

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated in Malaysia under the Act on 12 April 2023 to facilitate our Listing. On [date], we formed our Group upon completion of the Pre-IPO Restructuring. All the Target Companies acquired by our Company pursuant to the Acquisition are assumed to be under the common control of our Company. As such, the historical financial information of our Group for the Period Under Review is presented based on the combined audited financial statements of our Group.

Our historical combined financial statements have been prepared in accordance with the MFRS and IFRS. There are no accounting policies which are peculiar to our Group in regard to the nature of the business or the industry which our Group is involved in and there has been no audit qualification on our audited combined financial statements for the Period Under Review.

The following selected historical financial information should be read in conjunction with the “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” as set out in **Section 12.3** of this Prospectus and Accountants’ Report, together with its accompanying notes, as set out in **Section 13** of this Prospectus.

12.1.1 Combined statements of profit or loss and other comprehensive income

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Continuing operations</u>					
Revenue	121,840	101,881	158,125	85,557	103,469
Cost of sales	(58,886)	(49,390)	(95,592)	(53,215)	(67,176)
GP	62,954	52,491	62,533	32,342	36,293
Other income	919	1,437	1,274	114	79
Administrative expenses	(17,540)	(21,006)	(26,726)	(10,432)	(12,884)
Finance costs	(173)	(176)	(303)	(142)	(176)
PBT from continuing operations	46,160	32,746	36,778	21,882	23,312
Taxation	(12,478)	(8,965)	(11,621)	(6,658)	(7,247)
PAT and total comprehensive income from continuing operations	33,682	23,781	25,157	15,224	16,065
<u>Discontinued operations</u> ⁽¹⁾					
(LAT)/PAT from discontinued operations	(74)	184	1,195	864	1,109
PAT and total comprehensive income	33,608	23,965	26,352	16,088	17,174
EBITDA ⁽²⁾	48,780	35,516	40,054	23,423	25,201
GP margin (%) ⁽³⁾	51.7	51.5	39.5	37.8	35.1
PBT margin (%) ⁽⁴⁾	37.9	32.1	23.3	25.6	22.5
PAT margin (%) ⁽⁵⁾	27.6	23.3	15.9	17.8	15.5
Basic EPS (sen) ⁽⁶⁾	7.5	5.3	5.6	3.4	3.6
Diluted EPS (sen) ⁽⁷⁾	5.6	4.0	4.2	2.5	2.7

12. FINANCIAL INFORMATION (Cont'd)**Notes:**

- (1) On 28 June 2023, we have completed the Disposal of Swift Paragon. Please see **Section 6.3.1** of this Prospectus for more information on the Disposal of Swift Paragon.

Accordingly, the assets and liabilities of Swift Paragon for the Period Under Review are classified as disposal group classified as held for sale and the financial results of Swift Paragon are classified as discontinued operations.

- (2) Computed as follows:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
PAT from continuing operations	33,682	23,781	25,157	15,224	16,065
Add: Finance costs	173	176	303	142	176
Income tax expense	12,478	8,965	11,621	6,658	7,247
Depreciation	2,447	2,594	2,973	1,399	1,713
Less: Interest income	-	-	-	-	-
EBITDA	48,780	35,516	40,054	23,423	25,201

- (3) Computed based on GP divided by revenue.
- (4) Computed based on PBT from continuing operations divided by revenue.
- (5) Computed based on PAT from continuing operations divided by revenue.
- (6) Computed based on PAT from continuing operations over our total number of 450,000,000 Shares after the Acquisition but before our IPO.
- (7) Computed based on PAT from continuing operations over our enlarged total number of 600,000,000 Shares after our IPO.

12.1.2 Combined statements of financial position

	Audited			
	As at 31 December			As at 30 June
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	5,191	4,971	6,344	7,098
Right-of-use assets	1,750	2,818	15,863	17,634
Goodwill	425	425	425	425
Total non-current assets	7,366	8,214	22,632	25,157
Current assets				
Inventories	24,758	33,226	35,021	34,103
Trade and other receivables	255,751	263,346	343,411	372,323
Current tax assets	516	674	430	196
Cash and bank balances	14,551	14,369	8,606	12,600
	295,576	311,615	387,468	419,222
Assets classified as held for sale	167	14,392	24,468	-
Total current assets	295,743	326,007	411,936	419,222
Total assets	303,109	334,221	434,568	444,379

12. FINANCIAL INFORMATION (Cont'd)

	Audited		
	As at 31 December		As at 30 June
	2020	2021	2022
	RM'000	RM'000	RM'000
Equity			
Invested equity	27,683	27,683	27,683
Retained profits	104,327	122,857	144,112
Total equity	132,010	150,540	171,795
Non-current liabilities			
Lease liabilities	745	1,543	10,794
Loans and borrowings	1,177	1,126	3,750
Deferred tax liabilities	54	12	74
Total non-current liabilities	1,976	2,681	14,618
Current liabilities			
Lease liabilities	1,071	1,340	1,702
Loans and borrowings	85,575	87,958	143,184
Other payables	78,119	90,926	101,921
Current tax liabilities	4,210	705	1,147
	168,975	180,929	247,954
Liabilities directly associated with the assets classified as held for sale	148	71	201
Total current liabilities	169,123	181,000	248,155
Total liabilities	171,099	183,681	262,773
Total equity and liabilities	303,109	334,221	434,568

12.2 CAPITALISATION AND INDEBTEDNESS

Our capitalisation and indebtedness based on the latest unaudited financial information as at 30 September 2023 and after adjusting for the effects of the Pre-IPO Restructuring, Public Issue and utilisation of proceeds are summarised in the table below:

	Unaudited as at 30 September 2023	I After the Pre-IPO Restructuring	II After I and Public Issue	III After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(1) -	171,647	[•]	[•]
Total capitalisation	(1) -	171,647	[•]	[•]
Indebtedness				
Current				
Secured and guaranteed				
- Term loans	-	133	133	133
- Bank overdrafts	-	30,841	30,841	30,841
- Revolving credit	-	144,600	144,600	144,600
	-	175,574	175,574	175,574

12. FINANCIAL INFORMATION (Cont'd)

	Unaudited as at 30 September 2023 RM'000	I After the Pre-IPO Restructuring RM'000	II After I and Public Issue RM'000	III After II and utilisation of proceeds RM'000
Unsecured and unguaranteed				
- Loans from related parties	-	41,901	41,901	41,901
- Loan from directors	-	13,698	13,698	13,698
- Loans from shareholders	-	19,236	19,236	19,236
- Lease liabilities	-	1,780	1,780	1,780
	-	76,615	76,615	76,615
Non-current Secured and guaranteed				
- Term loans	-	3,679	3,679	3,679
Unsecured and unguaranteed				
- Lease liabilities	-	13,823	13,823	13,823
Total indebtedness	-	269,691	269,691	269,691
Total capitalisation and indebtedness	-	441,338	[•]	[•]
Gearing ratio (times) ⁽²⁾	-	1.48	[•]	[•]

Notes:

(1) Less than RM1,000.

(2) Computed based on total indebtedness (excluding lease liabilities) divided by total capitalisation. Lease liabilities of our Group comprise of tenancy agreements entered with the landlords in relation to the lease of pawnshops and retail outlets, which are recognised in accordance with MFRS 16 Leases. Pursuant thereto, lease liabilities are excluded from the calculation of gearing ratio in view that these lease liabilities are not related to the borrowings by our Group.

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

12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our financial condition and results of operations for the Period Under Review should be read in conjunction with the Accountant's Report as set out in **Section 13** of this Prospectus.

This discussion and analysis contain data derived from our audited combined financial statements as well as forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ significantly from those anticipated in these forward-looking statements. The factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed in **Section 12.3.2** and elsewhere in this Prospectus, particularly the risk factors as set out in **Section 9** of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)

12.3.1 Overview of our operations

Our Company is an investment holding company and through our subsidiaries, we are principally involved in the provision of pawnbroking services and business of retail and trading of jewellery and gold.

Please refer to **Section 7** of this Prospectus for an overview of our businesses.

(i) Revenue

Our revenue is derived from the following:

- (a) Pawnbroking services:
 - (aa) Monthly interest charges earned from the pawn loan is recognised on time-proportion basis using the effective interest method. We recognise interest income based on the outstanding pawn loans receivable at the end of each month. We charge a monthly interest rate which ranges between 1.00% to 2.00% of the pawn loan amount; and
 - (bb) One-off administrative fees for our pawnbroking services are recognised at a point in time when the performance obligation is satisfied upon issuance of pawn ticket. We may charge a maximum one-off administrative fee of RM0.50 for the issuance of pawn tickets for any pawn loans of more than RM10.00.
- (b) Retail and trading of jewellery and gold:
 - (aa) Sale of new as well as pre-owned jewellery and gold, and watches through our retail outlets, our websites and e-commerce platforms; and
 - (bb) Sale of scrap gold to scrap gold traders.

Revenue from our retail and trading of jewellery and gold segment is recognised at the point when the control of goods is passed to the customers, at the point of transfer of significant risk and rewards of ownership of our products to the customers. Revenue recognised usually upon the invoice price, net of returns and allowances, trade discounts and volume rebates given to customers.

Our revenue for the Period Under Review was derived from pawnbroking services and retail and trading of jewellery and gold business located in Johor, Malaysia. Our products and services sold are denominated in RM.

12. FINANCIAL INFORMATION (Cont'd)

The table below set out our revenue by business segments for the Period Under Review:

	FYE 2020		Audited FYE 2021		FYE 2022		Unaudited FPE 2022		Audited FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Pawnbroking services ⁽¹⁾										
- Interest income	51,848	42.6	51,618	50.7	59,266	37.5	28,740	33.6	34,610	33.5
- Administrative fees	192	0.1	187	0.1	232	0.1	110	0.1	130	0.1
	52,040	42.7	51,805	50.8	59,498	37.6	28,850	33.7	34,740	33.6
Retail and trading of jewellery and gold										
- Retail sales of jewellery and gold	10,040	8.3	11,078	10.9	22,713	14.4	12,567	14.7	10,851	10.5
- Sales of scrap gold	59,760	49.0	38,998	38.3	75,914	48.0	44,140	51.6	57,878	55.9
	69,800	57.3	50,076	49.2	98,627	62.4	56,707	66.3	68,729	66.4
Total	121,840	100.0	101,881	100.0	158,125	100.0	85,557	100.0	103,469	100.0

Note:

(1) Total pawn loans disbursed and default rates during the Period Under Review are as follows:

	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
Total pawn loans disbursed (RM'000)	508,271	531,979	710,341	323,867	458,011
Default rate (%)	7.0	7.8	10.1	11.1	10.7

12. FINANCIAL INFORMATION (Cont'd)

Comparison between FYE 2020 and FYE 2021

Our revenue decreased by RM19.96 million or approximately 16.4% from RM121.84 million in FYE 2020 to RM101.88 million in FYE 2021, was mainly due to the decrease in revenue from our retail and trading of jewellery and gold segment by RM19.72 million or approximately 28.3% in FYE 2021.

Pawnbroking services

Revenue from our pawnbroking services segment decreased by RM0.23 million or approximately 0.4% from RM52.04 million in FYE 2020 to RM51.81 million in FYE 2021, despite the increase in total pawn loans disbursed by RM23.71 million or approximately 4.7% from RM508.27 million in FYE 2020 to RM531.98 million in FYE 2021. The decrease in revenue from our pawnbroking services segment mainly due to the marginal increase in default rate from 7.0% in FYE 2020 to 7.8% in FYE 2021, which has resulted in the reduction of interest income earned on pawn loans.

Retail and trading of jewellery and gold

Revenue from our retail and trading of jewellery and gold segment decreased by RM19.72 million or approximately 28.3% from RM69.80 million in FYE 2020 to RM50.08 million in FYE 2021, mainly due to the decrease in sales of scrap gold by RM20.76 million or 34.7% in FYE 2021. The revenue was affected by the COVID-19 pandemic as our retail outlets were temporarily closed due to the implementation of FMCO for approximately 3.5 months during the FYE 2021 (from 12 May 2021 to 31 August 2021), as compared to the FYE 2020 whereby our retail outlets were temporarily closed due to the implementation of MCO 1.0 for approximately 1.5 months (from 18 March 2020 to 4 May 2020).

Comparison between FYE 2021 and FYE 2022

Our revenue increased by RM56.25 million or approximately 55.2% from RM101.88 million in FYE 2021 to RM158.13 million in FYE 2022, due to the increase in revenue from both our pawnbroking services segment as well as retail and trading of jewellery and gold segment.

Pawnbroking services

Revenue from our pawnbroking services segment increased by RM7.69 million or approximately 14.8% from RM51.81 million in FYE 2021 to RM59.50 million in FYE 2022, mainly due to the increase in total pawn loans disbursed by RM178.36 million or approximately 33.5% from RM531.98 million in FYE 2021 to RM710.34 million in FYE 2022. The increase in pawn loans disbursed resulted in higher interest income earned from the outstanding pawn loans. The increase in total pawn loans disbursed was generally due to the economic recovery pursuant to the upliftment of FMCO as well as the cessation of government financial aids provided during the FYE 2021. The increase in revenue from our pawnbroking services segment is partially offset by the increase in default rate from 7.8% in FYE 2021 to 10.1% in FYE 2022.

12. FINANCIAL INFORMATION (Cont'd)

In FYE 2021, there were no public auctions in the months of February, March, June, July, August, September and October. During these periods, we have extended the redemption period of the pawn loans until the time when public auctions were allowed to resume in April, May, November and December. This has resulted in the lower default rate in FYE 2021 vis-à-vis FYE 2022, where public auctions had resumed in full and no extensions of redemption period were given.

Retail and trading of jewellery and gold

Revenue from our retail and trading of jewellery and gold segment increased by RM48.55 million or approximately 96.9% from RM50.08 million in FYE 2021 to RM98.63 million in FYE 2022, mainly due to:

- (a) higher sales volume of jewellery and gold products at our retail outlets where retail sales of jewellery and gold increased by RM11.63 million or approximately 105.0% from RM11.08 million in FYE 2021 to RM22.71 million in FYE 2022. This was attributed to all our retail outlets being able to operate for the entire year without any operation disruptions as compared to FYE 2021, whereby our retail outlets were temporarily closed due to the implementation of FMCO for approximately 3.5 months (from 12 May 2021 to 31 August 2021); and
- (b) higher sales volume of scrap gold pursuant to the upliftment of FMCO, whereby we were able to sell our scrap gold for the entire year without any operational disruptions. Our sales of scrap gold increased by RM36.92 million or approximately 94.7% from RM39.00 million in FYE 2021 to RM75.91 million in FYE 2022.

Comparison between FPE 2022 and FPE 2023

Our revenue increased by RM17.91 million or approximately 20.9% from RM85.56 million in FPE 2022 to RM103.47 million in FPE 2023, mainly due to the increase in revenue from both our pawnbroking services segment as well as retail and trading of jewellery and gold segment.

Pawnbroking services

Revenue from our pawnbroking services segment increased by RM5.89 million or approximately 20.4% from RM28.85 million in FPE 2022 to RM34.74 million in FPE 2023, which was mainly due to the increase in total pawn loans disbursed by RM134.14 million or approximately 41.4% from RM323.87 million in the FPE 2022 to RM458.01 million in the FPE 2023. The increase in pawn loans disbursed resulted in higher interest income earned from the outstanding pawn loans. The increase in total pawn loans disbursed was generally due to:

- (a) increase in gold price by RM19.60 per gram or approximately 7.6% during the financial period, from RM257.2 per gram to RM276.8 per gram. As the loan margin is based on the prevailing market value of the pledges (calculated as net weight of gold multiplied by spot gold price), an increase in gold price would result in higher pawn loan amount offered to customers; and
- (b) more pawn loans disbursed in conjunction with the opening of 2 new pawnshops in FYE 2022 and 1 new pawnshop in FPE 2023.

12. FINANCIAL INFORMATION (Cont'd)Retail and trading of jewellery and gold

Revenue from our retail and trading of jewellery and gold segment increased by RM12.02 million or approximately 21.2% from RM56.71 million in FPE 2022 to RM68.73 million in FPE 2023, mainly due to higher sales volume of scrap gold whereby the sales of scrap gold increased by RM13.74 million or approximately 31.1% from RM44.14 million in FPE 2022 to RM57.88 million in the FPE 2023. The increase in sales volume of scrap gold in FYE 2022 is mainly attributed to the increase in unredeemed and bid pledges, as a result of increase in pawn loan disbursed and default rate.

