

Message from GCEO Dato' Daud Ahmad

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.

OPERATIONAL MATTERS

1. RECENT COMPLETED PROJECT

1.1. SIK

- This is a 50MWdc/30MWac ground mounted solar project. The solar plant which is located at Kedah has achieved COD on 1 January 2022 and the solar farm is fully operational and has been generating electricity and revenue as expected ever since.
- Please click the link below to watch the project video (with copyright).
<https://onedrive.live.com/?authkey=%21APHxw9OKNmJ5Cnl&cid=3E9B58FF60373221&id=3E9B58FF60373221%2113679&parId=root&o=OneUp>

2. DELAY OF PROJECTS

- It was rather unfortunate that Cypark, who were major winners of solar projects through the LSS tenders, had to go through its construction stage during Covid19 period.
- The Covid19 pandemic, which is recognised as a force majeure, disrupted not only site work, but the whole supply and services ecosystem.
- The prolonged and multiple movement control orders imposed has resulted in work stoppages, zero or lower productivity, delays by supply chain, manpower disruptions, etc.
- With the removal of many controls recently, we have been able to be back to almost full productivity and managed to perform some catch up on the delays.

2.1. DTU DELAY

- For DTU project, it has reached the final stage of construction whereby the 200 acres floating solar system installation and 10km long interconnection work are already completed.
- Please refer to DTU Project Video 2022 (with copyright).
- <https://onedrive.live.com/?authkey=%21APIQXBQoWLPfC8c&cid=3E9B58FF60373221&id=3E9B58FF60373221%2113676&parId=root&o=OneUp>
- The delay is in the grid interconnection facilities (IF) part, the construction is still progressing but facing some delays due to slower approval process by TNB which involves additional requirements.
- We target that the new COD date will be by end of September 2022.
- Please note the delay does not affect the future operating cash flow of the projects as the 21 years concession periods and tariff are not affected.
- The impact of the delay is manageable that the ability to comply with the sukuk commitment is within control and that RAM has reaffirmed the rating of the Sukuk.

2.2. WTE DELAY

- For WTE project in Ladang Tanah Merah, the construction has been completed for quite some time and currently is going through the final stage - testing & commissioning (“T&C”) stage.
- Please refer to WTE Project Video 2022 (with copyright)
- <https://onedrive.live.com/?authkey=%21AMqcB84blZFu6Js&cid=3E9B58FF60373221&id=3E9B58FF60373221%2113675&parId=root&o=OneUp>
- There were some unfortunate delays in starting the T&C due to late arrival of the foreign experts who are to carry out the T&C works caused by the prolonged travel restrictions and stringent SOPs to bring the required foreign experts into Malaysia.
- Fortunately since 1 April 2022, the experts have been able to travel easily and most of them are already here now.
- The T&C activity is well in progress now. We target the new COD will be by end of September 2022.

3. SOURCES OF THE EARNINGS OF THE GROUP

- As reported in our AFS, our main earning contributor is from Renewable Energy (“RE”) Division. For the brownfield completed projects, as said, they are generating stable revenue.
- For some of the ongoing construction of RE projects, due to the unique arrangement as turnkey contractor cum financier, there are contract revenue and interest revenue recognised during construction phase which is pursuant to Accounting Standard MFRS 15. Please read and share with public as attached below the MFRS 15 treatment adopted by Cypark.
- Please note that for the earlier solar projects completed and currently in operation, the plants enjoy much higher tariff hence strong cash flow.
- As for WTE, although the WTE is still not in operation (expected in September 2022), the cash flow come from the tipping fees paid monthly by the government since 2016.
- All completed RE projects are generating good stream of revenue, cash flow and profit. We expect all projects which are soon to be completed to also generate good stream of revenue, cash flow and profit annually.

4. COSTING AND PROFITABILITY CONCERNS ARISING FROM HIKE IN MATERIAL PRICES

- For the projects which are in near to its completion stage, there is no concern on price hikes as the materials have been procured, delivered or installed.
- Hence, it is not much affected by the hike in raw material prices.
- Cypark did not secure the last LSS4 tenders which on hindsight are a blessing since the impact of price hike would likely affect the cost of LSS4 projects.
- For the completed brownfield projects, they are no requirement to purchase new materials now. These plants are generating stable revenue every month and receive prompt collection from TNB/government.

