

8. INDEPENDENT MARKET RESEARCH REPORT

VITAL FACTOR CONSULTING
Creating Winning Business Solutions

18 October 2024

The Board of Directors
Cropmate Berhad
Lot 8949, Jalan Teluk Gong KS/10
Telok Gong, 42000 Pelabuhan Klang
Selangor Darul Ehsan

Dear Sirs and Madams

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Independent Assessment of the Fertiliser Industry in Malaysia

We are an independent business consulting and market research company based in Malaysia. We commenced our business in 1993 and, among others, our services include the provision of business plans, business opportunity evaluations, commercial due diligence, feasibility studies, financial and industry assessments, and market studies. We have also assisted in corporate exercises since 1996, having been involved in initial public offerings, reverse takeovers, transfers to Main Market, and business regularisations for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities) where we acted as the independent business and market research consultants. Our services for corporate exercises include business overviews, independent industry assessments, management discussion and analysis, and business and industry risk assessments.

We have been engaged to provide an independent assessment of the above industry for inclusion in the prospectus of Cropmate Berhad for the listing of its shares on the ACE Market of Bursa Securities. We have prepared this report independently and objectively, and have 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, the availability of timely information and analyses based on secondary and primary market research as at the date of this report. 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, actions or inactions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the securities of any company.

Our report may include information, 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 the University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and the Institute of Managers and Leaders. 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 of their shares on Bursa Malaysia Securities Berhad.

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



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Date of Report: 18 October 2024

INDEPENDENT ASSESSMENT OF THE FERTILISER INDUSTRY IN MALAYSIA

1. OVERVIEW OF CROPMATE GROUP'S BUSINESS AND REPORT PARAMETERS

- Cropmate Berhad together with its subsidiary (Cropmate Group) is principally involved in the formulation and blending of conventional and specialty fertilisers as well as trading of straight and other fertilisers in Malaysia, which will be the focus of this report.
- In the context of this report, all references to:
 - fertilisers are for inorganic fertilisers unless stated otherwise; nutrients are for plants; nutrients and fertilisers have similar meaning and are used interchangeably;
 - macronutrient, nitrogen (N) is taken to mean fertilisers containing N such as urea; phosphorus (P) is taken to mean fertilisers that contain P such as diammonium phosphate (DAP), monoammonium phosphate (MAP) and phosphate rock; potassium (K) is taken to mean fertilisers containing K such as potassium chloride (KCl); element refers to chemical element, the fundamental building block of matter represented by its chemical symbol; straight fertilisers refer to N, P or K;
 - gross domestic product (GDP) is nominal GDP unless stated otherwise; and
 - all information refers to Malaysia unless stated otherwise.

This report primarily discusses the 3-year compound annual growth rate (CAGR) data as it represents a more recent industry performance compared to the 5-year CAGR. Nevertheless, 3-year and 5-year CAGR data are provided.

2. OVERVIEW OF THE FERTILISER INDUSTRY

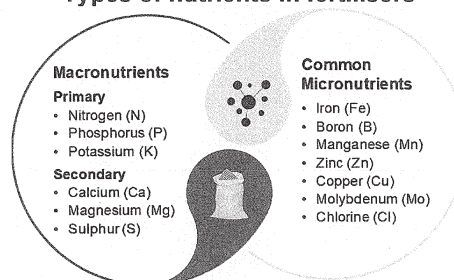
2.1 Fertilisers, biostimulants and microorganisms

- Fertilisers are a concentrated source of plant nutrients to improve plant development, growth and health, as well as crop yield and quality. Although plant nutrients exist naturally in the soil, they may be deficient in some nutrients or some nutrients are not in a form readily absorbed by plants. As such, fertilisers are used to correct nutrient deficiencies and in commercial cases, they also accelerate plant growth and increase crop yield and quality.
- Nutrients are commonly represented by the key elements which are derived from various sources in a compounded form containing the required key elements. For example, N is an element required by plants and N is obtained from, among others, urea which contains the N as well as other elements such as carbon, hydrogen and oxygen which are not used by plants.
- Nutrients are commonly segmented into two main categories as follows:

Macronutrients are nutrients that are required in relatively large quantities compared to micronutrients and are segregated into primary and secondary macronutrients. Primary macronutrients are required in the largest quantity followed by secondary macronutrients. Primary macronutrients are matters that contain the elements N, P and K. Collectively they are referred to as NPK fertilisers.

Micronutrients are essential nutrients needed by plants in relatively smaller quantities by plants compared to macronutrients. They are also referred to as trace elements or trace minerals. Micronutrients, among others, help in chlorophyll production to aid in photosynthesis, plant respiration to metabolise sugars to generate energy for plant growth and the formation of cell walls.

Types of nutrients in fertilisers



8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



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- **Biostimulants** are produced during the natural process of composting organic matter. Manufactured biostimulants are sometimes added to fertilisers or applied separately to soil. Biostimulants are not nutrients but work in conjunction with nutrients to improve plant nutrient uptake, stimulate plant growth, increase plant resilience to adverse environmental factors, and improve crop quality. Examples include humic acid, fulvic acid and amino acid.
- **Microorganisms**, also referred to as microbes, exist naturally in soil or are introduced in soil. Like biostimulants, they are not nutrients but serve to improve nutrient uptake, stress tolerance and disease resistance. Examples include mycorrhizal and Trichoderma fungi, and rhizobium and Azotobacter bacteria.

2.2 Inorganic, organic and semi-organic fertilisers

- Fertilisers can be classified into inorganic, organic and semi-organic fertilisers.
 - **Inorganic fertilisers**, also referred to as mineral and chemical fertilisers, are derived from chemical means or minerals reacting with chemicals to obtain the desired elements in their compounded form. For example, N is commonly sourced from urea, which is obtained by reacting liquid ammonia with carbon dioxide. Ammonia is derived from the reaction of natural gas to obtain hydrogen, which is then combined with nitrogen, commonly obtained from the atmosphere. N is also sourced from other chemicals such as ammonium nitrate and ammonium sulphate. P is commonly sourced from diammonium phosphate (DAP) or monoammonium phosphate (MAP), both of which are manufactured chemically using phosphoric acid (commonly obtained from mined phosphate rocks) combined with ammonia. Commonly rock phosphate is also used directly as a source of P. K is commonly sourced from potassium chloride (KCl) (also referred to as muriate of potash) which is derived from natural salt deposits as a mineral. Other sources of K include potassium sulphate (also referred to as sulphate of potash) and potassium nitrate.

The advantage of inorganic fertilisers is that the exact amount of any one of the macronutrients and micronutrients can be measured and blended in the required proportion. In addition, they are in a form readily available or absorbed by plants.

- **Organic fertilisers** are organic matter derived from plants and animals, and their by-products, including agricultural by-products such as oil palm empty fruit bunches and fronds (leaves), and waste products such as animal manure. This type of fertiliser involves minimal artificial processing and the nutrients remain in their natural form rather than being extracted or refined. Typically, plant-based fertilisers are composted before being applied to the soil.

In addition to providing nutrients to plants, organic fertilisers also serve as soil conditioners to improve the structure and biodiversity of the soil which is beneficial to plants. Organic fertilisers facilitate microbiological activities in the soil where the nutrients in the organic fertiliser are mainly broken down by living microorganisms, abbreviated as microbes. This process increases the oxygen content in the soil and improves soil structure and water-holding capacity.

However, as organic fertilisers are used mainly in their original form, the composition and ratio of nutrients are not consistent and will vary depending on the location of the source, type of organic materials, and type of food consumed by the animals. Besides, organic fertilisers require microorganisms to break down the fertilisers into forms that can be absorbed by the plants, and as such not as efficient compared to the direct availability of nutrients using inorganic fertilisers.

- **Semi-organic fertilisers** refer to the combination of organic and inorganic fertilisers. Generally, organic fertilisers are beneficial for soil structure and encourage better uptake of nutrients, while inorganic fertilisers contain well-defined nutrient composition readily available for absorption by plants. The advantages of semi-organic fertilisers are that the organic and inorganic fertilisers complement each other.
- Cropmate Group is involved in the formulation and blending of inorganic, semi-organic and organic fertilisers. Nevertheless, its revenue is largely from inorganic fertilisers.

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2.3 Conventional and specialty fertilisers

- Fertilisers are generally segmented into conventional and specialty fertilisers.

- Conventional fertilisers** are common fertilisers comprising combinations of macronutrients and micronutrients and are categorised as below:

Conventional Fertilisers		Specialty Fertilisers
Compound/Complex	Straight	<ul style="list-style-type: none"> Organic fertilisers Semi-organic fertilisers Liquid fertilisers Controlled-release fertilisers Slow-release fertilisers Micronutrient fertiliser blends
<ul style="list-style-type: none"> Compound fertilisers <ul style="list-style-type: none"> blended compacted Complex fertilisers 	<ul style="list-style-type: none"> Nitrogen (N) Phosphorous (P) Potassium (K) 	

- (i) **Compound fertilisers** refer to fertilisers where two or

☉ Cropmate Group is involved in these types of fertilisers

more types of nutrients are mixed without any chemical reaction. As such, the physical and chemical characteristics of each nutrient are retained in its original form. Compound fertilisers can be broadly categorised as follows:

- Blended fertilisers are produced by blending two or more nutrients in powder or granule form. Blended fertilisers in powder form commonly result in uneven distribution of nutrients where smaller size powder tends to settle to the bottom of the package after being agitated during transportation and storage resulting in uneven distribution of nutrients in the package and when applied to the soil. Blended fertilisers in granules have approximate uniform size and shape to minimise such problems.
- Compacted fertilisers are originally in powder form and compacted to be in granule form where each granule contains approximately the same proportion of nutrients. This uniformity in each granule ensures even application of nutrients in the required proportion on the soil.

- (ii) **Complex fertilisers** are produced through a process of mixing two or more chemicals or minerals causing a chemical reaction resulting in a different chemical nutrient.

- (iii) **Straight fertilisers** refer to single nutrients, namely N, P or K.

- Specialty fertilisers** are blends or types of fertilisers specially formulated or prepared to achieve specific benefits or have unique properties or characteristics to achieve specific objectives. Some common types of specialty fertilisers include the following:

- (i) **Organic fertilisers** are organic matter while **semi-organic fertilisers** are a combination of various ratios of inorganic and organic fertilisers.
- (ii) **Liquid fertilisers** are a mixture of one or more soluble nutrients in a solution that can then be applied directly to the soil, sprayed onto the leaves or through fertigation.
- (iii) **Controlled-release fertilisers** are a single or combination of nutrients encapsulated in a coating designed to release its content within an approximate predetermined time.
- (iv) **Slow-release fertilisers** are similar to controlled-release fertilisers except that nutrients are slowly released at a rate and timing that cannot be controlled or predetermined.
- (v) **Micronutrient fertiliser blends** contain some combination of micronutrients designed to meet specific plant requirements.

