12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our historical consolidated financial information for the Financial Years Under Review has been extracted from the audited consolidated financial statements contained in the Accountants' Report included in Section 13 of this Prospectus.

Our financial statements have been prepared in accordance with the MFRS and IFRS. There are no accounting policies which are peculiar to our Group with regard to the nature of the business or the industry which our Group is involved in. For further details on the accounting policies of our Group, see respective notes of the Accountants' Report as set out in Section 13 of this Prospectus.

Our historical consolidated financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operation as set out in Section 12.2 of this Prospectus and the Accountants' Report, together with its accompanying notes as set out in Section 13 of this Prospectus.

12.1.1 Historical audited consolidated statements of profit or loss and other comprehensive income

	Audited		
	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Revenue	1,139,076	1,046,446	1,116,649
Cost of sales	(738,736)	(661,439)	(746,534)
GP	**400,340**	**385,007**	**370,115**
Other income	17,653	12,458	3,825
Distribution expenses	(58,009)	(77,889)	(84,870)
Administrative expenses	(51,303)	(201,059)	(62,740)
Net losses on impairment of financial instruments	(20,661)	(27,772)	(52,258)
Results from operating activities	**288,020**	**90,745**	**174,072**
Finance income	1,637	2,473	2,739
Finance costs	(40,230)	(41,246)	(38,180)
PBT	**249,427**	**51,972**	**138,631**
Tax expense	(62,991)	(49,917)	(51,762)
PAT	**186,436**	**2,055**	**86,869**
PAT attributable to:			
Owners of our Company	186,694	2,440	87,260
Non-controlling interests	(258)	(385)	(391)
PAT	**186,436**	**2,055**	**86,869**
Other comprehensive expense:			
Item that is or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	(70)	(502)	(706)
Total comprehensive income	**186,366**	**1,553**	**86,163**
Total comprehensive income attributable to:			
Owners of our Company	186,624	1,938	86,554
Non-controlling interests	(258)	(385)	(391)
Total comprehensive income	**186,366**	**1,553**	**86,163**

	FYE2021	FYE2022	FYE2023
	RM'000	**RM'000**	**RM'000**
EBITDA (RM'000) (1)	366,172	156,064	234,312
Adjusted PAT (RM'000) (2)	186,436	151,081	100,585
EBITDA margin (%) (3)	32.1	14.9	21.0
GP margin (%) (4)	35.1	36.8	33.1
PBT margin (%) (5)	21.9	5.0	12.4
PAT margin (%) (6)	16.4	0.2	7.8
Adjusted PAT margin (%) (7)	16.4	14.4	9.0
Basic and diluted EPS (sen) (8)	13.0	0.2	6.1

Notes:

(1) The following table sets out the computation in arriving at our EBITDA for the respective Financial Years Under Review (see note 2 below for information regarding the use of non-MFRS measures):

	FYE2021	FYE2022	FYE2023
	RM'000	**RM'000**	**RM'000**
PBT	249,427	51,972	138,631
Add/(Less):			
Finance income	(1,637)	(2,473)	(2,739)
Finance costs	40,230	41,246	38,180
Depreciation and amortisation	78,152	65,319	60,240
EBITDA	**366,172**	**156,064**	**234,312**

(2) The following table sets out the computation in arriving at our adjusted PAT for the respective Financial Years Under Review:

	FYE2021	FYE2022	FYE2023
	RM'000	**RM'000**	**RM'000**
PAT	186,436	2,055	86,869
Add/(Less):			
Share-based expenses(1)	-	137,509	-
Prosperity tax	-	11,517	-
Additional tax expense arising from SVDP2.0(2)	-	-	13,716
Adjusted PAT	**186,436**	**151,081**	**100,585**

Notes:

(1) Share-based expenses refer to a one-off payment pursuant to the share option scheme at an exercise price of RM1 per Share, to reward our Directors and key management team, which was granted on 15 October 2022 ("**Share-Based Expenses**").

(2) In order to mitigate the tax risk that the IRB may regard the finance lease interest income as part of the deemed profit amount under the Income Tax Leasing Regulations 1986 which should be taxed upfront rather than over the duration of the rental contract, we had participated in the Special Voluntary Disclosure Programme 2.0.

EBITDA, EBITDA margin, adjusted PAT and adjusted PAT margin are supplemental measures of our performance and liquidity that are not required by or presented in accordance with the MFRS or IFRS and should not be considered as alternatives to net income or any other performance measures derived in accordance with the MFRS or IFRS or as alternatives to cash flows from operating activities or as a measure of liquidity. In addition, EBITDA, ETBIDA margin, adjusted PAT and adjusted PAT margin are not standardised terms, and hence, a direct comparison of similarly titled measures between companies may not be possible. Other companies may calculate EBITDA, EBITDA margin, adjusted PAT and adjusted PAT margin differently from us, limiting its usefulness as a comparative measure.

(3) Computed based on EBITDA divided by revenue.

(4) Computed based on GP divided by revenue.

(5) Computed based on PBT divided by revenue.

(6) Computed based on PAT divided by revenue.

(7) Computed based on adjusted PAT divided by revenue.

(8) Computed based on PAT attributable to the owners of our Company divided by the enlarged total number of 1,432,800,000 Shares immediately after our IPO.

12.1.2 Selected consolidated statements of financial position

	Audited		
	FYE2021	FYE2022	FYE2023
	RM'000	RM'000	RM'000
Non-current assets	**656,661**	**633,642**	**752,040**
Property, plant and equipment	135,778	86,094	100,557
Right of use assets	12,462	10,173	12,112
Intangible assets	9,222	8,225	7,228
Trade and other receivables	486,727	505,707	600,545
Deferred tax assets	12,472	23,443	31,598
Current assets	**500,008**	**608,552**	**522,968**
Inventories	110,680	133,205	122,068
Trade and other receivables	295,216	330,859	308,743
Current tax assets	162	202	202
Prepayments	8,710	10,803	7,856
Cash and cash equivalents	85,240	133,483	84,099
Total assets	**1,156,669**	**1,242,194**	**1,275,008**
Non-current liabilities	**240,746**	**98,849**	**14,433**
Loans and borrowings	106,239	53,655	-
Lease liabilities	11,342	7,834	4,170
Trade and other payables	123,165	37,360	10,263
Current liabilities	**348,680**	**437,040**	**463,219**
Loans and borrowings	55,533	58,533	59,952
Lease liabilities	9,617	10,054	9,603
Trade and other payables	175,548	266,992	306,759
Provision	12,292	14,705	13,642
Current tax liabilities	29,655	14,749	8,247
Deferred income	17,021	10,140	3,659
Contract liabilities	49,014	61,867	61,357
Total liabilities	**589,426**	**535,889**	**477,652**
Share capital	44,031	44,031	186,428
Reserves	524,146	663,593	612,638
Equity attributable to owners of our Company / NA	**568,177**	**707,624**	**799,066**
Non-controlling interests	(934)	(1,319)	(1,710)
Total equity	**567,243**	**706,305**	**797,356**
Total equity and liabilities	**1,156,669**	**1,242,194**	**1,275,008**

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

The following management's discussion and analysis of our Group's financial performance and results of operations for the Financial Years Under Review should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus.

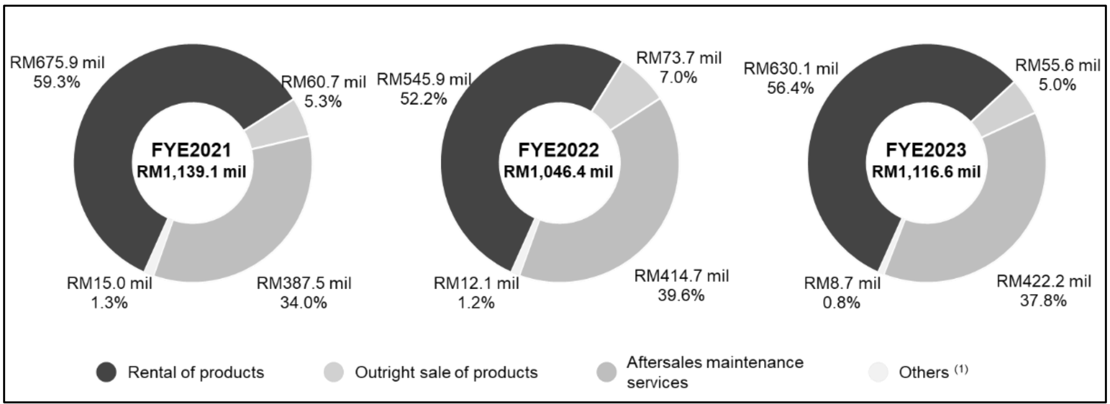
12.2.1 Overview of our operations

We are a company with a vision to be a "Healthy Home Creator", dedicated to fostering healthy lifestyles for our customers through our home appliances, household goods, skincare and nutritional food products, and home care services.

Our business comprises four segments, namely, CUCKOO-branded, CUCKOO Co-Created, WonderLab and WonderDewi, and WonderKlean. See Section 7.5 of this Prospectus for further information on these segments.

We derive our revenue mainly from the rental and outright sale of our products, and provision of aftersales maintenance services for such products under our CUCKOO-branded and CUCKOO Co-Created segments. For the FYE2021, FYE2022 and FYE2023, our revenue from the rental and outright sale of our products under our CUCKOO-branded and CUCKOO Co-Created segments contributed to 64.6%, 59.2%, and 61.4% of our total revenue respectively, whilst our revenue from the provision of aftersales maintenance services contributed to 34.0%, 39.6% and 37.8% of our total revenue respectively.

Our revenue contribution by business activities for the Financial Years Under Review are set out below:



Note:

(1) Others comprise revenue from our WonderLab and WonderDewi segment, WonderKlean segment, and IT support and maintenance services.

