When planning the processes for realisation of products, the following is taken into account:

(i) quality objectives and product quality requirements;

(ii) the need to establish processes and documentations, and provide resources and facilities specific to the product quality;

(iii) verification, validation, monitoring and inspection activities, and the criteria for acceptability and compliance with documented procedures and quality plan; and

(iv) the records that are necessary to provide confidence of conformity of the processes and products with the requirements.

Monitoring, measurement, analysis and improvement

As part of our quality measurement system ("**QMS**"), we monitor, measure, analyse and continuously improve our processes needed to:

(i) demonstrate compliance with our product requirements;

(ii) assure the soundness of our QMS; and

(iii) achieve continuous improvement in the effectiveness of our QMS.

Our quality assurance department measures and monitors our product quality to ensure that the product quality requirements are met. Our quality assurance department also ensures that products which do not conform to the product quality requirements are identified and rectified to prevent unintended production. Corrective actions will be taken to rectify the cause of non-conformities of the products.

Management responsibility

Our management demonstrates their commitment to the development and improvement of our QMS by:

(i) communicating to our employees the importance of meeting customers' needs as well as regulatory and legal requirements;

(ii) establishing a quality policy and disseminating the policy to our employees;

(iii) ensuring quality objectives are established and displayed openly as a sign of commitment as well as presenting our quality policy and objectives to new staff during orientation;

(iv) conducting regular management reviews; and

(v) ensuring the availability of necessary resources.

Resource management

Our quality assurance department will determine and provide, in a timely manner, the resources needed to:

(i) implement, maintain and improve our QMS; and

(ii) ensure customer satisfaction.

Our management is committed to the execution of the procedures set out in our quality assurance manual, whilst our quality assurance personnel has full authority to carry out a quality assurance system to identify quality control problems, and to initiate, recommend and rectify the problems identified.

Our Group's QMS adheres to international quality standards. Our QMS was accredited with the ISO9001:2008 certification from the European Quality Assurance in 2013 under the scope "design, development and producing of animal feed premix". In 2018, our QMS was reassessed and accredited with the ISO9001:2015 certification from the Joint Accreditation System of Australia and New Zealand under the same scope.

6.16 MAJOR CUSTOMERS

Our top five (5) major customers for the FYEs 31 December 2017, 2018, 2019 and 2020 are all based in Malaysia save for Customer C which is based outside of Malaysia. The table below sets out our top five (5) major customers for each of the financial years under review as follows:

No.	Name	Length of relationship	Types of products supplied	Revenue contribution	% of total revenue
		(Years)		(RM'000)	(%)
FYE 31 December 2020					
1.	Customer A	5	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, raw materials and commodities	14,309	7.06
2.	Ni-On Marketing System Sdn Bhd	25	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials, commodities and farm equipment	10,672	5.27
3.	Perniagaan Muhibbah Ria Sdn Bhd	7	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials and commodities	9,184	4.53
4.	Customer B	5	Premixes, formulated products, biotech animal feed ingredients, feed additives, vitamins, minerals, raw materials and commodities	7,024	3.47
5.	Customer C	5	Premixes, formulated products, veterinary pharmaceuticals, raw materials and commodities	6,996	3.45
			Total:	**48,185**	**23.78**

6. BUSINESS OVERVIEW *(Cont'd)*

No.	Name	Length of relationship	Types of products supplied	Revenue contribution	% of total revenue
		(Years)		(RM'000)	(%)
FYE 31 December 2019					
1.	Ni-On Marketing System Sdn Bhd	24	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials, commodities and farm equipment	13,678	7.64
2.	Customer A	4	Premixes, formulated products, feed additives, raw materials and commodities	10,046	5.61
3.	Customer D	4	Premixes, feed additives, raw materials and commodities	8,837	4.94
4.	Perniagaan Muhibbah Ria Sdn Bhd	6	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials and commodities	8,811	4.92
5.	Customer B	4	Premixes, formulated products, biotech animal feed ingredients, feed additives, vitamins, minerals, raw materials and commodities	8,488	4.74
			Total:	**49,860**	**27.85**
FYE 31 December 2018					
1.	Ni-On Marketing System Sdn Bhd	23	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials, commodities and farm equipment	21,144	11.67
2.	Customer B	3	Premixes, formulated products, biotech animal feed ingredients, feed additives, vitamins, minerals, raw materials and commodities	8,778	4.85
3.	Perniagaan Muhibbah Ria Sdn Bhd	5	Premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials and commodities	8,758	4.84
4.	Customer D	3	Premixes, formulated products, feed additives, raw materials and commodities	8,140	4.49
5.	Customer A	3	Premixes, formulated products, feed additives, raw materials and commodities	6,818	3.76
			Total:	**53,638**	**29.61**

6. BUSINESS OVERVIEW *(Cont'd)*

No.	Name	Length of relationship	Types of products supplied	Revenue contribution	% of total revenue
		(Years)		(RM'000)	(%)
FYE 31 December 2017					
1.	Ni-On Marketing System Sdn Bhd	22	Premixes, formulated products, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials, commodities and farm equipment	23,265	13.12
2.	Perniagaan Muhibbah Ria Sdn Bhd	4	Premixes, formulated products, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials and commodities	11,384	6.42
3.	Customer A	2	Premixes, formulated products, feed additives, raw materials and commodities	9,440	5.32
4.	Customer B	2	Premixes, formulated products, feed additives, vitamins, minerals, raw materials and commodities	7,636	4.30
5.	Customer D	2	Premixes, formulated products, feed additives, raw materials and commodities	7,119	4.01
			Total:	**58,844**	**33.17**

Our top five (5) major customers collectively contributed approximately 33.17%, 29.61%, 27.85% and 23.78% to our Group's revenue for the FYEs 31 December 2017, 2018, 2019 and 2020 respectively.

Two (2) of our customers, namely Ni-On Marketing System Sdn Bhd and Perniagaan Muhibbah Ria Sdn Bhd, are related parties of our Group. Further information on the relationship of our Group with Ni-On Marketing System Sdn Bhd and Perniagaan Muhibbah Ria Sdn Bhd is set out in Section 9.1.1 of this Prospectus.

Ni-On Marketing System Sdn Bhd has been a customer of our Group for 25 years while Perniagaan Muhibbah Ria Sdn Bhd has been a customer of our Group for seven (7) years. Both companies collectively contributed approximately 19.54%, 16.51%, 12.56% and 9.80% to our Group's revenue for the FYEs 31 December 2017, 2018, 2019 and 2020 respectively. We supply both our in-house manufactured products such as premixes, formulated products and biotech animal feed ingredients as well as our distribution products i.e. feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials, commodities and farm equipment to them. Although these two (2) companies are related parties of our Group, sales to these companies have been decreasing throughout the financial years under review. This was due to a combination of lower demand of distribution products from them and lower sales of distribution products i.e. raw materials and commodities to them over the years as more of these raw materials and commodities were instead channelled to the production of our Group's in-house manufactured products. This is also in line with our Group's ongoing focus and business strategy to further promote our own in-house manufactured products which has over the years enabled our Group to expand our customer base and register an improvement in the total revenue of our Group throughout the financial years under review save for the slight decline in our Group's total revenue by approximately RM2.05 million or 1.13% for the FYE 31 December 2019.

The table below summarises the information of our remaining top five (5) major customers:

Name	Description
Customer A	A private limited company incorporated in Malaysia. It is principally involved in the operation of animal feed milling and sales of related products in Malaysia. It is part of a larger integrated poultry and swine player which is not listed on any stock exchange.
Customer B	A private limited company incorporated in Malaysia. It is principally involved in the distribution of animal feeds, fertilisers, agricultural chemicals and other related farm supplies in Malaysia.
Customer C	A private limited company incorporated outside of Malaysia but within South East Asia. It is principally involved in the production of poultry feed within South East Asia. It is part of a larger integrated poultry player which is not listed on any stock exchange.
Customer D	A private limited company incorporated in Malaysia. It is principally involved in the distribution of animal feeds and oil palm products in Malaysia.

Despite the contributions from our top five (5) customers, we are not materially dependent on any single customer, due to the large customer base that we have acquired throughout the years. As at LPD, we have more than 600 customers with an average length of relationship of approximately seven (7) years with our Group. Since 2017, 373 of our customers are repeat customers.

For information purposes, our Company had sought the consents of Customers A, B, C and D for the disclosure of their names in this Prospectus but our requests were declined. Notwithstanding this, the disclosure of the names of Customers A, B, C and D will also place our Group in a competitive disadvantageous position which could potentially impose additional financial burden on our Group such as potential loss of customers and revenue as well as reduced profit margins which would in turn adversely affect the future financial performance of our Group. As such, we have sought a relief from the SC and the SC had approved our relief from having to disclose the names of these customers for each of the financial years under review.

6.17 MAJOR SUPPLIERS

Our top five (5) major suppliers for the FYEs 31 December 2017, 2018, 2019 and 2020, are as follows:

No.	Name	Country	Length of relationship	Types of products purchased	Purchase value	% of total purchase
			(Years)		(RM'000)	(%)
FYE 31 December 2020						
1.	CJ Bio Malaysia Sdn Bhd	Malaysia	5	Feed additives	11,315	7.94
2.	Norel Animal Nutrition Asia Pacific Pte. Ltd.	Singapore	13	Feed additives	6,048	4.24
3.	DSM Nutritional Products Asia Pacific Pte. Ltd.	Singapore	14	Feed additives and vitamins	5,583	3.92
4.	Baolikang Biological Feed Co., Ltd.	The PRC	3	Commodities	4,770	3.35

6. BUSINESS OVERVIEW *(Cont'd)*

No.	Name	Country	Length of relationship	Types of products purchased	Purchase value	% of total purchase
			(Years)		(RM'000)	(%)
5.	HIPRA Malaysia Sdn Bhd	Malaysia	7	Veterinary vaccines	4,624	3.25
				Total:	**32,340**	**22.70**
FYE 31 December 2019						
1.	CJ Bio Malaysia Sdn Bhd	Malaysia	4	Feed additives	9,750	7.62
2.	Norel Animal Nutrition Asia Pacific Pte. Ltd.	Singapore	12	Feed additives	6,345	4.96
3.	DSM Nutritional Products Asia Pacific Pte. Ltd.	Singapore	13	Feed additives and vitamins	6,060	4.74
4.	HIPRA Malaysia Sdn Bhd	Malaysia	6	Veterinary vaccines	5,457	4.27
5.	Provimi Singapore Pte. Ltd.	Singapore	13	Feed additives and vitamins	4,523	3.54
				Total:	**32,135**	**25.13**
FYE 31 December 2018						
1.	CJ Bio Malaysia Sdn Bhd	Malaysia	3	Feed additives	9,200	7.19
2.	Provimi Singapore Pte. Ltd.	Singapore	12	Feed additives and vitamins	6,978	5.45
3.	CJ Cheiljedang Corporation	South Korea	1	Feed additives	5,787	4.52
4.	HIPRA Malaysia Sdn Bhd	Malaysia	5	Veterinary vaccines	4,751	3.71
5.	Ajinomoto Animal Nutrition (S) Pte. Ltd.	Singapore	12	Feed additives	4,477	3.50
				Total:	**31,193**	**24.37**

No.	Name	Country	Length of relationship	Types of products purchased	Purchase value	% of total purchase
			(Years)		(RM'000)	(%)
FYE 31 December 2017						
1.	CJ Bio Malaysia Sdn Bhd	Malaysia	2	Feed additives	8,425	6.17
2.	Evervictory Pharm Co., Ltd	The PRC	6	Veterinary pharmaceuticals	7,307	5.35
3.	Norel Animal Nutrition Asia Pacific Pte. Ltd.	Singapore	10	Feed additives	5,518	4.04
4.	HIPRA Malaysia Sdn Bhd	Malaysia	4	Veterinary vaccines	5,227	3.83
5.	Ajinomoto Animal Nutrition (S) Pte. Ltd.	Singapore	11	Feed additives	4,349	3.19
				Total:	30,826	22.58

Contributions from our top five (5) major suppliers have remained relatively stable and collectively contributed approximately 22.58%, 24.37%, 25.13% and 22.70% to our Group's purchases for the FYEs 31 December 2017, 2018, 2019 and 2020 respectively. They comprise animal feed additive manufacturers, vitamin manufacturers, veterinary vaccine manufacturers, veterinary pharmaceutical manufacturers and commodities suppliers that supply raw materials and products for our manufacturing and distribution activities.

Over the financial years under review, we have not experienced any difficulty in obtaining supplies from our suppliers. We are not dependent on any single supplier as these supplies are widely available and we are able to procure our supplies from a diversified list of supplier base.

6.18 IMPACT OF COVID-19 ON OUR GROUP

The COVID-19 was declared a pandemic by the Director General of the World Health Organisation ("**WHO**") on 11 March 2020. Following the said declaration, we monitored the development of the pandemic closely and proactively communicated with our customers to increase their inventory levels in order to minimise possible disruption in terms of delivery and materials supplied. At the same time, we also worked closely with our overseas suppliers' with regards to their supplies and potential freight disruptions, and increased our stock inventory in order to minimise the possible disruption in our production and sales.

On 16 March 2020, the Malaysian Government announced a nationwide MCO which took effect on 18 March 2020. During the MCO, certain measures including travel restrictions and closure of government and private premises had been imposed by the Malaysian Government as an effort to contain the COVID-19 outbreak. However, exemptions were given to selected industries and operations that are deemed as essential services. As our Group operates within the food supply chain and is deemed as an essential service, we were able to continue our operations during this MCO period with a 50% workforce capacity in our manufacturing plants and in our office. We were then given the permission to operate at full capacity from 29 April 2020 onwards after the MITI announced on 28 April 2020 that selected business sectors were allowed to resume full operations.

Since then, the Malaysian Government has reintroduced various forms of MCOs with the most recent being a nationwide full lockdown effective 1 June 2021 for a period of two (2) weeks following a steep climb of COVID-19 cases that breached the 8,000 daily mark in May 2021. During this full lockdown period, exemptions were given to selected industries and business sectors to operate, including those in the food and beverage manufacturing and manufacturing-related services sector. As such, we were able to continue our operations during this full lockdown period with a 60% workforce capacity in our manufacturing plants and in our office.

During the MCO period, our sales and technical personnel as well as office personnel worked remotely from home. In addition, we had also obtained approvals and confirmation from the following authorities in order for our workforce to return to work during the MCO period:

- the MITI;
- the Department of Veterinary Services of Penang; and
- the Malaysian Animal Health and Nutrition Industries Association.

(i) Measures to commence and continue our business operations

As part of the conditions set forth by the MITI which permits companies in essential services to operate during the MCO period, we implemented the Standard Operating Procedures ("**SOPs**") imposed by the Malaysian Government which include the following:

(a) submit a list of employees who will be involved in the company's critical operations during the MCO period, while ensuring employees' movement are limited to travels between their home and work premises only;

(b) prepare and provide employees with personal protective equipment which include face masks and gloves. To ensure all employees and visitors wear face masks at all times in our premises, sanitise their hands regularly and practice social distancing. To make available hand sanitisers or disinfecting kits at entrances and common areas in factory, warehouse and office area;

(c) measure and record the body temperature readings of all employees and visitors at the entrances of our premises. If the body temperature reading is above 37.5 degree celcius, the employee or the visitor will be denied entry and we will notify the nearest government hospital or the Ministry of Health, Malaysia ("**MoH**") office;

(d) sanitise and disinfect common areas in our office, manufacturing plants and employees' hostels daily;

(e) ensure that vehicles used to transport employees are sanitised and disinfected each time before use. Delivery vehicles have to be disinfected when they enter our premises; and

(f) lay distancing markers to guide general movement directions and seating arrangement to enforce physical distancing among those present in the common areas of our premises.

In the event an outbreak of COVID-19 occurs at our premises, the SOPs will also include the following measures:

(aa) suspension of operations for at least 14 days and immediately notifying the MoH of the outbreak;

(bb) compulsory COVID-19 screening for all employees and practice self-quarantine;

(cc) any infected employee will be quarantined based on instructions from the MoH;

(dd) sanitising and disinfecting our office, manufacturing plants, including equipment and machinery, and employees' hostels according to the MoH's guidelines; and

(ee) transfer of main production activities to the rented premises where Yenher Biotech's facility is located, which is also equipped to carry out production of premixes, complete feed and formulated products, where necessary.

In addition to the above, on 28 November 2020, the Ministry of Human Resources, Malaysia announced that it will carry out a COVID-19 screening programme from 1 December 2020 for foreign workers based on red zone localities, which include Selangor, Federal Territory of Kuala Lumpur, Federal Territory of Labuan, Negeri Sembilan, Pulau Pinang and Sabah. The COVID-19 screening programme in Pulau Pinang began on 9 December 2020 and all of our foreign workers have been screened on 9 and 12 January 2021. The total cost involved for such screening was RM2,400.00.

For information purposes, since the MCO was first introduced in March 2020, we have incurred additional expenditure to implement the abovementioned SOPs to curb the spread of COVID-19. We have also arranged for an additional accommodation for our workers as an added measure to further space out our foreign workers in the event any of them contract the virus. The total cost for the implementation of these SOPs is expected to be between RM150,000 to RM250,000 per annum. However, such cost is not expected to have any material impact to our Group's financial performance.

(ii) Impact of COVID-19 on our supply chain

Our suppliers, both for the manufacturing and distribution segments, are made up of players in the food supply industry, which fall under the defined essential service segment, and thus were able to continue operating, although at reduced levels in March and April 2020 as well as during the nationwide lockdown period in June 2021. In addition, we have also increased our inventory levels which serves as a mitigating factor, should there be any disruption in our supply chain. As such, we have not experienced material disruptions to our supply chain up to the date of this Prospectus.

However, the continued COVID-19 outbreak and the uncertainties surrounding it may result in higher shipping and freight rates in the future. Lower economic activities during the first half of 2020 have reduced the demand for shipping and freight activities, with carriers reducing supply capacity in line with lower demands. Nevertheless, as economies begin to recover in the second half of 2020, sudden increase in demand for shipping and freight had led to the increase in shipping and freight rates.

While our Group has yet to experience any major shipping and freight disruption or any major increase in shipping and freight rates, there can be no assurance that the COVID-19 pandemic may be prolonged or may worsen in the future which may consequently lead to higher shipping and freight rates, the occurrence of which could in turn, adversely impact our business, financial condition and results of operations.

(iii) Impact of COVID-19 on our sales

Our customers also comprise companies that operate within the food supply industry and thus, were able to continue operating throughout the MCO period, although at reduced levels in March and April 2020 as well as during the nationwide lockdown period in June 2021. Since COVID-19 was declared a pandemic by WHO on 11 March 2020, we began to communicate and work with our customers closely to encourage them to increase their inventory levels so to minimise the risk of possible supply disruptions as a result of the outbreak and the resulting MCO.

While we are categorised as a company operating within the essential services and we were allowed to operate during the various phases of the MCOs, the outbreak of COVID-19 and the implementation of the MCOs had to a certain degree affected our operations. For instance, our Group recorded lower production output due to restrictions on the number of employees who were allowed at our premises during the first of the three (3) phases of the MCO from 18 March 2020 to 28 April 2020. However, we do not expect the nationwide full lockdown commencing 1 June 2021 to have any material impact on our Group's production output as we are allowed to have 60% workforce in our manufacturing plants and our office (as compared to only 50% workforce capacity in March to April 2020) and given that this is the second full nationwide lockdown, we are able to better manage our production and business operations as compared to the first lockdown. Notwithstanding this, since the MCO in March 2020, we have not experienced any material disruption to our supply chain (including any major delay in shipment of our supplies and delivery of our products to customers) and thus, we have not experienced any major adverse impact to our business operations and financial performance as a result of the COVID-19 outbreak and the various phases of the MCOs up to the date of this Prospectus.

6.19 BUSINESS INTERRUPTIONS

We have not experienced any interruption in business which had a significant effect on our operations during the past 12 months preceding the date of this Prospectus.

6.20 MAJOR LICENCES, PERMITS AND APPROVALS

We have obtained all licences, permits and regulatory approvals required to conduct our business activities.

Please refer to Annexure B of this Prospectus for further details on our major licences, permits and approvals together with the material conditions attached therein and the status of compliance as at LPD.