5. COMPETITIVE ADVANTAGE OF CYPARK REMAINS DESPITE SOME PROJECT DELAYS DUE TO COVID19.

- We have solid track records of completing solar projects with capacity of 97MW (as of end of May 2022) which are now currently operated and managed by Cypark.
- Cypark have been developing its solar and other RE assets successfully since 2011 and regarded as a pioneer and leader in innovative solutions such as floating solar, solar on closed landfills sites, agriculture integrated solar, biomass fuel from EFB, biogas from solidariti waste, and many more.
- Many of our past projects were completed not only successfully but received many local and international awards (Please find list of awards below).
- One of Cypark's projects, Pajam Solar Farm, which was also Malaysia's largest solar project in 2012, was featured in CNN's Eco Solutions Program due to its innovativeness and uniqueness. (Please find link: <https://youtu.be/f0wgirXnXBY>)
- With the forthcoming completion of DTU projects, the capacity of solar projects will increase to 197MW. All these solar projects were secured by the project owners in open tender process called by Seda or Energy Commission ("EC") based on our strong record.
- The covid19 pandemic has caused delays to many projects locally and globally including Cypark's. As mentioned above, the year 2020 and 2021 with Covid pandemic were challenging, especially when the project progresses were hindered by the local and global MCOs implementation which caused work stoppages, approval disruptions, supply chain and manpower disruption. This is a force majeure event which is beyond expectation.
- With the uplift of MCOs and transition to endemic phase, we hope that 2022 is a good year with the good start as demonstrated in our Sik Project which achieved COD on 1 January 2022 and to be followed by COD of DTU project by end of September 2022.

Awards, Accolades, & Events



BPAM Bond Market Awards 2021
ESG Top Traded Amount for year 2020



National Energy Awards 2021
Category 2: Renewable Energy (Biofuel) – Winner



Asean Renewable Energy Project Awards 2021
Category: Biofuel – Winner



Asian Power Awards 2021
Biomass Power Project of the Year – Silver Award



National Energy Awards (NEA)
Winner of the Category 2 (Renewable Energy) for on-Grid (National Grid) 2019



PFI Asia Awards
Islamic Deal of The Year 2019



Islamic Finance News (IFN) Awards
Green Project of The Year 2019



Asian Power Awards 2018
• Innovative Power Technology of the Year – Malaysia
• Environmental Upgrade of the Year – Malaysia
• Solar Power Project of the Year – Malaysia





Focus Malaysia's Best Under Billion Awards 2018 (BUBA2018)

Best in Online Presence



ASEAN Energy Award

Winner of the Asian Best practices for Renewable energy project award 2016



Asian Power Awards

Gold Award for Solar Power Project of the Year 2016



Finance Asia Magazine

Asia's Best Companies 2015



Malaysian GreenTech Awards (organized by Malaysian Ministry of Energy, Green Technology & Water)

Malaysia Top 30 Green Catalyst for 2014



Power & Electricity Award (Asia)

Solar Project of the Year 2013



Malaysia Book of Records

- Largest Grid-Connected Solar Park
- Most Number of Solar Panels on a Grid-Connected Solar Park (Safely Closed Landfill)

6. INDUSTRY OUTLOOK AND COMPANY PROSPECTS

- Despite the difficulties and disruptions caused by covid19 pandemic, the demand for clean and sustainable energy and environmental solutions will continue to remain strong and relevant. With the removal of covid19 restrictions, RE will be back into full gear soon.
- RE has managed to offer lower price when fossil fuels were at the lowest last year.
- Now that fossil fuels at very high level, RE will become more prominent offering more savings. Everybody wants cheaper and cleaner energy. Who wouldn't?

FINANCIAL MATTERS

1. NEGATIVE CASH FLOW DURING CONSTRUCTION PERIOD OF CONCESSION ASSETS

- We believe the concern raised came from the misunderstanding of Cypark's business model. The negative cash flow is expected from the business model of concessionaire-based projects like solar farms and WTE which require capex intensive upfront.
- It should be understood that during the first few years of construction stage, revenue will not be generated as yet and at the same time we need to outflow the fund to construct the concessionaire assets resulting into negative operating cash flow, of course expectedly.
- Once the assets are completed, the assets will start to generate stable and reliable income for the next 21 years and the cash flow will turn to positive consistently for so many years to come.
- In the financing structure of our concession projects, we have raised specific financing to fund the projects during construction phase. However, according to MFRS 107 Statement of Cash Flows, drawdowns from project loans/borrowings need to be classified in Cash Flows from Financing Activities and are not allowed to set off against Cash Flows From Operating Activities despite the fact that the financing is structured and designed solely to finance the construction of the particular revenue generating assets.
- In view of the accounting requirement as mentioned above, we need to view the cash flows from operating activities together with the cash flows from financing activities so the status of negative cash flow can be better understood that it is not to be viewed as company's cash flow concern. (For more detail explanation, please refer to explanation in our Cash Flow Statement of Q1 2022.)
- The future cash flow from RE assets like solar farm are very stable as proven from other solar farms completed and operated by Cypark since 2012. The stable cash flow track record of the completed solar farms over many years has given a lot of comfort to lenders as certainty and reliability of cash flow is high.
- With such track record, nowadays almost all banks are offering to finance RE tender winners. This reflects the quality of the future cash flow of RE projects especially in Malaysia. The same facts are commonly found throughout the world that billions of RE including solar investment are made every year (please refer to many published reports on solar industry globally)
- The decision by Cypark to invest in solar assets and other RE assets have been rationalised on the reliability and certainty of the future revenue and strong cash flow streams.
- Due to lower operating costs and tax breaks enjoyed by our RE project, the future operating cash flow is high and stable (due to no feedstock cost, no consumables fluctuation risk, etc) and net operating cash flow is also high (in the range of 70-90% of the annual revenue). Cypark expect in 2023, when almost all ongoing projects are completed, the tides will turn that the negative Operating cash flow will be reversed, in line with our business plan.
- The project inflows are more than sufficient to repay the debts according to the repayment schedule.