As at the LPD, we have operations in Malaysia and Singapore, whilst we had appointed CUCKOO Brunei as our sub-distributor for the distribution of our products and services in Brunei. Our revenue is derived mainly from Malaysia, which accounted for 98.9%, 98.7% and 98.6% of our total revenue for the FYE2021, FYE2022, and FYE2023 respectively. Please refer to Section 12.2.3(i) of this Prospectus for further details.

We distribute our products and services through an omni-channel distribution network. Our offline channels comprise our CUCKOO Sales Team and CUCKOO+ Service Group, retail outlets, and third party retailers. Our online channels comprise our e-Brandstores, e-Brandshops, and third party e-commerce platforms. See Section 7.5.5 of this Prospectus for further details on our omni-channel distribution network.

12.2.2 Significant factors that materially affect our financial condition and results of operations

(i) Significant upfront capital requirements to fund the growth of our rental business

Our business model which mainly involves offering rental plans for our products to our customers, requires us to have significant upfront capital to fund the purchase of products from our suppliers and pay sales commissions. Further, there is a mismatch between revenue recognition and operating cashflows. This is as revenue from rental of our products is recognised upfront whilst operating cash inflows are dependent on collection of rental payments from our customers over their contract terms. As such, we require significant capital and/or steady operating cashflows to fund the growth of our rental business.

Since we commenced our rental business, we have mainly relied on the support of CUCKOO Holdings Group to provide us with a longer repayment term of 24 months to finance our upfront capital requirements for the purchase of CUCKOO-branded products, which has supported our positive cashflows from operating activities for the Financial Years Under Review. This repayment term has been shortened to a 90-day period since July 2024. As at 31 August 2024, we have settled all outstanding trade payables owing to the CUCKOO Holdings Group exceeding a 90-day repayment period. Such repayment, together with the shortening of the repayment term by CUCKOO Holdings Group, is expected to result in our cashflows from operating activities being negative for future financial periods. If our internally generated funds are insufficient to fund our upfront capital requirements, our cashflows from operating activities will likely be negative. See Section 12.3.1 of this Prospectus for more information on our liquidity.

For the Financial Years Under Review, we have used a substantial amount of our cashflows to repay CUCKOO Holdings Group, which had limited our cashflows and hence, our revenue growth. For the FYE2021, FYE2022 and FYE2023:

(i) we paid RM614.7 million, RM255.3 million and RM287.2 million to the CUCKOO Holdings Group respectively; and

(ii) the amounts which remained outstanding to the CUCKOO Holdings Group were RM190.6 million, RM219.4 million, and RM187.4 million respectively.

In addition, our ability to grow our rental business is dependent on our ability to collect from our customers. See Section 7.6 of the Prospectus for details of the credit assessment checks that we conduct on our customers.

(ii) Labour expenses

We mainly rely on our contract employees and independent contractors to sell our products and services, and for the provision of our Group’s services. See Section 7.5.5.1 of this Prospectus for further details. Accordingly, labour-related expenses represent a substantial portion of our cost, and any future changes to labour related expenses, such as salary increments, increase in commissions, or increases in the statutory minimum wage of Malaysia, may have an adverse impact on our profitability.

The following table sets out the percentage of total labour expenses against our Group's revenue for the Financial Years Under Review:

	FYE2021	FYE2022	FYE2023
	RM'000	RM'000	RM'000
Employee and contract employee wages, salaries and benefits(1)	25,075	33,663	68,617
Independent contractors and contract employees commissions(2)	328,537	318,686	333,210
Total labour expenses	**353,612**	**352,349**	**401,827**
Total as a percentage of revenue(3)	31.0%	33.7%	36.0%

Notes:

(1) Wages, salaries, benefits and other reimbursements and expenses relating to permanent employees and contract employees, as well as employee benefits and reimbursements for transport expenses.

(2) Commissions paid to the independent contractors and contract employees in the CUCKOO Sales Team, the Wonder Star Team, and the CUCKOO+ Service Group.

(3) Computed based on total labour expenses divided by revenue.

In the FYE2023, we changed our distribution strategy from a direct selling to an omni-channel distribution strategy to market and distribute our products through our various offline and online channels (see Section 7.5.5 of this Prospectus for further details on our omni-channel marketing and distribution network). We expect that this change may reduce the labour-intensiveness of our business in the future.

(iii) Transfer pricing adjustments or reallocations

Our purchases of products from CKH and CUCKOO Electronics are regarded as intra-group transactions from the South Korean and Malaysian transfer pricing perspective and may be subject to scrutiny by tax authorities in South Korea and Malaysia as to whether such intra-group transactions have been conducted on an arm's length basis. Accordingly: (i) CKH and our Company; and (ii) CUCKOO Electronics and our Company, have agreed to adopt a transfer pricing policy based on the transactional net margin method where our operating profit margin will be adjusted with reference to the range of operating profit margins of selected comparable companies in Malaysia to comply with the arm's length principle.

Based on the adopted transfer pricing policy, an analysis will be carried out to determine the range of operating profit margins achieved by selected comparable companies in Malaysia, and our operating profit margin will then be benchmarked against such range of operating profit margins on a year-on-year basis. If our operating profit margin falls outside such range of operating profit margins, then our operating profit will be adjusted to fall within the range of operating profit margins of selected comparable companies in Malaysia, and vice versa. For the FYE2021 and FYE2022, we incurred RM74.3 million and RM9.2 million in transfer pricing adjustments, respectively, whilst no transfer pricing adjustments were incurred for the FYE2023.

(iv) Foreign currency exchange fluctuations

Our financial condition and results of operations are exposed to the risk of foreign currency exchange fluctuations between the RM and USD. For the Financial Years Under Review, 98.9%, 98.7%, and 98.6% of our revenue respectively were transacted in RM, and 91.0%, 77.7%, 73.8% of our total purchases respectively were transacted in USD. The purchase price of products under the CUCKOO-branded segment is primarily denominated in USD. Any unfavourable movement in exchange rates between RM and USD may have a negative impact on our financial performance.

While we may take into account buffers for foreign exchange fluctuations when determining the price for our products and rental plans, we may not be able to pass on increases in purchase cost arising from any negative impact of foreign exchange rate movements on to our customers if such negative impacts exceed our buffers, as our rental plans are longer term contracts with predetermined monthly repayment sums and the pricing for our rental plans are locked in for the duration of the contract.

In addition, our exposure in foreign currency as at the end of each of the Financial Years Under Review is as set out below:

	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Trade and other receivables	2,914	2,874	3,535
Bank loan	(161,772)	(112,188)	-
Trade and other payables	(190,609)	(219,398)	(187,423)
Total	**(349,467)**	**(328,712)**	**(183,888)**

For the FYE2021, FYE2022, and FYE2023, we recognised approximately RM16.2 million, RM21.7 million, and RM14.6 million, respectively, in foreign exchange loss on the aggregate amounts due to CUCKOO Holdings Group and to banks arising from the appreciation of the USD against the RM. Transactions with CUCKOO Brunei and CUCKOO Singapore are in USD. In addition, the financial statements of CUCKOO Singapore were prepared in SGD, its functional currency. As at the LPD, save for our cross-currency swap arrangement and interest rate swap arrangement under the BoC Loan for hedging against underlying foreign currency and interest liability exposure under such loan, we do not practice foreign currency hedging.

The foreign currency exchange rates used in our consolidated financial statements for conversion of values denominated in foreign currencies to RM are summarised in the following table:

	Average exchange rate of RM relative to the following foreign currencies			**% change in the value of RM relative to the respective foreign currency(1)**	
	FYE2021	**FYE2022**	**FYE2023**	**FYE2021-2022**	**FYE2022-2023**
SGD1.00	3.08	3.19	3.40	3.6	6.6
USD1.00	4.15	4.40	4.57	6.0	3.9

Note:

(1) A positive change in value indicates that the value of the RM depreciated relative to the respective foreign currencies, while a negative change in value indicates that the value of the RM appreciated relative to the respective foreign currencies.

(v) General economic conditions and consumer spending in Malaysia

The majority of our business is derived from our operations in Malaysia, which accounted for 98.9%, 98.7% and 98.6% of our revenue in FYE2021, FYE2022 and FYE2023, respectively. As a result, our business depends on, and will continue to depend on, Malaysian consumer spending and the general state of the Malaysian economy. Demand for, and prevailing prices of, our products relate directly to the strength of the Malaysian economy, including overall economic growth levels. As our borrowings are interest-bearing obligations, any hike in interest rates would also affect our financial performance.

Malaysia's GDP has grown at a CAGR of 2.8% between 2018 and 2023, and is expected to grow at a CAGR of 4.2% from 2023 to 2028. In general, positive conditions in the broader Malaysian economy promote customer spending on our products and services, while economic weakness, which generally results in a reduction of customer spending, may have a different or more extreme effect on spending on our products and services. More specifically, we also depend on the condition of the Malaysian home appliance and household goods industry. See Section 8 of this Prospectus for the Independent Market Research Report by Frost & Sullivan for further details on the outlook of the rental industry for home appliance and household goods in Malaysia.

Historically, there have been changes in the Malaysian tax regulations and these changes affected our costs, expenses and margins, such as the prosperity tax, which was enacted by the Finance Act 2021, under which companies with a chargeable income of up to RM100.0 million were taxed at a rate of 24%, and companies with a chargeable income of over RM100.0 million were taxed at a one-off rate of 33% for the amount exceeding RM100 million. The prosperity tax amounting to RM11.5 million was applicable to our Company in the FYE2022.

(vi) Impact of inflation

Our financial performance for the Financial Years Under Review was not materially affected by the impact of inflation. Nevertheless, there is no assurance that inflation may not affect our future results of operations and financial performance.

(vii) Government, economic, fiscal and monetary policies

Our business is subject to the risk relating to government, economic, fiscal or monetary policies in Malaysia and in countries that we operate and/or transact business. Any unfavourable changes in such government, economic, fiscal or monetary policies may materially affect our operations.