The increase in revenue from sales of scrap gold is partially offset by the lower sales volume of jewellery and gold products at our retail outlets where retail sales of jewellery and gold decreased marginally by RM1.72 million or approximately 13.7% from RM12.57 million in FPE 2022 to RM10.85 million in the FPE 2023. The lower sales volume of jewellery and gold products is mainly attributable to the increase in gold price during FPE 2023 which have deterred customers from purchasing jewellery and gold products.

(ii) Cost of sales

Our cost of sales comprises finance costs incurred in our pawnbroking services segment and acquisition costs incurred in our retail and trading of jewellery and gold segment.

The cost of sales for our pawnbroking services are finance costs derived from interest charged on the loans and borrowings as well as Related Parties Loans. We require Cash Capital for the disbursement of pawn loans for our pawnbroking services segment which were mainly financed by our bank borrowings, Related Parties Loans and internally generated funds.

The cost of sales for our retail and trading of jewellery and gold business comprise:

- (a) cost of purchase of new gold and gold jewellery from manufacturers and/or wholesalers; and
- (b) cost of purchase of pre-owned gold, gold jewellery and watches comprising:
 - (aa) cost of purchase for unredeemed pledges of defaulted pawn loans not exceeding RM200, at the defaulted pawn loans amount plus accrued interest;
 - (bb) cost of purchase for bid pledges of defaulted pawn loans exceeding RM200 at public auctions; and
 - (cc) cost of purchase of pre-owned gold, gold jewellery and watches from walk-in individuals at our retail outlets.

12. FINANCIAL INFORMATION (Cont'd)

The table below set out our cost of sales by business segments for the Period Under Review:

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Pawnbroking services ⁽¹⁾	9,802	16.6	8,155	16.5	10,564	11.1	4,600	8.6	7,546	11.2
Retail and trading of jewellery and gold	49,084	83.4	41,235	83.5	85,028	88.9	48,615	91.4	59,630	88.8
Total	58,886	100.0	49,390	100.0	95,592	100.0	53,215	100.0	67,176	100.0

Note:

- (1) Finance costs consist of interest payments for our banking facilities which include bank overdrafts and revolving credit, as well as Related Parties Loans.

Comparison between FYE 2020 and FYE 2021

Our cost of sales decreased by RM9.50 million or approximately 16.1% from RM58.89 million in FYE 2020 to RM49.39 million in FYE 2021, mainly due to the decrease in cost of sales for our retail and trading of jewellery and gold segment.

Pawnbroking services

Cost of sales for our pawnbroking services segment decreased by RM1.64 million or approximately 16.7% from RM9.80 in FYE 2020 to RM8.16 million in FYE 2021 due to:

- (a) decrease in interest rates for our revolving credits and bank overdrafts, as a result of the decrease in overnight policy rate (“OPR”) by BNM from 2.75% in 2020 to 1.75% in 2021. The OPR remained at 1.75% for the FYE 2021; and
- (b) the decrease in interest rates for our loans from ValueMax Group Limited from 8.00% in 2020 to 6.00% in 2021, which is in line with the decrease in OPR by BNM within the same period.

12. FINANCIAL INFORMATION (Cont'd)

Retail and trading of jewellery and gold

Cost of sales for our retail and trading of jewellery and gold segment decreased by RM7.84 million or approximately 16.0% from RM49.08 million in FYE 2020 to RM41.24 million in FYE 2021, which was in line with the decrease in our revenue from this segment.

Comparison between FYE 2021 and FYE 2022

Our cost of sales increased by RM46.20 million or approximately 93.5% from RM49.39 million in FYE 2021 to RM95.59 million in FYE 2022, mainly due to the increase in cost of sales of retail and trading of jewellery and gold segment.

Pawnbroking services

Cost of sales for our pawnbroking services segment increased by RM2.41 million or approximately 29.5% from RM8.15 million in FYE 2021 to RM10.56 million in FYE 2022 due to increase in finance costs as a result of:

- (a) increase in OPR by BNM from 1.75% in 2021 to 2.75% in 2022; and
- (b) increase in drawdown of our revolving credits and bank overdrafts as well as Related Parties Loans.

Retail and trading of jewellery and gold

Cost of sales for our retail and trading of jewellery and gold segment increased by RM43.79 million or approximately 106.2% from 41.24 million in FYE 2021 to RM85.03 million in FYE 2022, which was in line with the increase in our revenue from this segment.

Comparison between FPE 2022 and FPE 2023

Our cost of sales increased by RM13.96 million or approximately 26.2% from RM53.22 million in FPE 2022 to RM67.18 million in FPE 2023, mainly contributed by the increase in cost of sales for the retail and trading of jewellery and gold segment.

Pawnbroking services

Cost of sales for our pawnbroking services segment increased by RM2.95 million or approximately 64.0% from RM4.60 million in FPE 2022 to RM7.55 million in FPE 2023 due to increase in finance costs as a result of:

- Increase in interest rates for our revolving credit and bank overdrafts, as a result of the increase in OPR by BNM from 2.00% in FPE 2022 to 3.00% in FPE 2023; and

12. FINANCIAL INFORMATION (Cont'd)

- increase in drawdown of our revolving credits and bank overdrafts.

Retail and trading of jewellery and gold

Cost of sales for our retail and trading of jewellery and gold segment increased by RM11.01 million or approximately 22.6% from RM48.62 million in FPE 2022 to RM59.63 million in FPE 2023, which was in line with the increase in our revenue from this segment.

(iii) GP and GP margin

	Audited									Unaudited			Audited		
	FYE 2020			FYE 2021			FYE 2022			FPE 2022			FPE 2023		
	GP		GP margin	GP		GP margin	GP		GP margin	GP		GP margin	GP		GP margin
	RM'000	%	%	RM'000	%	%	RM'000	%	%	RM'000	%	%	RM'000	%	%
Pawnbroking services	42,238	67.1	81.2	43,649	83.2	84.3	48,934	78.3	82.2	24,250	75.0	84.1	27,195	74.9	78.3
Retail and trading of jewellery and gold	20,716	32.9	29.7	8,842	16.8	17.7	13,599	21.7	13.8	8,092	25.0	14.3	9,098	25.1	13.2
Total GP / Overall GP margin	62,954	100.0	51.7	52,491	100.0	51.5	62,533	100.0	39.5	32,342	100.0	37.8	36,293	100.0	35.1

Comparison between FYE 2020 and FYE 2021

Our GP decreased by RM10.46 million or approximately 16.6% from RM62.95 million in FYE 2020 to RM52.49 million in FYE 2021, which was in line with the decrease in our revenue. The decrease in GP was mainly attributed to the decrease in GP from our retail and trading of jewellery and gold segment.

Our overall GP margin decreased marginally from 51.7% in FYE 2020 to 51.5% in FYE 2021, mainly due to decrease in GP margin for our retail and trading of jewellery and gold segment from 29.7% in FYE 2020 to 17.7% in FYE 2021. The decrease in GP margin was partially offset by increase in GP margin for our pawnbroking services segment from 81.2% in FYE 2020 to 84.3% in FYE 2021.

12. FINANCIAL INFORMATION (Cont'd)Pawnbroking services

GP from our pawnbroking services segment increased by RM1.41 million or approximately 3.3% from RM42.24 million in FYE 2020 to RM43.65 million in FYE 2021, mainly due to the decrease in interest rates for our banking facilities and our loans from ValueMax Group Limited.

As a result, GP margin for our pawnbroking services segment improved from 81.2% in FYE 2020 to 84.3% in FYE 2021.

Retail and trading of jewellery and gold

GP from our retail and trading of jewellery and gold segment decreased by RM11.88 million or approximately 57.3% from RM20.72 million in FYE 2020 to RM8.84 million in FYE 2021 mainly due to the implementation of FMCO during the year 2021, resulting in the temporary closure of our retail outlets for approximately 3.5 months, resulting in no revenue derived from retail and trading of jewellery and gold segment during the said period.

Our GP margin for our retail and trading of jewellery and gold segment decreased from 29.7% in FYE 2020 to 17.7% in FYE 2021. The surge in average gold price in 2020 resulted in higher selling price compared with relatively lower cost of inventory that were carried forward from prior year, which resulted in higher GP margin for FYE 2020. Meanwhile, there is no significant increase in average gold prices between FYE 2020 and FYE 2021. Hence, the selling price and the cost of inventory remained fairly stable, which result in the lower GP margin for FYE 2021 (2019: RM184.55 per gram; 2020: RM238.91 per gram; 2021: RM239.60 per gram).

Comparison between FYE 2021 and FYE 2022

Our overall GP increased by RM10.04 million or approximately 19.1% from RM52.49 million in FYE 2021 to RM62.53 million in FYE 2022, which was in tandem with the increase in our revenue. The increase in GP was mainly attributed to the increase in GP from our retail and trading of jewellery and gold segment.

Our overall GP margin further decreased from 51.5% in FYE 2021 to 39.5% in FYE 2022, mainly due to the decrease in GP margin of our pawnbroking services segment from 84.3% in FYE 2021 to 82.2% in FYE 2022 and retail and trading of jewellery and gold segment from 17.7% in FYE 2021 to 13.8% in FYE 2022.

Pawnbroking services

GP from our pawnbroking services segment increased by RM5.28 million or approximately 12.1% from RM43.65 million in FYE 2021 to RM48.93 million in FYE 2022, mainly due to the increase in pawn loans disbursed by RM178.36 million or 33.5%, from RM531.98 million in FYE 2021 to RM710.34 million in FYE 2022.

12. FINANCIAL INFORMATION (Cont'd)

The GP margin for our pawnbroking services segment decreased from 84.3% in FYE 2021 to 82.2% in FYE 2022, mainly due to the increase in interest rates for our banking facilities.

Retail and trading of jewellery and gold

GP from our retail and trading of jewellery and gold segment increased by RM4.76 million or approximately 53.8% from RM8.84 million in FYE 2021 to RM13.60 million in FYE 2022, which was mainly due to the higher sales volume of scrap gold as well as jewellery and gold products at our retail outlets.

However, GP margin for our retail and trading of jewellery and gold segment decreased from 17.7% in FYE 2021 to 13.8% in FYE 2022. This was mainly due to the higher sales volume of scrap gold which fetch lower GP margin compared to retail sales of jewellery and golds at our retail outlets (2021: RM239.60 per gram; 2022: RM254.37 per gram).

Comparison between FPE 2022 and FPE 2023

Our overall GP increased by RM3.95 million or approximately 12.2%, from RM32.34 million in FPE 2022 to RM36.29 million in FPE 2023, which was reflected in the increase in our revenue. The increase in GP was mainly attributed to the increase in GP from our pawnbroking services segment.

Our overall GP margin further decreased from 37.8% in FPE 2022 to 35.1% in FPE 2023, mainly due to the decrease in GP margins of our pawnbroking services segment from 84.1% in FPE 2022 to 78.3% in FPE 2023 and retail and trading of jewellery and gold segment from 14.3% in FPE 2022 to 13.2% in FPE 2023.

Pawnbroking services

GP from our pawnbroking services segment increased by RM2.94 million or approximately 12.1% from 24.25 million in FPE 2022 to RM27.19 million in FPE 2023, mainly due to the increase in pawn loans disbursed by RM134.14 million or 41.4%, from RM323.87 million in FPE 2022 to RM458.01 million in the FPE 2023.

The GP margin for our pawnbroking services segment decreased from 84.1% in FPE 2022 to 78.3% in FPE 2023, mainly due to the increase in interest rate for our banking facilities.

Retail and trading of jewellery and gold

GP from our retail and trading of jewellery and gold segment increased by RM1.01 million or approximately 12.4% from RM8.09 million in FPE 2022 to RM 9.10 million in FPE 2023, which was mainly due to the higher sales volume of scrap gold albeit the lower sales volume of jewellery and gold at our retail outlets.

12. FINANCIAL INFORMATION (Cont'd)

However, the GP margin for our retail and trading of jewellery and gold segment decreased slightly from 14.3% in the FPE 2022 to 13.2% in the FPE 2023. This was mainly due to the lower sales volume of jewellery and gold which generally has higher margin as a result of the increase in gold prices during the financial period (FPE 2022: RM257.20 per gram; FPE 2023: RM276.76 per gram) as compare with the sales of scrap gold.

(iv) Other income

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Management fee	473	51.5	1,151	80.1	1,103	86.6	-	-	-	-
Government grants received – wages subsidy program	367	39.9	196	13.6	37	2.9	37	32.5	-	-
Others ⁽¹⁾	79	8.6	90	6.3	134	10.5	77	67.5	79	100.0
Total	919	100.0	1,437	100.0	1,274	100.0	114	100.0	79	100.0

Note:

(1) Others include gain on disposal of property, plant and equipment, service income, rental income and miscellaneous income.

Comparison between FYE 2020 and FYE 2021

Other income increased by RM0.52 million or approximately 56.5%, from RM0.92 million in FYE 2020 to RM1.44 million in FYE 2021, mainly due to the following:

- (a) increase in management fee received from ValueMax Properties Pte. Ltd. By RM0.68 million or approximately 144.7% from RM0.47 million in FYE 2020 to RM1.15 million in FYE 2021. Please see item (4) of **Section 10.2.1** of this Prospectus for detail of the transaction; and
- (b) decrease in government grant received pursuant to wages subsidy program by RM0.17 million or approximately 45.9% from RM0.37 million in FYE 2020 to RM0.20 million in FYE 2021 due to the decrease in the number approved applications for the wage subsidy programme.

12. FINANCIAL INFORMATION (Cont'd)**Comparison between FYE 2021 and FYE 2022**

Other income decreased by RM0.17 million or approximately 11.8% from RM1.44 million in FYE 2021 to RM1.27 million in FYE 2022, mainly due to the cessation of government grants received pursuant to wages subsidy program in FYE 2022 (FYE 2021: RM0.20 million).

Comparison between FPE 2022 and FPE 2023

Other income did not materially change between FPE 2022 and FPE 2023.

(v) Administrative expenses

	Audited						Unaudited		Audited	
	FYE 2020		FYE 2021		FYE 2022		FPE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff cost ⁽¹⁾	9,367	53.4	11,275	53.7	12,722	47.6	5,446	52.2	5,880	45.7
Depreciation of property, plant and equipment	1,069	6.1	1,054	5.0	1,284	4.8	583	5.6	746	5.8
Depreciation of right-of-use assets	1,378	7.8	1,540	7.3	1,689	6.3	816	7.8	967	7.5
Directors' fee and remuneration	60	0.3	68	0.3	76	0.3	-	-	-	-
Professional and legal fee	359	2.0	523	2.5	1,118	4.2	98	0.9	725	5.6
Utilities	293	1.7	319	1.5	456	1.7	224	2.2	250	2.0
Management fees	1,589	9.1	2,020	9.6	2,055	7.7	892	8.6	504	3.9
Corporate guarantee fees	941	5.4	1,016	4.9	1,062	4.0	-	-	-	-
Insurance premium	454	2.6	508	2.4	575	2.1	256	2.5	336	2.6
License fees	308	1.8	400	1.9	466	1.7	227	2.2	208	1.6
Foreign exchange loss	107	0.6	346	1.7	2,292	8.6	850	8.2	2,129	16.5
Loan receivables written off	-	-	-	-	901	3.4	-	-	13	0.1
Others ⁽²⁾	1,615	9.2	1,937	9.2	2,030	7.6	1,040	9.8	1,126	8.7
Total	17,540	100.0	21,006	100.0	26,726	100.0	10,432	100.0	12,884	100.0

Notes:

- (1) Staff cost include salaries, wages and allowances, bonuses, EPF contributions, social security contributions, EIS contributions and other staff-related costs.
- (2) Others mainly include secretarial fees, bank charges, sundry consumables, printing, stationeries and postage.