6.21 INTELLECTUAL PROPERTIES

As at LPD, save for the trademark registrations and patent application below, we do not have any other intellectual property right registered and/or in the process of registration:

(i) Trademark

Registered owner / Applicant	Authority	Trademark	Application / Registration No.	Effective Date / (Expiry Date)[1]	Class of trademark	Status
Malaysia						
Yenher Agro	MyIPO	YENHER	2010012514	12 July 2010 / (12 July 2030)	Animal feed; non-medicated additives to animal feed, etc; all included in Class 31.	Registered
			2010012515	12 July 2010 / (12 July 2030)	Wholesale, retail and distribution in respect of animal feed, etc; all included in Class 35.	Registered
Yenher Agro	MyIPO	YENMIX	2010016085	26 August 2010 / (26 August 2030)	Animal feed, non-medicated additives to animal feed, etc; all included in Class 31.	Registered
Yenher Agro	MyIPO	GP GREEN iDEAL PROTEIN	TM2020027964	N/A	Animal feed, animal feed preparations; in Class 31.	Submitted an application on 24 November 2020 and approval for registration is still pending as at LPD.

6. BUSINESS OVERVIEW *(Cont'd)*

Registered owner / Applicant	Authority	Trademark	Application / Registration No.	Effective Date / (Expiry Date)[1]	Class of trademark	Status
Yenher Biotech	MyIPO	YENMAX	TM2019037507	11 October 2019 / (11 October 2029)	Animal premix, animal/livestock fattening preparation, animal feeds, animal meals, non-medicated additives to animal feeds; all included in Class 31.	Registered
Yenher Biotech	MyIPO	YENSOY	TM2019046639	18 December 2019 / (18 December 2029)	Animal premix, animal/livestock fattening preparation, animal feeds, animal meals non-medicated additives to animal feeds; all included in Class 31.	Registered
Yenher Biotech	MyIPO	YENPALM RH	TM2019046638	18 December 2019 / (18 December 2029)	Animal premix, animal/livestock fattening preparation, animal feeds, animal meals, non-medicated additives to animal feeds; all included in Class 31.	Registered
The PRC						
Yenher Agro[2]	China Trademark Office	源佳乐	15407487	14 November 2015 / (13 November 2025)	Animal foodstuff; animal fattening preparations, beverages for pets, strengthening animal forage; dog biscuits, grains for animal consumption; all included in Class 31.	Registered

Notes:

(1) Validity of a registered trademark is 10 years and may be renewed each time for a period of 10 years.

(2) Registered as an anti-counterfeit measure to protect our brand name.

(ii) Patent

Applicant	Authority	Filing No.	Filing Date	Validity period	Title of invention	Status
Yenher Biotech	MyIPO	PI2020000704	7 February 2020	N/A	YenPalm (fermentation technology)	Submitted an application on 7 February 2020 and approval for registration is still pending as at LPD.

As at LPD, we do not have any plan to patent our fermentation technology for 'YenSoy' as the fermentation technology used for 'YenSoy' is currently being used in numerous countries including Malaysia.

(The rest of this page has been intentionally left blank)

6.22 MATERIAL DEPENDENCY CONTRACTS

As at LPD, we do not have any contract, including commercial or financial contracts, which are materially dependent for our business or profitability.

6.23 EMPLOYEES

As at LPD, we employ a total of 138 employees, of which 91 are local employees while 47 are foreign workers employed on a contractual basis. Out of the 91 local employees, five (5) are employed on a contractual basis while the rest are permanent employees of our Group. Our foreign workers are employed for our production, warehousing and delivery activities and are from Bangladesh, Nepal and Myanmar.

The following sets out the number of employees in our Group according to the different business functions as at 31 December 2020 and as at LPD:

Business function	As at 31 December 2020	As at LPD
Executive	6	6
Sales and marketing	26	26
Commercial and finance[(1)]	26	26
R&D	5	5
Production (including quality assurance)	50	49
Delivery and warehousing	26	26
Total	**139**	**138**

The following sets out the number of employees in our Group according to their nationalities as at 31 December 2020 and as at LPD:

Nationality	As at 31 December 2020	As at LPD
Local	91	91
Foreign[(2)]	48	47
Total	**139**	**138**

Notes:

(1) This includes purchasing, shipping, accounting and finance, as well as administration and human resource departments.

(2) These are foreign workers from Bangladesh, Nepal and Myanmar.

As at LPD, none of our employees is a member of any union and there has not been any major industrial dispute.

6.24 GOVERNING LAWS, REGULATIONS, RULES OR REQUIREMENTS

The relevant laws, regulations, rules or requirements governing the conduct of our Group's business and environmental issues which may materially affect our Group's business or operations are summarised below. The following does not purport to be an exhaustive description of all relevant laws and regulations of which our business is subject to.

(i) Feed Act 2009

The Feed Act 2009 ("**FA 2009**") provides that no person shall import any feed or feed additive unless he possesses a valid licence under the FA 2009. Any person who imports any feed or feed additive without a licence shall on conviction, be liable to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding two (2) years or to both and for a second or subsequent offence, to a fine not exceeding RM200,000 or to imprisonment for a term not exceeding four (4) years or to both.

The FA 2009 also provides that no person shall incorporate any antibiotic, hormone or other chemicals into feed; or introduce any antibiotic, hormone or other chemicals directly or through a medium into animals, unless in accordance with the prescribed manner and at the prescribed level. In addition, no person shall possess any feed or feed additive which contains antibiotics, hormones or other chemicals the addition of which are not permitted under the FA 2009 or any regulation thereunder. Any person who contravenes this commits an offence and shall on conviction, be liable to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding two (2) years or to both, and for a second or subsequent offence, to a fine not exceeding RM200,000 or to imprisonment for a term not exceeding four (4) years or to both.

(ii) Feed (Manufacture and Sale of Feed or Feed Additive) Regulations 2012

The Feed (Manufacture and Sale of Feed or Feed Additive) Regulations 2012 provides that no person shall manufacture or sell feed or feed additive unless registered with the feed board as defined in the FA 2009 ("**Feed Board**"). Any person who contravenes any of the provision of these regulations commits an offence and shall on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding two (2) years or to both.

(iii) Feed (Licence to Import Feed or Feed Additive) Regulations 2012

The Feed (Licence to Import Feed or Feed Additive) Regulations 2012 provides that no person shall import (including the importation from Sabah and Sarawak) any feed or feed additive unless that person holds a valid licence issued by the Feed Board. A person who contravenes any of the provision of these regulations shall on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding two (2) years or to both.

(iv) Feed (Prohibited Antibiotics, Hormones and Other Chemicals) Regulations 2012

The Feed (Prohibited Antibiotics, Hormones and Other Chemicals) Regulations 2012 prohibits the use of antibiotics, hormones and other chemicals in feed and feed additive for animal categories as prescribed therein. Any person who contravenes these regulations commits an offence and shall on conviction, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding two (2) years or to both.

(v) Feed (Labelling of Feed or Feed Additive) Regulations 2012

The Feed (Labelling of Feed or Feed Additive) Regulations 2012 requires that the animal feed and feed additive shall be labelled in accordance to the details as provided in the said regulations. Any person who contravenes any of the provision of these regulations shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM15,000 or to imprisonment for a term not exceeding one (1) year or to both, and for a second or subsequent offence, to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding two (2) years or to both.

(vi) Lembaga Kemajuan Ikan Malaysia Act 1971 and Fish Marketing Regulations 2010

The Lembaga Kemajuan Ikan Malaysia Act 1971 ("**KLIM**") is an act to incorporate the Lembaga Kemajuan Ikan Malaysia ("**Lembaga**") and to provide for matters connected therewith. Lembaga has the power to, among others, regulate the marketing of fish particularly through licensing of wholesalers, retailers, fish processors, importers and exporters.

The Fish Marketing Regulations 2010 ("**Fish Marketing Regulations**") provides that no person shall have any fish dealing without licence unless at a prescribed wholesale fish market or a retail fish market. No person shall import or export any fish without licence and any fish to be imported or exported shall pass through a legal entry or exit. In addition, no person shall process any fish without licence and any fish processing shall be carried out at a place or premises prescribed.

Any person, other than a body corporate but including a director or officer of a body corporate, who commits an offence under, or who fails to comply with, any of the provision of KLIM or any rule made thereunder in respect of which no penalty is expressly provided for, shall on conviction, be liable to a fine not exceeding RM15,000 or to imprisonment for a term not exceeding two (2) years or to both, and for a second or subsequent offence, to a fine not exceeding RM25,000 or to imprisonment for a term not exceeding five (5) years or to both. On the other hand, any body corporate which commits an offence under, or fails to comply with, any of the provision of KLIM or of any rule made thereunder shall on conviction, be liable to a fine not exceeding RM25,000 and, for a second or subsequent offence, to a fine not exceeding RM50,000.

(vii) Poisons Act 1952

The Poisons Act 1952 ("**PA 1952**") allows the Director-General of Health Malaysia to, among others, issue a Type A license to a pharmacist to import, store and deal generally by wholesale and retail or by wholesale only or by retail only, subject to the PA 1952 in all poisons. Group A poison shall not be sold or supplied by wholesale or retail except by a licensed wholesaler to a licensed pharmacist or to another licensed wholesaler or by a licensed wholesaler to be immediately exported to a purchaser outside Malaysia.

The licences issued by the Director-General of Health Malaysia shall be personal to the licensee and shall not in any event, be transferable to another person. Such licence shall not authorise the sale of any poison by any other person than the licensee or otherwise than under his personal supervision.

Any person who contravenes the above provisions shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM3,000 or to imprisonment for a term not exceeding one (1) year or to both.

(viii) Sale of Drugs Act 1952 and Control of Drugs and Cosmetics Regulations 1984

The Sale of Drugs Act 1952 ("**SODA 1952**") is an act relating to the sale of drugs and "drug" defined in the SODA 1952 includes any substance, product or article intended to be used or capable, or purported or claimed to be capable, of being used on human or any animal, whether internally or externally, for a medicinal purpose. The definition of "medicinal purpose" includes, among others, for general maintenance or promotion of health or wellbeing.

The Control of Drugs and Cosmetics Regulations 1984 ("**CDCR**") provides that save as otherwise provided therein, no person shall manufacture, sell, supply, import or possess or administer any product unless the product is a registered product and the person holds the appropriate licence required and such license is issued under the CDCR, such as manufacturer's licence, wholesaler's licence, a clinical trial import licence or import licence.

The SODA 1952 provides that any body corporate who commits an offence against the SODA 1952 or any regulation made under the SODA 1952 for which no penalty is expressly provided shall on conviction, be liable to a fine not exceeding RM50,000, and for a second and subsequent offence, it shall on conviction, be liable to a fine not exceeding RM100,000.

(ix) Registration of Pharmacists Act 1951

The Registration of Pharmacists Act 1951 ("**RPA 1951**") governs the registration of pharmacists. If any person applying for such registration has been convicted of any offence which in the opinion of the Pharmacy Board renders him unfit to be on the register or, after due inquiry by the Pharmacy Board, is deemed by it to have been guilty of infamous conduct in any professional respect, the Pharmacy Board may refuse to admit such person to the register. The Pharmacy Board may impose punishments such as removal or suspension of registration of pharmacists or reprimand the registered pharmacist.

A registered pharmacist carrying on a business shall, so far as such business relates to the keeping, retailing, dispensing and compounding of poisons, dangerous drugs or therapeutic substances comply with the conditions stated in the RPA 1951. Any person who fails to comply with any such condition shall be guilty of an offence and shall on conviction, be liable before a Sessions Court to a penalty not exceeding RM500 and to a further penalty of RM50 for every day during which the offence continues.

(x) Control of Padi and Rice Act 1994, Control of Padi and Rice (Licencing of Wholesalers and Retailers) Regulations 1996 and Control of Padi and Rice (Licencing of Importers and Exporters) Regulations 1994

The Control of Padi and Rice Act 1994 ("**CPR 1994**") governs the law relating to padi and rice and for other matters connected therewith.

The Control of Padi and Rice (Licensing of Wholesalers and Retailers) Regulations 1996 ("**CPRLWR**") provides that no person shall sell rice by wholesale and retail except under a licence issued under CPRLWR while the Control of Padi and Rice (Licensing of Importers and Exporters) Regulations 1994 ("**CPRLIE**") provides that no person shall import or export rice except under a licence issued under CPRLIE.

Any person who contravenes CPRLWR or CPRLIE or any of the conditions specified in the licence shall be guilty of an offence under Section 22 of the CPR 1994. A person, other than a body corporate but including a director or officer of a body corporate, who commits an offence under, or who fails to comply with, any of the provision of the CPR 1994 or any regulation made thereunder in respect of which no penalty is expressly provided for, shall on conviction, be liable to a fine not exceeding RM15,000, to imprisonment for a term not exceeding two (2) years or to both, and for second or subsequent offence, to a fine not exceeding RM25,000, to imprisonment for a term not exceeding five (5) years or to both. On the other hand, a body corporate which commits an offence under, or fails to comply with, any of the provision of the CPR 1994 or any regulation made thereunder shall on conviction, be liable to a fine not exceeding RM25,000, and for a second or subsequent offence, to a fine not exceeding RM50,000.

(xi) Local Government Act 1976 and Businesses, Professions and Trades Licensing Ordinance

The Local Government Act 1976 ("**LGA**") is enacted to revise and consolidate the laws relating to local government in Peninsular Malaysia. Every licence or permit granted by the local authority shall be subject to such conditions and restrictions as the local authority may think fit and shall be revocable by the local authority at any time without assigning any reason therefor.

Pursuant to the LGA, a person fails to exhibit or produce his licence on the licensed premises shall be liable to a fine not exceeding RM500 or to imprisonment for a term not exceeding six (6) months or to both.

It is provided under the Businesses, Professions and Trade Licensing Ordinance that any person who carries out business in Sarawak in respect of which a trading licence is not for the time being in force, or who carries out such business in any premises or place, or by means of any vessel or vehicle or other means or things whatsoever, to which such licence does not extend, shall be guilty of an offence. The penalty of non-compliance is a fine of RM1,000.

(xii) Industrial Co-ordination Act 1975

The Industrial Co-ordination Act 1975 ("**ICA 1975**") requires manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence from the MITI. Failure to observe and adhere to the licensing requirements under the ICA 1975 will constitute an offence which is punishable on conviction by a fine not exceeding RM2,000 or to a term of imprisonment not exceeding six (6) months and to a further fine not exceeding RM1,000 per day during which the non-compliance continues.

The licensing officer may also in his discretion revoke a licence if the manufacturer to whom a licence is issued:

(a) has not complied with any condition imposed in the licence;

(b) is no longer engaged in the manufacturing activity in respect of which the licence is issued; or

(c) has made a false statement in his application for the licence.

The licensing officer may also withhold or suspend the revocation of the licence if he is satisfied that the act or omission on the part of the manufacturer under the above situations was due to some cause beyond his control and there is a reasonable prospect of such act or omission being remedied within such period as the licensing officer may direct.

(xiii) National Land Code and Sarawak Land Code (Chapter 81)

The National Land Code ("**NLC**") governs land matters within Peninsular Malaysia and the Sarawak Land Code (Chapter 81) ("**Sarawak LC**") governs land matters in Sarawak, where our material properties are situated.

Pursuant to the NLC, the state authority may alienate land subject to such express conditions and restriction in interest which shall be determined by the state authority at the time when the said land is approved for alienation and every condition or restriction of interest imposed under this section shall be endorsed on or referred to in the document of title to the land. Non-compliance of the conditions may result in the landowner being fined and/or the land being forfeited if the landowner fails to remedy the breach.

Pursuant to the Sarawak LC, subject to the direction of the minister for the time being in charged with the responsibility for resource planning, the director of lands and survey in Sarawak may alienate the state land other than native customary land. Any person who contravenes or neglects or fails to comply with, among others, the requirements on unimproved suburban land shall be guilty of an offence and the penalty is a fine of RM2,000 and, in the case of a continuing offence, to a further fine of RM100 for each day on which the offence continues.

(xiv) Street, Drainage and Building Act 1974, Uniform Building By-Laws 1984, Street, Drainage and Building (Amendment) Act 2007 and Sarawak Building Ordinance 1994

The Street, Drainage and Building Act 1974 ("**SDBA 1974**") is an act to amend and consolidate the laws relating to a street, drainage and building in local authority areas in Peninsular Malaysia. The SDBA 1974 provides that the state authority shall have the power to make by-laws for or in respect of every purpose which is deemed by it necessary for carrying out the provision of the SDBA 1974.

The Uniform Building By-Laws 1984 regulates, among others, the construction of buildings and the time, manner and procedure for the issuance of a certificate of completion and compliance ("**CCC**") which had replaced the then certificate of fitness for an occupation that was previously issued by the local authority.

The Street, Drainage and Building (Amendment) Act 2007 provides that any person who occupies or permits to be occupied any building or any part thereof without a CCC shall on conviction, be liable to a fine not exceeding RM250,000 or to imprisonment for a term not exceeding ten (10) years or to both.

The Sarawak Building Ordinance 1994 provides that no person shall occupy or permit to be occupied any building or any part thereof unless an occupation permit, a partial occupation permit or a temporary occupation permit has been issued under the building by-laws for such building and any failure to comply with such provision shall be guilty of an offence and shall on conviction, be liable to a fine of not exceeding RM10,000, and in the case of a continuing offence to a further fine of not exceeding RM300 per day during which the offence is continued after notice to cease occupying the building has been issued on such person.

(xv) The Environmental Quality Act 1974

The Environmental Quality Act 1974 ("**EQA 1974**") governs the enforcement of waste disposal in Malaysia in order to control pollution.

The EQA 1974 regulates, among others, the deposit or disposal of any scheduled wastes on land or into Malaysian waters; receiving or sending, or causing or permitting to be received or sent any scheduled wastes in or out of Malaysia; or transiting or causing or permitting the transit of scheduled wastes. Any person who fails to comply with the relevant requirement shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM500,000 or to imprisonment for a period not exceeding five (5) years or to both.

The EQA 1974 further provides that where an offence against the EQA 1974 or any regulations made thereunder has been committed by a company, firm, society or other body of persons, any person who at the time of committing the offence is a director, chief executive officer, manager, or other similar officer or a partner of the company, firm, society or other body of persons or was purporting to act in such capacity shall be deemed to be guilty of that offence unless he provides that the offence was committed without his consent or connivance and that he has exercised all such diligence as to prevent committing the offence as he ought to have exercised having regard to the nature of his functions in that capacity and to all the circumstances.

On 12 November 2019, Yenher Agro committed two (2) offences under Regulation 7(1)(a) of CDCR for (i) selling two (2) bottles of drugs that were not registered products under CDCR ("**Products**"); and (ii) possessing 10 unregistered Products. As such, Yenher Agro is liable on conviction to a fine not exceeding RM100,000 for the two (2) abovementioned offences i.e. RM50,000 for each offence. On 4 February 2021, Yenher Agro pled guilty to the said offences during the court hearing at Jawi Magistrate Court, Pulau Pinang and was fined with a penalty of RM10,000 which Yenher Agro had fully settled on the same day.

Following the incident, Yenher Agro had reviewed and enhanced its internal control system to prevent similar incidents from occurring. This includes having our purchasing department to request for proof of registration of products with the relevant authorities from suppliers before purchasing any product.

For information purposes, the abovementioned offences do not lead to the revocation of our Group's operating licences or any jail term for any individual. Furthermore, the unregistered Products mentioned above are mostly slow-moving products and are not the core products of our Group.

Save as disclosed above, there is no other non-compliance with the aforesaid laws, regulations, rules and requirements as at LPD.

Protégé
ASSOCIATES

The information in this Section 7 is based on the market research conducted by Protégé Associates commissioned by Yenher for the purpose of the IPO.

Date: 8 June 2021

The Board of Directors
Yenher Holdings Berhad
No. 35, 1st Floor, Jalan Kelisa Emas 1
Taman Kelisa Emas
13700 Seberang Jaya
Pulau Pinang

Dear Sir/Madam,

Strategic Analysis of the Animal Health and Nutrition Industry in Malaysia

Protégé Associates Sdn Bhd ("Protégé Associates") has prepared this 'Strategic Analysis of the Animal Health and Nutrition Industry in Malaysia' for inclusion in the prospectus of Yenher Holdings Berhad ("Yenher") in relation to its listing on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 21 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering automotive, electronics, healthcare, energy, information technology, oil and gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd, Malaysia Debt Ventures Berhad and Malaysia Technology Development Corporation Sdn Bhd.

We have prepared this report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a balanced and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,

SEOW CHEOW SENG
Managing Director

1.0 Malaysia Economic Overview

The Malaysian economy contracted by 5.6% in its real gross domestic product in 2020, due to the Coronavirus Disease 2019 ("**COVID-19**") pandemic which began in December 2019 which has caused a significant economic slowdown in many countries including Malaysia. On a closer look, all major economic sectors in Malaysia experienced pandemic-driven declines as a result of the different phases of domestic containment measures implemented by the Malaysia Government to curb the spread of COVID-19.

