

Chairman's Letter To Shareholders



Dear Shareholders,

On behalf of the Board of Directors ("the Board"), I am pleased to present the Annual Report of RCE Capital Berhad ("RCE") and its subsidiaries ("the Group") for the financial year ended 31 March 2025 ("FYE 2025").

ECONOMIC REVIEW

The global economic landscape in the past year has been shaped by heightened geopolitical uncertainties, economic recalibration and financial market volatility. Key developments include the prolonged conflicts in Eastern Europe and Middle East, alongside trade tensions spurred by the sudden protectionist measure of tariffs imposed by the United States ("US"). These dynamics will lead to disruptions in global international trade flows and likely inflationary pressures in many economies. Amid these uncertainties as reflected in volatility of stock markets around the world, global investors have turned to safe-haven assets, pushing gold prices to a record high.

Adding to these challenges, the world has witnessed increasing climate related disasters, including severe floods, wildfires and prolonged droughts across several continents. These are disrupting food production, damaging infrastructure and increasing energy demand, thus affecting global economic productivity. The increased frequency of such disasters highlights the need for global and corporate climate resilience strategies.

International Monetary Fund ("IMF") projected 2025's global economic growth rate at 2.8%, down from 3.3% in 2024. The near term outlook remains uneven across regions, while medium term risks are skewed towards the downside. Possible inflationary pressures potentially interrupt planned shifts in monetary policies, posing challenges to fiscal sustainability and financial stability.

IMF's latest economic outlook report pointed to a slower global growth rate as downside risks build up. Uncertainties reached new height with policies requiring recalibration to balance growth inflation trade-offs and reinvigorate medium term growth.

Global central banks, while cautious, have begun shifting towards more accommodative monetary policies in light of softening inflation and slower growth, creating a mixed outlook that calls for strategic flexibility.

Against this global backdrop, Malaysia's economy demonstrated adaptability in managing external headwinds and internal structural challenges. Sound macroeconomic management and forward looking policies supported a stronger than expected performance in 2024.

Malaysia recorded GDP growth of 5.1% in 2024, exceeding the forecast of 4.0% to 5.0%. Solid domestic demand, a rebound in the services sector and renewed private investment drove this expansion.

Malaysia's fiscal position showed signs of healthy consolidation. The fiscal deficit narrowed to 4.1% in 2024, an improvement over the 4.3% target and lower than 5.0% in 2023. Government net borrowings fell to RM76.8 billion, down from RM92.6 billion the year before, reflecting disciplined and effective fiscal planning.

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The labour market continued its positive trajectory, easing the national unemployment rate to 3.3% in 2024. Notably, the December 2024 figure of 3.1% marked the lowest in a decade. Inflation moderated, falling to 1.8% from 2.5% in 2023, enhancing consumer purchasing power and confidence.

Bank Negara Malaysia has adjusted its monetary stance to support economic growth amid moderate inflation. As of July 2025, the Monetary Policy Committee ("MPC") reduced the Overnight Policy Rate by 25 basis points from 3.00% to 2.75% as a pre-emptive measure in response to lingering external uncertainties. While domestic economic activities are resilient, supported by strong household spending, global risks continue to weigh on the outlook. The MPC remains vigilant and will continue to assess risks to ensure price stability and long term economic sustainability.

The Malaysian Government projects economic growth of between 4.5% and 5.5% in 2025, driven by technology upcycle, increased infrastructure spending and a resurgence in tourism. Domestic demand is forecast to remain resilient, supported by higher minimum wages and adjustments to civil servant salaries, which drive consumer spending and boost domestic economy.

The enhancement of the Government's Sistem Saraan Perkhidmatan Awam, which took effect in December 2024, marked a significant policy milestone. Under the enhanced framework, civil servants received salary increment of up to 15.0% in two phases with 8.0% and 7.0% effective December 2024 and January 2026 respectively. Adding more than RM10.00 billion to the payroll, it represents one of Malaysia's most significant public sector salary revisions. The increase in disposable income should boost consumption in sectors such as housing, automotive and personal financing. We are prepared to meet this demand in personal financing with competitive and responsible financing solutions tailored for civil servants.

On the external front, the recently announced 25% US tariff on all Malaysian exports, effective 1 August 2025, presents further downside risks to the trade outlook. While the measure aims to address the US-Malaysia trade imbalance, concerns persist over its potential adverse impact on supply chains, investment flows and export performance. In response, Malaysia has reiterated its commitment to constructive engagement and ongoing discussions aimed at clarifying the scope of the tariff and securing mutually beneficial outcomes.

At the same time, domestic vulnerabilities have also become more apparent. Incidents such as fraudulent financing schemes targeting civil servants are on the rise, emphasising the need for robust governance and ethical financing practices. The Malaysian Department of Insolvency expressed concern over the rising trend of bankruptcies among civil servants, noting that the increase contrasts with the overall decline in national bankruptcy statistics. They emphasise the need for early preventive measures to address financial management issues faced by civil servants.

We take this opportunity to reaffirm our zero tolerance stance on misconduct and adherence to responsible financing. We continue to enhance our risk management capabilities and uphold high standards of transparency and integrity, reinforcing the trust all stakeholders place in us.