3. SUPPLY AND DEMAND CONDITIONS OF FERTILISERS IN MALAYSIA

3.1 Production of fertilisers

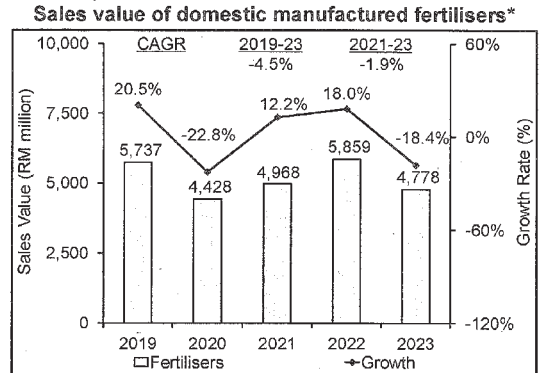
- In 2023, the sales value of domestically manufactured fertilisers declined by 18.4% to RM4.8 billion, due to the overall decline in fertiliser prices in 2023 which fell from an average of USD700/tonne, USD772/tonne and USD863/tonne in 2022 to USD358/tonne, USD550/tonne and USD383/tonne in 2023 for N, P and K fertilisers respectively. In the first half of (H1) 2024, the sales value of domestically manufactured fertilisers declined by 30.7% to RM1.8 billion compared to RM2.7 billion in H1 2023. This was due to reduced production volume attributed to multiple production issues at PETRONAS'

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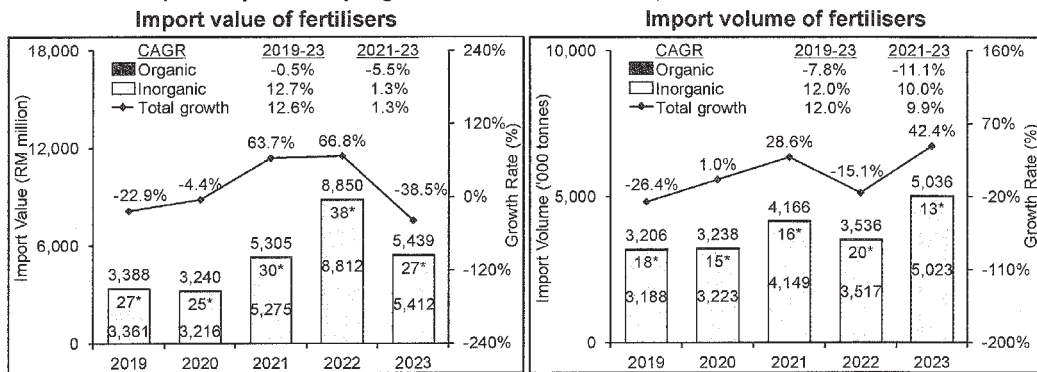
urea plants in Bintulu and Gurun, coupled with a decline in fertiliser prices in H1 2024 which fell from an average of USD341/tonne, USD575/tonne and USD428/tonne in H1 2023 to USD326/tonne, USD568/tonne and USD301/tonne in H1 2024 for N, P and K fertilisers respectively. (Source: PETRONAS; Vital Factor analysis)



Note: There is no segmentation for organic and inorganic fertilisers. * Includes organic and inorganic fertilisers (Source: Department of Statistics Malaysia (DOSM))

3.2 Import and export demand for fertilisers

- In 2023, the import value of fertilisers comprised 99.5% and 0.5% of inorganic and organic fertilisers respectively, while the export value of fertilisers comprised 99.7% and 0.3% of inorganic and organic fertilisers respectively.
- In 2023, the majority of the imported inorganic fertilisers were K, followed by N, compound fertilisers and P, accounting for 52.9%, 24.9%, 18.8% and 3.4% of the total import value of inorganic fertilisers respectively (Source: DOSM). Between 2021 and 2023, the import value of inorganic fertilisers grew at a CAGR of 1.3%.
- In 2023, the import value of inorganic fertilisers declined by 38.6% to RM5.4 billion, contributed by the decline of 43.0%, 3.7%, 42.5% and 20.4% from N, P, K and compound fertilisers respectively. This was mainly attributed to declining fertiliser prices. In 2023, the top three importing countries for inorganic fertilisers were China, Russia and Canada, accounting for 26.7%, 20.4% and 15.5% of the total import value of inorganic fertilisers respectively. (Source: DOSM). Meanwhile, between 2021 and 2023, the import volume of inorganic fertilisers grew at a CAGR of 10.0%, with a growth of 42.8% to 5.0 million tonnes in 2023.
- In H1 2024, the import value of inorganic fertilisers declined by 11.0% to RM2.6 billion compared to RM2.9 billion in H1 2023, contributed by the decline of 26.7%, 26.3%, and 10.5% from N, P and K fertilisers respectively, offset by a growth of 12.7% from compound fertilisers.



* Import value and volume of organic fertilisers are very low and thus not noticeable in the chart above (Source: DOSM; Vital Factor analysis)

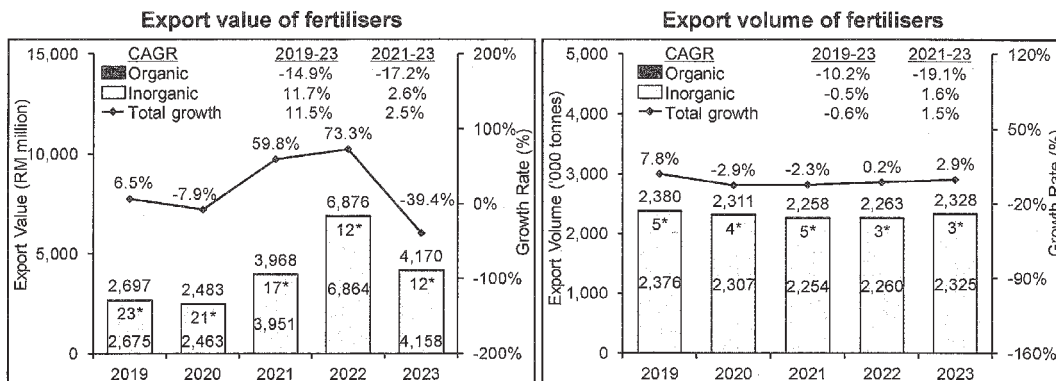
- In 2023, the large majority of exported inorganic fertilisers were N fertilisers, which accounted for 80.8% of the export value of inorganic fertilisers, while P, K and compound fertilisers accounted for the remaining 0.6%, 12.3% and 6.2% respectively. (Source: DOSM) Between 2021 and 2023, the export value of inorganic fertilisers recorded a CAGR of 2.6%.
- In 2023, the export value of inorganic fertilisers declined by 39.4% to RM4.2 billion, contributed by the decline of 46.1% and 31.1% from N and compound fertilisers respectively, despite the export value of P and K fertilisers grew by 319.4% and 112.7% respectively. (Source: DOSM) The decline in export value of inorganic fertilisers was mainly attributed to declining fertiliser prices. Meanwhile, the export volume of inorganic fertilisers grew at a CAGR of 1.6%, with a growth of 2.9% in 2023.

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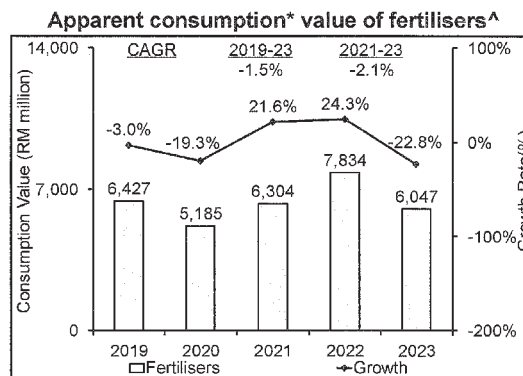
- In H1 2024, the export value of inorganic fertilisers declined by 16.7% to RM1.7 billion compared to RM2.1 billion in H1 2023, contributed by the decline of 16.5%, 48.5%, and 35.1% from N, P and K fertilisers respectively, offset by a growth of 24.8% from compound fertilisers.



* Export value and volume of organic fertilisers are very low and thus not noticeable in the chart above (Source: DOSM; Vital Factor analysis)

3.3 Apparent consumption of fertilisers

- Between 2021 and 2023, the apparent consumption value of fertilisers declined at an annual average rate of 2.1%, attributed to, among others, the overall decline in fertiliser prices in 2023 which fell from an average of USD700/tonne, USD772/tonne and USD863/tonne in 2022 to USD358/tonne, USD550/tonne and USD383/tonne in 2023 for N, P and K fertilisers respectively (Source: Vital Factor analysis).
- In H1 2024, the apparent consumption value of fertilisers declined by 22.7% to RM2.7 billion compared to RM3.5 billion in H1 2023.



Note: There is no segmentation available for organic and inorganic fertilisers. * Production plus imports less exports; ^ Includes organic and inorganic fertilisers (Source: Vital Factor analysis)

3.4 Demand dependencies

- The demand for fertilisers is largely dependent on the agriculture industry which focuses on the cultivation of plants and food crops. As such, the performance of the plantation and food crops would provide some indications for the demand for fertilisers in Malaysia. Cropmate Group's revenue was mainly derived from the oil palm plantations, as well as durian orchards.
- In 2023, the agriculture industry (including plant and animal) contributed to 7.8% of the GDP of Malaysia, whereby 70.4% of the GDP of the agriculture industry was collectively contributed by rubber, palm oil and other plant-based agriculture (such as paddy, vegetables, fruits and food crops) sectors (Source: DOSM).

3.4.1 Oil palm plantation

- Malaysia is one of the world's major palm oil producers. The palm oil industry is a national key economic area that drives Malaysia's economic growth. In 2019, the government enforced a cap on the total oil palm cultivated area in Malaysia to 6.5 million ha by 2023, aimed at enhancing the sustainability of the oil palm industry. In 2023, the palm oil industry accounted for 47.6% of the GDP of the total agriculture industry (Source: DOSM).
- In 2023, the planted area of oil palm plantations declined by 0.4% to 5.7 million hectares (ha) partly attributed to the ongoing site preparation activities for replanting initiatives within the industry. In 2023,

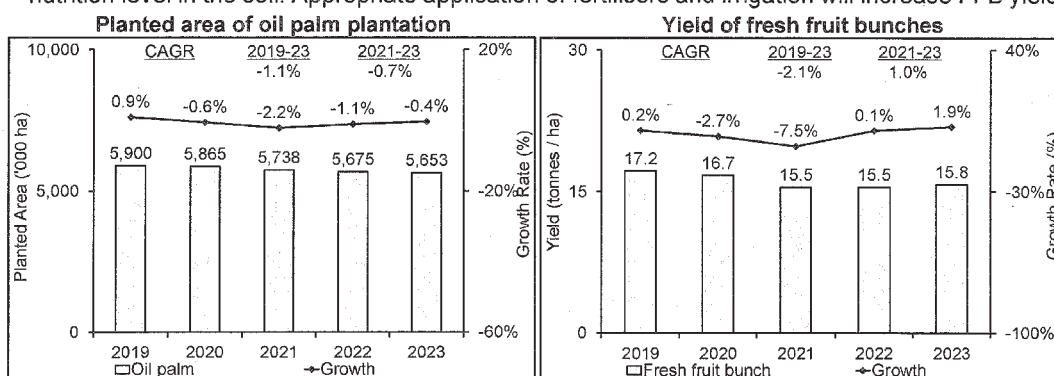
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the largest oil palm planted areas in Malaysia were Sarawak, Sabah and Pahang amounting to 1.6 million ha, 1.5 million ha and 0.7 million ha respectively. In the first quarter of (Q1) 2024, the planted area of oil palm plantations declined by 0.4% to 5.6 million ha compared to Q1 2023. (Source: Ministry of Plantation Industries and Commodities (MPIC); Malaysian Palm Oil Board (MPOB))

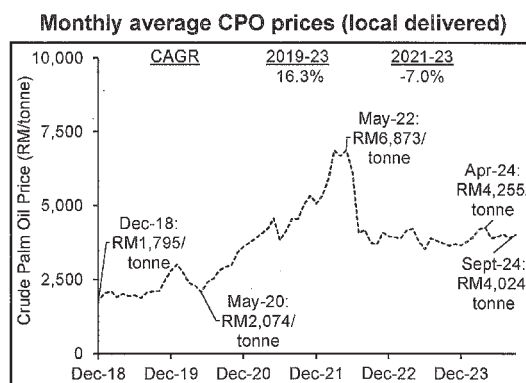
- Fresh fruit bunch (FFB) is the fruit of the oil palm tree which will be processed into various palm oil products. FFB yield is determined by various factors including, weather and soil conditions, and nutrition level in the soil. Appropriate application of fertilisers and irrigation will increase FFB yield.



ha = hectares (Source: MPIC)

- The yield of FFB in 2021 declined by 7.5% to 15.5 tonnes/ha, before a marginal growth of 0.1% in 2022. The decline in yield in 2021 was mainly attributed to the shortage of harvesters arising from the temporary suspension of intake of foreign labour as part of COVID-19 containment measures. In 2023, the yield of FFB grew by 1.9% to 15.8 tonnes/ha, attributed to improved labour supply, particularly in harvesters and FFB collectors. For the first 9 months of 2024, the yield of FFB grew by 10.2% to 12.4 tonnes/ha compared to 11.2 tonnes/ha during the corresponding period in 2023. (Source: MPOB)

- An increase in crude palm oil (CPO) prices would encourage oil palm plantation owners to purchase more fertilisers to obtain a higher yield of FFB. Any sustained low CPO prices would negatively affect fertiliser providers including Cropmate Group.