12.2.3 Results of operations

For the Financial Years Under Review, revenue from our CUCKOO-branded and CUCKOO Co-Creations segments collectively contributed to 98.7%, 98.8%, and 99.2% of our total revenue respectively, and 98.9%, 99.3%, and 99.5% of our total GP. Revenue and GP contribution from our WonderLab and WonderDewi, and WonderKlean segments were immaterial for the Financial Years Under Review. As such, the discussions and analysis on our results of operations primarily focus on our CUCKOO-branded and CUCKOO Co-Creations segments.

The results of operations of our Group are as follows:

(i) Revenue

Our revenue is derived primarily from the rental of our CUCKOO-branded and CUCKOO Co-Created products, under which:

(a) in respect of our rental contracts where ownership of our products is transferred to our customers upon completion of payment pursuant to terms of the contract, we recognise:

(1) finance lease sales upon delivery and installation (if applicable) of our products; and

(2) finance lease interest income over the duration of such contract, reflecting a constant rate of return; and

(b) in respect of our rental contracts where ownership of our products is not transferred to our customers upon completion of monthly rental instalment payments under the terms of the contract ("**Operating Lease Contracts**"), we recognise rental income on a straight-line basis over the duration of the contract. We ceased offering Operating Lease Contracts since October 2020.

Revenue from outright sales is from sale of products where customers make payment of the full purchase price of the products upfront. Such revenue is recognised at the point in time when the goods are delivered to customers and installed (if applicable).

Revenue from maintenance services is from the provision of our aftersales maintenance services including sale of spare parts, which are typically offered with our CUCKOO-branded and CUCKOO Co-Created products to our customers throughout the tenure of the rental contracts or for a limited term for outright sales. Our aftersales maintenance services are also available as packages which may be sold separately from our products. Such revenue is recognised on a periodic basis during the term of the rental contracts, or for a limited term for outright purchases.

Revenue by business segments and activities

	Audited					
	FYE2021		**FYE2022**		**FYE2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
CUCKOO-branded	**1,091,190**	**95.8**	**938,980**	**89.7**	**954,068**	**85.4**
Rental of products	650,236	57.1	465,949	44.5	501,645	44.9
- Finance lease sales	318,584	28.0	217,073	20.7	293,918	26.3
- Finance lease interest income	70,703	6.2	37,144	3.5	40,289	3.6
- Rental income	260,949	22.9	211,732	20.2	167,438	15.0
Outright sales	55,055	4.8	66,776	6.4	48,378	4.3
Maintenance services	385,899	33.9	406,255	38.8	404,045	36.2
CUCKOO Co-Created	**32,928**	**2.9**	**95,353**	**9.1**	**153,859**	**13.8**
Rental of products	25,677	2.2	79,920	7.6	128,481	11.5
- Finance lease sales	24,274	2.1	75,313	7.2	119,643	10.7
- Finance lease interest income	1,403	0.1	4,607	0.4	8,838	0.8
Outright sales	5,694	0.5	6,965	0.7	7,199	0.6
Maintenance services	1,557	0.1	8,468	0.8	18,179	1.6
Others [(1)]	14,958	1.3	12,113	1.2	8,722	0.8

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Total	**1,139,076**	**100.0**	**1,046,446**	**100.0**	**1,116,649**	**100.0**

Note:

(1) Others comprise revenue from our WonderLab and WonderDewi segment and WonderKlean segment, as well as revenue from IT support and maintenance services.

Revenue by business segments, and products and services

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
CUCKOO-branded	**1,091,190**	**95.8**	**938,980**	**89.7**	**954,068**	**85.4**
Products						
Water purifiers	616,665	54.1	486,941	46.5	504,405	45.2
Air purifiers	79,846	7.0	40,887	3.9	42,915	3.8
Others(1)	8,780	0.8	4,897	0.5	2,703	0.3
Services						
Maintenance services	385,899	33.9	406,255	38.8	404,045	36.2
CUCKOO Co-Created	**32,928**	**2.9**	**95,353**	**9.1**	**153,859**	**13.8**
Products						
Mattresses	31,371	2.8	54,125	5.2	46,705	4.2
Air conditioners	-	-	32,760	3.1	51,820	4.6
Massage chairs	-	-	-	-	37,155	3.3
Services						
Maintenance services	1,557	0.1	8,468	0.8	18,179	1.6
Others(2)	14,958	1.3	12,113	1.2	8,722	0.8
Total	**1,139,076**	**100.0**	**1,046,446**	**100.0**	**1,116,649**	**100.0**

Notes:

(1) Includes multi-cookers, kitchen appliances, and other products.

(2) Others comprise revenue from our WonderLab and WonderDewi segment and WonderKlean segment, as well as revenue from IT support and maintenance services.

Revenue by country of operations

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Malaysia	1,126,851	98.9	1,032,779	98.7	1,101,088	98.6
Singapore	5,945	0.5	7,175	0.7	7,291	0.7
Brunei	6,057	0.5	6,490	0.6	8,270	0.7
Others (1)	223	*	2	*	-	-
Total	**1,139,076**	**100.0**	**1,046,446**	**100.0**	**1,116,649**	**100.0**

* Denotes less than 0.1%.

Note:

(1) Others include revenue from South Korea and Indonesia for our sale of second-hand products provided by CKH and refurbished by us (on an ad-hoc basis).

Commentaries on revenue

<u>FYE2023 compared to FYE2022</u>

Our revenue increased by RM70.2 million or 6.7% from RM1,046.4 million for the FYE2022 to RM1,116.6 million for the FYE2023 primarily due to an increase in revenue from our CUCKOO-branded and CUCKOO Co-Created segments.

CUCKOO-branded segment

Our revenue from our CUCKOO-branded segment increased by RM15.1 million or 1.6% from RM939.0 million for the FYE2022 to RM954.1 million for the FYE2023 primarily due to an increase in revenue from finance lease sales, which was partially offset by decreases in revenue from rental income and outright sales.

(a) Our revenue from finance lease sales increased by RM76.8 million or 35.4% from RM217.1 million for the FYE2022 to RM293.9 million for the FYE2023, due to an increase by 37,985 units sold through rental plans. This was driven by an increase in sales due to more marketing and promotional activities by our Group.

(b) Our revenue from rental income decreased by RM44.3 million or 20.9% from RM211.7 million in the FYE2022 to RM167.4 million for the FYE2023. This was due to the expiry or termination of our Operating Lease Contracts, which we ceased offering since October 2020. As at 31 December 2023, there were 275,435 active Operating Lease Contracts as compared to 381,793 active Operating Lease Contracts as at 31 December 2022.

(c) Our revenue from revenue from outright sales of products decreased by RM18.4 million or 27.5% from RM66.8 million for the FYE2022 to RM48.4 million for the FYE2023 due to a decrease by 5,681 units sold, primarily comprising CUCKOO-branded water purifiers, due to the cessation of additional sales commissions which were offered by our Group to independent contractors to promote outright sales in the FYE2022.

CUCKOO Co-Created segment

Our revenue from our CUCKOO Co-Created segment increased by RM58.5 million or 61.4% from RM95.4 million for the FYE2022 to RM153.9 million for the FYE2023 primarily due to increases in revenue from finance lease sales and maintenance services.

(a) Our revenue from finance lease sales increased by RM44.3 million or 58.9% from RM75.3 million for the FYE2022 to RM119.6 million for the FYE2023, due to an increase by 9,302 units sold through rental plans, primarily comprising CUCKOO Co-Created air conditioners and massage chairs. This was following the launch of our CUCKOO Co-Created massage chair in partnership with OGAWA Malaysia in June 2023.

(b) Our revenue from maintenance services increased by RM9.7 million or 114.7% from RM8.5 million for the FYE2022 to RM18.2 million for the FYE2023. This was mainly due to an increase by 25,606 in the number of active orders.

FYE2022 compared to FYE2021

Our revenue decreased by RM92.6 million or 8.1% from RM1,139.1 million for the FYE2021 to RM1,046.4 million for the FYE2022 primarily due to a decrease in revenue from our CUCKOO-branded segment, partially offset by an increase in revenue from the CUCKOO Co-Created segment.

CUCKOO-branded segment

Our revenue from CUCKOO-branded products decreased by RM152.2 million or 13.9% from RM1,091.2 million for the FYE2021 to RM939.0 million for the FYE2022 primarily due to decreases in revenue from finance lease sales and rental income, partially offset by an increase in revenue from outright sales and maintenance services.

(a) Our revenue from finance lease sales decreased by RM101.5 million or 31.9% from RM318.6 million for the FYE2021 to RM217.1 million for the FYE2022 due to a decrease by 43,792 units sold through rental plans, as a result of our marketing and promotional activities and additional sales commissions introduced by our Group to promote outright sales.

(b) Our revenue from rental income decreased by RM49.2 million or 18.9% from RM260.9 million in the FYE2021 to RM211.7 million for the FYE2022 primarily due to the expiry or termination of our Operating Lease Contracts, which we ceased offering since October 2020. As at 31 December 2022, there were 381,793 active Operating Lease Contracts as compared to 440,996 active Operating Lease Contracts as at 31 December 2021.

(c) Our revenue from maintenance services increased by RM20.4 million or 5.3% from RM385.9 million for the FYE2021 to RM406.3 million for the FYE2022 primarily due to our entry into new contracts with a higher contract value despite recording 13,602 fewer active orders for the FYE2022.

(d) Our revenue from outright sales increased by RM11.7 million or 21.3% from RM55.1 million for the FYE2021 to RM66.8 million for the FYE2022 due to an increase by 2,170 units sold, primarily comprising CUCKOO-branded water purifiers. This was in line with marketing and promotional activities to promote outright sales and additional sales commissions introduced by our Group to encourage outright sales by our independent contractors.

CUCKOO Co-Created segment

Our revenue from the CUCKOO Co-Created segment increased by RM62.4 million or 189.6% from RM32.9 million for the FYE2021 to RM95.4 million for the FYE2022 due to increases in revenue from finance lease sales, outright sales, and maintenance services.