12. FINANCIAL INFORMATION (Cont'd)**Comparison between FYE 2020 and FYE 2021**

Administrative expenses increased by RM3.47 million or approximately 19.8% from RM17.54 million in FYE 2020 to RM21.01 million in FYE 2021, mainly due to the following:

- (a) increase in staff costs by RM1.91 million or approximately 20.4% from RM9.37 million in FYE 2020 to RM11.28 million in FYE 2021, mainly due to increase in number of employees from 139 to 159 arising from opening of 3 new pawnshops and 1 new retail outlet as well as annual salary adjustment;
- (b) increase in other expenses by RM0.32 million or approximately 19.8% from RM1.62 million in FYE 2020 to RM1.94 million in FYE 2021, in line with the opening of 3 new pawnshops and 1 new retail outlet;
- (c) increase in management fee by RM0.43 million or approximately 27.0% from RM1.59 million in FYE 2020 to RM2.02 million in FYE 2021, mainly due to additional general operation and marketing services as well as general accounting and IT services provided by ValueMax Corporate Services Pte. Ltd. and ValueMax Management Pte. Ltd., as a result of opening of 3 new pawnshops and 1 new retail outlet. Please see items (1) and (5) of **Section 10.2.1** of this Prospectus for detail of the transactions; and
- (d) increase in the depreciation of right-of-use assets by RM0.16 million or approximately 11.6% from RM1.38 million in FYE 2020 to RM1.54 million in FYE 2021, due to new lease arrangements for our 3 new pawnshops and 1 new retail outlet.

Comparison between FYE 2021 and FYE 2022

Administrative expenses increased by RM5.72 million or approximately 27.2% from RM21.01 million in FYE 2021 to RM26.73 million in FYE 2022, mainly due to the following:

- (a) increase in staff costs by RM1.44 million or approximately 12.8% from RM11.28 million in FYE 2021 to RM12.72 million in FYE 2022, mainly due to increase in the number of employees from 159 to 168 arising from opening of 2 new pawnshops, as well as expansion of our management team, whereby we have appointed, amongst others, our Chief Financial Officer, a Chief Operation Officer (who has resigned in November 2022), 2 area managers and a group accountant;
- (b) increase in foreign exchange loss by RM1.95 million or approximately 562% from RM0.34 million in FYE 2021 to RM2.29 million in FYE 2022 due to the increase in exchange rate arising from SGD denominated loans; and
- (c) write-off in pledge receivables of RM0.90 million for pledges that were confiscated by police for investigations accumulated since the commencement of our pawnbroking operation.

12. FINANCIAL INFORMATION (Cont'd)**Comparison between FPE 2022 and FPE 2023**

Administrative expenses increased by RM2.45 million or approximately 23.5% from RM10.43 million in FPE 2022 to RM12.88 million in FPE 2023, mainly due to the following:

- (a) increase in staff costs by RM0.43 million or approximately 7.9% from RM5.45 million in FPE 2022 to RM5.88 million in FPE 2023, mainly due to increase in the headcount in line with the opening of 2 new pawnshop in the first half of 2023 as well as annual salary adjustment;
- (b) increase in professional and legal fees by RM0.63 million or approximately 630.0% from RM0.10 million in FPE 2022 to RM0.73 million in FPE 2023, due to additional legal fees and stamp duty for additional bank facilities granted during the financial year; and
- (c) increase in foreign exchange loss by RM1.28 million or approximately 150.6% from RM0.85 million in FPE 2022 to RM2.13 million in FPE 2023 due to the increase in exchange rate arising from SGD denominated loans.

The increase in administrative expenses was partially offset by the decrease in management fees by RM0.39 million or approximately 43.8% from RM0.89 million in FPE 2022 to RM0.50 million in FPE 2023 due to the termination of services provided by ValueMax Corporate Services Pte. Ltd. and ValueMax Management Pte. Ltd. as set out in items (1) and (5) of **Section 10.2.1** of this Prospectus.

(vi) Finance costs

	FYE 2020		Audited FYE 2021		FYE 2022		Unaudited FPE 2022		Audited FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expense on:										
- Lease liabilities ⁽¹⁾	128	74.0	137	77.8	177	58.4	92	64.8	95	54.0
- Term loan ⁽²⁾	45	26.0	39	22.2	126	41.6	50	35.2	81	46.0
Total	173	100.0	176	100.0	303	100.0	142	100.0	176	100.0

Notes:

- (1) Being interest expenses on lease liabilities for lease of properties as pawnshops and retail outlets, which are recognised in accordance with MFRS 16 Leases.
- (2) Being interest expenses in relation to term loans from licensed banks, which were drawn down as part financing of acquisition of 3 properties used for our pawnbroking services.

12. FINANCIAL INFORMATION (Cont'd)**Comparison between FYE 2020 and FYE 2021**

Our finance costs have been consistent for FYE 2020 and FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our finance costs increased by RM0.12 million or approximately 66.7% from RM0.18 million in FYE 2021 to RM0.30 million in FYE 2022 mainly due to higher interest expense on term loan undertaken to finance the acquisition and opening of 2 new pawnshops in FYE 2022.

Comparison between FPE 2022 and FPE 2023

Our finance costs increased by RM0.04 million or approximately 28.6% from RM0.14 in FPE 2022 to RM0.18 in FPE 2023, mainly due to the interest payment on the term loans for the acquisition of 2 new pawnshops in FPE 2022 which only started in April 2022.

(vii) PBT and PBT margin

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
PBT (RM'000)	46,160	32,746	36,778	21,882	23,312
PBT margin (%)	37.9	32.1	23.3	25.6	22.5

Comparison between FYE 2020 and FYE 2021

Our PBT decreased by RM13.41 million or approximately 29.1% from RM46.16 million in FYE 2020 to RM32.75 million in FYE 2021, mainly due to lower GP generated from the retail and trading of jewellery and gold segment, as well as higher administrative expenses incurred from the opening of 3 new pawnshops and 1 new retail outlet.

As a result, our PBT margin decreased from 37.9% in FYE 2020 to 32.1% in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our PBT increased by RM4.03 million or approximately 12.3% from RM32.75 million in FYE 2021 to RM36.78 million in FYE 2022, mainly due to higher GP generated from both the pawnbroking services and retail and trading of jewellery and gold segment which offset the higher administrative expenses incurred from the opening of 2 new pawnshops.

However, our PBT margin has decreased from 32.1% in FYE 2021 to 23.3% in FYE 2022, mainly due to lower GP margin generated from the retail and trading of jewellery and gold segment coupled with higher administrative expenses incurred.

Comparison between FPE 2022 and FPE 2023

Our PBT increased by RM1.43 million or approximately 6.5% from RM21.88 million in FPE 2022 to RM23.31 million in FPE 2023, due to higher GP generated from both the pawnbroking services and retail and trading of jewellery and gold segment.

However, our PBT margin has decreased from 25.6% in FPE 2022 to 22.5% in FPE 2023, mainly due to lower GP margin from the retail and trading of jewellery and gold segment.

12. FINANCIAL INFORMATION (Cont'd)**(viii) Income tax expense**

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Tax expenses	12,478	8,965	11,621	6,658	7,247
Effective tax rate (%)	27.0	27.4	31.6	30.4	31.1
Statutory tax rate (%)	24.0	24.0	24.0	24.0	24.0

Comparison between FYE 2020 and FYE 2021

Our tax expenses decreased by RM3.51 million or approximately 28.1% from RM12.48 million in FYE 2020 to RM8.97 million in FYE 2021, mainly due to decrease in PBT in FYE 2021.

For FYE 2020, our effective tax rate was higher than the statutory tax rate of 24.0%, mainly due to the tax effect from non-allowable expenses of RM1.23 million, which mainly comprise depreciation of property, plant and equipment and non-allowable expenses (mainly comprising foreign exchange loss, legal fee and professional fee) for investment holding company and under provision of income tax in prior years of RM0.19 million.

For FYE 2021, our effective tax rate was higher than the statutory tax rate of 24.0%, mainly due to the tax effect from non-allowable expenses of RM1.25 million, which mainly comprise depreciation of property, plant and equipment and non-allowable expenses (mainly comprising foreign exchange loss, legal fee and professional fee) for investment holding company.

Comparison between FYE 2021 and FYE 2022

Our tax expenses increased by RM2.65 million or approximately 29.5% from RM8.97 million in FYE 2021 to RM11.62 million in FYE 2022, mainly due to increase in PBT in FYE 2022.

For FYE 2022, our effective tax rate was higher than the statutory tax rate of 24.0%, mainly due to tax effect from non-allowable expenses of RM2.70 million, which mainly comprise depreciation of property, plant and equipment, provision of loss on loan receivable written off, non-allowable expenses (mainly comprising foreign exchange loss) for investment holding company, and under provision of income tax in prior years of RM0.26 million.

Comparison between FPE 2022 and FPE 2023

Our tax expenses increased by RM0.59 million or approximately 8.9% from RM6.66 million in FPE 2022 to RM7.25 million in FPE 2023, mainly due to increase in PBT in FPE 2023.

For FPE 2023, our effective tax rate was higher than the statutory tax rate of 24.0%, mainly due to tax effect from non-allowable expenses of RM1.83 million, which mainly comprise of depreciation of property, plant and equipment, provision of loss on loan receivable written off and non-allowable expenses (mainly comprising foreign exchange loss) for investment holding company.

12. FINANCIAL INFORMATION (Cont'd)**12.3.2 Significant factors affecting our operations and financial results**

The significant factors affecting our operations and financial results are set out below:

(i) Availability of Cash Capital to fund and/or grow our pawnbroking business

Our pawnbroking business requires Cash Capital to draw on for the disbursement of pawn loans to our pawnbroking customers. Such Cash Capital requirements will increase as we grow our number of pawnshops and/or disburse more pawn loans. As such, our growth as well as our profitability, in large part, is dependent upon our timely access to, and the costs associated with, securing additional funding for our Cash Capital.

Since we commenced our pawnbroking business, we have been relying on bank borrowings, Related Parties Loans and internally generated funds to finance our Cash Capital requirements for our existing and new pawnshops.

During the Period Under Review, we have funded our Cash Capital requirements from the following sources:

Source of Cash Capital	FYE 2020		FYE 2021		FYE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<u>As at end of the relevant financial years/period</u>								
Bank borrowings	86,752	44.1	89,084	47.1	146,934	58.9	161,932	63.6
Related Parties Loans	73,726	37.5	85,650	45.3	95,680	38.3	74,714	29.4
<u>As at end of the relevant financial years/period</u>								
Internally generated funds	36,161	18.4	26,410	14.0	29,073	11.6	17,808	7.0
Subtotal	196,639	100.0	201,144	106.4	271,687	108.8	254,454	100.0
Less:								
Loans provided to Swift Paragon ⁽¹⁾	-	-	(12,182)	(6.4)	(22,118)	(8.8)	-	-
Total Cash Capital	196,639	100.0	188,962	100.0	249,569	100.0	254,454	100.0

Note:

- (1) The sources of funds for the loans provided to Swift Paragon are from a combination of Related Parties Loans and our internally generated funds.

As Swift Paragon's principal activity is in the business of money-lending, the loan from SYT Pavilion to Swift Paragon has been deducted to reflect only the Cash Capital used for the pawnbroking business of Well Chip Group. Swift Paragon was a wholly-owned subsidiary of SYT Pavilion prior to the Disposal of Swift Paragon, which was completed on 28 June 2023. The outstanding amount owed by Swift Paragon to SYT Pavilion was fully settled upon the completion of the Disposal of Swift Paragon.

Due to an increase in the usage of bank borrowings and Related Parties Loans to fund the growth of our Group, our Group had recorded negative cash flow from operating activities for the FYE 2021, FYE 2022 and FPE 2023 as set out below:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash generated from/(used in) operating activities	26,548	(6,182)	(60,502)	9,005	(15,951)

Pursuant to MFRS 107 Statement of Cash Flows, the issuance of pawn loans is recorded as a cash outflow from operating activities as the pawn loans are the principal revenue producing activity of our Group, whereas the corresponding funding (cash inflow to our Group) for the disbursement of pawn loans are captured in cash flow from financing activities.

12. FINANCIAL INFORMATION (Cont'd)

As such, in our Group's pawnbroking business operations, the continuous disbursement of pawn loans at an increasing rate would result in higher negative cash flows from operating activities for our Group.

Since February 2023, our Group will no longer relies on additional loans from related parties. We will pare down the principal amount of the existing Related Parties Loans on a fixed repayment term in 4 quarterly instalments each year within a period of 120 months, which shall commence from the date of the successful implementation of our Listing.

Within 24 months from the date of our Listing, we intend to utilise part of the proceeds from Public Issue of RM[●] million (representing approximately 91.6% of the gross proceeds to be raised from our Public Issue) to fund our Cash Capital for our existing pawnshops and new pawnshops. Thereafter, as and when required, we may raise funds from the capital market and/or bank borrowings to finance our Cash Capital requirements. In the event we issue new shares/securities as part of our fund raising exercise, the issuance of additional shares may result in dilution to the shareholdings of our shareholders.

In the event that we are unable to obtain funds from the capital market and/or bank borrowings on terms which are favourable to our Group, we may not be able to implement our business and operational strategies as there would be insufficient funds available to grow our number of pawnshops and/or disburse more pawn loans. As such, we may be required to reduce our pawn loan offerings to customers. This may affect our ability to generate more revenue in terms of interest charges and/or sale of unredeemed and bid pledges, which will have a material adverse impact to our business operations and financial condition.

(ii) Our business is exposed to unlawful and suspicious pawn transactions

We are subject to the risk of people using our pawnbroking services and retail trading of jewellery and gold for money laundering or terrorists financing purposes. For the Period Under Review and up to the LPD, while there has been no incidence of breaches against the AMLA 2001, there can be no assurance that the measures taken by us to prevent the use of our pawnbroking services and retail trading of jewellery and gold for money laundering or terrorists financing purposes are sufficient to fully eliminate unlawful and suspicious transactions.

In the event of transactions involving stolen gold, jewellery or watches, we are exposed to the risk of losing the pledges if such items are subsequently confiscated by the police. As a result, we may not be able to recover the pawn loans disbursed for such confiscated pledges.

Since incorporation up to the LPD, there were a total of 285 occurrences across different pawnshops of our Group where our pledges were confiscated by the police. For the FYE 2022, we have written off pledge receivables of RM0.90 million for pledges that were confiscated by police for investigations. The aforementioned write-off was an accumulation of pledges confiscated by police since we commenced our business, which were not material in its respective years. In FPE 2023, we have written off pledge receivables of RM0.01 million that were confiscated by police for investigations.

(iii) We are exposed to risk in meeting our daily cash requirements

It is crucial for our Group to meet the daily cash requirements of our pawnbroking business which includes cash to fulfill our customer's demand for pawn loans as well as to defray other operating costs and expenses such as staff costs, utilities and rental payments. Hence, our ability to meet the daily cash requirements of our pawnbroking business is dependent on our ability to secure funding in a timely manner to fulfill our daily cash needs.

12. FINANCIAL INFORMATION (Cont'd)

Our cash and cash equivalents (after taking into consideration of bank overdrafts) for the Period Under Review as follows:

	Audited as at 31 December			Audited as at 30 June 2023
	2020	2021	2022	
	RM'000	RM'000	RM'000	RM'000
Cash and balances	14,551	14,369	8,606	12,600
Less: Bank overdrafts	(15,021)	(14,402)	(43,440)	(26,489)
Total cash and cash equivalents	(470)	(33)	(34,834)	(13,889)

Our Group had recorded negative total cash and cash equivalents as at 31 December 2020, 2021 and 2022 as well as 30 June 2023. This is due to the draw down of bank overdrafts, for which was provided by the banks for disbursement of pawn loans, while some of the pawnbroking customers had not redeemed their pledges as at the respective financial year/period end, as the said pawn loans were not due to be redeemed, were renewed and/or were in default. The amount of defaulted pawn loans as at 30 June 2023 is RM49.08 million.

In the event we experience an increase in demand for pawn loans from customers, a decrease in pawn loan repayment from our customers, as well as a delay in the sale of unredeemed or bid pledges, our funds available to meet our daily cash requirements may be adversely affected. In such event, it is crucial for our Group to secure sufficient funding, which may be via bank borrowings, in a timely manner to finance our Cash Capital and/or other operating expense requirements.

If we are unable to secure funding in a timely manner to meet daily cash requirements of our pawnbroking business, our business operations and financial performance may be adversely affected.

(iv) Exposure to termination and/or non-renewal of lease or rental agreement

Our pawnshops and retail outlets are strategically located at convenient locations in close proximity to residential housing or commercial areas. As at the LPD, all of our existing and new pawnshops and retail outlets are tenanted from independent third parties and our related parties. While there have not been any instances of failure to renew our tenancies for the existing and new pawnshops and retail outlets, there is no assurance that we are able to renew each of our tenancies for existing and new pawnshops and retail outlets upon expiry or on similar favourable terms and conditions moving forward.