(Source: MPOB)

- In May 2022, the monthly average price of CPO increased by 231.4% to RM6,873/tonne compared to RM2,074/tonne in May 2020. The upward trend was attributed to factors such as supply disruptions caused by the COVID-19 pandemic, which resulted in labour shortages and subsequently reduced palm oil output. Additionally, the demand for palm oil increased as it served as a substitute for sunflower oil amidst the disruption in the supply chain of sunflower oil due to the Russia-Ukraine conflict.

Year	Average CPO prices for (RM/tonne)
2019	2,079
2020	2,686
2021	4,407
2022	5,088
2023	3,810

- In April 2024, the monthly average CPO price declined by 38.1% to RM4,255/tonne compared to RM6,873/tonne in May 2022. This decline is attributed to both a decrease in demand for palm oil as consumers switched to substitutes like sunflower oil arising from the easing impact of the Russia-Ukraine conflict, and an increase in supply due to Indonesia lifting its 1-month palm oil export ban in June 2023. Despite the decline, the monthly average CPO price remained relatively high compared to the prices between December 2018 and December 2020, due to the higher soybean oil prices, and lower CPO production. (Source: MPOB). In September 2024, the monthly average CPO price declined by 5.4% to RM4,024/tonne compared to RM4,255/tonne in April 2024. This was mainly due to a

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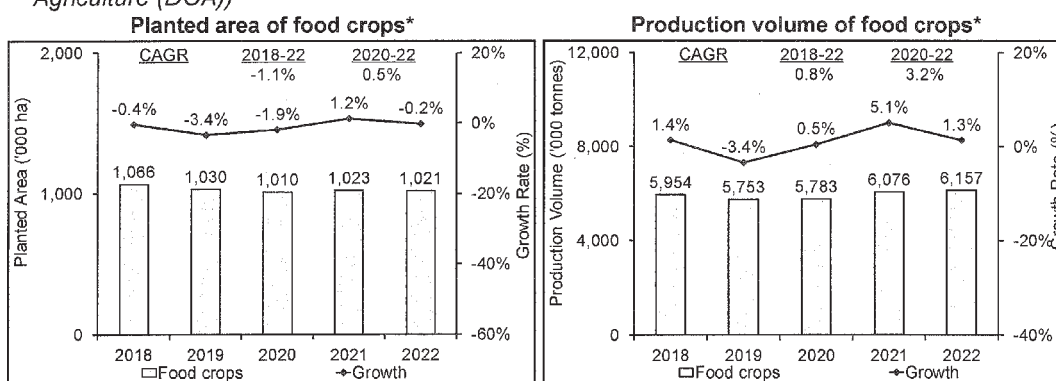


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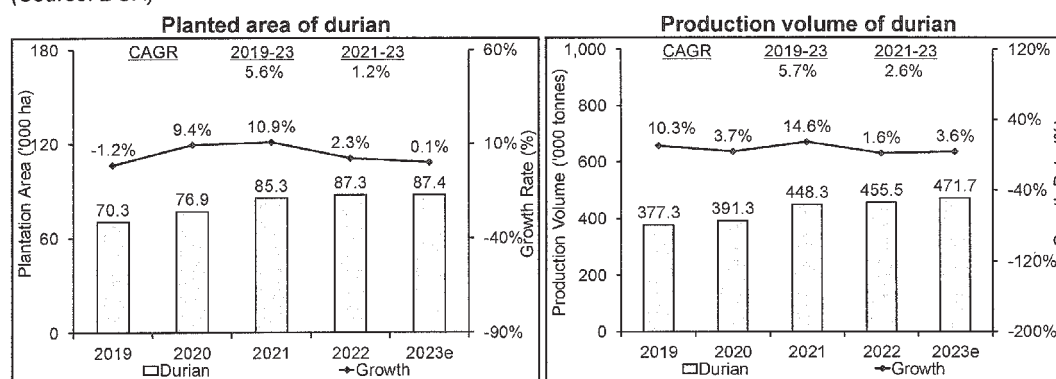
decline in exports by 9.8% in August 2024, thus resulting in an increase in CPO stocks leading to lower CPO prices (Source: Malaysia Palm Oil Council (MPOC)).

3.4.2 Food crop farming

- Food crop refers to crops that are meant for human consumption. Food crop farming is typically large-scale and plays an important part in the value chain of a country's food security. Planted areas of food crops indicate the potential level of fertiliser demand.
- In Malaysia, paddy is the main planted food crop which contributed approximately 62.5% of the total planted areas of food crops in 2022, followed by fruits, coconut and vegetables with 19.9%, 8.3% and 6.7% of the planted area of food crops respectively. In 2022, planted areas of food crops declined by 0.2% while production volume of food crops grew by 1.3%. (Source: Department of Agriculture (DOA))



Note: Above are the latest available data. *Include paddy, fruits, vegetables, coconut, herbs and spices (Source: DOA)



e = estimates (Source: DOA)

- Cropmate Group also sells fertilisers for durian orchards. In 2023, the planted area of durian accounted for 42.9% of the total planted area of major fruit crops, amounting to 203,446 acres, in Malaysia. Major fruit crops include, among others, durian, banana, pineapple, rambutan, watermelon, and jackfruit. Between 2021 and 2023, the planted area and production volume of durians increased at a CAGR of 1.2% and 2.6% respectively, which indicates a growing demand for durians. (Source: DOA)

4. GLOBAL PRICES OF FERTILISERS

- The global prices of urea, diammonium phosphate (DAP) and potassium chloride (KCl) affect domestic fertiliser manufacturers as these are the main sources of primary macronutrients, namely N, P and K respectively. Between 2020 and 2022, the global average prices of urea, DAP and KCl increased at a CAGR of 74.8%, 57.2% and 89.3% respectively. In 2023, the global average prices of urea, DAP and KCl declined by 48.9%, 28.8% and 55.6% respectively. (Source: Vital Factor analysis)

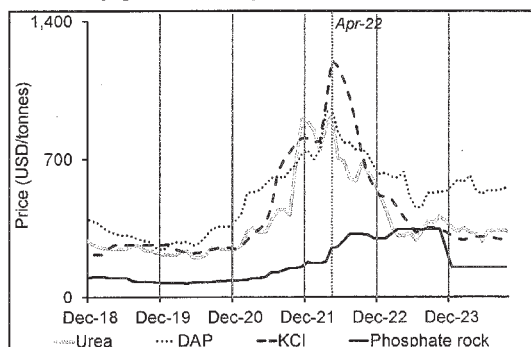
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Monthly global average prices of key fertilisers



Global average prices of key fertilisers

As of	USD/tonne			Average for	USD/tonne		
	N	P	K		N	P	K
Dec-18	277	390	216	2018	249	393	216
Dec-19	218	238	266	2019	245	306	256
Dec-20	245	389	246	2020	229	312	241
Dec-21	890	745	808	2021	483	601	543
Dec-22	519	625	514	2022	700	772	863
Dec-23	354	564	312	2023	358	550	383
Sept-24	338	555	287				

Notes: The prices of N, P and K are represented by urea, DAP and KCl respectively. Phosphate rock is the key raw materials of DAP, and is also a possible natural source of P; Above chart covers prices between December 2018 and September 2024, with the peak in April 2022 (Source: Vital Factor analysis). Cropmate Group uses urea, DAP, KCl and phosphate rock for its fertilisers.

- Global average prices of phosphate rock, being one of the key raw materials of DAP, grew from USD73/tonne in December 2019 to USD348/tonne in October 2023, and subsequently declined to USD153/tonne in September 2024.
- Overall, the global average prices of urea, DAP and KCl grew between December 2020 and April 2022. The increase in the prices of key fertilisers between December 2020 and April 2022 was mainly attributed to the continuing Russia-Ukraine conflict, production curtailments resulting from adverse weather, higher cost of input materials particularly natural gas, trade policies implemented by various countries and increase in sea freight rate. As of September 2024, the global average prices of urea, DAP and KCl have subsequently declined due to adjustments in the global economy, including a rebound in fertiliser production and the installation of new production capacities, in response to supply disruptions notably from Ukraine. Additionally, the decline in natural gas prices by 44.2% to USD13.24 per million British thermal unit (mmbtu) in September 2024 compared to September 2022 further contributed to this trend (Source: Vital Factor analysis).

5. COMPETITIVE LANDSCAPE AND BARRIERS TO ENTRY

- The fertiliser industry in Malaysia is largely focused on inorganic fertilisers. Operators involved in the formulation and blending of fertilisers in the industry range from small and medium-sized, to large entities. There are no published data on number of companies involved in formulation and blending of fertilisers. The following companies are involved in the formulation and blending of fertilisers in Malaysia sorted in decreasing order of total revenue, and this is not an exhaustive list:

Company	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ⁽²⁾ (RM mil)	GP margin	NP/(NL) ⁽²⁾ (RM mil)	NP/(NL) margin
Agromate (M) S/B	Dec-23	1,224.6	120.0	9.8%	52.9	4.3%
Behn Meyer Agricare (M) S/B ⁽³⁾	Dec-23	1,140.6	58.4	5.1%	(37.4)	(3.3%)
FGV Fertiliser S/B ⁽⁴⁾	Dec-23	1,065.0	n.a.	n.a.	24.2	2.3%
Malaysian NPK Fertilizer S/B	Dec-23	582.0	n.a.	n.a.	2.7	0.5%
PK Fertilizers S/B ⁽⁵⁾	Dec-23	394.8	47.7	12.1%	13.3	3.4%
Twin Arrow Fertilizer S/B	Oct-23	345.9	63.4	18.3%	32.2	9.3%
Union Harvest (M) S/B ⁽⁶⁾	Dec-23	317.2	27.4	8.6%	15.3	4.8%
Wilmar Fertilizer Malaysia S/B ⁽⁷⁾	Dec-23	311.6	12.8	4.1%	4.2	1.3%
Hextar Fert S/B ⁽⁵⁾	Dec-23	229.5	45.4	19.8%	21.7	9.4%
Blue Deebaj (Malaysia) S/B ⁽⁸⁾	Mar-23	185.4	8.4	4.5%	2.8	1.5%
Cropmate Group	Dec-23	151.5	27.6	18.2%	10.1	6.6%
Sarawak Fertilizer S/B	Dec-23	148.3	8.4	5.7%	0.5	0.4%
Farmcochem S/B	Dec-23	118.8	n.a.	n.a.	9.2	7.7%
Agroharta Fertilizer S/B	Sep-23	87.1	15.6	17.9%	2.9	3.3%

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



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Company	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ⁽²⁾ (RM mil)	GP margin	NP/(NL) ⁽²⁾ (RM mil)	NP/(NL) margin
Consolidated Fertiliser Corporation S/B	Dec-23	68.6	5.3	7.7%	(2.9)	(4.2%)
Weighted average				9.6%[#]		2.4%[@]

[#] (Sum of 12 companies' GP (with data) divided by the sum of their revenue) x 100%; [@] (Sum of all companies' NP divided by the sum of their revenue) x 100%. FYE = financial year end; Rev = revenue; mil = million; GP = gross profit; NP = net profit after tax; NL = net loss after tax; S/B = Sdn Bhd; n.a. = information not available

(1) Latest available audited financial information from the Companies Commission of Malaysia and Cropmate Group.

(2) May include other business activities, products and revenue from foreign countries.