(a) Our revenue from finance lease sales increased by RM51.0 million or 210.3% from RM24.2 million for the FYE2021 to RM75.3 million for the FYE2022, due to an increase by 14,664 units sold through rental plans, primarily comprising CUCKOO Co-Created mattresses and air-conditioners. This was following the launch of our CUCKOO-Co-created air-conditioners in partnership with Fujiaire in January 2022.

(b) Our revenue from revenue from outright sales increased by RM1.3 million or 22.3% from RM5.7 million for the FYE2021 to RM7.0 million for the FYE2022. This was mainly due to an increase by 212 units sold, primarily comprising CUCKOO Co-Created air-conditioners, following the launch of our CUCKOO-Co-created air-conditioners in partnership with Fujiaire in January 2022.

(c) Our revenue from maintenance services increased by RM6.9 million or 443.9% from RM1.6 million in the FYE2021 to RM8.5 million in the FYE2022. This was mainly due to an increase by 21,136 in the number of active orders.

(ii) Cost of sales

Cost of sales by cost components

Our cost of sales by cost components for the Financial Years Under Review are as set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Salaries and commission related expenses	312,815	42.4	301,451	45.6	347,448	46.5
Products and spare parts costs	282,881	38.3	230,909	34.9	265,527	35.6
Revenue sharing	14,338	1.9	26,512	4.0	51,043	6.8
Costs associated with operating lease assets	84,130	11.4	54,820	8.3	41,213	5.5
Brand royalty	28,048	3.8	31,330	4.7	30,785	4.1
Others(1)	16,524	2.3	16,417	2.5	10,518	1.4
Total cost of sales	**738,736**	**100.0**	**661,439**	**100.0**	**746,534**	**100.0**

Note:

(1) Include transportation and logistics expenses, import sales tax and custom duties.

Cost of sales by business segments

Our cost of sales by business activities and products for the Financial Years Under Review are as set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
CUCKOO-branded	707,374	95.7	591,490	89.5	631,264	84.5
CUCKOO Co-Created	20,812	2.8	60,684	9.2	108,265	14.5
Others(1)	10,550	1.4	9,265	1.4	7,005	0.9
Total cost of sales	**738,736**	**100.0**	**661,439**	**100.0**	**746,534**	**100.0**

Note:

(1) Others comprise costs incurred under the WonderLab and WonderDewi segment, the WonderKlean segment, and IT related staff and server rental costs.

Commentaries on cost of sales

(a) Salaries, commissions and related expenses

Salaries, commissions and related expenses accounted for 42.4%, 45.6% and 46.5% of the total cost of sales for the FYE2021, FYE2022 and FYE2023 respectively. Our salaries, commissions and related expenses comprise salaries, commissions, wages, allowances, statutory contributions and related expenses paid to our contract employees and independent contractors, as applicable.

FYE2023 compared to FYE2022

Our salaries, commissions and related expenses increased by RM45.9 million or 15.3% from RM301.5 million for the FYE2022 to RM347.4 million for the FYE2023 primarily due to (i) a change in our compensation structure after we adopted an omni-channel network strategy which resulted in a higher amount of commission paid upfront to our contract employees and (ii) a higher number of CUCKOO-branded and CUCKOO Co-Created products sold which resulted in a higher amount of commission paid to our contract employees and independent contractors.

FYE2022 compared to FYE2021

Our salaries, commissions and related expenses decreased by RM11.4 million or 3.6% from RM312.8 million for the FYE2021 to RM301.5 million for the FYE2022 primarily due to a decrease in commissions paid to our independent contractors. This was mainly due to the lower number of products sold.

(b) Products and spare parts costs

Our products and spare parts costs comprise the cost of purchase of products, filters, spare and replacement parts, cleaning solutions and polishers from our suppliers, and transfer pricing adjustments for products purchased from CUCKOO Holdings Group.

FYE2023 compared to FYE2022

Our products and spare parts costs increased by RM34.6 million or 15.0% from RM230.9 million for the FYE2022 to RM265.5 million for the FYE2023 primarily arising from (i) an increase by RM38.7 million in product costs due to a higher number of products sold and the appreciation of the USD against the RM for the FYE2023, (ii) no transfer pricing adjustments for the FYE2023 (compared to a transfer pricing adjustment of RM9.2 million for the FYE2022) as our operating profit margins were within the range of selected comparable companies in Malaysia for the FYE2023.

FYE2022 compared to FYE2021

Our products and spare parts costs decreased by RM52.0 million or 18.4% from RM282.9 million for the FYE2021 to RM230.9 million for the FYE2022 primarily due to a decrease by RM65.0 million in transfer pricing adjustments made for the FYE2022 as our operating profit margins were higher for the FYE2021, in line with our higher revenue from our CUCKOO-branded segment. This was partially offset by an increase of RM16.4 million in costs arising from the cost of filters and spare parts as we conducted a higher number of aftersales maintenance services in FYE2021, resulting in a higher number of filters and spare parts used.

(c) Revenue sharing

Our revenue sharing represents the costs paid to our business partners namely, LSK and OGAWA Malaysia, for our mattresses and massage chairs sold under our CUCKOO Co-Created segment, which are payable upon our successful monthly collection from customers in accordance with our respective distribution agreements with our business partners. This reduces our need to have a significant upfront capital outlay to fund our purchase of products from our suppliers and pay sales commissions as our business partners are paid as and when we receive rental payments from our customers (based on an agreed ratio with each business partner) throughout the term of the rental contract. See Section 7.3.7 of this Prospectus for further information.

FYE2023 compared to FYE2022

Our revenue sharing increased by RM24.5 million or 92.5% from RM26.5 million for the FYE2022 to RM51.0 million for the FYE2023 primarily arising from commencement of our revenue sharing amounts paid to OGAWA Malaysia, as we commenced selling massage chairs following the launch of our CUCKOO Co-Created massage chair in partnership with OGAWA Malaysia in June 2023.

FYE2022 compared to FYE2021

Our revenue sharing increased by RM12.2 million or 84.9% from RM14.3 million for the FYE2021 to RM26.5 million for the FYE2022 primarily due to an increase in revenue sharing amounts paid to LSK as we sold a higher number of mattresses through rental plans.

(d) Costs associated with operating lease assets

Our costs associated with operating lease assets comprise depreciation, impairment, and write-off costs for our Operating Lease Contracts. We had ceased offering Operating Lease Contracts since October 2020, and as such, our costs associated with operating lease assets will continue to reduce until all subsisting Operating Lease Contracts with our customers terminate or expire. For the FYE2021, FYE2022 and FYE2023, our costs associated with operating lease assets accounted for 11.4%, 8.3% and 5.5% of our total cost of sales respectively.

(iii) GP and GP margin

Our GP and GP margin by business segments for the Financial Years Under Review are as set out below:

	FYE2021			FYE2022			FYE2023		
	GP		(2) GP margin	GP		(2) GP margin	GP		(2) GP margin
	RM'000	%	%	RM'000	%	%	RM'000	%	%
CUCKOO-branded	383,816	95.9	35.2	347,490	90.3	37.0	322,804	87.2	33.8
CUCKOO Co-Created	12,116	3.0	36.8	34,669	9.0	36.4	45,594	12.3	29.6
Others(1)	4,408	1.1	29.5	2,848	0.7	23.5	1,717	0.5	19.7
Total	**400,340**	**100.0**	**35.1**	**385,007**	**100.0**	**36.8**	**370,115**	**100.0**	**33.1**

Notes:

(1) Others refer to WonderLab and WonderDewi, WonderKlean, and IT support and maintenance services.

(2) Computed based on GP divided by revenue.

Commentaries on GP and GP margin

FYE2023 compared to FYE2022

Our GP decreased by RM14.9 million or 3.9% from RM385.0 million for the FYE2022 to RM370.1 million for the FYE2023 primarily due to a decrease in our GP from our CUCKOO-branded segment, partially offset by an increase in our GP from our CUCKOO Co-Created segment.

Our GP margin decreased from 36.8% in the FYE2022 to 33.1% in the FYE2023 primarily due to a decrease in our GP margin from our CUCKOO-branded segment and CUCKOO Co-Created segment.

CUCKOO-branded segment

Our GP decreased by RM24.7 million or 7.1% from RM347.5 million for the FYE2022 to RM322.8 million for the FYE2023. This was mainly contributed by the higher increase in our products and spare parts costs (as compared to our revenue), and a change in our compensation structure after we adopted an omni-channel network strategy in the FYE2023 which resulted in a higher amount of commission paid upfront to our contract employees.

As a result, our GP margin decreased from 37.0% in the FYE2022 to 33.8% in the FYE2023.

CUCKOO Co-Created segment

Our GP increased by RM10.9 million or 31.5% from RM34.7 million for the FYE2022 to RM45.6 million for the FYE2023. This was mainly contributed by increase in revenue by 61.4%, which was partially offset by a higher increase in revenue sharing amounts paid to our business partner, LSK, due to an increase in the agreed revenue sharing ratio attributable to LSK during the FYE2023, and a change in our compensation structure after we adopted an omni-channel network strategy in the FYE2023 which resulted in a higher amount of commission paid upfront to our contract employees.

As a result, our GP margin decreased from 36.4% in the FYE2022 to 29.6% in the FYE2023.

FYE2022 compared to FYE2021

Our GP decreased by RM15.3 million or 3.8% from RM400.3 million for the FYE2021 to RM385.0 million for the FYE2022 primarily due to a decrease in our GP from our CUCKOO-branded segment, partially offset by an increase in our GP from our CUCKOO Co-Created segment.

Our GP margin increased from 35.1% in the FYE2021 to 36.8% in the FYE2022 primarily due to an increase in our GP margin from our CUCKOO-branded segment.