In the event that any of our tenancies for our existing or new pawnshops and retail outlets are unable to be renewed upon expiry or on favourable terms and conditions, we may be required to relocate the affected pawnshops and retail outlets, which may incur additional costs for relocation and/or increased rental expenses. Further, we may lose existing and potential customers if the new locations are less convenient and accessible as compared to the existing locations, which may adversely affect our financial performance.

Any significant increase in rental costs for existing and new pawnshops and retail outlets in the future may have adverse and material impact on our financial position as well as to our business operations. Nevertheless, there has not been any significant increase in rental rates for our existing outlets for the Period Under Review and up to the LPD.

12. FINANCIAL INFORMATION (Cont'd)**(v) Adequacy of insurance coverage**

We need to maintain adequate insurance coverage in order to protect us against losses such as burglary, theft, robbery and/or fire that may arise in connection with our operations, especially for our pawnbroking as well as retail and trading of jewellery and gold businesses which involve cash and valuable items.

As at the LPD, we maintain jeweller's block insurance policy from third party insurance providers for all our pawnshops and retail outlets with a total insured sum of RM493.85 million. While we believe that our insurance coverage commensurate with our business nature and risk profile, there can be no assurance that our insurance coverage will be adequate to cover all risks or losses or liabilities that might arise in the course of our business operations and that our insurance coverage will sufficiently protect against all potential claims and liabilities.

In addition, some of our insurance policies are subject to periodic review by our insurers. Thus, there can be no assurance that we are able to renew these policies on similar terms and amount desired at reasonable premiums. The outcome of any claim is subject to negotiations among the relevant parties and the result of claims may be unfavourable to us. If an insurer disclaims liability or we are held liable for uninsured losses or the amount of claims for insured losses exceeds the limit of our insurance coverage, our business and financial condition may be adversely affected.

During the Period Under Review and up to the LPD, we have not encountered any events or incidences that have resulted in any insurance claims of a material nature that would significantly affect our operations and financial condition.

(vi) Impact of Government, economic, fiscal or monetary policies

Our pawnbroking business is governed under the PA 1972 which sets out, amongst others, the maximum monthly interest rate, pawn loan period and administrative fee that are chargeable to our pawnbroking customers as well as the administrative procedures for unredeemed pledges.

Our ability to maintain and renew our pawnbroking licenses is subject to our continued compliance with the PA 1972. In the event of non-compliance with the PA 1972, the affected pawnshop's pawnbroking licences may be suspended, revoked or may not be renewed upon expiry. As a result, the affected pawnshop would not be allowed to process new pawn transactions until the validity of the pawnbroking licence is extended following a successful appeal with the KPKT. In such circumstance, our pawnbroking business would be adversely affected as we would lose the revenue contribution from the affected pawnshop.

Further, if there are any changes in the PA 1972 which result in stricter operating standards and/or compliance requirements, our pawnbroking business may need to incur additional operating costs to comply with the new standards/ requirements. In the event that such increased operating costs cannot be passed on to our pawnbroking customers, we will have to absorb the additional cost incurred, which may adversely impact the profitability of our pawnbroking business.

There is no assurance that our financial performance will not be adversely affected by the impact of changes in government, economic, fiscal or monetary policies moving forward.

12. FINANCIAL INFORMATION (Cont'd)**(vii) Impact of inflation**

Our financial performance for the Period Under Review was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward. Any significant increase in the pawnbroking operating costs in the future may adversely affect our operations and performance in the event that we are unable to generate adequate pawnbroking revenue to cover the said increase.

(viii) Impact of foreign exchange rates

Some of our Related Parties Loans, which are used to fund our Cash Capital, are denominated in SGD, as set out below:

	As at 31 December			As at 30	As at the
	2020	2021	2022	June 2023	LPD
	SGD'000	SGD'000	SGD'000	SGD'000	SGD'000
Loans from ValueMax Group Limited	8,175	10,583	12,174	5,053	4,914

Any significant fluctuations in the SGD exchange rate against the RM would have an impact on the profit or loss of our Group. As our revenue is generated in RM, there is no natural hedging for the SGD denominated Related Parties Loans.

For the Period Under Review, our gains and losses from fluctuations in foreign exchange are as follows:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Realised gain / (loss) on foreign exchange	55	(14)	(97)	-	(1,323)
Unrealised gain / (loss) on foreign exchange	(162)	(333)	(2,195)	(850)	(806)
Net gain / (loss) on foreign exchange	(107)	(347)	(2,292)	(850)	(2,129)

In the event of a material depreciation in the RM against the SGD, we would incur higher finance costs and repayment amount for the said SGD denominated Related Parties Loans. Save for the loss on foreign exchange amounting to RM2.29 million in FYE 2022 and RM2.13 million in the FPE 2023, our financial performance during the Period Under Review was not materially affected by fluctuations in foreign exchange rates. Please refer to note 28(b)(iii)(b) of the Accountants' Report as set out in **Section 13** of this Prospectus for the sensitivity of our Group's PAT for the Period Under Review against an estimated change in exchange rate.

(ix) Impact of interest rates

As at 30 June 2023, our Group's total interest-bearing loans and borrowings stood at RM236.64 million, comprising RM161.93 million bank borrowings and RM74.71 million Related Parties Loans. Please refer to **Section 12.4.3** of this Prospectus for the breakdown of our loans and borrowings.

12. FINANCIAL INFORMATION (Cont'd)

For the Period Under Review, our interest expense (comprising cost of sales and finance costs) are as follows:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost of sales					
- Bank overdraft	717	298	1,235	259	1,089
- Revolving credits	3,228	2,795	3,563	1,525	3,170
- Related Parties Loans	5,857	5,062	5,766	2,816	3,287
Finance cost					
- Term loan	45	39	126	50	81
	<u>9,847</u>	<u>8,194</u>	<u>10,690</u>	<u>4,650</u>	<u>7,627</u>

Our Group's financial performance for the Period Under Review were not materially affected by the fluctuation in interest rates. Following the supplemental loan agreements entered into by our Group on 22 September 2023, the applicable interest rates for the Related Parties Loans are fixed between 6% to 7% per annum. Pursuant thereto, the Related Parties Loans are not subject to the impact of fluctuations of interest rates. However, as our Group's bank borrowings are based on floating rates, a significant increase in interest rates would increase our finance costs, which in turn may have an adverse impact on our financial performance. Please refer to note 28(b)(iii)(a) of the Accountants' Report as set out in **Section 13** of this Prospectus for the sensitivity of our PAT for the Period Under Review against an estimated change in interest rates.

(x) Volatility in gold prices

Our Group's pawnbroking business involves sales of unredeemed pledges of gold and gold jewellery as part of our cash recovery process. For defaulted pawn loans of amount not exceeding RM200, we will take possession of the unredeemed pledges whereas for defaulted pawn loans of amount exceeding RM200, we will send the unredeemed pledges to public auctions. We participate in public auctions and bid for the unredeemed pledges. These unredeemed and bid pledges will be sold to KE Well Chip for retail sale as well as sale to scrap gold traders. In addition, we also sell new and pre-owned jewellery and gold through our retail outlets.

In the event there is a sudden and/or prolonged downward movements, the value of our unredeemed pledges (i.e., gold and gold jewellery) from our pawnbroking business and/or gold and gold jewellery purchased from public auctions and walk-in customers will decline accordingly.

If we need to sell these unredeemed pledges (i.e., gold and gold jewellery) and/or purchased items for cash requirement when there is a significant decline in the gold prices, we would incur a loss upon the sales of these unredeemed pledges and/or purchased items, and may adversely affect our profitability and financial performance. In addition, the proceeds from the sales of such unredeemed pledges and/or purchased items may be insufficient to recover the defaulted pawn loans, which in turn may adversely impact our cash recovery process.

12. FINANCIAL INFORMATION (Cont'd)

12.4 LIQUIDITY AND CAPITAL RESOURCES

12.4.1 Working capital

We finance our operations through cash generated from operations, banking facilities from financial institutions and Related Parties Loans. The decision to utilise either internally generated funds or loans and borrowings for our business operations depends on, amongst others, our cash and cash equivalents, expected cash inflows, future working capital requirements, future capital expenditure requirements and the interest rates on loans and borrowings.

Our Group had recorded negative cash and cash equivalents of RM34.83 million as at 31 December 2022 and RM13.89 million as at 30 June 2023. This is due to our pawnbroking customers had not redeemed their pledges as at 31 December 2022 and 30 June 2023, thus we had to draw down on bank overdrafts to fund our Cash Capital.

As at the LPD, we do not foresee any circumstances which may materially affect our liquidity. Due to the nature of the pawnbroking business, our Group does not have any dispute or material pledged receivables written-off, as the pawn loans are secured by pledges which have been agreed upfront with the customers at the point of pawning. In the event customers do not redeem the pledges and have no intention to redeem the pledges upon the expiration of pawn tickets and grace period provided, as part of our cash recovery process, we will take possession of the pledges (for unredeemed pledges items with defaulted pawn loans amount not exceeding RM200) and bid for the unredeemed pledges from public auctions (for unredeemed pledges with defaulted pawn loans amount exceeding RM200). These unredeemed and bid pledges will then be sold to KE Well Chip for its onward sales as set out in **Section 7.2.2** of this Prospectus.

Since February 2023, our Group no longer relies on additional Related Parties Loans to fund our Cash Capital requirements. As at the LPD, the outstanding amount of Related Parties Loans is RM75.05 million.

On 22 September 2023, we have entered into supplemental loan agreements, the salient terms of which are as follows:

- Principal repayment:
- (i) The principal amount of the Related Parties Loans shall be repayable in full by our Group (as the borrower) to the lender in 4 quarterly instalments each calendar year ("**Quarterly Instalment**") within a period of 120 months ("**Repayment Term**") from the date of the successful implementation of our Listing ("**Listing Date**").
 - (ii) Each Quarterly Instalment shall become due and payable and be paid by the borrower to the lender on 31 March, 30 June, 30 September and 31 December respectively (each a "**Due Date**") in each of the calendar year within the Repayment Term. For avoidance of doubt, the repayment of the first Quarterly Instalment shall commence on the first Due Date following the Listing Date or such other date as may be mutually agreed by the parties.
 - (iii) The lender and the borrower may mutually agree on the amount of each Quarterly Instalment payable on the respective Due Date, taking into consideration the principal sum outstanding of the Related Parties Loans and such interest chargeable or accrued, so as to ensure that the Related Parties Loans together with any interest chargeable or accrued thereon shall be progressively repaid in full in compliance with the provisions under the supplemental loan agreements. In the absence of any such agreement, each Quarterly Instalment shall be repaid in equal instalment amounts.

12. FINANCIAL INFORMATION (Cont'd)

- (iv) The borrower may at any time repay the whole or any part of the Related Parties Loans together with accrued interest up to the date of the repayment by giving 30 days' notice to the lender.

Interest repayment: The borrower shall pay to the lender an interest rate of 6% or 7% per annum (as the case may be) on the principal amount outstanding on the Related Parties Loans. The interest shall be calculated on a daily basis and payable on the last day of each calendar year. Any overdue interest shall be capitalised and added to the principal sum of the Related Parties Loans then owing and shall bear the aforementioned interest rates of 6% or 7% (as the case may be) and be subject to all such terms and conditions contained in the supplemental loan agreement. An interest shall be also applied to such capitalised interest.

Default interest: In the event that the borrower fails to repay any of the Quarterly Instalment on the respective Due Date, the lender shall be entitled to impose on the borrower, an interest at the rate of 5% per annum calculated on a daily basis on that outstanding Quarterly Instalment from the relevant Due Date of the said Quarterly Instalment up to the date of actual payment.

Following the aforementioned supplemental loan agreements, we will pare down the principal amount of the outstanding Related Parties Loans together with the applicable interests via internally generated funds on a fixed repayment term, which was agreed after taking into consideration the internal budgeting process of our Group which is being prepared on a quarterly basis. We expect to repay approximately RM10.46 million of the Related Parties Loans within 12 months from the Listing Date.

Within 24 months from the date of our Listing, we intend to utilise part of the proceeds from our Public Issue to fund the Cash Capital for our existing pawnshops and new pawnshops as well as the initial setup costs for our new pawnshops. Thereafter, as and when required, we may raise funds from the capital market and/or bank borrowings to finance the cash requirements of our pawnbroking business (i.e. operating costs and expenses as well as Cash Capital). In the event we issue new shares/securities as part of our fund raising exercise, the issuance of additional shares may result in dilution to the shareholdings of our shareholders.

As at 30 June 2023, our total bank borrowings payable within 1 year stood at RM158.23 million, consisting of bank overdrafts of RM24.49 million and revolving credits of RM131.60 million. We have continuously drawn down on our bank overdrafts and rolled over our revolving credit facilities for disbursement of pawn loans. We will repay the outstanding bank overdrafts and/or replenish our revolving credit facilities, as and when required, via cash received from our pawnbroking customers when they redeem their pledges and/or repay interests. For the Period Under Review, we have not had difficulty in drawing down the bank overdrafts and revolving credit facilities granted by the banks.

Premised on the above, we do not foresee any circumstances which may affect our ability to declare and pay dividends, fund our business operations, which include Cash Capital, in the future as well as to pare down the Related Parties Loans.

Our Board is of the opinion that our working capital is sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

- (i) Our expected future cash inflows to be generated from redemption of pledges, collection of interest income and sale of jewellery and gold;

12. FINANCIAL INFORMATION (Cont'd)

- (ii) Our expected future cash outflows for the grant of pawn loans, interest expenses incurred for bank borrowings and Related Parties Loans, purchase of jewellery and gold, and operating expenses;
- (iii) Our total credit facilities of RM225.00 million available to our Group, of which our total unutilised banking facilities as at the LPD is RM28.80 million. Our plan is to continuously draw down on bank overdrafts and roll over the revolving credit facilities;
- (iv) Our pro forma gearing level of [●] times, based on our pro forma statements of financial position as at 30 September 2023 after the Pre-IPO Restructuring, Public Issue and utilisation of proceeds;
- (v) The expected net proceeds to be raised from our Public Issue;
- (vi) Repayment of RM10.46 million of the Related Parties Loans;
- (vii) Repayment of term loans and revolving credits due within next 12 months of RM30.55 million;
- (viii) Funding of RM[●] for our expected capital expenditures in relation to our expansion plan.

12.4.2 Cash flows summary

The following table sets out the summary of the combined statements of cash flow for the Period Under Review which should be read in conjunction with the Accountants' Report in **Section 13** of this Prospectus.

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash generated from/(used in) operating activities	26,548	(6,182)	(60,502)	9,005	(15,951)
Net cash (used in)/generated from investing activities	(1,893)	(892)	(3,372)	(1,705)	978
Net cash (used in)/generated financing activities	(7,042)	7,711	29,016	(3,247)	35,918
Net increase/(decrease) of cash and cash equivalents from continuing operations	17,613	637	(34,858)	4,053	20,945
Net increase/(decrease) of cash and cash equivalents from discontinued operations	39	(200)	57	177	-
Cash and cash equivalents at beginning of the financial year	(18,122)	(470)	(33)	(33)	(34,834)
Cash and cash equivalents at the end of the financial year⁽¹⁾	(470)	(33)	(34,834)	4,197	(13,889)

Note:

- (1) Cash and cash equivalents comprise the following:

	Audited as at 31 December			Audited as at 30 June 2023
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	14,551	14,369	8,606	12,600
Less: Bank overdrafts	(15,021)	(14,402)	(43,440)	(26,489)
Total cash and cash equivalents	(470)	(33)	(34,834)	(13,889)

As tabulated above, our Group recorded negative cash flows from operating activities for the FYE 2021, FYE 2022 and FPE 2023.