(3) An immediate subsidiary of Behn Meyer AgriCare Holding (S) Pte Ltd, incorporated in Singapore, which is ultimately held by Behn Meyer Deutschland Holding AG & CO. KG, incorporated in Germany.

(4) An immediate subsidiary of FGV Holdings Berhad, a listed entity on Bursa Securities, which is ultimately held by FELDA, a statutory body controlled by the Malaysian Government.

(5) Part of Hextar Group of Companies, which is involved in diverse business portfolios including chemicals, fertilisers, energy, industrial and consumer products industries.

(6) A subsidiary of Sumitomo Corporation, a listed entity on the Tokyo, Nagoya and Fukuoka stock exchanges.

(7) A subsidiary of PGEO Group S/B, incorporated in Malaysia, which is ultimately held by Wilmar International Limited, a listed entity on the Singapore Exchange.

(8) A subsidiary of Blue Deebaj FZCO, incorporated in the United Arab Emirates.

The criteria for the selection of the above are as follows:

- involved in the formulation and blending of conventional fertilisers and may also include specialty fertilisers (excludes trading companies);
- must have operations in Malaysia;
- revenue of RM60 million and above; and
- availability of the latest available financial information.

- **Appraisal of Cropmate Group compared to the industry:** Based on the above comparative list of companies, Cropmate Group's GP margin and NP margin are higher than the comparative list's weighted average.

- **Industry size and share:**

2023 – Malaysia Fertiliser	Industry size ^(a)	Cropmate Group	
	(RM million)	Revenue (RM million) ^(b)	Market share ⁽³⁾
Apparent consumption	6,047 ⁽¹⁾	150 ⁽²⁾	2%

Source: (a) Vital Factor analysis; (b) Cropmate Group.

(1) Apparent consumption = domestic production plus imports less exports.

(2) Cropmate Group's revenue from sales in Malaysia for the financial year ended 31 December 2023.

(3) ((2) divided by (1)) x 100%.

- **Barriers to entry:** Barriers to entry may include, among others, working capital required for the purchase of input materials, holding costs of finished goods and providing credit periods to customers, as fertilisers are commonly sold in large quantities and regularly. Nevertheless, the formulation and blending of fertilisers comprise low capital investments mainly for mixer, compacting and packing equipment.

Regulatory requirements for entry into the fertiliser industry, include:

- under the Petroleum Development Act 1974, permission from the Ministry of Domestic Trade and Costs of Living (KPDN) is required for marketing or distribution of petroleum or petrochemical products, which includes among others, fertilisers that contain N and P; and
- under the Control of Supplies Act 1961 and Control of Supplies Regulations 1974, licence is required for wholesale or retail of controlled articles specified in the schedule of the Control of Supplies Regulations 1974, which includes among others, fertilisers.

6. INDUSTRY OUTLOOK AND PROSPECTS

Some consideration factors that impact the outlook and prospects of the fertiliser industry are as follows:

- The demand for fertilisers is largely dependent on the **agriculture industry** which focuses on the cultivation of plants and food crops, such as oil palm. In 2023, the GDP of agriculture industry

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



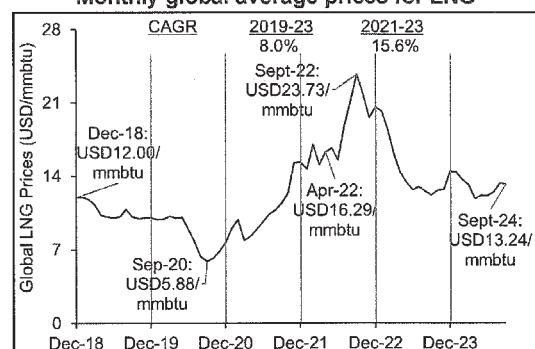
VITAL FACTOR CONSULTING

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(including plant and animal) declined by 11.7% to RM141.9 billion, which contributed to 7.8% of the GDP of Malaysia. (Source: DOSM). The decline in GDP of the agriculture industry was mainly due to the drop in CPO prices in 2023.

- Additionally, any sustained price increases in agricultural produce or their derivatives such as **crude palm oil** (CPO) are expected to drive higher output of agricultural produce, thereby increasing demand for fertilisers. The monthly average price of CPO increased by 231.4% from RM2,074/tonne in May 2020 to RM6,873/tonne in May 2022 (Source: MPIC). The prices of CPO as a commodity are dependent on global demand, competition from substitute edible oils such as sunflower, rapeseed and soybean, demand from non-food usage such as biodiesel, climate influences such as El Nino and La Nina, as well as restrictive trade practices from major importing countries. In April 2024, the monthly average CPO prices declined by 38.1% from RM6,873/tonne in May 2022 to RM4,255/tonne, followed by a 5.4% decline to RM4,024/tonne in September 2024. This was mainly due to a decline in exports by 9.8% in August 2024, thus resulting in an increase in CPO stocks leading to lower CPO prices (Source: MPOC).
- As Malaysia is one of the world's major palm oil producers, **global economic growth** can lead to higher consumption of crude palm oil to produce refined palm oil products that are supplied to user industries to manufacture a variety of food and non-food products. In 2023, the global economy's real GDP grew by 3.3%, driven by a moderating pace of recovery from the COVID-19 pandemic and falling inflation. Nevertheless, growth was limited due to the continuing geopolitical conflicts and weak consumer sentiment in the Euro area (Source: Vital Factor analysis).
- **Government policies and initiatives** affect current and future demand for fertiliser in the agriculture industry. In 2019, the government enforced a cap on the total oil palm cultivated area in Malaysia to 6.5 million ha by 2023, aimed at enhancing the sustainability of the oil palm industry. Under Budget 2024, a total of RM2.6 billion was allocated for various subsidies and incentives for farmers and fishermen. Additionally, RM400 million was allocated to implement the Food Security Strengthening Programme, which aims to increase the production of local food crops that are still dependent on external imports, while RM50 million was allocated to supply 50,000 farmers with bioorganic fertilisers to increase soil fertility. Under Budget 2025, a total of RM2.8 billion was allocated for various subsidies and incentives for farmers and fishermen. In addition, the government will initiate a pilot project to procure fertilisers, including organic fertilisers, tailored to paddy-growing regions through an open tender process. (Source: Ministry of Finance)
- Sustained high fertiliser **prices** will reduce demand. The global average prices of key fertilisers, namely urea, DAP and KCl, grew between December 2020 and April 2022, mainly attributed to the continuing Russia-Ukraine conflict, production curtailments, higher input material costs, trade policies and increase in sea freight rate. The increase in fertiliser prices will lead to consideration of alternatives, such as reducing fertiliser application rates to reduce production costs.
- Some **key input materials** include natural gas used to manufacture urea and ammonia, where ammonia is used to manufacture DAP and MAP. In April 2022, the monthly global average prices of liquefied natural gas (LNG) in Japan, the world's largest importer of LNG increased by 176.8% compared to September 2020 and further increased by 45.7% in September 2022. As of September 2024, the price declined by 44.2% to USD13.24/mmbtu compared to September 2022.
- In addition, the **sea freight rates** have been high since 2020 reaching their peak in September 2021 mainly due to the global supply chain disruption prompted by the COVID-19 pandemic, combined with the US-China trade war. In 2024, geopolitical events such as attacks on cargo ships in the Red Sea caused an increase in sea freight rates for cargo that uses that route.

Monthly global average prices for LNG



mmbtu = million British Thermal Unit (Source: Vital Factor analysis)

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our business and financial performance may be subjected to unfavourable price fluctuations of key input materials where a sustained high price may affect demand for our fertilisers

We face the risk of any sustained increases in the cost of our input materials as they will be reflected in our higher selling prices for our products. Our key input materials for our fertilisers that represent our highest purchases of input materials are macronutrients particularly N, P and K fertilisers. Purchases of N, P and K fertilisers collectively accounted for 89.2%, 92.1%, 89.4% and 87.5% of our total purchases of input materials for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. N, P and K fertilisers in their respective processed forms are traded globally. As such, purchases of these key input materials are affected by global prices.

According to the IMR Report, the global average prices of urea, DAP and KCI grew between December 2020 and April 2022. The increase in the prices of key fertilisers between December 2020 and April 2022 was mainly attributed to the continuing Russia-Ukraine conflict, production curtailments resulting from adverse weather, higher cost of input materials particularly natural gas, trade policies implemented by various countries and increase in sea freight rate. As of September 2024, the global average prices of urea, DAP and KCI have subsequently declined due to adjustments in the global economy, including a rebound in fertiliser production and the installation of new production capacities, in response to supply disruptions notably from Ukraine, as well as the decline in natural gas prices. *(Source: IMR Report)* As such, any adverse price fluctuations may affect our financial performance if we are unable to pass the increased costs to our customers.

The main source for N is urea, which is mainly derived from natural gas. Similarly, P is mainly obtained from diammonium phosphate, which uses ammonia as one of its input materials. Ammonia is also derived from natural gas. In April 2022, the monthly global average prices of liquefied natural gas (“LNG”) in Japan, the world’s largest importer of LNG increased by 176.8% compared to September 2020, and further increased by 45.7% in September 2022. As of September 2024, the price declined by 44.2% to USD13.24/million British Thermal Unit compared to September 2022. Although the LNG price has decreased in September 2024, there is no assurance that it will not increase in the future. The increase in prices of fertilisers has been driven by various factors including the higher cost of natural gas affecting the prices of nitrogen-based fertilisers as well as supply chain issues arising from geopolitical uncertainties including the prolonged Russia-Ukraine conflicts, production curtailments resulting from adverse weather, higher cost of input materials particularly natural gas, trade policies implemented by various countries and increase in sea freight rate. *(Source: IMR Report)*

Our GP margin from the formulation and blending of compacted, blended and specialty fertilisers as well as the trading segment experienced a decline in FYE 2022. This was due to the increase in COS per tonne of fertilisers which mainly arose from the increase in prices of input materials. The main input materials purchased for our business operations are macronutrients such as N, P and K and other macronutrients which are globally traded and as such, may be subject to global price fluctuation. Overall, the global average prices of key fertilisers grew between December 2020 and April 2022 which were mainly attributed to the continuing Russia-Ukraine conflict, production curtailments resulting from adverse weather, higher cost of input materials particularly natural gas, trade policies implemented by various countries and increase in sea freight rate. Between 2018 and 2023, the global average prices of key fertilisers reached their peak in 2022. In 2022, the average prices for N, P, and K fertilisers were USD 700 per tonne, USD 772 per tonne, and USD 863 per tonne, respectively compared to USD 483 per tonne, USD 601 per tonne, and USD 543 per tonne respectively in 2021. *(Source: IMR Report)* In addition, we were unable to fully pass on the price increases in input material costs to the customers to stay competitive.

9. RISK FACTORS (CONT'D)

Any sustained price increases of our input materials may affect our financial performance if we are unable to pass the cost increases to our customers, or if we were to pass the cost increases, our customers may purchase lower volumes or delay the purchase of our products.

9.1.2 Our business is dependent on the performance of our main user industries mainly oil palm plantation and the performance of our trader customer group who are our intermediaries

Our conventional fertilisers are targeted mainly at plantations including oil palm plantations. The revenue contributions from plantations accounted for 50.8% (RM55.2 million), 42.3% (RM79.8 million), 35.1% (RM53.2 million) and 36.9% (RM24.9 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. Of which, revenue from oil palm plantations accounted for 48.9% (RM53.2 million), 40.3% (RM75.8 million), 33.0% (RM49.9 million) and 34.7% (RM23.4 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively.

In this respect, we are subject to the risk of the performance of the oil palm industry. One of the factors affecting the performance of the oil palm industry includes the prices of crude palm oil. Sustained depressed crude palm oil prices may discourage oil palm plantation owners from expanding the acreage of their planted areas, delaying replanting or reducing purchases of fertilisers. Other factors affecting the oil palm industry also include adverse weather conditions such as the impact of La Nina and/or El Nino, and unusual wet or dry seasons, which may impact their purchases of fertilisers.