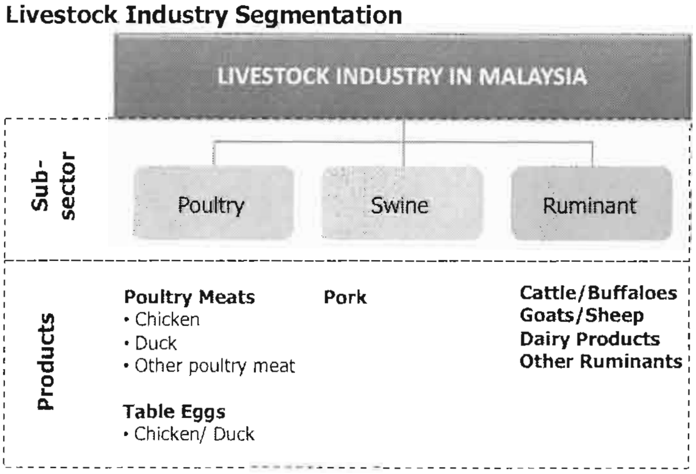
To mitigate the economic impact of the COVID-19 pandemic, the Malaysian Government has introduced counter-cyclical policy measures such as the PRIHATIN Rakyat Economic Stimulus Package, the PENJANA short-term economic recovery plan (PENJANA ERP), the Malaysian Economic and Rakyat Protection Assistance Package (PERMAI) and the Rakyat and Economic Strategic Empowerment Programme (PEMERKASA) to help relieve economic pressures from COVID-19 and to reinvigorate spending and economic activities. Among the measures undertaken include flexibility for monthly cash withdrawal from the Employees' Provident Fund for a year and the deferment in repayment of education loans were introduced to increase household disposable income, moratorium on loan payments and loan guarantees as well as measures to facilitate the restructuring of loan and credit facilities, particularly for individuals and small and medium enterprises ("**SMEs**") as well as tax reliefs, incentives and cash aid. In addition to the stimulus packages and programmes, the overnight policy rate was reduced by a total of 125 basis points from 3.00% in January 2020 to its current level of 1.75% in order to cushion the economic impact of COVID-19 to businesses and households. In addition, the Budget 2021 also provided for various financial incentives to, among others, the agriculture sector, to help increase production capacity of agricultural products.

As a result of renewed waves of COVID-19 cases at the start of 2021, the Malaysian Government again imposed different phases of domestic containment measures in the various states and districts. Nevertheless, the local economy is anticipated to improve in the second half of 2021 and is projected to register a positive growth of between 6.5% to 7.5% in 2021, supported by policy measures to cushion the impact of COVID-19, rollout of vaccines, improvements in external conditions, as well as gradual recovery in economic activities. Nonetheless, the downside risks to the growth outlook stem from challenges that may affect the rollout of vaccination programmes (i.e. public confidence and acceptance of vaccine and supply of vaccine) as well as the uncertainties surrounding the spread of COVID-19 pandemic around the world.

2.0 Livestock Industry in Malaysia

The animal health and nutrition industry is part of the larger livestock industry in Malaysia. Animal health and nutrition products are critical components of a livestock farm's operations in ensuring proper nutrition, health and hygiene of the livestock. Therefore, demand for animal health and nutrition products are mainly attributed to the growth of the livestock industry. The Malaysian livestock industry is an important component of the country's agriculture sector as it contributes directly towards the production of food commodities and is critical in ensuring national food security and self-sufficiency. The livestock industry can be categorised according to the types of livestock as follows:

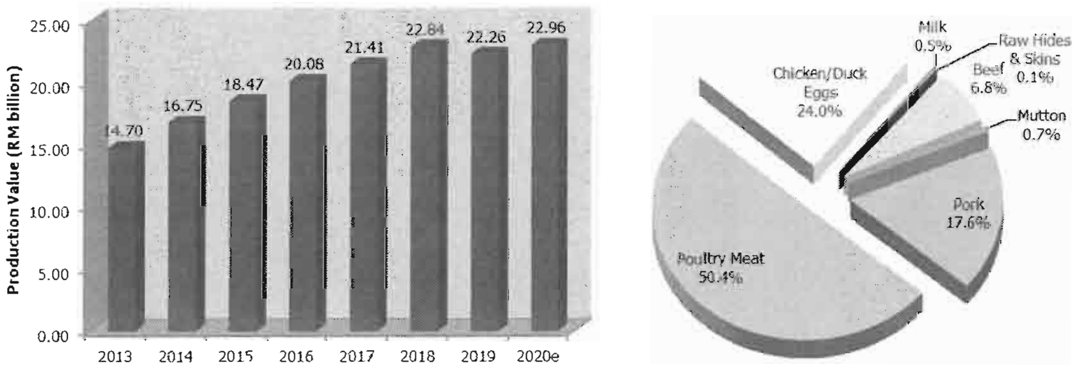
Figure 1: Malaysian Livestock Industry Segmentation



Source: Protégé Associates

The main factors supporting the steady growth of the livestock industry in Malaysia are the suitable climate and availability of land that promote production efficiency; the growing population and affluence and a greater desire for variety in food which has contributed to the growth in local consumption; as well as the Malaysian Government's continuous support of the livestock industry and the agriculture sector as a whole. As illustrated in Figure 2 below, the production value of livestock in Malaysia has been rising from 2013 to 2020.

Figure 2: Production Value of Livestock in Malaysia, 2013-2020



Note: e denotes estimate

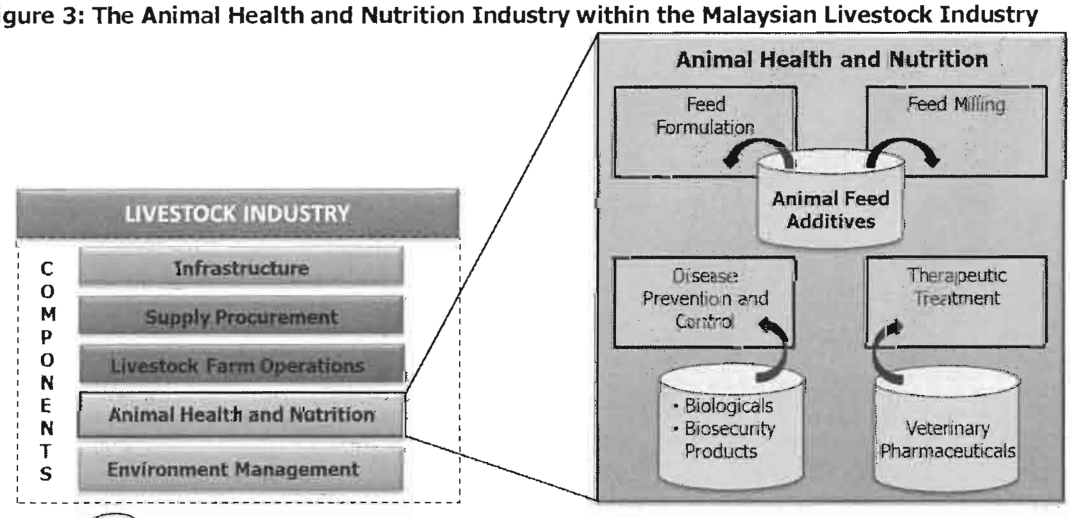
Source: Department of Veterinary Services, Malaysia and Protégé Associates

From the above chart, the historical performance of the livestock industry has been growing on upward trajectory at a compound annual growth rate ("**CAGR**") of 6.6% from 2013 to 2020. Within Malaysia, the poultry sub-sector (which includes poultry meat and chicken/duck eggs) is the largest sub-sector at 74.4% of total production value, followed by the swine sub-sector and the ruminant sub-sector (which includes milk, beef and mutton), with 17.6% and 8.0% of total production value respectively.

2.1 Animal Health and Nutrition Industry in Malaysia

Animal health and nutrition is a vital function of livestock farming operations in ensuring that animals achieve optimal growth, are free of disease and safe for human consumption, and are of a desired level of quality and taste. It also helps to increase a farm's yield by reducing mortality rates and ensuring that animals grow to marketable size. The following depicts the position of the animal health and nutrition industry together with the other components which contribute towards the growth of the Malaysian livestock industry.

Figure 3: The Animal Health and Nutrition Industry within the Malaysian Livestock Industry



Note: denotes product that correlates to the respective processes.

Source: Protégé Associates

1) Infrastructure – Land, utilities, logistics and production facilities (i.e. coops, pens, harvesting and feeding facilities) are required for setting up livestock farms.

2) Supply procurement – Purchase of parent stocks, young broilers and layer stocks from breeder farms as well as feed that includes feed ingredients and additives.
3) Livestock farm operations – Day-to-day operations of rearing livestock including feeding, cleaning, harvesting and distribution. Marketable livestock products are harvested and packaged before they are distributed to end-user markets.
4) Animal health and nutrition – The four (4) main processes within the animal health and nutrition component are:
   - Disease prevention and control – Uses **biologicals and biosecurity products**, such as disinfectants and vaccines to prevent the onset of diseases.
   - Therapeutic treatment – Uses **veterinary pharmaceuticals** which include antibiotics to mitigate the effects of disease outbreaks.
   - Feed formulation – The process of determining the animal feed formula which includes the necessary amount of premixes and **animal feed additives**.
   - Feed milling – Produces animal feed in bulk through mixing of macro-nutrients and micro-ingredients including **animal feed additives**.
5) Environment management – Environment management at livestock farms is important for environmental and commercial sustainability as well as ensuring the quality and quantity of its harvest. The processes of environment management include land preparation, production facility management and waste management.

2.2 Segmentation of the Animal Health and Nutrition Industry

The following table provides further insight into the animal health and nutrition products and their functions.

Figure 4: Animal Health and Nutrition Products and Functions

Process	Products	Functions
Disease Prevention and Control	**Biologicals** • Defined as substances administered as a single dose early in the animal's life, or as fixed periodic doses throughout the animal's life (not added to feed) • Include anti-toxins and vaccines	To prevent disease outbreaks among livestock animals by stimulating the animal's immune system to develop more antibodies to counter various pathogens.
	Biosecurity • Include cleaning agents and disinfectants	To ensure the cleanliness and health of livestock animals through maintaining hygiene level at livestock farms.
Therapeutic Treatment	**Veterinary Pharmaceuticals** • Defined as therapeutic medicines and dietary supplements, administered in fixed doses using injectables, oral medication or water soluble liquids through animal watering systems • Include anti-parasiticides, anti-microbial, anti-inflammatory and antibiotics	To cure diseases in animals upon infection and to supplement the nutritional needs in the livestock's daily diet.
Feed Formulation and Feed Milling	**Animal Feed Additives** • Defined as substances added in small or micro quantities to animal feed • Include antibiotics and non-antibiotic additives, prebiotics, probiotics, vitamins, minerals, amino acid, proteins and anti-mould additives	To provide specific health or nutrition effects. Examples include: • Promoting growth • Ensuring balanced nutrition • Increasing livestock appetite • Enhancing digestion and absorption of nutrients • Controlling intestinal health • Keeping feed safe from harmful parasites, pollutants and mould

Source: Protégé Associates

Protégé Associates

3.0 Historical Market Performance and Growth Forecast

The historical performance and growth forecast of the animal health and nutrition industry in Malaysia below are based on information and reports available in the public domain such as the Ministry of Finance, Department of Statistics, Economic Planning Unit, Department of Veterinary Services, National Pharmaceutical Regulatory Agency, Federation of Livestock Farmers' Associations of Malaysia and annual reports of public listed animal health and nutrition companies. Data is also gathered from further secondary and primary research works conducted. Secondary research that we conducted include searches on private animal health and nutrition companies with the Companies Commission of Malaysia to gather more disclosures on their business performance. On the other hand, primary research works were conducted with stakeholders in the local animal health and nutrition industry such as manufacturers, distributors and customers to gather their insights on the industry. All the findings were collated, analysed and/or computed to ascertain the outlook of the animal health and nutrition industry in Malaysia.

Figure 5: Market Revenue and Growth Forecast for the Animal Health and Nutrition Industry in Malaysia, 2019-2025

Year	Market Revenue (RM billion)	Growth Rate (%)
2019	2.14	-
2020	2.18	1.9
2021	2.26	3.7
2022	2.35	4.0
2023	2.45	4.3
2024	2.56	4.5
2025	2.69	5.1

CAGR (2021-2025) (base year of 2020): 4.3%
Note: All figures are rounded.

Source: Protégé Associates

In 2019, the animal health and nutrition industry in Malaysia grew by 2.4%, in tandem with the growth of the livestock industry in terms of at gross domestic product ("**GDP**") output of 6.3% (2018: 5.5%) due to the increase in livestock consumption and demand from export market. The size of the animal health and nutrition industry in Malaysia in 2019 was valued at RM2.14 billion, of which the animal feed additives segment contributed approximately RM823.9 million.

In 2020, the COVID-19 pandemic and the subsequent movement control orders ("**MCO**") had caused the animal health and nutrition manufacturers to operate with partial capacity at the beginning of the MCO. However, as livestock industry was deemed as an essential service and is critical in ensuring national food security and self-sufficiency, the animal health and nutrition industry which provides supporting services to livestock industry was able to resume its operations at full capacity on 29 April 2020. The livestock industry has continued to show resilient growth albeit a much lower growth of 3.5% (in terms of GDP output) in 2020 (2019: 6.3%). In line with the growth of the livestock industry, the local animal health and nutrition industry is estimated to grow by 1.9% to RM2.18 billion in 2020.

Going forward, the animal health and nutrition industry in Malaysia is anticipated to remain resilient due to its continued dependency on the livestock industry. The animal health and nutrition industry in Malaysia is projected grow from RM2.18 billion in 2020 to RM2.69 billion in 2025, registering a CAGR of 4.3%.

4.0 Competitive Analysis

The Malaysian animal health and nutrition industry is competitive with around 79 market players based on the participating members in the Malaysian Animal Health and Nutrition Industries Association as at 31 May 2021. These market players include domestic product manufacturers, distributors and subsidiaries of international product manufacturers.

- **Domestic product manufacturers** consist of local market players who manufacture and distribute proprietary products and brands of animal feed additives. Larger manufacturers are involved in the entire animal health and nutrition value chain from the development and manufacturing of health and nutrition products to the marketing and distribution of the said products to end-users. Many of the larger manufacturers also distribute other brands including those of global manufacturers, to livestock farmers and feed millers.

- **Distributors** consist of market players involved in the distribution of animal health and nutrition products to local livestock producers. This category of market players may distribute the products of both local and foreign producers. Larger and more established distributors are able to procure distributorship of renowned global animal health and nutrition products, and act as the sole agency of these brands in the country. Distributors typically distribute more than one (1) brand and type of product. Larger distributors are distinguishable from smaller players by the size of their product portfolio.

- **Subsidiaries of international product manufacturers** consist of local subsidiaries of multinational companies manufacturing animal health and nutrition products. These market players usually have sole distributorship of their parent brands in the local market. Typically, they only distribute parent brands of animal health and nutrition products.

With price competition on the rise, some market players are adding value to their products by providing technical and advisory services including feed formulation consultancy and feed management services.

4.1 Industry Players Analysis

Yenher was incorporated as an investment holding company and as part of an internal restructuring exercise which later saw the acquisition of Yenher Agro-Products Sdn Bhd and Yenher Biotech Sdn Bhd (collectively referred to as "**Yenher Group**"). Yenher Group is principally involved in the manufacturing and distribution of animal health and nutrition products. For the financial year ended ("**FYE**") 31 December 2020, Yenher Group recorded revenue of approximately RM202.6 million.

For the purpose of this report, Protégé Associates has used the following criteria when selecting other industry players for comparison with Yenher:

- Primarily involved in the biological products, veterinary pharmaceutical products, as well as animal feed additives segments in Malaysia; and
- Registered an annual revenue of over RM80 million based on the latest publicly available financial results of the respective players.

After taking into consideration the above criteria, Protégé Associates has selected 5 industry players namely Asia Veterinary Sdn Bhd ("**AsiaVet**"), Danberg (M) Sdn Bhd ("**Danberg**"), Peterlabs Holdings Berhad ("**Peterlabs**"), Rhone Ma Holdings Berhad ("**RhoneMa**") and Ritamix Global Limited ("**Ritamix**") for comparison purpose. It is to be highlighted that the list of industry players used for comparison purpose is not exhaustive and only serves as a reference for readers.

Asia Veterinary Sdn Bhd

AsiaVet was established on 7 April 1981 as a private limited company. The core business of the company is importation of animal raw materials, nutritionals and medicaments for distribution to local and overseas livestock industry. For the FYE 31 December 2019, AsiaVet recorded revenue of RM146.7 million.

Danberg (M) Sdn Bhd

Danberg was established on 21 May 1980 as a private limited company. The company is principally engaged in wholesale trading of veterinary products. For the FYE 31 December 2019, Danberg registered revenue of RM146.6 million.

Protégé Associates
Brand | Finance | Market

Peterlabs Holdings Berhad
Peterlabs is currently listed on the ACE Market of Bursa Securities. It is an investment holding company, and through its subsidiaries, is involved in the manufacturing, distribution and trading of animal health and nutrition products. For the FYE 31 December 2020, Peterlabs recorded revenue of RM80.0 million.

Rhone Ma Holdings Berhad
Rhone Ma is currently listed on the Main Market of Bursa Securities. It is an investment holding company, and through its subsidiaries, is involved in the marketing, trading, distribution and manufacturing of animal health products and the provision of veterinary advisory services. For the FYE 31 December 2020, the animal health products segment of Rhone Ma registered revenue of RM113.8 million or 77.6% of its total revenue of RM146.7 million.

Ritamix Global Limited
Ritamix is currently listed on the Main Board of Stock Exchange of Hong Kong Limited. It is an investment holding company, and through its subsidiaries, is involved in the manufacturing and distribution of animal feed additives products as well as distribution of human food ingredients. For the FYE 31 December 2020, the animal feed additives products segment of Ritamix recorded revenue of RM99.8 million or 86.1% of its total revenue of RM115.9 million.

Figure 6: Financial Comparison between Yenher and Selected Market Players in the Animal Health and Nutrition Industry in Malaysia

Indicator	Yenher Group	AsiaVet	Danberg	Peterlabs	RhoneMa	Ritamix
Information for FYE	31-12-2020	31-12-2019	31-12-2019	31-12-2020	31-12-2020	31-12-2020
Revenue (RM'000)	202,635	146,680	146,579	80,026	146,683*	115,882**
Gross Profit (RM'000)	52,422	10,553	26,065	15,209	41,027	26,123
Profit/ (Loss) before Tax (RM'000)	29,659	(472)	17,587	5,437	11,537	12,580
Profit/ (Loss) after Tax (RM'000)	22,397	(986)	14,299	3,888	8,365	8,451
Non-current Assets (RM'000)	36,645	72,630	18,094	15,345	97,531	14,725
Current Assets (RM'000)	117,566	76,096	115,011	58,083	88,463	134,294
Non-current Liabilities (RM'000)	2,121	16,052	132	1,630	31,355	636
Current Liabilities (RM'000)	23,332	78,458	61,859	13,440	23,987	7,670
Working Capital[1] (RM'000)	94,234	(2,362)	53,152	44,643	64,476	126,624
Gross Profit Margin[2] (%)[2]	25.9	7.2	17.8	19.0	28.0	22.5
Profit/ (Loss) before Tax Margin[3] (%)	14.6	(0.3)	12.0	6.8	7.9	10.9
Current Ratio[3] (times)	5.0	1.0	1.9	4.3	3.7	17.5
Asset Turnover[4] (times)	1.3	1.0	1.1	1.1	0.8	0.8

The above figures only provide an indication and are not considered directly comparable as not all companies carry out activities which are completely similar to each other or in the same geographical area.
Notes:
**Consists of sales revenue from animal health products segment of RM113.8 million, food ingredients segments of RM30.1 million, animal health services of RM1.9 million, human healthcare services of RM0.5 million and dairy farming of RM0.4 million.*
***Consists of sales revenue from animal feed additives products segment of RM99.8 million and human food ingredient products segment of RM16.1 million.*
[1] *Working Capital = Current Assets – Current Liabilities*

[2] Gross Profit Margin = Gross Profit/ Revenue
[3] Profit before Tax Margin = Profit before Tax / Revenue
[4] Current Ratio = Current Assets / Current Liabilities
[5] Asset Turnover = Revenue / (Non-Current Assets + Current Assets)
Sources: Yenher, Bursa Securities, Companies Commission of Malaysia and Protégé Associates

4.2 Yenher's Market Share Analysis

For its FYE 31 December 2020, Yenher recorded revenue of RM202.6 million, which is equivalent to 9.3% of the animal health and nutrition industry revenue in Malaysia. In 2020, the size of animal health and nutrition industry in Malaysia is estimated at RM2.18 billion.

