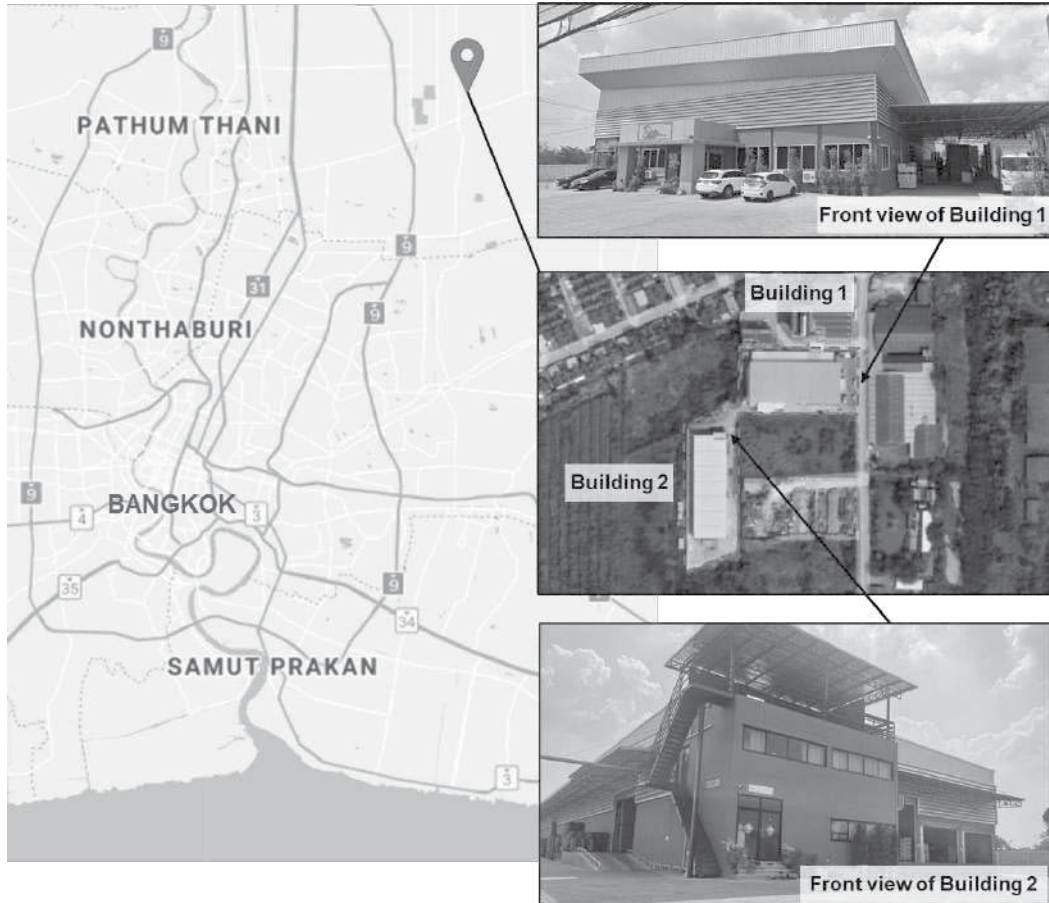


7. BUSINESS OVERVIEW (CONT'D)

7.5.3 Operation of distribution centre

As a distributor, our operations are supported by a distribution centre comprising two (2) buildings rented from a related party, namely S.W. Enterprises Co., Ltd. The combined built-up area of the two buildings is approximately 4,897 sq. m. located in the province of Pathum Thani in Thailand as depicted below:



Within the said distribution centre, we have two (2) dry warehousing storage facilities with storage floor area measuring 1,800 sq. m. and 1,800 sq. m., respectively. In Building 1, our goods are stored on dedicated open floor area, while in Building 2, our goods are stored on racking system as well as on dedicated open floor area. The dry warehouses are used to store most of our snack foods including sunflower seeds, other seeds and nuts, and biscuits.

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7. BUSINESS OVERVIEW (CONT'D)

Our dry warehouse storage facility in Building 1



Our dry warehouse storage facility in Building 2



Within the said distribution centre, we have one (1) chiller room with floor area measuring 450 sq. m. The chiller room is used to store certain snack foods such as layer cake, biscuit filled with cream and chocolate snacks. The temperature in our chiller room is maintained at a constant temperature of approximately 20°C.

Our chiller room in Building 1



As at the LPD, we have ten (10) delivery trucks for delivery of goods to customers mainly for ad-hoc purposes as we appoint external transportation service providers.

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, we incurred transportation cost for appointment of external transportation service providers totaling RM0.56 million, RM1.18 million, RM1.89 million and RM0.71 million, respectively.

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, we engaged a related party, namely SF Express (Thailand) Co., Ltd. as well as 4, 10, 7 and 3 other external transportation service providers. SF Express (Thailand) Co., Ltd. had ceased to provide domestic delivery services to our Group since August 2022 as the delivery services are less accommodative with the change in ownership and cessation of Saranjit Wang as a director of SF Express (Thailand) Co., Ltd.

7.6 SEASONALITY

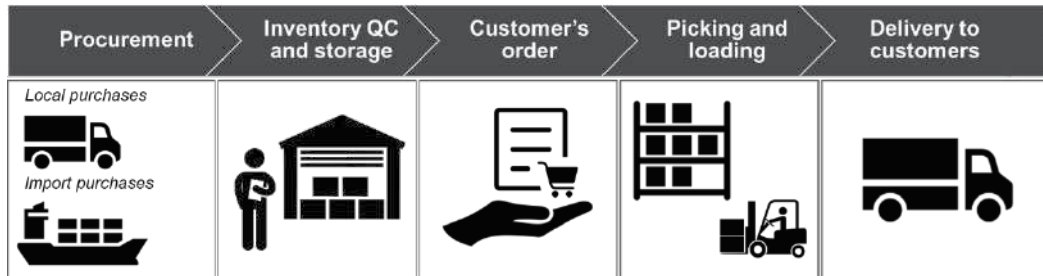
Generally, we do not experience any material seasonality in our business operations.

7. BUSINESS OVERVIEW (CONT'D)

7.7 OUR OPERATION PROCESSES

7.7.1 Distribution of consumer packaged foods

The process flow for the distribution of consumer packaged foods is depicted in the diagram below:



Procurement and introduction of new products

For procurement and introduction of new products, firstly our sales and marketing department will identify the category of snack food products that are in trend or demand through our monthly discussions with key retailer customers such as CP All, Siam Makro and Ek-Chai Distribution. In most cases, the new products that we introduced were largely due to feedback and requests from our customers.

Once a product category is identified, our procurement department will source the said product from potential suppliers to obtain samples for taste testing and price evaluation. Our procurement team will then prepare a detailed assessment report for our COO to review. The report includes, among others, the number of competing brands, retail selling price analysis, expected initial starting cost, and feedback of sample taste testing by customers. Upon approval by our COO, the proposal will be submitted to our Executive Directors for final approval.

Upon final approval, our COO will then proceed with the supplier selection process to request for quotation and price negotiation. Subsequently, our procurement team will provide the relevant Thailand labelling requirement to the selected supplier for their preparation of label samples for our review and approval. If the snack food is to be packed under our brand, we will also provide the supplier with our proposed packaging design and logo for the said supplier to arrange for the printing of the product labels. The final draft of the product labelling is to be approved by our COO. Thereafter, we will submit final product sample with labelling for approval from the Food and Drug Administration, Thailand ("FDA"), which will take approximately 28 days (for food products) for approval.

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7. BUSINESS OVERVIEW (CONT'D)

Procurement of existing product

For the procurement of existing product, we place orders directly with the snack food manufacturers or distributors. Generally, approximately 3 to 4 weeks in advance, our sales representatives would discuss with each major customers about the estimated volume each customer will be purchasing from us in the coming month. The sales and marketing department will compile the expected volume and submit it to the procurement department.

If there are any changes in the product labelling regulatory requirement, our procurement team is responsible to inform our suppliers to amend the product labels accordingly for the said supplier to arrange for the printing of the product labels.

For our main snack foods, ChaCha sunflower seeds, our procurement frequency is every 1 to 2 weeks. This is also dependent on the season and forecasted purchases provided by our major customers. Meanwhile, for other snack foods which is imported from China, our procurement frequency is every 4 to 6 weeks. Our procurement frequency will take into consideration our customers' purchase pattern, our customers' estimated purchase volume in the coming months, and the stock level in our warehouse.

Upon placing orders, the products are shipped from the respective manufacturers or distributors and delivered directly to our distribution centre in Pathum Thani, Thailand. In some cases, the supplier may ship the snack foods to Laem Chabang Port in Chonburi Province in Thailand and we will arrange for port clearance and transportation of goods to our distribution centre.

For products sourced domestically, such as some of the SKU of ChaCha sunflower seeds, they are typically delivered to us within 2 to 3 days upon placement of orders. Meanwhile, all other snack foods which are imported products, they typically shipped and delivered to us within 1 to 2 weeks upon placement of orders.

Inventory quality check, product label check and storage

Once the snack foods are received, we will conduct a stock count on the incoming inventories to ensure the quantity received is equivalent to the amount in the purchase order raised as well as invoice issued by suppliers. We will also conduct a visual quality check on the incoming products to ensure that the products have not been damaged or compromised while in transit to our distribution centre. If there are any discrepancy in terms of quantity or products being damaged, we will take a photo as evidence, and request for replacement (for domestic purchases) and/or raise a credit note (for imported purchases).

Further, we will perform sample checks on packaging labels of incoming products to ensure conformity with the updated and approved labels. Our procurement team ensures that the product label is updated based on the latest regulatory requirement by the FDA and the Ministry of Public Health in Thailand. As part of our internal control process, every month, our procurement team provides an updated product label of each SKU to our warehouse department, so that any updates to the product labels may be detected on a timely basis.

The inventories received are then entered into our inventory system namely Xpress Inventory System. This will allow us to keep track of inventory levels. The inventories are then stored in the appropriate sections of our distribution centre, either in the general warehousing area or in the chiller room.

Typically, our stock holding levels for ChaCha sunflower seeds, which are mainly sourced domestically, ranges from 2 to 3 weeks. Meanwhile, our stock holding levels for our imported snack food products ranges from 6 to 8 weeks, as at the LPD.

7. BUSINESS OVERVIEW (CONT'D)

Customer's order

Upon receiving purchase orders from our customers, sales orders, delivery orders, invoices and picking lists are generated and printed. The picking lists are used to pick the required item and prepared loading onto our truck for delivery to our customers' specified destinations.

Picking and loading

At the warehousing and/or chiller room storage facilities, products ordered by customers are picked out from the pallets according to the itemised packing list. The picking process also include visual checking to ensure that the products are in merchandising condition. The picked products are placed on a pallet and subsequently shrink wrapped in preparation for transportation to customers' specified locations.

Delivery to customers

Our logistic department will then generate a delivery summary for outgoing goods. We will then undertake a final quantity and visual quality check on the condition of the goods before delivery. Subsequently, we will appoint an external logistic service provider to undertake the delivery of goods to the customer. Additionally, we also have our own transportation of 10 trucks for ad-hoc purposes. The delivery time varies depending on the location of the customers' distribution centre. Usually, the delivery time for customers that are located in the central area such as Bangkok and its vicinity takes approximately 1 to 3 hours, while customers in remote locations requires a longer delivery time of approximately 17 to 20 hours.

In some cases, our customers may collect the goods from our distribution centre in Pathum Thani. This applies to our wholesaler customer, namely Valueplus, which collects the goods from our distribution centre and distributes the goods to their traditional retailer customers such as sundry shops and small retailers in the outskirts areas of city or town centres.

Upon receiving the goods, the customer is required to sign and stamp the invoice as proof of delivery. The signed invoice is then returned to us for documentation and record keeping purposes. As part of our internal control procedures, our accounts department will manage the collections from our customers upon the due date for payment.

In the event of any product recall requested by the authorities or our management, we have put in place a standard operating procedure for such event. This includes, among others, identifying the affected batch of products from our warehouse, sending sample of affected products for quality testing, notifying affected customers, notifying the supplier of the affected product, arranging logistics to recall the affected products, informing insurance company on cost of product recall and product liability claim (if any).

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7. BUSINESS OVERVIEW (CONT'D)**7.8 OPERATIONAL FACILITIES, CAPACITIES AND OUTPUT****7.8.1 Operational facilities**

As at the LPD, our Group's business operating office is located in Thanyaburi, Pathum Thani province, Thailand and details are as follows:

Company	Main Function	Approximate Built-up Area (sq. m.)	Location of Facilities
Bai Li Enterprise and Keymall Retail	Office	547	220/3, Moo 4, Tambon Rangsit, Thanyaburi District, Pathum Thani Province, 12110, Thailand
	Dry warehousing storage	3,750 ⁽¹⁾	
	Chiller room	600 ⁽²⁾	

Notes:

- (1) Includes useable storage floor area measuring 3,600 sq. m., and loading bay preparation and office area measuring 150 sq. m.
- (2) Includes useable floor area measuring 450 sq. m. and common area measuring 150 sq. m.

7.8.2 Capacity and utilisation**(i) Storage space**

As a distributor, our main supporting facility is storage space. For the FYE 2019, FYE 2020 and FYE 2021, our capacity and utilisation of storage space are as follows:

Warehousing capacity and estimated utilisation rates

	Storage floor space (sq. m.)	Available capacity ⁽¹⁾ (No. of cartons)	Average Utilisation ⁽²⁾ (No. of cartons)	Utilisation rate ⁽³⁾
FYE 2019				
General warehousing	1,500 ⁽⁴⁾	122,000	51,700	42%
Chiller space	450 ⁽⁵⁾	14,000	1,500	11%
FYE 2020				
General warehousing	1,800 ⁽⁶⁾	147,000	92,200	63%
Chiller space	450	14,000	3,800	27%
FYE 2021				
General warehousing	3,600 ⁽⁷⁾	292,000	212,600	73%
Chiller space	450	14,000	4,300	31%

7. BUSINESS OVERVIEW (CONT'D)**Notes:**

- (1) Available capacity is calculated based on the total number of pallet space available from the racking system installed and dedicated open floor area for storage of goods in our dry general warehousing space and cold room facilities. Racking system refers to a multi-level steel structure shelving system for the storage of goods on pallets.
- (2) Average utilisation is based on the average number of pallet spaces filled each month during each of the FYE.
- (3) $(\text{Average utilisation}/\text{Available capacity}) \times 100\%$
- (4) From January 2019 to March 2019, we rented 1,000 sq. m. of dry general warehousing space and subsequently increase the rental of space to 1,500 sq. m. from April 2019 onwards.
- (5) We commenced the rental of chill storage from October 2019 onwards.
- (6) From January 2020 to March 2020, we rented 1,500 sq. m. of dry general warehousing space and subsequently increase the rental of space to 1,800 sq. m. from April 2020 onwards.
- (7) From January 2021 to February 2021, we rented 1,800 sq. m. of dry general warehousing space and subsequently increase the rental of storage space to 3,600 sq. m. from March 2021 onwards.

For the FYE 2019, FYE 2020 and FYE 2021, the increase in rental space of distribution centre was due to the need to stock more products arising from the increase in sales of snack foods which grew from RM58.80 million in FYE 2019 to RM119.71 million in FYE 2020 and RM136.71 million in FYE 2021.

Moving forward, we expect our general warehousing utilisation rate to increase to cater to our planned business expansion mainly for new snack foods such as potato chips, tortilla chips, konjac snacks and gluten snacks. For FYE 2021, the utilisation rate for our general warehousing space was 73%.

(ii) Transportation

As a distributor, usually we are required to deliver our goods from our storage facilities to customers' specified destinations. For the FYE 2019, FYE 2020 and FYE 2021, our capacity and utilisation of transportation vehicles are as follows:

	Capacity ⁽¹⁾	Total utilisation ⁽²⁾	Utilisation rate ⁽³⁾
FYE 2019	1,300 ⁽⁴⁾	634	49%
FYE 2020	2,640 ⁽⁵⁾	1,343	51%
FYE 2021	2,470 ⁽⁶⁾	1,248	50%

Notes:

- (1) Capacity is calculated based on the summation of the total number of vehicles available to carry out delivery per month multiply by the number of working days per month. It is also assumed that each vehicle requires 10% per year for downtime for repairs and maintenance.
- (2) Total utilisation is based on the number of days that the truck is on the job defined as the truck is manned during loading and unloading, as well as actual on the move between origin and destination.
- (3) $(\text{Total utilisation}/\text{Available capacity}) \times 100\%$
- (4) In FYE 2019, the number of vehicles available for delivery of our goods ranges from 3 to 8 vehicles where we purchase additional trucks during the year. The total number of working days in FYE 2019 was 315 days.
- (5) In FYE 2020, the number of vehicles available for delivery of our goods ranges from 8 to 10 vehicles where we purchase and disposed of trucks during the year. The total number of working days in FYE 2020 was 312 days.
- (6) In FYE 2021, we had 9 vehicles available throughout the year for delivery of our goods. The total number of working days in FYE 2021 was 306 days.

7. BUSINESS OVERVIEW (CONT'D)

Notwithstanding the utilisation for transportation for the FYE 2019, FYE 2020 and FYE 2021 is between 49% to 51%, our Group has been engaging external parties for the transportation services as our management views that is it more efficient. The use of our own transportation is mainly for ad-hoc purposes.

This is also in line with our business model, which is to focus on the sourcing and distribution of products (such as increasing its product range) as opposed to owning and maintaining a transportation/ logistics fleet.

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7. BUSINESS OVERVIEW (CONT'D)**7.9 TYPE, SOURCES AND AVAILABILITY OF MATERIALS**

The following are the major types of materials that we purchased for our business operations for the Financial Years and Period Under Review.

Purchases of Materials

	FYE 2019		FYE 2020		FYE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sunflower seeds	38,839	95.01	76,208	93.71	92,076	91.84	42,501	93.23
Other snack foods	2,040	4.99	5,114	6.29	8,182	8.16	3,088	6.77
- Other seeds and nuts	1,688	4.13	1,693	2.08	1,763	1.76	714	1.56
- Baked and confectionery products	306	0.75	2,489	3.06	5,004	4.99	2,274	4.99
- Others ⁽¹⁾	46	0.11	932	1.15	1,415	1.41	100	0.22
TOTAL	40,879	100.00	81,322	100.00	100,258	100.00	45,589	100.00

Note:

- (1) Others include snack foods such as dried fruits, crispy fish snack, rice puffs, pretzels and pea crackers

As a distributor of consumer packaged snack foods, our purchases include sunflower seeds and other snack foods such as other seeds and nuts, baked and confectionery products, and dried fruits.

Sunflower seeds amounted to the majority of our Group's total purchases which accounted for RM38.84 million (95.01%), RM76.21 million (93.71%), RM92.08 million (91.84%) and RM42.50 million (93.23%) of our Group's total purchases for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively, of these:

- 7.27%, 79.36%, 93.92% and 98.44% of our purchases of sunflower seeds for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively, are from local Thailand supplier; and
- the remaining 92.73%, 20.64%, 6.08% and 1.56% of our purchases of sunflower seeds for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively, are imported from China.

The shift in purchases of sunflower seeds since FYE 2019 was due to the completion of QiaQia Group's factory in Thailand in 2018 which commenced operations in 2019. As such, since 2019, we started purchasing the ChaCha brand sunflower seeds from QiaQia's factory locally in Thailand in addition to importing from QiaQia in China.

Moving forward, we will continue to purchase from QiaQia's factory in China as some of the SKU of ChaCha brand sunflower seeds are produced in China and not in Thailand.

Other snack foods contributed RM2.04 million (4.99%), RM5.11 million (6.29%), RM8.18 million (8.16%) and RM3.09 million (6.77%) of our Group's total purchases for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. Of these, all our purchases of other snack foods were imported from China.

In FYE 2020, we experience a slight interruption in the supply of imported goods where some of the shipment of our imported goods between March 2020 and December 2020 took up to 2 weeks to arrive in Thailand. Save for a slight interruption in the supply of imported goods in FYE 2020 due to COVID-19, our Group has not encountered any material interruptions in the supply of materials for our business operations for the Financial Years and Period Under Review and up to the LPD.

7. BUSINESS OVERVIEW (CONT'D)

7.10 INFORMATION ON MATERIAL LANDS AND BUILDINGS

7.10.1 Properties owned by our Group

As at the LPD, there are no material properties owned by our Group.

7.10.2 Properties rented by our Group

The details of material properties rented by our Group as at the LPD are set out below:

No.	Postal address / Type of property	Landlord / Tenant	Description of use	Land area / Built-up area	Period of tenancy	Rental per annum
1.	220/3, Moo 4 Tambon Rangsit, Thanyaburi district, Pathum Thani province, 12110, Thailand / Warehouse	S.W Enterprise Co., Ltd. / Bai Li Enterprise	Office, dry warehousing storage and chiller room	Land area: 9,636 sq. m. Built-up area: 4,897 sq. m.	1 year, commencing from 1 January 2022 to 31 December 2022 ^(a)	THB13.46 million (approximately RM1.73 million)
2.	Lot D/E, Level 12, Tower 1, Etiqa Twins, 11 Jalan Pinang, 50450 Kuala Lumpur, Malaysia / Office building	Etiqa Insurance Berhad / Life Wellspire	Office	Built-up area: 2,687 sq. ft.	2 years, commencing from 16 January 2022 to 15 January 2024	RM193,464

Note:

- (a) *For the Financial Years and Period Under Review, our Group has been renting this property on a yearly renewal basis as it provides our Group the flexibility for expansion purposes. It is unlikely for the tenancy not to be renewed upon expiry as the owner of the property is S.W. Enterprise Co., Ltd., which is wholly-owned by the Promoters. This tenancy was renewed vide a tenancy agreement dated 10 December 2022 for a period commencing from 1 January 2023 to 31 December 2023.*

As at the LPD, the properties rented by our Group are not in breach of any land use conditions and/or in non-compliance with current statutory requirements, land codes, building regulations or by-laws, which will have material adverse impact on our operations. Our Group is not dependent on the rented properties as stated above as we would be able to rent other available properties within the vicinity of our current principal place of business, if required.

7. BUSINESS OVERVIEW (CONT'D)

7.11 MAJOR LICENCES AND PERMITS

Details of the approvals, major licences and permits obtained by our Group as at the LPD are set out below:

Company	Issuing Authority	Licence/ Reference no.	Issue Date / Expiry Date	Description of licence/ approval	Major Conditions Imposed	Compliance Status
Wellspire	Dewan Bandaraya Kuala Lumpur	DBKL.JPPP/00055/05/2022/KM01	Issue Date: 9 May 2022 Expiry Date: 9 May 2023	Business and signage licence for Lot D/E, Level 12, Tower 1, Etiqa Twins, 11 Jalan Pinang, 50450 Kuala Lumpur, Malaysia	<ol style="list-style-type: none"> Datuk Bandar Kuala Lumpur reserves the right to impose additional conditions as a business control measure from time to time as well as takes action based on laws and acts applicable to external departments/ agencies related to the business activities. The licence shall be renewed every year 60 days before the expiration of the licence without any notice from Datuk Bandar Kuala Lumpur. Employees on the premises must be 50% citizens and 50% non-citizens with a valid work permit. 	<p>Noted</p> <p>Noted</p> <p>Complied</p>
Bai Li Enterprise	Thanyaburi Municipality, Thailand	No. 18/2022	Issue Date: 2 December 2022 Expiry Date: 16 December 2023	Licence to establish the place used for storing and selling the dry and fresh food, issued pursuant to the Public Health Act B.E. 2535 (1992)	Nil.	N/A

7. BUSINESS OVERVIEW (CONT'D)

Company	Issuing Authority	Licence/ Reference no.	Issue Date / Expiry Date	Description of licence/ approval	Major Conditions Imposed	Compliance Status
Bai Li Enterprise	Food and Drug Administration, Thailand ("FDA")	No. 13-4-01554	Issue Date: 24 June 2011 Expiry Date: 31 December 2022 ⁽¹⁾	Licence to import food into Thailand, issued pursuant to the Food Act B.E. 2522 (1979)	Some types of food, including bread must be obtained the FDA number and its label must be approved by the authority.	Complied
Bai Li Enterprise	Department of Land Transport, Thailand	No. 1PorTor.Yor. 34/2562	Issue Date: 29 January 2019 Expiry Date: 28 January 2024	Licence to operate private transport business	1. The drivers are required to obtain the driver licence under the Land Transportation Act B.E. 2522 (1979); and 2. The trucks used in the business operation must be registered under the licence.	Complied Complied
Keymall Retail	Commercial Registration Office, Thanyaburi Municipality, Thailand	No. 1301364000217	Issue Date: 17 December 2021 ⁽²⁾ This registration is valid unless revoked.	Commercial registration to sell snacks via Keymall Retail's website, issued pursuant to the Business Registration Act B.E. 2499 (1956)	Nil.	N/A
Keymall Retail	Commercial Registration Office, Thanyaburi Municipality, Thailand	No. 1301364000218	Issue Date: 17 December 2021 ⁽²⁾ This registration is valid unless revoked.	Commercial registration to sell snacks via online platform (Facebook), issued pursuant to the Business Registration Act B.E. 2499 (1956)	Nil.	N/A

7. BUSINESS OVERVIEW (CONT'D)

Company	Issuing Authority	Licence/ Reference no.	Issue Date / Expiry Date	Description of licence/ approval	Major Conditions Imposed	Compliance Status
Keymall Retail	Commercial Registration Office, Thanyaburi Municipality, Thailand	No. 1301364000219	Issue Date: 17 December 2021 ⁽²⁾ This registration is valid unless revoked.	Commercial registration to sell snacks via online platform (Shopee), issued pursuant to the Business Registration Act B.E. 2499 (1956)	Nil.	N/A
Keymall Retail	Office of Consumer Protection Board	No. 6504040020	Issue Date: 25 April 2022 ⁽³⁾ This registration is valid unless revoked.	Direct marketing business registration certificate under the Direct Sales and Marketing Act B.E. 2545 (2002)	Nil.	N/A

Notes:

- (1) On 22 November 2022, Bai Li Enterprise has submitted the application to renew the licence and the application is currently pending approval as at the LPD.
- (2) In year 2020, Keymall Retail commenced operations as a retailer of snack food products via its e-commerce platform namely, www.keymall.me as well as third-party online platform (such as Shopee and Facebook, Thailand). The abovementioned commercial registration to sell snacks via online platform were obtained in December 2021. According to the Business Registration Act B.E. 2499 (1956), section 19 prescribes that any business operator who does not register commercial registration license is subject to a fine of not exceeding THB 2,000.

The Solicitors in respect of our IPO, to our Company as to laws of Thailand is of the view that it is unlikely that the authorities will pursue the non-compliance once the registration is made.

7. BUSINESS OVERVIEW (CONT'D)

- (3) *In year 2020, Keymall Retail commenced operations as an online retailer of consumer-packaged foods without registering with the Office of Consumer Protection Board for a direct marketing business registration certificate.*

For failing to register the direct marketing business, the potential maximum penalty our Group may be subject to is a fine of up of to THB100,000 (or approximately RM12,600), a daily fine of up to THB10,000 (or approximately RM1,260) throughout the violation, and imprisonment term of 1 month on Keymall Retail's directors or the person responsible for the operations of the company.

Keymall Retail had on 27 December 2021 submitted the application for the direct marketing business registration certificate. The direct marketing business registration certificate was issued to Keymall Retail on 25 April 2022 and as at the LPD, no fines have been imposed by the relevant authorities on Keymall Retail.

The Solicitors in respect of our IPO, to our Company as to laws of Thailand is of the view that it is unlikely that the authority will investigate previous non-compliance since the direct marketing business registration certificate has been issued to Keymall Retail.

Our Group had embarked on e-commerce business in 2020 and did not have prior experience in this business segment as well as adequate and experienced personnel in 2020, to ensure that the relevant laws and requirements in respect of the e-commerce business are complied with. Upon becoming aware of such non-compliance, Keymall Retail had on 27 December 2021 submitted the application for the direct marketing business registration certificate. Pending the issuance of the certificate, our Group also had in March 2022 realised the continued non-compliance and concurrently took down the existing e-commerce platform website. Since March 2022 up to the LPD, the e-commerce platform is not in use and is in the midst of preparation to re-launch and enhance the website. Please refer to Section 7.24.3 for further details.

A legal register has been established which currently comprises company documents (for example, company affidavit, value added tax registration, certificate of company registration, list of shareholders), licences and permits with regards to selling, operations and importing of food and trademark certificates. An internal committee comprising heads of department has also been set up to update the legal register detailing all relevant and applicable legal and regulatory requirements relevant to our Group's business and its countries of operations. The internal committee has identified the relevant laws and regulations that needs to be complied with for continuous updates to the legal register to ensure completeness and continuous compliance.

As at the LPD, our Group has not faced any difficulties or issues in renewing the major licences and permits obtained by our Group.

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7. BUSINESS OVERVIEW (CONT'D)

7.12 INTELLECTUAL PROPERTY




As at the LPD, our Group currently holds and/or is licensed to use the following trademarks:

Trademark	Registered Owner / Applicant	Issuing Authority	Description	Application no. / Trademark no.	Validity Period / Application Date	Status
Bai Li Enterprise:						
	Applicant: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Snacks made from grain and flour, crackers, cookies, waffles, mochi, bread Class 35: E-commerce service and importing products for sales Class 43: selling food and beverages	Application no.: 220108067/-	Application Date: 3 March 2022	Pending registration*
KeeMao:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Snacks made from grains Class 35: E-commerce	180125395 /201124164	Validity Period: 6 August 2018 to 5 August 2028	Registered




7. BUSINESS OVERVIEW (CONT'D)

Trademark	Registered Owner / Applicant	Issuing Authority	Description	Application no. / Trademark no.	Validity Period / Application Date	Status
Pee Ree Brand:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Baked bean snacks	170136556 /191118565	Validity Period: 17 October 2017 to 16 October 2027	Registered
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Baked bean snacks	170136560 /191118578	Validity Period: 17 October 2017 to 16 October 2027	Registered
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Snacks made from grains, flour snacks	200109018 /211113748	Validity Period: 12 March 2020 to 11 March 2030	Registered




7. BUSINESS OVERVIEW (CONT'D)

Trademark	Registered Owner / Applicant	Issuing Authority	Description	Application no. / Trademark no.	Validity Period / Application Date	Status
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Snacks made from grains, flour snacks	200134612 /211124267	Validity Period: 15 September 2020 to 14 September 2030	Registered
Kingkong Brand:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Chocolate bars mixed with grains	180139632 /201110585	Validity Period: 23 November 2018 to 22 November 2028	Registered
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Chocolate bars mixed with grains	180139633 /201110587	Validity Period: 23 November 2018 to 22 November 2028	Registered

7. BUSINESS OVERVIEW (CONT'D)

Trademark	Registered Owner / Applicant	Issuing Authority	Description	Application no. / Trademark no.	Validity Period / Application Date	Status
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Instant noodles	200141608 /221105681	Validity Period: 10 November 2020 to 9 November 2030	Registered
Miyu Brand:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Stuffed wafer cones, chocolate-covered snacks	200110150 /211113768	Validity Period: 19 March 2020 to 18 March 2030	Registered
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Crackers, cookies, waffles, mochi, bread	200126183 /211119687	Validity Period: 13 July 2020 to 12 July 2030	Registered

7. BUSINESS OVERVIEW (CONT'D)

Trademark	Registered Owner / Applicant	Issuing Authority	Description	Application no. / Trademark no.	Validity Period / Application Date	Status
Mina Brand⁽¹⁾:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 43: Selling of food and beverages	170136561 /191105705	Validity Period: 17 October 2017 to 16 October 2027	Registered
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 30: Crackers, cookies, waffles, mochi, bread	200126185 /211119606	Validity Period: 13 July 2020 to 12 July 2030	Registered
Wang Wang Brand⁽²⁾:						
	Registered Owner: Saranjit Wang Licensee: Bai Li Enterprise	Intellectual Property Department of Thailand	Class 29: Dried fruits and vegetables	956729 /161112857	Validity Period: 1 October 2014 to 30 September 2024	Registered

7. BUSINESS OVERVIEW (CONT'D)

Notes:

* *This trademark is expected to be registered by July 2024.*

(1) *As at the LPD, we have discontinued the distribution of Mina brand dried fruits on 30 March 2022 as we are in the midst of rebranding the product.*

(2) *As at the LPD, we are not actively using this brand due to low demand.*

Save for the trademark applied under Bai Li Enterprise which is currently pending registration, all the above-stated trademarks were applied and registered under the name of Saranjit Wang as Bai Li Enterprise was initially started as a family-owned business and the business was essentially managed by Saranjit Wang.

Pursuant to the trademark licence agreement dated 1 December 2021, Saranjit Wang, as a licensor, has authorised Bai Li Enterprise to have exclusive use of her above-stated trademarks for Bai Li Enterprise's goods in the territory of Thailand. The right to use the trademarks has been granted with effect from the registration dates of each trademark. On 15 March 2022, the trademark licence agreement has been registered with Thailand's Board of Trademarks in order for the licensing to be effective under the Thai trademark law.

Saranjit Wang has also agreed to assign the above-stated trademarks to Bai Li Enterprise on 1 January 2022 by way of a deed of assignment. The deed of assignment for the transfer of the trademarks was registered with Thailand's Board of Trademarks on 22 March 2022. The transfer of the trademarks via the deed of assignment will typically take 8 to 12 months to be effective in Thailand.

Our Group is dependent on the above-stated trademarks for its business operations. Please refer to Section 7.20.5 of this Prospectus for further details on the trademark licence agreement and deed of assignment.

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7. BUSINESS OVERVIEW (CONT'D)

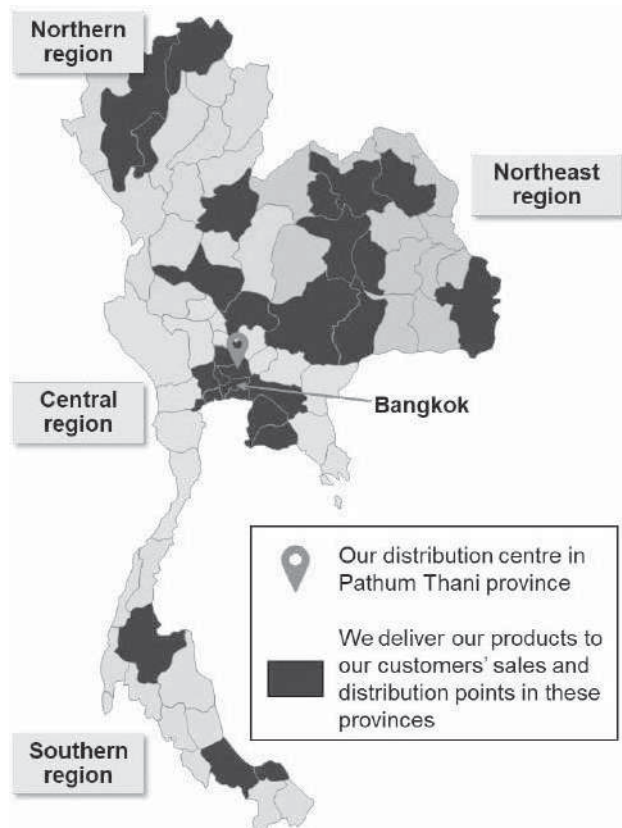
7.13 PRINCIPAL MARKET AND DELIVERY DESTINATIONS

For the Financial Years and Period Under Review and up to the LPD, our principal market is Thailand. As at the LPD, our customers are mainly located in Central Region with sales and distribution points throughout many provinces in Thailand. We will deliver our products to the respective customers' sales and distribution points covering distribution centres, warehouses and retail outlets. From these sales and distribution points, our customers will either sell our products in their respective retail outlets or send our products to other sales and distribution points.

As at the LPD, we deliver our products to 43 of our customers' sales and distribution points in Thailand comprising 32 sales and distribution points in the Central region such as the province of Ayutthaya and Nonthaburi, and Bangkok city, 6 sales and distribution points in the Northeast region, 3 sales and distribution points in the Northern region, and 2 sales and distribution points in the Southern region.

The following diagram and table set out our customers' sales and distribution points for the Financial Years and Period Under Review up to the LPD:

Our customers' sales and distribution points in Thailand



7. BUSINESS OVERVIEW (CONT'D)

We deliver our products to the following customers' sales and distribution points

Regions in Thailand	FYE 2019	FYE 2020	FYE 2021	LPD
Central Region ⁽¹⁾	30	23	28	32
Northeast Region ⁽²⁾	10	3	5	6
Northern Region ⁽³⁾	2	2	3	3
Southern Region ⁽⁴⁾	5	2	2	2
Total number of sales and distribution points	47	30	38	43

Notes:

The above are our customers' sales and distribution points that represent our delivery destinations. The final locations of retail outlets and end-consumers of our products may cover a larger area.

- (1) Includes Ayutthaya, Bangkok, Chachoengsao, Chon Buri, Nakhon Pathom, Nonthaburi, Pathum Thani, Ratchaburi, Rayong, Samut Sakhon and Samut Prakan provinces.
- (2) Includes Buri Ram, Khon Kaen, Maha Sarakham, Nakhon Ratchasima, Nong Bua Lamphu, Ubon Ratchathani and Udon Thani provinces.
- (3) Includes Lamphun and Nakhon Sawan provinces.
- (4) Includes Songkhla, Surat Thani and Yala provinces.

7.14 MARKETING STRATEGIES

Snack foods, as with most consumer packaged foods, require marketing and promotions to create and maintain brand awareness, loyalty and differentiation. Marketing and promotions come in various forms including, among others packaging, allocation and location of shelf spaces in retail outlets, as well as advertisements in various media including online, as well as catalogues, posters and gondolas in retail outlets.

Marketing and promotions are commonly the purview of brand owners while as a distributor, we mainly inform and discuss with our supplier about marketing and promotions, and assist in the process. The marketing and promotion activities that we are involved are mainly targeted at chain hypermarkets, supermarkets and convenience stores. As our revenue is largely derived from ChaCha brand of sunflower seeds and nuts, we work with QiaQia, our principal, to be involved in the following:

- We participate in major retail outlets' promotion and advertisement programmes such as member loyalty programmes and in store promotion sales periods. During the Financial Years and Period Under Review, we participated in advertisement and promotion programmes in retail outlets such as 7-Eleven convenience store, Makro cash and carry stores and Big C retail stores.

The advertisement and promotional programme expenses amounted to RM1.76 million, RM7.76 million, RM9.15 million and RM3.34 million for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. For the Financial Years and Period Under Review and up to the LPD, all advertisement and promotion expenses are entirely funded by our Group.

- We carry out digital marketing to promote our full portfolio of products comprising third-party brands and our brands of products. Our digital marketing includes third-party platforms such as Facebook.
- In May 2022, we were mandated by QiaQia to hire a brand ambassador for the ChaCha brand of sunflower seeds, namely, Sunny Suwanmethanont, a Thai actor, to increase brand awareness and recognition.

7. BUSINESS OVERVIEW (CONT'D)

The cost of hiring Sunny Suwanmethanont as the brand ambassador for the ChaCha brand sunflower seeds is shared equally between our Group and QiaQia. In this regard, QiaQia being the brand owner of ChaCha brand, is able to advertise their products on their official website through the brand ambassador of ChaCha brand (i.e., Sunny Suwanmethanont).

The cost for the marketing and promotions relating to ChaCha brand products are determined on a case-to-case basis between our Group and QiaQia. Save and except for ChaCha brand products, the marketing and promotions costs for other products are fully borne by our Group.

As at the LPD, we have 8 personnel involved in sales and marketing activities headed by our Executive Director, Saranjit Wang.

7.15 RESEARCH AND DEVELOPMENT

As we are mainly involved in distribution of consumer packaged snack foods, research and development is not relevant to our business. As such, we do not carry our research and development activities and we have not recognised any research and development expenditure for the Financial Years and Period Under Review.

7.16 TECHNOLOGY USED

Our business operations do not employ any special technology.