Additionally, in 2019, the government enforced a cap on the total oil palm cultivated area in Malaysia to 6.5 million ha by 2023. (*Source: IMR Report*) This may affect the continuing growth in demand for fertilisers which may impact our business growth.

In addition, our revenue contribution from customers who are traders accounted for 31.4% (RM34.1 million), 42.7% (RM80.3 million), 45.7% (RM69.2 million) and 52.0% (RM35.0 million) of our total revenue for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. In FPE 2024, we have 143 customers who are traders. Our business is dependent on the performance of the overall trader customer group, and there can be no assurance that we will continue to retain all or the majority of our customers within the trader customer group, or maintain or increase the level of sales that we have with them. Any adverse changes to our business relationship with them, such as a decrease in orders or the termination of our business relationships may have an adverse impact on our business and financial performance if we are unable to secure new customers promptly to replace the loss of sales.

In this respect, we are subject to the risk associated with the performance of the oil palm industry and the performance of our trader customer group, as it may affect the demand for our products. Any decline in their performance may adversely impact our business and financial performance.

9.1.3 Our operations are reliant on certain approvals, licenses, permits and certificates

Our operations are reliant on certain approvals, licenses, permits and certificates which include licenses and certificates granted by various governmental authorities. The list of all our major approvals, licences, permits and certifications obtained for our business operations as at the LPD is set out in **Section 7.21** of this Prospectus.

In the event we are unable to comply with the conditions and restrictions that are imposed by the relevant governing authorities, the approvals, licenses, permits and certificates required for our operations and business may be revoked, suspended or not renewed. Similarly, our business is subject to various laws, rules and regulations. Any breach of these laws, rules and regulations (whether due to our past actions/activities/ operations or future actions/ activities / operations) can result in penalties, warnings, fines, and/or potential criminal prosecution against us and/or our directors, restrictions on operations and/or remedial liabilities. Such revocation, suspension and/or non-renewal of our approvals, licences, permits and certifications may materially and adversely affect our ability to continue our operations and business and hence affect and reduce our profitability.

9. RISK FACTORS (CONT'D)

Notwithstanding that our Group is taking steps to submit the applications for such approvals, licences, permits and certificates, there can be no assurance that future applications by our Group for renewals of approvals, license, permits and certificates will be approved, particularly when there are changes to the present rules, regulations, policies and guidelines by the government or regulatory bodies. If we are unable to obtain or renew the approvals, license, permits and certificates required for our operations in the future, our business operations and financial performance may be adversely affected. Furthermore, while our Group has not in the past encountered any material difficulties in renewing approvals, license, permits and certificates, the renewal of our licenses, permits and certificates depends on our Group's compliance with the relevant regulations, which is at times contingent upon the review, inspection and assessment and continuously evolving practices and requirements of the relevant authorities. In addition, there may be delays in processing the licenses, permits and certificates if these requirements are not fulfilled in a timely manner.

9.1.4 Our input materials include minerals and chemicals which pose operational and occupational hazards and risks

We carry out formulation and blending of conventional and specialty fertilisers involving the use of minerals and chemicals such as urea, other petrochemical-based materials that require proper handling, processing and storage. Some of these materials may potentially be subjected to fire, explosion or emission of hazardous dust or fumes. As such, we risk disruptions to our operations in the event of any adverse incidents or accidents.

Our business operations also expose our employees to potential hazards such as handling hazardous materials, inhaling dust and other harmful fumes, bodily injuries and loss of life due to workplace accidents. Any workplace accidents and general deterioration in our workers' health may lead to significant liabilities, legal suits by workers, damage to our reputation, stop work actions by regulators, penalties imposed by regulators, and additional capital and operational expenditure to improve facilities and working conditions.

For the Financial Periods Under Review, we have not experienced any workplace accidents, legal suits, stop work actions by regulators or penalties imposed by regulators in connection with our operations.

Our Group has installed a dust collector and scrubber at Factory Lot 8949 and Factory Lot 8950 in April 2023 and July 2024 respectively. Nevertheless, there is no assurance that we will not face the risk of operational and occupational hazards.

9.1.5 Our business operations are dependent on our Executive Directors and Key Senior Management

Our business operations are dependent on the experience, knowledge and skills of our Executive Directors as well as Key Senior Management.

We are dependent on the leadership of our Managing Director, Lee Chin Yok, and our Executive Directors, Lee Cheng Seng and Lee Cheng Fei to spearhead the strategic direction and to drive the business development and growth of our Group. Additionally, we are also dependent on our Key Senior Management, all of whom play significant roles in their area of responsibilities to ensure the smooth running of our day-to-day operations as well as implementing the business strategies as set out by our Managing Director and Executive Directors.

The loss of services from any of our Executive Directors or Key Senior Management without any suitable and timely replacement may adversely affect our business operations and financial performance. The profiles of our Executive Directors and Key Senior Management are set out in **Sections 5.2.2** and **5.4.3** of this Prospectus.

9. RISK FACTORS (CONT'D)

9.1.6 Our financial performance may be subjected to unfavourable foreign exchange and interest rates fluctuations

We are exposed to foreign exchange fluctuations including USD mainly arising from our purchases of macronutrients. For FYE 2021, FYE 2022, FYE 2023 and FPE 2024, 41.3%, 47.4%, 44.2% and 29.5% of our total purchases were transacted in foreign currencies mainly in USD. Any adverse fluctuations in USD against RM may affect our business operations and financial performance.

Details of our foreign currency exchange gains and losses are as follows:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FPE 2024</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Realised gain on foreign currency exchange	118	359	293	62
Unrealised gain on foreign currency exchange	6	4	-	-
Realised loss on foreign currency exchange	(151)	(361)	(346)	(85)
Unrealised loss on foreign currency exchange	-	-	(4)	(2)
Net gain / (loss) on foreign currency exchange	(27)	2	(57)	(25)

As at the LPD, we have entered into a foreign currency forward hedging contract to hedge against foreign currency movements for USD. Nevertheless, there is no assurance that our financial performance would not be materially affected by any adverse movements in USD against the RM.

In addition, we are exposed to interest rate risk. All our borrowings are interest-bearing obligations. Any hikes in interest rates would affect our financial performance. For the Financial Periods Under Review, our finance cost mainly comprises interest charges on term loans, shareholders' loan, bankers' acceptances and lease liabilities. As at 31 May 2024, our total bank borrowings were RM23.9 million, all of which were interest-bearing based on floating rates. Our finance cost increased from RM0.8 million in FYE 2021 to RM1.7 million and RM1.5 million in FYE 2022 and FYE 2023 respectively. In FPE 2024, our finance cost was RM0.5 million. In this respect, any increase in interest rates may impact our financial performance. If we fail or encounter any difficulties in meeting our financial obligations when they fall due, this will result in a financial distress condition which will affect our business operations and financial performance.

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

Our business strategies and plans are focused on leveraging our key strengths in the formulation and blending of conventional and specialty fertilisers. Our strategies and plans include automating the weighing process, setting up R&D and test laboratory, purchasing equipment and vehicles as well as acquiring our existing factories to further support and improve our business operations. Please refer to **Section 7.16** of this Prospectus for further details on our business strategies and plans.

9. RISK FACTORS (CONT'D)

There can be no assurance that we will be successful in executing our business strategies and plans within our planned time frame nor can we provide the assurance that we will be able to anticipate and minimise or mitigate all the business, financial and operational risks arising from implementing our business strategies and plans. In addition, we may experience delays in implementation which may affect our future business and financial performance. All of these negative events may adversely affect our growth plans or result in incurring costs with no or limited benefits.

9.1.8 We may not have adequate insurance coverage

We maintain a certain level of insurance that apply to our business operations including factories, machinery and equipment that we operate to protect against various losses and liabilities. Some of the main insurance coverage we have include fire, flood, burglary and consequential losses.

We may be exposed to liabilities and losses resulting from among others, environmental factors, operational hazards and occupational risks where we may not have adequate insurance or may not have sufficient insurance to cover all the risks associated with our business operations. There is no assurance that any losses or damages over our insured limits or in areas where we are not insured or fully insured may adversely affect our financial conditions.

9.1.9 Our business operations and financial performance may be affected by a prolonged or resurgence of the COVID-19 pandemic or emergency of other epidemics or pandemics

Our business operations were impacted by the containment measures implemented during the COVID-19 pandemic period in 2020. Our operations were temporarily suspended for 5 days from 18 March 2020 to 22 March 2020 during the MCO 1 period and 3 days from 3 July 2021 to 5 July 2021 during the EMCO period, which affected our production and delivery to customers during the various MCO period.

Moving forward, if there is any tightening of restrictions in the future that may lead to the closure of our operations again, there can be no assurance that our business will not be materially affected. We may not be able to fulfil our orders promptly, which may lead to the cancellation of orders and affect our business and financial performance.

9.2 RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

9.2.1 Environmental impact of fertilisers

Fertilisers that are applied on ground surfaces are commonly subject to leaching resulting from rain and run-offs. In many cases, the leached fertilisers find their way to rivers and other bodies of water causing pollution and causing environmental damage and degradation. In some situations, fertilisers may cause algae blooms giving rise to toxins and reducing the oxygen levels in the water which adversely affects marine life. As such, improper and excessive use of fertilisers can have a negative impact on the environment. In the event agricultural land owners and operators are subjected to pressure from the community, environmental groups or the Government to minimise the use of fertilisers for environmental sustainability, this may adversely affect the demand for fertilisers.

We are involved in the fertilisers industry where all of our revenue is derived from the sales of conventional and specialty fertilisers as well as straight fertilisers during the Financial Periods Under Review. Examples of potential negative environmental sustainability concerns include, among others, the following:

- (i) increased acidity of the applied area due to continuous application of ammonium-based fertilisers such as urea and diammonium phosphate;

9. RISK FACTORS (CONT'D)

- (ii) accumulation of salts in the soil due to high usage of fertilisers that contain high salt concentration for it to function accordingly;
- (iii) leaching of fertilisers into the waterways especially nitrates from ammonium-based fertilisers that will cause algae bloom that reduces the oxygen content of the waterways thus adversely affecting marine life, as well as other chemicals that may be toxic to marine life; and
- (iv) contamination of groundwater which may affect bodies of water such as lakes used for plant irrigation purposes and dams for potable water.

Any unfavourable or negative environmental sustainability concerns on the use of excessive fertilisers or improper application of fertilisers may affect the demand for our products.

9.2.2 We are subject to economic, social, political and regulatory considerations and the occurrence of force majeure events

Any adverse changes in the political, social, economic and regulatory conditions in Malaysia could have a negative impact on our business operations and financial performance. We are also susceptible to the risk of local epidemics or pandemics where we may face business interruptions including, among others, temporary suspension of our business operations.

Changes in the political, social, economic, fiscal and regulatory conditions could arise from, among others, changes in political leadership, geopolitical events, changes in import tariffs and related duties, general economic and business conditions, fluctuations in foreign exchange rates, interest rates, acts of terrorism, riots, wars, sanctions, expropriation, nationalisation, fiscal and monetary policies, inflation, deflation, methods of taxation, tax policies, foreign worker levy, exchange control measures, unemployment trends, deterioration of international bilateral relationships, the outbreak of diseases and other matters that influence consumer and business confidence and spending. Similarly, any local, regional or global economic downturn would also affect overall business conditions, consumer confidence, as well as investments, which would subsequently affect the demand for our conventional and specialty fertilisers. As such, there can be no assurance that any adverse political, social, economic, fiscal and regulatory developments or outbreak of diseases which are beyond our control, will not materially affect our business operations and financial performance.

9.2.3 We are subject to risks associated with price fluctuation and the supply of natural gas for our ammonia-based fertilisers

Natural gas is used as the feedstock in the manufacturing of ammonia-based fertilisers as a source of N such as urea, ammonium sulphate and diammonium phosphate (also a main source of P). As such, if there are shortages, interruptions in the supply chain including logistics, an increase in the price of natural gas or an increase in transportation costs of natural gas, they will have a flow-on effect on our business operations. The impact on our business would include, among others, cost and timely availability of affected key input materials. In addition, any adverse price fluctuations may affect our financial performance if we are unable to pass the increased costs to our customers.