5.0 Demand Conditions

Figure 7: Demand Conditions Affecting the Animal Health and Nutrition Industry in Malaysia, 2021-2025

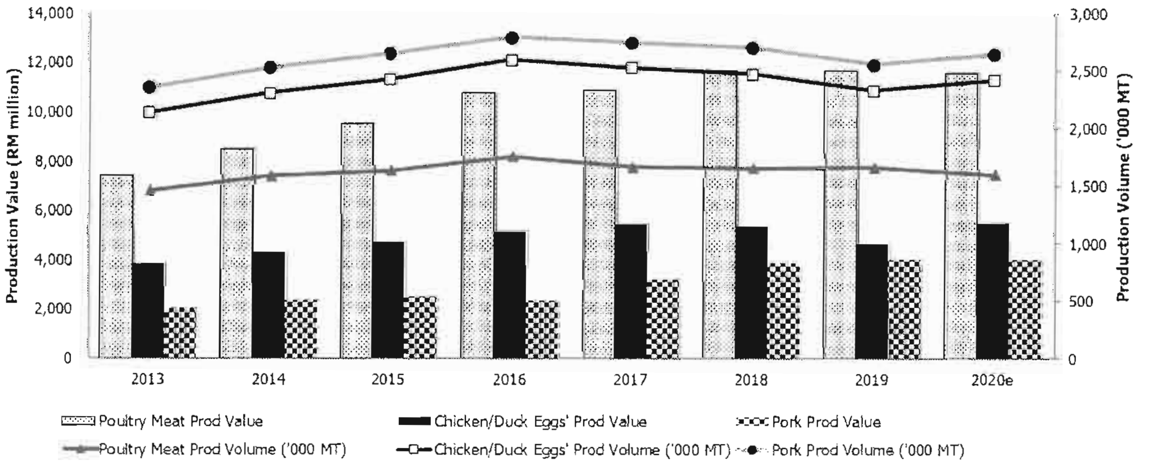
Impact	Demand Conditions	Short-Term	Medium-Term	Long-Term
		2021-2022	2023-2024	2025
+	Derived Demand from the Livestock Industry	High	High	High
+	Changing Preference towards Non-Antibiotic Feed Additives	Medium	Medium	High
-	Disease Outbreaks Affecting Livestock Industry	Medium	Medium	Medium

Source: Protégé Associates

Derived Demand from the Livestock Industry

The animal health and nutrition industry is highly dependent on the development and growth of the livestock industry as animal health and nutrition products are critical to the operations of a livestock farm in ensuring proper nutrition, health and hygiene of livestock. The Malaysian livestock industry is expected to continue growing throughout the period of 2021 to 2025, in line with its past performance from 2013 to 2020. The following figure shows the historical growth in value and volume for the poultry (meat and eggs) and swine sub-sectors – which are the two (2) main sub-sectors for the Malaysian livestock industry.

Figure 8: Production Value and Volume for the Poultry and Swine Sub-Industries, 2013-2020



Notes:

1. *Prod Value – denotes production value in RM million*
   Prod Volume ('000 MT) – denotes production volume in thousand metric tonnes
2. *e denotes estimates*

Sources: Department of Veterinary Services and Protégé Associates

In 2020, the agriculture sector registered a negative growth of 2.0%, largely due to decline in the oil palm production from COVID-19. However, the livestock industry continues to show resilient growth of 3.5% in terms of GDP output, supported by sustained domestic demand. The upcoming 12th Malaysia Plan for the period to 2021 to 2025 is expected to address the adoption of technology to ensure national food security and boosting revenue in the agriculture sector which includes the livestock industry. However, with the declaration of the nationwide state of emergency on 12 January 2021, the tabling of the 12th Malaysian Plan is postponed.

The livestock industry is also expected to grow due to:

- Increase in consumption of livestock products – Increase in the consumption of livestock products leads to growth in the livestock industry, which in turn increases the demand for animal health and nutrition products. Consumption of livestock products has increased over the years due to the overall increase in population size and greater affluence of society in general which results in more people consuming meat. Malaysians' consumption per capita of livestock products consisting of poultry meat, pork, beef and mutton, has increased by 8.9% from 60.8kg in 2013 to 66.2kg in 2019.
- Demand from the export market – The Malaysian livestock market presently has minimal but sustained demand from the export market. This is especially for the poultry sub-sector where the export of live birds has been growing at a CAGR of 1.0% from 57.2 million live birds in 2013 to 60.6 million in 2019, the export of chicken/duck egg has been growing at a CAGR of 2.0% from 91,143 metric tonnes in 2013 to 102,409 metric tonnes in 2019, while the export of poultry meat has been growing at a CAGR of 8.8% from 25,218 metric tonnes of poultry meat in 2013 to 41,793 metric tonnes in 2019. Growth in export demand for livestock products will spur local production, and this will contribute to an increase in the demand for animal health and nutrition products.

Changing Preference towards Non-Antibiotic Feed Additives

The growing use of non-antibiotic feed additives is a positive development that arises from health concern on the use of antibiotic animal feed additives. The global livestock industry has accepted the need for using organic, non-chemical and environmentally-friendly compounds. The Malaysian livestock industry is expected to increase the use of non-antibiotic feed additives in the long term. The main factors leading to the change towards greater use of non-antibiotic animal feed additives include increasing consumer awareness on health and environmental impact, global regulatory trends and proactive change by the local stakeholders.

There is an increase in awareness regarding the possibilities of antibiotic-resistance and health concerns over tainted animal products due to prolonged or excessive use of additives that may cause detrimental side effects on consumers' health. This is likely to pressure local livestock producers to switch from antibiotic feed additives to non-antibiotic alternatives. Effective January 2006, the European Union ("**EU**") region banned the use of antibiotic growth promoter citing the health risks of continued usage. Although many other countries and regions have yet to implement measures against the use of antibiotic growth promoter, many countries had imposed controls on antibiotic usage to mitigate its negative effects on food safety and human health. It is likely that regulators outside the EU region will trend towards the exclusion of antibiotic growth promoter for livestock production.

In addition, local livestock farmers such as large and integrated poultry and swine farm operators are proactively switching to non-antibiotic feed additives on the basis of greater environmental sustainability and animal welfare as well as to improve profitability. As more Malaysian farmers see the value of non-antibiotic feed additives, the rate of substitution will likely to be more prevalent in the medium to long run. The increasing use of non-antibiotic animal feed additives is also made possible with the support from local animal feed additives manufacturers who have the necessary research and development capabilities to develop new products.

Disease Outbreaks Affecting Livestock Industry

High infectivity disease or zoonotic disease outbreaks are usually controlled and contained through culling of infected livestock to minimise the spread of diseases which reduces the livestock population and in turn lower the demand for animal health and nutrition products. While the disease outbreak only occurs within a short time period and has a moderate effect, it nonetheless affects the demand of the affected livestock. For example, during the Nipah virus outbreak in 1998, there was large-scale culling of swine stocks, leading to greatly decreased livestock populations. The avian flu outbreak and the H1N1 swine flu pandemic in 2009 have negatively altered consumer perception of chicken and pork consumption. The food and mouth disease outbreak in 2016 has put thousands of cattle at risk of being infected. More recently in February 2021, the African Swine Flu caused cluster outbreaks in Sabah. In these cases, livestock production was hampered, leading to decreasing demand for animal health and nutrition products. Similar disease outbreaks in the future could have similar effects on livestock demand and supply, which in turn will affect the demand for animal health and nutrition products.

6.0 Supply Conditions

Figure 9: Supply Conditions Affecting the Animal Health and Nutrition Industry in Malaysia, 2021-2025

Impact	Supply Conditions	Short-Term	Medium-Term	Long-Term
		2021-2022	2023-2024	2025
+	Established Market Players with Proven Track Record	High	High	High
+	Malaysian Government's Focus on Biotechnology Providing Financial Incentives	Medium	Medium	Medium
-	High Capital and Technological Expertise Required for Manufacturing	Low	Low	Low
-	Fluctuations in Crude Oil Prices	Low	Low	Low

Source: Protégé Associates

Established Market Players with Proven Track Record

The animal health and nutrition industry in Malaysia is matured with established market players which supports a continuous supply of animal health and nutrition products that meets the needs of the local livestock industry. The animal health and nutrition products presently sold in Malaysia are either brands from internationally recognised manufacturers or locally developed products. In addition, key market players have had many years of experience. For instance, some of the key players began their operations at least 20 to 30 years ago, among which include SCC Holdings Berhad (established in 1974), AsiaVet (established in 1981), Danberg (established in 1980), Ritamix's subsidiary, Gladron Chemicals Sdn Bhd (established in 1982), Peterlabs (established in 1980s), Yenher's subsidiary, Yenher Agro-Products Sdn Bhd (established in 1991), Sunzen Biotech Berhad's subsidiary, Sunzen Corporation Sdn Bhd (established in 1998) and RhoneMa's subsidiary, Rhone Ma Malaysia Sdn Bhd (established in 2000).

Malaysian Government's Financial Incentives for the Biotechnology Sector

The Malaysian Government provides tax incentives for companies in the biotechnology sector which are likely to benefit domestic product manufacturers, such as financial incentives to companies which carry out research and development for animal health and nutrition products. Companies undertaking biotechnology activities and have been approved with BioNexus Status by the Malaysian Bioeconomy Development Corporation Sdn Bhd are eligible for financial incentives including tax exemption on up to 100% statutory income for a period of up to 10 years, a concessionary tax rate of 20% on statutory income for 10 years upon the expiry of the tax exemption period, exemption of import duty and sales tax on raw materials, components, machinery and equipment as well as double deduction on expenditure incurred for research and development. In addition, Bioeconomy Corporation provides funding to BioNexus Status companies under its Biotechnology Commercialisation Fund ("**BCF**") 2.0 Programme. There are two (2) financing schemes under the BCF 2.0 Programme, namely the Bioeconomy Development Scheme, a term financing facility of up to RM2.7 million for purchases such as land and building, machinery and equipment and laboratory equipment; and the Business Sustenance Scheme which serves to address the working capital financing requirements of the companies.

High Capital and Technological Expertise Required for Manufacturing

Manufacturing of animal health and nutrition products is a capital-intensive activity that requires significant investment in technological research and development, machinery and equipment, manufacturing and logistics facilities. The need for technological research and development coupled with the suitable technical expertise are especially pertinent for a manufacturing company in order to keep up with the changing market trends. These factors may act as a deterrent and prohibit any new entrance of companies into the market. Among the 79 players in the market, majority of them are distributors and there are less than 20 local manufacturers, which indicate the high barriers of entry particularly for the manufacturing of animal health and nutrition products. This negative supply condition affects mainly new entrants into the market, thus has only minimal impact to the market.

Fluctuation in Crude Oil Prices

The animal health and nutrition industry is subject to fluctuations in crude oil prices because petrochemicals such as benzene, cellulose acetate, propylene glycols, ethanoic anhydride, etc, are raw materials of veterinary pharmaceutical and biological products. Any increase in crude oil prices could adversely affect the market players' operations and profit margins as a result of increased cost of raw materials. While market players typically pass along the increased cost to its customers in the form of price increases, there may be a time delay between the increased cost of raw materials and the market players' ability to increase the prices of their products.

The prices of crude oil have been cyclical. Protégé Associates has used the historical price movements of the Europe Brent Spot Price free on board as a proxy for the overall price trend of crude oil in the world. Crude oil price failed to register above United States dollar ("**USD**") 100 per barrel since USD108.56 per barrel was recorded in 2013. During the period from 2014 to 2019, the price of crude oil hovered between USD43.64 per barrel to USD98.97 per barrel. This was attributable to the increasing shale oil output from the United States which contributed to the increased global output along with weakening demand globally. In 2020, the prices of crude oil have been under heavy downward pressures due to the price war sparked by Saudi Arabia and the fuel demand destruction caused by the COVID-19 pandemic. The crude oil prices had declined sharply from USD63.65 per barrel in January 2020 to USD18.38 per barrel in April 2020, caused by contraction in worldwide oil demand and massive sell-offs amid a significant global oversupply. However, oil demand has slowly picked up and the global oversupply of oil has gradually alleviated as lockdowns and travel restrictions eased in many countries. As of May 2021, the crude oil price rose to USD68.53 per barrel. Nevertheless, the environment surrounding crude oil prices remains volatile due to unstable demand and supply conditions. Among the external factors that will impact the demand and supply conditions of crude oil include geopolitical and economic instability, production capacities and weather risk.

7.0 Prospects and Outlook of the Malaysian Animal Health and Nutrition Industry

In 2019, the market size of the animal health and nutrition industry in Malaysia was valued at RM2.14 billion, of which the animal feed additives segment contributed RM823.9 million. Going forward, the animal health and nutrition industry in Malaysia is projected to undergo resilient growth in tandem with the growth of the livestock industry in Malaysia.

In 2020, the COVID-19 pandemic and the subsequent MCO had caused the animal health and nutrition manufacturers to operate with partial capacity at the beginning of the MCO. However, as livestock industry was deemed as essential service and is critical in ensuring national food security and self-sufficiency, the animal health and nutrition industry which provides supporting services to livestock industry was able to resume its operations at full capacity on 29 April 2020. In line with the growth of the livestock industry at 3.5% (in terms of GDP output) in 2020, the local animal health and nutrition industry is estimated to grow by 1.9% to RM2.18 billion in 2020.

The growth within the animal health and nutrition industry comes from derived demand from the livestock industry that is supported by increase in consumption of livestock products as a result of overall increase in the Malaysian population and greater affluence of society in general as well as increase in demand from export markets. The market is also expected to expand as local livestock farmers such as large and integrated poultry and swine farm operators are proactively switching to non-antibiotic feed additives on the basis of greater environmental sustainability and animal welfare as well as to improve profitability. However, the risk of high infectivity disease or zoonotic disease outbreaks could dampen livestock animal productions and subsequently the demand for animal health and nutrition products.

From the supply side, the existence of established market players with proven track record ensures the continued supply of proven brand and high quality products within the market. The Malaysian Government's focus on biotechnology as a growth sector for the Malaysian economy has accorded financial incentives which benefit domestic animal health and nutrition product manufacturers as they carry out research and development into animal health and nutrition products. The animal health and nutrition industry is subject to fluctuations in crude oil prices because petrochemicals are raw materials of veterinary pharmaceutical and biological products. Any increase in crude oil price could adversely affect the market players' operations and profit margins as a result of the increase in the cost of raw materials. Protégé Associates projects the animal health and nutrition industry in Malaysia to expand by a CAGR of 4.3% from RM2.18 billion in 2020 to RM2.69 billion in 2025.

8. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE INVESTING IN OUR COMPANY.

8.1 RISKS RELATING TO OUR INDUSTRY

8.1.1 Our business is dependent on the livestock industry

Animal health and nutrition products form a critical part of the operations of a livestock farm as they provide the required nutrition while maintaining the health of the livestock and hygiene of farms. As our Group is principally involved in the manufacturing and distribution of animal health and nutrition products, our business operations are highly dependent on the performance of the livestock industry, which in turn is affected by, among others, change in world population, change in consumers' dietary preferences and habits as well as disease outbreaks.

The growth in worldwide population has increased the demand for food, including those that are rich in protein, vitamins and other nutritional contents found in livestock products. Coupled with the greater affluence of society, consumption of livestock products has increased which led to increased demands for animal health and nutrition products. According to the IMR, the consumption per capita of livestock products (consisting of poultry meat, pork, beef and mutton) in Malaysia has increased by 8.9% from 60.8kg in 2013 to 66.2kg in 2019.

However, change in consumers' dietary preferences and habits, such as the preference for meat substitutes or non-meat alternatives with similar nutritional contents in particular plant-based food products, may also affect the livestock industry. Furthermore, the increase in awareness of environmental sustainability including calls for reduction of greenhouse emission from livestock farms, may continue to drive the demand for meat substitutes and plant-based food products as opposed to meat from the livestock industry.

As such, any significant drop in the demand for livestock, especially for poultry and swine, would adversely affect the demand for our products and services, which in turn, would have an adverse impact on our business, financial condition and results of operations.

8.1.2 The outbreak of animal diseases or any other similar epidemic could adversely affect our business

The threat of animal disease outbreaks has always been one of the major problems faced by the livestock industry. As demand for animal health and nutrition products is highly dependent on the performance of the livestock industry, any widespread outbreak of such animal diseases would severely impact the demand for animal health and nutrition products.

The local livestock industry has witnessed the severe effects of such outbreaks such as the Nipah virus outbreak in 1998 as well as the avian flu and H1N1 swine flu pandemic in 2009, all of which have led to decreased consumption of livestock products. While Sabah has recently experienced the African Swine Fever outbreak in February 2021 which has affected the wild boars (but not swines in commercial farms), such outbreak and the recurrence of any similar outbreak or new epidemic could have similar effects on the demand and supply for livestock.

As a result, this may impact the demand for our animal health and nutrition products which in turn, would have a material adverse impact on our business, financial condition and results of operations.

8.1.3 We operate in a competitive environment

The animal health and nutrition market in Malaysia is competitive and fragmented. It comprises numerous domestic product manufacturers, distributors and subsidiaries of international product manufacturers who collectively offer a wide variety of animal health and nutrition products. According to the IMR, there are 79 market players in the local animal health and nutrition market based on the members of the Malaysian Animal Health and Nutrition Industries Association as at LPD.

According to the IMR Report, selected players comparable to our Group in the animal health and nutrition industry include Asia Veterinary Sdn Bhd, Danberg (M) Sdn Bhd, Peterlabs Holdings Berhad, Rhone Ma Holdings Berhad and Ritamix Global Limited. These companies also possess long track records in the animal health and nutrition industry, and are able to compete based on product quality, branding and competitive prices. As such, we face stiff competition among local and international animal health and nutrition providers, and our continuing success would depend on our ability to continue competing effectively against our competitors. If we were to experience any deterioration in the performance or quality of our products, or if our products were to be perceived by customers to be inferior as compared to our competitors', or if we are unable to compete in terms of pricing, we may lose our customers to our competitors, which in turn, would have a negative impact on our business, financial condition and results of operations.

8.1.4 We are exposed to political, economic and regulatory risks in Malaysia and other countries in which we are currently or may in the future operate in/transact with, as well as the occurrence of force majeure events

Our Group's operations are based in Malaysia and we derive a substantial portion of our revenue from sales in Malaysia. As such, any adverse development or uncertainty in the political, economic and regulatory conditions in Malaysia which include unfavourable changes in inflation rates, interest rates and foreign exchange rates, expropriations, adverse changes in political leadership and unfavourable changes in government policies and regulations could have an adverse impact on our business, financial condition and results of operations.

Similarly, any adverse development in the political, economic and regulatory conditions in other countries in which we currently or may in the future operate in/transact with, may also have an impact on our business, financial condition and results of operations. The occurrence of force majeure events, such as terrorism acts, war, riots, epidemics (such as the COVID-19 pandemic) and natural disasters whether globally or in Malaysia could also unfavourably affect our financial condition and business prospects.

8.2 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

8.2.1 Our success depends on our Group Managing Director, Executive Directors and other Key Senior Management personnel

The success of our Group is heavily attributed to our Group Managing Director, Cheng Mooh Tat as well as our Executive Directors, Cheng Mooh Kheng and Theoh Mooi Teng, who individually have more than 25 years of experience in the animal health and nutrition industry. They are supported by a team of qualified Key Senior Management, who have over the years gained a vast amount of experience and knowledge in the field of animal health and nutrition products. Further details on the experience of our Group Managing Director, our Executive Directors and our other Key Senior Management are set out in Sections 4.1.2 and 4.4.2 of this Prospectus.

Our success and future growth also depend on our ability to identify, hire, train and retain employees who are capable, skilled and qualified in performing their roles and responsibilities. As such, we recognise that the loss of any of our Key Senior Management and other key employees in the future, and our inability to find suitable replacement in a timely manner, may have a material adverse effect on our business, financial condition, results of operations and prospects.

8.2.2 Our manufacturing operations is dependent on the supply of workers

Our manufacturing operations is dependent on the supply of workers. Although we have automated machinery and equipment in our manufacturing plant, we are still dependent on manual labour, especially when transferring raw materials for production and finished goods to our warehouse.

To cater to the needs of our manufacturing operations, we hire 47 foreign workers from Bangladesh, Nepal and Myanmar representing approximately 34.06% of our total workforce as at LPD who are involved in the production, warehousing and delivery duties. For information purposes, our total workforce as at LPD stood at 138 employees. However, pursuant to the requirements imposed by the Malaysian Investment Development Authority on our manufacturing license, we are required to employ at least 80% Malaysians in our total workforce by 31 December 2022, failing which, our license may be revoked.

While we strive to meet such hiring requirement within the stipulated timeline, there is no assurance that we will be able to replace our foreign workers with local hires due to the nature of our work. As a result, our business operations and financial performance may be materially affected if we are not able to replace our foreign workers with local hires or increase the number of local hires in tandem with the growth in our business, in order for our Group to meet the conditions of our manufacturing license which is critical for our operations.

8.2.3 Our business, financial condition and results of operations may be adversely affected by the volatility of prices and interruption in the supply of raw materials which we distribute and use for our production as well as products which we distribute

During the last four (4) FYEs 31 December 2017, 2018, 2019 and 2020, the costs of raw materials and distribution products including feed additives, vitamins, minerals, veterinary pharmaceuticals, veterinary vaccines, farm equipment, livestock reproduction products and companion animal products represented 94.80%, 94.54%, 93.92% and 93.85% of our total cost of sales respectively. The prices of raw materials which we distribute and use for the production of our own in-house manufactured products, as well as products which we distribute may be affected by, among others, market demand and supply, change in government policies such as changes in tax and tariff policies or other external circumstances.

For example, in October 2017, the global supply of vitamins A and E, which are two (2) essential nutrients for animals and the main ingredients used in the production of our premixes, was severely interrupted as a result of a fire accident which occurred at the production facilities of BASF SE from Germany, an international major supplier of vitamins. This resulted in a global shortage of vitamins which saw a temporary surge in global prices of vitamins. Prices for vitamin A which ranged between approximately USD50.00 per kg to USD55.00 per kg in September 2017 increased to approximately USD450.00 to USD500.00 per kg in January 2018, representing an increase of approximately 800.00% to 809.09%. Prices for vitamin E, on the other hand, which ranged between approximately USD6.00 per kg to USD6.50 per kg in September 2017 increased to approximately USD20.00 to USD25.00 per kg in January 2018, representing an increase of approximately 233.33% to 284.62%. The temporary surge in global prices of vitamins had affected our GP for the FYE 31 December 2018 as explained in Section 11.3.3(iii) of this Prospectus.

In addition, the animal health and nutrition industry is also exposed to fluctuations in crude oil prices as selected petrochemicals such as benzene, cellulose acetate and propylene glycols are raw materials used in the production of veterinary pharmaceutical and biological products. As such, any increase in crude oil prices could adversely impact the operations and profit margins of manufacturers and suppliers of these veterinary pharmaceutical and biological products, and may cause an upward pressure to their selling prices.

We may not be able to anticipate any future abrupt price hikes or any future disruption to our supply chain, and therefore we may not be able to effectively pass on the increased procurement costs to our customers or meet our customers' demand. As such, this could potentially have an adverse impact on our business, financial condition and results of operations.

8.2.4 Our distribution business depends on a stable source of supply and our business relationship with our suppliers

Notwithstanding that our manufacturing activities have gradually overtaken those from our distribution activities during the financial years under review, our distribution segment has contributed approximately 53.14%, 52.09%, 45.11% and 44.26% of our Group's revenue for the last four (4) FYEs 31 December 2017, 2018, 2019 and 2020 respectively.

We source our distribution products from various international animal health product suppliers. As such, our distribution business relies heavily on sufficient and stable supply of products from our suppliers and any increase in the costs of such products, prolonged shortage of the required products, operational issues or financial constraints of our suppliers to fulfil their obligations towards us or cessation of any of our distribution agreement entered into with our suppliers, could impede our ability to meet our customers' needs for such products. This in turn could lead to loss of sales and could adversely affect our business, financial condition and results of operations.

8.2.5 Our business is subjected to shipping disruption and fluctuation in shipping and freight rates

A significant portion of our purchases, both for our manufacturing and distribution activities, are sourced from suppliers located overseas and thus we rely heavily on marine and air transportation to deliver these supplies to us. Hence, we are exposed to shipping and freight disruptions that may arise as a result of adverse weather conditions, political turmoil, pirate attacks, social unrest, port strikes, oil spills, delayed or lost shipments, which in turn may have an adverse impact on our business operations.

In addition, any major fluctuation in shipping and freight rates may have a substantial impact on our cost and our GP margins if we are unable to pass on such increase in costs to our customers by raising selling prices. In the first half of 2020, the COVID-19 pandemic disrupted both production and consumption activities globally. As part of efforts to contain the spread of COVID-19, lockdowns and tighter border control were enforced which led to suspension of economic activities in various countries. The lower economic activities has resulted in reduced demand for shipping and freight activities, with carriers reducing their freight capacities.

In the second half of 2020, as economic activities slowly resumed to normal, shipping and freight rates began to rise due to a temporary mismatch between supply capacity and increasing demand for shipping and freight services. While our Group has yet to experience any major shipping and freight disruption or any major increase in shipping and freight rates, there can be no assurance that the COVID-19 pandemic can be contained in the near term and not worsen in the future and consequently lead to higher shipping and freight rates, the occurrence of which could in turn, adversely impact our business, financial condition and results of operations.

8.2.6 Any prolonged or significant disruption to our manufacturing plant may affect our operations and financial results

Our manufacturing segment contributed approximately 46.86%, 47.91%, 54.89% and 55.74% to our Group's revenue for the last four (4) FYEs 31 December 2017, 2018, 2019 and 2020 respectively. As such, our business is susceptible to interruptions caused by defects or breakdowns of our machinery and equipment due to, among others, power/utility outages, accident, fire or other incident that is beyond our control. In addition, in the event of machinery or equipment breakdown, there is no assurance that there are readily available replacement parts for us to continue with production. In 2019, a machinery in our manufacturing plant broke down and we had to switch our production activities to manual mode for two (2) weeks while waiting for replacement parts to arrive. Although this did not materially affect our production in that year, there is no assurance that any future disruption to our manufacturing operations will not affect our ability to produce and deliver our in-house products to our customers in a timely manner, which in turn, may adversely affect our business and results of operations.

8.2.7 We are exposed to product liability claims

While we do not provide any warranty for the products manufactured or distributed by our Group, we could be subjected to product liability claims by our customers if the products that we sell are found to be unsafe, defective or contaminated. Any defect or contamination of the products manufactured or distributed by our Group, whether actual or alleged, deliberate or accidental, could adversely affect our business operations, damage our reputation and/or suspend our operating/manufacturing licences. In terms of defective or contaminated products supplied to us by our suppliers, there is no assurance that we will be able to claim against these suppliers, or that the amount recovered from these suppliers will be able to cover the resultant impact on our Group. While we have never experienced any product liability claims in the past, there is no assurance that we will not be subject to any product liability claim in the future, which could adversely impact our financial results, branding and reputation in the market.

8.2.8 Products that we distribute are subject to registration

Some of the animal health and nutrition products that we distribute, such as veterinary pharmaceuticals and vaccines, are required to be registered with the relevant authorities which includes the National Pharmaceutical Regulatory Agency and the Department of Veterinary Services Malaysia. The registrations of these products are subject to periodic renewals and conditions imposed by the relevant authorities which may vary from time to time.

On 12 November 2019, Yenher Agro committed two (2) offences under Regulation 7(1)(a) of the Control of Drugs and Cosmetics Regulations 1984 ("**CDCR**") for (i) selling two (2) bottles of drugs that were not registered products under CDCR ("**Products**"); and (ii) possessing 10 unregistered Products. As such, Yenher Agro is liable on conviction to a fine not exceeding RM100,000 for the two (2) abovementioned offences i.e. RM50,000 for each offence. On 4 February 2021, Yenher Agro pled guilty to the said offences during the court hearing at Jawi Magistrate Court, Pulau Pinang and was fined with a penalty of RM10,000 which Yenher Agro had fully settled on the same day.

Following the incident, Yenher Agro had reviewed and enhanced its internal control system to prevent similar incidents from occurring. This includes having our purchasing department to request for proof of registration of products with the relevant authorities from suppliers before purchasing any product.

Notwithstanding that our Group has put in place measures to mitigate the aforementioned risk and will review the same from time to time, there can be no assurance that such situations of non-compliance will not reoccur due to, among others, human error. Non-compliance could lead to adverse publicity, fines and/or revocation or non-renewal of certain of our operating licences, which in turn would have an adverse impact on our business, financial condition and results of operations.

8.2.9 There is no assurance that our insurance coverage would be adequate

We are subject to risks such as fire, flood, accidents as well as public liability. As such, we have purchased insurance which include fire and burglary insurance, equipment insurance, public liability insurance, marine cargo insurance, trade credit insurance and all risk insurance, to provide coverage against any unforeseen event. For the last four (4) FYEs 31 December 2017, 2018, 2019 and 2020 and up to LPD, we did not make any insurance claim under our insurance policies. Whilst we have taken the necessary steps to ensure that our insurance coverage is adequate for our operations and assets, it may not be adequate to fully compensate for the loss that we may suffer in the future. If we suffer losses that exceed the coverage provided by the insurance policies, it could have an adverse impact on our business, financial condition and results of operations.

8.2.10 Our performance is affected by adverse movements in foreign currency exchange

Our functional reporting currency is in RM. However, a majority of our purchases and some of our sales are transacted in foreign currencies, primarily in USD and Euro. As such, we are exposed to adverse movements in foreign currency exchange which are influenced by various factors that are beyond our control, including but not limited to the political and economical climate in Malaysia and other countries.

Certain foreign currency transactions that our Group enter into provide a natural hedge against foreign currency fluctuations, for example, when our sales and purchases are both denominated in USD. In addition, we also enter into forward foreign exchange contracts to manage our exposure to foreign currency fluctuations. Notwithstanding the above, there can be no assurance that the use of such financial instruments will completely eliminate our exposure to adverse foreign currency exchange movements.

Further information on our Group's revenue and purchases transacted in RM and other foreign currencies for the FYEs 31 December 2019 and 2020 is set out in Section 11.3.4(i) of this Prospectus.

8.2.11 Our business may be affected by the spread or outbreak of COVID-19 or any other contagious or virulent diseases

The occurrence of a prolonged outbreak of an epidemic or other adverse public health developments in Malaysia could materially disrupt our business operations. The recent COVID-19 outbreak which was declared a global pandemic by the World Health Organisation on 11 March 2020 following its rapid spread across the globe has resulted in the imposition of a nationwide MCO by the Malaysian Government on 18 March 2020. During the MCO period, all government and private premises were required to close and to suspend operations, except for those involved in essential services where they were/are allowed to operate albeit at reduced operating capacity in March and April 2020 as well as during the nationwide lockdown period in June 2021.

While our Group's operations are categorised as an essential service and we were allowed to operate during the various phases of the MCOs, the outbreak of COVID-19 and the implementation of the MCO had to a certain degree affected our operations. For instance, our Group recorded lower production output due to restrictions on the number of employees who were allowed at our premises during the first of the three (3) phases of the MCO from 18 March 2020 to 28 April 2020. However, we do not expect the nationwide full lockdown commencing 1 June 2021 to have any material impact on our Group's production output as we are allowed to have 60% workforce in our manufacturing plants and our office (as compared to only 50% workforce capacity in March to April 2020) and given that this is the second full nationwide lockdown, we are able to better manage our production and business operations as compared to the first lockdown.

Since the introduction of the nationwide MCO in March 2020, we have also incurred additional expenditures to implement new standard operating precedures ("**SOPs**") to curb the spread of COVID-19. The total cost for the implementation of these SOPs is expected to be between RM150,000 to RM250,000 per annum. However, such cost is not expected to have any material impact to our Group's financial performance.

The escalation of the COVID-19 outbreak globally has also disrupted global supply chains which could have led to a shortage of supply and/or delay in delivery by our suppliers, of either raw materials required for our manufacturing activities or supplies from our suppliers for distribution to our customers. In addition, should any of our employees contract or be suspected of contracting COVID-19, we are required to quarantine the said employees and disinfect our offices, manufacturing plant and warehouses prior to resumption of our operations. Notwithstanding this, since the introduction of the MCO in March 2020 up to the date of this Prospectus, we have not experienced any material disruption to our supply chain and none of our employees have contracted or has been suspected of contracting COVID-19. Our Group's financial performance has also not been materially affected since the MCO was first introduced in March 2020.

Having said that, there can be no assurance that the outbreak of COVID-19 can be effectively controlled, or another outbreak of similar nature to COVID-19 will not happen in the future. Should the outbreak continue to disrupt the local and global economic conditions, our business, financial condition, results of operations and prospects may also be adversely affected.

8.3 RISKS RELATING TO OUR SHARES AND OUR LISTING

8.3.1 The offering of our Shares may not result in an active liquid market for our Shares

Prior to our IPO, there has been no prior public market for our Shares. As a result, there is no assurance that upon our Listing, an active market for our Shares will develop, or if developed, such a market can be sustained.

Furthermore, notwithstanding that the IPO Price was determined after taking into consideration various factors such as our financial and operating history and our business strategies, we cannot assure you that the IPO Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon Listing and that the market price of our Shares will not decline below the IPO Price.

8.3.2 The trading price and trading volume of our Shares may be volatile

The performance of Bursa Securities is very much dependent on external factors such as the performance of regional and global stock exchanges and the inflow or outflow of foreign funds. Sentiment is also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volume on Bursa Securities, thus adding risks to the market price of our Shares.

In addition, the market price of our Shares may fluctuate significantly and rapidly in response to, among others, the following factors:

(i) general operational and business risks of our Group;

(ii) variations in our financial results and operations;

(iii) success or failure of our Key Senior Management in implementing business and growth strategies;

(iv) additions or departures of our Key Senior Management;

(v) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;

(vi) changes in market valuations of listed shares in general or shares of companies comparable to ours;

(vii) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other related events or factors;

(viii) fluctuation in stock market prices and volume; and/or

(ix) changes in government policy, legislation or regulation.

In addition, many of the risks described herein could materially and adversely affect the market price of our Shares. Furthermore, if the trading volume of our Shares is low, price fluctuation may be exacerbated. Accordingly, there is no assurance that the market price of our Shares will not be subject to volatility or trade at prices below the IPO Price.

8.3.3 The interest of our Promoters who control our Company may not be aligned with the interest of our other shareholders

Our Promoters will collectively hold at least 59.77% of our enlarged number of issued Shares upon Listing. As a result, they will be able to 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 substantial voting control and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they and persons connected with them are required to abstain from voting either by law, relevant guidelines or regulations. Therefore, there is a risk of non-alignment of interests by our Promoters with those of our other shareholders.

8.3.4 We may not be able to pay dividends to our shareholders

Notwithstanding that it is the intention of our Board to recommend and distribute dividend of at least 40% of our annual audited profit attributable to the shareholders of our Company, the payment of dividends is not guaranteed, and our Board may decide, in its sole and absolute discretion, at any time and for any reason, not to pay dividends at all or at a lower pay-out ratio if it is not in the best interest of our Company. The absence of dividends or any dividend payment which is at level lower than that anticipated by investors, the market price of our Shares may be negatively affected.

It should be highlighted that as we are a holding company, our Company's income, and therefore our ability to pay dividends, is dependent upon the dividends and other distributions that we received from our subsidiaries. Some of our subsidiaries have entered into facility agreements which contain negative and financial covenants and hence, the inability of our subsidiaries to comply with any of these covenants may affect our ability to pay dividends.

Further, our payment of dividends may adversely affect our ability to fund unexpected capital expenditures as well as our ability to make interest and principal repayments on any outstanding borrowing that we may have outstanding at the time. As a result, we may be required to borrow additional money or raise capital by issuing equity securities, which may not be on favourable terms or available at all. Further, if we incur new borrowings after our Listing, we may be subject to additional covenants restricting our ability to pay dividends.

For further details on our dividend policy, please refer to Section 11.7 of this Prospectus.

8.3.5 There may be a delay in or termination of our Listing

Our Listing could be delayed or terminated due to the possible occurrences of certain events, which include the following:

(i) our Sole Underwriter exercises its rights under the Retail Underwriting Agreement to discharge itself from its obligations thereunder;

(ii) we are unable to meet the public shareholding spread requirement under the Listing Requirements of having at least 25% of the total number of our Shares for which our Listing is sought to be held by a minimum of 1,000 public shareholders, each holding not less than 100 Shares at the point of our Listing; and

(iii) revocation of the approvals from the relevant authorities for our Listing for whatever reason.

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

(a) the SC issues a stop order under Section 245(1) of the CMSA, the applications for our IPO Shares shall be deemed to be withdrawn and cancelled and we and the Selling Shareholders shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we and the Selling Shareholders shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or

(b) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, investors will not receive any IPO Share, and all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

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

(a) the SC issues a stop order under Section 245(1) of the CMSA, the 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 and the Selling Shareholders shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or

(b) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of monies to our shareholders could only be achieved by way of a cancellation of our share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by way of special resolution in a general meeting and supported by either (aa) consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstance; or (bb) a solvency statement from our Directors.

9. RELATED PARTY TRANSACTIONS

9.1 OUR GROUP'S RELATED PARTY TRANSACTIONS

9.1.1 Material related party transactions

Save as disclosed below, there are no other material related party transactions entered or to be entered into by our Group with related parties for the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD(1) (RM'000)
1.	Our Group and Ni-On Marketing System Sdn Bhd* ("**Ni-On Marketing**"), a major customer of our Group	▪ Cheng Mooh Lee is a major shareholder and director of Ni-On Marketing. ▪ Cheng Mooh Lee is the brother of Cheng Mooh Tat(2), Cheng Mooh Kheng and Cheng Mooh Chye, who are the major shareholders of our Company and the directors of our Group.	(i) Sale of premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals^, veterinary vaccines, raw materials#, commodities# and farm equipment by our Group *(seller)* to Ni-On Marketing *(buyer)* on an *ad hoc* basis;	23,265 (13.12% of our Group's revenue)	21,144 (11.67% of our Group's revenue)	13,678 (7.64% of our Group's revenue)	10,672 (5.27% of our Group's revenue)	4,790
			(ii) Purchase of complete feed, veterinary pharmaceuticals^, raw materials# and commodities# from Ni-On Marketing *(seller)* by our Group *(buyer)* on an *ad hoc* basis; and	2,346 (1.78% of our Group's cost of sales)	2,176 (1.59% of our Group's cost of sales)	1,821 (1.35% of our Group's cost of sales)	970 (0.65% of our Group's cost of sales)	543
			(iii) Packaging and transportation costs charged by Ni-On Marketing *(service provider)* to our Group *(client)* for packaging and delivery of some of the abovementioned purchases directly to our customers on an *ad hoc* basis.	13 (0.07% of our Group's PAT)	8 (0.03% of our Group's PAT)	48 (0.24% of our Group's PAT)	117 (0.52% of our Group's PAT)	74
			These transactions are recurrent in nature and will subsist after our Listing.					

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017	2018	2019	2020	From 1 January 2021 up to LPD[(1)]
				(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
2.	Our Group and Perniagaan Muhibbah Ria Sdn Bhd* ("**PMR**"), a major customer of our Group	▪ Cheng Mooh Lee is a major shareholder and director of PMR. ▪ Cheng Mooh Lee is the brother of Cheng Mooh Tat, Cheng Mooh Kheng[(3)] and Cheng Mooh Chye, who are the major shareholders of our Company and the directors of our Group.	(i) Sale of premixes, formulated products, biotech animal feed ingredients, feed additives, veterinary pharmaceuticals, veterinary vaccines, raw materials# and commodities# by our Group *(seller)* to PMR *(buyer)* on an *ad hoc* basis;	11,384 (6.42% of our Group's revenue)	8,758 (4.84% of our Group's revenue)	8,811 (4.92% of our Group's revenue)	9,184 (4.53% of our Group's revenue)	6,680
			(ii) Purchase of complete feed, raw materials# and commodities# from PMR *(seller)* by our Group *(buyer)* on an *ad hoc* basis; and	2,964 (2.24% of our Group's cost of sales)	323 (0.24% of our Group's cost of sales)	383 (0.28% of our Group's cost of sales)	352 (0.23% of our Group's cost of sales)	56
			(iii) Packaging and transportation costs charged by PMR *(service provider)* to our Group *(client)* for packaging and delivery of some of the abovementioned purchases directly to our customers on an *ad hoc* basis.	34 (0.18% of our Group's PAT)	-	-	7 (0.03% of our Group's PAT)	-
			These transactions are recurrent in nature and will subsist after our Listing.					

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value: FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD[(1)] (RM'000)
			(iv) Rental income from the tenancy of a feedmill and poultry farm situated at Lot 863 held under Geran 3755 in Mukim 14, Daerah Seberang Perai Selatan, Negeri Pulau Pinang via unwritten monthly tenancy. This tenancy was terminated upon Yenher Agro sold the said feedmill and poultry farm to CMT Properties Sdn Bhd ("**CMT**") in December 2018 *(see item no. 8(ii) below)*.	486 (2.55% of our Group's PAT)	493 (1.81% of our Group's PAT)	-	-	-
3.	Our Group and Xun Ta Feed Sdn Bhd*("**XTF**")	▪ Cheng Mooh Lee is a major shareholder and director of XTF. ▪ Cheng Mooh Lee is the brother of Cheng Mooh Tat[(4)], Cheng Mooh Kheng and Cheng Mooh Chye, who are the major shareholders of our Company and the directors of our Group.	(i) Sale of premixes, formulated products, biotech animal feed ingredients, feed additives, raw materials[#] and commodities[#] by our Group *(seller)* to XTF *(buyer)* on an *ad hoc* basis;	-	38 (0.02% of our Group's revenue)	517 (0.29% of our Group's revenue)	809 (0.40% of our Group's revenue)	741
			(ii) Purchase of complete feed, raw materials[#] and commodities[#] from XTF *(seller)* by our Group *(buyer)* on an *ad hoc* basis;	-	308 (0.23% of our Group's cost of sales)	2,365 (1.76% of our Group's cost of sales)	483 (0.32% of our Group's cost of sales)	381
			(iii) Packaging and transportation costs charged by XTF *(service provider)* to our Group *(client)* for packaging and delivery of some of the abovementioned purchases directly to our customers on an *ad hoc* basis; and	-	4 (0.01% of our Group's PAT)	28 (0.14% of our Group's PAT)	74 (0.33% of our Group's PAT)	11

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD[(1)] (RM'000)
			(iv) Mixing charges for complete feed paid by Yenher Agro *(customer)* to XTF *(supplier)* for the use of XTF's mixing machinery on an *ad hoc* basis.	-	-	90 (0.07% of our Group's cost of sales)	388 (0.26% of our Group's cost of sales)	210
			These transactions are recurrent in nature and will subsist after our Listing.					
4.	Our Group and DS Poultry Sdn Bhd* ("**DPSB**"), a 50.00% associated company of Ni-On Marketing	▪ Cheng Mooh Lee is a director of DPSB. Cheng Mooh Lee is also a major shareholder of DPSB through his interest in Ni-On Marketing. ▪ Cheng Mooh Lee is the brother of Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye, who are the major shareholders of our Company and the directors of our Group.	(i) Sale of veterinary pharmaceuticals^ and vaccines by our Group *(seller)* to DPSB *(buyer)* on an *ad hoc* basis;	20 (0.01% of our Group's revenue)	561 (0.31% of our Group's revenue)	471 (0.26% of our Group's revenue)	171 (0.08% of our Group's revenue)	19
			(ii) Purchase of veterinary pharmaceuticals^ from DPSB *(seller)* by our Group *(buyer)* on an *ad hoc* basis; and	-	-	0.05 (<0.01% of our Group's cost of sales)	-	1
			(iii) Purchase of chicks from DPSB *(supplier)* by Yenher Biotech *(customer)* on an *ad hoc* basis for R&D purpose.	-	-	-	2 (0.01% of our Group's PAT)	-
			These transactions are recurrent in nature and will subsist after our Listing.					
			(iv) Disposal of a motor vehicle by Yenher Agro *(seller)* to DPSB *(buyer)*. This transaction was one-off.	40 (0.05% of our Group's NA)	-	-	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value: FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD(1) (RM'000)
5.	Our Group and DS Breeder Farm Sdn Bhd* ("**DBFSB**")	▪ Cheng Mooh Lee is a major shareholder and director of DBFSB. ▪ Cheng Mooh Lee is the brother of Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye, who are the major shareholders of our Company and the directors of our Group.	Sale of formulated products, veterinary pharmaceuticals, veterinary vaccines, livestock reproduction products and disinfectants by our Group *(seller)* to DBFSB *(buyer)* on an *ad hoc* basis. This transaction is recurrent in nature and will subsist after our Listing.	-	-	-	111 (0.05% of our Group's revenue)	6
6.	Welcome Potential Sdn Bhd ("**WPSB**") *(landlord)* and our Group *(tenant)*	▪ Cheng Mooh Tat and Cheng Mooh Kheng are common major shareholders and directors of our Company and WPSB. They are also the directors of Yenher Agro and Yenher Biotech. ▪ Cheng Mooh Chye is a common major shareholder of our Company and WPSB. He is also a director of Yenher Agro, Yenher Biotech and WPSB.	Rental paid for the tenancy of a double-storey office building with warehouse at No. 1, Lorong IKS Simpang Ampat E, Taman IKS Simpang Ampat, 14100 Simpang Ampat, Seberang Perai Selatan, Pulau Pinang via two (2) separate tenancy agreements with Yenher Agro and Yenher Biotech, respectively. This transaction is recurrent in nature and will subsist after our Listing(5).	560 (0.42% of our Group's cost of sales)	916 (0.67% of our Group's cost of sales)	954 (0.71% of our Group's cost of sales)	960 (0.64% of our Group's cost of sales)	400

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD[1] (RM'000)
7.	Cheng Mooh Tat *(landlord)* and Yenher Agro *(tenant)*	▪ Cheng Mooh Tat is a major shareholder of our Company as well as a director of our Company and Yenher Agro.	Rental paid for the tenancy of a double-storey semi-detached house at No. 23, Lorong 12/SS1, Bandar Tasek Mutiara, 14120 Simpang Ampat, Seberang Perai Selatan, Pulau Pinang via a tenancy agreement dated 28 February 2018. The property is being used as accommodation for our staff. This transaction is recurrent in nature and will subsist after our Listing[6].	-	15 (0.01% of our Group's cost of sales)	18 (0.01% of our Group's cost of sales)	18 (0.01% of our Group's cost of sales)	8
8.	Yenher Agro *(seller)* and CMT *(purchaser)*	▪ Cheng Mooh Tat and Cheng Mooh Kheng are common major shareholders and directors of our Company and CMT. They are also directors of Yenher Agro. ▪ Cheng Mooh Chye is a common major shareholder of our Company and CMT. He is also directors of Yenher Agro and CMT.	(i) Disposals of a commercial building and two (2) commercial shop lots located in Mukim 15, Daerah Seberang Perai Selatan, Negeri Pulau Pinang via a sale and purchase agreement dated 1 December 2017 which was completed on 5 January 2018. *Further details on the said disposals are set out in Section 13.5(i) of this Prospectus.*	905 (1.05% of our Group's NA)	-	-	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD[(1)] (RM'000)
			(ii) Disposals of a feedmill and poultry farm, a residential house, a commercial shop lot and nine (9) parcels of freehold lands located in Mukim 02, 07 and 14, Daerah Seberang Perai Selatan, Negeri Pulau Pinang and Mukim 13 and 14, Daerah Seberang Perai Tengah, Negeri Pulau Pinang via a sale and purchase agreement dated 19 November 2018 which was completed on 3 December 2018. *Further details on the said disposals are set out in Section 13.5(ii) of this Prospectus.* These transactions were one-offs.	-	42,670 (48.95% of our Group's NA)	-	-	-
9.	Yenher Agro *(vendor)* and Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye *(collectively, purchasers)*	▪ Cheng Mooh Tat and Cheng Mooh Kheng are major shareholders and directors of our Company and Yenher Agro. ▪ Cheng Mooh Chye is a major shareholder of our Company and Yenher Agro. He is also a director of Yenher Agro.	Yenher Agro had on 14 December 2018 disposed its 100.00% equity interest in CMT to the said purchasers. This transaction was one-off.	-	0.84 (<0.01% of our Group's NA)	-	-	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 31 December 2017 (RM'000)	2018 (RM'000)	2019 (RM'000)	2020 (RM'000)	From 1 January 2021 up to LPD[(1)] (RM'000)
10.	Our Company *(purchaser)* and the following *vendors*: Related parties: Cheng Mooh Tat, Cheng Mooh Kheng, Cheng Mooh Chye and Yeoh Ngong Koke Non-related party: Boon Jenn Woei	▪ Cheng Mooh Tat and Cheng Mooh Kheng are our major shareholders and Directors. ▪ Cheng Mooh Chye is our major shareholder. ▪ Yeoh Ngong Koke is the brother-in-law of Theoh Mooi Teng, our Director and also the spouse of Cheng Mooh Tat.	Acquisition by our Company of 100.00% equity interest in Yenher Agro from the said vendors in accordance with the conditional share sale agreement dated 28 August 2020 entered into between our Company and the said vendors. The said acquisition was completed on 28 August 2020. This transaction was one-off.	-	-	-	117,784	-
11.	Our Company *(purchaser)* and Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye *(collectively, vendors)*	▪ Cheng Mooh Tat and Cheng Mooh Kheng are our major shareholders and Directors. ▪ Cheng Mooh Chye is our major shareholder.	Acquisition by our Company of 100.00% equity interest in Yenher Biotech from the said vendors in accordance with the conditional share sale agreement dated 28 August 2020 entered into between our Company and the said vendors. The said acquisition was completed on 28 August 2020. This transaction was one-off.	-	-	-	RM1.00 only	-

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

* Ni-On Marketing and XTF are feed millers while DPSB and DBFSB are poultry farm operators. PMR, on the other hand, is both a feed miller and poultry farm operator. Ni-On Marketing, PMR, XTF, DPSB and DBFSB are principally involved in the downstream segment of the livestock industry supply chain, unlike our Group which operates predominantly in the midstream segment of the livestock industry supply chain (i.e. manufacturing and distribution of animal health and nutrition products to customers such as farmers, feed millers and livestock integrators). For information purposes, the main product that feed millers like Ni-On Marketing, PMR and XTF sell include complete feed and they purchase ingredients such as premixes, formulated products, biotech animal feed ingredients, feed additives and other raw materials from suppliers like our Group for their respective complete feed formulation. Notwithstanding that our Group also produces complete feed, revenue from such products account for less than 10% of our Group's total revenue for the financial years under review.

^ There are different types of veterinary pharmaceuticals which may vary in terms of functionality and characteristic. The veterinary pharmaceuticals which we sold to related parties are different from those we purchased from them.

Our Group and the related parties have been and may continue to purchase raw materials and commodities from one another if it is more cost effective to do so as compared to purchasing from other third party suppliers, as the respective parties tend to benefit from economies of scale whenever they purchase such products in bulk. Notwithstanding the above, the transactions between our Group and the related parties were carried out on an arm's length basis and on normal commercial terms which are not detrimental to our Group nor our minority shareholders.

(1) Percentage contributions are not available as there is no audited financial statements for the period from 1 January 2021 up to LPD for our Group.

(2) For information purposes, Cheng Mooh Tat, our Group Managing Director, was previously a major shareholder and director of Ni-On Marketing. He had on 30 December 2015 disposed his entire 90.00% equity interest in Ni-On Marketing to his brothers, Cheng Mooh Lee and the late Cheng Mooh Lim. On 31 December 2015, he resigned as a director of Ni-On Marketing to focus on running the business of our Group.

(3) For information purposes, Cheng Mooh Kheng, our Executive Director, was previously a major shareholder and director of PMR. He had on 20 December 2017 resigned as a director of PMR and on 6 March 2018, he disposed his entire 40.00% equity interest in PMR to his brothers, Cheng Mooh Lee and the late Cheng Mooh Lim to focus on running the business of our Group.

(4) For information purposes, Cheng Mooh Tat, our Group Managing Director, was previously a major shareholder and director of XTF. He had on 12 October 2018 disposed his entire 42.50% equity interest in XTF to his brother, Cheng Mooh Lee and on 23 April 2019, he resigned as a director of XTF to further focus on running the business of our Group which include the expansion and commercialisation of our Group's biotech animal feed ingredients.

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

(5) The salient terms of the tenancy agreements between our Group and WPSB are as follows:

Parties	Date of tenancy agreement	Tenure	Renewal term	Monthly rental rate	
Yenher Agro *(tenant)* and WPSB *(landlord)*	28 September 2018	Three (3) years commencing from 1 October 2018 till 30 September 2021	Automatic renewal term for a successive one (1) year period until terminated by either party by serving a written notice 30 days prior to the end of the existing term[(i)]	RM76,000	From 1 October 2018 until termination
Yenher Biotech *(tenant)* and WPSB *(landlord)*	1 July 2019	Three (3) years commencing from 1 July 2019 till 30 June 2022	Renewal term to be agreed in writing between the parties at least two (2) months prior to the expiration of the tenancy[(ii)]	RM3,500	From 1 July 2019 to 31 December 2019
				RM4,000	Commencing from 1 January 2020 onwards

(i) Either party may terminate the tenancy without any compensation by serving a written notice to the other party 90 days before the intended termination date.

(ii) Either party may terminate the tenancy by serving a written notice on the other party of not less than one (1) month period or in lieu of a written notice an amount equivalent to one (1) month's rental.

For information purposes, our Group does not intend to continue with these tenancies upon completion of the construction of our new GMP-compliant manufacturing plant. Please refer to Sections 3.7.1 and 6.6.1 of this Prospectus for further information on the construction of our new GMP-compliant manufacturing plant.

(6) The salient terms of the tenancy agreement between Cheng Mooh Tat and Yenher Agro are as follows:

Parties	Date of tenancy agreement	Tenure	Renewal term	Monthly rental rate	
Cheng Mooh Tat *(landlord)* and Yenher Agro *(tenant)*	15 February 2021	Three (3) years commencing from 1 March 2021 till 29 February 2024	Automatic renewal term for a successive one (1) year period until terminated by either party by serving a written notice 30 days prior to the end of the existing term[(i)]	RM1,500	From 1 March 2021 until termination

(i) Either party may terminate the tenancy without any compensation by serving a written notice to the other party 90 days before the intended termination date.

Our Directors confirm that the above related party transactions were carried out on an arm's length basis and on normal commercial terms which are not detrimental to our Group nor our minority shareholders.

Save for the recurrent related party transactions which will subsist after our Listing as disclosed in items 1 to 7 (except for items 2(iv) and 4(iv)) of the table above ("**RRPTs**"), our Directors also confirm that there are no other material related party transactions that have been effected after LPD or entered by our Group but not yet effected up to the date of this Prospectus.

In this regard, after our Listing, we will seek our shareholders' ratification and mandate for the RRPTs mentioned above at our next annual general meeting, unless otherwise exempted under the Listing Requirements. In view of Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye's relationships with their brother, Cheng Mooh Lee as well as their common shareholdings and/or directorships in WPSB, Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye are deemed interested in the RRPTs mentioned above. In this respect, Cheng Mooh Tat, Cheng Mooh Kheng, Cheng Mooh Chye as well as persons connected to them, including CGH Holdings and Theoh Mooi Teng will abstain from voting on the resolutions with regards to such RRPTs.

After our Listing, we will also be required to seek our shareholders' approval each time we enter into a material related party transaction 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 without having to seek separate shareholders' approval each time we wish to enter into such related party transactions during the validity period of the mandate.

9.1.2 Related party transactions entered into that are unusual in their nature or condition

Our Group has not entered into any transaction that is unusual in its nature or condition, involving goods, services, tangible or intangible assets, with a related party for the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD.

9.1.3 Loans made to or for the benefit of a related party

Our Group has not granted any loan to or for the benefit of a related party that is material to our Group for the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD.

9.1.4 Financial assistance provided for the benefit of a related party

Save as disclosed below, our Group has not provided any financial assistance for the benefit of a related party for the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD:

(i) Yenher Agro had provided corporate guarantees of RM5.00 million and approximately RM1.18 million in favour of CIMB Bank Berhad and Maybank Islamic Berhad respectively, for banking facilities granted to WPSB, a related party as mentioned in item 6 of Section 9.1.1 above. On 11 January 2019 and 2 June 2021, CIMB Bank Berhad and Maybank Islamic Berhad had discharged the said corporate guarantees respectively; and

(ii) Yenher Agro had provided a corporate guarantee of approximately RM10.63 million in favour of RHB Bank Berhad for banking facilities granted to Victory Potential Sdn Bhd, an oil palm plantation company of which Cheng Mooh Tat is a major shareholder and director. On 29 July 2020, RHB Bank Berhad had discharged the said corporate guarantee.

9.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

9.2.1 Audit and Risk Management Committee's review

Our Audit and Risk Management Committee reviews related party transactions and conflict of interest situations that may arise within our Group including any transaction, procedure or course of conduct that raises questions of management's integrity. Our Audit and Risk Management Committee maintains and periodically reviews the adequacy of the procedures and processes set by our Company to monitor related party transactions and conflicts of interest. It also sets the procedures and processes to ensure that transactions are carried out in the best interest of our Company, on an arm's length basis and are based on normal commercial terms which are not more favourable to the related party than those generally available to third parties, and are not detrimental to our minority shareholders. Among others, the related parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations and/or votings on the transactions.

All reviews by our Audit and Risk Management Committee are reported to our Board for its further action.

9.2.2 Our Group's policy on related party transactions

Related party transactions by their very nature, involve conflicts of interest between our Group and the related parties with whom our Group has entered into such transactions. As disclosed in this Prospectus, some of our Directors and/or major shareholders are also directors and in some cases, shareholders of the related parties of our Group, and with respect to these related party transactions, may individually and in aggregate have conflicts of interest. It is the policy of our Group that all related party transactions must be reviewed by our Audit and Risk Management Committee to ensure that they are negotiated and agreed upon in the best interest of our Company, on an arm's length basis and are based on normal commercial terms which are not more favourable to the related party than those generally available to third parties, and are not detrimental to our minority shareholders.

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situation and this framework will comply with the Listing Requirements and adhere to the best extent possible with the guidance principles set out in the Malaysian Code on Corporate Governance. The procedures which may form part of this framework include the requirement of our Directors to declare any direct or indirect interest that they may have in any business arrangement, whether or not they believe it is a material transaction. Upon such disclosure, the interested Director shall be required to abstain from deliberation and voting on any resolution related to the related party transaction. All existing or potential related party transactions would also be required to be disclosed by the interested party for management reporting. Our management will then propose the transactions to our Audit and Risk Management Committee for evaluation and assessment which would in turn, make the appropriate recommendations to our Board.

10. CONFLICTS OF INTEREST

10.1 INTEREST IN BUSINESSES AND CORPORATIONS WHICH CARRY ON A SIMILAR TRADE AS THAT OF OUR GROUP OR WHICH ARE OUR CUSTOMERS OR SUPPLIERS

As at LPD, none of our Directors and substantial shareholders have any interest, direct or indirect, in other businesses or corporations which:

(i) carrying on a similar trade as that of our Group; or

(ii) are customers or suppliers of our Group.

10.2 DECLARATION BY ADVISERS ON CONFLICTS OF INTEREST

10.2.1 RHB Investment Bank

RHB Investment Bank and its related and associated companies ("**RHB Banking Group**") engage in private banking, commercial banking and investment banking transactions which include, among others, brokerage, securities trading, assets and fund management as well as credit transaction services. RHB Banking Group has engaged and may in the future engage in transactions with and perform services for our Group, in addition to its roles set out in this Prospectus. In addition, any member of RHB Banking Group may at any time, in the ordinary course of business, offer to provide its services or to engage in any transaction (on its own account or otherwise) with any member of our Group, our shareholders, our affiliates and/or any other entity or person, hold long or short positions in securities issued by our Company and/or our affiliates, make investment recommendations and/or publish or express independent research views on such securities, 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 any member of our Group and/or our affiliates.

As at LPD, RHB Banking Group has subsisting bankers' acceptance, letter of credit, trust receipt, bank guarantees, overdraft facilities and foreign exchange contract line with a combined limit of RM13.16 million. The extension of the said credit facilities are in the ordinary course of business of RHB Banking Group.

Notwithstanding the above, RHB Investment Bank is of the view that the abovementioned do not give rise to a conflict of interest situation in its capacity as the Sole Principal Adviser, Sole Underwriter and Sole Placement Agent for our IPO due to the following reasons:

(i) the credit facilities were provided by RHB Banking Group on an arms' length basis and in its ordinary course of business, and the said credit facilities are not material when compared to the audited NA of RHB Banking Group as at 31 December 2020 of approximately RM27.02 billion;

(ii) RHB Investment Bank is a licensed investment bank and its appointment as the Sole Principal Adviser, Sole Underwriter and Sole Placement Agent for our IPO is in the ordinary course of its business and RHB Investment Bank does not receive or derive any financial interest or benefit save for the professional fees received in relation to its appointment as the Sole Principal Adviser, Sole Underwriter and Sole Placement Agent for our IPO;

(iii) the Corporate Finance division of RHB Investment Bank is required under its investment banking license to comply with strict policies and guidelines issued by the SC, Bursa Securities and Bank Negara Malaysia governing its advisory operations. These guidelines require, among others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of an independent committee to review its business operations; and

(iv) the conduct of RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, CMSA and RHB Banking Group's own internal controls and checks which includes, segregation of reporting structures, in that its activities are monitored and reviewed by independent parties and committees.

RHB Investment Bank has confirmed that there is no conflict of interest situation in its capacity as the Sole Principal Adviser, Sole Underwriter and Sole Placement Agent for our IPO.

Our Board has also confirmed that it has been informed and is aware of the situations as described above and is agreeable to the role of RHB Investment Bank as the Sole Principal Adviser, Sole Underwriter and Sole Placement Agent for our IPO.

10.2.2 Folks DFK & Co.

Folks DFK & Co. has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants to our Company in respect of our IPO.

10.2.3 Wong Beh & Toh

Wong Beh & Toh has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Legal Adviser to our Company in respect of our IPO.

10.2.4 Protégé

Protégé has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher in respect of our IPO.

10.2.5 *AGRITEUM* Share Registration Services Sdn Bhd

AGRITEUM Share Registration Services Sdn Bhd has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Share Registrar in respect of our IPO.

10.2.6 Malaysian Issuing House Sdn Bhd

Malaysian Issuing House Sdn Bhd has confirmed that it has no existing or potential interest in our Company and there is no existing or potential conflict of interest in its capacity as the Issuing House in respect of our IPO.

11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated under the Act on 9 March 2020. We then formed our Group through the Acquisitions on 28 August 2020.

Our Company and the companies acquired through the Acquisitions have been under the common control of Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye throughout the financial years under review. Accordingly, the historical financial information of our Group as presented in this Section has been prepared as follows:

(i) *Prior to the Acquisitions*: based on the audited combined financial statements of our Group for the FYEs 31 December 2017, 2018 and 2019 which were prepared based on the audited financial statements of our subsidiaries (i.e. combined entities) for the said financial years and as if our Company has always been the holding company of our Group throughout the said financial years; and

(ii) *After the completion of the Acquisitions*: based on the audited consolidated financial statements of our Company for the FYE 31 December 2020.

All intra-group balances, transactions, income and expenses were eliminated in full upon combination and consolidation.

You should read the historical financial information of our Group presented in this Section in conjunction with:

(a) the "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set out in Section 11.3 of this Prospectus; and

(b) our Group's audited financial statements and the accompanying notes as set out in the Accountants' Report included in Section 12 of this Prospectus.

The historical results for any prior financial years are not necessarily indicative of the results to be expected for a full financial year or for any future financial year.

(The rest of this page has been intentionally left blank)

11.1.1 Historical statements of profit or loss and other comprehensive income of our Group

The table below sets out the statements of profit or loss and other comprehensive income of our Group for the financial years indicated:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	177,380	181,109	179,061	202,635
Cost of sales	(132,056)	(136,633)	(134,612)	(150,213)
GP	45,324	44,476	44,449	52,422
Other income	1,614	7,872	2,116	448
Selling and distribution costs	(7,448)	(6,639)	(7,332)	(7,858)
Administrative expenses	(12,470)	(10,729)	(11,982)	(14,833)
R&D costs	-	(49)	(172)	(176)
Other expenses	(235)	(321)	(290)	(148)
Operating profit	26,785	34,610	26,789	29,855
Finance costs	(864)	(436)	(466)	(196)
PBT	25,921	34,174	26,323	29,659
Taxation	(6,883)	(6,889)	(6,578)	(7,262)
PAT for the financial year	**19,038**	**27,285**	**19,745**	**22,397**
Other comprehensive income, net of tax				
Item that will not be reclassified subsequently to profit or loss:				
- Revaluation of land and buildings	-	-	8,412	940
Total comprehensive income for the financial year	**19,038**	**27,285**	**28,157**	**23,337**
Other selected financial data:				
GP margin(1) (%)	25.55	24.56	24.82	25.87
EBITDA(2) (RM'000)	27,982	35,429	28,017	31,460
EBITDA margin(3) (%)	15.78	19.56	15.65	15.53
PBT margin(4) (%)	14.61	18.87	14.70	14.64
PAT margin(5) (%)	10.73	15.07	11.03	11.05
Basic and diluted EPS(6) (sen)	8.08	11.58	8.38	9.51

Notes:

(1) GP margin is computed based on GP over revenue of our Group.

(2) EBITDA is computed as follows:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
PBT	25,921	34,174	26,323	29,659
Add: Finance costs	864	436	466	196
Add: Depreciation	1,208	895	1,717	1,806
Less: Interest income	(11)	(76)	(489)	(201)
EBITDA	**27,982**	**35,429**	**28,017**	**31,460**

(3) EBITDA margin is computed based on EBITDA over revenue of our Group.

(4) PBT margin is computed based on PBT over revenue of our Group.

(5) PAT margin is computed based on PAT over revenue of our Group.

(6) For comparative purposes, the basic EPS of our Group is computed based on the PAT of our Group over the total number of 235,569,000 Shares after the Acquisitions. For information purposes, the diluted EPS of our Group is equal to the basic EPS of our Group as there were no potential dilutive securities in issue during the respective financial years under review.

11.1.2 Selected historical statements of financial position of our Group

The table below sets out selected financial information from the statements of financial position of our Group as at the end of the financial years indicated:

	As at 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Total non-current assets	59,062	23,137	35,886	36,645
Total current assets	95,079	92,572	110,213	117,566
Total assets	**154,141**	**115,709**	**146,099**	**154,211**
Total non-current liabilities	12,236	5,183	7,441	2,121
Total current liabilities	55,718	23,362	33,237	23,332
Total liabilities	**67,954**	**28,545**	**40,678**	**25,453**
NA	**86,187**	**87,164**	**105,421**	**128,758**
Share capital	-	-	-	117,784
Invested equity[1]	2,250	2,250	2,250	-
Merger deficit[2]	-	-	-	(115,534)
Revaluation reserve	-	-	8,412	9,337
Retained profits	83,937	84,914	94,759	117,171
Total equity	**86,187**	**87,164**	**105,421**	**128,758**

Notes:

(1) For the purpose of the combined statements of financial position of our Group for the FYEs 31 December 2017, 2018 and 2019, the invested equity as at the end of the respective financial years is the aggregate of the share capital of our subsidiaries, i.e. Yenher Agro and Yenher Biotech.

(2) The merger deficit arose from the difference between the aggregate purchase consideration paid by our Company for the Acquisitions and the nominal value of the shares of our subsidiaries, i.e. Yenher Agro and Yenher Biotech upon consolidation, based on the principles of merger accounting in respect of business combinations under common control.

11.2 CAPITALISATION AND INDEBTEDNESS

The table below sets out our Group's capitalisation and indebtedness as at 30 April 2021 and the pro forma capitalisation and indebtedness of our Group which has been prepared on the assumption that our IPO and the use of proceeds to be raised from the Public Issue ("**IPO Proceeds**") had occurred on 30 April 2021:

		Pro Forma I
	Unaudited as at 30 April 2021	**After our IPO and use of IPO Proceeds**
	(RM'000)	**(RM'000)**
Indebtedness:		
Loans and borrowings (secured and guaranteed)	8,000	8,000
Lease liabilities[(1)]	1,248	1,248
Total indebtedness	**9,248**	**9,248**
Capitalisation:		
Total equity attributable to the owners of our Company	136,369	195,005
Non-controlling interests	-	-
Total capitalisation	**136,369**	**195,005**
Total capitalisation and indebtedness	**145,617**	**204,253**
Gearing ratio (times)[(2)]	0.07	0.05

Notes:

(1) This is in respect of the existing tenancies for an industrial building. For further information of these tenancies, please refer to Section A.2 of Annexure A of this Prospectus.

(2) Gearing ratio is computed based on total indebtedness over total equity attributable to the owners of our Company.

The above pro forma capitalisation and indebtedness of our Group is provided for illustrative purposes only and does not represent our actual capitalisation and indebtedness as at 30 April 2021 or in the future.

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

The following management's discussion and analysis relates to the historical financial information of our Group for the FYEs 31 December 2017, 2018, 2019 and 2020. The historical financial information was prepared as if our Group structure had been in existence throughout the financial years under review.

You should read the following management's discussion and analysis in conjunction with our Group's audited financial statements and the accompanying notes as set out in the Accountants' Report included in Section 12 of this Prospectus.

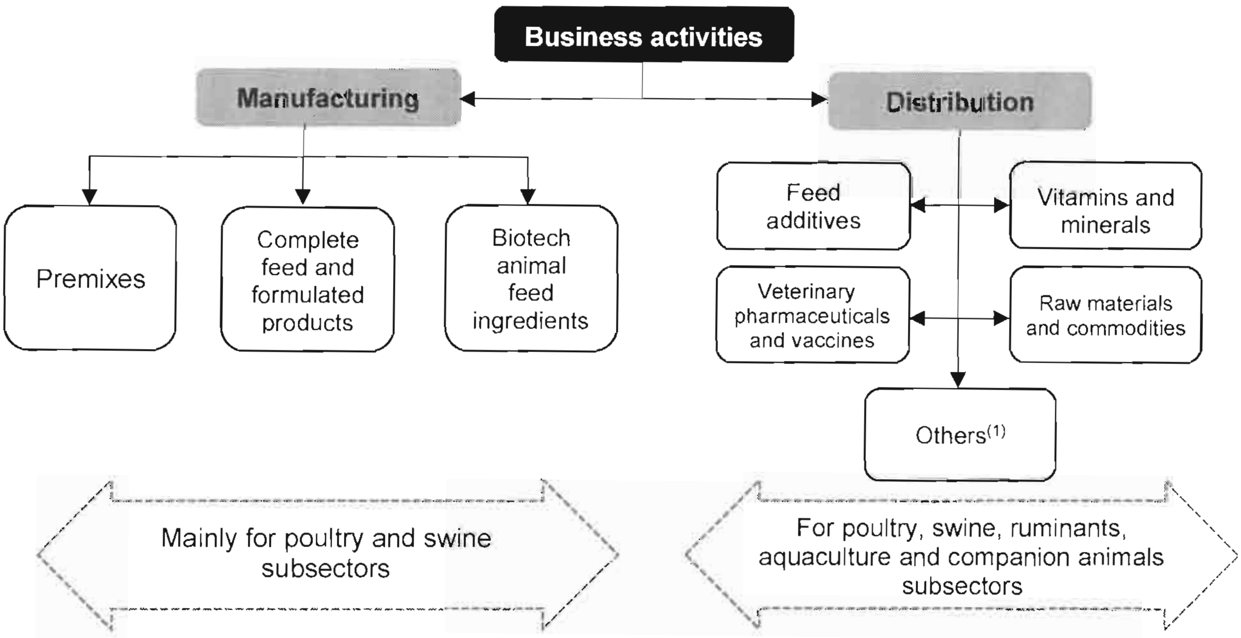
This discussion and analysis contain data derived from our Group's audited financial statements as well as forward-looking statements which reflect our current views with respect to future events. Our actual results may, however, differ significantly from those anticipated in the forward-looking statements as a result of numerous factors, including the risk factors as set out in Section 8 of this Prospectus.

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to note 2 of the Accountants' Report included in Section 12 of this Prospectus.

11.3.1 Overview of our business operations

We are principally involved in the manufacturing and distribution of animal health and nutrition products. Our principal business activities can be categorised into two (2) segments namely, manufacturing of premixes, complete feed, formulated products and biotech animal feed ingredients as well as distribution of feed additives, vitamins, minerals, veterinary pharmaceuticals, veterinary vaccines, farm equipment, livestock reproduction products and companion animal products. We also distribute raw materials and commodities such as cereals and grains used in producing animal feed.

A summary of our principal business activities is depicted in the diagram below:



Note:

(1) Other distribution products include farm equipment, livestock reproduction products and companion animal products.

Please refer to Section 6 of this Prospectus for further information on our Group's business overview.

11.3.2 Significant factors affecting our financial condition and results of operations

Our financial condition and results of operations have been and are expected to be affected by, among others, the following factors:

(i) Economic conditions in Malaysia

The majority of our revenue is derived from the Malaysian market, which accounted for approximately 90.47%, 89.09%, 91.31% and 89.77% of our Group's total revenue for the FYEs 31 December 2017, 2018, 2019 and 2020 respectively. As a result, our business depends on, and will continue to depend on the Malaysian consumer spending and the general state of the Malaysian economy. Any adverse change in the economic conditions of Malaysia including any unfavourable change in inflation rates, interest rates and foreign exchange rates, expropriation, adverse changes in political leadership and unfavourable change in government policies and regulations could have an adverse impact on our financial condition and results of operations.

(ii) Dependency on the livestock industry

As we are principally involved in the manufacturing and distribution of animal health and nutrition products, our business operations are highly dependent on the performance of the livestock industry, which in turn is affected and will continue to be affected by, among others, the following:

(a) ***the growth in worldwide population***, which has increased and will continue to increase the demand for food, including those that are rich in protein, vitamins and other nutritional contents found in livestock products;

(b) ***change in consumers' dietary preferences and habits***, such as the preference for meat substitutes or plant-based food products that are able to provide similar nutritional contents as consumers seek for non-meat alternatives. Furthermore, the increase in awareness of environmental sustainability including calls for reduction of greenhouse emission from livestock farms, may continue to drive the demand for meat substitutes and plant-based food products; and

(c) ***outbreak of animal diseases or any other similar epidemic,*** which reduces livestock population as such disease outbreak is usually controlled and contained through culling of infected livestock to minimise the spread of diseases. Such disease outbreak could also negatively alter consumer perceptions towards consumption of livestock products.

(iii) Competitive environment

The animal health and nutrition market in Malaysia is competitive and fragmented. It comprises numerous domestic product manufacturers, distributors and subsidiaries of international product manufacturers who collectively offer a wide variety of animal health and nutrition products. According to the IMR, there are 79 market players in the local animal health and nutrition market based on the members of the Malaysian Animal Health and Nutrition Industries Association as at LPD. Many of these players have already established their own reputation with a long track record in the industry, and are able to compete based on product quality, branding and competitive prices. As such, we face stiff competition among local and international animal health and nutrition providers, and our financial condition and results of operations would depend on our ability to continue competing effectively against our competitors.

(iv) Availability and volatility of prices of our raw materials and distribution products

Raw materials used for the production of our manufactured products and material costs for our distribution segment are the main components of our cost of sales, representing more than 90% of our cost of sales for the financial years under review. As such, our profitability is significantly dependent on and will continue to depend on the availability of raw materials and distribution products as well as the prices of these goods. The prices of our raw materials and the products that we distribute have been and are expected to be affected by, among others, their respective market demand and supply.

For instance, in October 2017, the global supply of vitamins A and E, which are two (2) essential nutrients for animals and the main ingredients used in the production of our premixes, was severely interrupted as a result of a fire accident which occurred at the production facilities of BASF SE from Germany, an international major supplier of vitamins. This resulted in a global shortage of vitamins which saw a temporary surge in global prices of vitamins. Prices for vitamin A which ranged between approximately USD50.00 per kg to USD55.00 per kg in September 2017 increased to approximately USD450.00 to USD500.00 per kg in January 2018, representing an increase of approximately 800.00% to 809.09%. Prices for vitamin E, on the other hand, which ranged between approximately USD6.00 per kg to USD6.50 per kg in September 2017 increased to approximately USD20.00 to USD25.00 per kg in January 2018, representing an increase of approximately 233.33% to 284.62%. The temporary surge in global prices of vitamins had affected our GP for the FYE 31 December 2018 as explained in Section 11.3.3(iii) of this Prospectus.

(v) Fluctuation in shipping and freight rates

We source our raw materials and distribution products from various suppliers located overseas and therefore we rely heavily on marine and air transportation to deliver these supplies to us. As such, our profitability is affected by and will continue to be affected by any material fluctuation in shipping and freight rates due to, among others, shipping and freight disruptions.

As part of efforts to contain the spread of COVID-19, governments of many countries imposed lockdowns and tighter border control which led to suspension of economic activities around the globe which in turn, disrupted global production and consumption and resulted in reduced demand for shipping and freight activities. This led to, among others, carriers reducing their freight capacities.

As economic activities slowly resumed to normal in the second half of 2020, shipping and freight rates witnessed a slight surge in prices due to a temporary mismatch between supply capacity and increasing demand for shipping and freight services. While our Group has yet to experience any major shipping and freight disruption or any major increase in shipping and freight rates, there can be no assurance that the COVID-19 pandemic can be contained in the near term and not worsen in the future and consequently lead to higher shipping and freight rates. In this regard, our financial condition and results of operations would depend on our ability to pass on any of such increase in inbound expenses and transportation costs to our customers by raising selling prices.

(vi) **Impact of foreign exchange**, which is further explained in Section 11.3.4(i) of this Prospectus.

11.3.3 Results of operations

The components of our Group's statements of profit or loss and other comprehensive income as well as the analysis of the results of operations of our Group for the financial years under review are as follows:

(i) Revenue

We derive more than 60% of our Group's total revenue for the financial years under review from the sale of animal feed and nutrition products from both our manufacturing and distribution business segments.

Our manufactured animal feed and nutrition products include premixes, complete feed, formulated products and biotech animal feed ingredients which are catered mainly for the poultry and swine subsectors, and our premixes span across different growth stages of such livestock. We market our own brand of premixes, complete feed, formulated products and biotech animal feed ingredients under the 'Yenmix®', 'Yenher®', 'YenSoy®' and 'YenPalm RH®' brand names. We also distribute animal feed and nutrition products for the livestock industry sourced from third parties which include feed additives (such as amino acid), vitamins and minerals.

In addition to the sale of animal feed and nutrition products, we also distribute animal health products (i.e. veterinary pharmaceuticals and vaccines) as well as raw materials and commodities that are used to produce animal feed. To complement our range of product offering, we also distribute other associated products that are used in the livestock industry such as farm equipment, artificial insemination equipment, breeding stock and companion animal products. Our distribution products are mainly sourced from third party international suppliers located in various countries such as Spain, Germany, Taiwan, Belgium, France, Denmark, the Netherlands, India, the PRC and the United States.

11. FINANCIAL INFORMATION *(Cont'd)*

The table below sets out our revenue by business segments and product categories for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Manufacturing								
▪ Premixes	61,784	34.83	66,924	36.95	73,413	41.00	75,846	37.43
▪ Complete feed and formulated products	19,178	10.81	18,208	10.05	22,265	12.43	31,663	15.63
▪ Biotech animal feed ingredients	-	-	163	0.09	1,199	0.67	3,593	1.77
▪ Others[1]	2,160	1.22	1,479	0.82	1,414	0.79	1,842	0.91
	83,122	46.86	86,774	47.91	98,291	54.89	112,944	55.74
Distribution								
▪ Feed additives and other animal nutrition products[2]	26,583	14.99	33,370	18.43	24,905	13.91	33,028	16.30
▪ Veterinary pharmaceuticals and vaccines	23,921	13.49	22,583	12.47	20,795	11.61	18,256	9.01
▪ Raw materials and commodities	40,434	22.79	33,296	18.38	31,287	17.48	34,388	16.97
▪ Others[3]	3,320	1.87	5,086	2.81	3,783	2.11	4,019	1.98
	94,258	53.14	94,335	52.09	80,770	45.11	89,691	44.26
Total	**177,380**	**100.00**	**181,109**	**100.00**	**179,061**	**100.00**	**202,635**	**100.00**

Notes:

(1) This relates to the design, assembly and installation of farm equipment at our customers' farms in accordance with their requirements.

(2) These include vitamins and minerals.

(3) Other distribution products include farm equipment, livestock reproduction products and companion animal products.

Revenue generated from our manufacturing activities have gradually surpassed those from our distribution activities for the financial years under review, growing from approximately RM83.12 million or 46.86% of our Group's revenue for the FYE 31 December 2017 to approximately RM112.94 million or 55.74% of our Group's revenue for the FYE 31 December 2020. The growth in the manufacturing segment was a result of our Group's ongoing focus and business strategy to further promote our own in-house manufactured products. In line with this, we have prioritised the use of our feed additives, vitamins, minerals, raw materials and commodities for the production of our own in-house manufactured premixes, complete feed, formulated products and biotech animal feed ingredients instead of for distribution. As a result, the revenue generated from our distribution segment have decreased from approximately RM94.26 million or 53.14% of our Group's revenue for the FYE 31 December 2017 to approximately RM89.69 million or 44.26% of our Group's revenue for the FYE 31 December 2020.

Notwithstanding our Group's focus on promoting our own in-house manufactured products, our distribution segment will continue to play an important role in our business as it allows us to cross-sell products which complement our manufactured products. This is also in line with our objective of becoming a one-stop solution provider to our customers by offering them a wide range of animal health and nutrition products for their livestock.

For the financial years under review, our Group's revenue were substantially derived from the Malaysian market, as detailed below:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Local	160,470	90.47	161,349	89.09	163,505	91.31	181,911	89.77
Overseas								
▪ Indonesia	8,664	4.88	7,699	4.25	7,538	4.21	8,660	4.28
▪ Brunei	6,877	3.88	3,448	1.90	4,263	2.38	6,996	3.45
▪ Hong Kong	995	0.56	7,349	4.06	3,184	1.78	1,708	0.84
▪ Belgium	-	-	362	0.20	-	-	1,226	0.61
▪ Others[1]	374	0.21	902	0.50	571	0.32	2,134	1.05
Total	**177,380**	**100.00**	**181,109**	**100.00**	**179,061**	**100.00**	**202,635**	**100.00**

Note:

(1) Others include Pakistan, South Korea, Nigeria, Thailand, Vietnam, Singapore and Taiwan.