CUCKOO-branded segment

Our GP decreased by RM36.3 million or 9.5% from RM383.8 million for the FYE2021 to RM347.5 million for the FYE2022 in line with the decrease in our revenue by 13.9%, which was mainly due to a decrease in our finance lease sales.

Notwithstanding this, our GP margin increased from 35.2% in the FYE2021 to 37.0% in the FYE2022 primarily due to lower product and spare parts costs arising from: (i) lower transfer pricing adjustments; and (ii) lower costs associated with operating lease assets.

CUCKOO Co-Created segment

Our GP increased by RM22.6 million or 186.1% from RM12.1 million for the FYE2021 to RM34.7 million for the FYE2022 in line with the increase in our revenue by 189.6% contributed by an increase in finance lease sales.

As a result, our GP margin decreased marginally from 36.8% in the FYE2021 to 36.4% in the FYE2022.

(iv) Other income

Our other income for the Financial Years Under Review is as set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Income from subleasing of short-term leases	7,949	45.0	9,372	75.2	298	7.8
Gain on bargain purchase	5,391	30.5	-	-	-	-
License fee	2,260	12.8	649	5.2	280	7.3
Lease income	-	-	-	-	577	15.1
Penalty fee	600	3.4	632	5.1	802	21.0
Flood compensation claims	-	-	332	2.7	1,343	35.1
Scrap sales	324	1.8	405	3.3	379	10.0
Others [(1)]	1,129	6.4	1,068	8.6	146	3.8
Total	**17,653**	**100.0**	**12,458**	**100.0**	**3,825**	**100.0**

Notes:

(1) Others includes courier fees charged by us to customers who purchase WonderLab products, where the total amount of each order is less than RM100, Program Subsidi Upah, which was a subsidy provided by the Malaysian government to small and medium enterprises during the Covid-19 pandemic, job and rental support scheme from Inland Revenue Authority of Singapore, compensation for defective spare parts, and others.

Commentaries on other income

FYE2023 compared to FYE2022

Our other income decreased by RM8.7 million or 69.3% from RM12.5 million for the FYE2022 to RM3.8 million for the FYE2023 primarily due to a decrease in income from subleasing by RM9.1 million as a result of our change of distribution strategy to an omni-channel distribution strategy in the FYE2023, under which we held leases directly instead of subleasing them to our independent contractors. This was partially offset by compensation amounting to RM1.3 million that we received from an insurance claim for flood-related damage to our products stored at a third-party warehouse in the FYE2023.

FYE2022 compared to FYE2021

Our other income decreased by RM5.2 million or 29.4% from RM17.7 million for the FYE2021 to RM12.5 million for the FYE2022 primarily due to a one-off gain of RM5.4 million arising from the purchase of WonderLab, which was recognised in the FYE2021, and decrease by RM1.6 million in license fee income as there was a decrease in the number of new retail outlets opened in the FYE2022.

(v) Distribution expenses

Our distribution expenses for the Financial Years Under Review are set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Marketing and advertisement expenses	25,619	44.2	33,724	43.3	34,086	40.2
Wages, salaries and others	12,272	21.2	16,807	21.6	19,649	23.2
Commission and related expenses	17,020	29.3	18,599	23.9	16,235	19.1
Depreciation of right-of-use assets	2,447	4.2	3,754	4.8	8,213	9.7
Incentive trip expenses	-	-	1,972	2.5	1,804	2.1
Depreciation of property, plant and equipment	-	-	-	-	1,491	1.8
Others[(1)]	651	1.1	3,033	3.9	3,392	4.0
Total	**58,009**	**100.0**	**77,889**	**100.0**	**84,870**	**100.0**

Note:

(1) Others include gifts and rewards, travelling and entertainment expenses, and events and functions expenses.

Commentaries on distribution expenses

<u>FYE2023 compared to FYE2022</u>

Our distribution expenses increased by RM7.0 million or 9.0% from RM77.9 million for the FYE2022 to RM84.9 million for the FYE2023 primarily arising from: (a) an increase of RM4.5 million in the depreciation of right-of-use assets, as such depreciation was recognised in the FYE2023 with respect to certain retail outlets, and not in the FYE2022 when such retail outlets were sub-leased by our Company to independent contractors before we adopted our omni-channel network strategy; (b) an increase of RM2.8 million in wages, salaries and related expenses due to an increase in staff headcount and salary increments; and (c) an initial recognition of RM1.5 million in the depreciation of property, plant and equipment as a result of the acquisition of our distribution hub located in Subang Jaya, Selangor Darul Ehsan. These were partially offset by a decrease of RM2.4 million in commissions and related expenses due to lower collections of outstanding rental payments in the FYE2023.

<u>FYE2022 compared to FYE2021</u>

Our distribution expenses increased by RM19.9 million or 34.3% from RM58.0 million for the FYE2021 to RM77.9 million for the FYE2022 primarily arising from: (a) an increase of RM8.1 million in marketing and advertisement expenses for increased marketing and advertising activities; (b) an increase of RM4.5 million in wages, salaries and related expenses due to an increase in staff headcount and salary increments; (c) an increase of RM1.6 million in commission and related expenses due to higher collections of outstanding rental payments in the FYE2022; and (d) an increase of RM1.9 million in costs relating to an incentive trip provided to our independent contractors in the FYE2022 for their sales performance.

(vi) Administrative expenses

Our administrative expenses for the Financial Years Under Review are set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Share-Based Expenses	-	-	137,509	68.4	-	-
Wages, salaries and others	12,654	24.7	16,557	8.2	20,012	31.9
Expenses relating to short-term leases	10,354	20.2	11,304	5.6	11,990	19.1
Depreciation of property, plant and equipment	3,485	6.8	3,855	1.9	5,538	8.8
Rental subsidy	8,761	17.1	9,418	4.7	451	0.7
Professional fees	1,218	2.4	3,487	1.7	1,565	2.5
Depreciation of right-of-use asset	2,194	4.3	2,345	1.2	2,253	2.6
IT maintenance services	843	1.6	2,486	1.2	1,326	2.1
Utilities	1,726	3.4	1,847	0.9	2,799	4.5
Insurance	660	1.3	615	0.3	1,702	2.7
Prepayment written off	-	-	-	-	2,956	4.7
Training	775	1.5	957	0.5	1,252	2.0
Staff benefits	616	1.2	1,312	0.7	1,002	1.6
Amortisation of WonderLab trademark	748	1.5	997	0.5	997	1.6
Maintenance	1,290	2.5	1,239	0.6	1,750	2.8
Private Retirement Scheme contribution	1,296	2.5	1,118	0.6	735	1.2
Promotional activities	850	1.7	867	0.4	681	1.1
Impairment loss on right-of-use assets	-	-	459	0.2	665	1.1
Courier charges	705	1.4	540	0.3	434	0.7
Compensation fee	138	0.3	277	0.1	425	0.7
Others[(1)]	2,990	5.8	3,870	1.9	4,207	6.7
Total	**51,303**	**100.0**	**201,059**	**100.0**	**62,740**	**100.0**

Note:

(1) Others include building-related expenses and other miscellaneous expenses.

Commentaries on administrative expenses

FYE2023 compared to FYE2022

Our administrative expenses decreased by RM138.4 million or 68.8% from RM201.1 million for the FYE2022 to RM62.7 million for the FYE2023 primarily due to: (a) a one-off recognition of RM137.5 million in Share-Based Expenses in the FYE2022, which arose under the share option scheme to reward our Executive Director and management team. Such share options were fully exercised in the FYE2023; and (b) a decrease in rental subsidy by RM9.0 million, which we ceased offering to our independent contractors following the commencement of our omni-channel distribution strategy in the FYE2023.

FYE2022 compared to FYE2021

Our administrative expenses increased by RM149.7 million or 291.9% from RM51.3 million for the FYE2021 to RM201.1 million for the FYE2022 primarily arising from: (a) a one-off recognition of RM137.5 million in Share-Based Expenses in the FYE2022; (b) an increase of RM3.9 million in wages, salaries and other employee related expenses due to an increase in staff headcount and salary increments in the FYE2022; and (c) an increase in professional fees of RM2.3 million for our IPO and other professional fees rendered to our Company.

(vii) Net losses on impairment of financial instruments

Our net losses on impairment of financial instruments for the Financial Years Under Review are set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Trade receivables	3,785	18.3	12,610	45.4	15,643	29.9
Net investment in lease	16,573	80.2	15,231	54.8	36,582	70.0
Other receivables	232	1.1	(73)	(0.2)	33	*
Inter-company balances	71	0.3	4	*	-	-
Total	**20,661**	**100.0**	**27,772**	**100.0**	**52,258**	**100.0**

* Denotes less than 0.1%.

Commentaries on net losses on impairment of financial instruments

<u>FYE2023 compared to FYE2022</u>

Our net losses on impairment of financial instruments increased by RM24.5 million or 88.2% from RM27.8 million for the FYE2022 to RM52.3 million for the FYE2023 primarily due to increases in impairment of net investment in leases based on the expected credit loss ("**ECL**") assessment under MFRS 9 which (a) reflects changes in credit risk of the trade receivables and net investment in leases at the end of the reporting period and (b) was attributed to the higher amounts of trade receivables and net investment in leases.

<u>FYE2022 compared to FYE2021</u>

Our net losses on impairment of financial instruments increased by RM7.1 million or 34.4% from RM20.7 million for the FYE2021 to RM27.8 million for the FYE2022 primarily due to an increase in impairment of net investment in leases based on the ECL assessment under MFRS 9 which reflects changes in credit risk of the trade receivables and net investment in leases at the end of the reporting period.

(viii) Finance income

Our finance income for the Financial Years Under Review is set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Interest income on deposits placed with licensed banks	1,167	71.2	2,061	83.3	2,712	99.0
Interest income on net investment in sublease	470	28.8	412	16.7	27	1.0
Total	**1,637**	**100.0**	**2,473**	**100.0**	**2,739**	**100.0**

Commentaries on finance income

FYE2023 compared to FYE2022

Our finance income increased by RM0.2 million or 10.8% from RM2.5 million for the FYE2022 to RM2.7 million for the FYE2023 primarily arising from an increase by RM0.6 million in interest income from deposits placed with licensed banks due to higher interest rate. This was offset by a decrease of RM0.4 million in interest income on net investments in sub-lease, as we ceased the sub-leasing arrangements with our independent contractors following the commencement of our omni-channel distribution strategy in the FYE2023.