In conclusion, Malaysia's proactive fiscal and monetary strategies in 2024 have laid the foundation for a more stable outlook. We expect strategic initiatives, from salary revisions to infrastructure development and economic reforms, to strengthen the country's economic resilience and competitiveness. As a homegrown shariah-compliant financial service provider, we remain focused on optimising stakeholder value.

PERFORMANCE REVIEW

We stayed vigilant in our credit risk management as quality financing growth remains the cornerstone of business sustainability.

For FYE 2025, the Group recorded revenue of RM331.7 million as compared to RM341.7 million in previous financial year. This was primarily due to a more cautious disbursement approach supported by enhanced credit underwriting policies. The adoption of such policies complemented our prudent financing strategy following the increase in fraudulent financing schemes targeting civil servants and intensified competition within the market.

Profit expense increased from RM98.5 million to RM100.3 million in current financial year. This was mainly due to the absence of a one-off cost saving realised in previous financial year upon early and full redemptions of the Group's Sukuk before the legal maturity by one of its two special purpose vehicles ("SPV"), namely Al Dzahab Assets Berhad ("ADA").

Other income declined from RM37.9 million to RM36.2 million as a result of lower placement income generated following the withdrawal of deposits to facilitate the Sukuk redemptions. The decline was also due to lower bad debt recoveries as customers' financial strain limited recovery effectiveness.

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Operating expenses rose from RM65.8 million to RM83.3 million, largely due to RM19.0 million one-off goodwill impairment charge related to collection management services of EXP Payment Sdn Bhd, along with higher collection fee expense. These were partially offset by lower sales and marketing expense as relatively higher costs were incurred following multiple campaigns launched in previous financial year to boost disbursements.

The one-off goodwill impairment arose from an expected decline in the economic benefits of an existing business arrangement due to changes in commercial viability and market environment. Additionally, that business arrangement is now replaced following an acquisition by the Group on 26 November 2024. Excluding the effect of one-off goodwill impairment, the cost-to-income ratio remained manageable at 24.0% as compared to 23.4% a year ago.

At the same time, total impairment charge on receivables increased from RM30.2 million to RM37.5 million in line with the ongoing rise in bankruptcies and early retirements among civil servants. Notwithstanding that, financing loss coverage ratio remains moderated at 147.3%.

Despite these challenges, the Group remained profitable, registering a profit after tax of RM105.5 million. Earnings per share stood at 7.2 sen with a return on average equity of 12.6%, notwithstanding the more challenging economic and industry landscape experienced in current financial year.

CORPORATE DEVELOPMENT

We maintained our position as a shariah-compliant security for the fourth consecutive year with reaffirmation by the Shariah Advisory Council of Securities Commission Malaysia in May 2025. Notably, RCE is one of the only five shariah-compliant counters among thirty-eight listed companies in the financial services sector. This distinction underscores our adherence to ethical financial practices and inclusivity within the Islamic financial ecosystem.

In recognition of our consistent financial performance, RCE was once again honoured at The Edge Billion Ringgit Club Awards 2024, receiving the accolade for "Highest Returns to Shareholders Over Three Years" in the financial services sector for companies with a market capitalisation below RM10.00 billion. This marked our third consecutive win of the same award.



The Edge Billion Ringgit Club Awards 2024

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Our funding capabilities remain anchored by two Sukuk Murabahah Asset-Backed Securitisation Programmes ("Sukuk Programmes"), issued through two SPVs, namely Zamarad Assets Berhad ("ZAB") and ADA.

ZAB's RM2.00 billion Sukuk Programme, the first in Malaysia to incorporate a Revolving Option ("RO") feature to reinvest excess in sinking fund to support disbursements and reduce negative carry by injecting additional new receivables into the respective tranche of Sukuk. The RO feature was activated from the sixth tranche onwards. On 14 November 2024, ZAB issued its tenth tranche amounting to RM149.0 million.

In FYE 2025, ADA's RM900.0 million Sukuk Programme saw its availability period for Sukuk issuance extended to perpetual. This initiative ensures ADA stands as a viable funding platform with inclusion of the RO feature mirroring that of ZAB for liquidity and capital efficiency support. On 30 June 2025, ADA issued its sixth tranche amounting to RM123.0 million.

During the financial year, RM325.0 million were redeemed from both Sukuk Programmes upon their legal and expected maturities. The redemptions signified the robust cash flow performance and a disciplined approach to capital management, aligned with our efforts to optimise funding costs. As at financial year end, the Sukuk balance stood at RM979.7 million.

On 26 November 2024, we acquired Corewealth Alliance Dynamic Sdn Bhd ("CAD") to facilitate the expansion of our market presence to serve a broader customer base. The acquisition strengthens the Group's market position and supports future growth, providing greater flexibility in financing solutions offerings to civil servants.

SUSTAINABILITY DEVELOPMENT

We integrate sustainability in our operations, recognising that value creation depends on effectively managing economic, environmental, social and governance considerations. We focus on improvement, aligning our practices with global sustainability standards and frameworks. Clear targets, a strengthened sustainability strategy and active participation in industry wide initiatives drive meaningful progress towards a more sustainable future.

We reinforce our commitment through a robust governance framework that reflects transparency, accountability and stakeholder engagement. As a shariah-compliant financial service provider, we integrate ethical principles into our business practices in alignment with stakeholder expectations and values.

We prioritise social sustainability by fostering a diverse and inclusive workplace. We support communities through initiatives that promote education, financial literacy and overall well-being.

We are also prepared to meet evolving sustainability disclosure requirements, including alignment with National Sustainability Reporting Framework. These enhanced disclosures are crucial for driving responsible and forward looking business practices. By balancing governance, risk, strategic direction and measurable goals, we aim to embed sustainability more deeply into our financial and operational landscape.

Continued inclusion in FTSE4Good Bursa Malaysia Index, along with a 4-star ESG rating reaffirms the Group's steady sustainability performance. With a clear vision and solid foundation, we will contribute to a more inclusive, resilient and sustainable future.

BONUS ISSUE AND DIVIDEND

On 26 September 2024, RCE completed a bonus issue based on one bonus share for every existing ordinary share held. This exercise effectively doubled shareholders' equity holdings without any cash outlay, underscoring our commitment to enhancing shareholder value and improving liquidity.

On 20 November 2024, the Board declared a first interim dividend of 3.0 sen per ordinary share, amounting to a payout of RM44.0 million. The payment of dividend to shareholders was made on 31 December 2024.

Subsequently, the Board declared a second interim dividend of 3.5 sen per share on 22 May 2025 amounting to RM51.4 million. All in all, excluding the effects of the earlier mentioned one-off impairment, total dividends declared for FYE 2025 were RM95.4 million with a payout ratio of 76.6%.

We are grateful for the trust and confidence our shareholders have placed in us. We remain dedicated in driving sustainable growth and value.

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INVESTOR RELATIONS

Investor relations play a vital role in our growth journey. Clear, consistent and proactive communication helps us build lasting stakeholder relationships.

We are committed in meeting required disclosures and corporate governance standards, ensuring transparency and reinforcing accountability at all levels. The Investor Relations Team engage with investors, analysts and other stakeholders through multiple platforms to deliver timely update on the Group's strategies, performance and development.

We also value stakeholder feedback as a driver of continuous improvement. Insights gathered through regular engagements contribute meaningfully to our operational and strategic enhancements.

Leading research houses, including Maybank Investment Bank Berhad, CIMB Securities Sdn Bhd, RHB Investment Bank Berhad and Public Investment Bank Berhad, cover the Group in providing market insights and independent analysis to enhance investors' understanding and evaluation.

GROUP OUTLOOK

We expect the global economy to maintain a stable growth path in 2025, supported by strong labour markets, moderating inflation and a shift towards more accommodative monetary policies. Disinflation is expected to continue in advanced economies as commodity prices ease and the effects of earlier rate hikes subside. Meanwhile, the global technology upcycle is set to sustain trade and industrial activity momentum.

Nevertheless, the global economic landscape remains clouded by notable uncertainties. Trade and tariff policies from major economies could disrupt global growth and inflation patterns, while evolving geopolitical tensions may heighten volatility across financial markets. These factors call for continued vigilance and agility in navigating global uncertainties.

The Group is cautiously optimistic and will remain agile in responding to evolving market and regulatory conditions. The Group expects to benefit from strong consumer demand, public sector salary revisions and improving investor sentiment. It will focus on quality financing growth, responsible financing and strengthening its digital as well as operational capabilities.

The recent acquisition of CAD and enhancements to our funding platform will support future expansion and market competitiveness. However, we remain vigilant of potential headwinds, including rising credit risks, policy reforms that may affect consumer sentiment and increased scrutiny on ethical financing. Our stance to robust governance, stakeholder engagement and value creation will guide us through a more dynamic year.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my heartfelt appreciation to all stakeholders for their trust and confidence in the Group.

The Board is pleased to welcome Ms. Tracy Chen Wee Keng, who was appointed as a Director on 6 June 2025. Drawing from her more than thirty-five years experience in the investment banking and financial services industry, Ms. Tracy Chen will bring value to our Board. We look forward to leveraging her extensive expertise to drive growth for the Group.

Furthermore, I would like to express our sincere appreciation to Mr. Soo Kim Wai, who will not be seeking re-election and will be retiring at the Seventy-First Annual General Meeting. Over his remarkable twenty-eight years tenure, he has made significant contributions to the success of the Group.

To our valued customers, thank you for your support. We are committed to delivering meaningful value while fostering our relationships grounded in our "*Customers for Life*" philosophy. To our business and banking partners and vendors, we appreciate your collaboration and continued partnership, which are integral to our success.

We are grateful to our regulators for their guidance and oversight, which facilitated the strengthening and shaping of our governance framework.

I would also like to convey my deep gratitude to my fellow Board members and all our dedicated colleagues across the Group. Your commitment, resilience and contributions have been the driving force behind our achievements.

As we look ahead to an exciting future, I invite you to explore this Annual Report to discover how we are unlocking new possibilities and advancing towards greater milestones together.

Shahman Azman
Chairman