7.17 INTERRUPTIONS TO BUSINESS AND OPERATIONS

Save as disclosed below, there has not been any material interruption to our business operations during the past 12 months prior to the LPD.

7.17.1 COVID-19 conditions in Thailand in 2020

The World Health Organisation declared the coronavirus disease (COVID-19) a pandemic on 11 March 2020. The Royal Thai Government declared and enforced a State of Emergency Decree on 26 March 2020 and implemented a nationwide night-time curfew (10pm to 4am) from 3 April 2020. Among other measures, the Royal Thai Government also advocated a 'stay at home' policy for the whole of April 2020 although it was not mandatory, cancelled national holidays to prevent massive social gatherings and domestic travel, and imposed school closures and restrictions of access to all public spaces except the essential. All international flights were suspended from 4 April 2020 and only emergency or authorised flights were permitted.

On 21 March 2020, the Bangkok Governor declared a lockdown and closure of various businesses across the city of Bangkok which commenced on 22 March 2020 until 12 April 2020. It was subsequently further extended to 30 April 2020. Establishments in Bangkok such as, among others, shopping malls, markets, sports centres, entertainment centres and service shops were closed during this period. Only supermarkets (including convenience stores and hypermarkets), pharmacies and takeaway restaurants were allowed to remain open in the malls, however with restricted operating hours. The restrictions were gradually eased from 3 May 2020 onwards in phases and by 1 July 2020, most of the restrictions were lifted including night-time curfew with the resumption of normal operating hours for shopping malls, convenience stores and supermarkets.

7. BUSINESS OVERVIEW (CONT'D)**7.17.2 Impact on our business operations and financial performance in 2020**

We did not face any closure of our business operations in 2020. However, some of our customers faced interruptions to their business operations due to closure of retail establishments in March and April 2020. As such, this affected our business and financial operations. Our financial performance was impacted due to the COVID-19 conditions in Thailand in 2020 and this was reflected in the 2nd quarter of FYE 2020 as summarised in the table below:

	Qtr1 FYE 2020 <i>(Jan 2020 to Mar 2020)</i>	Qtr2 FYE 2020 <i>(Apr 2020 to June 2020)</i>	Qtr3 FYE 2020 <i>(July 2020 to Sept 2020)</i>	Qtr4 FYE 2020 <i>(Oct 2020 to Dec 2020)</i>
Revenue (RM'000)	29,371	20,160	37,569	32,606
Quarter-on-quarter change (%)	42.56%	-31.36%	86.35%	-13.21%

Our Group's revenue declined by 31.36% in the second quarter of FYE 2020 compared to the previous quarter due to decrease in customer's orders as there were closure of our customer's business operations amidst the lockdown and curfews implemented during this period. Subsequently, our revenue increase by 86.35% in the third quarter of FYE 2020 once the lockdown and curfew were lifted and our customers commenced operations. The decline of revenue by 13.21% in the fourth quarter of FYE 2020 was mainly due to the high base in the third quarter arising from increased sales to customers.

In terms of expenses, we incurred approximately RM1,000 for the purchase of masks in FYE 2020.

We did not encounter any cancellation or suspension of purchase orders from customers during the FYE 2020. Meanwhile, in terms of supply of our products, we encountered a slight delay in the turnaround time for some imported goods where some of the shipment of our imported goods between March 2020 and December 2020 took up to 2 weeks arrive in Thailand.

7.17.3 COVID-19 conditions in Thailand in 2021 and 2022

In April 2021, Thailand faced a third wave of COVID-19 cases forcing the Government to tighten restrictions on business and social activities. Thailand's 77 provinces were designated into colour-coded zones depending on severity of infection level, including Dark-Red Zone (maximum and strict controlled area), Red Zone (maximum controlled area), Orange Zone (controlled area) and Yellow Zone (close surveillance area). The restrictions and measures in each zone were changed from time to time. Some of the restrictions which were enforced from April 2021 onwards included, among others, closure of entertainment venues, inter-provincial travel restrictions, general restrictions on operating hours, night-time curfews and restrictions on large gatherings in selected high-risk provinces. In July 2021, the Royal Thai Government declared a lockdown and implemented curfew in Bangkok and other Dark-Red Zone provinces, including Pathum Thani province. The curfew included closure of shopping malls at 8pm except essentials such as supermarkets and pharmacy, closure of restaurants, markets and convenience stores from 8pm to 4am, as well as passengers limit of public transportation from 9pm to 4am.

From 1 September 2021 onwards, the restrictions were gradually eased and provinces were gradually redesignated to surveillance zones in phases. On 1 November 2021, Bangkok and 16 other provinces/destinations were designated to Blue Zone, where night-time curfew was lifted and shopping malls, convenience stores and supermarkets resumed to normal operating hours. Blue Zone, introduced in October 2021, were provinces that have completed at least 70% of their mass vaccinations and are ready to accept international visitors. By December 2021, night-time curfew was lifted nationwide as the Dark-Red Zone was removed.

7. BUSINESS OVERVIEW (CONT'D)

Subsequently, between December 2021 and June 2022, the Government gradually redesignated more provinces as Blue Zone to allow the entering of international visitors. On 23 June 2022, the Government removed the colour-coded zoning, redesignated all provinces to Green Zone and entertainment venues were allowed to reopen.

7.17.4 Impact on our business operations and financial performance in 2021 and 1st half of 2022

We did not face any closure of our business operations in 2021 and in the 1st half of 2022. However, we reduced our number of staff at our operating premise in May 2021 when COVID-19 cases started to rise in Thailand. As a precautionary measure, our warehouse staff were operating at 50% capacity while the remaining departments such as finance, administration, sales and marketing, logistics staffs were operating at 25% capacity. The remaining employees were under the alternate work from home arrangement to reduce the number of staffs present at our operating premise.

Our financial performance was impacted due to the COVID-19 conditions in Thailand in 2021 and this was reflected in the second and third quarter of FYE 2021 as summarised in the table below:

	Qtr1 FYE 2021 <i>(Jan 2021 to Mar 2021)</i>	Qtr2 FYE 2021 <i>(Apr 2021 to June 2021)</i>	Qtr3 FYE 2021 <i>(July 2021 to Sept 2021)</i>	Qtr4 FYE 2021 <i>(Oct 2021 to Dec 2021)</i>
Revenue (RM'000)	43,063	34,409	26,648	32,587
Quarter-on-quarter change (%)	32.07%	-20.10%	-22.56%	22.29%

Our Group's revenue declined by 20.10% in the second quarter of FYE 2021 and 22.56% in the third quarter of FYE 2021 compared to the previous quarters respectively due to the decrease in orders from customers as there were interruptions to customer's business operation due to the implementation of restrictions and curfews from April 2021 to August 2021 as mentioned above. Subsequently, our Group's revenue increased by 22.29% to RM32.59 million in the fourth quarter of FYE 2021 largely due to the gradual easing of restrictions and upliftment of curfews from September 2021 onwards coupled with the redesignation of 17 provinces/destinations including Bangkok to Blue Zone in November 2021 to allow the entering of international visitors. The growth was also due to the increase in demand from customers to immediately stock up upon the commencement of the upliftment of restrictions.

Despite the decrease in revenue in the second and third quarter of 2021, our overall revenue for the FYE 2021 grew by RM17.00 million or 14.20% from RM119.71 million in FYE 2020 to RM136.71 million in FYE 2021.

Our financial performance was also slightly impacted in the 1st half of 2022 due to the gradual easing of restrictions and upliftment of curfews from September 2021 up to June 2022 which led to our customers being cautious on their purchases from us. This was reflected in the first and second quarter of FYE 2022 as summarised in the table below:

	Qtr1 FYE 2022 <i>(Jan 2022 to Mar 2022)</i>	Qtr2 FYE 2022 <i>(Apr 2022 to June 2022)</i>
Revenue (RM'000)	33,925	26,584
Quarter-on-quarter change (%)	4.11%	-21.64%

7. BUSINESS OVERVIEW (CONT'D)

Our revenue grew by 4.11% in the first quarter of 2022 as our customers made purchases based on their sales performance of the previous quarter. However, in the second quarter of 2022, our revenue declined by 21.64% as some customers still have additional stocks from purchases made from the previous quarter and hence purchased fewer stocks in the second quarter of 2022.

In terms of expenses, we incurred approximately RM6,250 and RM8,501 in FYE 2021 and FPE 2022 for additional COVID insurance for employees, swab tests, sanitization, masks and PPE suits.

We did not encounter any cancellation or suspension of purchase orders from customers nor did we face any delay or shortage on any food products during the FYE 2021 and FPE 2022.

As of 30 June 2022, we have cash and bank balances of RM12.89 million and total borrowings were RM6.05 million. As at the LPD, we have banking facilities of up to a limit of RM18.61 million including revolving credit and invoice financing, of which RM16.13 million have not been utilised. As at the LPD, we have not received any claw-back or reduction in banking facility limits granted to us by the financial institutions. We do not expect difficulties in meeting our debt repayment obligations during the next 12 months. We do not anticipate any material impairment to our assets, inventories and receivables.

Our Board is confident that our working capital will be sufficient for our operating expenditure and will sustain our business for 12 months from the date of this Prospectus, after taking into account our cash and bank balances and banking facilities that are available to our Group.

Based on the above, we do not expect any material adverse effects to our cash flow, liquidity, financial position and financial performance from the impact of COVID-19.

7.17.5 Measures and steps taken by our Group in response to COVID-19 pandemic

In response to the COVID-19 pandemic, we have implemented measures for our business operations to safeguard our customers and employees. These include the following:

- (i) all employees and visitors are required to wear face masks and practice social distancing in our premises at all times; and
- (ii) implementation of temperature measurements of any employees and visitors before they enter into our distribution centre;
- (iii) daily sanitisation of common areas including the lobby, lift, pantry, meeting room and toilets;
- (iv) minimising physical meetings and avoiding unnecessary business-related travelling; and
- (v) all employees are required to carry out weekly rapid testing.

There are no rules and regulations enacted to mandate an employer to take specific action on dealing with an employee infected with the COVID-19. However, the employee who is tested COVID-19 positive is eligible to take sick leave as allowed by law, i.e. leave with being paid for at most 30 days. During this leave period, the employer is obliged to pay wages due to the employee taking such leave.

With an aim to prevent the spread of COVID-19 at the local community level, the provincial administrative body can issue local regulations imposing measures to prevent the spread in a specific local area. In Pathum Thani province, where Bai Li Enterprise's workplace is located, the Provincial Governor encouraged employers to implement work-from-home policy to prevent the spread of COVID-19.

7. BUSINESS OVERVIEW (CONT'D)

Since March 2020 and up to the LPD, 43 of our employees were infected with COVID-19 and have since fully recovered.

7.17.6 Impact on our business and earning prospects

Our business was slightly affected due to the impact of the COVID-19 pandemic in Thailand. Nevertheless, we are of the view that the COVID-19 pandemic will not have a material adverse impact on our prospects in the long run, taking into consideration the gradual recovery of Thailand's economy as well as gradual opening of international borders.

In 2021, the overall distributive trade industry is slightly recovered from the COVID-19 pandemic resulting in a growth in the economy and higher consumer spending. The real GDP of the distributive trade industry and total private consumption expenditure grew by 1.7% and 1.5%, respectively in 2021. For the first 9 months of 2022, the real GDP of the distributive trade industry and total private consumption expenditure grew by 3.1% and 12.1%, respectively.

As food is a basic need, its demand remains resilient during the COVID-19 pandemic. In 2021, the private consumption expenditure on food grew by 3.0%. For the first 9 months of 2022, the private consumption expenditure on food grew by 8.4%.

Overall, the distribution of consumer packaged food industry is still dependent on Thailand's economy as people are likely to spend more when they have higher spending power. Thailand's economy in 2022 is expected to recover while the resurgence of COVID-19 cases and the reimposition of containment measures will weigh on the economic growth.

In 2021, the Thailand economy recovered and grew by 1.5% mainly due to the recovery in exports of goods and increased domestic spending. For the first 9 months of 2022, Thailand's real GDP grew by 3.1%, resulting from an acceleration in the agricultural sector and the rise in the service sector after the introduction of the government's economic stimulus measures and the relaxation of travel restrictions. Overall, Thailand's economy is projected to expand by 3.2% in 2022, and is expected to expand within the range of 3.0% and 4.0% in 2023, mainly supported by improved domestic demand, expansion of both private and public investments, improved domestic demand, and the favourable growth of agricultural sector.

Additionally, tourism plays an important role in Thailand's economy where between 2015 and 2019, tourism revenue contributed a range from 16.1% to 18.2% of Thailand's GDP respectively. The containment measures imposed in Thailand has affected the tourism revenue significantly, where in 2020 and 2021, tourism revenue accounted for 5.1% and 1.5% of Thailand's GDP respectively. With the gradual reopening of borders as well as the relaxation of international travel restrictions since 1 November 2021, the number visitors (including domestic and foreign visitors) in Thailand increased by 284.0% to 155.7 million persons for the first 9 months of 2022 compared to 40.6 million persons for the first 9 months of 2021.

(Source: IMR Report)

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7. BUSINESS OVERVIEW (CONT'D)**7.18 MAJOR CUSTOMERS**

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, we have a total base of approximately 55, 30, 30 and 30 customers, respectively. Our top 5 major customers for the Financial Years and Period Under Review are as follows:

FYE 2019

Major Customers	Principal activities ⁽¹⁾	Length of relationship ⁽²⁾ (year)	Revenue Contribution	
			RM'000	%
CP All ⁽³⁾	Convenience stores/Minimarts	6	41,983	71.40
Siam Makro ⁽³⁾	Discount stores/Supercenters/Hypermarkets	3	4,802	8.17
Kor Chaisaeng D.C. Co., Ltd.	Non-specialized wholesale trade	4	3,420	5.82
Big C Supercenter Public Company Limited (" Big C ")	Discount stores/Supercenters/Hypermarkets	6	2,207	3.75
Ek-Chai Distribution ⁽³⁾	Discount stores/Supercenters/Hypermarkets	5	2,004	3.41
Sub-total			54,416	92.55
Total Group revenue			58,799	

FYE 2020

Major Customers	Principal activities ⁽¹⁾	Length of relationship ⁽²⁾ (year)	Revenue Contribution	
			RM'000	%
CP All ⁽³⁾	Convenience stores/Minimarts	7	59,598	49.79
Siam Makro ⁽³⁾	Discount stores/Supercenters/Hypermarkets	4	27,495	22.97
Mega Alliance Co., Ltd. (" Mega Alliance ")	Non-specialized wholesale trade	1	20,908	17.47
Big C	Discount stores/Supercenters/Hypermarkets	7	5,724	4.78
Ek-Chai Distribution ⁽³⁾	Discount stores/Supercenters/Hypermarkets	6	2,987	2.50
Sub-total			116,712	97.51
Total Group revenue			119,706	

7. BUSINESS OVERVIEW (CONT'D)**FYE 2021**

Major Customers	Principal Activities ⁽¹⁾	Length of relationship ⁽²⁾ (year)	Revenue Contribution	
			RM'000	%
CP All ⁽³⁾	Convenience stores/Minimarts	8	56,007	40.97
Siam Makro ⁽³⁾	Discount stores/Supercenters/Hypermarkets	5	28,914	21.15
Valueplus Worldwide Co., Ltd (" Valueplus ")	Wholesale on a fee or contract basis of agricultural raw materials and live animals	1	23,865	17.46
Big C	Discount stores/Supercenters/Hypermarkets	8	13,649	9.98
Ek-Chai Distribution ⁽³⁾	Discount stores/Supercenters/Hypermarkets	7	5,731	4.19
Sub-total			128,166	93.75
Total Group revenue			136,707	

FPE 2022

Major Customers	Principal Activities ⁽¹⁾	Length of relationship ⁽²⁾ (year)	Revenue Contribution	
			RM'000	%
CP All ⁽³⁾	Convenience stores/Minimarts	9	26,957	44.55
Valueplus	Wholesale on a fee or contract basis of agricultural raw materials and live animals	2	15,494	25.61
Siam Makro ⁽³⁾	Discount stores/Supercenters/Hypermarkets	6	8,582	14.18
Big C	Discount stores/Supercenters/Hypermarkets	9	3,461	5.72
Ek-Chai Distribution ⁽³⁾	Discount stores/Supercenters/Hypermarkets	8	3,043	5.03
Sub-total			57,537	95.09
Total Group revenue			60,509	

7. BUSINESS OVERVIEW (CONT'D)

Notes:

- (1) Based on publicly available documents/ information.
- (2) Length of business relationship as at each respective FYEs.
- (3) CP All have shareholdings in Siam Makro and Ek-Chai Distribution ("CP All Group"). Siam Makro and Ek-Chai Distribution are subsidiaries of CP All. Ek-Chai Distribution is a subsidiary of Siam Makro.

During the Financial Years and Period Under Review, our major customers comprise:

- retailers including CP All, Siam Makro, Big C and Ek-Chai Distribution; and
- wholesalers including Kor Chaisaeng D.C. Co., Ltd., Mega Alliance and Valueplus.

We are or were dependent on the following customers due to the quantum of their contribution to more than 10.00% to our revenue during the Financial Years and Period Under Review:

(i) CP All

CP All is a company incorporated in Thailand and is listed on the Stock Exchange of Thailand. Revenue from CP All accounted for 71.40%, 49.79%, 40.97% and 44.55% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. As at the LPD, CP All has been our customer for 9 years.

CP All is principally involved in the operation of convenience stores under the "7-Eleven" trademark and franchises to other retailers in the territory of Thailand. The number of 7-Eleven convenience stores in Thailand as at 31 December 2021 was 13,134 stores. (Source: Based on latest annual report of CP All i.e., for the FYE 2021).

We distribute our snack food products to CP All for sales in its 7-Eleven convenience stores. As at the LPD, we deliver our snack food products to 11 CP All's sales and distribution points located in Central, Northeast, Northern and Southern regions of Thailand. Our snack food products would subsequently be re-distributed by CP All to their various 7-Eleven stores throughout Thailand.

For the Financial Years and Period Under Review, we distributed the following range of snack food products to CP All's 7-Eleven convenience stores:

- ChaCha brand sunflower seeds and nuts;
- Cundo brand layer cakes;
- Miyu brand biscuits and chocolate snacks;
- King Kong brand mixed nuts and dried fruits bar, and corn snack; and
- Pee Ree brand watermelon seeds and green peas.

We also deal with two related companies of CP All, namely Siam Makro and Ek-Chai Distribution, who are also two of our major customers for the Financial Years and Period Under Review.

Collectively, our revenue generated from CP All Group accounted for 82.98%, 75.25%, 66.31% and 63.76% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

7. BUSINESS OVERVIEW (CONT'D)

(ii) Siam Makro

Siam Makro is a company incorporated in Thailand and is listed on the Stock Exchange of Thailand, and is a subsidiary of CP All.

Revenue from Siam Makro accounted for 8.17%, 22.97%, 21.15% and 14.18% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. As at the LPD, Siam Makro has been our customer for 6 years.

Siam Makro is principally involved in the operation of membership-based cash and carry trade, under the name of Makro, selling food and non-food products to registered members in Thailand. Its target customers are predominantly small and medium-sized enterprises, namely retailers, hotels, restaurants, cafes, institutions and businesses. As of 31 December 2021, under the Makro brand, Siam Makro has a total of 142 Cash and Carry stores in Thailand comprising 79 classic stores, 35 Foodservice stores, 15 Eco Plus stores, 5 Food shops, 7 Siam Frozen shops, and 1 Fresh@Makro store (Source: Based on latest annual report of Siam Makro i.e., for the FYE 2021).

We distribute our snack food products to Siam Makro for sales in its Makro Cash and Carry stores. As at the LPD, we deliver our snack food products to 3 Siam Makro's distribution centres located in the Central region of Thailand. Our snack food products will then be distributed by Siam Makro to their various Makro Cash and Carry stores located throughout Thailand.

For the Financial Years and Period Under Review, we distributed ChaCha sunflower seeds and Pee Ree watermelon seeds to Siam Makro's cash and carry stores.

(iii) Mega Alliance

Revenue from Mega Alliance accounted for 2.00%, 17.47% and 3.29% of our total revenue for the FYE 2019, FYE 2020 and FYE 2021. There was no revenue from Mega Alliance in FPE 2022.

Mega Alliance was established in October 2019 as an associate company of Bai Li Enterprise. Bai Li Enterprise had a 30% equity stake in the said company together with three individuals namely Wanchai Wanichkulthumrong, our Deputy COO (10% equity stake), and two third-party individuals, namely, Pajikarn Sae-lim (40% equity stake) and Nattaphong Sakdikornthanasiri (20% equity stake), both whom are not our Group's employees.

Mega Alliance was established as a wholesaler of consumer packaged goods and household items, for the traditional retail markets. We sell our snack food products namely ChaCha sunflower seeds to Mega Alliance.

Our business relationship with Mega Alliance commenced in October 2019 and ended in February 2021. Due to different business direction with the two third-party shareholders of the company, in February 2021, Bai Li Enterprise ceased its business relationship and sold off its shareholdings in Mega Alliance to Nattaphong Sakdikornthanasiri and Suthasinee Sakulyanonwittayaa, whom are also not our Group's employees. Wanchai Wanichkulthumrong has also disposed of his shareholdings in February 2021.

Since February 2021 and up to the LPD, Mega Alliance is no longer our customer as the distribution of our Group's products to traditional retailers are now carried out by Valueplus.

7. BUSINESS OVERVIEW (CONT'D)

(iv) Valueplus

Revenue from Valueplus accounted for 0.06%, 17.46% and 25.61% of our total revenue for the FYE 2020, FYE 2021 and FPE 2022, respectively. Our business relationship with Valueplus commenced in October 2020.

Valueplus is a wholesaler of various products (food and non-food items) for traditional retailers. We sell our snack food products mainly ChaCha sunflower seeds, Cundo layer cakes, Miyu biscuits and chocolate snacks and PeeRee watermelon seeds and green peas to Valueplus.

Valueplus was established in October 2020 as an associate company of Bai Li Enterprise. Bai Li Enterprise had a 30% equity stake in the said company together with two third-party individuals, namely, Juntra Saeli (40% equity stake) and Rongrong Bhuridej (30% equity stake) both of whom are not our employees. Bai Li Enterprise disposed of its shares in Valueplus to Pisan Eiamsooksai (who is also not our Group's employee) in July 2021, to focus on our distribution business to our retailer customers*.

Note:

* *In this regard, our wholesale customers (which includes Valueplus) deal with traditional retailers such as sundry shops and small retailers in the outskirts areas of city or town centres and the associated business risks.*

Since July 2021 and up to the LPD, Valueplus continues to be our customer and our only wholesaler distributing our snack food products to the traditional retailers. Our Group has no plan to reduce the reliance on Valueplus, however, we are open to consider any suitable wholesalers if approached by them.

Loss of major customer

For FYE 2021, we lost a major customer, Mega Alliance who carried out the distribution of our Group's products to traditional retailers in FYE 2020 (contributed RM20.91 million to our total revenue). Nevertheless, the distribution of our Group's products to traditional retailers are now carried out by Valueplus.

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7. BUSINESS OVERVIEW (CONT'D)**7.19 MAJOR SUPPLIERS**

Our top 5 major suppliers for the Financial Years and Period Under Review are as follows:

FYE 2019

Major Suppliers	Product's country of origin	Product supplied	Length of relationship ⁽¹⁾ (year)	Value of purchases	
				RM'000	%
Jet Voyage ⁽²⁾	China	ChaCha sunflower seeds and nuts	7	36,496	89.28
ChaCha Thailand ⁽³⁾	Thailand	ChaCha sunflower seeds	<1	2,865	7.01
Qingdao Hightide Co., Ltd	China	Pee Ree watermelon seeds and sunflower kernels	3	854	2.09
Chanwin Marketing & Distribution Co., Ltd	China	Pee Ree watermelon seeds	<1	312	0.76
New Strait Pte Ltd	China	Cundo layer cakes	<1	210	0.51
Sub-total				40,737	99.65
Total Group purchases				40,879	

FYE 2020

Major Suppliers	Product's country of origin	Product supplied	Length of relationship ⁽¹⁾ (year)	Value of purchases	
				RM'000	%
ChaCha Thailand	Thailand	ChaCha sunflower seeds	1	60,879	74.86
Jet Voyage ⁽²⁾	China	ChaCha sunflower seeds and nuts	8	15,462	19.01
Chanwin Marketing & Distribution Co., Ltd	China	Pee Ree watermelon seeds and green peas, and Wang Wang rice puffs and crispy fish snack	1	2,316	2.85
New Strait Pte Ltd	China	Cundo layer cakes	1	1,707	2.10
Tianjin Heijingang Food Co., Ltd	China	Miyu chocolate snacks and King Kong mixed nuts and dried fruit bar	1	782	0.96
Sub-total				81,146	99.78
Total Group purchases				81,322	

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7. BUSINESS OVERVIEW (CONT'D)**FYE 2021**

Major Suppliers	Product's country of origin	Product supplied	Length of relationship ⁽¹⁾ (year)	Value of purchases	
				RM'000	%
ChaCha Thailand ⁽³⁾	Thailand	ChaCha sunflower seeds	2	85,799	85.58
Jet Voyage ⁽²⁾	China	ChaCha sunflower seeds and nuts	9	6,400	6.38
New Strait Pte Ltd	China	Cundo layer cakes, and Mina dried fruits	2	3,098	3.09
Chanwin Marketing & Distribution Co., Ltd	China	Pee Ree watermelon seeds and green peas, Miyu biscuits, Wang Wang rice puffs and crispy fish snack	2	2,499	2.49
Tianjin Heijingang Food Co., Ltd	China	Miyu chocolate snacks, King Kong mixed nuts and dried fruit bar	2	2,459	2.45
Sub-total				100,255	99.99
Total Group purchases				100,258	

FPE 2022

Major Suppliers	Product's country of origin	Product supplied	Length of relationship ⁽¹⁾ (year)	Value of purchases	
				RM'000	%
ChaCha Thailand ⁽³⁾	Thailand	ChaCha sunflower seeds	3	41,839	91.77
Tianjin Heijingang Food Co., Ltd	China	Miyu chocolate snacks	3	1,296	2.84
New Strait Pte Ltd	China	Cundo layer cakes, and Mina dried fruits	3	941	2.06
Chanwin Marketing & Distribution Co., Ltd	China	Pee Ree watermelon seeds and green peas, and Miyu biscuits	3	784	1.72
Jet Voyage ⁽²⁾	China	ChaCha sunflower seeds and nuts	10	728	1.60
Sub-total				45,588	99.99
Total Group purchases				45,589	

Notes:

- (1) Length of business relationship as at the respective financial years/ period.
- (2) Jet Voyage is a wholly owned subsidiary of QiaQia, a company listed on the Shenzhen Stock Exchange. Jet Voyage is a company based in Hong Kong and is involved in trading of products to foreign markets. Jet Voyage was appointed by QiaQia to be the trading agent for markets outside China, and as such Jet Voyage invoices us and we pay to Jet Voyage for our purchases. However, products are delivered by QiaQia in China directly to us in Thailand. In FPE 2022, we purchased ChaCha sunflower seeds (original, coffee and red date flavours) and nuts from Jet Voyage as these products were not manufactured by ChaCha Thailand in Thailand.

7. BUSINESS OVERVIEW (CONT'D)

(3) *ChaCha Thailand is a wholly owned subsidiary of QiaQia, a company listed on the Shenzhen Stock Exchange.*

Our business is dependent on our top suppliers namely ChaCha Food Thailand and Jet Voyage, collectively known as QiaQia Group, by virtue of their contribution to our total purchases. For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, QiaQia Group represented 96.29%, 93.87%, 91.96% and 93.37% of our Group's total purchases respectively. Prior to FYE 2020, our supply of ChaCha brand sunflower seeds were mainly purchased from QiaQia in China via Jet Voyage. From FYE 2020 onwards, we mainly purchased the ChaCha brand sunflower seeds from ChaCha Thailand.

Both ChaCha Thailand and Jet Voyage are wholly owned subsidiaries of QiaQia, a company listed on the Shenzhen Stock Exchange. QiaQia Group, through ChaCha Thailand, completed its first overseas factory in Thailand in 2018 which is intended to serve foreign markets outside China particularly the Southeast Asia markets. The new factory commenced operations in 2019. Since 2019, we started purchasing the ChaCha brand sunflower seeds from QiaQia's factory in Thailand.

As an exclusive distributor for QiaQia in Thailand, we are reliant on QiaQia Group of companies for the supply of ChaCha brand sunflower seeds to us under the Distributor Agreement as set out in Section 7.20.1 of this Prospectus. Similarly, QiaQia Group is also dependent on Bai Li Enterprise to distribute the ChaCha brand products in Thailand. Please refer to Section 9.1.1 of this Prospectus for further details on the risk of our dependency on our Distributor Agreement with QiaQia.

Our Group and QiaQia are mutually dependent on each other based on the following consideration factors:

- Since 2012, we have a long track record and relationship with QiaQia Group for approximately 10 years where we have been working closely with QiaQia Group. We have been their exclusive distributor for ChaCha sunflower seeds and nuts for the Thailand market since 2013 and up to the LPD. This indicates a stable and long-term business relationship with QiaQia Group. For the Financial Years and Period Under Review and up to the LPD, we have not experienced any difficulty in obtaining supplies of sunflower seeds from QiaQia Group.
- Since 2013, we have established a distribution network for ChaCha sunflower seeds and nuts in Thailand including the modern trade retailers such as 7-Eleven convenience store, Big C hypermarket and Tops supermarket. Since 2015, we extended our distribution network to include the traditional trade retailers via wholesalers that resells to sundry shops, market stalls and street vendors. As at the LPD, the coverage of our distribution network extends throughout the Central, Northeast, Northern and Southern regions of Thailand to 43 customer's delivery destinations including customer's distribution centres, warehouses and retail outlets.
- We have established a long-term business relationship with major retailers in Thailand where we managed to successfully secure shelf-space in large retail convenience stores such as 7-Eleven, FamilyMart, Lotus's Go Fresh mini market, Mini BigC and Lawson108, cash and carry stores such as Makro, hypermarkets such as Lotus's and Big C and supermarkets such as Tops, Lotus's Go Fresh and Big C Market. Through our established relationships with these retailers, we were able to obtain feedback for QiaQia's products in various aspects including types of packaging, pricing as well as flavour and taste.

7. BUSINESS OVERVIEW (CONT'D)

7.20 MATERIAL DEPENDENCY ON COMMERCIAL OR FINANCIAL CONTRACTS, INTELLECTUAL PROPERTY RIGHTS, LICENCES, PERMITS AND OTHER ARRANGEMENTS

As at the LPD, there are no commercial or financial contracts, intellectual property rights, licences, permits and other arrangements which our Group's business or profitability is materially dependent on save for the following:

7.20.1 Distributor Agreement with QiaQia

Since 2013, Bai Li Enterprise has been appointed as QiaQia's exclusive distributor of ChaCha sunflower seeds and nuts products in Thailand where the products supplied by QiaQia will only be sold by Bai Li Enterprise in Thailand. For FYE 2019, FYE 2020, FYE 2021 and FPE 2022, purchases from QiaQia Group represented 96.29%, 93.87%, 91.96% and 93.37% of our Group's total purchases respectively. As at the LPD, QiaQia Group has been our supplier for up to 10 years.

The annual distributor agreement and distributor supplementary agreement are entered into between QiaQia and Bai Li Enterprise upon the terms and conditions to be mutually agreed by the parties. The distributor agreement has been renewed on 13 May 2022 ("**Distributor Agreement**") with QiaQia for a period of 1 year, commencing from 1 January 2022 to 31 December 2022. On 13 May 2022, we have also entered into a distributor supplementary agreement with QiaQia in respect of the sales incentive plan ("**Distributor Supplementary Agreement**"). The Distributor Agreement and the Distributor Supplementary Agreement are collectively referred to as the "**Agreements**". There is no impact to our Group's business operations for entering into the distributor agreement and distributor supplementary agreement after the commencement date of the Distributor Agreement. As at the LPD, our Group has commenced discussion with QiaQia on the renewal of the Agreements and we expect it to be concluded in 1st quarter of 2023. In this regard, nothing has come to our attention that there will be any material issue for the renewal of the Agreements and QiaQia continue to supply sunflower seeds and nuts products to us in accordance with the current practice while pending the renewal of the Agreements.

During the terms of the Distributor Agreement, Bai Li Enterprise will not be allowed to accept or sell other similar products (i.e., sunflower seeds and nuts) in Thailand or sell the products supplied by QiaQia outside of Thailand.

Bai Li Enterprise is obliged to take charge of the development and management of secondary distributors in Thailand, and is fully responsible for the secondary distributors' shipment, sales guidance, and after-sale service of the products. If secondary distributors of Bai Li Enterprise sell the products supplied by QiaQia outside of Thailand, it will be deemed as the behaviour of Bai Li Enterprise. Nevertheless, Bai Li Enterprise has not appointed and has no intention to appoint any secondary distributors. Thus, such obligation is not applicable to Bai Li Enterprise.

If Bai Li Enterprise violates any of the above terms, QiaQia has the right to terminate the Distributor Agreement unilaterally and is exempted from any duty and entitled to deduct the performance bond (if any) as the compensation, the shortage of which can otherwise be claimed from Bai Li Enterprise thereafter. There is no performance bond provided by Bai Li Enterprise to QiaQia.

If the Distributor Agreement is terminated in advance by QiaQia for any reason save for the circumstances set out above, QiaQia will repurchase those good products in stock from Bai Li Enterprise, except those expired products or other defective products caused by Bai Li Enterprise. If the Distributor Agreement is terminated in advance due to breach of contract by Bai Li Enterprise, QiaQia will not accept return of goods for any remaining products held by Bai Li Enterprise.

Bai Li Enterprise's distributors are obliged to cooperate with each other, exchange market information and avoid vicious competition. If Bai Li Enterprise is found to engage in vicious competition against QiaQia, QiaQia has the right to take necessary measures until the Distributor Agreement is terminated.

7. BUSINESS OVERVIEW (CONT'D)

The Distributor Supplementary Agreement sets out a sales incentive plan which adopts a point system calculation based on the sales level. After the expiration of the annual distributor agreement, the computation of the incentives under the sales incentive plan will be completed and honoured by QiaQia within the first quarter of the following year. Further, QiaQia has the right to reconsider the distribution rights of Bai Li Enterprise in Thailand after the expiration of the annual distributor agreement if Bai Li Enterprise fails to meet the sales level under the sales incentive plan.

Further to the above, based on the opinion of the solicitors from the Chinese law perspective, QiaQia does not have a right to unilaterally terminate the Agreements unless Bai Li Enterprise has breached any of its obligations under the Distributor Agreement or the circumstances fall under Article 563 of the Civil Code of the People's Republic of China ("**Civil Code**").

Article 563 of the Civil Code provides that the parties may rescind the contract under any of the following circumstances: (1) the purpose of a contract cannot be achieved due to force majeure; (2) prior to expiration of the period of performance, one of the parties explicitly expresses or indicates by act that it will not perform the principal obligation; (3) one of the parties delays performance of the principal obligation and still fails to perform it within a reasonable period of time after being demanded; (4) one of the parties delays performance of the obligation or has otherwise acted in breach of the contract, thus making it impossible to achieve the purpose of the contract; or (5) there exists any other circumstance as provided by law.

Both the termination clause of the Distributor Agreement and Article 563 of the Civil Code do not grant QiaQia a right to unilaterally terminate the Agreements without cause.

Please also refer to Section 9.1.1 of this Prospectus for the risk factor of "We are dependent on our distributor agreement for ChaCha sunflower seeds and nuts" for further details and **Appendix 1** of this Prospectus, for the aforementioned legal opinion.

7.20.2 Trading Agreement with Siam Makro

Bai Li Enterprise sells its products to Siam Makro pursuant to the 1-year period trading agreement. The current term starts from 1 January 2022 to 31 December 2022.

If Siam Makro carries out any campaign for the purpose of stimulating the sales volume, Bai Li Enterprise agrees to join the campaign.

Revenue from Siam Makro accounted for 8.17%, 22.97%, 21.15% and 14.18% of our Group's total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. As at the LPD, Siam Makro has been our customer for 6 years.

7.20.3 Main Agreement with CP All

Bai Li Enterprise has agreed to sell its products which are processed food to CP All pursuant to a main agreement dated 19 April 2018. The products will be sold in 7-11 convenient stores across Thailand.

If there is any issue arising from the products, Bai Li Enterprise will be responsible for the return of the products and cost of the return.

Bai Li Enterprise represents to CP All that Bai Li Enterprise has been licensed to use trademarks with its products, will be responsible to customers for quality of products, the products were properly manufactured and safe for consumption. In case there is a problem with the products such as defects, CP All may return the defected products to Bai Li Enterprise at Bai Li Enterprise's expense.

The main agreement does not specify validity period. Therefore, the main agreement is effective until it is terminated.

7. BUSINESS OVERVIEW (CONT'D)

The main agreement can be terminated by CP All if the sale volume cannot meet the minimum requirement or if Bai Li Enterprise goes under receivership. There is no sale volume stated in the main agreement. The main agreement with CP All does not specify the minimum order quantum. As such, the sales volume will not result in the main agreement being terminated.

Revenue from CP All accounted for 71.40%, 49.79%, 40.97% and 44.55% of our Group's total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. As at the LPD, CP All has been our customer for 9 years.

7.20.4 Joint Venture Agreement

Bai Li Enterprise entered into a joint venture agreement dated 30 September 2020 with Mr. Thierry Suttivong (“**Mr. Thierry**”) whereby Mr. Thierry authorises Bai Li Enterprise to use a cartoon of him in Bai Li Enterprise's Pee Ree products.

In return for the right to use the cartoon, Bai Li Enterprise will pay part of profits incurred from the sale of Pee Ree products to Mr. Thierry at an agreed rate. In case Mr. Thierry passes away and Bai Li Enterprise still uses the cartoon on the products, Bai Li Enterprise agrees to pay the profits to his statutory heir.

During the term of the joint venture agreement, Bai Li Enterprise will invest in the product's manufacturing and marketing while Mr. Thierry will be a presenter of the products. Mr. Thierry cannot operate the same or similar business as Bai Li Enterprise and cannot use Pee Ree and the cartoon as trademark without Bai Li Enterprise's prior consent.

If any party breaches the joint venture agreement, the other party can terminate the agreement and claim for damages.

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, revenue from our Group's products that carry the Pee Ree brands, collectively accounted for 3.48%, 1.91%, 1.33% and 1.24% of our Group's total revenue respectively.

7.20.5 Trademark Licence Agreement and Deed of Assignment

On 1 December 2021, Bai Li Enterprise entered into a trademark licence agreement (“**Licence Agreement**”) with Saranjit Wang who is the owner of the trademarks set forth in the schedule thereto, and as set out in Section 7.12 of this Prospectus.

Saranjit Wang, as a licensor, has authorised Bai Li Enterprise to have exclusive use of her trademarks for Bai Li Enterprise's goods in the territory of Thailand. The right to use the trademarks will take effect from the registration dates of each trademark.

On 1 January 2022, Saranjit Wang and Bai Li Enterprise entered in to a deed of assignment (“**Deed of Assignment**”) whereby Saranjit Wang agreed to assign the trademarks she owns to Bai Li Enterprise.

The parties registered the Licence Agreement on 15 March 2022 and the Deed of Assignment on 22 March 2022 with Thailand's Trademark Office, Intellectual Property Department, in order for the Licence Agreement and Deed of Assignment to be effective under Thai trademark law.

For the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, revenue from our Group's brands, collectively accounted for 3.79%, 3.61%, 6.03% and 5.54% of our Group's total revenue respectively.

7. BUSINESS OVERVIEW (CONT'D)**7.21 EMPLOYEES**

As at the LPD, our Group has a total workforce of 83 local employees and 4 foreign employees.

As at the LPD, our Group does not employ any contractual employees.

None of our employees belong to any trade unions and there has been no industrial dispute since we commenced operations.