FYE2022 compared to FYE2021

Our finance income increased by RM0.9 million or 51.1% from RM1.6 million for the FYE2021 to RM2.5 million for the FYE2022 primarily arising from an increase by RM0.9 million in interest income from deposits placed with licensed banks due to higher interest rate and higher bank balances.

(ix) Finance costs

Our finance costs for the Financial Years Under Review are as set out below:

	Audited					
	FYE2021		FYE2022		FYE2023	
	RM'000	%	RM'000	%	RM'000	%
Interest expense on:						
- amounts due to inter-companies	15,602	38.8	6,366	15.4	10,234	26.8
- bank and merchant charges	6,919	17.2	7,294	17.7	6,765	17.7
- loans and borrowings	198	0.5	4,801	11.6	5,556	14.5
- lease liabilities	1,359	3.4	1,135	2.8	981	2.6
Net foreign exchange loss on amounts due to inter-companies	16,152	40.1	21,650	52.5	14,644	38.3
Total	**40,230**	**100.0**	**41,246**	**100.0**	**38,180**	**100.0**

Commentaries on finance costs

FYE2023 compared to FYE2022

Our finance costs decreased by RM3.0 million or 7.4% from RM41.2 million for the FYE2022 to RM38.2 million for the FYE2023 primarily due to a decrease in net foreign exchange loss on outstanding foreign currency amounts by RM7.0 million arising from: (a) amounts owing to CUCKOO Holdings Group, which decreased from USD50.1 million in the FYE2022 to USD40.9 million in the FYE2023; and (b) decrease in outstanding amounts under the BoC Loan, which was converted from USD to RM in September 2023. This was partially offset by an increase of RM4.1 million in interest expense on our bank borrowings, and amount due to CUCKOO Holdings Group as a result of an increase in interest rates.

FYE2022 compared to FYE2021

Our finance costs increased by RM1.0 million or 2.5% from RM40.2 million for the FYE2021 to RM41.2 million for the FYE2022 primarily arising from (a) an increase by RM5.5 million in net foreign exchange loss due to changes in foreign exchange rates applied to outstanding amounts owing to CUCKOO Holdings Group and increase in outstanding amounts under the BoC Loan which were denominated in USD; and (b) an increase in interest charges on loans and bank borrowings by RM4.7 million due to additional bank borrowings of USD40.0 million. This was partially offset by a decrease by RM9.2 million in interest expense on amounts outstanding to CUCKOO Holdings Group mainly due to lower outstanding amounts in the FYE2022.

(x) PBT, PAT and taxation

Our PBT, PAT and taxation for the Financial Years Under Review are as set out below:

	FYE2021	FYE2022	FYE2023
PBT (RM'000)	249,427	51,972	138,631
PBT margin	21.9%	5.0%	12.4%
Taxation (RM'000)	62,991	49,917	51,762
Effective tax rate(1)	25.3%	96.0%	37.3%
PAT (RM'000)	186,436	2,055	86,869
PAT margin	16.4%	0.2%	7.8%

Note:

(1) Computed based on taxation divided by PBT.

Commentaries on PBT, PAT and taxation

FYE2023 compared to FYE2022

Our PBT increased by RM86.6 million or 166.7% from RM52.0 million for the FYE2022 to RM138.6 million for the FYE2023 while our PBT margin increased from 5.0% for the FYE2022 to 12.4% for the FYE2023. Our PAT increased by RM84.8 million or 41.3 times from RM2.1 million for the FYE2022 to RM86.9 million for the FYE2023 while our PAT margin improved from 0.2% for the FYE2022 to 7.8% for the FYE2023.

The improvements in PBT and PAT were mainly attributed to the lower administrative expenses as a result of a one-off recognition of RM137.5 million in Share-Based Expenses in the FYE2022, partially offset by an additional tax expense of RM13.7 million in the FYE2023 pursuant to the Special Voluntary Disclosure Programme 2.0 that we participated in. We had for the Year of Assessment ("**YA**") 2019, YA2020 and YA2021 computed our income taxes in accordance with the accounting treatment of leases, whereby our income from the rental contract attributable to the product was computed as taxable income upfront, and a tax deduction was claimed on the cost of the product, whilst the finance lease interest income was computed as taxable income over the duration of the rental contract. As the tax treatment is subject to technical interpretation of the Income Tax Leasing Regulations 1986 ("**ITLR**"), we have participated in the Special Voluntary Disclosure Programme 2.0 and voluntarily subjected our finance lease interest income to be taxed upfront rather than over the duration of the rental contract to mitigate the risk that the IRB may regard the finance lease interest income as part of the deemed profit under the ITLR. The IRB accepted our submission in good faith and issued the additional assessments amounting to RM13.7 million for YA 2019 to YA 2021, and indicated that no further review whether through an audit or investigation will be performed in the future for these YAs where the voluntary disclosure had been made. The said additional tax payable has been fully settled as at the LPD.

For the FYE2023, our effective tax rate was 37.3% which was higher than the statutory tax rate of 24.0%. This was mainly attributed to: (i) the tax effect arising from non-deductible expenses of RM16.2 million incurred mainly comprising additional tax expense of RM13.7 million arising from the Special Voluntary Disclosure Programme 2.0 that we participated in; and (ii) under-provision of RM1.2 million in prior years relating to finance lease interest income.

For the FYE2022, our effective tax rate was 96.0% which was higher than the statutory tax rate of 24.0%. This was mainly attributed to: (i) the tax effect of RM28.4 million arising from non-deductible expenses mainly comprising Share-Based Expenses; and (ii) additional tax expenses of RM11.5 million arising from prosperity tax which was enacted by the Finance Act 2021 for chargeable income above RM100.0 million at one-off rate of 33.0%. These were partially offset by over-provision in income tax for prior years relating to a gain on acquisition of business, and recognition of deferred tax assets arising from impairment of receivables.

FYE2022 compared to FYE2021

Our PBT decreased by RM197.4 million or 79.2% from RM249.4 million for the FYE2021 to RM52.0 million for the FYE2022 while our PBT margin decreased from 21.9% for the FYE2021 to 5.0% for the FYE2022. Our PAT decreased by RM184.3 million or 98.9% from RM186.4 million for the FYE2021 to RM2.1 million for the FYE2022 while our PAT margin decreased from 16.4% for the FYE2021 to 0.2% for the FYE2022.

The decrease in PBT and PAT were primarily due to the lower GP, and higher administrative expenses incurred for the FYE2022 as a result of a one-off Share-Based Expenses of RM137.5 million.

For the FYE2021, our effective tax rate was 25.3% which was higher than the statutory tax rate of 24.0%. This was mainly attributed to the tax effect arising from under-provision in deferred tax liability arising from unrealised foreign exchange gain.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

Our working capital is funded through a combination of both internal and external sources of funds. Our internal sources of funds comprise shareholders’ equity and cash generated from our operations, whilst external sources were mainly banking facilities from financial institutions. These funds were used for our operations and growth.

Based on our audited consolidated statement of financial position as at 31 December 2023, we have cash and cash equivalents of RM84.1 million and working capital of RM59.7 million (calculated as current assets less current liabilities). After taking into consideration of our Group’s funding requirements for our committed capital expenditures, our existing level of cash and bank balances, new banking facilities that may be granted to us, expected cash flows to be generated from our operations and the estimated net proceeds from the Public Issue, our Board is of the view that we have sufficient working capital for 12 months from the date of this Prospectus.

12.3.2 Cash flows

A summary of our audited consolidated statements of cash flows for the Financial Years Under Review is as set out below:

	Audited		
	FYE2021	FYE2022	FYE2023
	RM'000	RM'000	RM'000
Net cash from operating activities	60,613	149,496	103,389
Net cash used in investing activities	(4,166)	(25,825)	(40,630)
Net cash used in financing activities	(49,929)	(74,930)	(111,475)
Net increase/(decrease) in cash and cash equivalents	**6,518**	**48,741**	**(48,716)**
Cash and cash equivalents at the beginning of the financial year	78,717	85,240	133,483
Effect of exchange rate fluctuations on cash held	5	(498)	(668)
Cash and cash equivalents at the end of the financial year	**85,240**	**133,483**	**84,099**

All of our cash and cash equivalents are held in RM and foreign currencies including USD and SGD. There are no legal, financial or economic restrictions on our subsidiaries' ability to transfer funds to our Company in the form of cash dividends, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenants. Please refer to Section 15.5 of this Prospectus for further details on the repatriation of capital and remittance of profit from our subsidiaries.

Commentaries on cash flows

FYE2021

Net cash from operating activities

Our net cash from operating activities was RM60.6 million after taking into account the following:

(i) an increase by RM168.6 million in trade and other receivables mainly due to higher net investment in leases;

(ii) a decrease by RM86.1 million in trade and other payables mainly due to the conversion of trade payables owing to CKH into a shareholders' loan;

(iii) an increase by RM23.5 million in inventories mainly due to higher goods in transit;

(iv) payment of interest of RM23.9 million; and

(v) payment of taxes of RM39.3 million.

Net cash used in investing activities

Our net cash used in investing activities was RM4.2 million, which was primarily attributable to the following:

(i) RM3.6 million used for purchase of property, plant and equipment that mainly comprised: (a) renovations for distribution centres and retail outlets of RM1.6 million; and (b) computers and software of RM1.0 million;

(ii) RM1.8 million used for the acquisition of the beauty care business from Wonderlab Resources (M) Sdn. Bhd.; and

(iii) RM1.2 million for interest received from short-term deposits with financial institutions.