Natural gas is a global commodity subjected to global supply, demand and prices. In addition, natural gas has many usages including being used as an energy source for household and industrial usage, and input materials for many petrochemical products including plastics. All these have an impact on the demand for natural gas affecting its prices.

Supply and prices of natural gas are also affected by geopolitical conflicts and economic conditions and sanctions. As such, risks associated with the supply, demand and price of natural gas will affect operators in the value chain of fertiliser producers, intermediaries and users.

9. RISK FACTORS (CONT'D)

9.2.4 We face competition from other operators in the fertiliser industry

We face competition from other operators that are involved in the fertiliser industry. We may also face competition from new entrants that seek to establish themselves in the industry from time to time. Our revenue is driven by, among others, our ability to retain existing customers and/or secure new customers based on the quality, range of products, price competitiveness of our fertilisers, timeliness in delivery and our ability to meet customers' requirements. Intense and/or increase competition may result in a reduction in our prices and impact our profitability as well as loss of market share in our existing market. This could materially affect the result of our business and financial performance. Nevertheless, there is no assurance that we would be able to continue to compete effectively against our peers in the same business. Failure to remain competitive and secure orders for our fertilisers will have an adverse effect on our future financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 No prior market for our Shares and it is uncertain whether an active or sustainable market will ever develop

Prior to our IPO, there has been no prior public market for our Shares. Accordingly, there is no assurance that an active market for our Shares will develop upon Listing or, if developed, that such a market can be sustained. There is also no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

In addition, there can be no assurance that the Final Retail Price will correspond to the price at which our Shares will trade on the ACE Market upon our Listing. There is also no assurance that the market price of our Shares will not decline below the Final Retail Price.

9.3.2 Volatility of share prices traded on Bursa Securities

The trading price and volume of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include material variations in our results and operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and global stock exchanges and the flows of foreign funds. Market sentiment is also influenced by factors such as the prevailing economic and political climate of the country, and the potential for growth in various sectors of the economy. Other factors that may negatively affect investor sentiment include natural disasters, and health epidemics including outbreaks of contagious diseases. These factors contribute to the volatility of trading volumes on Bursa Securities, and of the market price of our Shares.

9.3.3 The interest of our Promoters who control our Group may not be aligned with the interest of our shareholders

Our Promoters will hold in aggregate at least 55.1% of our enlarged number of issued Shares upon Listing. As a result, they will be able to, in the foreseeable future, effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends as well as having voting control over our Group and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and by relevant guidelines or regulations.

9. RISK FACTORS (CONT'D)

As a step towards good corporate governance, the appointment of Independent Non-Executive Directors and our Audit and Risk Management Committee will serve as an effective mechanism to promote good corporate governance to ensure future transactions of our Group, including related party transactions, if any, are entered into at arms' length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to our minority shareholders. Our Audit and Risk Management Committee will in that sense represent the interest of our minority shareholders and general public at large.

However, there can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders.

9.3.4 Uncertainty of dividend payments

Our ability to declare dividends to our shareholders is dependent on, among others, our future financial performance, cash flow position, capital requirements and other obligations, and our ability to implement our business plans. Deterioration of these factors could have an effect on our business, which in turn will affect our ability to declare dividends to our shareholders. As such, there is no assurance that we will be able to pay dividends to our shareholders.

Furthermore, dividend payments are not guaranteed and our Board may decide, at its discretion, at any time and for any reason, not to pay dividends. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

Please refer to **Section 12.8** of this Prospectus for further information on our dividend policy.

9.3.5 Failure or delay in our Listing

The occurrence of certain events, including but not limited to the following, may cause a delay in or termination of our Listing:

- (i) our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations under such agreement;
- (ii) our inability to meet the public shareholding spread requirement of the Listing Requirements of having at least 25% of our enlarged number of issued Shares for which listing is sought to be held by a minimum of 200 public shareholders holding not less than 100 Shares each, at the point of our Listing; or
- (iii) the revocation of approvals from the relevant authorities prior to our Listing or Admission for whatever reason; or

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

- (i) 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 and our Offerors 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 prescribed by the SC pursuant to Section 245(7)(a) of the CMSA; or
- (ii) our Listing is aborted, investors will not receive any of our IPO Shares, all monies paid in respect of all Applications for our IPO Shares will be refunded free of interest.

9. RISK FACTORS (CONT'D)

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 prescribed 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, a return of monies to our shareholders could only be achieved by way of a cancellation of our share capital as provided under the Act and its related rules. Such cancellation can be implemented by either:
 - (a) the sanction of our shareholders by special resolution in a general meeting, 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
 - (b) the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from our Directors.

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

9.3.6 Forward-looking statements are subject to uncertainties and contingencies

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Other statements, including, without limitation, those regarding our financial position, business strategies, prospects, plans and objectives of our Company for future operations, which are forward-looking in nature, are subject to uncertainties and contingencies. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we cannot assure you that such expectations will subsequently materialise. Their inclusion in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Pursuant to the Listing Requirements, a “related party transaction” is a transaction entered into by a listed corporation or its subsidiaries that involves the interest (direct or indirect) of a related party. A “related party” of a listed corporation is:

- (i) A director, having the meaning given in Section 2(1) of the CMSA and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a director of the listed issuer, its subsidiaries or holding company or a chief executive of the listed corporation, its subsidiaries or holding company; or
- (ii) A major shareholder, and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer or its subsidiaries or holding company, having an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares is:
 - (a) 10.0% or more of the total number of voting shares in the corporation; or
 - (b) 5.0% or more of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation; or
- (iii) A person connected with such director or major shareholder.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.1.1 Transaction that are material to our Group

Save for the Pre-IPO Exercise as set out in **Section 6.2** of this Prospectus and as disclosed below, there is no other material related party transaction entered or to be entered into by our Group which involves the interest, direct or indirect, of our Directors, Substantial Shareholders and/or persons connected with them for the Financial Periods Under Review and up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Eastwing (M) Sdn Bhd (" Eastwing ")	Eastwing is a company which provides construction monitoring services and general trading, grows of other tropical and subtropical fruits not elsewhere classified. Lee Cheng Seng and Lee Cheng Fei, who are the Group's Executive Directors, Promoters and Substantial Shareholders, are also the directors and shareholders of Eastwing.	Payment for handling services for procuring manpower supplies to Eastwing.	(1)	1,192 (1.3% of our Group's COS)	1,354 (0.9% of our Group's COS)	-	-	-
		Payment to Eastwing for renovation and upgrading works for Factory Lot 8949 and Factory Lot 8950, machines installation services as well as installation of power supply and concrete flooring for scrubber and dust collector in Factory Lot 8950	(2)	156 (1.0% of our Group's NA)	19 (<0.1% of our Group's NA)	201 (0.5% of our Group's NA)	-	-
		Payment for construction Warehouse Lot 11925 to Eastwing.	(3)	-	4,000 (12.9% of our Group's NA)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021	FYE 2022	FYE 2023	FPE 2024	1 June 2024 up to the LPD
				RM'000	RM'000	RM'000	RM'000	RM'000
		<p>Sale of fertilisers to Eastwing.</p> <p>This transaction is not recurrent and will not subsist upon our Listing.</p>	(4)	63 (0.1% of our Group's revenue)	48 (<0.1% of our Group's revenue)	-	-	-
Cropmate Fertilizer and Yilida Malaysia Ventilator Sdn Bhd ("Yilida")	<p>Yilida is a company which manufactures industrial air-conditioning components. Lee Cheng Seng and Lee Cheng Fei, who are our Executive Directors, Promoters and Substantial Shareholders, are also the directors and shareholders of Yilida.</p> <p>Both Lee Cheng Seng and Lee Cheng Fei had ceased to become the directors and shareholders of Yilida since 10 March 2023.</p>	<p>Purchase of machinery components from Yilida for our Group's own use.</p> <p>Purchase of machinery components for the purposes of fertiliser manufacturing from Yilida for sale to our customer, PT. Asia Pupuk Gina Lestari.</p>	(5)	84 (0.5% of our Group's NA)	-	-	-	-
			(6)	209 (1.3% of our Group's NA)	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Super Nine	Super Nine is a company which let out its property to derive rental income. Lee Chin Yok, Lee Cheng Seng and Lee Cheng Fei, who are our Managing Director / Executive Directors, Promoters and Substantial Shareholders, are also the directors and shareholders of Super Nine.	Payment of rental by Cropmate Fertilizer (tenant) to Super Nine (landlord) for Factory Lot 8949. This tenancy agreement will be terminated upon the completion of the Proposed Acquisition of Factory Lot 8949.	(7)	720 (0.8% of our Group's COS)	780 (0.5% of our Group's COS)	792 (0.6% of our Group's COS)	330 (0.6% of our Group's COS)	264
Cropmate Fertilizer and Lee Chin Yok and Lee Cheng Seng	Lee Chin Yok and Lee Cheng Seng, who are our Managing Director / Executive Director, Promoters and Substantial Shareholders, are also the owners of Factory Lot 8950.	Payment of rental by Cropmate Fertilizer (tenant) to Lee Chin Yok and Lee Cheng Seng (landlords) for Factory Lot 8950.	(8)	480 (0.5% of our Group's COS)	480 (0.3% of our Group's COS)	480 (0.4% of our Group's COS)	200 (0.4% of our Group's COS)	160

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and LCS Agriculture	LCS Agriculture is a sole proprietorship which sells fruits and pesticides. Lee Cheng Seng who is our Executive Director, Promoter and Substantial Shareholder, is also the sole proprietor of LCS Agriculture.	This tenancy agreement will be terminated upon the completion of the Proposed Acquisition of Factory Lot 8950. Sale of fertilisers to LCS Agriculture for their own plantation use. This transaction is recurrent in nature and will subsist upon our Listing.	(9)	58 (0.1% of our Group's revenue)	-	4 (<0.1% of our Group's revenue)	5 (<0.1% of our Group's revenue)	9

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Golden Fruits Farm Enterprise	Golden Fruits Farm Enterprise is a partnership which involves in fruits planting and fruits trading. Lee Cheng Seng who is our Executive Director, Promoter and Substantial Shareholder, is also the partner of Golden Fruits Farm Enterprise.	Sale of fertilisers to Golden Fruits Farm Enterprise for their own plantation use. This transaction is recurrent in nature and will subsist upon our Listing.	(10)	57 (<0.1% of our Group's revenue)	60 (<0.1% of our Group's revenue)	49 (<0.1% of our Group's revenue)	3 (<0.1% of our Group's revenue)	9
Cropmate Fertilizer and Premier Fruits	Premier Fruits is a partnership which sells fruits and agricultural products. Lee Cheng Seng who is our Executive Director, Promoter and Substantial Shareholder, is also the partner of Premier Fruits.	Sale of fertilisers to Premier Fruits for their own plantation use. This transaction will not subsist upon our Listing.	(11)	23 (<0.1% of our Group's revenue)	18 (<0.1% of our Group's revenue)	19 (<0.1% of our Group's revenue)	1 (<0.1% of our Group's revenue)	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Lee Chong Kooch	Lee Chong Kooch is the brother of Lee Chin Yok, who is our Managing Director, Promoter and Substantial Shareholder.	Sale of fertilisers to Lee Chong Kooch for his own plantation use This transaction is recurrent in nature and will subsist upon our Listing.	(12)	53 (<0.1% of our Group's revenue)	57 (<0.1% of our Group's revenue)	117 (<0.1% of our Group's revenue)	31 (<0.1% of our Group's revenue)	39
Cropmate Fertilizer and Sinong Pelita Matu Sdn Bhd	Sinong Pelita Matu Sdn Bhd is a company which involved in oil palm plantation and engages in the business of swiftlet ranching. Datuk Tan Chew Chin who is our Substantial Shareholder, is also the director of Sinong Pelita Matu Sdn Bhd.	Sale of fertilisers to Sinong Pelita Matu Sdn Bhd for their own plantation use. This transaction is recurrent in nature and will subsist upon our Listing.	(13)	1,645 (1.5% of our Group's revenue)	10,086 (5.4% of our Group's revenue)	-	3,215 (4.8% of our Group's revenue)	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Sri Kuala (M) Sdn Bhd	Sri Kuala (M) Sdn Bhd is a company which acts as the dealers in agricultural, chemical products, stones and granites as well as involve in provision of transportation services. Datuk Tan Chew Chin who is our Substantial Shareholder, is also the director and shareholder of Sri Kuala (M) Sdn Bhd.	Sale of fertilisers to our trader, Sri Kuala (M) Sdn Bhd This transaction is recurrent in nature and will subsist upon our Listing.	(14)	320 (0.3% of our Group's revenue)	1,258 (0.7% of our Group's revenue)	1,160 (0.8% of our Group's revenue)	144 (0.2% of our Group's revenue)	93

