be capable of operating in the manner intended by management.

MFRS 15

- According to MFRS 15 Para 107, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.
- According to MFRS15 Para 108, a receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.
- According to MFRS15 Para 60, in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.
- According to MFRS15 Para 61, the objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract.
- According to MFRS 15 Para 64, to meet the objective in paragraph 61 when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk)