

Management Discussion and Analysis

1.0 Introduction

On behalf of the Board of Directors (“Board”) of Erdasan Group Berhad (“EGB” or the “Company”), I hereby present the Annual Report and Audited Financial Statements of the Company and its subsidiaries (the “Group”) for the financial period ended 30 September 2025 (“FPE2025”).

2.0 Overview of Group’s Business and Operations

Erdasan Group is an investment holding company and its subsidiary companies are principally involved in the fabrication of industrial and engineering parts, as well as the design and manufacturing of industrial automation systems and machinery, collectively reported under the Fabrication and Automation segment. The Group owns and operates several manufacturing plants which are strategically located within the area of Bayan Lepas Industrial Park, Penang, serving customers from various sub-sectors including hard disk drive manufacturing, contract manufacturers, textile, medical and other manufacturing industries.

The Group established its presence in the renewable energy sector, following the successful quota allocations from the Sustainable Energy Development Authority (“SEDA”) Malaysia and award of licenses to develop solar photovoltaic (“PV”) plant under the Feed-in-Tariff (“FIT”) system at the Group’s manufacturing plants in Penang. The Group commissioned its maiden solar PV plant with a capacity of 425kW in December 2015, followed by a second solar PV plant with a capacity of 300kW in December 2016. In addition, the Group optimised its production facility layout to improve operational efficiency and leased the surplus space to generate recurring rental income. Both the solar renewable energy and property letting activities are reported under the Renewable Energy and Property segment.

2.1 Objectives and Strategies

Our Group strives to be a leading strategic partner for precision engineering solutions and integrated designer and manufacturer of industrial automation systems to customers worldwide. It is the Group’s objective to build mutually beneficial business relationships with all its shareholders and stakeholders, with a strong focus on sustainability. In meeting the expectations of our shareholders and stakeholders, we are guided by the following principles:-

- To maintain sustainable growth in revenue and profits while minimizing environmental impact and maximizing value for shareholders;
- To adopt a continuous improvement approach towards quality and reliability of our products and services, ensuring that they meet and exceed our customer expectations while minimizing resource consumption and waste generation;
- To cultivate a highly skilled and committed workforce, fostering a culture of sustainability and manufacturing excellence. We trust, empower, and reward our employees, providing them with opportunities for growth and development while promoting responsible resource management and sustainable practices;
- To promote responsibility and respect when dealing with our business partners. We actively seek partnerships with suppliers and vendors who share our commitment to sustainability, ethical practices and social responsibility.

The Group believes that sustainable growth is essential for business expansion and delivering sustainable returns to shareholders. To achieve this, the Group focuses on constant innovation and development of new revenue streams by expanding its product range and solutions for customers.

In addition to our focus on growth, we are dedicated to maintaining high standards of quality and customer satisfaction. The Group has obtained ISO 9001 and ISO 13485 certifications, which demonstrate our commitment to complying with industry standards for quality management systems and medical devices. We continuously strive to exceed customer expectations by providing faster responses, better support, and enhanced services to our valued customers.

Through these focus areas, we are confident in our capacity to build mutually beneficial business relationships with all our shareholders and stakeholders.

Management Discussion and Analysis (Cont'd)

3.0 Review of Financial Results and Positions

3.1 Our Financial Performance for financial period ended 30 September 2025 ("FPE2025")

The Group's financial performance for FPE2025 spans 18 months, compared to the 12-month reporting period in the previous financial year. As such, the higher revenue and expenses partly reflect the extended period under review.

For FPE2025, the Group achieved revenue of RM54.98 million, representing a strong 68.7% increase over the RM32.58 million recorded in the financial year ended 31 March 2024 ("FY2024"). On an annualised basis, the Group's revenue is estimated at RM36.65 million, compared to RM32.58 million previously. This reflects an underlying growth of 12.5%, driven primarily by improved performance in the fabrication and automation segment, which recorded an increase of RM23.71 million in revenue.

The Group also recorded a significant improvement in profitability. Loss before tax narrowed substantially to RM9.66 million, compared to a larger loss of RM80.53 million a year earlier. Loss after tax similarly narrowed to RM9.67 million for FPE2025, versus RM80.86 million in FY2024. These improved results were supported by several key factors, including:-

- One-off gain of RM11.56 million from the disposal of glove machineries;
- A reversal of impairment loss on land and buildings amounting to RM8.76 million; and
- Lower share of losses from associate companies (FPE2025: RM5.49 million versus FY2024: RM13.08 million).

These gains were partially offset by a one-off loss arising from the de-recognition of associates of RM13.40 million.

3.2 Performance by Segment

| Segmental Revenue | 2025 RM '000 | 2024 RM '000 | % change |
|-------------------------------|-----------------|-----------------|--------------|
| Fabrication and Automation | 53,949 | 30,237 | ↑ 78% |
| Renewable Energy and Property | 1,027 | 720 | ↑ 43% |
| Gloves | - | 1,628 | N/A |
| Total Revenue | 54,976 | 32,585 | ↑ 69% |

| Segmental Review | 2025 RM '000 | 2024 RM '000 | % change |
|-------------------------------|-----------------|-----------------|--------------|
| Segmental Profit/(Loss) from: | | | |
| Fabrication and Automation | 6,892 | (7,619) | ↑ 190% |
| Renewable Energy and Property | 5,460 | 555 | ↑ 884% |
| Gloves | 51 | (34,414) | ↑ 100% |
| Other | (22,068) | (39,048) | ↑ 43% |
| Loss Before Tax | (9,665) | (80,526) | ↑ 88% |

Management Discussion and Analysis (Cont'd)

3.0 Review of Financial Results and Positions (Cont'd)

3.2 Performance by Segment (Cont'd)

3.2.1 Fabrication and Automation

The fabrication and automation segment delivered a strong performance in FPE2025, with revenue increasing by RM23.71 million or 78% compared with the preceding financial period. The improvement was mainly attributable to higher order volumes from contract manufacturers and hard disk drive (“HDD”) manufacturers, reflecting increased activity from semiconductor-related customers. This was partially offset by lower demand from textile machinery makers during the period.

Benefiting from Global Semiconductor Manufacturing Shifts

Over the past 18 months, the segment has continued to demonstrate positive momentum. Cumulative revenue from contract manufacturing customers more than doubled to RM33.97 million, while revenue from HDD manufacturers increased to RM3.30 million. The growth reflects the Group's expanding participation in semiconductor-related manufacturing activities.

The higher demand is consistent with ongoing structural changes in the global semiconductor supply chain, as manufacturers respond to trade tensions between the United States and China by diversifying production locations outside China. The Group has benefited from increased outsourcing and capital expenditure by customers aligned with these shifts, which has supported order flow within the segment.

While the segment is increasingly positioned within higher-growth, technology-driven end markets, management remains cautious of potential demand volatility, customer concentration and macroeconomic and geopolitical uncertainties that could affect order visibility going forward. The Group will continue to monitor market conditions closely while managing operational capacity and customer mix to support sustainable performance.

Textile Demand Moderation Offset by Strategic Product Developments

Demand from textile machinery makers remained subdued, with cumulative textile-related revenue of RM14.52 million over the 18-month period and moderation in FPE2025 due to a soft global textile market. The decline was most pronounced in Ring Spin products, reflecting weaker market conditions and heightened competitive pressures following Rieter India's localisation of production.

Notwithstanding these challenges, the Group made progress in product development during FPE2025, including advancements in Flat Rods and the completion of 38 Card development. Demand for Flat Rods has shown an improving trend, supported by the Group's position as the sole supplier following Rieter's exit from European production, which partially offsets the near-term softness in the textile machinery segment.

The fabrication and automation segment recorded a significant turnaround, achieving a pre-tax profit of RM6.89 million for the period under review, an improvement of RM14.51 million compared to the pre-tax loss of RM7.62 million in the previous year. This improved performance was largely supported by enhanced profit margins and better operational efficiency as well as a reversal of impairment loss on land and buildings amounting to RM3.05 million. The strong results were partially moderated by higher staff costs, increased depreciation charges and additional upkeep and maintenance expenses.

Management Discussion and Analysis (Cont'd)

3.0 Review of Financial Results and Positions (Cont'd)

3.2 Performance by Segment (Cont'd)

3.2.2 Renewable Energy and Property

The renewable energy and property letting segments delivered a markedly improved performance, reporting a pre-tax profit of RM5.46 million for the current period, compared to RM0.56 million in the corresponding year. The substantial increase in pre-tax profit was primarily driven by the gain on disposal of glove machineries amounting to RM11.56 million, a reversal of impairment loss on land and buildings of RM5.71 million, and lower depreciation charges arising from the glove facilities. These gains were partially offset by an impairment loss on receivables of RM3.52 million.

3.2.3 Others

The other segment reported a pre-tax loss of RM22.07 million for the current period, compared to a pre-tax loss of RM39.05 million in FY2024. The pre-tax loss for the period was primarily attributed to the loss on de-recognition of associates amounting to RM13.40 million (FY2024: RM Nil) and the share of losses from associates of RM5.49 million (FY2024: RM13.08 million). The lower pre-tax loss compared to FY2024 was mainly due to the absence of mark-to-market losses on quoted investments (current period: RM Nil; FY2024: RM35.05 million). This improvement was partially moderated by the absence of a one-off gain on deemed disposal of an associate amounting to RM13.40 million, which was recorded in FY2024.

4.0 Liquidity and Capital Resources

As at 30 September 2025, the Group's cash and cash equivalents stood at RM17.93 million compared to RM19.15 million in the past corresponding year. The decrease was mainly due to the net effects of the following:

- a) Net cash inflow of RM5.99 million from operating activities, primarily attributable to improved operating performance, supported by a modest reduction in inventories;
- b) Net cash used in investing activities of RM0.93 million mainly due to net effects from:
 - Proceeds from disposal of investments in associates of RM2.39 million;
 - Acquisition of RM3.19 million quoted investments;
- c) Net cash outflow from financing activities of RM4.77 million mainly due to net repayment of the Group's term loans and revolving credit of RM2.23 million, net repayment of lease liabilities of RM2.30 million and interest paid of RM0.70 million, offset proceeds raised from exercise of share options of RM0.47 million.

5.0 Financial Position and Gearing

The Group's total assets stood at RM187.10 million as at 30 September 2025, representing an increase of 2.07% from RM186.25 million as at 31 March 2024. The increase was mainly attributable to the fair value adjustment of investment properties and higher trade receivable in line with improved revenue performance, partly offset with de-recognition of the Group's investment in associates.

The Group's total liabilities decreased to RM39.26 million in FPE2025 from RM52.48 million in the previous year. The reduction was mainly attributable to the repayment of borrowings during the period, partly offset by the recognition of deferred tax liabilities amounting to RM4.42 million arising from the fair value adjustment of the Group's land and buildings.

As of 30 September 2025, the Group's debt-to-equity ratio, which measures its gearing position, stood at 4.3%, showing a decrease from 9.3% reported on 31 March 2024. This decline was primarily driven by a decrease in term loans and revolving credit. In FPE2025, these loans amounted to RM3.49 million, compared to RM5.72 million in the previous year.

Management Discussion and Analysis (Cont'd)

6.0 Anticipated and Known Risks

6.1 Business risks

The Group may be subject to risks inherent in the industries in which the Group operates. These include shortages of raw materials, constraints in labour supply, increase in labour costs, changes in law and tax legislation affecting the industry, increase in costs of new machinery, changes in business and credit conditions, equipment failure and factory accidents.

The Group seeks to mitigate these risks through prudent management policies, maintaining good business relationships with customers and suppliers, diligent cost controls, expansion of customer base and business by increasing the range of products and services offered as well as the range of markets or industries served, stringent quality controls, close production and capacity supervision as well as careful planning, effective human resources management and regular equipment maintenance and renewal.

6.2 Dependency on selected industries and key customers

The Group designs and manufactures precision components and fabricates precision tools, moulds, dies, jigs and fixtures for use in precision engineering applications, primarily for the contract manufacturers, hard-disk drive manufacturer and medical industry.

To mitigate concentration risk arising from reliance on specific industries, the Group has been actively expanding its customer base by broadening the range of solutions and products offered. As part of this effort, the Group has maintained a strong presence in the textile sector through a strategic partnership with Rieter Group, a world's leading supplier of systems for manufacturing yarn from staple fibers in spinning mills. This partnership supported higher fabrication job orders in recent years. However, demand from the textile sector has softened in the current period. Over the past few years, the textile industry accounted for a substantial portion of the Group's revenue, contributing 26.4% in FPE2025, 54.7% in FY2024, 45.1% in FY2023 and 16.5% in FY2022.

The Group has ceased its glove manufacturing operations, which previously represented a notable portion of revenue. Moving forward, the Group remains focused on its core precision engineering and fabrication businesses, while actively pursuing opportunities to diversify into new sectors and expand its solutions portfolio, ensuring sustainable growth and resilience against industry-specific fluctuations.

Notwithstanding the above, any adverse development in the above-mentioned industries, or any adverse development in our relationship with the key customer or the business performance of the key customer, may adversely affect the Group's revenue and earnings.

6.3 Dependency on experienced management and key personnel

The Group's continued success depends, to a significant extent, on the abilities and continuing efforts of the key management and key technical personnel. The loss of any key management and/or key technical personnel could adversely affect the Group's continued ability to manage operations effectively and competitively. The Group's future success will also depend upon the ability to attract and retain skilled personnel.

As such, the Group has made continuous efforts to develop a dynamic management team and groom younger management personnel to ensure continuity of the quality and dynamism in the management team. Efforts have been made by the Group to promote opportunities and develop programmes in all key functions of the Group's operations. The Group also continuously reviews the remuneration packages to ensure competitiveness and takes appropriate measures and implements programmes for talent acquisition as well as to retain existing staff. Such programmes implemented are incentives-based with the aim of rewarding staff for their ability to improve efficiency and effectiveness. However, there is no assurance that the above measures will be successful in attracting and retaining key management personnel or ensuring a smooth transition should changes occur.

Management Discussion and Analysis (Cont'd)

6.0 Anticipated and Known Risks (Cont'd)

6.4 Inconsistent production of solar energy

The amount of solar energy that can be produced by the Group's solar PV plants is dependent on the availability of sunlight, which in turn is dependent on various factors such as weather conditions that can be unpredictable throughout the year. Prolonged cloudy or rainy days may lead to fewer hours of sunlight being received. There is no assurance that the changes in the amount of sunlight received due to erratic weather conditions will not materially affect the production of electricity by the Group's solar PV plants, or that the solar PV plants will be able to generate a consistent amount of electricity all year round.

7.0 Share Price Performance

The share price of Erdasan closed at RM0.075 on 30 September 2025, giving the Group a total market capitalisation of RM17.16 million. Over the course of the cumulative 18 months, the share price of Erdasan reached a high of RM0.23 on 14 May 2024 and fell to a low of RM0.06 on 23 April 2025.

8.0 Dividend Policy

The Group's present focus is on strengthening its financial position and delivering long-term value to shareholders. We aim to reinvest our earnings to fund the Group's business growth. As such, the Group does not adopt any dividend policy for the short term but will consider distributing excess profits once the Group has stable earnings, after taking into consideration working capital requirements and planned capital expenditure in the future.

9.0 Prospects

The Malaysia's economy is projected to grow between 4.5% and 5.5% in 2025. The manufacturing sector is projected to expand further, attributed to better performance in export-oriented industries, primarily the Electrical and Electronics ("E&E") segment, as external demand for semiconductors continues to increase.

The Group delivered a commendable performance during the financial period under review, led by the robust expansion of its fabrication and automation segment. On an annualised basis, fabrication segment revenue rose to RM35.97 million, representing a solid 19% growth over FY2024's revenue of RM30.24 million.

This strong performance was driven by both favourable external conditions, particularly the sustained demand from the export-oriented electrical and electronics ("E&E") sector and the successful execution of the Group's targeted market strategy, which continues to position the Group in higher-growth and resilient segments. It remains optimistic about its performance in the coming quarters, supported by a steady pipeline of fabrication projects and a favorable demand landscape across key customer sectors. As of to-date, backlog orders stand at RM17.43 million, reflecting healthy demand and accounting for approximately 47.55% of the annualised audited revenue of RM36.65 million for the period ended 30 September 2025.

Over the years, the Group has developed strong capabilities through its support of transfer business, helping customers fulfil orders relocated to Malaysia for cost optimisation. Leveraging on this foundation, the Group is now tapping into migration business, driven by customers relocating the entire operations to Malaysia, potentially in response to the imposition of reciprocal tariffs by the United States. Looking ahead, the broader manufacturing industry remains susceptible to global vulnerabilities, including the escalation of geopolitical tensions, supply chain disruptions, volatility in financial market conditions, varying growth prospects across economies and the possible on-going changes in the United States tariffs policy.

Management Discussion and Analysis (Cont'd)

10.0 Acknowledgement

We would like to extend our sincere appreciation to our shareholders, customers, business partners and employees for their continued trust and support.

The Board would like to record its deepest gratitude to Dato' Nik Ismail Bin Dato' Nik Yusoff and Datin Ong Poh Lin Abdullah for their invaluable contributions and dedicated service during their tenure as Directors. Their leadership, guidance and commitment have played a significant role in steering the Group through a period of transformation and the Board wishes them every success in their future endeavours.

We also take this opportunity to warmly welcome Mr. Ling Chi Hoong and Ms. Lee Lisa on their appointment to the Board. The Board is confident that their experience, expertise and fresh perspectives will further strengthen the Group's governance and support its strategic direction going forward.

The Group remains committed to transformation and resilience, with a continued focus on sustainable value creation for all stakeholders.

Chou Sing Hoan
Executive Director
27 January 2026