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of relationship	Nature of transaction	Notes	Transaction value				
				FYE 2021 RM'000	FYE 2022 RM'000	FYE 2023 RM'000	FPE 2024 RM'000	1 June 2024 up to the LPD RM'000
Cropmate Fertilizer and Kian Hong Plant Sdn Bhd	Kian Hong Plant Sdn Bhd is a company involved in trading of oil palm crops, rental of related equipment and lorry transportation. Datuk Tan Chew Chin who is our Substantial Shareholder, is also the director and shareholder of Kian Hong Plant Sdn Bhd.	Sale of fertilisers to Kian Hong Plant Sdn Bhd for their own plantation use This transaction is recurrent in nature and will subsist upon our Listing.	(15)	15 (<0.1% of our Group's revenue)	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)**Notes:**

- (1) Our Group went through Eastwing for handling services as Eastwing was able to prioritise Cropmate Fertilizer in procuring manpower supplies in a short span of time as compared to third parties. Further, it was challenging for Cropmate Fertilizer to hire their own workers due to the hiring freeze during the COVID-19 pandemic. Our Group has, since January 2023, ceased to engage Eastwing for its handling services in procuring manpower supplies to Cropmate Fertilizer. Based on the transfer pricing assessment for the FYE 2021 to FYE 2022, the transactions were transacted on an arm's length basis and were based on normal commercial terms as the fees charged by Eastwing were within the range of fees charged by other comparable companies providing similar services.
- (2) The cost of renovation, upgrading works, machines installation services and installation of power supply and concrete flooring provided by Eastwing on ad hoc basis were transacted on an arm's length basis and were based on normal commercial terms as the fees charged by Eastwing were comparable with the rates quoted by other similar construction/ engineering companies.
- (3) Based on the transfer pricing assessment for the FYE 2022, the construction of Warehouse Lot 11925 provided by Eastwing on an ad hoc basis was transacted on an arm's length basis and was based on normal commercial terms as the construction cost charged by Eastwing was within the range of fees charged by other comparable companies providing similar services.
- (4) Our Group has, since January 2023, ceased to sell fertilisers to Eastwing. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for the sales of compacted fertilisers amounting to RM56,200 in FYE 2021 which is not deemed by our Directors to be carried out on an arm's length basis as it was provided on terms more favourable to our Group in comparison to normal commercial terms. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. This transaction is not recurrent and will not subsist upon our Listing as Eastwing will no longer be involved in trading of fertilisers.
- (5) The purchase of machinery components from Yilida was transacted on an arm's length basis and was based on normal commercial terms as the purchase price charged by Yillida was comparable with the rates quoted by other companies which offer similar products and services. This transaction was a one-off related party transaction as our Group procures the machinery components for setting up our Group's production line for formulation and blending of fertilisers.
- (6) The purchase of machinery components from Yilida was transacted on an arm's length basis and was based on normal commercial terms as the purchase price charged by Yillida was comparable with the rate quoted by other company which offers similar products and services. This transaction was a one-off transaction as requested by our customer, PT. Asia Pupuk Gina Lestari whom our Group assisted in customising their production line for formulation and blending of fertilisers.
- (7) Cropmate Fertilizer (tenant) and Super Nine (landlord) had on 1 March 2018 entered into a tenancy agreement for the rental of Factory Lot 8949, commencing from 1 March 2018 to 29 February 2020, which was subsequently renewed:
- (i) on 1 March 2020 for a term of 2 years from 1 March 2020 to 28 February 2022;
 - (ii) on 1 March 2022 for a term of 2 years from 1 March 2022 to 29 February 2024; and
 - (iii) on 1 March 2024 for a term of 1 year from 1 March 2024 to 28 February 2025 at a monthly rental rate of RM66,000.00.

10. RELATED PARTY TRANSACTIONS (CONT'D)

Based on the transfer pricing assessment for the FYE 2021 to FYE 2023, the monthly rental rate paid by Cropmate Fertilizer to Super Nine is below the market rental rate. Hence, these transactions are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group due to the lower rental rate paid by Cropmate Fertilizer to Super Nine.

*Nevertheless, as part of the Pre-IPO Exercise, Factory Lot 8949 will be acquired by Cropmate Fertilizer and be part of our Group upon the completion of the Proposed Acquisition of Factory Lot 8949. This transaction was transacted on arm's length basis and were based on normal commercial terms as the purchase consideration of the Proposed Acquisition of Factory Lot 8949 was arrived at after taking into consideration the market value of Factory Lot 8949 of RM16.3 million as valued by the Valuer, based on the valuation carried out on 3 October 2023. The sale and purchase agreement in relation to the Proposed Acquisition of Factory Lot 8949 was signed on 24 October 2023. Pending completion of the Proposed Acquisition of Factory Lot 8949, Cropmate Fertilizer will continue to pay the same rental to the landlord, Super Nine. Please refer to **Section 6.2.2(i)** of this Prospectus for the further details.*

- (8) *Cropmate Fertilizer (tenant) and Lee Chin Yok (landlord) had on 1 January 2021 entered into a tenancy agreement for the rental of Factory Lot 8950, commencing from 1 January 2021 to 31 December 2022. Thereafter, Cropmate Fertilizer (tenant) and Lee Chin Yok and Lee Cheng Seng (landlords) had on 1 January 2023 further entered into a tenancy agreement for the rental of Factory Lot 8950 for a term of 1 year from 1 January 2023 to 31 December 2023, and had subsequently renewed the tenancy for another term of 1 year from 1 January 2024 to 31 December 2024 at a monthly rental rate of RM40,000.00.*

Based on the transfer pricing assessment for the FYE 2021 to FYE 2023, the monthly rental rate paid by Cropmate Fertilizer to Lee Chin Yok and Lee Cheng Seng is below the market rental rate. Hence, these transactions are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group due to the lower rental rate paid by Cropmate Fertilizer to Lee Chin Yok and Lee Cheng Seng.

*Nevertheless, as part of the Pre-IPO Exercise, Factory Lot 8950 will be acquired by Cropmate Fertilizer and be part of our Group upon the completion of the Proposed Acquisition of Factory Lot 8950. This transaction was transacted on arm's length basis and were based on normal commercial terms as the purchase consideration of the Proposed Acquisition of Factory Lot 8950 arrived at after taking into consideration the market value of Factory Lot 8950 of RM13.5 million as valued by the Valuer, based on the valuation carried out on 3 October 2023. The sale and purchase agreement in relation to the Proposed Acquisition of Factory Lot 8950 was signed on 24 October 2023. Pending completion of the Proposed Acquisition of Factory Lot 8950, Cropmate Fertilizer will continue to pay the same rental to the landlords, Lee Chin Yok and Lee Cheng Seng. Please refer to **Section 6.2.2(ii)** of this Prospectus for the further details.*

- (9) *We sell fertilisers to LCS Agriculture during FYE 2021, FYE 2023 and FPE 2024. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for sales of compacted and blended fertilisers amounting to RM58,000 in FYE 2021 which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to LCS Agriculture represent an additional source of revenue for our Group as LCS Agriculture purchased these fertilisers for their own plantation use.*

10. RELATED PARTY TRANSACTIONS (CONT'D)

- (10) We sell fertilisers to Golden Fruits Farm Enterprise during the Financial Periods Under Review. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for sales of compacted fertiliser amounting to RM10,600 in FYE 2021 and RM11,000 in FYE 2023 which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Golden Fruits Farm Enterprise represent an additional source of revenue for our Group as Golden Fruits Farm Enterprise purchased these fertilisers for their own plantation use.
- (11) We sell fertilisers to Premier Fruits during the Financial Periods Under Review. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for sales of compacted and specialty fertilisers amounting to RM23,300 in FYE 2021 which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Premier Fruits represent an additional source of revenue for our Group as Premier Fruits purchased these fertilisers for their own plantation use. This transaction will not subsist upon our Listing as Lee Cheng Seng has ceased his business involvement in Premier Fruits as at the LPD.
- (12) We sell fertilisers to Lee Chong Kooch during the Financial Periods Under Review. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for the following transactions which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group:
- (i) sales of compacted fertiliser amounting to RM50,100 in FYE 2021;
 - (ii) sales of compacted and specialty fertilisers amounting to RM56,350 in FYE 2022;
 - (iii) sales of straight fertiliser amounting to RM1,000 in FYE 2023; and
 - (iv) sales of compacted fertiliser amounting to RM19,800 in FPE 2024.
- Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Lee Chong Kooch represent an additional source of revenue for our Group as Lee Chong Kooch purchased these fertilisers for his own plantation use.
- (13) We sell fertilisers to Sinong Pelita Matu Sdn Bhd during FYE 2021, FYE 2022 and FPE 2024. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for the sales of compacted fertiliser amounting to RM1,645,210 in FYE 2021 and RM3,214,920 in FPE 2024 which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Sinong Pelita Matu Sdn Bhd represent an additional source of revenue for our Group as Sinong Pelita Matu Sdn Bhd purchased these fertilisers for their own plantation use.

10. RELATED PARTY TRANSACTIONS (CONT'D)

(14) *We sell fertilisers to Sri Kuala (M) Sdn Bhd during the Financial Periods Under Review. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for the following transactions which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group:*

- (i) *sales of compacted and blended fertilisers amounting to RM316,700 in FYE 2021;*
- (ii) *sales of blended fertiliser amounting to RM201,375 in FYE 2022; and*
- (iii) *sales of compacted and blended fertilisers amounting to RM131,250 in FPE 2024.*

Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Sri Kuala (M) Sdn Bhd which is our Group's trader, also acts as an intermediary to resell the fertilisers to their customers. This represent an additional source of revenue for our Group.

(15) *We sell fertilisers to Kian Hong Plant Sdn Bhd during FYE 2021. These transactions were transacted on an arm's length basis and were based on normal commercial terms, save for the sales of compacted fertiliser amounting to RM7,500 in FYE 2021 which are not deemed by our Directors to be carried out on an arm's length basis but more favourable in comparison to normal commercial terms to our Group. Nevertheless, the sales of fertilisers were mutually agreed upon between the parties on a willing buyer-willing seller basis. The sales of fertiliser to Kian Hong Plant Sdn Bhd represent an additional source of revenue for our Group as Kian Hong Plant Sdn Bhd purchased these fertilisers for their own plantation use.*

Save for items (7) and (8) in relation to the rentals paid for Factory Lot 8949 and Factory Lot 8950 as well as items (4), (9), (10), (11), (12), (13), (14) and (15) in relation to the sales of fertiliser as disclosed above, our Board confirms that all the related party transactions were transacted on an arm's length basis and based on normal commercial terms which were not more favourable to the related parties than those generally available to third parties, and accordingly were not detrimental or unfavourable to our minority shareholders.

Save as disclosed above, our Board also confirms that there are no other material related party transactions that have been entered by our Group that involve the interest, direct or indirect, of our Directors, major shareholders and/or persons connected to them but not yet effected up to the date of this Prospectus.