2. HIGH DEBT/HIGH GEARING DUE TO DEVELOPMENT OF RE CONCESSION ASSETS IN LINE WITH INDUSTRY NORM.

- Out of the RM1.4bil, approximately 85% are long term loans and Sukuk which are for project financing lines to construct our renewable energy concession / contract assets. In Cypark's business model, just like all energy industry power plants, either fossil fuel or renewable, the projects require BIG upfront investment whereby about 80% are financed and 20% are equity financed.
- The loans will be paid down by the stable recurring cash flow streams to be received from a triple A rated offtakers (TNB) for the sales of RE energy and from the government of Malaysia for the tipping fees.
- The project inflows are more than sufficient to repay the debts according to the repayment schedule.
- It is therefore important in evaluating the gearing level of our RE project, the strong capability to generate cash flow to pay the loan should be also looked into so a positive conclusion can be derived
- It is fair to mention the business models adopted by Cypark have received supports by the shareholders as the financing models have been explained numerous times previously during institutional investors briefing, AGM and placement exercises.
- It is important to note that the public placements successfully issued by Cypark in the past including the one completed last December had clearly communicated the fund raised were for the purpose of equity financing (part, balance by loan) of our RE project and received strong supports and approvals.
- Hence, we are puzzled if the issue of financing model is used as reason to drive our share price now as if it were a new event.

3. HIGH 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.
- 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.
- For further details, you may refer to the Information Memorandum of this Sukuk Murabahah.

4. HIGH INTANGIBLE ASSETS RECOGNITION DUE TO FULL COMPLIANCE OF ACCOUNTING STANDARDS

- The recognition and reporting of the WTE project cost and revenue require compliance to the prevailing accounting standards.
- Since WTE project a built, operate, transfer ("BOT") project and falls within the definition of IC Interpretation 12 (Service Concession Arrangements) ("IC12"), we 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.
- Many, due to lack of understanding of IC12 requirement has also questioned the validity of our intangible assets. 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.
- 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.

SHARE MARKET

1. DISPOSAL OF SHARES BY CHAIRMAN AND GCEO

- Both the Chairman and GCEO received surprise margin calls as the share price dropped so sudden to the lowest point since listing and in such hectic situations, the Chairman and GCEO were unfortunately not accorded enough banking time by the concerned bankers to rectify the margin positions. The selling of their shares by force was undesired and regrettable.
- Please note a portion of their shares were acquired at a much higher price from placement and ESOS in the past and some of the shares were acquired by way of financing as well.

2. HIGH VOLUME TRADING AND SHORT SELLING

- There were indeed extremely high trading volumes on 25 May 2022 and 26 May 2022 which were above 100million unit per day.
- These daily volumes were more than ten times the previous months daily average. With such high volume pushing down the prices, the share price dropped more than 20% on 25 May 2022 and 26 May 2022 each and the share price once dipped to the lowest point at RM0.34 on 25 May 2022.
- Bursa also announced to suspend proprietary day trading ("PDT") short selling and intraday short selling ("IDSS") on these two days. The short selling is reported to cause the big drop of the prices.

I hold dearly to the Company I have founded since year 1999 and listed it in year 2010. It is my sincere intention to remain as shareholder and Group CEO to further develop the Company to another height.

The board, the management and I will continue with our unwavering commitment and put utmost efforts to bring more successes to the Company.

Best regards,
Dato' Daud Ahmad
GCEO
9 June 2022

MFRS 15 PARA 107

- 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.
- In layman's terms, a contract asset is recognised in respect of the right to consideration for work performed which has not been billed. Contract assets are reclassified to trade receivables at the point at which it is billed to the customers.
- The high contract assets in the book are mainly related to work performed yet to be billed to customers in respects to the LSS2 projects, in which Cypark Ref Sdn Bhd acts as the turnkey contractor cum financier for the three projects.
- Cypark Ref has issued Sukuk Murabahah of RM550 million in 2019 to finance the construction of the projects. In return, the three clients will pay back to Cypark Ref through deferred payment scheme upon COD.
- The deferred is secured via the assignment of energy sales payment to be received monthly from TNB as governed by the signed PPA.
- The financing structure is developed by our Advisor, Maybank Investment.
- That means, 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 collection from the clients will start after the plants achieve COD and receive energy revenue from TNB.

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.