A summary of our Group's total workforce by job functions as at the LPD are as set out below:

Categories	No. of employees as at LPD					
	Malaysian operations			Thailand operations		
	Malaysian (Local)	Foreigner	Total	Thai (Local)	Foreigner	Total
Senior management	2	-	2	2	1	3
Head of Department	-	-	-	1	1	2
Executive	3	-	3	75	2	77
Total	5	-	5	78	4	82

A summary of our Group's total workforce by departments as at the end of FYE 2021 are as set out below:

Department	No. of employees as at 31 December 2021					
	Malaysian operations			Thailand operations		
	Malaysian (Local)	Foreigner	Total	Thai (Local)	Foreigner	Total
Management (Senior and middle management)	2	-	2	3	2	5
Sales and marketing	-	-	-	6	-	6
Human resources and administration	-	-	-	8	-	8
Accounting and finance	-	-	-	12	-	12
Procurement	-	-	-	1	-	1
Warehouse	-	-	-	12	1	13
Logistics	-	-	-	20	-	20
Total	2	-	2	62	3	65

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7. BUSINESS OVERVIEW (CONT'D)

A summary of our Group's total workforce by departments as at the LPD are as set out below:

Department	No. of employees as at LPD					
	Malaysian operations			Thailand operations		
	Malaysian (Local)	Foreigner	Total	Thai (Local)	Foreigner	Total
Management (Senior and middle management)	2	-	2	3	2	5
Sales and marketing	-	-	-	8	-	8
Human resources and administration	2	-	2	14	1	15
Accounting and finance	1	-	1	12	-	12
Procurement	-	-	-	2	-	2
Warehouse	-	-	-	17	1	18
Logistics	-	-	-	22	-	22
Total	5	-	5	78	4	82

7.22 GOVERNMENT LAWS AND REGULATIONS**7.22.1 Government laws and regulations**

Our Group's business operations are subject to the following governing laws and regulations:

(a) Malaysia

- (i) the Local Government Act 1976 and any by-laws of the local councils and authorities setting out the requirements to obtain business and signage licences; and
- (ii) the Income Tax Act 1967 and the prevailing taxation regulations and policies in Malaysia.

(b) Singapore

- (i) the Income Tax Act and the administrative practice of the Inland Revenue Authority of Singapore.

(c) Thailand

- (i) the Land Code governing the right of a company that has foreign shareholding to own land in Thailand;
- (ii) the Thai Foreign Business Act B.E. 2542, governing the operation of business of a company that has foreign shareholding;
- (iii) the Revenue Code, regulating personal income tax, corporate income tax, value added tax, specific business tax, and stamp duty;
- (iv) the Food Act, B.E. 2522 (1979) and the relevant regulations and ministerial notifications;

7. BUSINESS OVERVIEW (CONT'D)

- (v) the Public Health Act, B.E. 2535 (1992) and the relevant regulations and ministerial notifications;
- (vi) the Business Registration Act, B.E. 2499 (1956) and the relevant regulations and ministerial notifications; and
- (vii) the Direct Sales and Direct Marketing Act, B.E. 2545 (2002) and the relevant regulations and ministerial notifications.

Save as disclosed in Section 7.11 of this Prospectus, as at the LPD, our Group is not in breach of laws and regulations governing our business that may have a material adverse impact on our business operations.

7.22.2 Environmental issue

As at the LPD, there is no environmental issue which may materially affect our Group's business operations.

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7. BUSINESS OVERVIEW (CONT'D)**7.23 MATERIAL INVESTMENTS AND DIVESTITURES**

Save as disclosed below, our Group has not incurred any other material capital expenditure for the Financial Years and Period Under Review and up to the LPD.

Capital Expenditure	FYE 2019		FYE 2020		FYE 2021		FPE 2022		1 July 2022 up to LPD	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Motor vehicles	928	93.36	950	93.14	123	35.25	108	21.01	-	-
Office equipment	18	1.81	17	1.67	14	4.01	27	5.25	12	7.89
Office computers	5	0.50	8	0.78	83	23.78	25	4.87	19	12.50
Furniture and fittings	-	-	13	1.27	121	34.67	46	8.95	7	4.61
Machinery and tools	43	4.33	-	-	8	2.29	103	20.04	114	75.00
Renovation	-	-	32	3.14	-	-	205	39.88	-	-
Total	994	100.00	1,020	100.00	349	100.00	514	100.00	152	100.00

The above material investments were located within Thailand and were mainly funded through a combination of external borrowings and our internally generated funds.

For the FYE 2019, our capital expenditure of RM0.99 million was mainly for the purchase of 8 units of motor vehicles namely 6 trucks, and 2 passenger cars amounting to RM0.93 million. The remaining RM0.06 million was used to purchase 1 unit of forklift, office equipment and computers.

For the FYE 2020, our capital expenditure of RM1.02 million was mainly for the purchase of 5 units of motor vehicles namely 2 trucks and 1 passenger van amounting to RM0.95 million. The remaining RM0.07 million was used for renovation works at our distribution centre as well as for the purchase of furniture and fittings, office equipment and computers.

For the FYE 2021, our capital expenditure of RM0.35 million was mainly used to purchase 2 units of motor vehicles namely 1 truck and 1 forklift and the remaining RM0.23 million was used to purchase furniture and fittings, computer, office equipment and machinery and tools.

For the FPE 2022, our capital expenditure of RM0.51 million was mainly used for renovation works on Wellspire's office in Kuala Lumpur, Malaysia of RM0.20 million and purchase of 1 unit of forklift of RM0.11 million, while the remaining RM0.20 million was used to purchase machinery and tools, furniture and fittings, office equipment and office computers.

From 1 July 2022 up to the LPD, our capital expenditure of RM0.15 million was mainly used to purchase of machinery and tools of RM0.11 million and the remaining RM0.04 million was used to purchase office computers, office equipment, and furniture and fittings.

7. BUSINESS OVERVIEW (CONT'D)

Save as disclosed below, our Group has not incurred any other material capital divestitures for the Financial Years and Period Under Review and up to the LPD.

Capital Divestiture	FYE 2019		FYE 2020		FYE 2021		FPE 2022		1 July 2022 up to LPD	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Investment in former associate companies	-	-	-	-	1,242	100.00	-	-	-	-
Motor vehicles	-	-	-	-	-	-	-	-	54	100.00
Total	-	-	-	-	1,242	100.00	-	-	54	100.00

The above capital divestitures involve assets located within Thailand.

We do not have any capital divestitures in FYE 2019, FYE 2020, and FPE 2022.

For the FYE 2021, our capital divestiture of RM1.24 million was from the disposal of our former associate companies namely Mega Alliance and Valueplus on 28 February 2021 and 19 July 2021 for consideration of approximately RM0.20 million and RM1.04 million, respectively.

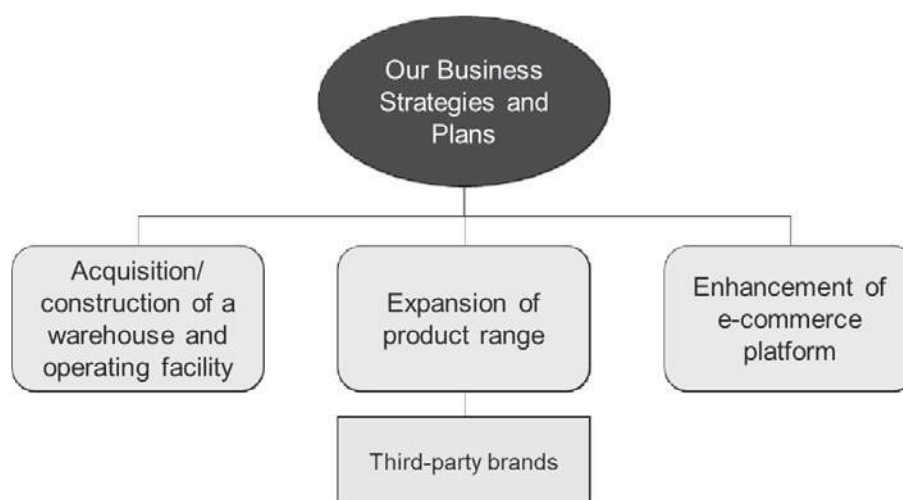
From 1 July 2022 up to the LPD, our capital divestiture of RM0.05 million was from the disposal of 1 unit of forklift.

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7. BUSINESS OVERVIEW (CONT'D)

7.24 OUR BUSINESS STRATEGIES AND PLANS

Moving forward, we will continue to strengthen our core competency in the distribution of consumer packaged foods by expanding our business in the following areas:



7.24.1 Acquisition/ construction of a warehouse and operating facility in Thailand

Part of our business strategy and future plans as a distributor of consumer packaged foods is to acquire/ construct a warehouse and operational facility in Thailand.

As at the LPD, we are operating in a distribution centre in Pathum Thani province, which is in the Central region of Thailand, with total built-up area of approximately 4,897 sq. m. on total land area of approximately 9,636 sq. m.

As at the LPD, we are renting the abovementioned distribution centre from a related party namely, S.W. Enterprise Co., Ltd, since 2018. For the FYE 2019, FYE 2020, FYE 2021, FPE 2022 and from 1 July 2022 up to the LPD, we incurred rental expenses of RM0.39 million, RM0.83 million, RM1.60 million, RM0.85 million and RM0.69 million, respectively. Please refer to Section 10.1 of this Prospectus for further details.

As at the LPD, our distribution centre in Pathum Thani province serves 43 of our customers' sales and distribution points in Thailand comprising 32 sales and distribution points in the Central region such as the province of Ayutthaya and Nonthaburi, and Bangkok city, 6 sales and distribution points in the Northeast region, 3 sales and distribution points in the Northern region, and 2 sales and distribution points in the Southern region.

The idea to acquire/ construct a warehouse and operational facility in Thailand was mooted in early FYE 2021 when Bai Li Enterprise experienced significant growth in sales in FYE 2020. Our Group also planned to increase our product range (beyond mainly sunflower seeds) such as confectionaries (existing product), potato chips and dairy beverages (as set out in Section 7.24.2 for further details). Therefore, our Group needed to increase storage capacity, especially chiller room facilities.

During FYE 2021, we were also considering to undertake the Listing. In view of the proceeds to be raised from the Listing, our Group viewed that it was timely to increase our asset base by owning a warehouse. Furthermore, our Group has been expanding our storage rented floor space, from 1,500 sq.m. in FYE 2019 to 1,800 in FYE 2020 and 3,600 sq.m. in FYE 2021, representing a growth of 140% within the period. For FPE 2022 and as at the LPD, our Group's rented storage floor space remained at 3,600 sq. m.

7. BUSINESS OVERVIEW (CONT'D)

As part of our Group's business strategies, we intend to acquire/ construct a warehouse and operating facility as a long-term investment to increase our Group's asset base instead of renting the distribution centre.

Our Group intends to allocate up to RM16.00 million of the IPO proceeds to be utilised within 18 months from our Listing, to explore our options either to acquire the abovementioned existing distribution centre from our Promoters or to acquire a new warehouse and operational facility at another suitable location in Thailand which meet the requirements of our Group, that will facilitate the business operation and future business growth in the next 5 years.

The finalisation of the acquisition/ construction plans will take into consideration how much warehousing space is required for the medium and possibly long term, the availability of existing warehouse space versus constructing new warehouse facilities in a suitable location, and the funding required.

The detailed timing and key milestones for the acquisition of a warehouse and operating facility are as follows:

Estimated timing	Key milestones
Upon listing and within 6 months upon listing (1 st half of 2023)	<ul style="list-style-type: none"> Evaluation of options and commencement of negotiations Appointment of professionals (i.e. advisors and property valuer) Conduct valuation on the target property
Within 9 to 12 months upon listing (2 nd half of 2023)	<ul style="list-style-type: none"> Submission of valuation report to the Board for approval Obtain Board and shareholders' approval
Within 12 to 18 months upon listing (1 st half of 2024)	<ul style="list-style-type: none"> Completion of acquisition of target property Commencement on construction/ renovation works

In the event we acquire a new warehouse and operational facility, we plan to purchase a warehouse together with a 2-storey office building with estimated built-up area of 6,700 sq. m. on an estimated land area of approximately 11,450 sq. m.

The expected distribution centre will have an office space and equipped with the following facilities:

New operating facility	Estimated size (sq. m.)	Usage
Total land area	11,450	Includes warehouse building, 2-storey office building, parking lots and loading bays
Total built-up area	6,700	
- Office	1,000	Includes offices for key senior management and operational roles, and meeting rooms
- General warehousing space	4,500	Includes racking system and open floor space for storage of general dry goods
- Chiller room	1,200	Includes open floor space for storage of baked and confectionery snack foods, as well as dairy beverages.

7. BUSINESS OVERVIEW (CONT'D)

The general warehousing space will be utilised as storage for dry goods where we plan to install a racking system. We plan to allocate approximately 620 sqm of floor space within the general warehousing space to install the racking system. The remaining of 3,880 sqm will include a dedicated open floor area for storage of goods as well as walkway for mobilisation of forklift and handling of goods. The total estimated capacity for dry storage of goods at the general warehousing space is approximately 3,000 pallets.

The chiller room will be utilised as storage for certain snack foods such as baked and confectionery snack foods, as well as dairy beverages, a product we plan to introduce. Please refer to Section 7.24.2 for further details on our expansion of product range. We plan to operate the chiller room at a temperature ranging from 8°C to 18°C. The total estimated capacity for the chiller room is approximately at 550 pallets.

The total estimated cost of setting up the new distribution centre is RM16.00 million and the details are as follows:

	Estimated cost RM'000	IPO proceeds RM'000	Internally generated funds RM'000
New distribution centre			
Purchase of land and construction of building	11,400	11,400	-
Office fit-out	2,000	2,000	-
Installation of warehouse racking system	250	250	-
Installation of chiller facilities	2,200	2,200	-
Others ⁽¹⁾	150	150	-
Total	16,000	16,000	-

Note:

(1) Includes professional fees such as market surveyor and property valuer.

The acquisition of a warehouse does not require any approval of authorities. However, the transfer of land and building, i.e., the warehouse must be registered at the relevant land office.

The registered owner of the new warehouse and operating facility shall be Bai Li Enterprise.

We envisage that with the acquisition/ construction of our own warehouse and operating facility, our Group would be able to enjoy rental savings of approximately RM1.60 million per annum, enhance our Group's asset base as well as reduce potential related party transactions as we are currently renting our distribution centre from our Promoters.

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7. BUSINESS OVERVIEW (CONT'D)

7.24.2 Expansion of product range

As a distributor of consumer packaged snack foods to operators of large chain retail outlets, we will continue to expand our range of products to include other types of snack foods as we have the market access to a large potential end-consumer base.

In this respect, we plan to widen our existing range of third-party brands of consumer packaged snack foods, as well as introduce a new product namely dairy beverages, as follows:

(i) Third-party brands snack foods

We plan to source and import new products from our existing suppliers (excluding QiaQia Group) as well as new third-party brands from foreign countries including but not limited to China. We plan to bring in other snack foods such as potato chips, tortilla chips and corn puff snacks to the Thailand market.

(ii) Dairy beverages

We plan to source and import dairy beverages from new third-party brands from foreign countries including but not limited to China. This includes Ultra High Temperature (UHT) dairy beverages such as yoghurt and milk products. UHT yoghurt and milk products are beverages that can be stored at ambient or room temperature and with a longer product shelf life. As these products does not require chilled distribution or storage, it can reach further locations and wider customer base. Additionally, it is also suitable for sales through our e-commerce channel.

We expect to introduce these new products between 2023 and 2024 which will be funded through internally generated funds.

We have identified 1 new third-party brand for konjac and gluten snacks from China. In May 2022, we were appointed as an agent for the Thailand market by the brand owner and manufacturer of the konjac and gluten snacks. However, we only obtained FDA approvals in June and August 2022 for a total of 7 products. As at the LPD, we are finalising the product labelling and making arrangements with the supplier on the production schedule. We aim to launch these products to the traditional market via our wholesaler (i.e., Valueplus) by the first quarter of 2023. We estimate our first shipment of the goods to cost RM0.28 million which will be funded through internally generated funds.

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7. BUSINESS OVERVIEW (CONT'D)

7.24.3 Enhancement of e-commerce platform

Part of our plan is to enhance the features of our existing e-commerce platform operated by our subsidiary, Keymall Retail, to further complement our existing business model and to increase our online presence.

We have an existing e-commerce platform website which is currently not in use. As at the LPD, we have received the direct marketing business registration certificate and is in the midst of preparation to re-launch KEEMAO and enhance the e-commerce platform, as detailed below.

Currently, our direct/ online sales to customers are via external/ third-party e-commerce platform (such as Shopee and Facebook, Thailand).

Our existing e-commerce platform has basic features to showcase our product offerings on the website which does not have a payment gateway system, and is only available in Thai language.

We plan to engage a website developer, by 1st quarter of 2023, to re-design the e-commerce platform to provide users with ease of usage and carrying out transactions, as well as facilitate storage of users' past purchase patterns and search trends to better match specific products to users' preferences and purchase profiles.

The enhancement of the e-commerce platform will be accomplished in stages. The enhanced platform will include amongst others, a payment gateway system, content in Thai and English language, firewall protection, robust screening system to filter any fraudulent transactions and only good orders being completed, updated design and layout to feature our products as well as weblinks to other social media platforms.

We plan to upgrade the platform to be functional by 1st half of 2023 and to commence operations from the enhanced e-commerce platform. The estimated cost to be incurred for the enhancement of e-commerce platform is approximately RM0.35 million which will be funded through internally generated funds.

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8. THE IMR REPORT



8 December 2022

The Board of Directors
Wellspire Holdings Berhad
Lot D/E, Level 12, Tower 1, Etiqa Twins
11, Jalan Pinang
50450 Kuala Lumpur
Wilayah Persekutuan (KL)
Malaysia

Vital Factor Consulting Sdn Bhd
Company No.: 199301012059 (266797-T)
V Square @ PJ City Centre (VSQ)
Block 6 Level 6, Jalan Utara
46200 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel: (603) 7931-3188
Fax: (603) 7931-2188
Website: www.vitalfactor.com

Dear Sirs/Madams

Independent Assessment of the Distribution of Consumer Packaged Foods in Thailand

We are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include the development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as the independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above for inclusion in the prospectus of Wellspire Holdings Berhad concerning its listing on the ACE Market of Bursa Securities. We have prepared this report independently and objectively and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, availability of up-to-date information, secondary information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibility for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Our report may include assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information and primary market research, and after careful analysis of data and information, the industry is subject to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from The University of New South Wales, Australia and a degree in Master of Business Administration from The New South Wales Institute of Technology (now known as University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and Institute of Managers and Leaders (formerly known as Australian Institute of Management). He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing on Bursa Securities.

8. THE IMR REPORT (CONT'D)

Date of Report: 8 December 2022

INDEPENDENT ASSESSMENT OF THE DISTRIBUTION OF CONSUMER PACKAGED FOODS IN THAILAND**1. INTRODUCTION**

- Wellspire Holdings Berhad and its subsidiaries (herein referred to as Wellspire Group) focuses on the distribution of snack foods, mainly sunflower seeds which uses common distribution channels such as wholesalers and retailers including hypermarkets, supermarkets and convenience stores that also sell a large variety of other consumer packaged goods. As such, this report will provide an assessment of the distribution of general consumer packaged goods and where relevant the snack food segment. All figures and information in this report refer to Thailand unless stated otherwise. The exchange rates are set out below are for reference only.

	2016	2017	2018	2019	2020	2021	Nov 2022
RM/100THB*	11.7505	12.6705	12.4876	13.3468	13.4323	12.9677	12.6709

* based on average for the period (Source: Bank Negara Malaysia)

2. OVERVIEW OF THAILAND

- Thailand is the second-largest economy in Southeast Asia, where its economy is largely driven by foreign tourism and industrial activities. Thailand is divided into four regions as depicted in the diagram, or 76 provinces and 1 special administrative area, Bangkok, the capital of Thailand.

2021	Thailand
Nominal GDP (THB billion)	16,179
Population (million)	66.2
No. of Households ('000)	22,624
People per Households	2.9
Monthly household income (THB thousand per household)	27.4

(Source: National Economic and Social Development Council (NESDC); National Statistical Office (NSO); Vital Factor analysis)



- The following is the population size by regions and their top provinces, in descending order.

2021	Population (million)	% to Kingdom	2021	Population (million)	% to Kingdom
Central region (25P + 1SA)	22.8	34.5%	Northern region (17P)	12.0	18.1%
Bangkok [^] *	5.5	8.4%	Chiang Mai	1.8	2.7%
Chon Buri*	1.6	2.4%	Chiang Rai	1.3	2.0%
Samut Prakan*	1.4	2.0%	Nakhon Sawan*	1.0	1.6%
Nonthaburi*	1.3	1.9%	Southern region (14P)	9.5	14.3%
Pathum Thani*	1.2	1.8%	Nakhon Si Thammarat	1.5	2.3%
Northeast region (20P)	21.8	33.0%	Songkhla*	1.4	2.2%
Nakhon Ratchasima*	2.6	4.0%	Surat Thani*	1.1	1.6%
Ubon Ratchathani*	1.9	2.8%			
Khon Kaen*	1.8	2.7%			
Buri Ram*	1.6	2.4%			
Udon Thani*	1.6	2.4%			

(Source: NSO) P = Provinces; SA = Special administrative area; [^] special administrative area; * Wellspire Group delivers its products to these provinces, among others.

8. THE IMR REPORT (CONT'D)



3. DISTRIBUTIVE TRADE INDUSTRY FOR CONSUMER PACKAGED GOODS

3.1 Value chain of distribution trade

- Distributive trade is the intermediary stage comprising all linkages and activities that channel consumer packaged goods for resale or to end consumers or users.
- Goods passing through the distributive trade are sold without transformation. Operators within the distributive trade may physically breakbulk, sort, grade, mix, pack or repack, but do not refine, process, manufacture or otherwise transform the goods. Additionally, distributive trade operators may sell directly to end consumers or users and/or other intermediaries who subsequently resell to end consumers or users. In some situations, manufacturers, producers and processors may also sell their goods directly to end consumers or end users.
- The distributive trade is segmented into wholesale and retail trade. Wholesale trade refers to the resale of goods to resellers, such as retailers or other wholesalers. Retail trade refers to the resale of goods mainly to the end-consumer or users. In some situations, wholesale trade also involves the sales of goods to industrial, commercial, institutional and professional users.
- Wellspire Group operates within the distributive trade industry as a wholesaler and largely sells to retailers.



3.2 Operators of wholesale and retail trade

- Within the wholesale trade industry, there are three general categories of operators:

 - Merchant wholesalers** refer to operators that buy their goods from manufacturers, processors, producers or other wholesalers, and take title to the goods before the goods are resold. This category has by far the largest number of operators and includes, among others, distributors, exporters, importers and cooperative purchasers.
 - Sales offices and branches** mainly refer to sales outlets owned by manufacturers, processors or producers to sell their goods, not amounting to retailing.
 - Agents and brokers** refer to intermediaries that source buyers or sell on behalf of the supplier of the goods. They do not take title to the goods and mainly work on a commission or fee basis.
- Wholesalers would mainly sell their goods to retailers including the following:

 - Modern retailers** mainly include the following:

 - Large-scale retailers such as hypermarkets, discount stores, supercentres and cash and carry stores;
 - Supermarkets; and
 - Small-scale retailers such as convenience stores and mini markets.



8. THE IMR REPORT (CONT'D)



- **Traditional retailers** mainly include grocery stores, kiosks, street vendors and stalls in wet, floating and night markets; and
- **E-commerce** where products are sold through online platforms and websites.
- Wellspire Group operates mainly as a wholesaler that largely sells to modern retailers including hypermarkets, cash and carry stores, supermarkets and convenience stores. A small proportion of its sales is made to traditional retailers.

4. CONSUMER PACKAGED FOODS

4.1 Consumer packaged goods

- Consumer packaged goods refer to mass-produced consumer goods that are non-durable, relatively low cost and are consumed or used frequently by consumers or households. They include, among others, food and beverages, and household and personal care goods. This excludes fresh food, produce and products without packaging, as well as bulk goods and commodities sold in loose forms. As most of these items are consumed or used relatively quickly, they are also referred to as fast-moving consumer goods.
- Branding is used universally in consumer packaged goods that aim to create brand recognition, association, image and loyalty to attract new consumers and encourage recurrent purchases. Wellspire Group is a distributor of consumer packaged foods, particularly snack foods.

4.2 Distribution of consumer packaged foods

- The key participants in the distribution of consumer packaged goods include the following:
 - **Principals** are mostly brand owners and are responsible for the exclusive supply of products under their brand names. Principals may either manufacture their products, appoint contract manufacturers to manufacture their products or buy finished products which are packed under their brand names.
 - **Intermediaries** are operators that provide linkages between principals and end-consumers or users. Intermediaries in the consumer packaged goods supply chain include wholesalers and retailers.
- A key success to consumer packaged goods is to reach as wide a market coverage of consumers as possible. As such, consumer packaged goods are commonly sold through retailers such as hypermarkets, supermarkets, mini markets, convenience stores, pharmacies, kiosks, grocery stalls, as well as direct selling and online sales.

4.3 Packaged snack foods

- Packaged snack foods are small portions of foods commonly consumed between meals. They refer to a wide range of food products, including savoury snacks, confectionery snacks, bakery snacks, chilled snacks, frozen snacks and preserved fruits.
- Some examples of commonly packaged snack food segments are categorised as follows:
 - Asian snacks include, among others, sunflower seeds, extruded snacks such as prawn, fish and rice crackers, and preserved processed marine products;
 - Western snacks include, among others, extruded snacks such as corn and cheese puffs, and potato and corn chips; and
 - Other snacks such as nuts and preserved fruits.

8. THE IMR REPORT (CONT'D)

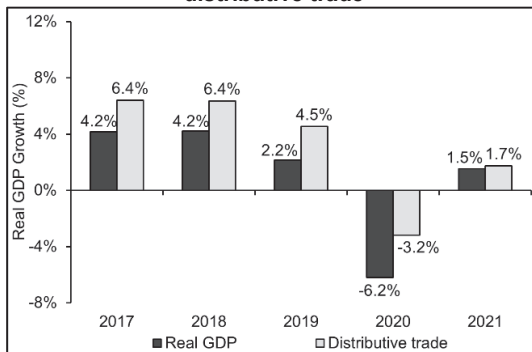


5. PERFORMANCE OF DISTRIBUTIVE TRADE

5.1 Thailand's economic activities

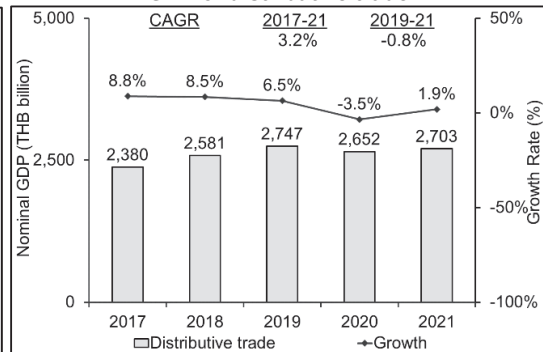
- The performance of the distributive trade is influenced by economic and social conditions. Gross Domestic Product (GDP) is a measurement of the gross value added in the output of goods and services indicating its overall size in monetary terms. GDP quoted in current prices without adjustments for inflation or deflation is termed nominal GDP. GDP growth is commonly measured by comparing a particular period with the preceding or corresponding period. Real GDP removes the effect of inflation or deflation, which provides "real" changes in output due to changes in the quantity of goods and services produced, rather than changes in their prices. In the context of this report, all GDP figures are nominal GDP, unless specified otherwise.
- In 2021, the real GDP of Thailand's economy recovered and grew by 1.5%, mainly due to the recovery in exports of goods and increased domestic spending. For the first 9 months of 2022, Thailand's real GDP grew by 3.1%, resulting from an acceleration in the agricultural sector and the rise in the service sector after the introduction of the government's economic stimulus measures and the relaxation of travel restrictions under the Thailand Pass System. Overall, in 2022, Thailand's economy is projected to expand by 3.2%, and is expected to expand within the range of 3.0% to 4.0% in 2023, mainly supported by recovery of tourism sector, expansion of both private and public investments, improved domestic demand, and the favourable growth of the agricultural sector. (Source: NESDC).
- Meanwhile, the real GDP of the distributive trade recovered and grew by 1.7% in 2021, which was in tandem with the recovery of household economic activities and the manufacturing sectors. For the first 9 months of 2022, the real GDP of the distributive trade grew by 3.1%, in line with the increase in the number of foreign tourists and increment in household consumption expenditure.

Real GDP growth of Thailand's economy and distributive trade



(Source: NESDC)

GDP of distributive trade

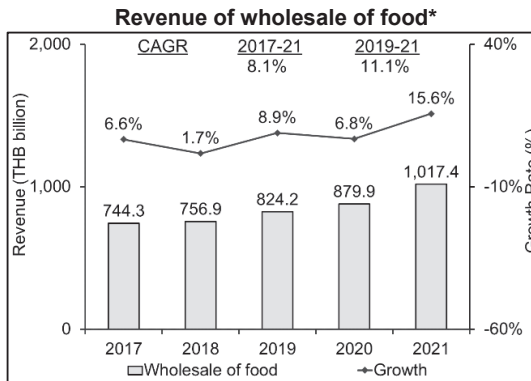


- In 2021, the GDP of the distributive trade, represented by the sum of wholesale and retail trade, which also includes repair of vehicles, and personal and household goods amounted to THB2.7 trillion, representing 28.1% of the GDP of the services sector, and 16.7% of Thailand's total GDP. For the first 9 months of 2022, the GDP of the distributive trade grew by 3.0% amounting to THB2.0 trillion.

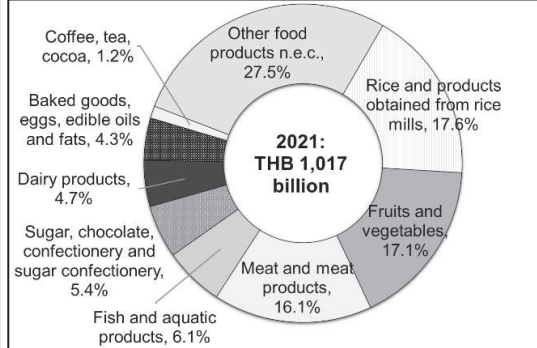
5.2 Performance of wholesale of food

- Based on Thailand Standard Industrial Classification (TSIC) code, wholesale trade includes wholesale of, among others, food, beverages and tobacco, household goods as well as machinery, equipment and tools. In 2021, the revenue of wholesale of food grew by 15.6%, amounting to THB1.0 trillion.

8. THE IMR REPORT (CONT'D)



Revenue breakdown on wholesale of food, 2021



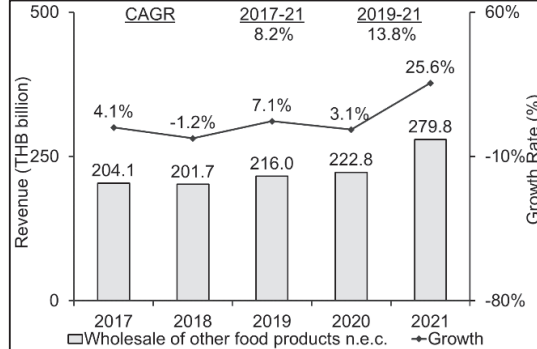
n.e.c. = not elsewhere classified, which includes, among others, snacks/crunchy snacks, crispy nuts, and ready-to-eat food. **Note:** Revenue Based on the latest available total revenue of companies registered under specific TSIC codes, which may include revenue from other business activities, products or services. (Source: Ministry of Commerce (MOC))

- Wellspire Group distributes consumer packaged foods, which is included in the segment under “Other food products n.e.c.”. In 2021, the wholesale value of “Other food products n.e.c.” grew by 25.6% to THB279.8 billion, which accounted for 27.5% of the revenue of wholesale of food.

5.3 Private consumption

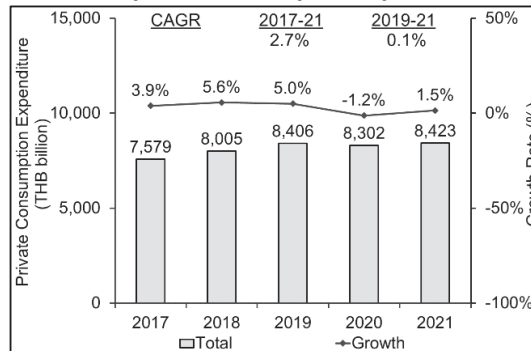
- Private consumption expenditure indicates consumer spending that drives demand for consumer packaged goods as well as consumer durables, among many others.

Revenue of wholesale of other food products n.e.c.

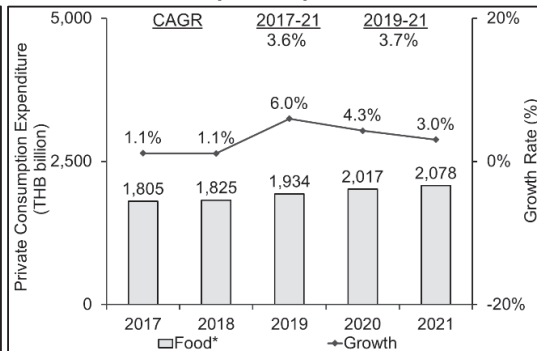


n.e.c. = not elsewhere classified **Note:** Revenue may include revenue from other business activities, products or services. (Source: MOC)

Total private consumption expenditure



Private consumption expenditure on food*



* Classified based on Classification of Individual Consumption According to Purpose (COICOP), which includes all processed and unprocessed foods (Source: NESDC)

- In 2021, the total private consumption expenditure grew by 1.5% due to easing of the COVID-19 control measures and the introduction of government’s stimulus measures, while the private food consumption expenditure grew by 3.0%. For the first 9 months of 2022, the total private consumption expenditure and private food consumption expenditure grew by 12.1% and 8.4% respectively compared to the first 9 months of 2021.

5.4 Demand dependencies

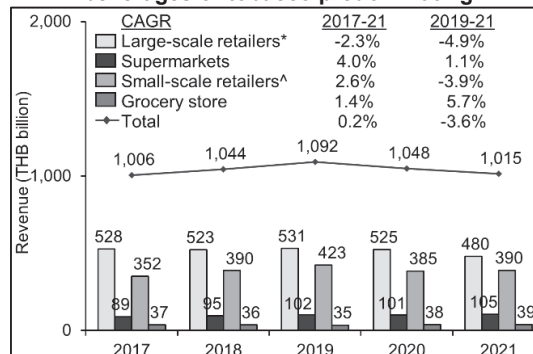
- The performance of consumer packaged goods depends on retailers, particularly the non-specialised stores. Non-specialised stores refer to stores that provide a wide range of product categories within the store.

8. THE IMR REPORT (CONT'D)



- Between 2017 and 2021, the revenue of retail activities in non-specialised stores for food, beverages and tobacco grew at a CAGR of 0.2%, where supermarket experienced the highest CAGR of 4.0%. In 2021, large-scale retailers, small-scale retailers, supermarkets and grocery stores accounted for 47.3%, 38.5%, 10.3% and 3.9% respectively of the retail sales revenue.
- In 2021, the retail sales revenue declined by 3.2%, due to disruptions in economic activities caused by the COVID-19 pandemic. Among the retailers, supermarkets, grocery stores and small-scale retailers grew by 3.9%, 4.1% and 1.3% respectively while the large-scale retailers declined by 8.5% in 2021. Some of the modern retailers are listed below.

Retail sale in non-specialised stores with food, beverages or tobacco predominating



* Include hypermarkets, discount stores and supercentres; ^Include convenience stores and mini markets. Note: Latest available statistics. (Source: MOC; Vital Factor analysis)

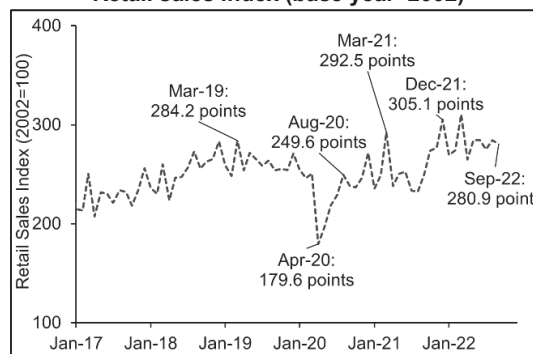
Number of selected retail outlets in Thailand

Retailers*	2017	2018	2019	2020	2021
Large-scale retailers					
Lotus's (hypermarket)	192	207	213	216	222
Big C (hypermarket)	140	147	151	152	154
Makro (cash & carry store)	123	129	134	137	142
Supermarket					
Lotus's Go Fresh (supermarket)	190	180	178	179	199
Small-scale retailers					
7-Eleven (convenience store)	10,268	10,988	11,712	12,432	13,134
Lotus's Go Fresh (mini market)	1,557	1,607	1,610	1,635	2,197
FamilyMart (convenience store)	1,136	1,186	968	901	805

* Wellspire Group's products are sold in these outlets. Data as at 31 December (Source: Company annual reports; Vital Factor analysis)

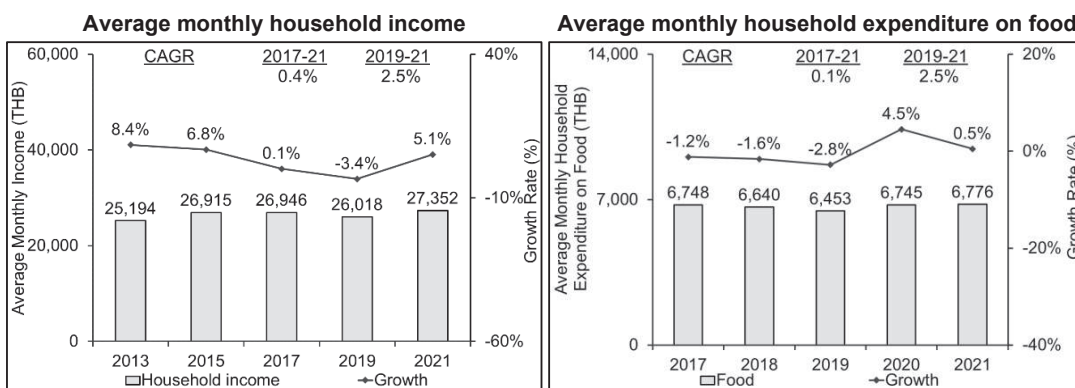
- The retail sales index measures the volume changes in the sales of retail goods over a stated period. Between 2017 and 2019, the retail sales index gradually increased. The index slumped in April 2020 due to the lower consumer purchasing power, decreased number of tourists, and the mandatory lockdown for non-essential retailers.
- The retail sales index improved in the second half of 2020 after the relaxation of the national lockdown and the introduction of economic stimulus measures throughout 2020 and 2021 by Thailand's government to boost household spending. In the first half of 2022, the retail sales index fluctuated and subsequently reached 280.9 points in September 2022.
- Between 2019 and 2021, the average monthly household income grew at a CAGR of 2.5%, despite a slump in Thailand's real GDP in 2020 and slow growth in 2021. Generally, on average, the Thailand population spend approximately 25% of their monthly household income on food.