Following our Listing, our Directors will ensure that future related party transactions (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that the future related party transactions (if any) are carried out on an arm's length basis are set out in **Section 10.3** of this Prospectus.

10.2 OTHER TRANSACTIONS**10.2.1 Related party transactions entered into that are unusual in their nature or conditions**

Our Group has not entered into any transactions that is unusual in their nature or conditions, involving goods, services, tangible or intangible assets, with a related party for the Financial Periods Under Review and up to the LPD.

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

Save as disclosed below, our Board has confirmed that there are no outstanding loans and financial assistance (including guarantees of any kind) made by us to or for the benefit of any related party for the Financial Periods Under Review and up to the LPD:

	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FYE 2023</u>	<u>FPE 2024</u>	<u>1 June 2024 up to the LPD</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Advances provided by Lee Chin Yok to Cropmate Fertilizer ⁽¹⁾	5,175	-	-	-	-
Advances provided by Lau Sam Siong to Cropmate Fertilizer ⁽²⁾	500	-	-	-	-

Notes:

- (1) *Lee Chin Yok is the Promoter, Managing Director and Substantial Shareholder of our Company. Interest of 3.5% per annum was imposed on the advances provided for the purposes of working capital and capital expenditure incurred by Cropmate Fertilizer. Cropmate Fertilizer had in November 2022 fully repaid the amount owing to Lee Chin Yok.*
- (2) *Lau Sam Siong is the Substantial Shareholder of our Company. Interest of 3.5% per annum was imposed on the advances provided for the purposes of working capital and capital expenditure incurred by Cropmate Fertilizer. Cropmate Fertilizer had in November 2022 fully repaid the amount owing to Lau Sam Siong.*

The total advances provided by Lee Chin Yok and Lau Sam Siong amounting to RM5.5 million were allocated for working capital purposes of approximately RM3.7 million and capital expenditure of approximately RM1.8 million for purchase of machinery and equipment for our fertiliser operations.

Based on the transfer pricing assessment for the FYE 2021, it was concluded that the abovementioned advances received from Lee Chin Yok and Lau Sam Siong and the said interest imposed to Cropmate Fertilizer appeared to be in compliance with the arm's length principle. Premised on this, our Directors confirm that the abovementioned advances received from Lee Chin Yok and Lau Sam Siong and interest imposed to Cropmate Fertilizer were carried out on arms' length basis and on normal commercial terms which were not unfavourable to our Company but comparable to those generally available to third parties.

Following our Listing, our Directors will ensure that future advances made to our Group by related parties (if any) will be in compliance with the Listing Requirements. The procedures to be undertaken to ensure that future related party transactions with the related parties (if any) are carried out on an arm's length basis are set out in **Section 10.3** of this Prospectus.

10. RELATED PARTY TRANSACTIONS (CONT'D)**10.2.3 Provision of guarantees by our Directors and/or Promoters for the banking facilities granted to our Group**

Our Directors and/or Promoters, namely, Lee Chin Yok, Lee Cheng Seng and Lee Cheng Fei, have jointly and severally provided personal guarantees for the banking facilities extended by AmBank Islamic Berhad, Malayan Banking Berhad, Maybank Islamic Berhad, Hong Leong Islamic Bank Berhad, Hong Leong Bank Berhad, BMW Credit (Malaysia) Sdn Bhd and Public Bank Berhad (collectively, “**Financier(s)**”) to Cropmate Fertilizer. The breakdown of the facilities secured by Cropmate Fertilizer as at LPD is set out below:

Financiers	Guarantors	Amount utilised	Unutilised balance	Total amount of guarantee provided
		RM'000	RM'000	RM'000
AmBank Islamic Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	-	4,000	4,000
Malayan Banking Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	-	4,000	4,000
Maybank Islamic Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	728	-	728
Hong Leong Islamic Bank Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	20,165	15,335	35,500
Hong Leong Bank Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	530	-	530
BMW Credit (Malaysia) Sdn Bhd	<ul style="list-style-type: none"> ▪ Lee Cheng Seng ▪ Lee Cheng Fei 	1,009	-	1,009
Public Bank Berhad	<ul style="list-style-type: none"> ▪ Lee Chin Yok ▪ Lee Cheng Fei 	593	-	593
Public Bank Berhad	<ul style="list-style-type: none"> ▪ Lee Cheng Seng 	1,549	-	1,549
Public Bank Berhad	<ul style="list-style-type: none"> ▪ Lee Cheng Fei 	430	-	430
	Total	25,004	23,335	48,339

Our Group has obtained conditional consents from the Financiers to release the above personal guarantees by substituting the same with corporate guarantees to be provided by our Company. These conditional consents are subject to the successful listing of our Company on the ACE Market of Bursa Securities.

10. RELATED PARTY TRANSACTIONS (CONT'D)

10.3 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Upon our Listing, our Audit and Risk Management Committee will review the terms of all related party transactions (including recurrent related party transactions) and establish whether all related party transactions are fair and on arm's length basis, and our Directors will report such transactions, if any, annually in our annual report. In the event that there are any proposed related party transactions that involve the direct or indirect interest of our Directors, our interested Directors shall disclose to our Board the nature and extent of their interest including all matters in relation to the proposed related party transactions that they are aware or should reasonably be aware of, which is not in our best interest. Our interested Directors shall also abstain from any of our Board's deliberation and voting on the relevant resolutions in respect of such proposed related party transactions.

Further, we will be required to seek our shareholders' approval each time we enter into material related party transactions in accordance with the Listing Requirements. However, if the related party transactions are deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions. The interested person shall abstain from voting on the relevant resolutions in respect of such proposed related party transactions at our general meetings. Pursuant to the Listing Requirements, related party transactions may be aggregated to determine their materiality if the related party transactions occurred within a 12-month period, are entered with the same party or with parties connected to one another or if the transactions involve the acquisition or disposal of securities or interests in one particular corporation/asset or of various parcels of land contiguous to each other.

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11. CONFLICT OF INTEREST

11.1 INTEREST IN ENTITIES CARRYING ON A SIMILAR TRADE AS OUR GROUP OR WHICH ARE OUR CUSTOMERS AND/OR SUPPLIERS

As at LPD, save as disclosed below, none of our Directors and Substantial Shareholders have any interest, direct or indirect, in other businesses or corporations which:

- (i) carry on a similar trade as that of our Group; or
- (ii) are customers and/or suppliers of our Group.

Interest in entities carrying on a similar trade as our Group

Our Board is of the view that the interest of Datuk Tan Chew Chin as a director and shareholder in Sri Kuala (M) Sdn Bhd, a company which principal activities include dealing in agricultural and chemical products, does not give rise to any existing or potential conflict of interest situation after taking into consideration of the following:

- (i) Datuk Tan Chew Chin is our Substantial Shareholder and he is not a Director. He is also not involved in any decision making and day-to-day management of our Group. Further, he will cease to be a substantial shareholder after our IPO;
- (ii) Sri Kuala (M) Sdn Bhd is involved in trading of fertilisers except for straight fertilisers and does not compete with the business and operations of our Group which is involved in formulation and blending of fertilisers. In addition, Sri Kuala (M) Sdn Bhd is our trader which acts as an intermediary to resell our fertilisers to its customers; and
- (iii) Our Group is not dependent on Sri Kuala (M) Sdn Bhd who is our customer and one of our traders. They only contributed 0.3%, 0.7%, 0.8% and 0.2% to our Group's revenue for the FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. As at the FPE 2024, we have approximately 143 active traders for our Group.

Please refer to **Section 10.1.1** of this Prospectus for further details of Sri Kuala (M) Sdn Bhd on the related party transactions.

Interest in entities which are our customers and/or suppliers

The entities which our Directors or Substantial Shareholders have an interest in that were our customers during the Financial Periods Under Review and up to the LPD, comprises LCS Agriculture, Golden Fruits Farm Enterprise, Premier Fruits, Sinong Pelita Matu Sdn Bhd, Sri Kuala (M) Sdn Bhd and Kian Hong Plant Sdn Bhd, as well as Lee Chong Kooch who is the brother of Lee Chin Yok, have been disclosed as related party transactions in **Section 10.1.1** of this Prospectus. Hence, our Board is of the view that these transactions which may be recurrent in nature do not give rise to any existing or potential conflict of interest situation as they have been assessed for arm's length basis under the ambit of related party transactions.

Moving forward, upon our Listing, our Audit and Risk Management Committee will continue to review and assess the financial risk and matters relating to any conflict of interest and any potential conflict of interest situation that may arise within our Group including any transaction that raises questions of management integrity, to ensure that transactions are carried out on terms that are not detrimental to our minority shareholders and in the best interest of our Group. Any future dealings with parties in which the Directors and Substantial Shareholders of our Company have interest, direct or indirect, will be based on established procedures for related party transactions to ensure that they are carried out on an arms' length basis.

11. CONFLICT OF INTEREST (CONT'D)

Notwithstanding the above, the interests that are held by our Directors and Substantial Shareholders and the interests that may be held by our Directors and Substantial Shareholders in the future in other businesses or corporations which are carrying on a similar trade as our Group and/or our customers or suppliers may give rise to a conflict of interest situation with our business. Where such interests give rise to a conflict of interest situation, our Directors and Substantial Shareholders and persons connected to them shall abstain from deliberating and voting on the resolutions relating to these matters or transactions that require the approval of our shareholders in respect of their direct or indirect interest. Such transactions will be carried out on arm's length basis and on normal commercial terms.

11.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

(i) Declaration by HLIB

HLIB, its subsidiaries and associated companies as well as its penultimate holding company, namely Hong Leong Financial Group Berhad, and the subsidiaries and associated companies of Hong Leong Financial Group Berhad (collectively, the "**Hong Leong Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and funds management and credit transaction services businesses.

The Hong Leong Group has engaged, and may in the future engage, in transactions with and perform services for our Group. In addition, in the ordinary course of business, any member of the Hong Leong Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with our Group, hold long or short positions, and may trade or otherwise effect transactions for its own account or the account of its customers in debt or equity securities or senior loans of our Group.

As at LPD, our Group has outstanding banking facilities with Hong Leong Group amounting to approximately RM18.9 million.

Notwithstanding the above, HLIB is of the view that the aforesaid lending relationship would not give rise to a conflict of interest situation in its capacity as our Principal Adviser, Sponsor, Underwriter and Bookrunner for our IPO as:

- (i) HLIB is a licensed investment bank and its appointment as the Principal Adviser, Sponsor, Underwriter and Bookrunner for our IPO and the extension of the banking facilities by the Hong Leong Group arose in its ordinary course of business;
- (ii) the conduct of the Hong Leong Group in its banking business is strictly regulated by the Financial Services Act 2013, Islamic Financial Services Act 2013 and, where applicable, the CMSA, as well as the Hong Leong Group's own internal controls and checks; and
- (iii) the said banking facilities which is approximately 0.06% of the audited NA of the Hong Leong Group as at 30 June 2024 of RM30.1 billion, are not material.

HLIB has also confirmed that as at LPD, there are no circumstances that exists or is likely to exist to give rise to a possible conflict of interest situation in its capacity as our Principal Adviser, Sponsor, Underwriter and Bookrunner in relation to our IPO.

11. CONFLICT OF INTEREST (CONT'D)

(ii) Declaration by Wong Beh & Toh

Wong Beh & Toh has confirmed that there is no existing or potential conflict of interest in its capacity as Legal Advisers to our Company in relation to our IPO.

(iii) Declaration by Kreston John & Gan

Kreston John & Gan has confirmed that there is no existing or potential conflict of interest in its capacity as the Auditors and the Reporting Accountants to our Company in relation to our IPO.

(iv) Declaration by Vital Factor

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 to our Company in relation to our IPO.

(v) Declaration by Azmi & Co

Azmi & Co has confirmed that there is no existing or potential conflict of interest in its capacity as the Independent Property Valuer to our Company in relation to our IPO.

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