Net cash used in financing activities

Our net cash used in financing activities was RM49.9 million, which was primarily attributable to the following:

(i) RM201.6 million in repayment of loan from our immediate holding company, CKH;

(ii) RM10.7 million in payment of lease liabilities relating to rental of premises which was recognised in accordance with MFRS 16 Leases;

(iii) RM4.7 million in repayment of the BoC Loan; and

(iv) RM167.2 million from the drawdown of the BoC Loan which was utilised for the repayment of amounts owing to CUCKOO Holdings Group.

FYE2022

Net cash from operating activities

Our net cash from operating activities was RM149.5 million after taking into account the following:

(i) an increase in inventories of RM23.4 million due to increase in finished goods arising from a decrease in sale of products;

(ii) an increase in trade and other receivables of RM60.3 million due to higher net investment in leases; and

(iii) payment of taxes of RM75.8 million.

Net cash used in investing activities

Our net cash used in investing activities was RM25.8 million, which was primarily attributable to the following:

(i) RM19.7 million used for deposit for the acquisition of our distribution hub in Subang Jaya, Selangor Darul Ehsan;

(ii) RM8.3 million used for the acquisition of property, plant and equipment which mainly comprise our acquisition of office premises in Shah Alam (see Appendix IV for this Prospectus for further details); and

(iii) RM2.1 million in interest received from short-term deposits with financial institutions.

Net cash used in financing activities

Our net cash used in financing activities was RM74.9 million, which was primarily attributable to the following:

(i) RM58.4 million in repayment of the BoC Loan;

(ii) RM11.7 million in payment of lease liabilities relating to rental of premises which was recognised in accordance with MFRS 16, Leases; and

(iii) RM4.8 million in interest paid on the BoC Loan.

FYE2023

Net cash from operating activities

Our net cash from operating activities was RM103.4 million after taking into account the following:

(i) a decrease in inventories of RM11.1 million due to lower finished goods in line with increase in sale of products;

(ii) an increase in trade and other receivables and prepayments of RM147.3 million mainly due to higher net investment in leases;

(iii) an increase in trade and other payables of RM42.0 million due to higher purchases from suppliers; and

(iv) payment of taxes of RM66.4 million.

Net cash used in investing activities

Our net cash used in investing activities was RM40.6 million, which was primarily attributable to the following:

(i) RM43.3 million used for acquisition of property, plant and equipment which mainly comprise the remaining balance for the acquisition of our distribution hub in Subang Jaya, Selangor Darul Ehsan; and

(ii) RM2.7 million in interest received from short-term deposits with financial institutions.

Net cash used in financing activities

Our net cash used in financing activities was of RM111.5 million, which was primarily attributable to the following:

(i) RM57.1 million in repayment of the BoC Loan;

(ii) RM42.2 million repayment of loan from our immediate holding company, CKH;

(iii) RM11.5 million in payment of lease liabilities relating to rental of premises, which was recognised in accordance with MFRS 16, Leases; and

(iv) RM5.6 million in interest paid on the BoC Loan; and

(v) RM4.9 million received from the issuance of shares by our Company pursuant to the exercise of employees share options granted in FYE2022 to our Executive Director and management personnel.

12.3.3 Key financial ratios

Our key financial ratios for the Financial Years Under Review are as set out below:

	FYE2021	**FYE2022**	**FYE2023**
Trade receivables turnover period (days)(1)	217	283	307
Trade payables turnover period (days)(2)	150	76	88
Inventory turnover (days)(3)	49	67	62
Current ratio (times)(4)	1.4	1.4	1.1
Gearing ratio (times)(5)	0.3	0.2	0.1
Total borrowings(6)	161,772	112,188	59,952

Notes:

(1) Computed based on average gross trade receivables and net investment in lease as at the beginning and end of the financial year divided by total revenue for such financial year, and multiplied by 365 days.

(2) Computed based on average trade payables as at the beginning and end of the financial year divided by total cost of sales of such financial year, and multiplied by 365 days.

(3) Computed based on average inventories as at the beginning and end of the financial year divided by total cost of sales of such financial year, and multiplied by 365 days.

(4) Computed based on current assets divided by current liabilities.

(5) Computed based on total loans and bank borrowings and total lease liabilities, divided by total equity.

(6) Total borrowings consist of interest-bearing bank borrowings.

(i) Trade receivables turnover

Our trade receivables for the Financial Years Under Review are as set out below:

	Audited		
	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Opening trade receivables	586,666	769,273	852,233
- Net investment in lease	530,303	729,668	806,536
- Trade receivables	56,363	39,605	45,697
Closing trade receivables	769,273	852,233	1,025,881
- Net investment in lease	729,668	806,536	963,612
- Trade receivables	39,605	45,697	62,269
Average trade receivables	677,970	810,753	939,057
Total revenue	1,139,076	1,046,446	1,116,649
Trade receivables turnover period (days)(1)	**217**	**283**	**307**

Note:

(1) Computed based on average trade receivables divided by total revenue for such financial year, and multiplied by 365 days.

We generally offer our corporate customers a payment period of up to 60 days. Our customers who purchase products and services through rental plans, save for corporate customers, make payments upfront, with balance payments being made on a monthly basis over the course of the relevant contract term.

Our average trade receivables turnover period increased from 283 days as at 31 December 2022 to 307 days as at 31 December 2023. This was mainly due to increase in sale of products with rental plans of longer tenure.

Our average trade receivables turnover period increased from 217 days as at 31 December 2021 to 283 days as at 31 December 2022. This was mainly due to increase in sale of products with rental plans of longer tenure.

As at 31 August 2024, we had RM67.9 million in trade receivables outstanding, which comprised primarily monthly rental payments from our customers.

The ageing analysis for our trade receivables as at 31 December 2023 is as follows:

		Past due (months)						
	Current	1	2	3	4	5	More than 5	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	13	11,981	5,139	3,243	2,797	2,874	36,222	62,269
% of total trade receivables	-	19.2%	8.3%	5.2%	4.5%	4.6%	58.2%	100.0%
Subsequent collections up to the LPD	13	11,542	4,006	2,269	1,688	1,517	5,096	26,131
Outstanding trade receivables as at LPD	-	439	1,133	974	1,109	1,357	31,126	36,138
% of total trade receivables	-	0.7%	1.8%	1.5%	1.8%	2.2%	50.0%	58.0%

We do not have any significant exposure to any individual customer as the value of each monthly rental payment by them is low. Our customers are subject to credit assessment checks before they are allowed to purchase our products under a rental plan. Generally, our ability to collect payments from customers reduces as the period for which such payments are past due increases. As at the LPD, we have collected approximately RM26.1 million or 42.0% of the total trade receivables which were outstanding as at 31 December 2023.

(ii) Trade payables turnover

Our trade payables for the Financial Years Under Review are as set out below:

	Audited		
	FYE2021	FYE2022	FYE2023
	RM'000	RM'000	RM'000
Opening trade payables	482,001	125,986	148,573
- Amount due to immediate holding company	463,192	66,759	98,966
- Amount due to a related corporation	11,010	268	2,035
- Trade payables	1,455	4,703	8,675
- Trade accruals	6,344	54,256	38,897
Closing trade payables	125,986	148,573	212,342
- Amount due to immediate holding company	66,759	98,966	140,339
- Amount due to a related corporation	268	2,035	153
- Trade payables	4,703	8,675	34,431
- Trade accruals	54,256	38,897	37,419
Average trade payables	303,994	137,280	180,458
Cost of sales	738,736	661,439	746,534
Trade payables turnover period (days) (1)	**150**	**76**	**88**

Note:

(1) Computed based on average trade payables divided by total cost of sales of such financial year, and multiplied by 365 days.

In July 2024, our repayment term for CUCKOO Holdings Group was changed from 24 months to 90 days. The normal credit period granted to us by our other suppliers generally range from 30 to 90 days. We have entered into revenue sharing arrangements with LSK and OGAWA Malaysia, under which payments for rental plans are made upon successful monthly collection from our customers in accordance with our respective distribution agreements with them throughout the term of the rental contract.

Our trade payables turnover period increased from 76 days for the FYE2022 to 88 days for the FYE2023 primarily due to an increase in trade payables owing to LSK and OGAWA Malaysia under revenue sharing arrangements which are payable over the term of the rental contract.

Our trade payables turnover period improved from 150 days as at 31 December 2021 to 76 days as at 31 December 2022. This was mainly due to the conversion of trade payables owing to CKH into a shareholders' loan.

The ageing analysis for our trade payables as at 31 December 2023 is as follows:

		Past due (months)				
	Current	**1**	**2**	**3**	**More than 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	117,321	38,197	2,907	4,331	12,167	174,923
% of total trade payables	67.1%	21.8%	1.7%	2.5%	7.0%	100.0%
Subsequent payments up to the LPD	114,262	30,339	2,406	950	4,052	152,009
Outstanding trade payables as at the LPD	3,059	7,858	501	3,381	8,115	22,914
% of total trade payables	1.7%	4.5%	0.3%	1.9%	4.6%	13.0%

As at 31 August 2024, we have paid RM152.0 million or 86.9% of our total outstanding trade payables as at 31 December 2023. The trade payables that are past due are primarily attributable to revenue sharing arrangements with our business partners.

(iii) Inventory turnover

Our inventory comprises finished goods and goods in transit, which are products we purchase from CKH and our business partners who are our suppliers. Our inventories for the Financial Years Under Review are as set out below:

	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Closing inventory	110,680	133,205	122,068
- Finished goods	76,441	118,754	98,057
- Goods in transit	34,239	14,451	24,011
Opening inventory	87,370	110,680	133,205
Average inventory	99,025	121,943	127,637
Cost of goods sold	738,736	661,439	746,534
Inventory turnover (days)[(1)]	49	67	62

Note:

(1) Computed as an average of the opening and closing inventory for the financial year divided by cost of goods sold for such financial year, multiplied by number of days in the financial year.