Retail sales index (base year=2002)



(Source: BOT)

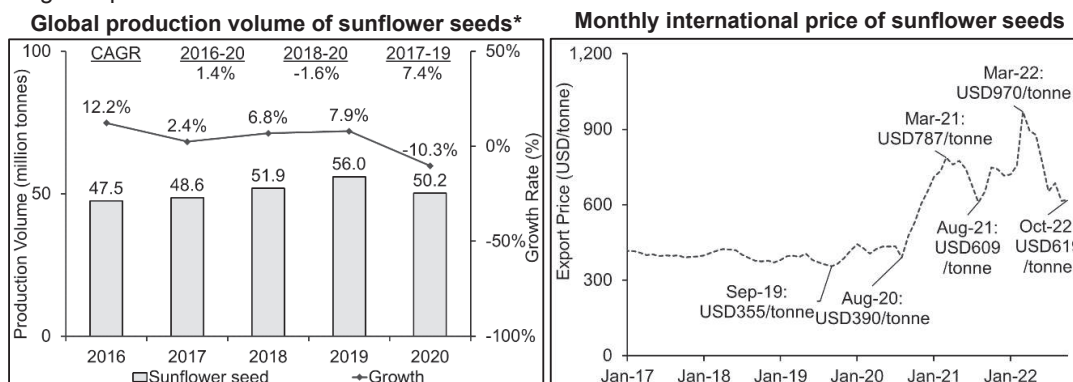
8. THE IMR REPORT (CONT'D)



(Source: NSO)

5.5 Global condition of sunflower seeds and sea freight rate

- Sunflower seeds are commonly processed for sunflower oil, to be eaten as snacks, and used as birdfeed. Between 2018 and 2020, the global production volume of sunflower seeds declined at an annual rate of 1.6%, amounting to 50.2 million tonnes in 2020. In 2020, Russia and Ukraine were the two leading sunflower seed producers that accounted for 26.5% and 26.1% respectively of the global production volume of sunflower seeds.



*Latest available statistics (Source: Vital Factor analysis)

- The monthly international price of sunflower seeds has been increasing since the beginning of the COVID-19 pandemic. The international price increased by 101.8% from USD390/tonne in August 2020 to USD787/tonne in March 2021, which was mainly driven by lower global production. Subsequently, the international price started to decline to reach USD609/tonne in August 2021. The international price kept rising and reached USD970/tonne in March 2022, mainly due to the Russia-Ukraine conflict. Furthermore, Russia has banned the export of sunflower seeds from 1 April to 31 August 2022 to ease rising domestic prices for agriculture produce. The price has subsequently dropped to USD619/tonne in October 2022 due to improved supplies.
- The global supply chain disruption prompt by the COVID-19 pandemic, combined with the US-China trade war have led to higher sea freight rates, which in turn led to higher input prices for global traders since the second half of 2020. The sea freight rate generally kept increasing from US\$2,032/forty-foot equivalent unit (FEU) on 2 July 2020 to US\$10,377/FEU on 23 September 2021, representing a growth of 410.7%. Following the gradual relaxing of containments in various countries, the rate declined by 76.8% to US\$2,404/FEU on 24 November 2022 despite uncertainties remained high due the Russia-Ukraine conflict, lockdowns in China and inflationary pressures.

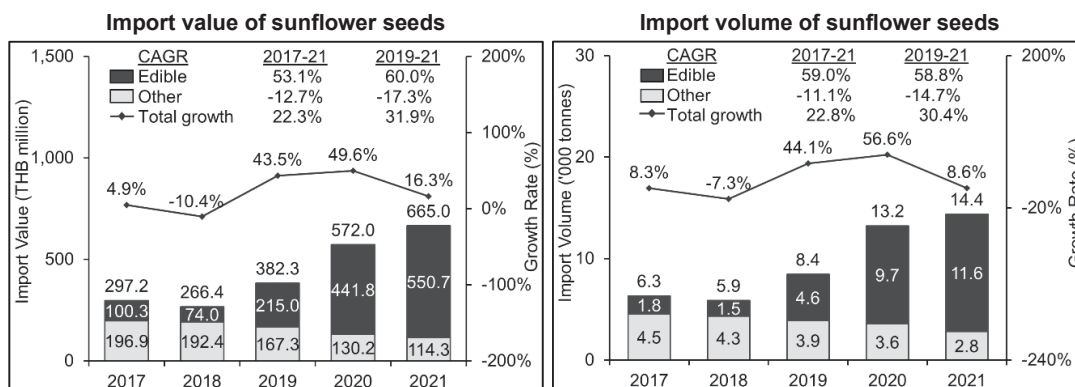
5.6 Import of edible sunflower seeds in Thailand

- The import of edible sunflower seeds in Thailand indicates the import of raw sunflower seeds. Between 2019 and 2021, the import value and volume of edible sunflower seeds grew at a CAGR

8. THE IMR REPORT (CONT'D)



of 60.0% and 58.8% respectively. In 2021, the edible sunflower seeds were mainly imported from China which accounted for 99.7% of the import value of edible sunflower seeds.

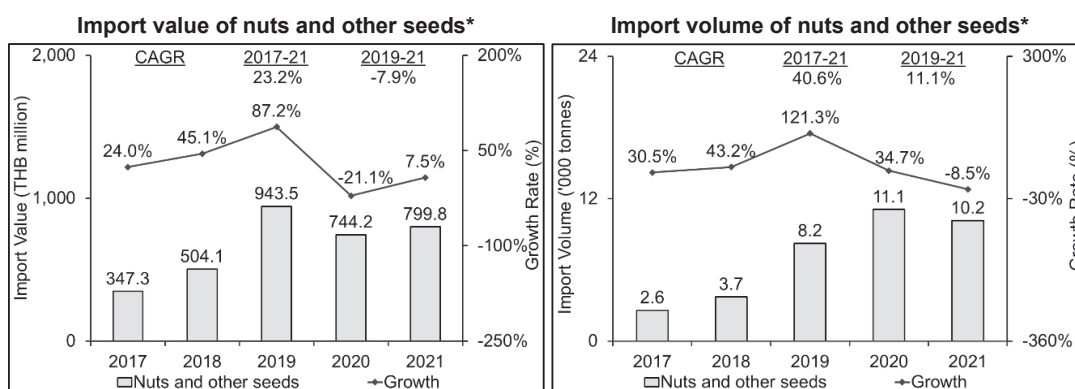


(Source: MOC)

- For the first 9 months of 2022, the import value of edible sunflower seeds grew by 13.7%, while the volume of edible sunflower seeds declined by 9.5% compared to the first 9 months of 2021. The decline in the import volume of edible sunflower seeds was mainly due to the rising price of sunflower seeds, as well as partly due to the containment measures imposed in China throughout the first 9 months of 2022 due to the rising COVID-19 cases domestically.

5.7 Import of nuts and other seeds in Thailand

- The import of nuts and other seeds in Thailand includes the import of, among others, roasted sunflower seeds. Between 2019 and 2021, the import value of nuts and other seeds declined at an annual rate of 7.9% while the import volume of nuts and other seeds grew at a CAGR of 11.1%.



*Excludes ground-nuts and cashew nuts (Source: MOC)

- Between 2019 and 2021, the import value of nuts and other seeds from China declined at an annual rate of 14.4%. In 2021, China remained the major importing country to Thailand, which represented 66.7% and 89.0% of the total import value and volume of nuts and other seeds respectively.
- For the first 9 months of 2022, the import value of nuts and other seeds grew by 4.2% while the volume of nuts and other seeds declined by 27.1% compared to the first 9 months of 2021. The decline in import volume of nuts and other seeds was mainly due to the lower Thailand demand for nuts and other seeds, and partly due to containment measures imposed in China throughout the first 9 months of 2022.

6. OPERATORS IN THE INDUSTRY

- In 2021, there were 8,442 wholesalers of foods of which 2,989 were wholesalers of other food products not elsewhere classified which include, among others, snack foods (Source: MOC). The

8. THE IMR REPORT (CONT'D)



following are some distributors of consumer packaged foods including sunflower seeds (shelled or unshelled) in Thailand, sorted in descending order of revenue:

Company Name	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ^{(2) (3)} (RM mil)	GP Margin ⁽²⁾	NP ⁽²⁾ (RM mil)	NP Margin ⁽²⁾
Sino-Pacific Trading (Thailand) Co., Ltd. ⁽⁴⁾	2021	3,810.0	651.2	17.1%	175.5	4.6%
Kor Chaisaeng D.C. Co., Ltd. ⁽⁵⁾	2021	325.7	44.2	13.6%	2.6	0.8%
Heritage Marketing Co., Ltd. ⁽⁶⁾	2021	188.0	47.0	25.0%	1.0	0.5%
Wellspire Group	2021	136.7	38.2	27.9%	15.4	11.3%
Sun Foods Trading Co., Ltd. ⁽⁷⁾	2021	97.9	8.6	8.8%	0.3	0.4%
Modern Food Trading Co., Ltd. ⁽⁸⁾	2021	17.6	3.7	21.0%	*	0.1%
Chailai Intertrade Co., Ltd. ⁽⁹⁾	2021	6.6	1.1	16.6%	0.6	9.2%
Capmax Trading Co., Ltd. ⁽¹⁰⁾	2021	2.2	1.0	47.1%	*	2.1%

* less than RM0.1 million; FYE = financial year ended; Rev = revenue for sales and services; mil = million; GP = gross profit; NP = net profit after tax; Co., Ltd. = Company Limited. Note: The above companies' financial figures, except for Wellspire Group, were reported in Thai Baht and converted to RM based on THB100 = RM12.9677 for 2021

(1) Latest available financial information from the Ministry of Commerce and Wellspire Group. The month of the financial year for each company is not provided save for Wellspire Group.

(2) May include other business activities, products or services.

(3) Computed by taking revenue of sales and services less cost of goods sold.

(4) Involved in the import and distribution of confectionery, chocolates, snacks and biscuits, beverages, groceries, health care and personal care goods.

(5) Involved in the distribution of beverages, household and personal care goods, snacks, baby products as well as cooking products including seasoning, condiments, cooking oil and canned seafood.

(6) Involved in the distribution of food products such as nuts and seeds.

(7) Involved in the import and distribution of confectionery and snacks as well as dried food products such as mushrooms and prunes.

(8) Involved in the distribution of snacks.

(9) Involved in the import and distribution of snacks.

(10) Involved in the import and distribution of organic nuts and cereal products.

- The methodology used to compile information on the companies above was based on secondary market research, such as published documents and company websites. They were selected based on their involvement in at least the distribution of consumer packaged goods and also sunflower seeds in Thailand, and availability of the latest financial statements.
- The following are public listed companies in Thailand that distribute among others, consumer packaged snacks.

Company Name	FYE ⁽¹⁾	Group Rev ⁽²⁾ (RM mil)	Segment Rev ⁽²⁾ (RM mil)	GP ^{(2) (3)} (RM mil)	GP Margin ⁽²⁾	NP ⁽²⁾ (RM mil)	NP Margin ⁽²⁾
Saha Pathanapibul PCL ⁽⁴⁾	Dec-21	4,366.9	4,331.0	683.9	15.7%	232.7	5.3%
Premier Marketing Public PCL ⁽⁵⁾	Dec-21	565.9	396.3	174.9	30.9%	44.7	7.9%

FYE = financial year ended; Rev = revenue; Segment Rev = income from distribution of consumer packaged goods; mil = million; GP = gross profit; NP = net profit after tax; PCL = Public Company Limited. Note: The above companies' financial figures were reported in Thai Baht and converted to RM based on THB100 = RM12.9677 for 2021.

(1) Latest available audited financial information from annual reports.

(2) May include other business activities, products or services.

(3) Computed by taking revenue of sales and service income less cost of sales and services.

(4) Involved in distribution of consumer products and property development.

(5) Involved in marketing, sales promotion and distribution of snack food and confectionery, food and beverages, personal care and pet food.

7. MARKET SIZE AND SHARE

- The market size in Thailand and market share of Wellspire Group are estimated below:

2021 – Revenue	Market Size (RM billion) ^(a)	Wellspire Group's Rev (RM billion) ^(b)	Wellspire Group Market Share (%) ⁽³⁾
Wholesale of food	131.9 ⁽¹⁾	0.14	0.1
Wholesale of other food products n.e.c.	36.3 ⁽²⁾	0.14	0.4

Rev = Revenue; n.e.c. = not elsewhere classified; Sources: (a) MOC; (b) Wellspire Group; Note: The market size figures were reported in Thai Baht and converted to RM based on THB100 = RM12.9677 for 2021.

(1) Based on revenue for wholesale of food, which excludes beverages and tobacco.

8. THE IMR REPORT (CONT'D)



- (2) Based on revenue for wholesale of other food products n.e.c, which excludes meats, fish, dairy products, fresh produce, rice, baked goods, confectioneries, coffee, tea, cocoa and all related products. This is the smallest available segmentation that includes sunflower seeds.
- (3) $(\text{Wellspire Group's Revenue (b)} \div \text{Market Size (a)}) \times 100\%$.

8. BARRIERS TO ENTRY

- The barriers to entry for the distribution of consumer packaged foods industry are **low**. The low barriers to entry are due to low capital set-up costs where warehousing and logistics may be rented or outsourced, wide range of products available for distribution, and no onerous licences, regulations or restrictions governing the entry of new players into the industry. This is substantiated by the fact that in 2021, there were 8,442 wholesalers of foods (*Source: MOC*).

9. INDUSTRY CONSIDERATION FACTORS

- The consumer packaged goods sector is dependent on socio-economic factors as well as tourism which plays a key role in Thailand's economy. As such, the distributive trade industry is dependent upon, among others, the recovery of Thailand as well as the global economies from the COVID-19 pandemic. In 2021, the overall distributive trade industry is slightly recovered from the COVID-19 pandemic resulting in a growth in the economy and higher consumer spending. The real GDP of the distributive trade industry and total private consumption expenditure grew by 1.7% and 1.5% respectively in 2021. For the first 9 months of 2022, the real GDP of the distributive trade industry and total private consumption expenditure grew by 3.1% and 12.1% respectively.
- As food is a basic need, its demand remains resilient during the COVID-19 pandemic. In 2021, the private consumption expenditure on food grew by 3.0%. For the first 9 months of 2022, the private consumption expenditure on food grew by 8.4%.
- Overall, the distribution of consumer packaged food industry is still dependent on Thailand's economy as people are likely to spend more when they have higher spending power. Thailand's economy in 2022 is expected to recover while the resurgence of COVID-19 cases and the reimposition of containment measures will weigh on the economic growth. In 2021, the Thailand economy recovered and grew by 1.5% mainly due to the recovery in exports of goods and increased domestic spending. For the first 9 months of 2022, Thailand's real GDP grew by 3.1%, resulting from an acceleration in the agricultural sector and the rise in the service sector after the introduction of the government's economic stimulus measures and the relaxation of travel restrictions. Overall, in 2022, Thailand's economy is projected to expand by 3.2%, and is expected to expand within the range of 3.0% to 4.0% in 2023, mainly supported by recovery of domestic tourism, expansion of both private and public investments, improved domestic demand, and the favourable growth of agricultural sector. (*Source: NESDC*).
- Tourism plays an important role in Thailand's economy where between 2015 and 2019, tourism revenue contributed a range from 16.1% to 18.2% of Thailand's GDP. The containment measures imposed in Thailand have affected the tourism revenue significantly, where in 2020 and 2021, tourism revenue accounted for 5.1% and 1.5% of Thailand's GDP respectively. In 2020, Thailand's tourism revenues experienced a sharp decline of 70.9%, where income from foreign visitors declined by 81.2% amounting to THB310.1 billion, while income from domestic visitors declined by 55.4% amounting to THB482.5 billion. In 2021, Thailand's tourism revenues continued to decline further by 69.5% due to border closure since April 2021, where income from foreign visitors declined by 91.9% amounting to THB25.0 billion, while income from domestic visitors declined by 55.2% amounting to THB216.4 billion. For the first 9 months of 2022, Thailand's tourism revenue grew by 384.9%, where income from foreign visitors grew by 2193.4% amounting to THB238.3 billion, while income from domestic visitors grew by 243.3% amounting to THB455.5 billion. With the gradual reopening of borders as well as the relaxation of international travel restrictions since 1 November 2021, the number of visitors (domestic and foreign) in Thailand increased by 284.0% to 155.7 million persons for the first 9 months of 2022 compared to 40.6 million persons for the first 9 months of 2021. (*Source: Ministry of Tourism & Sports*).

9. RISK FACTORS

Notwithstanding the prospects of our Group as outlined in this Prospectus, you should carefully consider, in addition to the other information contained elsewhere in this Prospectus, the following risk factors that may have a significant impact on the future performance of our Group before investing in our Shares.

If you are in any doubt as to the information contained in this section, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers.

9.1 RISKS RELATING TO OUR BUSINESS OPERATIONS

9.1.1 We are dependent on our distributor agreement for ChaCha sunflower seeds and nuts

We are dependent on our principal, QiaQia, for the distribution of ChaCha sunflower seeds and nuts in Thailand. Our revenue derived from the sales of ChaCha sunflower seeds and nuts accounted for RM56.51 million (96.11%), RM112.24 million (93.76%), RM125.57 million (91.86%) and RM55.80 million (92.21%) for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

As at the LPD, our subsidiary, Bai Li Enterprise, has an exclusive Distributor Agreement with QiaQia which is valid for 1 year, commencing from 1 January 2022 to 31 December 2022, and renewable yearly by QiaQia. A Distributor Supplementary Agreement has also been entered into with QiaQia in respect of the sales incentive plan on 13 May 2022. We have a long-standing relationship with QiaQia Group for the past 10 years (i.e., since year 2012) and have been an exclusive distributor of QiaQia since 1 January 2013. However, there is no assurance that we would be able to maintain our business relationships if we are unable to fulfil our obligations as an exclusive distributor.

During the term of the Distributor Agreement, we are not allowed to accept or sell other similar products in Thailand or sell the products supplied by QiaQia outside of Thailand. In addition, we are obliged to oversee the development and management of secondary distributors in Thailand, and are fully responsible for the shipment, sales guidance, and after-sale service for the products. If our secondary distributors sell the products supplied by QiaQia outside of Thailand, it will be deemed as our behaviour.

As an exclusive distributor, among others, we have to meet our annual sales target which is reviewed and agreed with our principal every year and implement an agreed promotion and product display plan. Due to the lockdown implemented by the Government as a result of the COVID-19 pandemic, we were unable to meet our sales target for the FYE 2021, with a shortfall of approximately 15%. Although we were unable to meet our sales target, our Distributor Agreement was subsequently renewed in 2022.

As such, if we are unable to meet our obligations under the Distributor Agreement and Distributor Supplementary Agreement, there is a risk that we would lose our distributorship of ChaCha sunflower seeds and nuts. Any termination or non-renewal of our Distributor Agreement will adversely affect our business and financial performance. For illustrative purposes, assuming the Distributor Agreement is terminated at the beginning of FYE 2021, our Group will lose approximately 92% of our revenue in FYE 2021, which will substantially affect our Group's business.

In addition, there is no assurance that our Distributor Agreement will be renewed even if we meet all our distributorship requirements. For the Financial Years and Period Under Review and up to the LPD, we have been able to renew our Distributor Agreement. Please refer to Section 7.20.1 of this Prospectus for the salient terms of the Distributor Agreement and Distributor Supplementary Agreement.

9. RISK FACTORS (CONT'D)

We also face the risk that QiaQia may appoint other companies to be its distributor after the expiration of our agreement. There are low barriers for QiaQia to seek one or more distributors to replace us. In addition, there are low barriers for QiaQia to operate its own distribution network, given that QiaQia's products are already available in various retail outlets in Thailand. This could also be used as a platform to expand QiaQia's business in Thailand.

9.1.2 We are dependent on a group of major customers and any disruption or loss of these customers may affect our financial performance

We are and continue to be dependent on a group of major customers, namely CP All, Siam Makro and Ek-Chai Distribution ("CP All Group") as well as Valueplus.

CP All have shareholdings in Siam Makro and Ek-Chai Distribution. Collectively, the CP All Group accounted for 82.98%, 75.26%, 66.31% and 63.76% of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. CP All was our largest customer having accounted for 71.40%, 49.79%, 40.97% and 44.55% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

Valueplus accounted for 17.46% and 25.61% of our total revenue for FYE 2021 and FPE 2022, respectively. Our access to traditional market is through sales to our customer Valueplus that mainly serves the traditional market. If we were to lose Valueplus it would affect our access to the traditional market until such time we secure customers that serve the traditional market. As such, any material reduction or disruption in purchases or termination of business relationship from Valueplus will adversely affect our business and financial performance.

As we operate based on purchase orders which are issued by our customers at their discretion, there can be no assurance that purchase orders will continue to be issued. As such, any material reduction or disruption in purchases or termination of business relationship from CP All Group will adversely affect our business and financial performance.

The declining trend in revenue from CP All and CP All Group for the Financial Years and Period Under Review indicates our decreasing dependency on this group of customers. Although we have established a long working business relationship with CP All Group spanning six to nine years as at the LPD, any material reduction or disruption in sales, or termination of business relationships with CP All or CP All Group would adversely affect our business and financial performance.

For the Financial Years and Period Under Review and up to LPD, save for Mega Alliance, we have not experienced any loss of major customers.

9.1.3 Our Group is dependent on a single product, sunflower seeds, and QiaQia Group as the single supplier for the sunflower seeds

As stated in Section 7.5.2 of this Prospectus, our Group's revenue derived from the sales of ChaCha sunflower seeds accounted for RM56.11 million (95.42%), RM111.79 million (93.39%), RM125.39 million (91.72%) and RM55.71 million (92.07%) for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

Sunflower seeds is a snack product and a non-essential food item. As such, any reduction in the demand for snack foods particularly sunflower seeds may adversely affect our business and financial conditions. Some of the factors that may affect the demand of sunflower seeds as a snack food includes, reduction in discretionary income, increase in inflation rate which reduces consumer spending on non-essential food items, changes in consumer tastes and preferences, and increased popularity of other snack foods as substitutes.

9. RISK FACTORS (CONT'D)

Furthermore, as stated in Sections 7.19, 7.20 and 9.1.1 of this Prospectus, we are dependent on our principal, QiaQia, for the supply of and exclusive distributorship we have for the ChaCha brand sunflower seeds and nuts in Thailand. Please refer to Section 7.20.1 of this Prospectus for the salient terms of the Distributor Agreement and Distributor Supplementary Agreement.

Notwithstanding our long track record and relationship with QiaQia Group for approximately 10 years since 2012, there is no assurance that QiaQia Group will continue to appoint us as their exclusive distributor or supply the ChaCha brand sunflower seeds and nuts to our Group.

As at the LPD, our subsidiary, Bai Li Enterprise, has an exclusive Distributor Agreement with QiaQia which is valid for 1 year, commencing from 1 January 2022 to 31 December 2022, and renewable yearly by QiaQia.

In the event that our Distributor Agreement is not renewed, our revenue derived from the sales of ChaCha sunflower seeds which accounted for 95.42%, 93.39%, 91.72% and 92.07% of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively will be adversely affected. As our dependency on our exclusive Distributor Agreement with QiaQia affects at least 90% of our total revenue for the Financial Years and Period Under Review, we may not be able to promptly replace a substantial portion of our revenue derived from our Distributor Agreement with QiaQia

Although we have plans to expand our range of products to include other types and brands of snack foods to reduce our reliance on ChaCha brand of sunflower seeds, however, in the event we are unable to reduce the reliance on ChaCha brand of sunflower seeds and unable to expand our product range, we will continue to be dependent on sunflower seeds as a single product for our Group.

In the event we are unable to continue the sale of the ChaCha brand sunflower seeds or unable to procure supply of the ChaCha brand sunflower seeds from QiaQia Group, it would have a material adverse effect on our Group's financial performance and profitability.

9.1.4 We face risks in increases in the costs for the supply of our consumer packaged foods

We face risks in increases in our cost for the supply of our consumer packaged foods which may adversely affect our financial performance. The increase in our cost may arise from price increases of consumer packaged foods from our suppliers as well as costs of transportation.

Cost increases will eventually require us to increase our selling prices, which may reduce our competitiveness. This would affect our ability to secure new orders from our customers which may affect our revenue and business growth. Alternatively, if we were to absorb some of these costs to stay competitive, it may reduce our profit margins.

In FYE 2021 and FPE 2022, we experienced an increase in our purchase price of most of our consumer packaged foods from our suppliers including ChaCha sunflower seeds and mixed nuts, Cundo layer cake, Miyu chocolate cone, Pee Ree green peas and watermelon seeds. Consequently, we managed to pass some of the increase in cost to wholesaler customers. However, for our major retailer customers, we continued to maintain the selling prices of most of our consumer packaged foods, including ChaCha sunflower seeds.

9. RISK FACTORS (CONT'D)

This is mainly to minimise the risk of losing market share which will negatively affect our financial performance. As such, this affected our profitability in FYE 2021 and FPE 2022 where our GP margin decreased from 30.66% in FYE 2020 to 27.92% in FYE 2021 and 22.59% in FPE 2022. Correspondingly, this affected our PBT margin where it decreased from 18.36% in FYE 2020 to 13.97% in FYE 2021 and 6.42% in FPE 2022. Please refer to Section 12.3.4 and Section 12.3.8 of this Prospectus for further details on our GP and PBT margins.

For the Financial Years and Period Under Review, our revenue contributed by major retailer customers (i.e., CP All, Siam Makro, Big C and Ek-Chai Distribution) accounted for 86.73% (RM51.00 million), 80.04% (RM95.80 million), 76.29% (RM104.30 million) and 69.48% (RM42.04 million) of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

In the event we are unable to pass on any of the future cost increases to our customers or if we are unable to do so in a timely manner where we have to absorb the increase in the cost of our consumer packaged foods, this would adversely affect our profitability and financial performance.

9.1.5 We are subject to the risk of product liability

As a distributor of consumer packaged snack foods for third-party brands and own brands, we are potentially exposed to the risk of product liability which may impact our revenue and profitability. Product liability generally stems from, among others, manufacturing defects, design defects or defective warnings or instructions, product contamination, inadvertent use of unsafe ingredients, sabotage and product mislabelling. Members of the public claiming damages from these defects may take legal action against us, which may have an adverse financial impact on our business, as well as create bad publicity that may damage the brands and our reputation.

While manufacturers are likely to be the most directly exposed to the risk of product liability (as the party manufacturing the products), distributors like us that are involved in marketing and distribution may also face legal actions. This is because the end-consumer may take legal action against every company along the value chain from the manufacturer to us as the distributor as well as the retailer. Alternatively, the retailer may take legal action against us as the distributor. The success of legal action taken against distributors depends on facts of each case. According to Thai product liability law, an injured benefits from legal assumption and only needs to prove that he suffers from unsafe products with normal use and storage. However, a distributor defendant will not be liable if he can prove that the product is not unsafe product, or the injured has always known that the product is unsafe, or the damage caused by improper use or storage of the injured.

Additionally, as the exclusive distributor of ChaCha brand products and pursuant to the Distributor Agreement, the Distributor Agreement provides for duties of each party on product quality whereby Bai Li Enterprise has to handle the unqualified products and the cost will be borne by QiaQia. Although we are currently covered by product liability insurance of up USD3.0 million for the distribution of our brands of products and the distribution of third-party brands of products, there can be no assurance that the amount insured by us is sufficient to cover the entire amount of claims on third-party brands or our own brands of consumer packaged snack food. As such, there can be no assurance that any successful product liability claim would not have a material adverse impact on our business performance.

For the Financial Years and Period Under Review and up to LPD, we have not experienced any product liability claims for the consumer packaged snack food that we distribute.

9. RISK FACTORS (CONT'D)

9.1.6 We face the risks of product misstatement or mislabelling for third-party brands and our brands of product

Our business is subject to the risk of product misstatement and mislabelling associated with third-party brands and our brands of consumer packaged snack food. Revenue from third-party brands, mainly ChaCha and Cundo brand, amounted to RM56.57 million (96.21%), RM 115.39 million (96.39%), RM128.47 million (93.97%) and RM57.16 million (94.46%) of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. The remaining revenue of RM2.23 million (3.79%), RM4.32 million (3.61%), RM8.24 million (6.03%) and RM3.35 million (5.54%) were from our brands including mainly Miyu, Pee Ree, and King Kong.

The Thai Food Act, B.E. 2522 (1979) (as amended) provides, among others, that any person who sells food with labels that are false or deceptive as regards to its character, quality, quantity, origin, or in contravention of any regulation which includes the regulations made under the Food Act commits an offence and may be criminally liable in relation to penalties for product misstatement or mislabelling.

Any product misstatement or mislabelling may incur penalties, damage to the affected brand as well as reputation of our principal and/or our company name. Product misstatement or mislabelling may result in the consumption of ingredients that consumers are allergic to, or which are against their religious or other beliefs or preferences. Damage to our principal or our brands and company reputation may negatively affect purchases of our products from our customers and/or end-consumers which would have an adverse impact on our business operation and financial performance.

In addition, we risk incurring costs in recalling our products, compensate our customers as well as affected end-consumers or be subjected to legal action resulting from product liability claims. Should any of the above occur, it may have an adverse effect on our financial performance and prospects of our Group.

For our brands of consumer packaged snack food, we source the finished products from external suppliers, which are packed under our brand. This consists of green peas, watermelon seeds, mixed nuts and dried fruit bar, chocolate snacks and biscuits. For the FYE 2021 and FPE 2022, we sourced these products from three suppliers in China and Singapore. These suppliers sourced the products from manufacturers in China. As at the LPD, the manufacturers in China of our brands of products are accredited with Hazard Analysis Critical Control Points (HACCP) certification, an international standard for effective control of food safety.

Since the commencement of our business and up to the LPD, we have not faced any penalties from authorities, incurred compensations or product liability pay outs or carry out product recall due to product misstatement or mislabelling. Nevertheless, there can be no assurance that there will be no occurrence of misstatement and mislabelling for third-party brands or our brands in the future, which may not have a material adverse impact on our business and financial performance.

9.1.7 We are subjected to the risk of negative perception and publicity on our reputation and brands that we distribute

The reputation of operators in the distributive trade industry is sensitive to public perception. For example, F&B products that are consumed directly by the general public, possibly resulting from improper processing, storage or handling during the processing, manufacturing or distribution phases that may cause F&B products to become contaminated, resulting in food poisoning or other illnesses. As such, any adverse public opinions on any products, brand or effects of any ingredients could have an impact on the affected operator, from manufacturers, distributors up to retailers.

9. RISK FACTORS (CONT'D)

In addition, consumer packaged snack food operators may become the target of malicious sabotage or rumours intended to damage their reputation. In this respect, operators may experience harmful substances being maliciously introduced into an operator's products or subjected to market rumours based on unfounded claims of harm resulting from consuming an operator's products. These incidences of contamination, sabotage or rumours may have an adverse impact on the brand name, reputation and public perception of the operator, which in turn, may have a negative effect on the demand for their products. This may culminate in the recall of products from the market, and in addition, the operator may be subjected to administrative action by the relevant authorities. As a result, these types of incidences may have an adverse effect on the financial performance and prospects of an operator in the distributive trade industry.

As a distributor of consumer packaged snack food for third-party brands and our brands, we may be exposed to potential reputation risk associated with third-party brands and/or our brands of consumer packaged snack food.

We have not experienced any recall of third-party brands or our brands of consumer packaged snack food or subject to any administrative action by relevant authorities of F&B contamination, sabotage or rumours for the Financial Years and Period Under Review up to LPD. Nonetheless, there can be no assurance that the risk in reputation resulting from negative perception and publicity would not have a material adverse impact on our business and financial performance.

9.1.8 We are subject to the risk of disruptions to warehousing facilities and business operations

Part of our business activities is dependent on the continued operation of our warehousing facilities. Any material or sustained disruption to our warehousing facilities such as fire, flood, pest infestation and power failure will have an adverse impact on our business operations. For the Financial Years and Period Under Review and up to LPD, we have not encountered any major disruptions to our warehousing facilities. However, there can be no assurance that any major incident in our warehousing facilities in the future would not severely disrupt our business operations. We are also aware of the consequences arising from inadequate insurance coverage for any accident, fire outbreak or flood that could disrupt our business and seek to limit this risk through annual reviews of our insurance policies. Hence, we ensure the continuity of our insurance by renewing all the insurances annually.

Whilst we have taken the necessary steps to ensure that our warehousing facilities and assets are adequately covered by insurance and although we have not previously experienced any disruptions to our warehousing facilities and business operations, there can be no assurance that any occurrence of such disruptions will not affect our future business performance.

9.1.9 We are dependent on external manufacturers and distributors for our brands of consumer packaged snack foods

We are dependent on external manufacturers and distributors for the manufacture and supply of our brands of consumer packaged snack food namely Pee Ree green peas and watermelon seeds, King Kong mixed nuts and dried fruit bar, and Miyu baked and confectionery products. For FYE 2021 and FPE 2022, we sourced our brands of products from three suppliers comprising manufacturers and distributors. Revenue derived from the sales of our brands of products accounted for RM2.23 million (3.79%), RM4.32 million (3.61%), RM8.24 million (6.03%) and RM3.35 million (5.54%) for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively. In this respect, any disruptions in the business dealings and supply from these external manufacturers and distributors may negatively affect our business and financial performance.

9. RISK FACTORS (CONT'D)

Our strategy of engaging external manufacturers and distributors to produce and supply some of our brands of consumer packaged snack food is to provide diversity and range of products to the market. In line with our operations as a distributor of consumer packaged foods, we will continually review and make efforts to increase our range of products by introducing new brands and product categories.

For the Financial Years and Period Under Review and up to the LPD, we did not face any material interruptions in the supply of our brands of products from external manufacturers and distributors. Nevertheless, there can be no assurance that we may not face disruption or problems associated with our external manufacturers and distributors that would not have a material adverse impact on our financial performance in the future.

9.1.10 Our business may be affected by outbreaks of epidemics or pandemics that may result in constraint measures reducing economic and community activities that may adversely affect our business operation and financial performance

Our business is focused on the consumer market where purchases of our snack food products, are mainly through retail outlets. In the event of an epidemic or pandemic such as the COVID-19, retail outlets selling our products may be required to close, certain areas subjected to lockdown, entertainment outlets are closed, and social gatherings discouraged we may experience a drop in the sales and consumption of our products. This may adversely affect our financial performance.

As part of the efforts to control the spread of COVID-19 in Thailand, the Government had implemented curfews, lockdowns, and economic and movement restrictions that impacted the economy. Among others this is evident by the fall in real GDP, distributive trade and private consumption expenditure that registered -6.2%, -3.2% and -1.2% respectively in 2020. (*Source: IMR Report*)

Furthermore, international flights were suspended from 4 April 2020 and only emergency or authorised flights were permitted. This has impacted the tourism industry which normally contributes significantly to the overall GDP of Thailand. Tourism plays an important role in Thailand's economy where between 2015 and 2019, tourism revenue contributed a range from 16.1% to 18.2% of Thailand's GDP. The containment measures imposed in Thailand has affected the tourism revenue significantly, where in 2020 and 2021, tourism revenue accounted for 5.1% and 1.5% of Thailand's GDP respectively. In 2020, tourism revenue declined by 70.9% and continued to decline further by 69.5% in 2021. (*Source: IMR Report*)

In the event of any prolonged outbreak of an epidemic or pandemic, our business operation may be affected by, among others, disruption in the supply chain, increase in sea freight, drop in demand for our products and disruption in our operation due to constraints placed by the government or if our employees are infected, which may adversely affect our business operation and financial performance.

9.1.11 We may not be able to effectively execute some of our business strategies and plans

Our business strategies and plans include purchase of a warehouse and operating facility, expansion of product range and upgrading of e-commerce platform. Please refer to Section 7.24 of this Prospectus for further information on our business strategies and plans.

The implementation of these business strategies and plans involves capital expenditure as well as other operating expenses such as depreciation charges, machinery and equipment maintenance costs and staff costs.

9. RISK FACTORS (CONT'D)

There is a risk that we may not be able to successfully implement our business strategies and plans promptly nor can we provide assurance that our business strategies will be commercially successful or that we will be able to anticipate and mitigate all the business and operational risks associated with our strategies.

Our financial performance will be adversely affected if we are not able to secure sufficient purchase orders from existing and/or new customers following the implementation of the above business strategies and plans due to the additional costs incurred or unforeseen economic and social conditions and events. Furthermore, any postponements or delays due to the impact of the COVID-19 pandemic or failure in executing our business strategy and plans effectively and promptly may adversely affect our expected financial performance.

As such, there is no assurance that the execution of our business strategies and plans will be successful, nor will we be able to anticipate and mitigate all the risks and uncertainties that may arise during the implementation of these business strategies and plans, which may materially affect our business operations and financial performance.

9.1.12 We are dependent on our Executive Directors and key management personnel

We believe that human capital is one of our key success factors. Over the years, we have built an experienced management and operations team in the business of distribution of consumer packaged snack food, as well as an understanding of our customers' needs and requirements. As such, any loss of our key management personnel, without a suitable and timely replacement, may have a material adverse impact on our business and our continuing ability to compete effectively. The profiles of our Board and key management personnel are set out in Sections 5.1, 5.2 and 5.4 of this Prospectus.

As part of our strategy to retain our employees, we offer competitive remuneration packages to our key management personnel. In addition, we provide a healthy working environment, practise good workplace culture and uphold work ethics to create a sense of belonging and foster good working relationships amongst our employees. We also provide training and career development opportunities for our employees.

Further, in conjunction with our Listing, we have allocated a portion of our IPO Shares to our Eligible Parties, including our key management personnel. Should these employees subscribe to our IPO Shares, they will become shareholders of our Company and may therefore be further motivated to continuously contribute to our success.

In the Financial Years and Period Under Review and up to the LPD, we have not experienced any loss of our key management personnel that has materially impacted our business. Nonetheless, there can be no assurance that the above measures will be successful in attracting and retaining key management personnel or ensuring a smooth transition should changes occur.

9.1.13 We are subject to the risk of potential penalty and/or disruption to our business for the delay in obtaining the necessary licences

We are dependent on our continued operations and any disruptions caused by delays in obtaining or renewing the necessary licences, permits or registrations may affect the continued operations of our business. Among others, these include our business licences issued by the local authority. For details of our major licences, permits and registration, please see Section 7.11 of this Prospectus.

9. RISK FACTORS (CONT'D)

As at the LPD, we have obtained all material licences, permits and registrations for our business operations and have complied with all conditions imposed therein. The laws, regulations and policies of government bodies and agencies are subject to change, and changes in, or new interpretations of, applicable laws, regulations, standards or policies, or non-compliance with any applicable laws, regulations, standards and policies, which could have a material adverse effect on our registrations, licences, accreditations, operations or business costs.

Furthermore, findings of non-compliance with these laws, regulations standards and policies could also result in us being subject to fines, penalties, injunctions, limitations on our operations, termination of our registrations and approvals, revocation of the food-related licences or other censures that could have a material adverse effect on our business, financial condition, results of operations and prospects, apart from product recalls for non-complying products or products being the subject of investigation or claims of non-compliance by the authorities. It may be costly for us to comply with any subsequent modifications of, additions or new restrictions to, these compliance standards. Should there be any subsequent modifications of, or additions or new restrictions to the current compliance standards, we may incur additional costs to comply with the new or modified standards, including possible product recalls which may adversely affect our business and financial performance.

In the Financial Years and Period Under Review and up to the LPD, we have not experienced any fines, penalties, injunctions, limitations on our operations, termination of our registrations and approvals, revocation of the food standard certification or other censures that has materially and adversely affected our business, financial condition and results of operations.

Our premises are also governed by the relevant laws and regulations in Thailand (including land rules and building regulations). As at LPD, we have complied with all the relevant laws and regulations in Thailand (including land rules and building regulations) as well as the conditions set forth in our licences imposed by the relevant authorities.

Whilst we continuously ensure compliance with relevant government regulations, there can be no assurance that any penalties if imposed, will not have a material adverse impact on our financial performance in the future.

9.1.14 Our operations are subjected to tax risks

For the Financial Years and Period Under Review and up to the LPD, our operations are pre-dominantly based in Thailand (i.e., our PAT has been entirely derived from Thailand). Our holding company, Wellspire is incorporated in Malaysia while our subsidiaries are incorporated in Thailand and Singapore, therefore, our business operations are subject to the governing tax laws and regulations of the countries and market (i.e., Thailand) in which they are organised as well as in which they operate.

Over recent years, tax laws, treaties and practices applicable in various countries have become increasingly complex and are subject to continuous change, particularly with respect to cross-border tax transactions in jurisdictions we are less familiar with. In assessing and managing our tax arrangements, we have exercised management judgement and relied on professional advice and market practices. Such judgement, professional advice and market practices may be incorrect or inaccurate. In addition, tax authorities are increasingly scrutinising the allocation of income between associated enterprises belonging to multinational groups (and thus between the different jurisdictions in which such groups operate).