12. FINANCIAL INFORMATION (Cont'd)

To further analyse the negative net cash used in operating activities of our Group during the Period Under Review, the breakdown of the cash flows from operating activities are summarised as follows:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities					
PBT/(Loss before taxation) from:					
Continuing operations	46,160	32,746	36,778	21,882	23,312
Discontinuing operations	(47)	221	1,208	999	1,226
Adjustments for:					
Depreciation of:					
- Property, plant and equipment	1,079	1,079	1,320	601	763
- Right-of-use assets	1,400	1,551	1,689	816	967
Impairment loss on loan receivables	-	-	1,246	-	-
Interest expenses	9,977	8,331	10,867	4,742	7,722
Gain on disposal of property, plant and equipment	*	(1)	(1)	(1)	*
Pledge receivables written off	-	-	902	-	13
Property, plant and equipment written off	-	-	6	-	1
Operating profit before working capital changes	58,569	43,927	54,015	29,039	34,004
Decrease/(Increase) in inventories	3,129	(8,468)	(1,795)	1,968	918
Increase in loan receivable	-	(14,002)	(11,111)	(4,514)	(4,206)
Increase in trade and other receivables	(14,958)	(7,595)	(80,972)	(8,460)	(28,924)
Increase/(Decrease) in other payables	629	834	991	(321)	(4,627)
	(11,200)	(29,231)	(92,887)	(11,327)	(36,839)
Cash generated from/(used in) operations	47,369	14,696	(38,872)	17,712	(2,835)
Interest paid	(9,802)	(8,155)	(10,564)	(4,600)	(7,546)
Tax paid	(11,019)	(12,819)	(11,364)	(4,405)	(5,570)
Tax refunded	-	96	298	298	-
Net cash generated from/(used in) operating activities	26,548	(6,182)	(60,502)	9,005	(15,951)

Note:

* Amount is less than RM1,000

As tabulated above, our Group recorded positive operating profit before changes in working capital during the Period Under Review. This indicates that our Group is able to generate sufficient profit from the operations of our core business after fulfilling all related operating expenses.

However, our Group had recorded negative cash flow from operating activities for the FYE 2021, FYE 2022 and FPE 2023. This was due to an increase in the usage of external borrowings such as loans from related parties and bank borrowings to fund the growth of our Group. Pursuant to MFRS 107 Statement of Cash Flows, cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity as well as other activities that are neither considered as investing or financing. Therefore, the issuance of pawn loans is recorded as a cash outflow from operating activities as the pawn loans are the principal revenue producing activity of our Group, whereas the corresponding funding (cash inflow to our Group) for the disbursement of pawn loans are captured in cash flow from financing activities. The objective of presenting cash flow arising from financing activities is to facilitate the prediction of claims of future cash flows by providers of capital to the entity, and to reflect the source of funds. Therefore, the cash proceeds from short-term and long-term borrowings are classified under financing activities.

12. FINANCIAL INFORMATION (Cont'd)

Due to difference in accounting treatment of the disbursement and funding of the pawn loans, the negative operating cash flow as a result of pawn loans disbursed were not offset by the external borrowings. As such, in our Group's pawnbroking business operations, the continuous disbursement of pawn loans at an increasing rate would result in higher negative cash flows from operating activities for our Group.

In FYE 2021, our Group recorded net cash used in operating activities of RM6.18 million mainly due to:

- (i) increase in inventories which was a result of:
 - (a) higher purchase of bid pledges from public auctions in FYE 2021 due to the backlog of defaulted pawn loans accumulated in FYE 2020 when public auction activities were limited during the MCO 1.0 period, which were carried over to FYE 2021; and
 - (b) lower turnover following the closure of our retail outlets during the FMCO period from 12 May 2021 to 31 August 2021; and
- (ii) increase in pawn loans disbursed by RM23.71 million or approximately 4.7% from RM508.27 million in FYE 2020 to RM531.98 million in FYE 2021.

In FYE 2022, our Group recorded net cash used in operating activities of RM60.50 million mainly due to increase in trade receivables, whereby total pawn loans disbursed increased by RM178.36 million or approximately 33.5% from RM531.98 million in FYE 2021 to RM710.34 million in FYE 2022.

In FPE 2023, our Group recorded net cash used in operating activities of RM15.95 million mainly due to increase in trade receivable, whereby total pawn loans disbursed increased by RM134.14 million or approximately 41.4% from RM323.87 million in the FPE 2022 to RM458.01 million in the FPE 2023.

As our Group's business entails the provision of pawnbroking services, the increase in trade and other receivables during the Period Under Review demonstrates that our Group's pawnbroking business was able to disburse more pawn loans to earn interest income.

For illustration purposes, after adjusting for the net proceeds from loans and borrowings and drawdown of bank overdrafts, our Group would have recorded positive net cash flow from operating activities for FYE 2021, FYE 2022 and FPE 2023:

	Audited			Unaudited	Audited
	FYE 2020	FYE 2021	FYE 2022	FPE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash generated from/(used in) operating activities	26,548	(6,182)	(60,502)	9,005	(15,951)
Adjustments for:					
- Net proceeds from loans and borrowings (adjusted for repayment of loans and borrowings) ⁽¹⁾	2,000	2,951	26,007	(5,430)	31,949
- Drawdown of bank overdrafts	15,021	14,402	43,440	9,775	26,489
Adjusted net cash generated from operating activities	43,569	11,171	8,945	13,350	42,487

12. FINANCIAL INFORMATION (Cont'd)**Note:**

- (1) As the Related Parties Loans will be repaid and our Group will not rely on additional Related Parties Loans to fund and grow our Group's business, the Related Parties Loans were not included as cash inflow.

The changes in working capital, which attributed to the negative cash flow from operating activities for the FYE 2021, FYE 2022 and FPE 2023 were mainly due to:

- (i) increase in trade and other receivables mainly attributed to more pawn loans disbursed; and
- (ii) increase in loan receivables pursuant to Swift Paragon's money lending business.

The increase in pawn loans disbursed (as evident from the increase in trade and other receivables which include pledge receivables and accrued interest receivables) demonstrates that our Group's pawnbroking business was able to disburse more pawn loans to earn higher interest income.

As illustrated above, had the drawdown of bank borrowings been classified as part of working capital, our Group would have recorded positive net cash flow from operating activities for the Period Under Review.

(i) Net cash flows from operating activities**FYE 2020**

In FYE 2020, our net cash generated from operating activities was RM26.55 million. We collected cash payment mainly from the following:

- (a) RM546.92 million received from redemptions of pawn loans by our pawnbroking customers;
- (b) RM69.80 million received from retail sales and trading of jewellery and gold; and
- (c) RM0.45 million received from other income, mainly from management fees received from ValueMax Properties Pte. Ltd. (please see item (4) of **Section 10.2.1** of this Prospectus), government grants from wages subsidy program and services income (consisting ancillary services provided by our retail outlets such as polishing and repairing jewellery).

The above collections were offset by cash payment mainly for the following:

- (a) RM508.09 million for disbursement of pawn loans to our pawnbroking customers;
- (b) RM25.82 million for payment of staff costs, operating and administrative expenses;
- (c) RM45.96 million for purchase of new and pre-owned jewellery and gold; and
- (d) RM11.02 million for tax payment.

FYE 2021

In FYE 2021, our net cash used in operating activities was RM6.18 million. We collected cash payment mainly from the following:

- (a) RM577.14 million received from redemptions of pawn loans by our pawnbroking customers;

12. FINANCIAL INFORMATION (Cont'd)

- (b) RM50.08 million received from retail sales and trading of jewellery and gold; and
- (c) RM0.76 million received from other income, mainly from management fees (please see item (4) of **Section 10.2.1** of this Prospectus), government grants from wages subsidy program and services income (consisting ancillary services provided by our retail outlets such as polishing and repairing jewellery).

The above collections were offset by cash payment mainly for the following:

- (a) RM531.70 million for disbursement of pawn loans to our pawnbroking customers;
- (b) RM25.85 million for payment of staff costs, operating and administrative expenses;
- (c) RM49.70 million for purchase of new and pre-owned jewellery and gold;
- (d) RM14.00 million for disbursement of loan to money lending customers; and
- (e) RM12.82 million for tax payment.

FYE 2022

In FYE 2022, our net cash used in operating activities was RM60.50 million. We collected cash payment mainly comprising from the following:

- (a) RM688.40 million received from redemptions of pawn loans by our pawnbroking customers;
- (b) RM98.63 million received from retail sales and trading of jewellery and gold;
- (c) RM1.32 million received from other income, mainly from management fees (please see item (4) of **Section 10.2.1** of this Prospectus) and services income (consisting ancillary services provided by our retail outlets such as polishing and repairing jewellery); and
- (d) RM0.30 million received from tax refund.

The above collections were offset by cash payment mainly for the following:

- (a) RM710.34 million for disbursement of pawn loans to our pawnbroking customers;
- (b) RM30.74 million for payment of staff costs, operating and administrative expenses;
- (c) RM86.82 million for purchase of new and pre-owned jewellery and gold;
- (d) RM11.11 million for disbursement of loan to money lending customers; and
- (e) RM11.36 million for tax payment.

12. FINANCIAL INFORMATION (Cont'd)**FPE 2023**

In FPE 2023, our net cash used in operating activities was RM15.95 million. We collected cash payment mainly comprising from the following:

- (a) RM463.77 million received from redemptions of pawn loans by our pawnbroking customers;
- (b) RM68.73 million received from retail sales and trading of jewellery and gold; and
- (c) RM0.90 million received from other income, mainly from management fees (please see item (4) of **Section 10.2.1** of this Prospectus) and services income (consisting ancillary services provided by our retail outlets such as polishing and repairing jewellery).

The above collections were offset by cash payment mainly for the following:

- (a) RM458.01 million for disbursement of pawn loans to our pawnbroking customers;
- (b) RM24.55 million for payment of staff costs, operating and administrative expenses;
- (c) RM53.98 million for purchase of new and pre-owned jewellery and gold;
- (d) RM4.20 million for disbursement of loan to money lending customers; and
- (e) RM5.57 million for tax payment.

(ii) Net cash from investing activities**FYE 2020**

For FYE 2020, our net cash used in investing activities was RM1.89 million, which was attributed to purchase of property, plant and equipment, i.e. computers, furniture and fittings, office equipment and renovations.

FYE 2021

For FYE 2021, our net cash used in investing activities was RM0.89 million which was attributed to purchase of property, plant and equipment, i.e. computers, furniture and fittings, office equipment and renovations.

FYE 2022

For FYE 2022, our net cash used in investing activities was RM3.37 million. This was mainly due to the following:

- (a) RM2.71 million used for purchase of plant, property and equipment, i.e. computers, furniture and fittings, office equipment and renovations; and
- (b) RM0.70 million used for purchase of leasehold properties, being a 4-storey corner shop house for PG Jubli Intan's pawnbroking business and a double storey corner shop house for PG Well Chip (3)'s pawnbroking business.

12. FINANCIAL INFORMATION (Cont'd)

FPE 2023

For FPE 2023, our net cash generated from investing activities was RM0.98 million. This was mainly due to the following:

- (a) RM2.48 million proceeds received from disposal of discontinued operations and RM0.03 million proceeds received from disposal of computers owned by Swift Paragon pursuant to the Disposal of Swift Paragon; and
- (b) RM1.52 million used for purchase of plant, property and equipment, i.e. computers, furniture and fittings, office equipment and renovations.

(iii) Net cash used in financing activities**FYE 2020**

For FYE 2020, our net cash used in financing activities was RM7.04 million. This was mainly due to the following:

- (a) RM2.00 million from net drawdown of loans and borrowings, utilised as Cash Capital;
- (b) RM2.38 million for repayment of Related Parties Loans;
- (c) RM1.39 million for payment of lease liabilities in relation to rental for our pawnshops and retail outlets;
- (d) RM0.18 million for interest payment for lease liabilities and term loans; and
- (e) RM5.10 million of dividends paid to our shareholders.

FYE 2021

For FYE 2021, our net cash generated from financing activities was RM7.71 million. This was mainly due to the following:

- (a) RM2.95 million from net drawdown of loans and borrowings, utilised as Cash Capital;
- (b) RM11.92 million from drawdown of Related Parties Loans, utilised as Cash Capital;
- (c) RM1.55 million for payment of lease liabilities in relation to rental for our pawnshops and retail outlets;
- (d) RM0.18 million for interest payment for lease liabilities and term loans; and
- (e) RM5.44 million of dividends paid to our shareholders.

12. FINANCIAL INFORMATION (Cont'd)**FYE 2022**

For FYE 2022, our net cash generated from financing activities was RM29.02 million. This was mainly due to the following:

- (a) RM26.01 million from net drawdown of loans and borrowings, utilised as Cash Capital;
- (b) RM10.03 million from drawdown of Related Parties Loans, utilised as Cash Capital;
- (c) RM1.62 million for payment of lease liabilities in relation to rental for our pawnshops and retail outlets;
- (d) RM0.30 million for interest payment for lease liabilities and term loans; and
- (e) RM5.10 million of dividends paid to our shareholders.

FPE 2023

In FPE 2023, our net cash generated from financing activities was RM35.92 million. This was mainly due to the following:

- (a) RM31.95 million from net drawdown of loans and borrowings, utilised as Cash Capital;
- (b) RM5.08 million for drawdown of Related Parties Loans, utilised as Cash Capital;
- (c) RM0.93 million for payment of lease liabilities in relation to rental for our pawnshops and retail outlets; and
- (d) RM0.18 million for interest payment for lease liabilities and term loans.

12.4.3 Loans and borrowings

As at 30 June 2023, our total loans and borrowings was RM236.65 million, as set below:

Maturity profile	As at 30 June 2023					
	(1) Term loans	(2) Bank overdrafts	(2) Revolving credits	Subtotal	Related Parties Loans	Total loans and borrowings
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Less than 1 year	137	26,489	131,600	158,226	74,714	232,940
More than 1 year but less than 2 years	142	-	-	142	-	142
More than 2 years but less than 5 years	467	-	-	467	-	467
More than 5 years	3,097	-	-	3,097	-	3,097
Total	3,843	26,489	131,600	161,932	(3) 74,714	236,646
Effective interest rate (%)	4.12 - 4.27	6.51 - 7.10	5.04 - 6.23	-	6.00 - 7.00	-
Gearing ratio⁽⁴⁾					-	1.25

12. FINANCIAL INFORMATION (Cont'd)**Notes:**

- (1) Term loans were mainly utilised to fund purchase of business premises.
- (2) Bank overdrafts and revolving credits were utilised for Cash Capital and working capital for our business operations.
- (3) Out of the RM74.71 million of the Related Parties Loans, a total of RM17.44 million is denominated in SGD.
- (4) Calculated based on total borrowings divided by total equity.

Our Group has not defaulted on any payment of either principal sum and/or interest in relation to loans and borrowings for the Period Under Review and up to the LPD.

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

12.4.4 Financial instruments, treasury policies and objectives

From an accounting perspective, financial instruments may include trade and other receivables, other payables as well as loans and borrowings as shown in our combined statements of financial position. These financial instruments are used in our ordinary course of business.

Our Group's operations have been mainly funded through bank borrowings, Related Parties Loans and internally generated funds. As at the LPD, we have not issued any financial instruments such as bonds or other debt instruments which requires us to obtain credit rating.

As at the LPD, our Group's banking facilities from financial institutions mainly consists of revolving credits and bank overdrafts for our Cash Capital.

The interest rates for our bank borrowings are based on the market rates prevailing at the dates of the respective transaction. As at the LPD, our Group has available banking facilities amounting to RM225.00 million, which RM28.80 million has yet to be utilised.

The main objective of our capital management is to ensure we maintain a healthy credit rating and capital ratio in order to support our business to maximise shareholders' value. We manage our capital structure to maintain our gearing ratio at an optimal level based on our business requirements and prevailing economic conditions.

12.4.5 Material capital commitments

As at the LPD, our Group's material capital commitments are as below:

Material commitment	RM'000
Leasehold land and building:	
- Authorised and contracted for	1,332

We plan to meet our capital commitments through internally generated funds and/or borrowings.

12.4.6 Material litigation

Our Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant and proceedings pending or threatened or any fact likely to give rise to any proceeding which might materially or adversely affect our position or profitability, in the 12 months immediately preceding the date of this Prospectus.

12. FINANCIAL INFORMATION (Cont'd)**12.4.7 Contingent liabilities**

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

12.4.8 Material investment and divestiture

Saved as disclosed in **Section 6.3** of this Prospectus, we have not undertaken any material investments or divestitures during the Period Under Review and up to and including the LPD.

12.4.9 Key financial ratios

Our key financial ratios for the Period Under Review are as follows:

	FYE 2020	FYE 2021	FYE 2022	FPE 2023
Trade receivables turnover period (days) ⁽¹⁾	160	161	142	130
Inventory turnover (days) ⁽²⁾	196	257	146	105
Current ratio (times) ⁽³⁾	1.75	1.72	1.56	1.75
Gearing ratio (times) ⁽⁴⁾	1.22	1.16	1.41	1.25
Return on Cash Capital (%) ⁽⁵⁾	26.4	27.3	23.8	⁽⁶⁾ 27.2

Notes:

- (1) Due to the nature of the pawnbroking business of our Group, our trade receivables comprise of pawn loans outstanding and interest receivable from pawnbroking services. Therefore, to reflect more meaningful trade receivables turnover, the computation is based on the average trade receivables over the aggregate of total pawn loans and interest income from pawnbroking services for the respective financial years/period multiplied by 365 days for each financial year and 181 days for FPE 2023.
- (2) Computed based on average inventory over cost of sales the respective financial years/period multiplied by 365 days for each financial year and 181 days for FPE 2023.
- (3) Computed based on current assets over current liabilities.
- (4) Computed based on total loans and borrowings (including Related Parties Loans but excluding lease liabilities) over total equity.
- (5) Computed based on interest income over cash capital for the respective financial years/period.
- (6) Annualised for illustration purposes.