Our inventory turnover period improved from 67 days for the FYE2022 to 62 days for the FYE2023. This was mainly attributed to the higher cost of sales in line with higher number of units of CUCKOO-branded and CUCKOO Co-Created products sold in the FYE2023.

Our inventory turnover period increased from 49 days for the FYE2021 to 67 days for the FYE2022. This was mainly due to an increase in finished goods and lower cost of sales, both in line with lower sale of products.

(iv) Current ratio

Our current ratio for the Financial Years Under Review is as set out below:

	Audited		
	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Current assets	500,008	608,552	522,968
Current liabilities	348,680	437,040	463,219
Current ratio (times)	1.4	1.4	1.1

Our current ratio decreased from 1.4 times as at 31 December 2022 to 1.1 times as at 31 December 2023 primarily due to lower cash and cash equivalents arising from the purchase of a distribution hub in Subang Jaya, Selangor Darul Ehsan in cash.

Our current ratio remained at 1.4 times as at 31 December 2021 and 31 December 2022.

(v) Gearing ratio

Our gearing ratio for the Financial Years Under Review is as set out below:

	Audited		
	FYE2021	**FYE2022**	**FYE2023**
	RM'000	**RM'000**	**RM'000**
Loans and borrowings	161,772	112,188	59,952
Lease liabilities	20,959	17,888	13,773
Total equity	567,243	706,305	797,356
Gearing ratio (times)(1)	0.3	0.2	0.1

Note:

(1) Computed based on total loans and bank borrowings and total lease liabilities, divided by total equity.

Our gearing ratio decreased from 0.2 times as at 31 December 2022 to 0.1 times as at 31 December 2023 primarily due to the repayment of the BoC Loan in the FYE2023.

Our gearing ratio decreased from 0.3 times as at 31 December 2021 to 0.2 times as at 31 December 2022 primarily due to the repayment of the BoC Loan in the FYE2022.

12.3.4 Bank borrowings

As at 31 December 2023, our Group's total outstanding bank borrowings amounted to RM59.9 million, all of which were related to interest-bearing bank loans. For more information on our bank borrowings, see Note 13 of the Accountants' Report in Section 13 of this Prospectus.

We have not been in default of either interest or principal for any of our bank borrowings during the Financial Years Under Review, and from 1 January 2024 up to and including the LPD.

As at the LPD, we are not in breach of the terms and conditions or covenants associated with our bank borrowings which would materially affect our financial position and results of operations or the investment in our Shares. There is no seasonality in our bank borrowings trend and there is no restrictions on the use of our committed banking facilities.

As at 31 December 2023, all our bank borrowings of RM59.9 million are fixed rate borrowings. The maturity profile of our bank borrowings as at 31 December 2023 is as set out below:

	Contractual interest rate	On demand or within 1 year	Within 1 year to 5 years	Over 5 years	Total
	%	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Term loan	4.00	59,952	-	-	59,952

We plan to meet our contractual cash obligations through our cash and cash equivalents on hand, as well as cash generated from future operations and funding from other financing activities (if required).

The currency profile of our bank borrowings as at 31 December 2023 is as set out below:

	Payable within 12 months	Payable after 12 months	Total
	RM'000	**RM'000**	**RM'000**
RM / CNY(1)	59,952	-	59,952

Note:

(1) Our BoC Loan is denominated in CNY, pursuant to which we have entered into a cross-currency swap arrangement for hedging against underlying foreign currency exposure under such loan.

12.3.5 Capital expenditure and divestiture

Capital expenditure

Our capital expenditure for the Financial Years Under Review is as below:

	FYE2021	FYE2022	FYE2023	From 1 January to 31 August 2024
	RM'000	**RM'000**	**RM'000**	**RM'000**
Capital work-in-progress	-	6,000	-	-
Buildings	-	-	57,704	-
Furniture and fittings	423	387	1,193	396
Equipment	300	235	641	81
Computers and software	1,048	632	347	101
Motor vehicles	70	232	455	-
Renovation	1,925	828	2,599	1,350
Signage and signboards	181	116	93	88
Total	**3,947**	**8,430**	**63,032**	**2,016**

Our capital expenditure for the FYE2021 mainly comprised costs in relation to computers and software purchased for our employees and renovation costs for our distribution centres and retail outlets.

Our capital expenditure for the FYE2022 mainly comprised capital work-in-progress for the acquisition of our office premises.

Our capital expenditure for the FYE2023 mainly comprised costs in relation to the purchase of a distribution hub in Subang Jaya, Selangor Darul Ehsan, and renovation costs for our retail outlets and the distribution hub.

Our capital expenditure for the period from 1 January 2024 to 31 August 2024 mainly comprised renovation costs for our retail outlets.

Capital divestiture

In September 2022, we disposed of our entire equity interest of 28.44% in CUCKOO Indonesia to a third party for a total cash consideration of RM152,000, following our management's decision to focus on our existing markets. Save for this, we did not undertake any capital divestitures for the Financial Years Under Review, and for the period from 1 January 2024 to 31 August 2024.

12.3.6 Material capital commitments and contractual obligations

Our material capital commitments as at the LPD are as follows:

	As at the LPD
	RM'000
Approved but not contracted for:	
Opening of Brandshops	[●]
Upgrading of IT systems	[●]
Total	[●]

We plan to meet our material capital commitments through proceeds from our IPO, with any shortfall to be funded from internally generated funds and/or external financing. Please refer to Section 4.5 of this Prospectus for further details on our utilisation of proceeds.

Save as disclosed above, as at the LPD, we do not have any other material capital commitments incurred or known to be incurred by us that may have a material adverse effect on our financial results.

12.3.7 Order book

Due to the nature of our business, we do not maintain an order book.

12.3.8 Trend information

Save as disclosed in this Prospectus, and to our Board's knowledge and belief, there are no other known factors, trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our business, financial condition and results of operations or make our Group's historical consolidated financial statements not indicative of our future financial performance and position.

12.3.9 Treasury policies and objectives

One of the main treasury responsibilities is to ensure that we have the liquidity and cash to meet our obligations as they fall due. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations, as well as loans and borrowings. It is the responsibility of treasury to identify, quantify, monitor and control the risks (liquidity, interest, currency, credit, legal and regulatory) associated with these activities, using appropriate mitigation techniques.

The overarching goal of our capital management is to ensure sustainability of shareholders' equity, thereby fortifying our capacity to support and expand our business to maximise shareholders' value.

12.4 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 July 2024, and after adjusting for the effects of the Public Issue and utilisation of IPO proceeds as set out in Section 4.5 of this Prospectus:

	Unaudited	(I)	(II)
	As at 31 July 2024	After Public Issue	After (I) and use of our IPO proceeds
	RM'000	RM'000	RM'000
Indebtedness:			
Current			
Secured and unguaranteed			
Term loans	95,001	95,001	[●]
Unsecured and unguaranteed			
Term loan	11,118	11,118	11,118
Hire purchase	29	29	29
Lease liabilities	8,853	8,853	8,853
	115,001	115,001	[●]
Non-current			
Secured and unguaranteed			
Term loans	146,800	146,800	146,800
Unsecured and unguaranteed			
Term loan	23,882	23,882	23,882
Hire purchase	2	2	2
Lease liabilities	3,173	3,173	3,173
	173,857	173,857	173,857
Total indebtedness	**288,858**	**288,858**	**[●]**
Shareholders' equity/capitalisation:			
Share capital	186,428	[●]	[●]
Reserves	621,082	[●]	[●]
Total equity attributable to owners of our Company	**807,510**	[●]	[●]
Non-controlling interests	(2,043)	(2,043)	(2,043)
Total capitalisation/shareholders' equity	**805,467**	[●]	[●]
Total capitalisation and indebtedness	**1,094,325**	[●]	[●]
Gearing ratio (times) [(1)]	0.36	[●]	[●]

Note:

(1) Computed based on total indebtedness divided by total capitalisation / shareholders' equity.

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

12.5 DIVIDEND POLICY

No inference should be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in the future.

The actual dividend that our Board may recommend or declare in any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by our Board. In considering the level of dividend payments, if any, upon recommendation by our Board, we intend to consider various factors including:

(i) the level of our cash, gearing, return on equity and retained earnings;

(ii) our projected levels of capital expenditure and other growth/investment plans; and

(iii) applicable restrictive covenants and conditions under our financing documents.

As at the LPD, our Group has banking facilities with Bank of China (Malaysia) Berhad, Affin Islamic Bank Berhad and AmBank (M) Berhad, pursuant to which we are restricted from declaring dividends without the said financial institutions' written consents. These restrictions will remain in place for as long as the facilities are subsisting, unless the terms are otherwise varied or amended.

Our ability to declare dividends will depend upon our operating results, earnings, capital requirements, general financial condition and other relevant factors including exchange controls.

We target a payout ratio of at least 20% of our net profit attributable to the owners of our Company for each financial year on a consolidated basis after taking into account working capital, maintenance capital and committed capital requirements of our Group. The declaration and payment of any dividend is subject to the confirmation of our Board as well as any applicable law, licence conditions and contractual obligations and provided that such distribution will not be detrimental to our cash requirements or any plan approved by our Board.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our future dividends which are subject to modification (including non-declaration thereof) at our Board's discretion. There can be no assurance that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that future dividends declared by our Board, if any, will not differ materially from historical dividend levels. See Section 9.1.4 of this Prospectus for the factors which may affect or restrict our ability to pay dividends.

We did not declare or pay any dividends to our shareholders for the FYE2021 and FYE2022. For the FYE2023, we declared a dividend of RM73.4 million (dividend payout ratio of 84.1%) which was paid on 25 April 2024 ("**Dividend**"). The Dividend was fully funded via internally generated funds. Our Directors confirm that such dividend declared and paid is not expected to affect our future plans and strategies as set out in Section 7.4 of this Prospectus moving forward. We do not intend to declare any dividends prior to our Listing.