9. RISK FACTORS (CONT'D)

The combination of the above factors means that we have an increased likelihood of experiencing tax audits, possibly leading to challenges and consequential litigation, especially in respect to tax residence, permanent establishment and transfer pricing. In any case, depending on the specific circumstances and contractual arrangements with individual counterparties, tax investigations or audits could result in significant tax liabilities and fines and significant penalties, far in excess of our tax liabilities as stated in our financial statements. In addition, any changes in tax laws, tax regulations or interpretations of such laws or regulations may also have a material adverse effect on our business, financial condition and results of operations.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We operate in a competitive environment

We face competition from other operators that are involved in the distribution of consumer packaged snack food in terms of branding, pricing, quality and range of snack food products including alternative snack foods to our products. According to the IMR Report, in 2021, there were 8,422 wholesalers of foods of which 2,989 were wholesalers of other food products not elsewhere classified which include, among others, snack foods.

The competition we face from existing industry players and potential new market entrants may impact our revenue and profitability as we are required to be more price-competitive in order to secure purchase orders. Therefore, we are exposed to the risk that we may be unable to compete effectively against our existing or potential competitors, which will have material and adverse effect on our business operations and financial performance.

Although we have our strengths and advantages as a distributor of consumer packaged snack foods, there is no assurance that we will be able to compete effectively against our peers. If we are unable to remain competitive, this may result in a reduction in our profit margins and/or reductions in orders or the loss of business from customers, all of which would adversely affect our financial performance.

9.2.2 We face the risk of inflation which may reduce demand for our products

We face the risk of inflation which has the impact of increasing our operating costs including product costs, operating expenses as well as labour costs. If we are unable to pass the increase in costs without negatively affecting demand for our products, it may affect our business operations and financial performance.

We operate in a consumer market that is price sensitive caused by among others, inflation rates. An increase in the inflation rate, if not matched with increases in salaries and wages may result in consumers having less discretionary income. As our snack foods are non-essential goods, a reduced discretionary income may cause consumers to buy less of our products.

9.2.3 A sustained high sea freight rate may increase the overall cost of our products

The sea freight rate generally kept increasing from US\$2,032/forty-foot equivalent unit (FEU) on 2 July 2020 to US\$10,377/FEU on 23 September 2021, representing a growth of 410.7%. Following the gradual relaxing of containments in various countries, the rate declined by 76.8% to US\$2,404/FEU on 24 November 2022 despite uncertainties remained high due to the Russia-Ukraine conflict, lockdowns in China and inflationary pressures. (Source: IMR Report)

9. RISK FACTORS (CONT'D)

As some of our products are imported, especially from China, a sustained high sea freight rate will increase the cost of our imported products. The high sea freight cost may cause us to be less competitive compared to similar or alternative snack foods sourced domestically, thus would adversely affect the demand for our products.

While we have been purchasing some of our main product of sunflower seeds from a domestic manufacturer, namely Chacha Thailand, nevertheless the domestic manufacturer imports its raw materials from China. As such, the cost of products that we purchase would likely also include the relevant sea freight rate.

9.2.4 Sunflower seed is a commodity and is affected by global prices

Sunflower seeds are commonly processed for sunflower oil, to be eaten as snacks, and used as birdfeed. The monthly international price of sunflower seeds has been increasing since the beginning of the COVID-19 pandemic. The international price increased by 101.8% from USD390/tonne in August 2020 to USD787/tonne in March 2021, which was mainly driven by lower global production. Subsequently, the international price started to decline to reach USD609/tonne in August 2021. The international price kept rising and reached USD970/tonne in March 2022, mainly due to the Russia-Ukraine conflict. Furthermore, Russia has banned the export of sunflower seeds from 1 April to 31 August 2022 to ease rising domestic prices for agriculture produce. The price has subsequently dropped to USD619/tonne in October 2022 due to improved supplies. *(Source: IMR Report)*

Demand for our sunflower seed may be negatively affected by sustained high prices of sunflower seed, especially in view that as a snack product sunflower seed is a non-essential food item.

9.2.5 We are subject to political, social, economic, regulatory and pandemic risks

Any changes and/or developments in political, social, economic and regulatory conditions as well as any outbreak of diseases including the COVID-19 pandemic in Thailand and Malaysia would adversely affect businesses and financial prospects of operators in the distributive trade industry. These include, but are not limited to, the occurrence of war, civil unrest, rebellion or civil disobedience, changes in political leadership or system of government, changes in economic, interest rate, taxation, trade, corporate ownership or investment policies, nationalisation or expropriation, global, regional or domestic economic recession or slowdown and changes in the regulations that govern the distributive trade industry particularly relating to consumer packaged snack food.

Similarly, any prolonged and/or widespread economic slowdown or any outbreak of diseases would affect our business and consumer confidence. The outbreak of diseases such as the COVID-19 pandemic may cause interruptions in the supply chain of operators in the distributive trade industry which may adversely affect our business operations. Any economic slowdown may cause our Group's customers comprising mainly retailers and wholesalers to defer or reduce their purchase orders. These events are beyond our control, and the occurrence of one or more of these events may harm our business operations and financial performance.

9. RISK FACTORS (CONT'D)

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES**9.3.1 There is no prior market for our Shares**

Prior to our IPO, there has been no public market for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our historical earnings, prospects and future plans and our financial and operating history. Hence, we cannot assure you that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

9.3.2 Our Share price may be volatile, which could result in substantial losses for investors subscribing for our Shares

The market price of our Shares may be highly volatile and could be subject to wide fluctuations in response to, among others, the following factors, some of which are beyond our control:

- (i) variation in our operating results;
- (ii) success or failure of our management in implementing business and growth strategies;
- (iii) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (iv) changes in conditions affecting the industry, general economic conditions or stock market sentiments or other events or factors;
- (v) changes in market valuations and share prices of companies with similar businesses to our Company that may be listed in Malaysia or anywhere else in the world;
- (vi) additions or departures of key management;
- (vii) fluctuations in stock market prices and volume; or
- (viii) involvement in litigation.

9.3.3 There may be a delay in, or termination of, our Listing

The occurrence of certain events, including the following, may cause a delay in, or termination of, our Listing:

- (i) the Underwriter exercising its rights under the Underwriting Agreement to discharge itself of its obligations under such agreement;
- (ii) our inability to meet the minimum public spread requirement under the Listing Requirements of having at least 25.00% of the total number of our Shares for which our Listing is sought being in the hands of at least 200 public shareholders holding at least 100 Shares each at the point of our Listing; or
- (iii) the revocation of the approvals from the relevant authorities for our Listing for whatever reason.

9. RISK FACTORS (CONT'D)

Where prior to the issuance and allotment of our IPO Shares:

- (a) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and we or such other person who received the monies shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or
- (b) our Listing is aborted, investors will not receive any IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment of our IPO Shares:

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or
- (ii) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by special resolution in a general meeting and supported by either (aa) consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or (bb) a solvency statement from our Directors.

Nonetheless, our Board will endeavour to ensure compliance with the various requirements for our Listing.

9.3.4 Future sale or issuance of our Shares could adversely affect our Share price

Any future sale, issuance or availability of our Shares can have an adverse effect on our Share price. The sale of a significant amount of our Shares in the public market after the IPO, or the perception that such sales may occur, could adversely affect the market price of our Shares. These factors also affect our ability to raise funds from the issue of additional equity securities.

If our Promoters sell, or are perceived to sell, substantial amounts of Shares in the public market following the expiry of the moratorium period, this may result in a dampening effect on our Share price.

9.3.5 We are a holding company and, as a result, are dependent on the flow of dividends from our subsidiaries to provide funds for payment of dividends on our Shares

Our ability to pay dividends or make other distributions to our shareholders is not guaranteed. Our Company is a holding company and we conduct substantially all of our operations through our subsidiaries. Accordingly, an important source of our income, is the amount of dividends and other distributions that our Company receives from our subsidiaries. Consequently, our ability to declare and pay dividends are dependent on the financial performance of our subsidiaries. Please refer to Section 12.4 of this Prospectus for further discussion on dividend policy by our Company and Section 15.4 of this Prospectus for detailed information on the repatriation of capital and the remittance of profit by or to our Group.

9. RISK FACTORS (CONT'D)

9.3.6 Our future fund-raising exercise may result in dilution of your shareholdings

Our capital requirements are dependent on, amongst others, our business, the availability of our resources for attracting, maintaining and enlarging our client base and the need to maintain and expand our service offering. Thus, we may need additional capital expenditure for future expansions and/or investments. An issue of new shares or other securities to raise funds will dilute shareholders' equity interest and may, in case of a rights issue, require additional investments by shareholders.

9.4 OTHER RISKS

9.4.1 Our Promoters control a significant portion of our Shares which may result in our Promoters being able to influence the outcome of certain matters requiring the vote of shareholders

Our Promoters, namely, Mo Guopiao, Silver Line Capital, He Haibin and Saranjit Wang, collectively control approximately 57.85% of our enlarged issued share capital after the IPO. Consequently, our Promoters will generally be expected to, in the foreseeable future, have significant influence on the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting by law and/or by the relevant authorities.

9.4.2 Forward-looking/ prospective statements in this Prospectus may not be achievable

Certain statements in this Prospectus are based on historical data which may not be reflective of future results and others are forward-looking in nature that are based on assumptions and subject to uncertainties and contingencies which may or may not be achievable.

Whether such statements would ultimately prove to be accurate depends on variety of factors that may affect our businesses and operations, and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, plans, performances and achievements, expressed or implied, by such future prospective statements.

Although we believe that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such prospective statements or expectations will materialise.

As such, such prospective statements or expectations should not be regarded as a representation and warranty by our Group, Principal Adviser and other advisers that the plans and objectives of our Group will be achieved.

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10. RELATED PARTY TRANSACTIONS

Pursuant to the Listing Requirements, subject to the exemptions, generally a “related party transaction” is a transaction entered into by a listed corporation or its subsidiaries which involves the interest, direct or indirect, of a related party. A “related party” is defined as a director, major shareholder or person connected with such director or major shareholder (including, a director or major shareholder within the preceding 6 months before the transaction was entered into) as per Rule 10.02 of the Listing Requirements. “Major Shareholder” means a shareholder with a shareholding of 10% or more (or 5% or more where such person is the largest shareholder in the company) of all the voting shares in the company as per Rule 1.01 of the Listing Requirements.

Upon our Listing we may be required to seek our shareholders’ approval each time we enter into a material related party transaction in accordance to Rule 10.08 of the Listing Requirements. However, if the related party transaction can be deemed as a recurrent related party transaction, our Company may seek a general mandate from our shareholders to enter into these transactions without having to seek a separate shareholders’ approval each time and the interested person shall abstain from voting on resolutions pertaining to the respective transaction.

Under the Listing Requirements, related party transactions may be aggregated to determine the materiality if the transactions occurred within a 12-month period, are entered into with the same party or with parties related to one another or if the transactions involved the acquisition or disposal of securities or interests in one corporation/ asset or various parcels of land contiguous to each other.

10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisition of Vine Growth Holdings and as disclosed below, there are no existing or potential material related party transactions entered or to be entered into by our Group with related parties for the Financial Years and Period Under Review and up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				1 July 2022 up to the LPD RM'000
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	
Bai Li Enterprise and SF Express (Thailand) Co., Ltd.	Our Executive Director, Promoter and substantial shareholder, Saranjit Wang was a director and substantial shareholder of SF Express (Thailand) Co., Ltd.	Domestic delivery services provided by SF Express (Thailand) Co., Ltd. to Bai Li Enterprise	-	-	1,518 (9.86% of our Group's PAT for FYE 2021)	581 (27.14% of our Group's PAT for FPE 2022)	107

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	1 July 2022 up to the LPD RM'000
	<p>Saranjit Wang was a director of SF Express (Thailand) Co., Ltd. Enterprise Co., Ltd. from 9 September 2015 to 11 July 2022. She has disposed of her shares to non-related parties i.e., Shichao Li, Narongsak Boonma and Chanatphon Kongkamol on 28 June 2022.</p> <p>Our Executive Director, Promoter and substantial shareholder, Mo Guopiao and our Promoter and substantial shareholder, He Haibin were substantial shareholders of SF Express (Thailand) Co., Ltd.</p> <p>Mo Guopiao and He Haibin have disposed their shares to Chanatphon Kongkamol, a non-related third party on 28 June 2022.</p>	<p>During the Financial Years and Period Under Review, SF Express (Thailand) Co., Ltd. had only provided domestic delivery services to Bai Li Enterprise. SF Express (Thailand) Co., Ltd. has ceased to provide domestic delivery services to our Group since August 2022 as the delivery services are less accommodative with the change in ownership and cessation of Saranjit Wang as a director of SF Express (Thailand) Co., Ltd.</p>					

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				1 July 2022 up to the LPD RM'000
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	
Bai Li Enterprise and Good Partner Holdings Pte. Ltd.	Our Executive Director, Promoter and substantial shareholder, Mo Guopiao and our Promoter and substantial shareholder, He Haibin are substantial shareholders of Good Partner Holdings Pte. Ltd. Mo Guopiao was a director of Good Partner Holdings Pte. Ltd. from 29 December 2017 to 6 May 2021.	Interest charge arising from loan from Good Partner Holdings Pte. Ltd. to Bai Li Enterprise <i>Note: Please refer to Section 10.2.2 of this Prospectus for further details of the loan.</i>	69 (1.66% of our Group's PAT for FYE 2019)	47 (0.30% of our Group's PAT for FYE 2020)	-	-	-
Bai Li Enterprise and S.W. Enterprise Co., Ltd.	Our Executive Director, Promoter and substantial shareholder, Saranjit Wang is director and substantial shareholder of S.W. Enterprise Co., Ltd. Our Executive Director, Promoter and substantial shareholder, Mo Guopiao and our Promoter and substantial shareholder, He Haibin are substantial shareholders of S.W. Enterprise Co., Ltd.	Lease of premises located at 220/3, Moo 4 Tambon Rangsit, Thanyaburi district, Pathum Thani Province, 12110 Thailand from S.W. Enterprise Co., Ltd. as our office, dry warehousing storage and chiller room. ⁽¹⁾ <u>Rented built-up area:</u> FYE 2019: 2,148 sq. m. FYE 2020: 2,887 sq. m. FYE 2021: 4,897 sq. m. FPE 2022: 4,897 sq. m.	393 (9.46% of our Group's PAT for FYE 2019)	828 (5.25% of our Group's PAT for FYE 2020)	1,597 (10.37% of our Group's PAT for FYE 2021)	853 (39.84% of our Group's PAT for FPE 2022)	694

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				1 July 2022 up to the LPD RM'000
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	
Bai Li Enterprise and New Strait Pte. Ltd.	<p>Our Executive Director, Promoter and substantial shareholder, Mo Guopiao and our Promoter and substantial shareholder, He Haibin were directors and substantial shareholders of New Strait Pte. Ltd.</p> <p>Mo Guopiao was a director of New Strait Pte. Ltd. from 21 October 2019 to 10 May 2021. He has disposed of his shares to Song Ming, a non-related third party on 23 December 2021 in order to focus on the business of our Group.</p> <p>He Haibin was a director of New Strait Pte. Ltd. from 21 October 2019 to 14 October 2020. He has disposed of his shares to Song Ming, a non-related third party on 31 August 2020.</p>	Supply of Cundo layer cakes and Mina brand dried fruits by New Strait Pte. Ltd. to Bai Li Enterprise.	210 (0.43% of our Group's cost of sales for FYE 2019)	1,707 (2.06% of our Group's cost of sales for FYE 2020)	3,098 (3.14% of our Group's cost of sales for FYE 2021)	941 (2.01% of our Group's cost of sales for FPE 2022)	778 ⁽²⁾

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				1 July 2022 up to the LPD RM'000
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	
Bai Li Enterprise and Gosstech Pte. Ltd.	Our Executive Director, Promoter and substantial shareholder, Mo Guopiao is a substantial shareholder of Gosstech Pte. Ltd. He was a director of Gosstech Pte. Ltd. from 22 May 2012 to 6 May 2021.	Deposit paid for purchase of integrated software system (i.e., enterprise resource planning software for our Group's distribution business process flow) from Gosstech Pte. Ltd. by Bai Li Enterprise.	-	1,191 (7.56% of our Group's PAT for FYE 2020)	1,148 ⁽³⁾ (7.45% of our Group's PAT for FYE 2021)	-	-
Bai Li Enterprise and Piggy Technology Pte. Ltd.	Our Executive Director, Promoter and substantial shareholder, Mo Guopiao was director and substantial shareholder of Piggy Technology Pte. Ltd. He was a director of Piggy Technology Pte. Ltd. from 9 January 2018 to 24 May 2021 and disposed of his shares to his spouse on 16 September 2021.	Interest charge arising from security deposit paid on behalf by Piggy Technology Pte. Ltd. ⁽⁴⁾	122 (2.94% of our Group's PAT for FYE 2019)	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Transaction Value				1 July 2022 up to the LPD RM'000
			FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	
Bai Li Enterprise and He Haibin	He Haibin is our Promoter and substantial shareholder.	Provision of consultancy services for exploring potential new market in China by He Haibin to Bai Li Enterprise.	-	287 (1.82% of our Group's PAT for FYE 2020)	-	-	-
		Commission paid by Bai Li Enterprise to He Haibin for exploring potential new products and new customers in Singapore.	-	284 (1.80% of our Group's PAT for FYE 2020)	-	-	-
Bai Li Enterprise and He Haibin	He Haibin is our Promoter and substantial shareholder.	Interest charged arising from loan from He Haibin to Bai Li Enterprise. <i>Note: Please refer to Section 10.2.2 of this Prospectus for further details of the loan.</i>	31 (0.75% of our Group's PAT for FYE 2019)	64 (0.41% of our Group's PAT for FYE 2020)	-	-	-

Notes:

- (1) *S.W. Enterprise Co., Ltd. was incorporated on 8 December 2014 and its principal activity is asset management, in particular, leasing of the distribution centre located at 220/3, Moo 4 Tambon Rangsit, Thanyaburi district, Pathum Thani Province, 12110 Thailand to our Group. The current distribution centre comprises 2 buildings (namely Building 1 and Building 2) and within the distribution centre, we have 2 dry warehousing storage facilities, chiller room and office areas.*

10. RELATED PARTY TRANSACTIONS (CONT'D)

The distribution center was constructed and developed by S.W. Enterprise Co., Ltd. on 4 parcels of land in which 2 parcels of land owned by S.W. Enterprise Co., Ltd and 2 parcels of land owned by Saranjit Wang, the controlling shareholder and sole authorized signatory of the company. In February 2015, the parcel of land where the Building 1 located was acquired from Bangkok Bank Public Company Ltd by Saranjit Wang. In September 2017, 2 parcels of adjoining lands which are Building 2 were acquired by S.W. Enterprise Co., Ltd. from Mr. Torhong Aumpun (3rd party) and in July 2020 another 1 parcel of land was acquired by Saranjit Wang from Mr. Wichai Mongpeangpun (3rd party).

S.W. Enterprise Co., Ltd constructed Building 1 with a built-up area of approximately 2,887 sq.m. The construction of Building 1 was completed in May 2016. Prior to August 2018, Building 1 was occupied by S.W. Enterprise Co., Ltd's related companies which were involved in the selling and distribution of products such as toys, kitchen ware, camping tools and equipment. Subsequently, S.W. Enterprise Co., Ltd proceeded to construct Building 2 with a built-up area of approximately 2,010 sq.m., which was completed in February 2021. Building 2 was rented to our Group in March 2021. As at the LPD, both Building 1 and Building 2 are solely occupied by our Group.

The lease of premises as our office, dry warehousing storage and chiller room as set out in the table above will subsist after our Listing. Save for this, there are no other related party transactions as disclosed in the table above that will subsist after our Listing. Please refer to Section 10.3.2 of this Prospectus for our Group's policy on related party transactions.

- (2) New Strait Pte. Ltd. continues to supply trade products to Bai Li Enterprise notwithstanding it is no longer a related party of our Group.*
- (3) The deposit paid by Bai Li Enterprise has been fully refunded on 31 December 2021 by Gosstech Pte. Ltd. to Bai Li Enterprise as implementation of the integrated software system was unable to be performed by Gosstech Pte. Ltd. due to the border control restriction implemented during the COVID-19 pandemic in Thailand. The difference between the deposit paid by Bai Li Enterprise and the refund subsequently received from Gosstech Pte. Ltd. is mainly attributed to foreign exchange differences applicable at the relevant point in time.*
- (4) The security deposit paid to Jet Voyage of RM1.89 million by Piggy Technology Pte. Ltd on behalf of Bai Li Enterprise was refunded by Bai Li Enterprise to Piggy Technology Pte. Ltd. within the same year in FYE 2019. Nevertheless, the said security deposit represented 44.87% of the Group's NA as at 31 December 2019.*

The transactions with He Haibin was for the provision of specific consultancy services, i.e., exploring potential new market in China and sourcing of new products and developing new customers for the Singapore market. Notwithstanding that he is not an expert in providing consultancy services for China and Singapore markets, the Promoters decided to leverage on his past experiences in providing business consultancy services (i.e., servicing and developing clients from China).

10. RELATED PARTY TRANSACTIONS (CONT'D)

Arising from the services provided by He Haibin, Bai Li Enterprise noticed that the snack foods market in China is very competitive and challenging to breakthrough. However, through this engagement, Bai Li Enterprise discovered certain suppliers for our own brand manufacturing, i.e., Miyu and Mina brands and decided to focus on getting supplies from China, instead of distributing to China. For the Singapore market, it was found to be rather small compared to Thailand and Malaysia for distribution of snack foods. The engagement of He Haibin for the above services was only for a period of 12 months i.e., for the FYE 2020. Thereafter, Bai Li Enterprise ceased engaging He Haibin's services as such efforts are now undertaken by Wang Zheng.

Our Promoters did not seek for alternate quotes for the services provided by He Haibin then, as they were of the view that it was not necessary since he was one of the shareholders of Bai Li Enterprise and Bai Li Enterprise was privately owned. As such, the services were not undertaken on arm's length basis as they were conducted based on negotiated terms that were not at market rates. Our Directors are of the opinion that these transactions were transacted in the best interests of growing our Group's business.

Save for the above, our Directors are of the opinion that the transactions as disclosed above were carried out on arm's length basis and on terms which were not unfavourable to our Group as the transactions were based on market value/ rates.

Our Directors confirmed that there are no material related party transactions that we had entered into with related parties but not yet effected up to the date of this Prospectus.

Upon our Listing, our Group will put in place strict internal controls and compliance procedures, amongst others, our Directors through our Audit Committee will review the terms of all related party transactions before the transactions are entered into or any renewals relating to the same to ensure that all related party transactions are carried out on terms not more favourable to the related parties than those normally agreed terms with third parties and are also not to our detriment and to the detriment of our minority shareholders.

10.2 OTHER TRANSACTIONS

10.2.1 Transaction which are unusual in their nature or conditions

There are no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the Financial Years and Period Under Review and up to the LPD.

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10. RELATED PARTY TRANSACTIONS (CONT'D)**10.2.2 Outstanding loans and/or financial assistance from related parties or made to or for the benefit of related parties**

Save as set out below, there are no outstanding loans, including guarantees of any kind, or financial assistance from related parties, or made by our Group to or for the benefit of related parties, during the Financial Years and Period Under Review and as at the LPD:

Company Within Our Group	Interested Related Party	Nature of Transaction	Outstanding amount				As at the LPD RM'000
			As at 31 December			As at 30 June	
			2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000	
Bai Li Enterprise	Good Partner Holdings Pte. Ltd. Our Executive Director, Promoter and substantial shareholder, Mo Guopiao and our Promoter and substantial shareholder, He Haibin are substantial shareholders of Good Partner Holdings Pte. Ltd. Mo Guopiao was a director of Good Partner Holdings Pte. Ltd. from 29 December 2017 to 6 May 2021.	Loan from Good Partner Holdings Pte. Ltd. to Bai Li Enterprise as working capital	893 (21.11% of our Group's NA as at 31 December 2019)	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Company Within Our Group	Interested Related Party	Nature of Transaction	Outstanding amount				
			As at 31 December			As at 30 June	As at the LPD
			2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000	
Bai Li Enterprise	Saranjit Wang	Advances from Saranjit Wang to Bai Li Enterprise as working capital	7,366 (174.14% of our Group's NA as at 31 December 2019)	364 (1.86% of our Group's NA as at 31 December 2020)	-	-	-
Bai Li Enterprise	He Haibin	Loan from He Haibin to Bai Li Enterprise as working capital	861 (20.35% of our Group's NA as at 31 December 2019)	-	-	-	-
		Total	9,120 (215.60% of our Group's NA as at 31 December 2019)	364 (1.86% of our Group's NA as at 31 December 2020)	-	-	-

The advances from Saranjit Wang to us were not made on an arm's length basis as they were unsecured, interest-free and repayable on demand. However, these terms were not unfavourable to our Group. All the advances from Saranjit Wang had been fully repaid as at the LPD.

Save for the advances from Saranjit Wang, the loans (including guarantees of any kind) and/or financial assistance from He Haibin, Good Partner Holdings Pte. Ltd. and Piggy Technology Pte. Ltd. to us were made on an arm's length basis as they were based on market rates.

10. RELATED PARTY TRANSACTIONS (CONT'D)

Moving forward, Wellspire has put in place internal control and compliance procedures in relation to loans and/or financial assistance from third parties, and no further loans or financial assistance will be taken from any related parties by the Group unless such loans are permitted under the applicable laws and the Listing Requirements and brought to the Audit Committee and the Board for deliberation and approval. All the loans and/or financial assistance from He Haibin, Good Partner Holdings Pte. Ltd. and Piggy Technology Pte. Ltd. had been fully repaid as at the LPD.

Notwithstanding to the above, our Promoter and Executive Director, Saranjit Wang has extended personal guarantees for banking facilities as follows:

Bank(s)/ Customer	Purpose of Guarantee	Guarantor(s)	Total Guaranteed Amount THB'000
Kasikorn Bank Public Company Limited	To guarantee a loan made to Bai Li Enterprise (as a borrower) and Kasikorn Bank Public Company Limited (as lender) for the purpose of credit facility insurance	Saranjit Wang	531
Kasikorn Bank Public Company Limited	To guarantee a loan made to Bai Li Enterprise (as a borrower) and Kasikorn Bank Public Company Limited (as lender) for the purpose of credit facility insurance	Saranjit Wang	726
Kasikorn Bank Public Company Limited	To guarantee a loan made to Bai Li Enterprise (as a borrower) and Kasikorn Bank Public Company Limited (as lender) for the purpose of invoice financing	Saranjit Wang	50,000
Kasikorn Bank Public Company Limited	To guarantee a loan made to Bai Li Enterprise (as a borrower) and Kasikorn Bank Public Company Limited (as lender) for the purpose of invoice financing	Saranjit Wang	80,000

In respect of the above-mentioned personal guarantees provided to Bai Li Enterprise, Bai Li Enterprise intends to replace these with the corporate guarantees to be provided by Bai Li Holdings and Wellspire. On 28 October 2022, Bai Li Enterprise has obtained the consent from Kasikorn Bank Public Company Limited for discharge of the above-mentioned personal guarantees, with the condition that such personal guarantees can be replaced only when Wellspire presents evidence of being listed on the ACE Market.

Our Group expects the discharge of the above-mentioned personal guarantees to be completed within 6 months upon the listing of our Company.

10. RELATED PARTY TRANSACTIONS (CONT'D)

10.3 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

10.3.1 Audit Committee review

The Audit Committee reviews related party transactions and conflict of interest situations that may arise within our Group including any transaction, procedures or course of conduct that raises questions of management integrity.

The Audit Committee will submit an annual report to the Board summarising the Audit Committee's activities during the financial year and the related significant results and findings.

10.3.2 Our Group's policy on related party transactions

Related party transactions by their nature, involve conflict of interest between our Group and the related parties with whom our Group has entered into such transactions. Some of the Directors of our Group are also Directors and/or shareholders of the related parties of our Group, as disclosed in this Prospectus. Any such related party transactions may individually and in aggregate give rise to potential conflicts of interest. It is the policy of our Group that all related party transactions in the course of business are made at arm's length and on normal commercial terms which are not more favourable to the related party than those available to the public and these terms are not detrimental to the other shareholders of the Company who are not part of the transaction. The related parties and parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations and voting on resolutions pertaining to the matters and/or transactions where a conflict of interest may arise.

In addition, we have adopted a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situation, to comply with the Listing Requirements and adhere to the best extent possible with the guidance principles as set out in MCCG. The procedures which may form part of the framework include, amongst other things, the following:

- (i) Identification process
 - (a) The Accounting & Finance Department shall ensure proper documentation for all the RPT and RRPT. There should be proper segregation of processes for the preparation of documents, verification and approval.
 - (b) The Accounting & Finance Department, overseen by the CFO, to compile a listing of related parties, nature of RPT and RRPT, the estimated value of annual transactions and control(s) put in place, subject to update from time to time.
 - (c) All Directors and major shareholders are required to declare and disclose any transaction in which they are deemed to have an interest and give their undertakings that all business transactions entered between themselves and/or persons connected with them and the group of companies are negotiated and agreed at arm's length basis based on normal commercial terms and are not to the detriment of the minority shareholders and favourable to the related party/parties.
 - (d) The Company shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. Such disclosure includes a settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

10. RELATED PARTY TRANSACTIONS (CONT'D)

(ii) Reporting process

The Board shall ensure that there are adequate procedures established by the Group to ensure that a RPT or a RRPT is undertaken on arm's length basis and on the Group's normal commercial terms, consistent with the Group's usual business practices and policies, which are generally available to the public and are not detrimental to the minority shareholders. The procedures are as follows:

- (a) A list of related parties will be circulated to the Board and management of the Company. All related parties of the Company and its subsidiaries are responsible for providing written notice to the Audit Committee of any potential RPT and RRPT involving him/her or Person Connected to him/her, including any additional information about the transaction that the Audit Committee may reasonably request.
- (b) The Audit Committee will determine whether the transaction does, in fact, constitute a RPT or RRPT.
- (c) The Company may be required to engage a professional or third-party opinion on the matter.
- (d) The RPT and RRPT will be reviewed by the Audit Committee of the Company from time to time to ensure compliance with the Listing Requirements and applicable laws.
- (e) The announcement in respect of the RPT and RRPT will be submitted to the Audit Committee and the Board for consideration.
- (f) When it is approved by the Audit Committee and the Board, the announcement in respect of the RPT and RRPT will be submitted to Bursa Securities.
- (g) The RPT and RRPT listing/document will be updated by the Company.
- (h) The annual internal audit plan shall incorporate a review of all RRPT entered into pursuant to the proposed shareholders' mandate to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to.
- (i) The Board and the Audit Committee shall review the internal audit reports to ascertain that the guidelines and procedures established to monitor RPT and RRPT have been complied with and the review shall be done at every quarter together with a review of the quarterly results.
- (j) All RRPT shall be disclosed in the annual report of the Company and a breakdown of the transactions pursuant to the proposed shareholders' mandate during the financial year and for the subsequent financial year in the following manner:
 - Aggregate value;
 - Nature / type;
 - Names of the related party/parties involved in each type of the RRPT; and
 - Relationship of the related party/parties with the Company.

10. RELATED PARTY TRANSACTIONS (CONT'D)

(iii) Authority of Audit Committee

As the Audit Committee is entrusted by the Board with the task of executing and managing this policy, the Audit Committee is vested with the following authority:

- (a) have the adequate resources which it needs to perform its duties;
- (b) have full access to any information which it requires in the course of performing its duties;
- (c) have direct communication channels with the Directors, executive officer(s) and major shareholder(s), the employees and any persons, as the case may be, to obtain information and feedback in performing its duties; and
- (d) to obtain the services of the external professional at the expense of the Company in carrying out its duties.

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11. CONFLICT OF INTEREST**11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS OR SUPPLIERS**

As at the LPD, none of our Directors or substantial shareholders have any interests, direct or indirect, in businesses and corporations carrying on a similar trade as our Group, or which are the customers or suppliers of our Group.

For the Financial Years and Period Under Review and up to July 2022, our Directors or substantial shareholders had interest in SF Express (Thailand) Co., Ltd. as follows:

Name	Company	Nature of relationship	Nature of interest	Principal activities
Mo Guopiao	SF Express (Thailand) Co., Ltd.	Supplier	Shareholder (24.00%)	Provision of domestic courier services
He Haibin	SF Express (Thailand) Co., Ltd.	Supplier	Shareholder (24.00%)	Provision of domestic courier services
Saranjit Wang	SF Express (Thailand) Co., Ltd.	Supplier	Non-Executive Director and Shareholder (52.00%)	Provision of domestic courier services

On 28 June 2022, Mo Guopiao, He Haibin and Saranjit Wang had disposed their entire interest in SF Express (Thailand) Co., Ltd. to non-related third parties, i.e., Chanatphon Kongkamol, Shichao Li and Narongsak Boonma, for a total cash consideration of THB1,000,000. Saranjit Wang had resigned as a director of SF Express (Thailand) Co., Ltd. on 11 July 2022.

Our Board is of the view that involvement of the above-mentioned Directors and substantial shareholders in the above-mentioned company do not give rise to a conflict-of-interest situation with our Group's business as the abovementioned company was our supplier. As disclosed in Section 10.1 of this Prospectus, SF Express (Thailand) Co., Ltd. had only provided domestic delivery services to Bai Li Enterprise.

We are also not dependent on SF Express (Thailand) Co., Ltd. for the supply of services to our Group as we are able to find substitutes for the services. Furthermore, SF Express (Thailand) Co., Ltd. has ceased to provide domestic delivery services to our Group since August 2022 as the delivery services are less accommodative with the change in ownership and cessation of Saranjit Wang as a director of SF Express (Thailand) Co., Ltd..

Further all the transactions entered into by our Group which involve the interests of our Directors and substantial shareholders have been entered into on arm's length basis and on normal commercial terms which are no less favourable to our Group. Moving forward, our Directors and substantial shareholders who are interested in any transaction with our Group, will abstain from all deliberations with regards to such transactions.

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11. CONFLICT OF INTEREST (CONT'D)

11.2 DECLARATION BY THE ADVISERS

- (i) TA Securities has confirmed that there is no existing or potential conflict of interest in its capacity as the Principal Adviser, Sponsor, Underwriter and Placement Agent in respect of our IPO;
- (ii) BDO PLT has confirmed that there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants in respect of our IPO;
- (iii) Chooi & Company + Cheang & Ariff has confirmed that there is no existing or potential conflict of interest in its capacity as the Solicitors in respect of our IPO, to our Company as to laws of Malaysia;
- (iv) Baker & McKenzie Ltd has confirmed that there is no existing or potential conflict of interest in its capacity as the Solicitors in respect of our IPO, to our Company as to laws of Thailand;
- (v) Baker & McKenzie.Wong & Leow has confirmed that there is no existing or potential conflict of interest in its capacity as the Solicitors in respect of our IPO, to our Company as to laws of Singapore; and
- (vi) Vital Factor has confirmed that there is no existing or potential conflict of interest in its capacity as the Independent Business and Market Research Consultants in respect of our IPO.

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Group's historical audited financial information which comprises the combined statements of financial position, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 and the financial period ended 30 June 2022.

12.1.1 Combined Statements of Profit or Loss and Other Comprehensive Income

The following table sets out a summary of our Group's audited Combined Statements of Profit or Loss and Other Comprehensive Income for the Financial Years and Period Under Review which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	58,799	119,706	136,707	79,511	60,509
Cost of sales	(48,637)	(83,000)	(98,535)	(54,025)	(46,839)
GP	10,162	36,706	38,172	25,486	13,670
Other operating income	210	516	1,397	387	666
Net (loss)/gain on impairment on financial instruments	-	(229)	18	63	59
Selling and administrative expenses	(4,313)	(14,815)	(20,219)	(10,393)	(10,334)
Finance costs	(337)	(200)	(267)	(122)	(175)
PBT	5,722	21,978	19,101	15,421	3,886
Tax expense	(1,568)	(6,219)	(3,698)	(3,047)	(1,745)
PAT	4,154	15,759	15,403	12,374	2,141
Other comprehensive income/(loss)	30	(89)	(813)	(724)	(50)
Total comprehensive income for the financial year/ period	4,184	15,670	14,590	11,650	2,091
PAT attributable to:					
Common controlling shareholders of the combining entities	3,116	11,830	11,120	9,279	1,072
Non-controlling interests	1,038	3,929	4,283	3,095	1,069
	4,154	15,759	15,403	12,374	2,141
Total comprehensive income attributable to:					
Common controlling shareholders of the combining entities	3,138	11,763	10,510	8,736	1,035
Non-controlling interests	1,046	3,907	4,080	2,914	1,056
	4,184	15,670	14,590	11,650	2,091

12. FINANCIAL INFORMATION (CONT'D)

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
EBITDA ⁽¹⁾	7,100	23,458	20,707	16,223	4,813
GP margin (%) ⁽²⁾	17.28	30.66	27.92	32.05	22.59
PBT margin (%) ⁽³⁾	9.73	18.36	13.97	19.39	6.42
PAT margin (%) ⁽⁴⁾	7.06	13.16	11.27	15.56	3.54
Number of Shares assumed in issue ('000) ⁽⁵⁾	712,125	712,125	712,125	712,125	712,125
Basic/ Diluted EPS (sen) ⁽⁶⁾	0.44	1.66	1.56	1.30	0.15

Notes:

(1) The table below sets forth a reconciliation of our PBT to EBITDA:

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
PBT	5,722	21,978	19,101	15,421	3,886
Finance costs	337	200	267	122	176
Finance income	(2)	(2)	(2)	(1)	(1)
Depreciation	1,043	1,282	1,341	681	752
EBITDA	7,100	23,458	20,707	16,223	4,813

(2) GP margin is computed based on our GP over revenue.

(3) PBT margin is computed based on our PBT over revenue

(4) PAT margin is computed based on our PAT over revenue.

(5) Assumed number of ordinary shares in issue in Wellspire after the IPO.

(6) Computed based on PAT attributable to common controlling shareholders of the combining entities over the enlarged number of Shares in issue upon the Listing. The diluted EPS is equal to the basic EPS as the Company does not have any outstanding convertible securities.

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12. FINANCIAL INFORMATION (CONT'D)**12.1.2 Combined Statements of Financial Position**

The following table sets out a summary of our Group's audited Combined Statements of Financial Position for the Financial Years and Period Under Review which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	239	445	504	916
Right-of-use assets	3,626	3,081	1,805	1,708
Other investments	-	282	-	-
	3,865	3,808	2,309	2,624
Current assets				
Inventories	1,368	2,658	6,251	6,197
Trade and other receivables	15,079	24,510	18,451	16,368
Cash and bank balances	758	4,024	5,882	12,885
	17,205	31,192	30,584	35,450
TOTAL ASSETS	21,070	35,000	32,893	38,074
EQUITY AND LIABILITIES				
Equity attributable to common controlling shareholders of the combining entities				
Invested equity ⁽¹⁾	11,501	11,501	11,501	11,501
Share capital	-	-	2,000	12,000
Reserves	(11,098)	(11,149)	(11,281)	(11,319)
Retained earnings	2,770	14,346	8,311	9,384
	3,173	14,698	10,531	21,566
Non-controlling interests	1,057	4,899	3,941	5,016
TOTAL EQUITY	4,230	19,597	14,472	26,582
LIABILITIES				
Non-current liabilities				
Lease liabilities	3,912	2,500	405	541
Deferred tax liabilities	190	1,799	1,297	1,834
Borrowings	-	376	308	261
	4,102	4,675	2,010	2,636
Current liabilities				
Lease liabilities	828	1,851	1,973	1,351
Borrowings	3,157	2,772	9,815	5,200
Trade and other payables	7,661	2,300	2,734	1,117
Current tax liabilities	1,092	3,805	1,889	1,188
	12,738	10,728	16,411	8,856
TOTAL LIABILITIES	16,840	15,403	18,421	11,492
TOTAL EQUITY AND LIABILITIES	21,070	35,000	32,893	38,074

12. FINANCIAL INFORMATION (CONT'D)**Note:**

(1) Deemed as invested equity based on number of shares on combined basis.

12.1.3 Combined Statements of Cash Flows

The following table sets out a summary of our Group's audited Combined Statements of Cash Flows for the Financial Years and Period Under Review, which have been extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
PBT	5,722	21,978	19,101	15,421	3,886
Adjustments for:					
Depreciation of:					
- property, plant and equipment	50	110	175	84	101
- right-of-use assets	993	1,172	1,166	597	651
Dividend income from a former associate	-	(402)	(313)	(322)	-
Gain on disposal of other investments	-	-	(971)	-	-
Impairment loss on trade receivables	-	229	-	-	-
Interest expense on:					
- borrowings	182	116	205	87	146
- lease liabilities	282	311	222	129	71
- others	122	-	-	-	-
Interest income	(2)	(2)	(2)	(1)	(1)
Inventories written down	-	-	189	-	200
Inventories written off	-	544	-	-	-
Reversal of impairment loss on trade receivables	-	-	(18)	(63)	(59)
Unrealised gain on foreign exchange	-	-	-	-	(585)
Operating profit before changes in working capital	7,349	24,056	19,754	15,932	4,410

12. FINANCIAL INFORMATION (CONT'D)

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Changes in working capital:					
Inventories	(199)	(1,862)	(4,116)	(335)	(130)
Trade and other receivables	(9,520)	(9,972)	4,539	5,471	2,230
Trade and other payables	2,574	(5,214)	594	(662)	(1,653)
Cash generated from operations	204	7,008	20,771	20,406	4,857
Interest received	2	2	2	1	1
Tax paid	(240)	(1,877)	(5,930)	(3,771)	(1,922)
Net cash (used in)/from operating activities	(34)	5,133	14,843	16,636	2,936
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of:					
- other investments	-	(282)	-	-	-
- property, plant and equipment	(113)	(312)	(284)	(219)	(514)
- right-of-use assets	-	(120)	(16)	-	(4)
Disposal of other investments	-	-	1,242	199	-
Dividend received from a former associate	-	403	313	322	-
Acquisition of subsidiary, net of cash	-	14	-	-	-
Net cash (used in)/from investing activities	(113)	(297)	1,255	302	(518)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	-	(316)	(22,822)	(13,194)	-
Drawdowns of borrowings	16,876	16,076	62,348	2,590	-
Payments of lease liabilities	(542)	(1,195)	(2,002)	(957)	(1,116)
Proceeds from issuance of shares	-	-	3,107	-	10,000
Proceeds from issuance of shares to non-controlling interests	-	-	-	-	19
Repayments of borrowings	(15,597)	(16,138)	(55,079)	-	(4,900)
Net cash from/(used in) financing activities	737	(1,573)	(14,448)	(11,561)	4,003

12. FINANCIAL INFORMATION (CONT'D)

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'00 0	RM'000	RM'000	RM'000	RM'000
Net increase in cash and cash equivalents	590	3,263	1,650	5,377	6,421
Effects of exchange rate changes on cash and cash equivalents	(59)	3	208	(277)	582
Cash and cash equivalents at beginning of financial year/ period	227	758	4,024	4,024	5,882
Cash and cash equivalents at end of financial year/ period	758	4,024	5,882	9,126	12,885

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12. FINANCIAL INFORMATION (CONT'D)**12.2 CAPITALISATION AND INDEBTEDNESS**

The following table sets out our Group's capitalisation and indebtedness based on our unaudited management accounts as at 31 October 2022 and pro forma after taking into account, our Public Issue and utilisation of proceeds from our Public Issue.

The pro forma financial information below does not represent our capitalisation and indebtedness as at 31 October 2022 and is provided for illustrative purpose only.

	Unaudited as at 31 October 2022 RM'000	Pro Forma after Public Issue and utilisation of proceeds RM'000
Indebtedness		
Short-term indebtedness		
Secured and guaranteed:		
- Lease liabilities on motor vehicles	233	233
- Borrowings	159	159
	392	392
Long-term indebtedness		
Secured and guaranteed:		
- Lease liabilities on motor vehicles	309	309
- Borrowings	2,582	2,582
	2,891	2,891
Total indebtedness	3,283	3,283
Capitalisation		
Total equity	28,623	54,781
Total capitalisation and indebtedness	31,906	54,781
Gearing ratio (times) ⁽¹⁾	0.11	0.06

Note:

(1) Computed based on total indebtedness divided by total equity.

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12. FINANCIAL INFORMATION (CONT'D)

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

The following discussion and analysis should be read together with the Accountants' Report and related notes as set out in Section 13 of this Prospectus.

12.3.1 Overview of our business operations

We are involved in the distribution of consumer packaged foods focusing on snack foods. Our main product is sunflower seeds where we are the exclusive distributor of "ChaCha" brand products including sunflower seeds and nuts for the Thailand market.

We also distribute other snack foods such as other seeds and nuts, baked and confectionery products comprising third-party brands as well as our brands. Our snack foods are sourced domestically in Thailand as well as imported from China.

We have one (1) distribution centre comprising two (2) warehouse buildings with a combined built-up area of approximately 4,897 sq. m located in the province of Pathum Thani, Thailand to serve our customers throughout the Central, Northeast, Northern and Southern regions of Thailand.

Please refer to Section 7 of this Prospectus for further information about our business activities.

12.3.2 Segmental analysis by revenue

Our revenue stream is derived from the distribution of consumer packaged foods namely snack foods. For the Financial Years and Period Under Review, all of our revenue was transacted in THB.

Revenue from the sales of consumer packaged foods are recognised at a point in time when control of goods is transferred to the customers.

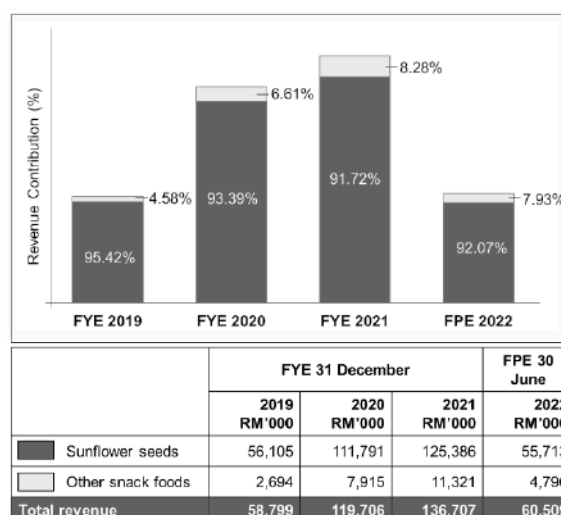
Between FYE 2019 and FYE 2021, our revenue increased at a CAGR of 52.48%, from RM58.80 million in FYE 2019 to RM136.71 million in FYE 2021. The growth was mainly contributed by our sales of sunflower seeds. In FPE 2022, we recorded revenue of RM60.51 million.

Revenue from sales of sunflower seeds accounted for 95.42% (RM56.11 million), 93.39% (RM111.79 million), 91.72% (RM125.39 million) and 92.07% (RM55.71 million) of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively.

Revenue from sales of other snack foods accounted for 4.58% (RM2.69 million), 6.61% (RM7.92 million), 8.28% (RM11.32 million) and 7.93% (RM4.80 million) of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively.

In FYE 2019, the majority of the revenue from sales of other snack foods was contributed by sales of other seeds and nuts representing 4.17% of our total revenue in FYE 2019.

Revenue from distribution of consumer packaged foods



12. FINANCIAL INFORMATION (CONT'D)

In FYE 2020, the majority of the revenue from sales of other snack foods was contributed by sales of baked and confectionery products, followed by other seeds and nuts representing 3.64% and 2.29% of our total revenue respectively.

In FYE 2021, the majority of the revenue from sales of other snack foods was contributed by sales of baked and confectionery products, followed by other seeds and nuts representing 5.45% and 1.47% of our total revenue respectively.

In FPE 2022, the majority of the revenue from sales of other snack foods was contributed by sales of baked and confectionery products, followed by other seeds and nuts representing 6.11% and 1.37% of our total revenue respectively.

Please refer to Section 12.3.2 (i) of this Prospectus for the analysis of revenue by business activities and products.

(i) Revenue by business activities and products

The table below sets out the breakdown of our total revenue by business activities and products:

	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Distribution of consumer packaged foods						
- Sunflower seeds	56,105	95.42	111,791	93.39	125,386	91.72
- Other snack foods	2,694	4.58	7,915	6.61	11,321	8.28
Group revenue	58,799	100.00	119,706	100.00	136,707	100.00
	Unaudited		Audited			
	FPE 2021		FPE 2022			
	RM'000	%	RM'000	%		
Distribution of consumer packaged foods						
- Sunflower seeds	74,429	93.61	55,713	92.07		
- Other snack foods	5,082	6.39	4,796	7.93		
Group revenue	79,511	100.00	60,509	100.00		

(a) FYE 2020 compared to FYE 2019

Our total revenue for the distribution of consumer packaged snack foods increased by RM60.91 million or 103.59% from RM58.80 million in FYE 2019 to RM119.71 million in FYE 2020. This was due to the following:

12. FINANCIAL INFORMATION (CONT'D)

Sunflower seeds

In FYE 2020, revenue from sales of sunflower seeds grew by 99.25% or RM55.69 million. This was mainly due to the following:

- Increase in sales of ChaCha coconut flavour sunflower seeds by RM52.46 million mainly contributed by the increase in sales from four SKU out of a total of five SKU of the ChaCha coconut flavour sunflower seeds with 18g, 35g, 95g and 180g packaging including new packaging introduced in FYE 2020. This provides more selection in terms of packaging sizes for the same coconut flavour to our customers despite the introduction of the coconut flavour sunflower seeds to customers including CP All (45g packaging) and Siam Makro (18g packaging) in 2018. In FYE 2019, we have a total of four SKU of the ChaCha coconut flavour sunflower seeds namely 18g, 35g, 45g, and 95g packaging. The 180g packaging was a new introduction in FYE 2020 and contributed sales of RM9.27 million during the year.

The increase in sales of ChaCha coconut flavour sunflower seeds in FYE 2020 was mainly driven by the following types of packaging to Siam Makro, CP All and Mega Alliance:

- Increased sales of 18g and 35g to Siam Makro where 35g packaging was introduced to Siam Makro in December 2019. The sales of coconut flavour sunflower seeds to Siam Makro increased by RM20.19 million in FYE 2020;
 - Increased sales of 95g and 180g to CP All where 180g packaging was introduced to CP All in April 2020. The sales of coconut flavour sunflower seeds to CP All increased by RM13.43 million in FYE 2020; and
 - Increased sales of 18g, 35g and 95g to Mega Alliance where all three packaging was introduced to Mega Alliance in November 2019. The sales of coconut flavour sunflower seeds to Mega Alliance increased by RM16.76 million in FYE 2020.
- Increase in revenue from the sales of ChaCha 5-flavour sunflower seeds by RM2.36 million mainly contributed by three SKU of the ChaCha 5-flavour sunflower seeds with the 18g, 35g and 95g packaging. In FYE 2019 and FYE 2020, we have a total of four SKU of the ChaCha 5-flavour sunflower seeds namely 18g, 35g, 45g and 95g packaging. The increase in sales was mainly contributed by our major customers, Mega Alliance and Siam Makro.
 - Increase in revenue from ChaCha Hickory nut flavour and caramel flavour sunflower seeds cumulatively by RM0.70 million. In FYE 2019, we have one SKU each of the ChaCha Hickory nut flavour and caramel flavour sunflower seeds namely 58g packaging. The increase in sales of the ChaCha Hickory nut flavour sunflower seeds was due to the introduction of a new 40g packaging SKU in FYE 2020 which contributed sales of RM0.63 million during the year.

12. FINANCIAL INFORMATION (CONT'D)**Other snack foods**

In FYE 2020, revenue from sales of other snack foods grew by 193.80% or RM5.22 million. This was mainly due to the following:

- Increase in revenue from sales of new baked and confectionery products by RM4.18 million mainly due to the commencement of Cundo layer cakes and Miyu chocolate snack which recorded revenue of RM3.74 million derived from our major customer, namely CP All, as well as increase in sales of King Kong mixed nuts and dried fruit bar by RM0.44 million.
- Introduction sales of new snack foods such as crispy fish snacks, rice puffs and pretzels with revenue of RM0.67 million. The new snack foods were selected by CP All for exclusive sale at their 7-Eleven stores. As at the LPD, we no longer sell these crispy fish snacks, rice puffs and pretzels to CP All, as there was low demand. However, as we currently have small quantity of crispy fish snacks in our inventory, we are still selling crispy fish snacks to our non-major customers until the inventory is fully depleted.

The significant increase in revenue in FYE 2020 was mainly due to the increase in sales to retailers by RM44.23 million mainly attributed to sales to owners of large retail convenience stores such as 7-Eleven, Mini Big C and Lotus's Go Fresh minimarkets, cash and carry stores such as Makro, hypermarkets such as Lotus's and Big C, and supermarkets such as Lotus's Go Fresh supermarket and Big C Market. The increase in revenue was also attributed to sales to wholesalers by RM16.36 million mainly contributed by sales to Mega Alliance.

(b) FYE 2021 compared to FYE 2020

Our total revenue increased by RM17.00 million or 14.20% from RM119.71 million in FYE 2020 to RM136.71 million in FYE 2021. This was due to the following:

Sunflower seeds

In FYE 2021, revenue from sales of sunflower seeds grew by 12.16% or RM13.60 million. This was mainly due to the following:

- Increase in revenue of ChaCha coconut flavour sunflower seeds by RM18.64 million mainly attributed to four SKU out of a total of six SKU of the ChaCha coconut flavour sunflower seeds namely the 18g, 35g, 80g and 180g packaging. The 80g packaging was a new introduction.

The increase in revenue from the 18g, 35g and 180g packaging was mainly contributed by higher sales of these products to retailers particularly CP All, Big C and Siam Makro, and a wholesaler, Valueplus. The revenue from 80g was largely contributed by sales to Siam Makro and Valueplus.

- Increase in revenue from ChaCha Hickory nut flavour sunflower seeds by RM0.68 million mainly due to the increase in sales of the 40g packaging mainly to CP All.

The increase in revenue of sunflower seeds was partially offset by the decrease in revenue from the sales of ChaCha 5-flavour sunflower seeds by RM6.03 million. This was mainly due to the decrease in revenue and sales volume of four SKU of the ChaCha 5-flavour sunflower seeds namely the 18g, 35g, 45g and 95g packaging. The decrease in revenue and sales volume of four SKU of the ChaCha 5-flavour sunflower seeds was mainly due to lower orders from CP All and Siam Makro. The lower orders from CP All and Siam Makro was mainly due to the shift in the end consumer's preferences to coconut flavour.

12. FINANCIAL INFORMATION (CONT'D)**Other snack foods**

In FYE 2021, revenue from sales of other snack foods grew by 43.03% or RM3.41 million. This was mainly due to the following:

- Increase in revenue from the sales of baked and confectionery products by 70.82% or RM3.09 million. This was mainly due to the increase in revenue from the sales of Miyu chocolate snacks and biscuits by RM3.38 million derived mainly from sales to CP All.
- Commencement of sales of dried fruits namely Mina prunes and plums which recorded revenue of RM1.58 million derived mainly from sales to CP All.

The increase in revenue from sales of other snack foods was partially offset by the decrease in sales of other seeds and nuts by RM0.73 million mainly due to the decrease in sales of Pee Ree watermelon seeds and ChaCha daily mixed nuts.

(c) FPE 2022 compared to FPE 2021

Our total revenue decreased by RM19.00 million or 23.90% from RM79.51 million in FPE 2021 to RM60.51 million in FPE 2022. This was mainly due to the decrease in sales to Siam Makro, Big C, Mega Alliance and CP All by a total of RM25.36 million or 39.40%. The decrease was mainly due to the gradual easing of restrictions and upliftment of curfews from September 2021 up to June 2022 which led to our customers being cautious on their purchases from us in FPE 2022.. In contrast in FPE 2021, most COVID-19 restrictions in Thailand were implemented for 3 months which only commenced in April 2021 onwards when COVID-19 cases in Thailand started to rise. This included, among others, inter-provincial travel restrictions, implementation of curfews, as well as closure of non-essential retails and entertainment venues. The decrease in the above revenue was partly offset by the increase of sales to Valueplus by RM5.54 million or 55.47% compared to the corresponding period in 2021.

For further details of our revenue performance on a quarterly basis, please refer to Section 7.17.4 of this Prospectus.

Sunflower seeds

In FPE 2022, revenue from sales of sunflower seeds decreased by 25.15% or RM18.72 million. This was mainly due to the following:

- Decrease in revenue of ChaCha coconut flavour sunflower seeds by RM16.81 million mainly attributed to decrease in sales of three of these SKUs namely 18g, 35g and 95g packaging. The decrease was mainly due to lower sales to Siam Makro, Big C, CP All and Mega Alliance;
- Decrease in revenue from ChaCha 5-flavour sunflower seeds by RM2.64 million mainly due to decrease in sales of four of these SKUs namely 18g, 35g, 45g and 95g packaging. The decrease was mainly due to lower sales to CP All, Siam Makro, Big C, Mega Alliance and Valueplus; and
- Decrease in revenue from ChaCha Hickory nut flavour sunflower seeds by RM0.39 million mainly due to the decrease in sales of the 40g packaging.

The above-mentioned decrease in revenue of sunflower seeds was partially offset by the increase in revenue from sales of new flavours introduced in October 2021 such as coffee and red date flavour which contributed RM0.48 million and RM0.50 million in FPE 2022 respectively. There was no revenue from ChaCha coffee and red date flavour sunflower seeds in FPE 2021.

12. FINANCIAL INFORMATION (CONT'D)

Other snack foods

In FPE 2022, revenue from sales of other snack foods decreased by 5.63% or RM0.29 million. This was mainly due to the following:

- Decrease in revenue from sales of dried fruits namely our brand of Mina prunes and plums by RM0.58 million due to the discontinuation of the distribution of this product since March 2022 as we were in the midst of rebranding the product; and
- Decrease in revenue from sales of other seeds and nuts by RM0.35 million mainly due to decrease in sales of our brand of Pee Ree watermelon seeds and green peas, and ChaCha daily mixed nuts.

The decrease in revenue from sales of other snack foods was partially offset by the increase in sales of baked and confectionery products by 28.34% or RM0.82 million. This was mainly due to the increase from the sales of our brand of Miyu chocolate snacks and biscuits by RM0.76 million, and Cundo layer cakes by RM0.18 million derived mainly by sales to Valueplus that were offset by the decrease in revenue from sales of King Kong mixed nuts and dried fruit bar of RM0.12 million.

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12. FINANCIAL INFORMATION (CONT'D)**12.3.3 Segmental analysis by cost of sales****(i) Cost of sales by compositions**

The table below sets out the breakdown of our cost of sales:

Cost of sales	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Material costs	40,590	83.45	79,429	95.70	96,365	97.80
Freight and forwarding costs	1,405	2.89	1,257	1.51	1,022	1.04
Depreciation of rights-of-use assets ("ROUA")	884	1.82	890	1.07	858	0.87
Packaging and paper material costs ⁽¹⁾	4,925	10.13	632	0.76	88	0.09
Others ⁽²⁾	833	1.71	792	0.96	202	0.20
Total	48,637	100.00	83,000	100.00	98,535	100.00

Cost of sales	Unaudited		Audited	
	FPE 2021		FPE 2022	
	RM'000	%	RM'000	%
Material costs	52,964	98.04	45,644	97.45
Freight and forwarding costs	447	0.82	680	1.45
Depreciation of ROUA	441	0.82	420	0.90
Packaging and paper material costs ⁽¹⁾	62	0.11	23	0.05
Others ⁽²⁾	111	0.21	72	0.15
Total	54,025	100.00	46,839	100.00

All cost components above are direct cost related to cost of goods sold of our Group.

Notes:

- (1) Packaging and paper material costs include materials used at our warehouse for storage and delivery, and materials used for repackaging of damaged packaging, as well as paper and stationery used for promotional and administrative purposes;
- (2) Includes interest on lease liabilities, cost of cleaning materials, safety gear and warehouse fittings and wages for casual workers for loading and unloading. In FYE 2020, it also includes inventory written off.

12. FINANCIAL INFORMATION (CONT'D)**(ii) Cost of sales by business activities and products**

The table below sets out the breakdown of our cost of sales by business activities and products:

Cost of sales	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Distribution of consumer packaged snack foods						
- Sunflower seeds	46,210	95.01	77,781	93.71	90,494	91.84
- Other snack foods	2,427	4.99	5,219	6.29	8,041	8.16
Total	48,637	100.00	83,000	100.00	98,535	100.00
Cost of sales	Unaudited		Audited			
	FPE 2021		FPE 2022			
	RM'000	%	RM'000	%		
Distribution of consumer packaged snack foods						
- Sunflower seeds	50,871	94.16	43,666	93.23		
- Other snack foods	3,154	5.84	3,173	6.77		
Total	54,025	100.00	46,839	100.00		

(a) Material costs

Material costs constituted the largest component in our cost of sales which accounted for 83.45% (RM40.59 million), 95.70% (RM79.43 million), 97.80% (RM96.37 million), 98.04% (RM52.96 million, and 97.45% (RM45.64 million) of our total cost of sales for the FYE 2019, FYE 2020, FYE 2021, FPE 2021 and FPE 2022 respectively. Material cost consists of the cost of consumer packaged snack food purchased.

For FYE 2020, our material costs increased by 95.69% or RM38.84 million which was in line with the increase in our revenue by 103.59% or RM60.91 million, mainly as a result of the increased sales of our consumer packaged snack foods to our major customers in FYE 2020 by RM64.54 million. For further information on the analysis of our revenue, please refer to Section 12.3.2 (i) (a) of this Prospectus.

For FYE 2021, our material costs increased by 21.32% or RM16.94 million which was in line with the increase in our revenue by 14.20% or RM17.00 million, mainly as a result of the increased sales of our sunflower seeds by RM13.60 million, and baked and confectionery products by RM3.09 million in FYE 2021. The increase in material costs is also partially due to the increase in our average purchase price of the majority of our consumer packaged snack foods including sunflower seeds by 2.15% arising from the upward price revision by our supplier, ChaCha Thailand. The reason for the upward price revision by ChaCha Thailand was due to increase in cost of raw materials, packaging materials and power. Generally, there is no fixed schedule for price revision, nevertheless, for the Financial Years and Period Under Review, there was a price revision by ChaCha in FYE 2021 and in FPE 2022, respectively.

12. FINANCIAL INFORMATION (CONT'D)

For FPE 2022, our material costs decreased by 13.82% or RM7.32 million mainly due to the decrease in our purchases of sunflower seeds by 15.60% or RM7.85 million. The decrease in purchases of sunflower seeds was attributed to lower sales of sunflower seeds in FPE 2022. For further information on the analysis of our revenue, please refer to Section 12.3.2 (i) (c) of this Prospectus.

(b) Freight and forwarding costs

Freight and forwarding costs refer to overseas freight costs and custom clearance charges relating to our import purchases of consumer packaged foods from China.

For FYE 2020, our freight and forwarding costs decreased by 10.53% or RM0.15 million mainly due to the decrease in freight and forwarding costs for imported ChaCha sunflower seeds by 50.67% or RM0.60 million. Our import purchases of ChaCha sunflower seeds from Jet Voyage in FYE 2020 decreased by 56.32% or RM20.28 million. Since August 2019, we shifted some of our purchases of ChaCha sunflower seed products from QiaQia's factory in China to domestic purchases directly from QiaQia's factory in Thailand.

In addition, the decrease in total freight and forwarding costs was partially offset by the increase in freight and forwarding cost for other imported snack foods by 214.03% or RM0.46 million. This was mainly due to the increase in purchases of other imported snack foods by 150.69% or RM3.07 million. This was mainly attributed to the new purchases of Cundo layer cakes and Miyu chocolate snacks, as well as increase purchases of Pee Ree watermelon seeds and green peas from China. The increase in freight and forwarding cost for other imported snack foods was also partially due to the increase in sea freight rates in FYE 2020 caused by the COVID-19 pandemic.

For FYE 2021, our freight and forwarding costs decreased by 18.70% or RM0.24 million mainly due to the decrease in freight and forwarding costs for imported ChaCha sunflower seeds by 49.95% or RM0.29 million. Our import purchases of ChaCha sunflower seeds from Jet Voyage in FYE 2021 decreased by 64.43% or RM10.14 million as we sourced more SKU of sunflower seeds from the QiaQia's factory in Thailand.

In addition, the decrease in total freight and forwarding costs was partially offset by the increase in freight and forwarding costs for other imported snack foods by 8.88% or RM0.06 million. This was mainly due to the increase in purchases of other imported snack foods by 59.99% or RM3.07 million mainly attributed to the purchases of Mina dried fruits, and Miyu chocolate snacks and biscuits. The increase in freight and forwarding cost for other imported snack foods was also partially due to the increase in sea freight rates in FYE 2021 caused by the COVID-19 pandemic.

For FPE 2022, our freight and forwarding costs increased by 52.13% or RM0.23 million mainly due to the higher sea freight rates incurred in FPE 2022 compared to FPE 2021 due to the Russia-Ukraine conflict, lockdowns in China and the threat of inflation (Source: *IMR Report*). Please refer to IMR Report in Section 8 of the Prospectus for further details on sea freight rates.

(c) Depreciation of ROUA

Depreciation of ROUA refers to the depreciation on our distribution facility and motor vehicles. The depreciation of ROUA was RM0.88 million (1.82%), RM0.89 million (1.07%), RM0.86 million (0.87%), RM0.44 million (0.82%) and RM0.42 million (0.90%) of our total cost of sales for the FYE 2019, FYE 2020, FYE 2021, FPE 2021 and FPE 2022 respectively.

12. FINANCIAL INFORMATION (CONT'D)

(d) Packaging and paper material costs

Packaging and paper material costs include materials used at our warehouse for storage and delivery, and materials used for repackaging of damaged packaging, as well as paper and stationery materials used for promotional and administrative purposes.

Packaging materials include paper cartons, plastic wraps for pallets, plastic and air bubble bags, clear tape, and pallets.

Paper and stationery materials include marketing brochures for promotional purposes.

In FYE 2020, the packaging and paper material costs decreased by 87.17% or RM4.29 million mainly due to the lesser rectification works on the damaged packaging cartons of ChaCha sunflower seeds imported from China. In FYE 2019, we incurred a cost of RM4.93 million mainly to purchase packaging materials to rectify all the palletised cartons that were damaged during shipment from China to Thailand. It also includes paper and stationery materials such as marketing brochures for promotional purposes.

In FYE 2021, the packaging and paper material costs decreased by 86.08% or RM0.54 million mainly due to the lesser rectification works on the packaging of imported snack foods. In addition, our imports of ChaCha's products from China has been decreasing as we started to source the bulk of the SKU of sunflower seeds from the QiaQia's factory in Thailand.

In FPE 2022, the packaging and paper material costs decreased by 62.90% or RM0.04 million mainly due to less rectification works on the packaging of imported snack foods due to lower imports of ChaCha sunflower seeds from China. Our imports from China were replaced by purchases from QiaQia's factory in Thailand.

(e) Other costs

Other costs consist of interest on lease liabilities, cost of cleaning materials and services, safety gear and warehouse fittings and wages for casual workers for loading and unloading. In FYE 2020, it also includes inventory written off.

In FYE 2020, other costs decreased by 4.92% or RM0.04 million mainly due to the decrease in expenses on cleaning materials and services from RM0.48 million in FYE 2019 to approximately RM1,000 in FYE 2020. The cleaning materials and services in FYE 2019 was mainly due to cost incurred for cleaning and preparation works for our cleanroom with the initial intention to undertake break bulking and repackaging of sunflower seeds, however it was subsequently not materialised. This includes floor epoxy coating and cleaning of our packing machine. We also carried out pest control works in FYE 2019 as we recently moved into our distribution centre in 2018. This was partially offset by the recognition of cost for inventory written off in FYE 2020 amounting to RM0.54 million arising from the destruction of expired snack foods including PeeRee salted pumpkin seeds and salted peanuts, PeeRee watermelon seeds, PeeRee sunflower kernels and ChaCha sunflower seeds.

In FYE 2021, other costs decreased by 74.49% or RM0.59 million as there was no inventory written off during the financial year. The decrease was also attributed to lower interest on lease liabilities by RM0.07 million.

In FPE 2022, other costs decreased by 35.14% or RM0.04 million mainly due to the decrease in interest on lease liabilities by RM0.05 million.

12. FINANCIAL INFORMATION (CONT'D)

12.3.4 Segmental analysis by GP and GP margin

(i) **GP and GP margin by business activities and products**

	Audited								
	FYE 2019			FYE 2020			FYE 2021		
	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)
GP and GP margin									
Distribution of consumer packaged foods									
- Sunflower seeds	9,895	97.37	17.64	34,010	92.66	30.42	34,892	91.41	27.83
- Other snack foods	267	2.63	9.91	2,696	7.34	34.06	3,280	8.59	28.97
Total	10,162	100.00	17.28	36,706	100.00	30.66	38,172	100.00	27.92
	Unaudited			Audited					
	FPE 2021			FPE 2022					
	GP RM'000	% of total GP	GP margin (%)	GP RM'000	% of total GP	GP margin (%)			
GP and GP margin									
Distribution of consumer packaged foods									
- Sunflower seeds	23,558	92.44	31.65	12,047	88.13	21.62			
- Other snack foods	1,928	7.56	37.94	1,623	11.87	33.84			
Total	25,486	100.00	32.05	13,670	100.00	22.59			

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12. FINANCIAL INFORMATION (CONT'D)

(a) FYE 2020 compared to FYE 2019

Our total GP increased by 261.21% or RM26.54 million to RM36.71 million in FYE 2020. Our total GP margin also increased from 17.28% in FYE 2019 to 30.66% in FYE 2020. This was mainly due to the following:

Sunflower seeds

Our GP from the sales of sunflower seeds increased by 243.71% or RM24.12 million while GP margin improved from 17.64% in FYE 2019 to 30.42% in FYE 2020. The increase in GP which is in tandem with the increase in our revenue from sunflower seeds by 99.25% in FYE 2020 mainly contributed by higher sales of the ChaCha coconut flavour and 5-flavour sunflower seeds. Please refer to Section 12.3.2(i)(a) of this Prospectus for further details on our revenue performance.

The improvement in the GP margin from 17.64% in FYE 2019 to 30.42% in FYE 2020 was mainly due to the following:

- higher sales volume enabled us to achieve lower unit fixed cost and unit packaging cost for FYE 2020 where the sales volume of sunflower seeds increased by 92.32% while the fixed costs, such as depreciation on ROUA and interest on lease liabilities under cost of sales, decreased by 1.41%.
- packaging and paper material costs decreased by 87.17% or RM4.29 million in FYE 2020 mainly due to lesser rectification works on the damaged packaging cartons of ChaCha sunflower seeds imported from China as we increased its domestic purchases from the factory in Thailand. As a result, this contributed to the improvement in our GP margin.
- also partly contributed by GP margin derived from sales of new high margin SKU of 180g packaging of ChaCha coconut flavour sunflower seeds to CP All.

Other snack foods

Our GP from other snack foods increased by 909.74% or RM2.43 million in FYE 2020 and GP margin improved from 9.91% in FYE 2019 to 34.06% in FYE 2020.

The increase in GP was in line with the increase in our revenue from the sales of other snack foods by 193.80% arising from the commencement of sales of new baked and confectionery products, crispy fish snacks, rice puffs and pretzels, as mentioned above.

There was an improvement in the GP margin for other snack foods from 9.91% in FYE 2019 to 34.06% in FYE 2020. This was mainly contributed by the commencement of sales of high margin baked and confectionery products and other snack foods such as crispy fish snacks, rice puffs and pretzels. In addition, the improvement in GP margin was partly attributed to a higher sales volume which enabled us to achieve lower unit fixed cost and unit packaging cost for FYE 2020.

12. FINANCIAL INFORMATION (CONT'D)

(b) FYE 2021 compared to FYE 2020

Our total GP increased by 3.99% or RM1.47 million to RM38.17 million in FYE 2021. Meanwhile, our total GP margin decreased from 30.66% in FYE 2020 to 27.92% in FYE 2021. This was mainly due to the following:

Sunflower seeds

Our GP from the sales of sunflower seeds increased by 2.59% or RM0.88 million while GP margin decreased from 30.42% in FYE 2020 to 27.83% in FYE 2021. The increase in GP was in tandem with the increase in our revenue from sunflower seeds by 12.16% arising particularly from the 'ChaCha' coconut flavour sunflower seeds. Please refer to Section 12.3.2(i)(b) of this Prospectus for further details on our revenue performance.

The decrease in the GP margin from 30.42% in FYE 2020 to 27.83% in FYE 2021 was mainly due to the increase in the average unit purchase price of ChaCha sunflower seeds by approximately 2.15% where the price of products was revised upward by our supplier, ChaCha Thailand.

Consequently, we managed to pass some of the increase in cost to all wholesaler customers. However, for the major retailer customers which has a pre-determined profit margin for themselves, we continued to maintain our selling prices of the ChaCha sunflower seeds in FYE 2021 as well as continue to maintain the final retail selling prices to the Thailand market (which are determined by us under the guidance of QiaQia) to maintain our competitiveness. As such, this affected our GP margin in FYE 2021.

Other snack foods

Our GP from other snack foods increased by 21.66% or RM0.58 million in FYE 2021 and GP margin decreased from 34.06% in FYE 2020 to 28.97% in FYE 2021. The increase in GP was in tandem with the increase in our revenue from the sales of other snack foods by 43.03% arising from the increase in sales of baked and confectionery products, as well as the sales of dried fruits in FYE 2021.

The decrease in the GP margin from 34.06% in FYE 2020 to 28.97% in FYE 2021 was mainly due to the increase in the average unit purchase price of some of the other snack products such as ChaCha mixed nuts by 11.39%, Cundo chocolate by 11.08% and milk flavour layer cake by 6.78%, Miyu strawberry chocolate cone by 13.79%, Pee Ree green peas by 10.59% and watermelon seeds by 23.72%.

The increase in the unit purchase price of some of the other snack products was due to the upward price revision by our suppliers. However, we continued to maintain our selling prices of these snack foods to our customers in FYE 2021 as well as the final retail selling prices to the Thailand market (which are determined by us), thus affecting our GP margin for other snack foods.

(c) FPE 2022 compared to FPE 2021

Our total GP decreased by 46.36% or RM11.82 million from RM25.49 million in FPE 2021 to RM13.67 million in FPE 2022. Our total GP margin also decreased from 32.05% in FPE 2021 to 22.59% in FPE 2022. This was mainly due to the following:

12. FINANCIAL INFORMATION (CONT'D)

Sunflower seeds

Our GP from the sales of sunflower seeds decreased by 48.86% or RM11.51 million while GP margin decreased from 31.65% in FPE 2021 to 21.62% in FPE 2022. The decrease in GP was mainly due to the decrease in revenue from sunflower seeds by 25.15% or RM18.72 million attributed to the lower sales to certain major customers. Please refer to Section 12.3.2(i)(c) of this Prospectus for further details on our revenue performance. In addition, the decrease in GP was also contributed by higher material costs arising from an increase in purchase price of ChaCha sunflower seeds. This was reflected in the proportion of the cost of sales of sunflower seeds against revenue of 78.38% for FPE 2022 compared to 68.35% for FPE 2021. Our supplier, ChaCha Thailand increased the price of ChaCha sunflower seeds in the second half of 2021 by approximately 11%, as well as another price hike in the first half of 2022 in April 2022 by approximately 4%. ChaCha Thailand also informed that the reason for the upward price revision by ChaCha Thailand was mainly due to increases in cost of raw materials, packaging materials and energy cost.

As a result of the increase in the purchase price of ChaCha sunflower seeds, our GP margin for sunflower seeds decreased from 31.65% in FPE 2021 to 21.62% in FPE 2022. Our Group decided to absorb the increase in cost and maintained the selling prices of ChaCha sunflower seeds to customers, as well as the final retail selling prices to the Thailand market to maintain competitiveness. As such, this affected our GP margin in FPE 2022.

Other snack foods

Our GP from sales of other snack foods decreased by 15.82% or RM0.31 million in FPE 2022 while our GP margin decreased from 37.94% in FPE 2021 to 33.84% in FPE 2022. The decrease in GP was attributed to the decrease in revenue by 5.63% or RM0.29 million in FPE 2022 arising from lower sales of our brands of Mina dried fruits, Pee Ree watermelon seeds and Pee Ree green peas in FPE 2022.

The decrease in the GP margin from 37.94% in FPE 2021 to 33.84% in FPE 2022 was mainly due to the increase in the average unit purchase price of the other snack products in FPE 2022 such as Miyu chocolate cone original flavour by 58% and strawberry flavour by 7%, Miyu biscuit cream chocolate and milk flavour by 7%, Pee Ree watermelon seeds by 45% and green peas by 9%, and Cundo layer cakes milk flavour by 16% and double berry flavour by 23%.

The increase in the unit purchase price of other snack products was mainly due to weakening of THB against USD coupled with the upward price revision by some of our suppliers between April 2021 and June 2022. All our purchases of other snack products are imported from China and denominated in USD and as such, the weakening of THB against USD in FPE 2022 by approximately 9% compared to FPE 2021 resulted to a higher purchase cost in FPE 2022. Consequently, our Group decided to absorb the increase in cost and maintained the selling prices of other snack foods to customers, as well as the final retail selling prices to the Thailand market to maintain competitiveness. As such, this affected our GP margin in FPE 2022.

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12. FINANCIAL INFORMATION (CONT'D)**12.3.5 Other operating income**

The table below presents the breakdown of our other operating income:

	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Other operating income						
Gain on disposal of other investments	-	-	-	-	971	69.51
Dividend income	-	-	403	78.10	314 ⁽⁴⁾	22.48
Realised gain on foreign exchange	208	99.05	94	18.22	16	1.14
Others	2 ⁽¹⁾	0.95	19 ⁽²⁾	3.68	96 ⁽³⁾	6.87
Total	210	100.00	516	100.00	1,397	100.00
	Unaudited		Audited			
	FPE 2021		FPE 2022			
	RM'000	%	RM'000	%		
Other operating income						
Realised and unrealised gain on foreign exchange	63	16.28	633	95.05		
Dividend income	322 ⁽⁴⁾	83.20	-	-		
Others	2 ⁽⁵⁾	0.52	33 ⁽⁶⁾	4.95		
Total	387	100.00	666	100.00		

Notes:

- (1) Comprised interest income
- (2) Comprised sundry income and interest income
- (3) Comprised reimbursement from the Government on cost incurred on COVID-19 related expenses, interest income and one-off motor vehicle rental income from our customer.
- (4) Dividend income received from Mega Alliance totalling THB2.42 million converted at an average exchange rate of THB100 = RM12.9491 for FYE 2021 and THB100 = RM13.2929 for FPE 2021, respectively.
- (5) Comprised interest income and one-off motor vehicle rental income.
- (6) Comprised reimbursement from the Government on cost incurred on COVID-19 related expenses and interest income.

FYE 2020 compared to FYE 2019

In FYE 2020, other operating income increased by 145.71% or RM0.31 million mainly due to the dividend income received of RM0.40 million from a former associate company namely Mega Alliance in March 2020.

The increase in other operating income was partially offset by the decrease in realised gain on foreign exchange by RM0.11 million in FYE 2020.

12. FINANCIAL INFORMATION (CONT'D)**FYE 2021 compared to FYE 2020**

In FYE 2021, other operating income increased by 170.74% or RM0.88 million mainly due to the gain on the disposal of other investments mainly from the disposal of Valueplus of RM0.97 million, as well as dividend income received from Mega Alliance of RM0.31 million in April 2021.