(i) Trade receivables turnover period

A summary of our trade receivables for the Period Under Review is set out below:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000
Opening trade receivables				
- Pawn loans outstanding	228,103	241,669	249,366	325,893
- Interest receivables	10,659	11,975	10,478	14,268
	238,762	253,644	259,844	340,161
Closing trade receivables				
- Pawn loans outstanding	241,669	249,366	325,893	354,632
- Interest receivables	11,975	10,478	14,268	14,430
	253,644	259,844	340,161	369,062

12. FINANCIAL INFORMATION (Cont'd)

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000
Average trade receivables				
- Pawn loans outstanding	234,886	245,517	287,630	340,263
- Interest receivables	11,317	11,227	12,373	14,349
	246,203	256,744	300,003	354,612
Total pawn loans disbursed	508,271	531,979	710,341	458,011
Interest income from pawnbroking services	51,848	51,618	59,266	34,610
	560,119	583,597	769,607	492,621
Trade receivables turnover period				
- Pawn loans outstanding (days)	169	168	148	134
- Interest receivables (days)	80	79	76	75
- Overall (days)	160	161	142	130

For our pawnbroking services segment, we offer pawn loans with loan periods of up to 6 months to our pawnbroking customers. We charge a monthly interest rate which ranges between 1.00% to 2.00% of the pawn loan amount.

Upon expiry of the pawn ticket, customers who choose to renew their pawn loans are required to settle the outstanding accrued interest on the existing pawn loans before they can pawn their pledges to obtain new pawn tickets with a new pawn loan period.

If our pawnbroking customers do not redeem their pledges, renew their pawn loans or pay the interest charges upon expiration of pawn tickets, we will provide a grace period, at our discretion, of up to 3 months as set out below for customers to redeem the pledges or renew the pawn tickets:

- (a) for loans which are granted on the 1st of the month, the grace period will expire at the end of the 3rd month from the expiration of pawn tickets; or
- (b) for loans which are granted on any day other than the 1st of the month, the grace period will expire at the end of the 2nd month from the expiration of pawn tickets,

such that the grace period given will not exceed 3 months.

On the day immediately after the expiration of the grace period, their pawn loans will be categorised as defaulted pawn loans. In such event:

- (a) For defaulted pawn loans not exceeding RM200, our customers will be notified of the expiration of the pawn tickets via SMS texts in the first month after the expiry date of the pawn tickets. If our customers do not redeem the pledges or renew the pawn loan within the grace period given, the pledges will be deemed our possession.
- (b) For defaulted pawn loans exceeding RM200, our customers will be notified of the expiration of the pawn tickets via SMS texts in the first month after the expiry date of the pawn tickets, and then via registered letters in the second month after the expiry date of the pawn tickets.

The unredeemed pledges will then be sent for public auction, which typically takes place in the month immediately after the expiration of the grace period given.

12. FINANCIAL INFORMATION (Cont'd)

If the customers return to our pawnshops to redeem the pledges or renew their pawn loans after we have submitted the pre-auction list to the KPKT at any time within the grace period provided, we can still perform the redemption and charge the accrued interest up to the month that the pledges are redeemed.

Our Group has not encountered any circumstances in the past and up to the LPD where proceeds from the sale of bid pledges were less than defaulted pawn loans.

For our retail and trading of jewellery and gold segment, our transactions with customers are settled immediately in cash, through financial institutions providing credit services such as credit cards, or through third party online payment channels. Financial institutions providing credit services typically release payment within 2 days from the point of sale.

Our average trade receivables turnover periods for the Period Under Review are within the maximum pawn loan tickets validity of 6 months. The fluctuations in the average trade receivables turnover periods for the Period Under Review is due to the timing of redemption by our pawnbroking customers.

In FYE 2020, there were no public auctions in the months of April, May and June; whilst in FYE 2021, there were no public auctions in the months of February, March, June, July, August, September and October. During these periods, we have extended the redemption period of the pawn loans until the last day of the month immediately before the public auctions were allowed to resume in the respective years. This has resulted in the longer redemption/renewal period by our customers for the FYE 2020 and FYE 2021, which in turn resulted in higher average trade receivables turnover period for those years as compared to FYE 2022, when public auctions had resumed in full.

The average trade receivables turnover period for the FPE 2023 is lower than the average trade receivables turnover period for the FYE 2022 was due to faster redemptions by our pawnbroking customers.

Our Group has no significant concentration of credit risk from our trade receivables. Our Group minimises credit risk by requiring pledges from customers. As such, we do not make provision for impairment losses in respect of these balances when they are past due as they are secured by pledges.

In FYE 2022, we had written-off RM0.90 million for pledges that were confiscated by police for investigations accumulated since the commencement of our pawnbroking operation. The write-off was not material in its respective years. In FPE 2023, we have written off pledge receivables of RM0.01 million that were confiscated by police for investigations.

The table below sets out the ageing analysis for our trade receivables as at 30 June 2023:

	Not past due				Past due	Total
	Within 6 months	6 – 7 months	7 – 8 months	8 – 9 months		
As at 30 June 2023						
Trade receivables (RM'000)	324,745	24,013	12,415	7,889	-	369,062
% of total trade receivables (%)	88.0	6.5	3.4	2.1	-	100.0
As at the LPD						
Trade receivables settled (RM'000)	312,301	24,013	12,415	7,889	-	356,618
Trade receivables settled (% of total trade receivables) (%)	84.6	6.5	3.4	2.1	-	96.6
Trade receivable outstanding (RM'000)	12,444	-	-	-	-	12,444

12. FINANCIAL INFORMATION (Cont'd)**(ii) Inventory turnover period**

Our inventory comprises:

- (a) new gold, gold jewellery purchased from manufacturers and/or wholesalers; and
- (b) pre-owned gold, gold jewellery and watches from unredeemed and bid pledges from our pawnbroking services segment, as well as purchased from walk-in individuals at our retail outlets.

Our inventory for the Period Under Review by products is set out below:

	Audited as at 31 December			Audited as at 30 June 2023
	2020	2021	2022	
	RM'000	RM'000	RM'000	RM'000
New gold and gold jewellery	4,074	4,954	4,718	5,768
Pre-owned gold, gold jewellery and watches	20,684	28,272	30,303	28,335
Total	24,758	33,226	35,021	34,103

Our inventory turnover days during the Period Under Review were as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000
Opening inventories	27,887	24,758	33,226	35,021
Closing inventories	24,758	33,226	35,021	34,103
Average inventories	26,323	28,992	34,124	34,562
Cost of sales	49,085	41,235	85,028	59,630
Inventories turnover period (days)	196	257	146	105

Our average inventory turnover periods for the Period Under Review are 196, 257, 146 and 105 days respectively.

Our inventory turnover period increased by 61 days from 196 days in FYE 2020 to 257 days in FYE 2021 mainly due to:

- (a) increase in average inventory in FYE 2021 due to higher purchase of bid pledges from public auctions in FYE 2021. This is attributed to the backlog of defaulted pawn loans accumulated in FYE 2020 when public auction activities were limited during MCO 1.0 period in FYE 2020, which were carried over to FYE 2021. For the avoidance of doubt, once the Group purchases the bid pledges at public auctions, the pledges will then be recorded in inventory; and
- (b) decrease in sales volume of jewellery and gold products as our retail outlets were temporarily closed for approximately 3.5 months from 12 May 2021 to 31 August 2021.

Subsequently, our inventory turnover period decreased by 111 days from 257 days in FYE 2021 to 146 days in FYE 2022 due to significant increase in sales volume of jewellery and gold as well as scrap gold has increased after the upliftment of FMCO.

12. FINANCIAL INFORMATION (Cont'd)

Our average inventory turnover period decreased by 41 days from 146 days in FYE 2022 to 105 days in FPE 2023 which attributed to increase in sales volume of jewellery and gold products.

There was no inventory written off for the Period Under Review.

(iii) Current ratio

A summary of our current ratio for the Period Under Review is set out below:

	Audited as at 31 December			Audited as at 30 June 2023
	2020	2021	2022	
	RM'000	RM'000	RM'000	RM'000
Current assets	295,576	311,615	387,468	419,222
Current liabilities	168,975	180,929	247,954	239,106
Current ratio ⁽¹⁾ (times)	1.75	1.72	1.56	1.75

Note:

(1) Computed on current assets over current liabilities.

Our current ratio ranged from 1.56 times to 1.75 times throughout the Period Under Review. This indicates that our Group is capable of meeting our current obligations as our current assets are enough to meet our current liabilities.

Our current ratio as at 31 December 2020 and as at 31 December 2021 have remained relatively constant.

Our current ratio decreased from 1.72 times as at 31 December 2021 to 1.56 times as at 31 December 2022. This was mainly due to the increase in our trade and other receivables by RM80.07 million or approximately 30.4% from RM263.34 million in FYE 2021 to RM343.41 million in FYE 2022, attributed to the increase in pawn loans disbursed.

Nevertheless, we also recorded an increase in loans and borrowings of RM57.85 million or approximately 64.9% from RM89.08 million in FYE 2021 to RM146.93 million in FYE 2022, which were used mainly for Cash Capital and working capital.

Our current ratio increased from 1.56 times as at 31 December 2022 to 1.75 times as at 30 June 2023, mainly due to:

- (a) increase in trade and other receivables by RM28.91 million or approximately 8.4% from RM343.41 million in FYE 2022 to RM372.32 million in FPE 2023, attributed to the increase in pawn loans disbursed; and
- (b) decrease in our trade and other payables by RM25.53 million or approximately 25.1% from RM101.92 million in FYE 2022 to RM76.39 million in FPE 2023, mainly attributed to decrease in loans from related parties of RM21.91 million or approximately 34.3% from RM63.94 million in FYE 2022 to RM42.03 million in FPE 2023, decrease in amount due to related parties of RM3.21 million or approximately 98.9% from RM3.25 million in FYE 2022 to RM0.04 million in FPE 2023, and decrease in accruals of RM1.39 million or approximately 47.4% from RM2.94 million in FYE 2022 to RM1.55 million in FPE 2023.

12. FINANCIAL INFORMATION (Cont'd)**(iv) Gearing ratio**

	Audited as at 31 December			Audited as at 30 June 2023
	2020	2021	2022	
	RM'000	RM'000	RM'000	RM'000
Loans and borrowings	86,752	89,084	146,934	161,932
Related Parties Loans	73,726	85,650	95,680	74,714
Total loans and borrowings (including Related Parties Loans)	160,478	174,734	242,614	236,646
Total equity	132,010	150,540	171,795	188,969
Gearing ratio (times)	1.22	1.16	1.41	1.25

Our gearing ratio decreased from 1.22 times as at 31 December 2020 to 1.16 times as at 31 December 2021, mainly due to increase on our retained profits by RM18.53 million or approximately 17.8% from RM104.33 million as at 31 December 2020 to RM122.86 million as at 31 December 2021. The increase in retained profits is partially offset by increase in our loans and borrowings (including Related Parties Loans) by RM14.25 million or approximately 8.9% from RM160.48 million as at 31 December 2020 to RM174.73 million as at 31 December 2021 mainly for Cash Capital and working capital purposes.

Our gearing ratio increased from 1.16 times as at 31 December 2021 to 1.41 times as at 31 December 2022, mainly due to increase in our loans and borrowings (including Related Parties Loans) by RM67.88 million or approximately 38.8% from RM174.73 million as at 31 December 2021 to RM242.61 million as at 31 December 2022 mainly for Cash Capital and working capital purposes. The increase in loans and borrowings (including Related Parties Loans) is partially offset by increase in our retained profits by RM21.25 million or approximately 17.3% from RM122.86 million as at 31 December 2021 to RM144.11 million as at 31 December 2022.

Our gearing ratio decreased from 1.41 times as at 31 December 2022 to 1.25 times as at 30 June 2023, mainly due to increase in our retained profits by RM17.18 million or approximately 11.9% from RM144.11 million as at 31 December 2022 to RM161.29 million as at 30 June 2023.

During the Period Under Review, we have funded our Cash Capital requirements from the following sources:

Source of Cash Capital	FYE 2020		FYE 2021		FYE 2022		FPE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<u>As at end of the relevant financial years/periods</u>								
Bank borrowings	86,752	44.1	89,084	47.1	146,934	58.9	161,932	63.6
Related Parties Loans	73,726	37.5	85,650	45.3	95,680	38.3	74,714	29.4
<u>For the relevant financial years/periods</u>								
Internally generated funds	36,161	18.4	26,410	14.0	29,073	11.6	17,808	7.0
Subtotal	196,639	100.0	201,144	106.4	271,687	108.8	254,454	100.0
Less:								
Loans provided to Swift Paragon ⁽¹⁾	-	-	(12,182)	(6.4)	(22,118)	(8.8)	-	-
Total Cash Capital	196,639	100.0	188,962	100.0	249,569	100.0	254,454	100.0

12. FINANCIAL INFORMATION (Cont'd)**Note:**

- (1) The sources of funds for the loans provided to Swift Paragon are from a combination of Related Parties Loans and our internally generated funds.

As Swift Paragon's principal activity is in the business of money-lending, the loan from SYT Pavilion to Swift Paragon has been deducted to reflect only the Cash Capital used for the pawnbroking business of Well Chip Group. Swift Paragon was a wholly-owned subsidiary of SYT Pavilion prior to the Disposal of Swift Paragon, which was completed on 28 June 2023. The outstanding amount owed by Swift Paragon to SYT Pavilion was fully settled upon the completion of the Disposal of Swift Paragon.

In view that we have been relying on external funding, i.e. bank borrowings and Related Parties Loans, in larger proportion compared to internally generated funds to expand our business, for both expansion of pawnshops and disbursement of new pawn loans, our gearing ratio is higher than 1. Nevertheless, our gearing ratio is within the range of gearing ratios of comparable companies of 0.16 times to 4.81 times as set out in Section 4.2 of the IMR Report.

(v) Return on Cash Capital

Return on Cash Capital is a financial ratio analysis used to indicate the financial performance of our pawnbroking business. The said ratio is computed based on total interest income generated from our pawnbroking business divided by our Cash Capital over the Period Under Review as summarised below:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000
Interest income	51,848	51,618	59,266	34,610
Cash Capital	196,639	188,962	249,569	254,454
Return on Cash Capital ⁽¹⁾ (%)	26.4	27.3	23.8	⁽²⁾ 27.2

Notes:

- (1) Computed based on interest income over Cash Capital for the respective financial years/period.
- (2) Annualised for illustration purposes.

Our return on Cash Capital increased from 26.4% for the FYE 2020 to 27.3% for the FYE 2021 due to decrease in Cash Capital by RM7.68 million or approximately 3.9% from RM196.64 million for the FYE 2020 to RM188.96 million for the FYE 2021.

Our return on Cash Capital declined from 27.3% for the FYE 2021 to 23.8% for the FYE 2022 mainly due to:

- (a) increase in Cash Capital by RM60.61 million or approximately 32.1% from RM188.96 million for the FYE 2021 to RM249.57 million for the FYE 2022 as total pawn loans disbursed increased in FYE 2022; and
- (b) lower growth in interest income vis-à-vis the growth in Cash Capital. Interest income increased by RM7.65 million or approximately 14.8% from RM51.62 million in FYE 2021 to RM59.27 million in FYE 2022, due to a larger proportion of our pawn loans were disbursed towards the later part of the year. The loan periods for pawn loans disbursed towards the later part of the year stretched beyond 31 December 2022, resulting in a part of monthly interest income being recognised in the FYE 2022. The interest income from the remaining loan period after 31 December 2022 will be recognised in FYE 2023.

12. FINANCIAL INFORMATION (Cont'd)

12.5 ORDER BOOK

Due to the nature of our pawnbroking business and retail and trading of jewellery and gold business, we do not have any order book.

12.6 TREND INFORMATION

As at the LPD, save as disclosed in this Prospectus, our operations have not been and are not expected to be affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations other than those discussed in this section and risk factors in **Section 9** of this Prospectus;
- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in this section and risk factors in **Section 9** of this Prospectus;
- (iii) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group revenue and/or profits save for the interruptions to business and operations as set out in **Section 7.23** of this Prospectus and our future plans and business strategies as set out in **Section 7.24** of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and risk factors in **Section 9** of this Prospectus; and
- (v) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources.

12.7 SIGNIFICANT CHANGES/EVENTS

There are no significant changes that has occurred which may have a material effect on our financial position and results of operation since 30 June 2023 up to the LPD.

12.8 DIVIDEND POLICY

It is our Board's intention to recommend and distribute dividends of at least 35.0% of our consolidated PAT attributable to our shareholders for first 3 financial years after our Listing. This will allow our shareholders to participate in the profits of our Group while leaving adequate reserves for the future growth of our Group.

Our Group's ability to distribute dividends to our shareholders is subject to various factors, such as profits recorded and excess of funds not required to be retained for the working capital of our business. Our ability to declare and pay dividends is subject to the discretion of our Board. Our Directors will take into consideration, amongst others, the following factors when recommending or declaring any dividends:

- (i) our level of cash, gearing, return on equity and retained earnings;
- (ii) our expected financial performance;
- (iii) our projected levels of capital expenditure and other investment plans;

12. FINANCIAL INFORMATION (Cont'd)

- (iv) our operating cash flow and working capital requirements; and
- (v) any contractual restrictions and/or commitments.

As at the LPD, save for the financial covenants as set out below and the Act, and subject to the availability of distributable profits and reserves, there are no dividend restrictions imposed on us or our subsidiaries:

Our subsidiaries	Restrictive covenants on dividends
1. KP Well Chip, PG Cahaya Damai, PG Grand Chip, PG Mutiara Pesona	Prior written consent of United Overseas Bank (Malaysia) Bhd ("UOB") to declare dividends in excess of 50.0% of its PAT to our Company
2. PG Berlian, PG Shinegold	Prior written consent of CIMB Bank Berhad to declare dividends to our Company
3. PG Bintang, PG Rubi Kristal, Thye Shing Pawnshop, PG Jubli Intan, PG Well Chip (2), PG Well Chip (3)	Prior written consent of OCBC Bank Malaysia Berhad to declare dividends in excess of 50.0% of its paid-up capital or its PAT to our Company

The existing financial covenants would not affect the future dividend payments of our Company.

As our Company is a holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends that we receive from our subsidiaries. Distribution by our subsidiaries will depend upon their operating results, earnings, capital requirements, general financial condition and other relevant factors.

The dividends declared and paid by our Group for the Period Under Review are as follows:

	FYE 2020	FYE 2021	FYE 2022	FPE 2023
	RM'000	RM'000	RM'000	RM'000
Dividends declared/paid	5,099	5,435	5,097	-

On 4 September 2023, our Group declared an interim single-tier dividend amounting to RM4.85 million for the FYE 2023. The said dividend was paid on 14 September 2023.

The dividends above were funded via internally generated funds of our Group after taking into consideration the funding requirements of our business operations.

Investors should note that this dividend policy merely describes our present intention and shall not constitute any legally binding statements in respect of our future dividends which are subject to modification (including non-declaration) thereof at our Board's discretion. We cannot assure you 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 further dividends declared by our Board, if any, will not differ materially from historical dividend levels.

Our Company has no intention to declare any further dividends up to the completion of Listing.

12. FINANCIAL INFORMATION (Cont'd)**12.9 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION OF WELL CHIP**

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The Board of Directors
Well Chip Group Berhad
Suite 9D, Level 9
Menara Ansar 65, Jalan Trus
80000 Johor Bahru, Johor

Date: 14 November 2023

Dear Sirs,

WELL CHIP GROUP BERHAD**REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2023 INCLUDED IN A PROSPECTUS**

We have completed our assurance engagement to report on the compilation of pro forma combined statements of financial position of Well Chip Group Berhad ("Well Chip" or the "Company") and its subsidiaries, namely Kedai Pajak Well Chip Sdn. Bhd., Kedai Emas Well Chip Sdn. Bhd., Thye Shing Pawnshop Sdn. Bhd., SYT Pavilion Sdn. Bhd., Pajak Gadai Bintang Sdn. Bhd., Pajak Gadai Shinegold Sdn. Bhd., Pajak Gadai Berlian Sdn. Bhd., Pajak Gadai Grand Chip Sdn. Bhd., Pajak Gadai Cahaya Damai Sdn. Bhd., Pajak Gadai Mutiara Pesona Sdn. Bhd., Pajak Gadai Rubi Kristal Sdn. Bhd., Pajak Gadai Jubli Intan Sdn. Bhd., Pajak Gadai Fajar Tebrau Sdn. Bhd., Pajak Gadai Nilam Sdn. Bhd., Pajak Gadai Delima Sdn. Bhd., Pajak Gadai Well Chip (1) Sdn. Bhd., Pajak Gadai Well Chip (2) Sdn. Bhd., Pajak Gadai Well Chip (3) Sdn. Bhd., Pajak Gadai Well Chip (4) Sdn. Bhd., Well Chip (5) Sdn. Bhd., Pajak Gadai Well Chip (6) Sdn. Bhd., Well Chip (7) Sdn. Bhd., Well Chip (8) Sdn. Bhd., Well Chip (9) Sdn. Bhd., Well Chip (10) Sdn. Bhd., Well Chip (11) Sdn. Bhd., Well Chip (12) Sdn. Bhd. and Well Chip (13) Sdn. Bhd. (collectively referred to as the "Group").

The Proforma Combined Statements of Financial Position have been prepared by the Board of Directors of Well Chip for inclusion in the prospectus of Well Chip ("Prospectus") in connection with its Initial Public Offering ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued share capital of Well Chip on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

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RSM Malaysia PLT 202206000002 (LLP0030276-LCA) & AF 0768 was registered on 3rd January 2022. With effect from that date, RSM Malaysia (AF 0768), a conventional partnership was converted to a limited liability partnership.

RSM Malaysia PLT is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

12. FINANCIAL INFORMATION (Cont'd)

The pro forma combined statements of financial position consist of the pro forma combined statements of financial position as at 30 June 2023 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the Board of Directors of Well Chip have compiled the pro forma combined statements of financial position are as described in Note 2 to the pro forma combined statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma combined statements of financial position of the Group have been compiled by the Board of Directors of Well Chip, for illustrative purposes only to illustrate the impact of the events or transactions as set out in the notes thereon to the Proforma Combined Statements of Financial Position as of 30 June 2023.

As part of this process, information about the Group's financial position has been extracted by the Board of Directors of Well Chip from the audited combined financial statements of the Group.

The audited combined financial statements of the Group for the Financial Period Ended ("FPE") 30 June 2023 were reported by us to their respective members without any modifications.

Board of Directors' Responsibility for the Pro Forma Combined Statements of Financial Position

The Board of Directors of Well Chip are responsible for compiling the pro forma combined statements of financial position on the basis as described in the notes thereon to the proforma combined statements of financial position and in accordance with the Application Criteria.

Our Independence and Quality Control

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board of Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our firm applies *International Standard on Quality Management 1 ("ISQM 1"), Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma combined statements of financial position has been compiled, in all material respects, by the Board of Directors of Well Chip on the basis as described in the notes thereon to the proforma combined statements of financial position and in accordance with the Application Criteria.

12. FINANCIAL INFORMATION (Cont'd)*Reporting Accountants' Responsibilities (cont'd)*

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of Well Chip have compiled, in all material respects, the pro forma combined statements of financial position based on the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or re-issuing any reports or opinions on any historical financial information used in compiling the pro forma combined statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma combined statements of financial position.

The purpose of the pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position has been compiled, in all material respects, on the basis as described in the notes thereon and in accordance with the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Board of Directors of Well Chip in the compilation of the pro forma combined statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to the events and transactions, and to obtain sufficient appropriate evidence about whether:

- (a) The related pro forma adjustments give appropriate effect to those criteria; and
- (b) The proforma combined statements of financial position reflects the proper application of those adjustments to the audited financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma combined statements of financial position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma combined statements of financial position.

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

12. FINANCIAL INFORMATION (Cont'd)

*Our opinion*

In our opinion, the pro forma combined statements of financial position of the Group have been compiled on the basis and assumptions set out in the accompanying notes to the pro forma combined statements of financial position and in accordance with the requirements of the Prospectus Guidelines.

Other matters

This report has been prepared for inclusion in the Prospectus of Well Chip in connection with the Listing. As such, this report should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

RSM Malaysia PLT
202206000002 (LLP0030276-LCA) & AF: 0768
Chartered Accountants

Johor Bahru

Wong Cheng Pin
03611/11/2023 J
Chartered Accountant

12. FINANCIAL INFORMATION (Cont'd)**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION****1. INTRODUCTION**

The Pro Forma Combined Statements Of Financial Position of Well Chip Group Berhad (“Well Chip” or the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) has been compiled for inclusion in the prospectus of Well Chip in connection with its Initial Public Offering (“IPO”) in conjunction with the listing of and quotation for the entire enlarged issued share capital of Well Chip on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing”).

1.1 In conjunction with the Listing, Well Chip had undertaken the following transactions as disclosed in Note 1.2.

1.2 Listing scheme**1.2.1 Pre-IPO Reorganisation**

(a) Acquisitions of SYT Pavilion Sdn. Bhd., Thye Shing Pawnshop Sdn. Bhd., Kedai Pajak Well Chip Sdn. Bhd. and Kedai Emas Well Chip Sdn. Bhd.

On 9 November 2023, Well Chip had entered into a share purchase agreement with the shareholders of SYT Pavilion Sdn. Bhd. (“SYT Pavilion”), Thye Shing Pawnshop Sdn. Bhd. (“Thye Shing Pawnshop”), Kedai Pajak Well Chip Sdn. Bhd. (“KP Well Chip”) and Kedai Emas Well Chip Sdn. Bhd. (“KE Well Chip”) to acquire the following companies for a total purchase consideration of RM171,646,606 to be satisfied via the issuance of 449,999,999 new ordinary shares in Well Chip (“Shares”) as below:

Combined net assets of:	Net asset as at 31 December 2022 (RM'000)	Purchase consideration (RM'000)	No. of ordinary shares issued ('000)	Issue price of the Shares (RM)	Shareholdings to be held in companies (%)
SYT Pavilion #	39,908	39,908	104,610	0.38	100
Thye Shing Pawnshop	34,776	34,776	91,180	0.38	100
KP Well Chip	47,373	47,373	124,200	0.38	100
KE Well Chip	49,590	49,590	130,010	0.38	100
	<u>171,647</u>	<u>171,647</u>	<u>450,000</u>		

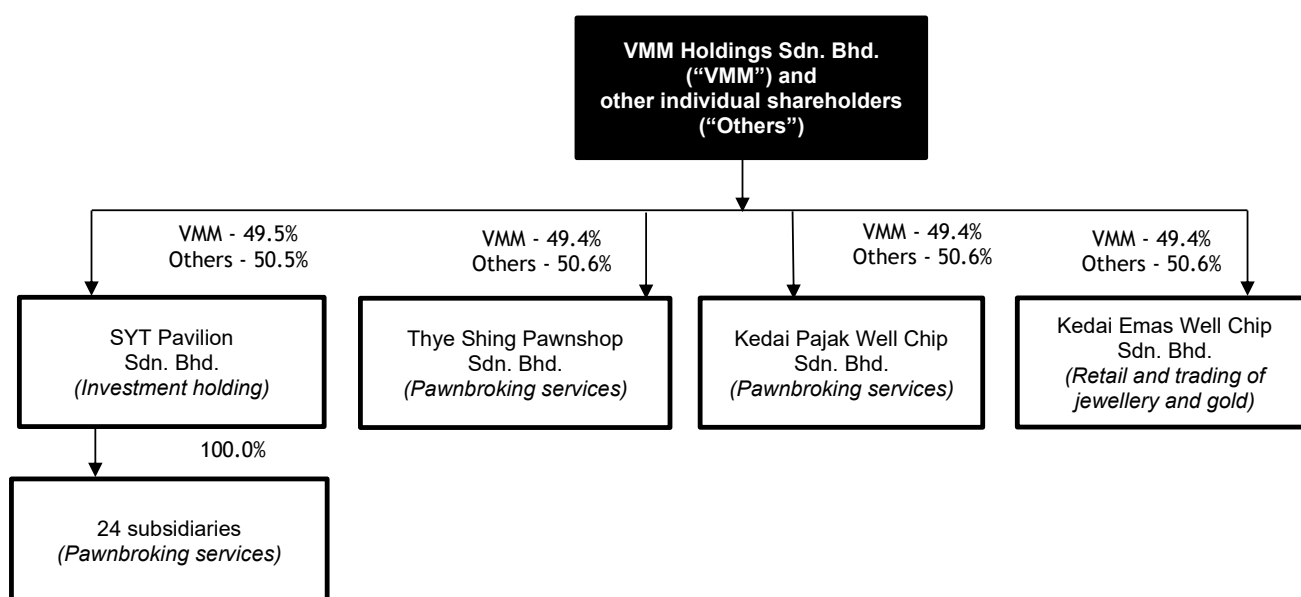
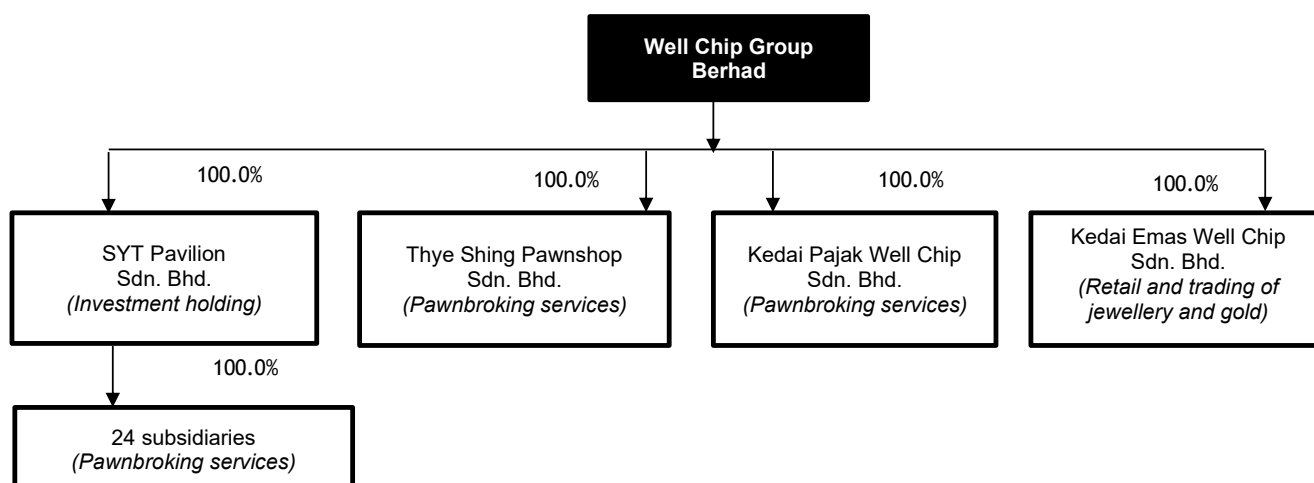
Adjusted combined net assets of SYT Pavilion as at 31 December 2022

The combined net assets of SYT Pavilion as at 31 December 2022 as set out above, had taken in the effects of the disposal of Swift Paragon (which have not been completed as at 31 December 2022) on the assumption that these transactions were completed on 31 December 2022.