In FYE 2021, we also received a reimbursement from the Government on cost incurred on COVID-19 related expenses which amounted to RM0.09 million.

FPE 2022 compared to FPE 2021

In FPE 2022, other operating income increased by 72.09% or RM0.28 million mainly due to the increase in realised and unrealised gain on foreign exchange by RM0.57 million.

The increase in other operating income was partially offset by the decrease in dividend income received. In FPE 2021, we received dividend income from Mega Alliance of RM0.32 million while in FPE 2022, there were no dividend income received as we divested our equity interest in Mega Alliance in February 2021.

12.3.6 Selling and administrative expenses and net (loss)/gain on impairment of financial instruments

The table below presents the breakdown of our selling and distribution expenses and net (loss)/gain on impairment of financial instruments:

	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
<u>Selling and administrative expenses</u>						
Advertising and promotional expenses	1,755	40.69	7,760	52.38	9,148	45.24
Staff related costs ⁽¹⁾	1,108	25.69	2,114	14.27	3,906	19.32
Travelling and transportation costs	816	18.92	1,528	10.31	2,438	12.06
Professional fees	27	0.63	2,044	13.80	2,218	10.97
Sales commission	234	5.43	621	4.19	564	2.79
Depreciation expenses	158	3.66	392	2.65	483	2.39
Others ⁽²⁾	215	4.98	356	2.40	1,462	7.23
Total selling and administrative expenses	4,313	100.00	14,815	100.00	20,219	100.00
Net (loss)/gain on impairment of financial instruments	-		(229)		18	

12. FINANCIAL INFORMATION (CONT'D)

	Unaudited		Audited	
	FPE 2021		FPE 2022	
	RM'000	%	RM'000	%
<u>Selling and administrative expenses</u>				
Advertising and promotional expenses	5,732	55.15	3,352	32.44
Staff related costs ⁽¹⁾	1,538	14.80	2,290	22.16
Travelling and transportation costs	1,313	12.63	1,055	10.21
Professional fees	186	1.79	2,507	24.26
Sales commission	358	3.45	283	2.74
Depreciation expenses	240	2.31	332	3.21
Others ⁽²⁾	1,026	9.87	515	4.98
Total selling and administrative expenses	10,393	100.00	10,334	100.00
Net gain/(loss) on impairment of financial instruments	63		(59)	

Notes:

- (1) Includes staff salaries and allowances, overtime, bonuses, employee contributions and other related expenses.
- (2) Includes mainly expenses for a charitable donation, bank charges, insurance, food and beverage, printing and stationery, stamp duty and withholding tax, rental and utilities. In FYE 2021 and FPE 2021, it includes settlement fees paid to Mega Alliance, a former associate company.

FYE 2020 compared to FYE 2019

In FYE 2020, our selling and administrative expenses increased by 243.50% or RM10.50 million which was mainly due to the following:

- increase in advertising and promotional expenses by 342.17% or RM6.01 million. This was mainly attributed to the increase in advertisement and promotion expenses paid to Siam Makro, CP All and Big C from RM1.74 million in FYE 2019 to RM7.41 million in FYE 2020. This included expenses in participating sales and promotion periods, stamp redemption programme and loyalty programme, as well as entrance fees for introduction of new SKU in these customers stores.
- increase in professional fee by RM2.02 million mainly a one-off consulting fee of RM1.43 million paid to a Malaysian consulting company to advise Bai Li Enterprise of a potential listing on Bursa Securities, as well as fees totalling RM0.57 million paid to He Haibin, our Promoter and Specified Shareholder, for the provision of consultancy services for exploring potential new market in China and commission for exploring potential new products and new customers in Singapore. For further details, please refer to Section 10.1 of the Prospectus.
- increase in staff-related costs by 90.79% or RM1.01 million mainly due to the increase in salaries attributed to the increase in the number of employees from 39 in FYE 2019 to 51 in FYE 2020, as well as the commencement of accommodation and mobilisation allowances paid to employees from September 2020.
- increase in travelling and transportation costs by 87.25% or RM0.71 million in line with the increase in our sales volume and delivery of goods to customers.

12. FINANCIAL INFORMATION (CONT'D)

- increase in sales commission paid to our sales & marketing employees by 165.38% or RM0.39 million in line with the increase in our revenue.

In FYE 2020, there was net loss on the impairment loss on financial instruments namely trade receivables of RM0.23 million based on the expected credit loss (“**ECL**”) computation under MFRS 9. The amount of ECL was assessed at each reporting period to reflect changes in credit risk since the initial recognition of trade receivables. No expected credit loss allowance is recognised arising from trade receivables as at 31 December 2019 as the amount was negligible.

FYE 2021 compared to FYE 2020

In FYE 2021, our selling and administrative expenses increased by 36.49% or RM5.41 million which was mainly due to the following:

- increase in advertising and promotional expenses by 17.89% or RM1.39 million. This was mainly attributed to the increase in advertisement and promotion expenses paid to Big C from RM1.14 million in FYE 2020 to RM2.76 million in FYE 2021. The increase in advertisement and promotion expenses paid to Big C was in line with the increase in revenue derived from Big C from RM5.72 million in FYE 2020 to RM 13.65 million in FYE 2021.
- increase in staff-related costs by 84.77% or RM1.79 million mainly due to the increase in salaries attributed to the increase in the number of employees from 51 in FYE 2020 to 65 in FYE 2021, as well as an increase in accommodation and mobilisation allowances paid to employees in FYE 2021.
- increase in travelling and transportation costs by 59.55% or RM0.91 million mainly due to the increase in our sales volume and delivery of goods to customers.
- increase in professional fees to RM2.22 million mainly due to fees incurred amounting to RM1.43 million to professionals for our IPO corporate exercise.
- increase in other selling and administrative expenses by RM1.11 million mainly due to settlement fees paid to Mega Alliance totalling RM0.45 million which was initiated by us for the efforts undertaken in the past for the establishment of the traditional market channel for the Group’s products. The increase was also attributed to increase in charitable donations by RM0.26 million for our snack foods to government agencies, hospitals and schools.

FPE 2022 compared to FPE 2021

In FPE 2022, our selling and administrative expenses increased by 0.57% or RM0.06 million mainly due to the following:

- increase in professional fees by RM2.32 million mainly due to fees incurred amounting to RM2.50 million to professionals for our IPO corporate exercise.
- increase in staff related costs by RM0.75 million mainly due to the increase in directors’ and key senior management’s salaries by RM0.21 million, commencement of salaries paid to certain key senior management totalling RM0.68 million as well as increase in the number of employees from 63 in FPE 2021 to 72 in FPE 2022. This was partially offset by the decrease in mobilisation allowances paid to employees in FPE 2022.

12. FINANCIAL INFORMATION (CONT'D)

The increase in the selling and administrative expenses was partially offset mainly by the decrease in the following expenses:

- decrease in advertising and promotional expenses by RM2.38 million. This was mainly due to the decrease in advertisement and promotion expenses paid to Siam Makro by RM1.53 million and Big C by RM1.21 million which was in line with the decrease in revenue derived from Siam Makro and Big C by RM10.69 million and RM7.01 million, respectively;
- decrease in other selling and administrative expenses by RM0.51 million mainly due to the absence of one-off settlement fees paid to Mega Alliance. In FPE 2021, we paid RM0.45 million to Mega Alliance for efforts undertaken in the past for the establishment of the traditional market channel for our Group's products, while there were no fees paid in FPE 2022; and
- decrease in travelling and transportation costs by RM0.26 million in line with the decrease in our sales volume and delivery of goods to customers.

12.3.7 Finance costs

The table below presents the breakdown of our finance costs:

Finance costs	Audited					
	FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:						
- Borrowings ⁽¹⁾	182	54.01	116	58.00	206	77.15
- Lease liabilities	33	9.79	84	42.00	61	22.85
- Others ⁽²⁾	122	36.20	-	-	-	-
Total	337	100.00	200	100.00	267	100.00
Finance costs	Unaudited				Audited	
	FPE 2021		FPE 2022		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:						
- Borrowings ⁽¹⁾	87	71.31	145	82.86		
- Lease liabilities	35	28.69	30	17.14		
- Others	-	-	-	-		
Total	122	100.00	175	100.00		

Notes:

- (1) Interest charge arising from loans from banks and related parties namely Good Partner Holdings Pte. Ltd. and He Haibin. Please refer to Section 10.1 of this Prospectus for details of related party transactions.
- (2) Interest charge arising from the security deposit paid on behalf by Piggy Technology Pte. Ltd. The security deposit was paid to Jet Voyage Enterprise Limited in FYE 2019 due to outstanding amounts owing to QiaQia. The security deposit paid to Jet Voyage of RM1.89 million was paid and refunded by Bai Li Enterprise to Piggy Technology Pte. Ltd. within the same year in FYE 2019. Please refer to Section 10.1 of this Prospectus for details of related party transaction.

12. FINANCIAL INFORMATION (CONT'D)**FYE 2020 compared to FYE 2019**

For FYE 2020, our finance costs decreased by 40.65% or RM0.14 million mainly due to the decrease in interest charge on security deposit paid on behalf by Piggy Technology Pte. Ltd. by RM0.12 million as well as interest charge on loans from Good Partner Holdings Pte. Ltd. and He Haibin by RM0.05 million as the security deposit and loans, respectively, has been fully repaid in FYE 2020.

Additionally, we incurred lower interest on our loans from banks due to utilisation of banking facilities with lower interest rates.

FYE 2021 compared to FYE 2020

For FYE 2021, our finance costs increased by 33.50% or RM0.07 million mainly due to the increase in the utilisation of our revolving credit for working capital purposes.

FPE 2022 compared to FPE 2021

For FPE 2022, our finance costs increased by 43.44% or RM0.05 million mainly due to the increase in the utilisation of our invoice financing and revolving credit for working capital purposes.

12.3.8 PBT, PAT and Taxation

The table below presents our PBT, PAT and effective tax rate:

	<u>Audited</u>			<u>Unaudited</u>	<u>Audited</u>
	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2021</u>	<u>FPE 2022</u>
PBT (RM'000)	5,722	21,978	19,101	15,421	3,886
PBT margin (%)	9.73	18.36	13.97	19.39	6.42
Tax expense (RM'000)	1,567	6,219	3,697	3,047	1,745
Effective tax rate (%)	27.39	28.30	19.36	19.76	44.90
Statutory tax rate (%)	20.00	20.00	20.00	20.00	20.00
PAT (RM'000)	4,154	15,759	15,403	12,374	2,141
PAT margin (%)	7.06	13.16	11.27	15.56	3.54

FYE 2020 compared to FYE 2019

Our PBT increased by 284.10% or RM16.26 million in FYE 2020, which was in line with the increase in our revenue and GP for the FYE 2020. This was mainly contributed by the increase in customer orders from major retailer customers, as well as the introduction of new product range and new SKU. For further information on the analysis of our revenue, please refer to Section 12.3.2 (a) of this Prospectus.

Our PBT margin increased from 9.73% in FYE 2019 to 18.36% in FYE 2020 which was in line with the improvement in GP margin from 17.28% in FYE 2019 to 30.66% in FYE 2020, as mentioned above.

For the FYE 2020, our tax expenses were RM6.22 million which was higher compared to the previous financial year. This was a result of the overall increase in our revenue and PBT.

12. FINANCIAL INFORMATION (CONT'D)

For FYE 2019 and FYE 2020, our effective tax rate is 27.39% and 28.30% respectively, which was higher than the statutory tax rate in Thailand of 20%. The higher effective tax rates were mainly due to tax effects of origination of temporary differences on undistributed retained earnings of combined entities of RM0.41 million for FYE 2019 and RM1.75 million for FYE 2020. In accordance with Section 70 of Thai Revenue Code, dividends paid to holding companies incorporated under foreign laws and not carrying on business in Thailand are subject to a withholding tax at the rate of 10% of the distributed amount. For further details, please refer Note 6.15(b) of the Accountants' Report set out in Section 13 of this Prospectus.

FYE 2021 compared to FYE 2020

Our PBT decreased by 13.09% or RM2.88 million in FYE 2021 which was mainly due to the higher rate of increase in selling and administrative expenses by 36.49% or RM5.41 million compared to the increase in GP by 3.99% or RM1.47 million.

The higher rate of increase in selling and administrative expenses was mainly due to the increase in staff-related costs by RM1.79 million, advertising and promotional expenses by RM1.39 million, travelling and transportation costs by RM0.91 million, as well as professional fees and expenses incurred in relation to the Listing amounting to RM1.43 million, which is non-recurring in nature.

The lower rate of increase in the GP was largely due to the increase in our purchase price of sunflower seeds and other snack foods from our suppliers which was not passed on to our customers.

Our PBT margin decreased from 18.36% in FYE 2020 to 13.97% in FYE 2021 which was in line with the decrease in GP margin from 30.66% in FYE 2020 to 27.92% in FYE 2021 as well as the reasoning as explained above. The decrease in GP margin was mainly due to the increase in purchase prices of sunflower seeds and other snack foods, as mentioned above.

For the FYE 2021, our tax expenses were RM3.70 million which was lower compared to the previous financial year, due to the decrease in our PBT.

For FYE 2021, our effective tax rate is 19.36%, which was lower than the statutory tax rate in Thailand of 20%. The lower effective tax rate for FYE 2021 was mainly due to tax effects of (i) origination of temporary differences on undistributed retained earnings of combined entities of RM1.65 million and (ii) crystallisation of withholding tax on dividends paid of RM2.82 million. The said crystallisation of withholding tax on dividends paid arose due to dividends totalling RM22.82 million paid in FYE 2021 by Bai Li Enterprise. For further details, please refer Note 6.15(b) of the Accountants' Report set out in Section 13 of this Prospectus.

FPE 2022 compared to FPE 2021

Our PBT decreased by 74.80% or RM11.54 million in FPE 2022 which was due to the decrease in our revenue by 23.90% or RM19.00 million and GP by 46.36% or RM11.82 million for the FPE 2022. Please refer to Section 12.3.2(i)(a) and Section 12.3.4(i)(c) of this Prospectus for further details on our revenue and GP performance in FPE 2022, respectively.

Our PBT margin decreased from 19.39% in FPE 2021 to 6.42% in FPE 2022 which was mainly due to the decrease in GP margin from 32.05% in FPE 2021 to 22.59% in FPE 2022, attributed to the increase in purchase price of our sunflower seeds and other snack foods in FPE 2022. The lower PBT margin in FPE 2022 was also due to the higher percentage of selling and administrative expenses of 17.08% against total revenue in FPE 2022 compared to 13.07% against total revenue in FPE 2021, due to the increase in professional fees mainly for our IPO corporate exercise by RM2.32 million in FPE 2022.

For the FPE 2022, our tax expenses were RM1.75 million which was lower compared to the previous financial period, due to the decrease in our PBT.

12. FINANCIAL INFORMATION (CONT'D)

For FPE 2022, our effective tax rate is 44.90%, which is higher than the statutory tax rate in Thailand of 20%. The higher effective tax rate for FPE 2022 was mainly due to origination of temporary differences on undistributed retained earnings of combined entities of RM0.48 million and higher non-allowable expenses of RM0.47 million as there was no taxable income for our investment holding company (i.e., Wellspire), therefore the expenses incurred at Wellspire company level are not allowed for tax deduction.

12.3.9 Significant factors materially affecting our operations and financial results

Significant factors affecting our business include, but are not limited to, the following:

(i) We are dependent on our distributor agreement for ChaCha sunflower seeds and nuts

We are dependent on our principal namely QiaQia for the distribution of ChaCha sunflower seeds and nuts in Thailand. Our revenue derived from the sales of ChaCha sunflower seeds and nuts accounted for RM56.11 million (96.11%), RM112.24 million (93.76%), RM125.57 million (91.86%) and RM55.80 million (92.21%) for FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively.

As at the LPD, our subsidiary, Bai Li Enterprise, has an exclusive Distributor Agreement with QiaQia which is valid for 1 year, commencing from 1 January 2022 to 31 December 2022, and renewable yearly by QiaQia. A Distributor Supplementary Agreement has also been entered into with QiaQia in respect of the sales incentive plan on 13 May 2022. We have a long-standing relationship with QiaQia Group for the past 10 years (i.e., since year 2012) and have been an exclusive distributor of QiaQia since 1 January 2013. However, there is no assurance that we would be able to maintain our business relationships if we are unable to fulfil our obligations as an exclusive distributor.

If we are unable to meet our obligations under the Distributor Agreement and Distributor Supplementary Agreement, there is a risk that we would lose our distributorship of ChaCha sunflower seeds and nuts. Please refer to Section 7.20.1 of this Prospectus for the salient terms of the Distributor Agreement and Distributor Supplementary Agreement. Any termination or non-renewal of our Distributor Agreement will adversely affect our business and financial performance. In addition, there is no assurance that our Distributorship Agreement will be renewed even if we meet all our distributorship requirements.

For further details on risk factors, please refer to Section 9.1.1 of this Prospectus.

(ii) We are dependent on a group of major customers and any disruption or loss of these customers may affect our financial performance

We are and continue to be dependent on a group of major customers, namely CP All, Siam Makro and Ek-Chai Distribution ("CP All Group") as well as Valueplus. CP All have shareholdings in Siam Makro and Ek-Chai Distribution. Collectively, the CP All Group accounted for 82.98%, 75.26%, 66.31% and 63.76% of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively. CP All was our largest customer having accounted for 71.40%, 49.79%, 40.97% and 44.55% of our total revenue for the FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively.

Valueplus accounted for 17.46% and 25.61% of our total revenue for FYE 2021 and FPE 2022, respectively. Our access to traditional market is through sales to our customer Valueplus that mainly serves the traditional market. If we were to lose Valueplus it would affect our access to the traditional market until such time we secure customers that serve the traditional market. As such, any material reduction or disruption in purchases or termination of business relationship from Valueplus will adversely affect our business and financial performance.

12. FINANCIAL INFORMATION (CONT'D)

As we operate based on purchase orders which are typically issued by our customers at their discretion, there can be no assurance that purchase orders will continue to be issued. As such, any reduction or disruption in purchases or termination of business relationship from CP All Group will adversely affect our business and financial performance.

For further details on risk factors, please refer to Section 9.1.2 of this Prospectus.

(iii) Our Group is dependent on a single product, sunflower seeds, and QiaQia Group as a single supplier for the sunflower seeds

As stated in Section 7.5.2 of this Prospectus, our Group's revenue derived from the sales of ChaCha sunflower seeds accounted for RM56.11 million (95.42%), RM111.79 million (93.39%), RM125.39 million (91.72%) and RM55.71 million (92.07%) for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively.

Sunflower seeds is a snack product and a non-essential food item. As such, any reduction in the demand for snack foods particularly sunflower seeds may adversely affect our business and financial conditions. Some of the factors that may affect the demand of sunflower seeds as a snack food include, reduction in discretionary income, increase in inflation rate which reduces consumer spending on non-essential food items, changes in consumer tastes and preferences, and increased popularity of other snack foods as substitutes.

Furthermore, as stated in Sections 7.19, 7.20 and 9.1.1 of this Prospectus, we are dependent on our principal, QiaQia, for the supply of and exclusive distributorship we have for the ChaCha brand sunflower seeds and nuts in Thailand. Please refer to Section 7.20.1 of this Prospectus for the salient terms of the Distributor Agreement and Distributor Supplementary Agreement.

Notwithstanding our long track record and relationship with QiaQia Group for approximately 10 years since 2012, there is no assurance that QiaQia Group will continue to appoint us as its exclusive distributor or supply the ChaCha brand sunflower seeds and nuts to our Group.

As at the LPD, our subsidiary, Bai Li Enterprise, has an exclusive Distributor Agreement with QiaQia which is valid for 1 year, commencing from 1 January 2022 to 31 December 2022, and renewable yearly by QiaQia.

In the event that our Distributor Agreement is not renewed, our revenue derived from the sales of ChaCha sunflower seeds which accounted for 95.42%, 93.39%, 91.72% and 92.07% of our total revenue for FYE 2019, FYE 2020, FYE 2021 and FPE 2022, respectively will be adversely affected. As our dependency on our exclusive Distributor Agreement with QiaQia affects at least 90% of our total revenue for the Financial Years and Period Under Review, we may not be able to promptly replace a substantial portion of our revenue derived from our Distributor Agreement with QiaQia.

Although we have plans to expand our range of products to include other types and brands of snack foods to reduce our reliance on ChaCha brand of sunflower seeds, however, in the event we are unable to reduce the reliance on ChaCha brand of sunflower seeds and unable to expand our product range, we will continue to be dependent on sunflower seeds as a single product for our Group.

In the event we are unable to continue the sale of the ChaCha brand sunflower seeds or unable to procure supply of the ChaCha brand sunflower seeds from QiaQia Group, it would have a material adverse effect on our Group's financial performance and profitability.

12. FINANCIAL INFORMATION (CONT'D)**(iv) Impact of increases in the costs for the supply of our consumer packaged foods**

We face risks in increases in our cost for the supply of our consumer packaged foods which may adversely affect our financial performance. The increase in our cost may arise from price increases of consumer packaged foods from our suppliers as well as costs of transportation.

Cost increases will eventually require us to increase our selling prices, which may reduce our competitiveness. This would affect our ability to secure new orders from our customers which may affect our revenue and business growth. Alternatively, if we were to absorb some of these costs to stay competitive, it may reduce our profit margins.

In FYE 2021 and FPE 2022, we experienced an increase in our purchase price of most of our consumer packaged foods from our suppliers including ChaCha sunflower seeds and mixed nuts, Cundo layer cake, Miyu chocolate cone, Pee Ree green peas and watermelon seed. Consequently, we managed to pass some of the increase in cost to wholesaler customers. However, for our major retailer customers, we continued to maintain the selling prices of most of our consumer packaged foods, including ChaCha sunflower seeds. As such, this affected our profitability in FYE 2021 and FPE 2022 where our Group's GP margin decreased from 30.66% in FYE 2020 to 27.92% in FYE 2021 and 22.59% in FPE 2022. Correspondingly, this affected our PBT margin where it decreased from 18.36% in FYE 2020 to 13.97% in FYE 2021 and 6.42% in FPE 2022. Please refer to Section 12.3.4 and Section 12.3.8 of this Prospectus for further details on our GP and PBT margins.

In the event we are unable to pass on any of the future cost increases to our customers or if we are unable to do so in a timely manner where we have to absorb the increase in the cost of our consumer packaged foods, this would adversely affect our profitability and financial performance.

For further details on risk factors, please refer to Section 9.1.3 of this Prospectus.

(v) Outbreaks of epidemics or pandemics

Our business is focused on the consumer market where purchases of our snack food products, are mainly through retail outlets. In the event of an epidemic or pandemic such as the COVID-19, retail outlets selling our products may be required to close, certain areas subjected to lockdown, entertainment outlets such as cinemas where our products are consumed are closed, and social gatherings discouraged we may experience dropped in the sales and consumption of our products. This will adversely affect our financial performance.

For further details on the risk factors, please refer to Section 7.17 and Section 9.1.9 of this Prospectus.

(vi) Impact on foreign currency exchange rate fluctuations

Our Company's reporting currency is in RM whilst the reporting currency of our Group's subsidiaries, namely Vine Growth Holdings, Bai Li Holdings, Bai Li Enterprise and Keymall Retail are prepared in THB. If the THB depreciates against the RM, our Group's reported financial results may be affected.

In addition, some of our purchases of snack foods are imported and denominated in foreign currency, namely USD. For the Financial Years and Period Under Review, approximately 93.09%, 25.63%, 13.74% and 8.23% of our purchases in FYE 2019, FYE 2020, FYE 2021 and FPE 2022 respectively, was denominated in USD. As all our revenue is transacted in THB, our business is subject to risks relating to any unfavourable foreign currency exchange rate fluctuations which may materially affect our financial performance.

12. FINANCIAL INFORMATION (CONT'D)

The breakdown of our purchases transacted in THB and USD for the Financial Years and Period Under Review is summarised in the following table:

Currency	FYE 2019		FYE 2020		FYE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
THB	2,823	6.91	60,477	74.37	86,481	86.26	41,839	91.77
USD	38,056	93.09	20,845	25.63	13,777	13.74	3,750	8.23
Total	40,879	100.00	81,322	100.00	100,258	100.00	45,589	100.00

(vii) Impact on interest rate fluctuations

As at 30 June 2022, our total borrowings were RM6.05 million which were all interest bearing, and was based on floating and fixed interest rates. Our finance cost decreased from RM0.34 million for the FYE 2019 to RM0.20 million for the FYE 2020 and subsequently increased to RM0.27 million for the FYE 2021. Our finance cost also increased from RM0.12 million for the FPE 2021 to RM0.18 million for the FPE 2022. In this respect, any increase in interest rates may negatively affect our financial performance. For the FYE 2019 and FYE 2020, our finance costs mainly comprised interest charges on loans from our related parties. In FYE 2021 and FPE 2022, our finance cost mainly comprised interest charges on banking facilities including term loans, finance lease liabilities, invoice financing and revolving credit, that were granted by banks and financial institutions.

Except for finance lease liabilities, all our borrowings were based on the prevailing bank's base lending rate or base financing rate plus/minus a margin agreed with our banking institutions when respective loans and financing were granted. Meanwhile, our finance lease liabilities and revolving credit were charged based on fixed rates.

In this respect, we face financial risks relating to the increase in interest rates that may impact our financial performance including profitability and margins. For the Financial Years and Period Under Review and up to the LPD, we have not defaulted on any payments of either principal sums and/or interests in relation to our borrowings.

(viii) Impact of inflation

Our financial performances for the Financial Years and Period Under Review were not materially affected by the impact of inflation. However, we believe that we would not be able to pass on all future increases in costs of materials and services of our operations to our customers.

An increase in the inflation rate, if not matched with increase in salaries and wages may result in consumers having less discretionary income. As our snack foods are non-essential goods, a reduced discretionary income may cause consumers to buy less of our products.

Accordingly, there can be no assurance that future inflation would not have an impact on our business and financial performance.

(ix) Government/economic/fiscal/monetary policies

For the Financial Years and Period Under Review and up to the LPD, our operations are pre-dominantly based in Thailand (i.e., our PAT has been entirely derived from Thailand). Therefore, our business operations is subject to risks relating to government, economic, fiscal or monetary policies in Thailand. Any unfavourable changes in such government policies, economic conditions, or fiscal or monetary policies may materially affect our operations in Thailand. For further details on risk factors, please refer to Section 9.2.5 of this Prospectus.

12. FINANCIAL INFORMATION (CONT'D)**12.3.10 Liquidity and capital resources****(i) Working Capital**

Our business has been financed by both internal and external sources of funds. Our internal sources of funds comprise cash generated from our business operations and shareholders' equity, while our external sources were mainly banking facilities from financial institutions. These funds were used for our business operations and growth.

As at 30 June 2022, our cash and bank balances amounted to RM12.89 million and our total borrowings were RM6.05 million. As at 30 June 2022, our gearing ratio is 0.23 times and the current ratio is 4.00 times. As at the LPD, we have banking facilities of RM18.61 million including revolving credit and invoicing financing, of which RM16.13 million has yet to be utilised.

Based on the above and taking into consideration of our funding requirements for our committed capital expenditure, expected cash flow to be generated from our operations and the impact of the COVID-19 pandemic on our business, the amount that is available under our existing banking facilities, as well as proceeds to be raised from the Public Issue, our Board believes that we have adequate working capital to meet our present and foreseeable requirements for 12 months from the date of this Prospectus.

(ii) Cash Flows

The following is the summary of our combined statements of cash flows for the Financial Years and Period Under Review. This should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus.

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Net cash (used in)/ from operating activities	(34)	5,133	14,843	2,936
Net cash (used in)/from investing activities	(113)	(297)	1,255	(518)
Net cash from/(used in) financing activities	737	(1,573)	(14,448)	4,003
Net increase in cash and cash equivalents	590	3,263	1,650	6,421
Effects of exchange rate changes on cash and cash equivalents	(59)	3	208	582
Cash and cash equivalents at the beginning of the financial year/ period	227	758	4,024	5,882
Cash and cash equivalents at the end of the financial year/ period ^(a)	<u>758</u>	<u>4,024</u>	<u>5,882</u>	<u>12,885</u>

Note:

(a) The components of our cash and cash equivalents are set out as below:

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Cash and bank balances	758	4,024	5,882	12,885
Total	<u>758</u>	<u>4,024</u>	<u>5,882</u>	<u>12,885</u>

(a) Net cash (used in)/ from operating activities**FYE 2019**

For the FYE 2019, our operating cash flow before working capital changes were RM7.35 million. Our net cash used in operating activities was RM0.03 million after adjusting for the following key items for working capital changes:

12. FINANCIAL INFORMATION (CONT'D)

- Increase in trade and other receivables of RM9.52 million mainly due to the increase in trade receivables due to slower repayment by most of our retailer customers. We subsequently collected the majority of the trade receivables within the first quarter of FYE 2020.
- Increase in trade and other payables of RM2.57 million mainly due to the increase in other payables arising from advances from a director namely Saranjit Wang amounting to RM2.53 million in FYE 2019 for working capital purposes;
- Increase in inventories of RM0.20 million mainly due to increase in purchases to meet customer orders at the last quarter of FYE 2019; and
- Income tax paid of RM0.24 million.

For FYE 2019, we recorded a negative operating cash flow of RM0.03 million which was mainly attributed to the increase in trade and other receivables by RM9.52 million contributed by slower repayment by most of our retailer customers (the trade receivables turnover period was 94 days compared to the normal credit term granted its customers of 30 days to 60 days). We subsequently collected 98.88% of the trade receivables within the first quarter of FYE 2020.

FYE 2020

For the FYE 2020, our operating cash flow before working capital changes were RM24.06 million. Our net cash from operating activities was RM5.13 million after adjusting for the following key items for working capital changes:

- Increase in trade and other receivables of RM9.97 million mainly due to the increase in trade receivables by RM7.98 million arising from an increase in sales to major customers namely CP All and Siam Makro in the last quarter of FYE 2020;
- Decrease in trade and other payables of RM5.21 million mainly due to the repayment of advances from a director, namely Saranjit Wang amounting to RM6.86 million. This was partially offset by an increase in accruals by RM1.06 million arising from cost incurred on advertisement and promotional expenses and professional fees, as well as other payables by RM0.51 million arising from withholding tax payable and amount owing to Thai Revenue Department; and
- Increase in inventories of RM1.86 million mainly due to the increase in purchases to meet customers' orders during the last month of FYE 2020;
- Income tax paid of RM1.88 million.

FYE 2021

For the FYE 2021, our operating cash flow before working capital changes were RM19.75 million. Our net cash from operating activities was RM14.84 million after adjusting for the following key items for working capital changes:

- Decrease in trade and other receivables of RM4.54 million mainly due to the decrease in trade receivables by RM4.87 million due to prompt repayment by certain major retailer customers, as well as decrease in prepayments by RM1.35 million arising from refund from Gosstech for cancellation of software implementation of RM1.15 million.

12. FINANCIAL INFORMATION (CONT'D)

- Increase in trade and other payables of RM0.59 million mainly due to the increase in trade amount due to a related party, namely New Straits Pte Ltd, by RM0.80 million due to the commencement of purchase of Mina dried fruits;
- Increase in inventories of RM4.12 million was mainly due to the increase holding of inventories in line with the overall increase in customers' orders during the FYE 2021; and
- Income tax paid of RM5.93 million.

FPE 2022

For the FPE 2022, our operating cash flow before working capital changes were RM4.41 million. Our net cash flow from operating activities was RM2.94 million after adjusting for the following key items for working capital changes:

- Decrease in trade and other receivables of RM2.23 million mainly due to the decrease in trade receivables by RM2.87 million due to decrease in sales at the end of FPE 2022 compared to sales at the end of FYE 2021. This was partially offset by the increase in other receivables by RM0.72 million attributed mainly by accrued income of RM1.01 million in FPE 2022. The accrued income was pertaining to sales incentive rebates billed to QiaQia for our total purchases of ChaCha sunflower seeds in FYE 2021. The said rebates were subsequently paid in July 2022;
- Decrease in trade and other payables of RM1.65 million mainly due to the decrease in other payables by RM1.38 million mainly due to payments of accrued professional fees of RM0.62 million, payment of bonus of RM0.35 million, payment of accrued promotional expenses of RM0.23 million and payment of accrued freight and forwarding expenses of RM0.10 million;
- Increase in inventories of RM0.13 million mainly due to the increase in the purchase price of ChaCha sunflower seeds in FPE 2022; and
- income tax paid of RM1.92 million.

(b) Net cash (used in)/from investing activities**FYE 2019**

For the FYE 2019, our net cash used in investing activities was RM0.11 million which was used to fund the acquisition of 3 units of second-hand motor vehicles, 1 unit of forklift, as well as office equipment and computers.

FYE 2020

For the FYE 2020, our net cash used in investing activities was RM0.30 million mainly due to the following:

- RM0.31 million of cash used to purchase 2 units of motor vehicles, renovation of our distribution centre, as well as the purchase of furniture and fittings, office equipment and computers;
- RM0.28 million of cash was used to fund the cash injection for the setting up and acquisition of equity interests in our former associate companies, namely, Mega Alliance and Valueplus, for RM0.20 million and RM0.08 million, respectively; and

12. FINANCIAL INFORMATION (CONT'D)

- RM0.12 million of cash used to partially fund the purchase of ROUA including 3 units of motor vehicles totalling RM0.71 million where the remaining RM0.59 million was financed by hire purchase.

This was partially offset by the cash inflow of RM0.40 million arising from dividend income received from a former associate company, Mega Alliance.

FYE 2021

For the FYE 2021, our net cash from investing activities was RM1.26 million, mainly attributed to proceeds from the disposal of other investments of RM1.24 million, namely our former associate companies. We disposed of the entire equity interest of Mega Alliance and Valueplus on 28 February 2021 and 19 July 2021 respectively, for consideration of approximately RM0.20 million and RM1.04 million respectively.

In FYE 2021, we also received dividend income from a former associate company, Mega Alliance, totalling RM0.31 million.

This was partially offset by the cash outflow of RM0.30 million mainly from the purchase of PPE of RM0.28 million including motor vehicles, furniture and fittings, computer, and office equipment, as well as the cash used to partially fund the purchase of ROUA, namely motor vehicles, of RM0.02 million.

FPE 2022

For the FPE 2022, our net cash used in investing activities was RM0.52 million which was mainly used to fund the renovation works on Wellspire's office in Kuala Lumpur, Malaysia of RM0.20 million, purchase of 1 unit of forklift of RM0.11 million, purchase of machinery and tools of RM0.10 million as well as purchase of office equipment, furniture and fittings and computers, totalling RM0.10 million.

(c) Net cash from/(used in) financing activities**FYE 2019**

For the FYE 2019, our net cash from financing activities was RM0.74 million. This was mainly attributed to the drawdown of borrowings of RM16.88 million mainly comprising loans from banks namely invoice financing, revolving credit and term loans totalling RM16.04 million, and loan from a related party, He Haibin of RM0.86 million.

This was partially offset by the following:

- repayment of borrowings of RM15.60 million mainly comprises repayment of loans from banks of RM15.50 million and partial repayment of loans from related parties namely Good Partner Holdings Pte. Ltd. and He Haibin of RM0.07 million and RM0.03 million, respectively; and
- payments of lease liabilities totalling RM0.54 million for our distribution facilities leases (RM0.39 million) and our hire purchases on motor vehicles (RM0.15 million).

12. FINANCIAL INFORMATION (CONT'D)

FYE 2020

For the FYE 2020, our net cash used in financing activities was RM1.57 million. This was mainly attributed to the following:

- repayment of borrowings of RM16.14 million mainly comprises repayments of loans from banks of RM14.37 million, as well as full repayment of loans from related parties namely Good Partner Holdings Pte. Ltd. and He Haibin of RM0.92 million and RM0.85 million, respectively;
- payments of lease liabilities totalling RM 1.20 million for our distribution facilities leases (RM0.83 million) and our hire purchases on motor vehicles (RM0.37 million); and
- payments of dividends by Bai Li Enterprise to its shareholders of RM0.32 million.

This was partially offset by cash inflow from the drawdown of borrowings from banks namely invoice financing, revolving credit and term loans totalling RM16.08 million for the financing of our working capital.

FYE 2021

For the FYE 2021, our net cash used in financing activities was RM14.45 million. This was mainly due to the following:

- repayment of borrowings from banks of RM55.08 million which was drawdown for the financing of working capital;
- payment of dividends by Bai Li Enterprise to its shareholders of RM22.82 million; and
- payments of lease liabilities of RM2.00 million for our distribution facilities leases (RM1.60 million) and our hire purchases on motor vehicles (RM0.41 million).

This was offset by cash inflow from the drawdown of borrowings from banks namely invoice financing, revolving credit and term loans totalling RM62.35 million for mainly for the financing of our working capital.

FPE 2022

For the FPE 2022, our net cash from financing activities was RM4.00 million. This was mainly attributed to the increase in share capital of Wellspire by RM10.00 million.

This was partially offset by cash outflow from the repayment of borrowings and lease liabilities as follows:

- repayment of borrowings from banks of RM4.90 million which was mainly drawdown for the financing of working capital; and
- payments of lease liabilities totalling RM1.12 million for our distribution facilities and office leases of RM0.92 million and our hire purchases on motor vehicles of RM0.20 million.

12. FINANCIAL INFORMATION (CONT'D)**(iii) Borrowings**

As at 30 June 2022, our Group's borrowings and lease liabilities on motor vehicles were RM6.05 million, all of which were interest-bearing and denominated in THB. The details of our bank borrowings are set out below:

Type of borrowings	Weighted average effective interest rates (%)	As at 30 June 2022		
		Payable within 12 months	Payable after 12 months	Total
		RM'000	RM'000	RM'000
Invoice financing	3.97	2,602	-	2,602
Revolving credit	2.00	2,499	-	2,499
Term loans	3.29	99	261	360
Lease liabilities on motor vehicles	6.03	347	240	587
Total		5,547	501	6,048

Gearing ratio⁽¹⁾ **0.23**

Note:

(1) Computed based on borrowings and lease liabilities on motor vehicles over total equity.

As at 30 June 2022, our Group's floating and fixed-rate borrowings are set out below:

	RM'000
Floating rate borrowings ⁽¹⁾	2,921
Fixed-rate borrowings ⁽²⁾	3,127
Total borrowings	6,048

Notes:

(1) Include invoice financing and term loans.

(2) Include revolving credit and lease liabilities on motor vehicles.

As at the LPD, we have banking facilities of RM18.61 million including revolving credit and invoicing financing, of which RM 16.13 million has yet to be utilised, as follows:

Type of banking facilities	Credit limit THB'000	Credit limit* RM'000	Balance unutilised as at the LPD RM'000
Invoice financing	130,000	16,126	16,126
Revolving credit	20,000	2,481	-
Total	150,000	18,607	16,126

Note:

* Based on conversion rate THB100 = RM12.4045 as at the LPD.

12. FINANCIAL INFORMATION (CONT'D)

As at the LPD, we do not have any borrowings which are non-interest bearing. Our Group has not defaulted on payments of principal sums and/or interests concerning any borrowings for the Financial Years and Period Under Review and up to the LPD.

We do not encounter seasonality in the trend of our borrowings and there is no restriction on the use of our committed banking facilities, save for prior consents from the licensed banks before using the banking facilities, where necessary.

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

As at the LPD, save as disclosed above, our Group did not use any other financial instruments.

12.3.11 Treasury policies and objectives

Our Group's operations have been funded through shareholder's equity, cash generated from our business operations and external sources of funds. The external sources of funds consist primarily of banking facilities from financial institutions. The normal credit terms granted by our suppliers is 30 days to 120 days for 2 suppliers while we make payment in advance for 2 suppliers, namely ChaCha Thailand and Jet Voyage.

As at the LPD, our Group's banking facilities from financial institutions mainly consist of the following:

- invoice financing and revolving credit for working capital purposes;
- term loans for mainly working capital purposes; and
- lease liabilities for the purchase of motor vehicles.