12. FINANCIAL INFORMATION (Cont'd)**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****1. (CONTINUED)****1.2 (CONTINUED)****1.2.1 (CONTINUED)**

- (a) Acquisitions of SYT Pavilion Sdn. Bhd., Thye Shing Pawnshop Sdn. Bhd., Kedai Pajak Well Chip Sdn. Bhd. and Kedai Emas Well Chip Sdn. Bhd. (continued)

The Group structure before and after the Pre-IPO Reorganisation is illustrated below:

Before the Pre-IPO ReorganisationAfter the Pre-IPO Reorganisation

12. FINANCIAL INFORMATION (Cont'd)**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****1. (CONTINUED)****1.2 (CONTINUED)****1.2.1 (CONTINUED)**

- (a) Acquisitions of SYT Pavilion Sdn. Bhd., Thye Shing Pawnshop Sdn. Bhd., Kedai Pajak Well Chip Sdn. Bhd. and Kedai Emas Well Chip Sdn. Bhd. (continued)

SYT Pavilion Sdn. Bhd. subsidiaries:

Business activity: Pawnbroking activity	
1	<i>Pajak Gadai Bintang Sdn. Bhd.</i>
2	<i>Pajak Gadai Shinegold Sdn. Bhd.</i>
3	<i>Pajak Gadai Grand Chip Sdn. Bhd.</i>
4	<i>Pajak Gadai Berlian Sdn. Bhd.</i>
5	<i>Pajak Gadai Cahaya Damai Sdn. Bhd.</i>
6	<i>Pajak Gadai Jubli Intan Sdn. Bhd.</i>
7	<i>Pajak Gadai Mutiara Pesona Sdn. Bhd.</i>
8	<i>Pajak Gadai Rubi Kristal Sdn. Bhd.</i>
9	<i>Pajak Gadai Fajar Tebrau Sdn. Bhd.</i>
10	<i>Pajak Gadai Nilam Sdn. Bhd.</i>
11	<i>Pajak Gadai Delima Sdn. Bhd.</i>
12	<i>Pajak Gadai Well Chip (1) Sdn. Bhd.</i>
13	<i>Pajak Gadai Well Chip (2) Sdn. Bhd.</i>
14	<i>Pajak Gadai Well Chip (3) Sdn. Bhd.</i>
15	<i>Pajak Gadai Well Chip (4) Sdn. Bhd.</i>
16	<i>Well Chip (5) Sdn. Bhd.</i>
17	<i>Pajak Gadai Well Chip (6) Sdn. Bhd.</i>
18	<i>Well Chip (7) Sdn. Bhd.</i>
19	<i>Well Chip (8) Sdn. Bhd.</i>
20	<i>Well Chip (9) Sdn. Bhd.</i>
21	<i>Well Chip (10) Sdn. Bhd.</i>
22	<i>Well Chip (11) Sdn. Bhd.</i>
23	<i>Well Chip (12) Sdn. Bhd.</i>
24	<i>Well Chip (13) Sdn. Bhd.</i>

^ The Company changed its name from Well Chip (1) Sdn. Bhd. to Pajak Gadai Well Chip (1) Sdn. Bhd., effective on 2 May 2023.

^^ The Company changed its name from Well Chip (4) Sdn. Bhd. to Pajak Gadai Well Chip (4) Sdn. Bhd., effective on 15 August 2023.

^^^ The Company changed its name from Well Chip (6) Sdn. Bhd. to Pajak Gadai Well Chip (6) Sdn. Bhd., effective on 2 October 2023.

* The principal activities stated above are the intended principal activities as the subsidiaries have yet to commence their businesses as at the date of this Report.

12. FINANCIAL INFORMATION (Cont'd)**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)****1. (CONTINUED)****1.2 (CONTINUED)****1.2.2 Public issue**

The public issue of 150,000,000 Shares representing 25.0% of the enlarged issue share capital, at the IPO price of RM[●] for each Share. The IPO Shares be allocated in the following manner:

- (i) 30,000,000 new Shares, representing 5.0% of the enlarged number of shares of Well Chip, available for application by the Malaysian public through a balloting process, of which 50.00% will be set aside for Bumiputera public investors;
- (ii) 45,000,000 new Shares, representing 7.5% of the enlarged number of shares of Well Chip, by way of private placement to other institutional and selected investors; and
- (iii) 75,000,000 new Shares, representing 12.5% of the enlarged number of shares of Well Chip, by way of private placement to identified selected Bumiputera investors approved by the Ministry of Investment, Trade and Industry Malaysia.

(Collectively hereinafter referred to as “Public Issue”).

The gross proceeds from the Public Issue are expected to be utilised in the following manner:

Details of use of proceeds	RM ('000)	%	Estimated time frame for utilisation from the date of listing
Expansion of pawnbroking outlets ⁽¹⁾	[●]	[●]	Within 24 months
Cash capital for existing twenty-two (“22”) pawn shops	[●]	[●]	Within 24 months
Estimated listing expenses ⁽²⁾	[●]	[●]	Immediate
	[●]	[●]	

(1) As at the latest practicable date of 16 October 2023, the Group has yet to enter into any contractual binding arrangements or issued any purchase orders in relation to the expansion of pawnbroking outlets. Accordingly, the use of proceeds earmarked for the expansion of pawnbroking outlets is not reflected in this pro forma combined statements of financial position.

(2) The estimated listing expenses of RM[●] arising from the issuance of new Shares pursuant to the Listing are to be offset against the share capital whilst the remaining estimated listing expense of RM[●] will be expensed off to profit or loss. The remaining balances represent one-off expenditure in conjunction with the IPO.

12. FINANCIAL INFORMATION (Cont'd)

PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**1. (CONTINUED)****1.2 (CONTINUED)****1.2.3 Listing on Bursa Securities**

Upon completion of the IPO, Well Chip's entire enlarged issue share capital approximately RM[●] comprising 600,000,000 shares will be listed on the Main Market of Bursa Securities.

12. FINANCIAL INFORMATION (Cont'd)**2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

- 2.1** The Pro Forma Combined Statements of Financial Position have been prepared to illustrate the pro forma combined financial position of the Group as at 30 June 2023, adjusted for the dividend distribution as described in Note 3, as well as Public Issue and the use of proceeds as described in Notes 1.2.1 and 1.2.2 respectively.
- 2.2** The Pro Forma Combined Statements of Financial Position have been prepared based on the audited financial statements of the Group for the financial period ended 30 June 2023 ("FPE 2023") as set out in the Accountants' Report of the Group as at 30 June 2023 in accordance with Malaysia Financial Reporting Standards and International Financial Reporting Standards, in a manner consistent with the format of financial statements and accounting policies of the Group.
- 2.3** The Audited Combined Financial Statements of Well Chip for the financial period 30 June 2023 under review were reported by the auditors to its members without any modifications.
- 2.4** The Pro Forma Combined Statements of Financial Position of Well Chip have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.
- 2.5** The Pro Forma Combined Statements of Financial Position of Well Chip have been properly prepared on the basis and assumptions set out in the accompanying notes to the Pro Forma Combined Statements of Financial Position of Well Chip, based on the Accountants' Report of Well Chip for the FPE 2023 which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.
- 2.6** The Pro Forma Combined Statements of Financial Position of the Group have been prepared in a manner consistent with both the format of the audited financial statements and accounting policies adopted by the Group in the preparation of its audited financial statements for the FPE 2023 and the adoption of the following new accounting policies, which had been adopted by the Group as the group's accounting policies.

12. FINANCIAL INFORMATION (Cont'd)**2. BASIS OF PREPARATION OF THE PRO FORMA COMBINED FINANCIAL STATEMENTS OF FINANCIAL POSITION (CONTINUED)****2.6 (CONTINUED)****Merger accounting**

The subsidiaries are accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Subsidiaries acquired which have met the criteria for pooling-of-interests are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the business combination had been affected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to reorganisation reserve/(deficit).

Entities under a reorganisation do not result in any change in economic substance.

Accordingly, the Group is a continuation of the acquired entity and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the combined financial statements at the pre-combination carrying amounts;
- the retained earnings and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the difference arising from the change in equity structure of the Group will be accounted for in reorganisation reserve/(deficit).

3. MATERIAL SUBSEQUENT EVENT**3.1 Distribution of dividend**

Subsequent to 30 June 2023 and prior to the Listing, the Directors of the Group had on 4 September 2023 declared an interim single-tier dividend of RM4,848,154 for the financial year ending 31 December 2023. The said dividend was subsequently paid on 14 September 2023 (“**Dividend Distribution**”).

4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP

- 4.1** The Pro Forma Combined Statements of Financial Position of Well Chip as set out below, for which the Board of Directors of Well Chip are solely responsible, have been prepared for illustrative purposes only, to show the effects of the Audited Combined Statements of Financial Position of Well Chip as at 30 June 2023, had the Dividend Distribution, Public Issue and the use of proceeds as described in the Notes 1.2.1 and 1.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.1 (CONTINUED)**

		Pro Forma I	Pro Forma II	Pro Forma III
	Unaudited Statement of Financial Position as at 30 June 2023 RM ('000)	After the Pre-IPO Reorganisation and Dividend Distribution RM ('000)	After Pro Forma I and the Public Issue RM ('000)	After Pro Forma II and the use of proceeds RM ('000)
ASSETS				
NON-CURRENT ASSETS				
Property, plant, and equipment	-	7,098	7,098	7,098
Right-of-use assets	-	17,634	17,634	17,634
Goodwill	-	425	425	425
Total non-current assets	-	25,157	25,157	25,157
CURRENT ASSETS				
Inventories	-	34,103	34,103	34,103
Trade and other receivables	-	372,323	372,323	371,133
Current tax assets	-	196	196	196
Cash and bank balances	-	7,752	[•]	[•]
Total current assets	-	414,374	[•]	[•]
TOTAL ASSETS	-	439,351	[•]	[•]
EQUITY AND LIABILITIES				
EQUITY				
Share capital	*	171,647	[•]	[•]
Reorganisation deficit	-	(143,964)	(143,964)	(143,964)
(Accumulated losses)/Retained earnings	(36)	156,438	156,438	[•]
TOTAL EQUITY	(36)	184,121	[•]	[•]
NON-CURRENT LIABILITIES				
Lease liabilities	-	12,495	12,495	12,495
Loans and borrowings	-	3,706	3,706	3,706
Deferred tax liabilities	-	103	103	103
Total non-current liabilities	-	16,304	16,304	16,304
CURRENT LIABILITIES				
Lease liabilities	-	1,808	1,808	1,808
Loans and borrowings	-	158,225	158,225	158,225
Trade and other payables	36	76,387	76,387	76,387
Current tax liabilities	-	2,686	2,686	2,686
Total current liabilities	36	239,106	239,106	239,106
TOTAL LIABILITIES	36	255,410	255,410	255,410
TOTAL EQUITY AND LIABILITIES	-	439,531	[•]	[•]
Number of ordinary shares assumed to be issued	*	450,000	600,000	600,000
Net assets attributable to owners of the Group ("RM'000")	(36)	184,121	[•]	[•]
Net assets per ordinary shares (RM)	-	0.41	[•]	[•]

*Amount is less than RM1,000

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)**

4.2 Notes to the Pro Forma Combined Statements of Financial Position are as follows:

4.2.1 The Pro Forma Combined Statements of Financial Position of the Group, for which the Board of Directors of the Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the Combined Audited Statements of Financial Position of Well Chip as at 30 June 2023, had the Dividend Distribution as described in Note 3, transactions as described in Note 1.2.1 and the use of proceeds as described in Note 1.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

4.2.2 The Pro Forma Combined Statements of Financial Position of Well Chip should be read in conjunction with the notes below:

(a) Pro Forma I

Pro Forma I incorporate the effects of the Pre-IPO Reorganisation as described in Note 1.2.1 and Dividend Distribution as described in Note 3 on the Pro Forma Combined Statements of Financial Position of Well Chip as at 30 June 2023.

Acquisition of SYT Pavilion, Thye Shing Pawnshop, KP Well Chip and KE Well Chip

The reorganisation deficit arising from the Acquisition of SYT Pavilion, Thye Shing Pawnshop, KP Well Chip and KE Well Chip are below:

	RM ('000)
Purchase consideration	171,647
Less: Share capital of SYT Pavilion, Thye Shing Pawnshop, KP Well Chip and KE Well Chip	<u>(27,683)</u>
Reorganisation deficit	<u>143,964</u>

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.2 (CONTINUED)****4.2.2 (CONTINUED)****(a) Pro Forma I (continued)**

The Pre-IPO Reorganisation and Dividend Distribution had the following impact on the Pro Forma Combined Statements of Financial Position of Well Chip as at 30 June 2023:

	Increase/(Decrease) in Effects on	
	Total Assets	Total Equity/ Liabilities
	RM ('000)	RM ('000)
Property, plant and equipment	7,098	-
Right-of-use assets	17,634	-
Goodwill	425	-
Inventories	34,103	-
Trade and other receivables	372,323	-
Current tax assets	196	-
Cash and bank balances	7,752	-
Share capital	-	171,647
Reorganisation deficit	-	(143,964)
Retained earnings	-	156,438
Lease liabilities		
- non-current	-	12,495
- current	-	1,808
Loans and borrowings		
- non-current	-	3,706
- current	-	158,225
Deferred tax liabilities	-	103
Trade and other payables	-	76,387
Current tax liabilities	-	2,686
	<u>439,531</u>	<u>439,531</u>

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.2 (CONTINUED)****4.2.2 (CONTINUED)****(b) Pro Forma II**

Pro Forma II incorporates the cumulative effects of Pro Forma I and the Public Issue as described in Note 1.2.2.

The Public Issue will have the following impact on the Pro Forma Combined Statements of Financial Position of Well Chip as at 30 June 2023:

	Increase/(Decrease) in Effects on	
	Total Assets	Total Equity
	RM ('000)	RM ('000)
Cash and bank balances	[•]	-
Share capital	-	[•]
	[•]	[•]

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.2 (CONTINUED)****4.2.2 (CONTINUED)****(c) Pro Forma III**

Pro Forma III incorporates the cumulative effects of Pro Forma II and the use of proceeds from the Public Issue of RM[●] after netting off RM[●] for estimated listing expenses.

The remaining proceeds expected from the Public Issue of RM[●] will be utilised in the manner as described in Note 1.2.2.

The proceeds arising from the Public Issue earmarked for the expansion of pawnbroking outlets and cash capital for existing 22 pawnbroking outlets of RM[●] will be included in the Cash and Bank Balances account.

As at 30 June 2023, out of the RM[●] estimated listing expenses, RM[●] has already been incurred and has been recognised as prepayment. The RM[●] is recognised as prepayment as these are directly attributable expenses relating to the new issuance of shares which will be capitalised under Share Capital account upon listing. RM[●] from the estimated listing expenses will be charged to Retained Earnings account.

The use of proceeds will have the following impact on the Pro Forma Combined Statements of Financial Position of Well Chip as at 30 June 2023:

	Increase/(Decrease) in Effects on	
	Effects on Total Assets RM ('000)	Effects on Total Equity RM ('000)
Cash and bank balances	[●]	-
Prepayment	[●]	-
Share capital	-	[●]
Retained earnings	-	[●]
	<u>[●]</u>	<u>[●]</u>

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.2 (CONTINUED)****4.2.3** Movements in share capital and reserves are as follows:

	Share Capital RM ('000)	Reorganisation Deficit RM ('000)	Retained Earnings RM ('000)
Combined Statements of Financial Position of Well Chip as at 30 June 2023	*	-	(36)
Arising from the Pre-IPO Reorganisation	171,647	(143,964)	161,322
Dividend Distribution	-	-	(4,848)
Per Pro Forma I	171,647	(143,964)	156,438
Arising from the Public Issue	[●]	-	-
Per Pro Forma II	[●]	(143,964)	156,438
Arising from the defrayment of estimated listing expenses in relation to the Listing	[●]	-	[●]
Per Pro Forma III	[●]	(143,964)	[●]

12. FINANCIAL INFORMATION (Cont'd)**4. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF WELL CHIP (CONTINUED)****4.2 (CONTINUED)****4.2.4** Movements in cash and bank balances are as follows:

	RM ('000)
Combined Statements of Financial Position of Well Chip as at 30 June 2023	-
Arising from the Pre-IPO Reorganisation	12,600
Dividend Distribution	(4,848)
Per Pro Forma I	7,752
Arising from the Public Issue	[•]
Per Pro Forma II	[•]
Arising from the defrayment of estimated listing expenses in relation to the Listing	[•]
Per Pro Forma III	[•]

4.2.5 Movements in trade and other receivables are as follows:

	RM ('000)
Combined Statements of Financial Position of Well Chip as at 30 June 2023	-
Arising from the Pre-IPO Reorganisation	372,323
Per Pro Forma I	372,323
Arising from the Public Issue	-
Per Pro Forma II	372,323
Arising from the defrayment of estimated listing expenses in relation to the Listing	[•]
Per Pro Forma III	[•]

12. FINANCIAL INFORMATION (Cont'd)

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted on behalf of the Board of Directors of Well Chip Group Berhad in accordance with a resolution dated 8 November 2023.

Ng Hooi Lang
Director

Tang Soo Yen
Director