The interest rates for our bank borrowings are based on the market rates prevailing at the dates of the respective transactions. As at the LPD, our Group has available banking facilities amounting to RM18.61 million including revolving credit and invoice financing, of which RM16.13 million has yet to be utilised.

The main objective of our capital management is to ensure sustainable shareholder's equity to ensure our ability to support and grow our business to maximise shareholders' value. We review and manage our capital structure to maintain our debt-to-equity ratio at an optimal level based on our business requirements and prevailing economic conditions.

12.3.12 Financial instruments for hedging purposes

For the Financial Years and Period Under Review and up to the LPD, we do not use any financial instrument for hedging purposes. Moving forward, if our purchases transacted in foreign currencies exceed 20% of our total annual purchases for 3 months, we may consider utilising financial instruments for hedging purposes.

12.3.13 Material litigation, contingent liabilities and commitment for capital expenditure

(i) Material litigation

As at the LPD, neither our Company nor our subsidiaries are involved in any material litigation, claim or arbitration either as plaintiff or defendant and we are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially or adversely affect our position or business.

12. FINANCIAL INFORMATION (CONT'D)**(ii) Material contingent liabilities**

As at the LPD, our Group do not have any contingent liabilities.

(iii) Material commitment for capital expenditures

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

	Capital commitment RM'000	Source of funds	
		Internally generated funds/bank borrowings RM'000	IPO proceeds RM'000
Approved but not contracted for:			
- Acquisition of a warehouse and operational facility in Thailand	16,000	-	16,000
Total	16,000	-	16,000

Note:

- (1) We plan to allocate up to RM16.00 million of the IPO proceeds to acquire a warehouse and operational facility in Thailand.

Please refer to Section 4.7.1 and 7.24.1 of this Prospectus for further details of our business strategy and plans.

12.3.14 Key financial ratios

The following table provides the key financial ratios for the Financial Years and Period Under Review:

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
Trade receivables turnover period (days) ⁽¹⁾	94	70	48	45
Trade payables turnover period (days) ⁽²⁾	-	Less than 1	3	2
Inventory turnover period (days) ⁽³⁾	10	12	23	24
Current ratio (times) ⁽⁴⁾	1.35	2.91	1.86	4.00
Gearing ratio (times) ⁽⁵⁾	0.94	0.22	0.75	0.23

Notes:

- (1) Computed based on closing trade receivables of the respective financial years/ period over total revenue of the respective financial years/ period and multiplied by 365 days and 181 days, respectively.
- (2) Computed based on closing trade payables of the respective financial years/ period over the total cost of sales of the respective financial years/ period and multiplied by 365 days and 181 days, respectively.
- (3) Computed based on closing inventory of the respective financial years/ period over the total cost of sales of the respective financial years/ period and multiplied by 365 days and 181 days, respectively.
- (4) Computed based on current assets over current liabilities.
- (5) Computed based on borrowings and lease liabilities on motor vehicles over total equity.

12. FINANCIAL INFORMATION (CONT'D)**(i) Trade receivables**

The breakdown of our Group's trade receivables is as set out below:

	FYE 2019	FYE 2020	FYE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000
Trade receivables	15,065	23,045	18,140	15,274
Less:				
Impairment loss	-	(229)	(195)	(137)
Net trade receivables	<u>15,065</u>	<u>22,816</u>	<u>17,945</u>	<u>15,137</u>
Revenue	58,799	119,706	136,707	60,509
Trade receivables turnover period (days) ^(a)	94	70	48	45

Note:

- (a) *Computed based on closing trade receivables of the respective financial years/ period over total revenue of the respective financial years/ period and multiplied by 365 days and 181 days, respectively.*

We deal with our customers either on cash or credit terms. For retailer customers, the normal credit term that we generally grant ranges from 30 days to 60 days. For wholesale customers, we deal with them on cash terms.

As part of our credit control process, our finance team closely monitor our ageing report and assess the collectability of trade receivables on an individual customer basis regularly to ensure prompt payment within the credit period granted. For any trade receivables which have exceeded the normal credit period granted to customers, we will follow up with calls and send reminders and where appropriate, provide for specific impairment on those trade receivables where recoverability is uncertain based on our dealings with the customers.

In FYE 2019, our trade receivable turnover period was 94 days which is higher than the normal credit terms granted to our customers of 30 days to 60 days. This was mainly due to the slow repayment by most of our major retailer customers caused by delays in the validation of invoices by the said customers for payment as a result of higher billings towards the end of FYE 2019.

For the FYE 2020, our trade receivable turnover period improved from 94 days in FYE 2019 to 70 days in FYE 2020. This was mainly due to prompt repayment by certain major retailer customers. Nevertheless, the trade receivables turnover period was still higher than the normal credit terms granted to customers as there was slow repayment by some of our major retailer customers.

For the FYE 2021, our trade receivables turnover period improved from 70 days in FYE 2020 to 48 days in FYE 2021. This was mainly due to prompt repayment by certain major retailer customers.

For the FPE 2022, our average trade receivables turnover period improved from 48 days in FYE 2021 to 45 days in FPE 2022. This was due mainly to improvements in collections from sales made in FPE 2022.

12. FINANCIAL INFORMATION (CONT'D)

Our trade receivables ageing analysis as at 31 December 2021 is as follows:

	Not past due	Past due (days)			Total
		1 – 30	31 – 120	>120	
Trade receivables (RM'000)	16,864	1,061	39	176	18,140
Less: Impairment loss (RM'000)	(10)	(7)	(22)	(156)	(195) ⁽¹⁾
Net trade receivables (RM'000)	16,854	1,054	17	20	17,945
<i>Proportion of net trade receivables (%)</i>	93.92	5.87	0.09	0.11	100.00
Subsequent collections as at the LPD (RM'000)	16,854	1,054	17	20	17,945
Net trade receivables after subsequent collections (RM'000)	-	-	-	-	-
<i>Proportion of net trade receivables after subsequent collections (%)</i>	-	-	-	-	-

Note:

- (1) *Approximately RM80,000 of the trade receivables impaired has also been collected from our customers as at the LPD. The said collections are not from our major customers.*

As at the LPD, all our net trade receivables outstanding as at 31 December 2021 has been collected from our customers.

Our trade receivable ageing analysis as at 30 June 2022 is as follows:

	Not past due	Past due (days)			Total
		1 – 30	31 – 120	>120	
Trade receivables (RM'000)	14,177	962	2	133	15,274
Less: Impairment loss (RM'000)	(2)	(8)	(3)	(124)	(137) ⁽¹⁾
Net trade receivables (RM'000)	14,175	954	-	9	15,138
<i>Proportion of net trade receivables (%)</i>	93.64	6.30	-	0.06	100.00
Subsequent collections as at the LPD (RM'000)	14,178	951	-	9	15,138
Net trade receivables after subsequent collections (RM'000)	-	-	-	-	-
<i>Proportion of net trade receivables after subsequent collections (%)</i>	-	-	-	-	-

Note:

- (1) *Approximately RM23,000 of the trade receivables that were impaired has also been collected from our customers as at LPD. The said collections are not from our major customers.*

As at the LPD, all our net trade receivables outstanding as at 30 June 2022 of RM15.14 million had been collected.

12. FINANCIAL INFORMATION (CONT'D)**(ii) Trade payables**

The breakdown of our Group's trade payables is as set out below:

	FYE 2019	FYE 2020	FYE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000
Trade payables	-	75	871	631
Cost of sales	48,637	83,000	98,535	46,839
Trade payables turnover period (days) ^(a)	-	Less than 1	3	2

Note:

- (a) Computed based on closing trade payables of the respective financial years/ period over the total cost of sales of the respective financial years/ period and multiplied by 365 days and 181 days, *respectively*.

We deal with QiaQia Group and one supplier on a full advance payment basis upon placement of orders. Meanwhile, two other suppliers grant us credit terms of 30 days to 120 days.

As the majority of our purchases are mainly paid in advance, our trade payables turnover period is between less than 1 day and 3 days.

Our trade payables ageing analysis as at 31 December 2021 is as follows:

	Not past due	Past due (days)			Total
		1 – 30	31 – 120	> 120	
Trade payables (RM'000)	871	-	-	-	871
<i>Proportion of trade payables (%)</i>	<i>100.00</i>	-	-	-	<i>100.00</i>
Subsequent payments as at the LPD (RM'000)	871	-	-	-	871
Net trade payables after subsequent payments (RM'000)	-	-	-	-	-
<i>Proportion of trade payables after subsequent payments (%)</i>	-	-	-	-	-

As at the LPD, all trade payables as at 31 December 2021 has been paid to our suppliers.

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12. FINANCIAL INFORMATION (CONT'D)

Our trade payables ageing analysis as at 30 June 2022 is as follows:

	Not past due	Past due (days)			Total
		1 – 30	31 – 120	> 120	
Trade payables (RM'000)	631	-	-	-	631
<i>Proportion of trade payables (%)</i>	<i>100.00</i>	-	-	-	<i>100.00</i>
Subsequent payments as at LPD (RM'000)	631	-	-	-	631
Net trade payables after subsequent payments (RM'000)	-	-	-	-	-
<i>Proportion of trade payables after subsequent payments (%)</i>	-	-	-	-	-

As at the LPD, all trade payables as at 30 June 2022 has been paid to our suppliers.

(iii) Inventory turnover

The breakdown of our Group's inventory is as set out below:

	FYE 2019	FYE 2020	FYE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000
Total inventory	1,368	2,658	6,252	6,197
Consisting of:				
- Finished goods	1,368	2,658	6,252	6,197
• Third-party brand	1,321	1,796	5,111	5,461
• Own brand	47	862	1,141	736
Cost of Sales	48,637	83,000	98,535	46,839
Inventory turnover period (days) ⁽¹⁾	10	12	23	24

Note:

- (1) *Computed based on the closing inventory of the respective financial years/ period over the total cost of sales of the respective financial years/ period and multiplied by 365 days and 181 days, respectively.*

Our inventory comprises finished goods namely consumer packaged snack foods such as sunflower seeds, other seeds and nuts, baked and confectionery products, and dried fruits. These finished goods are stored as stock in our dry warehouse storage and chiller room.

For the FYE 2020, our inventory turnover period increased from 10 days in FYE 2019 to 12 days in FYE 2020. This was mainly due to the increase in purchases to meet the increase in customer orders in the last quarter of FYE 2020.

For the FYE 2021, our inventory turnover period increased from 12 days in FYE 2020 to 23 days in FYE 2021. This was mainly due to the increased holding of inventories in line with the overall increase in customers' orders during the FYE 2021.

12. FINANCIAL INFORMATION (CONT'D)

For the FPE 2022, our inventory turnover period increased slightly from 23 days in FYE 2021 to 24 days in FPE 2022. This was mainly due to the lower revenue and in turn, lower cost of sales in FPE 2022.

(iv) Current ratio

The table below sets out a summary of our current ratio for the financial years and period indicated:

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
Current assets (RM'000)	17,205	31,193	30,584	35,450
Current liabilities (RM'000)	12,738	10,728	16,411	8,856
Current ratio (times) ^(a)	1.35	2.91	1.86	4.00

Note:

(a) *Computed based on current assets over current liabilities*

As at 31 December 2020, our current ratio was 2.91 times, which was higher compared to 1.35 times as at 31 December 2019. This was mainly due to higher trade receivables as at 31 December 2020 at RM22.82 million compared to RM15.07 million as at 31 December 2019 due to higher sales in FYE 2020. In addition, the decrease in current liabilities was mainly due to a decrease in the amount due to a Director by RM7.00 million to RM0.36 million as a result of repayments made during the financial year.

As at 31 December 2021, our current ratio was 1.86 times, which was lower compared to 2.91 times as at 31 December 2020. This was mainly due to the increase in borrowings from banks by RM6.98 million mainly for the financing of working capital.

As at 30 June 2022, our current ratio was higher at 4.00 times compared to 1.86 times as at 31 December 2021. This was mainly due to the decrease in overall current liabilities including borrowings by RM 4.61 million, trade and other payables by RM1.62 million, current tax liabilities by RM0.70 million and lease liabilities by RM0.62 million. The increase in current ratio was also due to the increase in current assets attributed mainly from higher cash and bank balances by RM7.00 million as at 30 June 2022.

(v) Gearing ratio

The table below sets out a summary of our gearing ratio for the financial years and period indicated:

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
Total borrowings ^(a) (RM'000)	3,985	4,265	10,880	6,048
Total equity (RM'000)	4,230	19,597	14,472	26,582
Gearing ratio (times) ^(b)	0.94	0.22	0.75	0.23

Notes:

(a) *Includes borrowings and lease liabilities on motor vehicles*

(b) *Computed based on borrowings and lease liabilities on motor vehicles over total equity.*

12. FINANCIAL INFORMATION (CONT'D)

As at 31 December 2020, our gearing ratio was 0.22 times, which was lower compared to 0.94 times as at 31 December 2019. This was mainly due to the increase in retained earnings and increase in non-controlling interest by RM11.58 million and RM3.84 million respectively.

As at 31 December 2021, our gearing ratio was 0.75 times, which was higher compared to 0.22 times as at 31 December 2020. This was mainly due to an increase in total borrowings by RM6.62 million mainly due to the drawdown of loans for financing of working capital. Additionally, this was partly due to a decrease in retained earnings from RM14.35 million in FYE 2020 to RM8.31 million in FYE 2021 which is attributed to dividends paid to common controlling shareholders of the combining entities of RM17.12 million in FYE 2021.

As at 30 June 2022, our gearing ratio decreased to 0.23 times from 0.75 times as at 31 December 2021. This was due to the increase in total equity by RM12.11 million mainly attributed from the increase in share capital of Wellspire by RM10.00 million as at 30 June 2022 coupled with the increase in retained earnings by RM1.07 million. The decrease in gearing ratio was also due to the decrease in total borrowings by RM4.83 million as at 30 June 2022 mainly due to the lower utilisation of bank borrowings namely invoice financing for financing of working capital.

12.3.15 Trend analysis

As at the LPD, save as disclosed in this Prospectus and to the best of our Board's knowledge and belief, 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, save as disclosed in this section and Sections 7 and 9 of this Prospectus;
- (ii) material commitment for capital expenditure, as set out in Section 12.3.13(iii) of this Prospectus;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations, save as disclosed in this section and Sections 7 and 9 of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits as well as our liquidity and capital resources, save as disclosed in this section and Sections 7, 8 and 9 of this Prospectus; and
- (v) 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, save as disclosed in this section and Sections 7 and 9 of this Prospectus.

Our Board is optimistic about the prospects of our Group after taking into consideration our Group's competitive advantages and key strengths, as well as business strategies as set out in Section 7 of this Prospectus.

12. FINANCIAL INFORMATION (CONT'D)

12.3.16 Order book

We do not maintain an order book as we are involved mainly in the distribution of consumer packaged snack foods whereby our sales are carried out based on purchase orders received from our customers on an ongoing basis.

12.3.17 Significant changes

Save as disclosed in Sections 3.11 and 7.17 of this Prospectus in relation to interruptions to our business and operations pursuant to the COVID-19 pandemic, there are no significant changes that have occurred which may have a material effect on the financial position and results of our Group subsequent to the FPE 2022 and up to the LPD.

12.3.18 Accounting policies which are peculiar to our Group

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to Note 3 of the Accountants' Report included in Section 13 of this Prospectus.

12.4 DIVIDEND POLICY

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our Subsidiaries, present and future. The payment of dividends by our Subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of Directors deem relevant.

In addition to the factors above which may affect the ability of our Subsidiaries to pay dividends to us, our Board will also consider, among others the following, when recommending the actual dividends for approval by shareholders or when declaring any interim dividends:

- (i) the level of our cash, gearing, return on equity and retained earnings;
- (ii) our expected financial performance and working capital needs;
- (iii) our capital expenditure and other investment plans;
- (iv) any material impact on tax laws and other regulatory requirements;
- (v) any restrictive covenants contained in our current and future financial arrangements; and
- (vi) the general economic and business conditions and other factors deemed relevant by our Board.

We target a payout ratio of up to 30% of Wellspire's profit attributable to common controlling shareholders of the combining entities of each financial year on a consolidated basis after taking into account working capital and maintenance of capital requirements, subject to any applicable law, licence conditions and contractual obligations and provided that such distribution will not be detrimental to our Group's cash requirements or any plans approved by our Board.

There are no dividend restrictions imposed on our subsidiaries as at the LPD.

12. FINANCIAL INFORMATION (CONT'D)

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our future dividends which are subject to modifications (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 future dividends declared by our Board, if any, will not differ materially from historical dividend levels. See Section 9.3 of this Prospectus for risk relating to investment in our shares.

The dividends declared and paid to Wellspire's common controlling shareholders of the combining entities for the Financial Years and Period Under Review are as follows:

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FPE 2022</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Dividend declared and paid	-	237	17,119	-
PAT attributable to common controlling shareholders of the combining entities	3,116	11,830	11,120	1,072
Dividend payout ratio (%)	-	2.00	153.95	-

For the FYE 2020 and FYE 2021, all the dividend declared and paid then was funded entirely by internally generated funds. For the FYE 2019, FPE 2022 and from 1 July 2022 up to the LPD, there was no dividend declared and paid. Further, there is no dividend paid or declared subsequent to the LPD but prior to our Listing. Such dividend paid is not expect to affect the execution and implementation of our business strategies and plans as set out in Section 7.24 of this Prospectus.

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13. ACCOUNTANTS' REPORT



Tel : +603 2616 2888
Fax : +603 2616 3190 / 3191
www.bdo.my

Level 8
BDO @ Menara CenTARa
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur
Malaysia

The Board of Directors
Wellspire Holdings Berhad
Lot D/E, Level 12
Tower 1, Etiqa Twins
11 Jalan Pinang
50450 Kuala Lumpur.

Date: 12 December 2022

Our Ref: BDO/KSL/AMY

Dear Sirs

Reporting Accountants' Opinion on the Combined Financial Statements Contained in the Accountants' Report of Wellspire Holdings Berhad ("Wellspire" or "the Company")

Opinion

We have audited the combined financial statements of Wellspire Holdings Berhad and its combining entities (collectively known as the "Group"), which comprise the combined statements of financial position as at 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022 of the Group, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years/period ended 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022, and notes to the combined financial statements, including a summary of significant accounting policies as set out in this report.

The historical combined financial statements have been prepared for inclusion in the prospectus of the Company (the "Prospectus") in connection with the listing and quotation of the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad (the "Listing"). This report is given for the purpose of complying with the ACE Market listing requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad and the Prospectus Guidelines issued by the Securities Commission Malaysia and for no other purpose.

In our opinion, the accompanying combined financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022, and of their financial performance and their cash flows for each of the financial years/period ended 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022 in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group 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 for 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.

13. ACCOUNTANTS' REPORT (CONT'D)

Reporting Accountants' Opinion on the Combined Financial Statements Contained in the Accountants' Report of Wellspire Holdings Berhad ("Wellspire" or "the Company") (continued)

Directors' Responsibility for the Combined Financial Statements

The Directors of the Company ("Directors") are responsible for the preparation of the combined financial statements of the Group that gives a true and fair view in accordance with MFRS and IFRS. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Reporting Accountants' Responsibility for the Audit of Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group;
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- (e) Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieve fair presentation; and
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

13. ACCOUNTANTS' REPORT (CONT'D)



Reporting Accountants' Opinion on the Combined Financial Statements Contained in the Accountants' Report of Wellspire Holdings Berhad ("Wellspire" or "the Company") (continued)

Reporting Accountants' Responsibility for the Audit of Combined Financial Statements (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

The comparative information in respect of the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows and related notes to the combined financial statements for the financial period ended 30 June 2021 has not been audited.

Restriction on Distribution and Use

This report has been prepared solely to comply with Appendix 3B, Part A of the Listing Requirements and Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion in the Prospectus in connection with the Listing and for no other purposes. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to read 'BDO PLT'.

BDO PLT
201906000013 (LLP0018825-LCA) & AF 0206
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Koo Swee Lin'.

Koo Swee Lin
03281/08/2024 J
Chartered Accountant

13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

1. GENERAL INFORMATION

The Company was incorporated in Malaysia under the Companies Act 2016 on 6 August 2021 as a private limited company under the name Wellspire Holdings Sdn. Bhd. ("the Company" or "Wellspire"). Subsequently on 25 March 2022, the Company was converted to a public limited company to embark on the Listing on the ACE Market of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan (KL).

The principal place of business of the Company is located at Lot D/E, Level 12, Tower 1, Etiqa Twins, 11 Jalan Pinang, 50450 Kuala Lumpur, Malaysia.

The principal place of business of the Group is located at 220/3, Moo 4 Tambon Rangsit, Thanyaburi District, Pathum Thani Province 12110, Thailand.

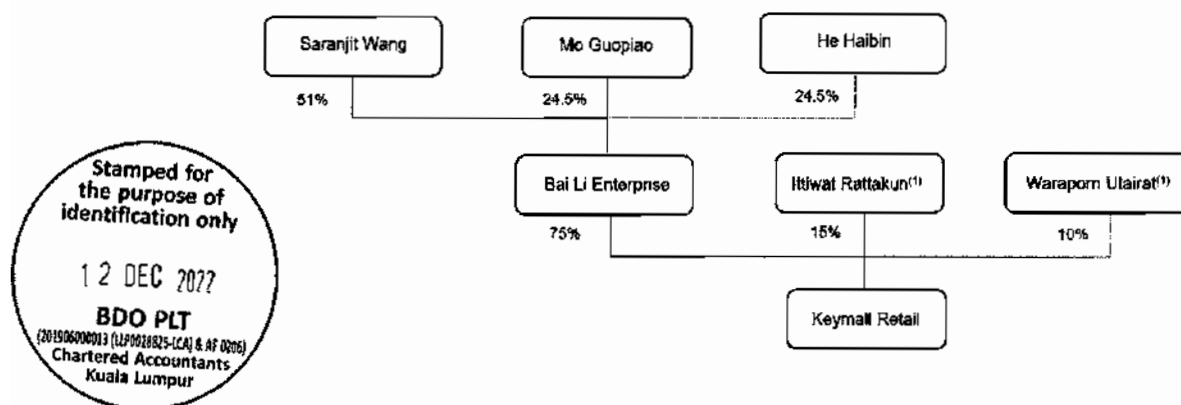
The Company is principally engaged in investment holding activities. The principal activities of the Group are set out in Note 6.21 to the combined financial statements.

The functional currency of the Group is Thai Baht ("THB"). The combined financial statements are presented in Ringgit Malaysia ("RM").

1.1 Details of the Listing**1.1.1 Internal reorganisation exercise**

In 2021 and in conjunction with the Listing, the Group carried out a pre-IPO internal reorganisation exercise, which involved the following steps:

- (i) The shareholding structure of Bai Li Enterprise Co., Ltd. ("Bai Li Enterprise") prior to the pre-IPO internal reorganisation exercise:

**Note:**

- (1) He/She has no relationship with the Company other than as shareholder of Keymall Retail Co., Ltd. ("Keymall Retail").
- (ii) Incorporation of Bai Li Holdings Co. Ltd ("Bai Li Holdings") and transfer of Saranjit Wang's 51% shareholding of Bai Li Enterprise to Bai Li Holdings.
- (iii) Incorporation of Vine Growth Holdings Pte., Ltd. ("Vine Growth Holdings") and transfer of Mo Guopiao and He Haibin's 49% shareholdings in Bai Li Enterprise to Vine Growth Holdings.

13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

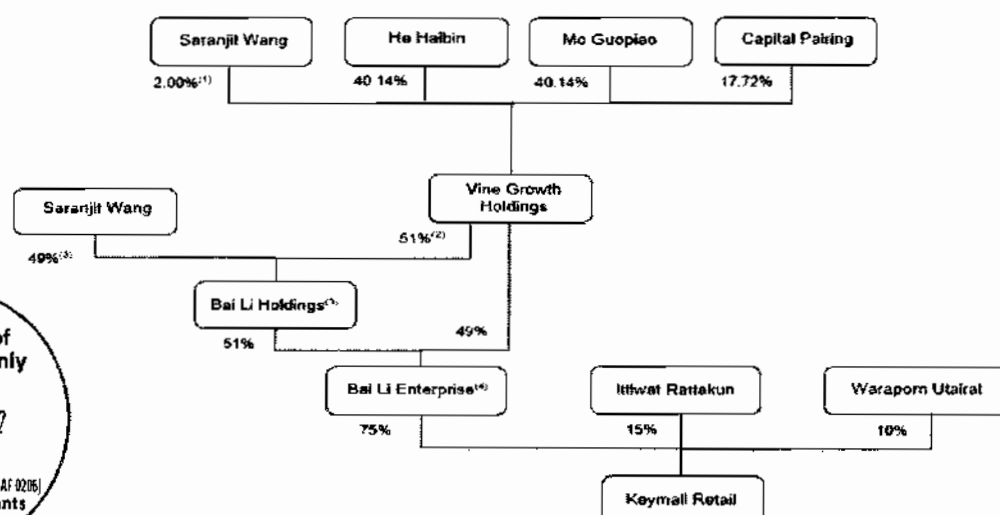
1. GENERAL INFORMATION (continued)**1.1 Details of the Listing (continued)****1.1.1 Internal reorganisation exercise (continued)**

In 2021 and in conjunction with the Listing, the Group carried out a pre-IPO internal reorganisation exercise, which involved the following steps: (continued)

- (iv) Issuance of 42,700 preference shares in Bai Li Holdings to Saranjit Wang and acquisition of Bai Li Holdings' 479,270 ordinary shares by Mo Guopiao, He Haibin and Capital Pairing Pte., Ltd. ("Capital Pairing") from Saranjit Wang; and
- (v) Acquisition of 479,270 ordinary shares in Bai Li Holdings by Vine Growth Holdings from Mo Guopiao, He Haibin and Capital Pairing.

The purchase consideration for each step of the pre-IPO internal reorganisation exercise stated above was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the audited net assets of Bai Li Enterprise as at 31 December 2020 of THB179,292,089 equivalent to approximately SGD7,906,781 (based on the exchange rate of THB100: SGD4.41).

The pre-IPO internal reorganisation exercise was completed on 31 December 2021 and is illustrated below:

**Notes:**

- (1) Saranjit Wang acquired 1% shareholding each in Vine Growth Holdings from each of Mo Guopiao and He Haibin, respectively, to enable Saranjit Wang to participate in the Listing as a shareholder of Wellspire upon completion of the Acquisition of Vine Growth Holdings for the purpose of the Listing.
- (2) The percentage of Bai Li Holdings in the above diagram is representing the voting rights in Bai Li Holdings.
- (3) The share capital of Bai Li Holdings consists of 935,500 ordinary shares and 42,700 preference shares. In accordance with the provisions under the Articles of Association of Bai Li Holdings, a shareholder of ordinary shares has 1 vote for each ordinary share while a shareholder of preference shares has 1 vote for every 10 preference shares. Wanchai Wanichkulthumrong holds 1 ordinary share in Bai Li Holdings. Further, 10 preference shares shall be entitled to 1 dividend right. There are no other terms to the preference shares.
- (4) Saranjit Wang holds 1 ordinary share in Bai Li Enterprise.

13. ACCOUNTANTS' REPORT (CONT'D)Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report**1. GENERAL INFORMATION (continued)****1.1 Details of the Listing (continued)****1.1.2 Listing scheme**

In conjunction with, and as an integral part of the Listing, the details of the listing scheme are as follows:

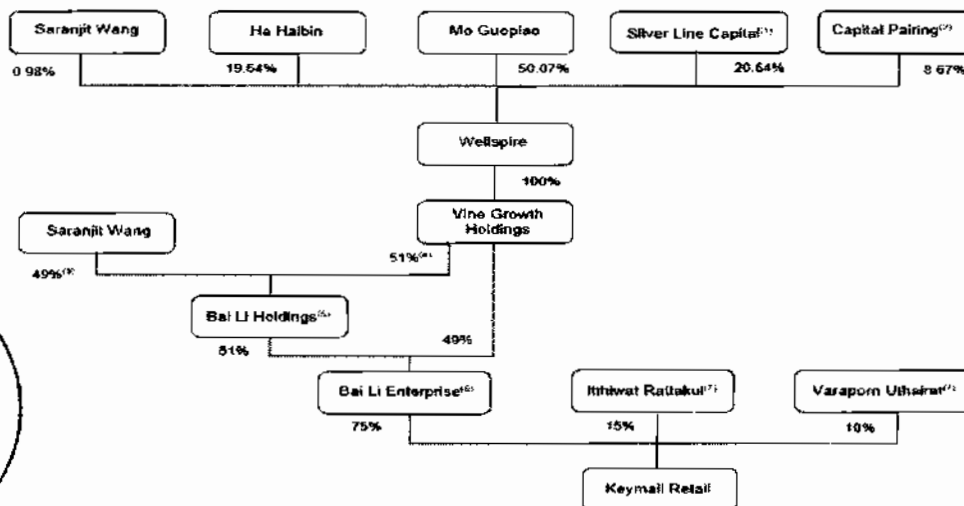
(a) Acquisition of Vine Growth Holdings

By a conditional share sale agreement dated 11 March 2022, the Company acquired the entire issued share capital of Vine Growth Holdings from the vendors of Vine Growth Holdings, namely Saranjit Wang, Mo Guopiao, He Haibin and Capital Pairing for a total purchase consideration of RM11,501,000, which was satisfied entirely by the issuance of 11,501,000 new Wellspire ordinary shares ("Wellspire Shares" or "Shares"), credited as fully paid-up at an issue price of RM1.00 per Share.

The purchase consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the 75.01% effective interest of the combined net asset value of Vine Growth Holdings and its combining entities based on the management accounts as at 31 December 2021, equivalent to approximately RM11,501,000 (based on the exchange rate of THB100: RM12.5540).

The Group was formed when the Company acquired the entire issued share capital of Vine Growth Holdings. Thereafter, Bai Li Holdings, Bai Li Enterprise and Keymall Retail became its subsidiaries.

The corporate structure of Wellspire Group after the Acquisition of Vine Growth Holdings is as follows:

**Notes:**

- (1) The sole shareholder of Silver Line Capital Sdn. Bhd. ("Silver Line Capital") is Mo Guopiao, Wellspire's Promoter, substantial shareholder, Chief Executive Officer and Executive Director.
- (2) The sole shareholder of Capital Pairing is Besanger Serge Pierre, a French citizen.

13. ACCOUNTANTS' REPORT (CONT'D)Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report**1. GENERAL INFORMATION (continued)****1.1 Details of the Listing (continued)****1.1.2 Listing scheme (continued)****(a) Acquisition of Vine Growth Holdings (continued)****Notes:**

(3) *The share capital of Bai Li Holdings consists of 935,500 ordinary shares and 42,700 preference shares. In accordance with the provisions under the Articles of Association of Bai Li Holdings, a shareholder of ordinary shares has 1 vote for each ordinary share while a shareholder of preference shares has 1 vote for every 10 preference shares.*

Saranjit Wang holds 51% shareholding in Bai Li Holdings comprising 456,229 ordinary shares (46.64% shareholding) and 42,700 preference shares (4.36% shareholding). However, Saranjit Wang is entitled to exercise 49% of the voting rights in Bai Li Holdings based on the 456,229 ordinary shares and 42,700 preference shares held.

The percentage of Bai Li Holdings in the above diagram is representing the voting rights in Bai Li Holdings.

(4) *Vine Growth Holdings holds 479,270 ordinary shares (49% shareholding) in Bai Li Holdings. However, Vine Growth Holdings is entitled to exercise 51% of the voting rights in Bai Li Holdings based on the 479,270 ordinary shares held. The percentage of Bai Li Holdings in the above diagram is representing the voting rights in Bai Li Holdings.*

(5) *Under the Thai Relevant Laws, a company registered in Thailand will be deemed a foreigner if more than half of its registered capital is held by foreigners. Based on the shareholding structure of Bai Li Holdings as at the date of this Accountants' Report, Bai Li Holdings is not considered a foreigner under the Thai Relevant Laws as Vine Growth Holdings does not hold more than half of the registered capital of Bai Li Holdings. The Solicitors in respect of the IPO, to the Company as to laws of Thailand has confirmed that the shareholding structure is in compliance with the Thai Relevant Laws. Wanchai Wanichkulthumrong holds 1 ordinary share in Bai Li Holdings. Wanchai Wanichkulthumrong has no relationship with the Company other than as a shareholder of Bai Li Holdings and key senior management of Wellspire Group.*

(6) *Saranjit Wang holds 1 ordinary share in Bai Li Enterprise.*

(7) *He / She has no relationship with the Company other than as a shareholder of Keymall Retail.*

(b) Share split

The Company undertook a subdivision of all the existing Wellspire Shares in issue of 23,501,000 Wellspire Shares into 587,525,000 Wellspire Shares (i.e., subdivision of every one existing Wellspire Share held into 25 subdivided Wellspire Shares). Upon completion of the Share Split on 30 November 2022, the Company has 587,525,000 Wellspire Shares in issue.

(c) Public Issue and Offer for Sale

As part of the Listing, the Company will be undertaking a public issue of new Wellspire Shares. Concurrently with the Listing, the Offerors will also be undertaking an offer of sale of their existing Wellspire Shares.



13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

2. BASIS OF PREPARATION

The combined financial statements of the Group consist of the combined financial statements of Wellspire Holdings Berhad and its combining entities as disclosed in Note 6.21 of this Report, which are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and based on the Guidance Note on Combined Financial Statements issued by the Malaysian Institute of Accountants in relation to the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad.

These are the first combined financial statements of the Group prepared in accordance with MFRS and IFRS, and MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. In the previous financial years, the separate financial statements of the entities in the Group were prepared in accordance with Thai Financial Reporting Standards for Non-Publicly Accountable Entities including accounting practice guidelines announced by the Federation of Accounting Professions of Thailand ("Thailand GAAP").

The Group has consistently applied the same accounting policies in its opening MFRS combined financial statements of financial position as at 1 January 2019 and throughout all financial years and periods presented, as if these policies had always been in effect.

The combined financial statements of the Group for the relevant period are prepared under historical cost convention except as otherwise stated in the combined financial statements. The combined financial statements are prepared for the relevant period in a manner similar to the "pooling of interest" method of accounting, as if the combining entities were operating as a single economic enterprise from beginning of the earliest comparative period covered for the relevant period. Such manner of presentation reflects the economic substance of the combined entities, which are under common control throughout the relevant period.

The preparation of these combined financial statements in conformity with MFRS and IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in the combined financial statements. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

The Group's historical audited combined financial information for the purpose stated above were prepared in accordance with MFRS and IFRS while the audited separate statutory financial statements of Bai Li Enterprise and Keymall Retail Co., Ltd. ("Keymall Retail") for the financial years ended ("FYE(s)") 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021 have been prepared in accordance with Thailand GAAP.

The Combined Statements of Financial Position were translated into Ringgit Malaysia using financial year end/period's closing exchange rates. The Combined Statements of Profit or Loss and Other Comprehensive Income were translated into Ringgit Malaysia using the respective financial year/period end's average exchange rates for each financial year/period, unless otherwise stated.

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13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

2. BASIS OF PREPARATION (continued)

The statutory auditors of the combining entities of the Group are as follows:

Company	Relevant financial years/period	Auditors
Wellspire	Not applicable	BDO PLT
Vine Growth Holdings	Financial Period Ended 31 December 2021	NLA DFK Assurance PCA
Bai Li Holdings	Financial Period Ended 31 December 2021	BDO Audit Company Limited ("BDO Thailand")
Bai Li Enterprise	FYE 31 December 2019 * FYE 31 December 2020 * FYE 31 December 2021	PM Audit Group Co., Ltd. PM Audit Group Co., Ltd. BDO Thailand
Keymall Retail	Financial Period Ended 31 December 2020 ** FYE 31 December 2021	Inflow Accounting Co., Ltd. BDO Thailand

* BDO Thailand has re-audited these financial statements for the purpose of the Listing.

There was no audited financial statements for Keymall Retail FYE 31 December 2019 as the entity was incorporated on 25 May 2020.

There were no audited financial statements for Bai Li Holdings for the FYEs 31 December 2019 and 31 December 2020 as the entity was incorporated on 25 October 2021.

There were no audited financial statements for Wellspire for the FYEs 31 December 2019, 31 December 2020 and 31 December 2021 as the entity was incorporated on 6 August 2021.

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13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group applies the accounting policies set out below consistently throughout the financial years presented in these combined financial statements, unless otherwise stated.

3.1 Basis of consolidation

The combined financial statements of the Group incorporate the combined financial statements of the Company and all its combined entities as disclosed in Note 6.21 of the combined financial statements. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting of similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual agreements; and
- (c) the voting rights of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated in the combined financial statement. Unrealised gains arising from transactions with the associate are eliminated against the investment to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment. The combined financial statements reflect external transactions only.

The combined financial statements of the combined entities are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, appropriate adjustments are made to its combined financial statements in preparing the combined financial statements.

Non-controlling interests, if any, represent equity in subsidiaries that are not attributable, directly or indirectly, to owners of the common controlling shareholders, and is presented separately in the combined statement of profit or loss and other comprehensive income and within equity in the combined statement of financial position, separately from equity attributable to the common controlling shareholders of the Company. Profit or loss and each component of other comprehensive income are attributed to the common controlling shareholders and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the common controlling shareholders' interests in a combining entity that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the combining entity. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to the common controlling shareholders of the combining entities.



13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.1 Basis of consolidation (continued)**

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (a) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the combining entities are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former combining entities at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, where applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.2 Business combinations

Business combinations other than those involving entities under common control, are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (a) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- (b) right of use assets and lease liabilities for leases are recognised and measured in accordance with MFRS 16 *Leases*;
- (c) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacements by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (d) assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. The Group accounts for changes in fair value of contingent consideration that are not measurement period adjustments as follows:

- (a) Contingent consideration classified as equity shall not be re-measured and its subsequent settlement shall be accounted for within equity.



13. ACCOUNTANTS' REPORT (CONT'D)

Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.2 Business combinations (continued)**

Any contingent consideration payable is recognised at fair value at the acquisition date. The Group accounts for changes in fair value of contingent consideration that are not measurement period adjustments as follows: (continued)

(b) Other contingent consideration that:

- (i) is within the scope of MFRS 9 *Financial Instruments* shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with MFRS 9 *Financial Instruments* for the relevant period.
- (ii) is not within the scope of MFRS 9 *Financial Instruments* shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRS. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

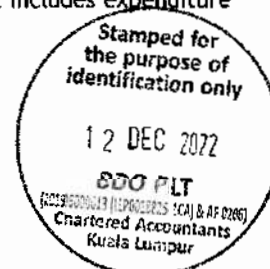
Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method of accounting. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the Group. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as merger reserve. The statements of profit or loss and other comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had come under common control.

Entities under common control are entities, which are ultimately controlled by the same parties and that control is not transitory. Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The combined financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

3.3 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.



13. ACCOUNTANTS' REPORT (CONT'D)Wellspire Holdings Berhad (202101026155 (1426455-A))
Accountants' Report**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.3 Property, plant and equipment and depreciation (continued)**

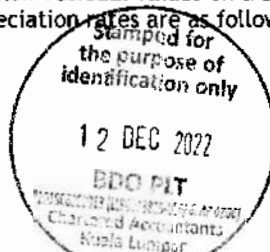
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of an item of property, plant and equipment are recognised in profit or loss in the period in which the costs are incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has a different useful life, is depreciated separately.

After initial recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovation	20% - 33%
Office equipment	20%
Office computers	20% - 33%
Furniture and fittings	20%
Machinery and tools	20%
Motor vehicles	20%



At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 3.7 to the combined financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method of previous estimates shall be reviewed if there is indication of impairment to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If current expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

3.4 Leases**The Group as lessee**

The Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases excluding short-term leases or leases for which the underlying asset is of low value, conveying the right to control the use of an identified asset for a period of time.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease is reasonably certain not to exercise that option.