11. FINANCIAL INFORMATION *(Cont'd)*

While our revenue is predominantly generated through Yenher Agro which has a longer operating history, we had in 2016, established Yenher Biotech to venture into the manufacturing of animal feed ingredients with the use of biotechnology, as well as to conduct R&D activities. In 2018, Yenher Biotech successfully launched its first biotech animal feed ingredients under the 'YenSoy®' and 'YenPalm RH®' brand names.

The revenue generated by our subsidiaries for the financial years under review are as follows:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Yenher Agro	177,380	100.00	180,946	99.91	177,862	99.33	199,119	98.26
Yenher Biotech	-	-	183	0.10	1,359	0.76	4,083	2.02
	177,380	**100.00**	**181,129**	**100.01**	**179,221**	**100.09**	**203,202**	**100.28**
Less: consolidation adjustments*	-	-	(20)	(0.01)	(160)	(0.09)	(567)	(0.28)
Total	**177,380**	**100.00**	**181,109**	**100.00**	**179,061**	**100.00**	**202,635**	**100.00**

Note:

* Being elimination of inter-company transactions.

(The rest of this page has been intentionally left blank)

FYE 31 December 2018

Our Group recorded higher revenue of approximately RM181.11 million for the FYE 31 December 2018, representing an increase of approximately RM3.73 million or 2.10% as compared to the revenue of our Group of approximately RM177.38 million for the FYE 31 December 2017. For the said financial year, our revenue was mainly generated from the sale of premixes and third party animal nutrition products such as feed additives and vitamins as well as the sale of raw materials and commodities used to produce animal feed.

The increase in our revenue was mainly due to the following:

(a) increase in the sale of premixes manufactured by our Group by approximately RM5.14 million, which were marketed under our in-house brand, 'Yenmix®'. The increase was mainly due to our Group's ongoing focus and business strategy to further promote our own in-house manufactured products. We also increased the average selling price of our premixes slightly as a result of the increase in cost of vitamins, one of the main ingredients used in the production of our premixes;

(b) commercialisation and sale of our biotech animal feed ingredients in July 2018 under our own brand names 'YenSoy®' and 'YenPalm RH®', which were produced through the fermentation of soybean meal and palm kernel meal respectively. For the said financial year, we recorded net sales of approximately RM0.16 million for our biotech animal feed ingredients (after elimination of inter-company transactions);

(c) increase in revenue from the sale of feed additives and other third party animal nutrition products by approximately RM6.79 million mainly due to the following:

- increase in revenue from the sale of feed additives amounting to approximately RM4.22 million due to increase in sales volume by approximately 276 metric tonnes as we were able to offer the feed additives to our customers at a more competitive price as compared to our competitors; and

- increase in revenue from the sale of vitamins amounting to approximately RM2.90 million mainly due to the temporary surge in selling prices of vitamins during the first quarter of the financial year as a result of the global shortage of vitamins caused by a fire accident at the production facilities of BASF SE from Germany, an international major supplier of vitamins.

The increase in revenue was, however, offset by the decrease in the sale of commodities by approximately RM9.00 million as we did not distribute certain commodities such as maize and corn as the pricing of these commodities from our suppliers were higher than usual and would have affected our overall GP margins.

For the FYE 31 December 2018, our revenue was predominantly generated in Malaysia which accounted for approximately 89.09% of our Group's total revenue. The growth in overseas revenue by approximately RM2.85 million or 16.85% to approximately RM19.76 million for the FYE 31 December 2018 (FYE 2017: RM16.91 million) was mainly due to the increase in selling prices of vitamins to our overseas customers as a result of the temporary surge in the global prices of vitamins as mentioned earlier.

FYE 31 December 2019

For the FYE 31 December 2019, we recorded a slight decrease in our revenue by approximately RM2.05 million or 1.13% to approximately RM179.06 million (FYE 2018: RM181.11 million). The decrease in our revenue was mainly attributable to lower revenue from our distribution segment as a result of the following:

(a) lower selling prices of feed additives during the said financial year due to the oversupply of feed additives globally;

(b) normalisation of the selling prices of vitamins after the one-off surge in 2018 as supply and demand of such products stabilised during the financial year;

(c) lower supply of veterinary vaccines by one of our suppliers to us for distribution, as the said supplier had started to distribute these veterinary vaccines directly to customers in the poultry subsector during the first quarter of the financial year. This led to a corresponding decline in our sale of veterinary vaccines; and

(d) lower sale of raw materials and commodities as discussed below.

The above factors led to a decline in our revenue from the sale of feed additives, vitamins, veterinary vaccines as well as raw materials and commodities by approximately RM6.45 million, RM2.70 million, RM1.34 million and RM2.01 million respectively, for the said financial year.

Notwithstanding the above, the decrease was offset by an increase in revenue generated from the sale of our in-house manufactured premixes as well as complete feed of approximately RM6.49 million and RM4.69 million respectively. This was in line with our Group's focus and business strategy to further promote our in-house manufactured products as mentioned earlier. Backed by reliable product quality and effective cross-selling, the total revenue generated from our manufacturing segment increased by approximately RM11.52 million or 13.27% to approximately RM98.29 million for the FYE 31 December 2019 (FYE 2018: RM86.77 million). However, given the higher consumption of raw materials (including commodities) used in the production of our manufactured products, we recorded lower revenue from the sale of raw materials and commodities by approximately RM2.01 million for the said financial year.

We also recorded an improvement in the sale of our biotech animal feed ingredients by approximately RM1.04 million or 635.58% to approximately RM1.20 million for the FYE 31 December 2019 (FYE 2018: RM0.16 million). However, the sales volume of our biotech animal feed ingredients remained relatively small as compared to our other manufactured products as these products were only commercialised in July 2018 and were subject to further improvement through continuous R&D and continuous marketing efforts to introduce them to our customers.

For the FYE 31 December 2019, our revenue continued to be predominantly generated in Malaysia which accounted for approximately 91.31% of our Group's total revenue for the said financial year. The decrease in overseas revenue by approximately RM4.20 million or 21.28% to approximately RM15.56 million for the FYE 31 December 2019 (FYE 2018: RM19.76 million) was mainly due to the decline in selling prices of feed additives and vitamins to our overseas customers.

FYE 31 December 2020

For the FYE 31 December 2020, our Group recorded higher revenue of approximately RM202.64 million, representing an increase of approximately RM23.57 million or 13.17% as compared to the revenue recorded by our Group of approximately RM179.06 million for the FYE 31 December 2019. For the said financial year, our revenue was mainly generated from the sale of animal feed and nutrition products as well as the sale of raw materials and commodities that are used to produce animal feed.

The increase in our revenue for the said financial year was attributable to the following:

(a) increase in the sale of premixes as well as complete feed and formulated products manufactured by our Group by approximately RM2.43 million and RM9.40 million respectively, due to a surge in orders from our customers as we encouraged our customers to increase their inventory levels in order to minimise possible disruptions to their supplies amid the COVID-19 outbreak;

(b) increase in the sale of our biotech animal feed ingredients by approximately RM2.39 million due to the following:

- an increase in the average selling prices of such products by approximately 25% from April 2020 onwards to cover the increase in our production overhead costs, in particular packaging costs as we used better packaging materials to preserve the quality of our biotech animal feed ingredients; and

- an increase in sales volume as our continuous marketing efforts to introduce our biotech animal feed ingredients to customers located in Perak and East Malaysia enabled us to expand our customer base for such products;

(c) increase in the sale of third party animal nutrition products by approximately RM8.12 million, as our customers were also increasing their inventory level for such products during the COVID-19 outbreak; and

(d) increase in the sale of commodities by approximately RM3.18 million mainly due to the increase in sales volume for maize and corn gluten meals. Coupled with the increase in demand from our customers to increase their inventory levels during the COVID-19 outbreak, the higher sale of commodities was also attributed to our ability to sell these commodities to our customers at competitive prices since we purchased these commodities in larger quantities to prevent disruptions to our supply chain arising from COVID-19 outbreak and hence benefited from economies of scale (i.e. lower cost per unit).

Notwithstanding the above, the increase in revenue was slightly offset by the lower revenue generated from the sales of third party veterinary pharmaceutical and vaccine products by approximately RM2.54 million. This was mainly due to lower demand from our customers for veterinary pharmaceutical products and lower supply of veterinary vaccines by one of our suppliers to us for distribution since FYE 31 December 2019.

For the FYE 31 December 2020, our revenue continued to be predominantly generated in Malaysia which accounted for approximately 89.77% of our Group's total revenue for the said financial year. The increase in overseas revenue by approximately RM5.16 million or 33.22% to approximately RM20.72 million for the FYE 31 December 2020 (FYE 2019: RM15.56 million) was mainly due to the increase in sale of feed additives and maize to our overseas customers.

(The rest of this page has been intentionally left blank)

(ii) Cost of sales

Our cost of sales comprised the following:

Type of costs		Description
Raw material costs for manufacturing	:	For our manufacturing segment, raw materials are the main component of our cost of sales representing close to 90% of the total cost of sales for our manufacturing activities. The raw materials that are used for the production of premixes mainly include vitamins, minerals, enzymes, amino acids, antioxidants, anti-fungus, probiotics and prebiotics. Raw materials that are used for the production of our other manufactured products include commodities (i.e. soybeans and palm kernel meals), enzymes, antioxidants and acidifiers.
Material costs for distribution	:	Material costs are the costs of our distribution products, representing more than 98% of the total cost of goods sold for our distribution segment. Our distribution products mainly include feed additives, veterinary pharmaceuticals and vaccines as well as raw materials and commodities that are used to produce animal feed which we sold to our customers.
Inbound expenses	:	Inbound expenses mainly consist of haulage costs, freight and forwarding charges, shipping and other transportation costs; storage and handling charges incurred for the delivery of our raw materials and distribution products to our business premises; and permit fees paid to the relevant authorities for the importation of certain raw materials and distribution products.
Direct labour costs	:	These are salaries, wages, allowances, bonuses and other related costs and benefits of our workers and employees who work in our production line.
Production overheads	:	Our production overheads mainly consist of depreciation of factory building and warehouses, depreciation of machinery and equipment, packaging costs, utilities costs, upkeep and maintenance costs of machinery, warehousing costs as well as indirect staff costs of employees who support the production activities such as those who carry out supervisory roles and/or are involved in quality assurance, product development and store-keeping.

The table below sets out our cost of sales by business segments and cost components for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Manufacturing								
▪ Raw material costs	49,920	37.80	54,103	39.60	62,261	46.25	69,943	46.56
▪ Inbound expenses	704	0.53	753	0.55	1,077	0.80	1,410	0.94
▪ Direct labour costs	2,370	1.80	2,402	1.76	2,895	2.15	3,281	2.19
▪ Production overheads	2,670	2.02	3,082	2.25	3,781	2.81	3,639	2.42
	55,664	42.15	60,340	44.16	70,014	52.01	78,273	52.11
Distribution								
▪ Material costs	75,266	57.00	75,063	54.94	64,166	47.67	71,042	47.29
▪ Inbound expenses	1,126	0.85	1,230	0.90	432	0.32	898	0.60
	76,392	57.85	76,293	55.84	64,598	47.99	71,940	47.89
Total	**132,056**	**100.00**	**136,633**	**100.00**	**134,612**	**100.00**	**150,213**	**100.00**

(The rest of this page has been intentionally left blank)

The table below sets out our cost of sales by business segments and product categories for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Manufacturing								
▪ Premixes	39,045	29.57	45,146	33.04	49,869	37.05	50,089	33.35
▪ Complete feed and formulated products	14,853	11.25	13,842	10.13	17,973	13.35	24,152	16.08
▪ Biotech animal feed ingredients	-	-	200	0.15	1,024	0.76	2,613	1.74
▪ Others(1)	1,766	1.33	1,152	0.84	1,148	0.85	1,419	0.94
	55,664	42.15	60,340	44.16	70,014	52.01	78,273	52.11
Distribution								
▪ Feed additives and other animal nutrition products(2)	21,244	16.09	27,315	19.99	19,952	14.82	26,846	17.87
▪ Veterinary pharmaceuticals and vaccines	16,822	12.74	15,523	11.36	14,394	10.69	11,915	7.93
▪ Raw materials and commodities	36,056	27.30	29,635	21.69	27,897	20.72	30,636	20.40
▪ Others(3)	2,270	1.72	3,820	2.80	2,355	1.76	2,543	1.69
	76,392	57.85	76,293	55.84	64,598	47.99	71,940	47.89
Total	**132,056**	**100.00**	**136,633**	**100.00**	**134,612**	**100.00**	**150,213**	**100.00**

Notes:

(1) This relates to the design, assembly and installation of farm equipment at our customers' farms in accordance with their requirements.

(2) These include vitamins and minerals.

(3) Other distribution products include farm equipment, livestock reproduction products and companion animal products.

11. FINANCIAL INFORMATION *(Cont'd)*

The table below sets out our cost of sales by subsidiaries for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Yenher Agro	132,056	100.00	136,433	99.85	133,588	99.24	147,962	98.50
Yenher Biotech	-	-	220	0.16	1,184	0.88	2,811	1.87
	132,056	100.00	136,653	100.01	134,772	100.12	150,773	100.37
Less: consolidation adjustments*	-	-	(20)	(0.01)	(160)	(0.12)	(560)	(0.37)
Total	**132,056**	**100.00**	**136,633**	**100.00**	**134,612**	**100.00**	**150,213**	**100.00**

Note:

* Being elimination of inter-company transactions.

(The rest of this page has been intentionally left blank)

FYE 31 December 2018

For the FYE 31 December 2018, our cost of sales increased by approximately RM4.58 million or 3.47% to approximately RM136.63 million (FYE 2017: RM132.06 million). The increase was contributed by the increase in cost of sales from our manufacturing segment by approximately RM4.68 million which was in tandem with the increase in the revenue generated from our manufacturing segment for the said financial year.

The increase in cost of sales of our manufacturing segment was mainly attributed to the following cost components:

(a) increase in our raw material costs by approximately RM4.18 million as a result of higher consumption of raw materials for our production in order to cope with the increased sales orders for our in-house manufactured premixes, 'Yenmix®'. The higher raw material costs was also attributable to the higher cost of vitamins used in the production of our premixes due to the surge in the global selling prices of vitamins as a result of the global shortage of vitamins caused by a fire accident at the production facilities of BASF SE from Germany, an international major supplier of vitamins; and

(b) increase in our production overhead costs by approximately RM0.41 million mainly due to higher utilities costs incurred as a result of longer production hours and higher warehousing costs as a result of higher rental charged for a warehouse which our Group rents.

However, the increase in our cost of sales for manufacturing segment for the said financial year was partially offset by the decrease in cost of goods sold for our distribution segment, mainly due to the lower sales level of commodities as we did not distribute certain commodities as the pricing from our suppliers were not attractive. Notwithstanding this, the cost of goods sold for our traded feed additives and other animal nutrition products increased by approximately RM6.07 million for the said financial year in tandem with the increase in our revenue generated from the distribution of such animal nutrition products.

FYE 31 December 2019

For the FYE 31 December 2019, our cost of sales decreased by approximately RM2.02 million or 1.48% to approximately RM134.61 million (FYE 2018: RM136.63 million) in tandem with the decrease in our revenue for the same financial year.

The decrease in our cost of sales was mainly attributable to the reduction in cost of goods sold for our distribution segment by approximately RM11.70 million which was in line with the lower revenue generated from the sale of feed additives, vitamins, veterinary vaccines as well as raw materials and commodities.

However, the decrease in cost of sales for our distribution segment was partially offset by the increase in cost of sales for our manufacturing segment amounting to approximately RM9.67 million. This was in line with our Group's continued focus in promoting our own in-house manufactured products which enabled us to achieve higher sales of our premixes marketed under the 'Yenmix®' brand name and our complete feed marketed under the 'Yenher®' brand name. This led to the increase in cost of sales for premixes and complete feed by approximately RM4.72 million and RM4.18 million respectively, as more raw materials were consumed and higher inbound expenses, direct labour costs and production overhead costs were incurred for the higher level of production of such products.

Similarly, the cost of sales for the production of our biotech animal feed ingredients also increased by approximately 412.00% in tandem with the increase in revenue for these products by approximately 635.58%. The cost of sales for the production of our biotech animal feed ingredients increased at a lower rate as approximately 35% of the cost of sales for such products comprised fixed production overhead cost.

FYE 31 December 2020

For the FYE 31 December 2020, our Group recorded higher cost of sales of approximately RM150.21 million, representing an increase of approximately RM15.60 million or 11.59% as compared to the cost of sales recorded by our Group of approximately RM134.61 million for the FYE 31 December 2019. The increase in our cost of sales for the said financial year was in tandem with the increase in our revenue for the same financial year.

The increase in our cost of sales was contributed by the higher cost of sales for both our manufacturing and distribution segments which increased by approximately RM8.26 million and RM7.34 million respectively, for the said financial year. The increase in cost of sales for our manufacturing segment was in tandem with the increase in the sale of our premixes, complete feed, formulated products and biotech animal feed ingredients as there was a surge in sales orders for our premixes, complete feed and formulated products as our customers began stocking up on supplies amid the COVID-19 outbreak as well as an increase in sales volume for our biotech animal feed ingredients as a result of our continuous marketing efforts to introduce our biotech animal feed ingredients to our customers. As a result of the increase in production level, raw materials consumed for our production activities increased by approximately RM7.68 million to approximately RM69.94 million for the said financial year as compared to approximately RM62.26 million for the FYE 31 December 2019. Our inbound expenses, direct labour costs and production overheads had also increased by approximately RM0.58 million in total to approximately RM8.33 million for the said financial year as compared to approximately RM7.75 million for the preceding year.

Similarly, the increase in cost of sales for our distribution segment was also in line with the increase in the sale of third party animal nutrition products and commodities. For the said financial year, the cost of sales of third party animal nutrition products and commodities increased by approximately RM6.89 million and RM3.12 million respectively, as compared to the preceding financial year.

Notwithstanding the above, the increase in costs of sales was partially offset by the decrease in cost of goods sold for third party veterinary pharmaceutical and vaccine products by approximately RM2.48 million, which corresponded with lower sales of such products during the same financial year.

(iii) GP and GP margin

GP

The table below sets out our GP by business segments and product categories for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Manufacturing								
▪ Premixes	22,739	50.17	21,778	48.96	23,544	52.97	25,757	49.13
▪ Complete feed and formulated products	4,325	9.54	4,366	9.82	4,292	9.66	7,511	14.33
▪ Biotech animal feed ingredients	-	-	(37)	(0.08)	175	0.39	980	1.87
▪ Others[(1)]	394	0.87	327	0.73	266	0.60	423	0.81
	27,458	60.58	26,434	59.43	28,277	63.62	34,671	66.14
Distribution								
▪ Feed additives and other animal nutrition products[(2)]	5,339	11.78	6,055	13.61	4,953	11.14	6,182	11.79
▪ Veterinary pharmaceuticals and vaccines	7,099	15.66	7,060	15.88	6,401	14.40	6,341	12.10
▪ Raw materials and commodities	4,378	9.66	3,661	8.23	3,390	7.63	3,752	7.16
▪ Others[(3)]	1,050	2.32	1,266	2.85	1,428	3.21	1,476	2.81
	17,866	39.42	18,042	40.57	16,172	36.38	17,751	33.86
Total	**45,324**	**100.00**	**44,476**	**100.00**	**44,449**	**100.00**	**52,422**	**100.00**

Notes:

(1) This relates to the design, assembly and installation of farm equipment at our customers' farms in accordance with their requirements.

(2) These include vitamins and minerals.

(3) Other distribution products include farm equipment, livestock reproduction products and companion animal products.

11. FINANCIAL INFORMATION *(Cont'd)*

The table below sets out our GP by subsidiaries for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**
Yenher Agro	45,324	100.00	44,513	100.08	44,274	99.61	51,157	97.59
Yenher Biotech	-	-	(37)	(0.08)	175	0.39	1,272	2.42
	45,324	100.00	44,476	100.00	44,449	100.00	52,429	100.01
Less: consolidation adjustments*	-	-	-	-	-	-	(7)	(0.01)
Total	**45,324**	**100.00**	**44,476**	**100.00**	**44,449**	**100.00**	**52,422**	**100.00**

Note:

* Being elimination of inter-company transactions.

(The rest of this page has been intentionally left blank)

GP margin

The table below sets out our GP margin by business segments and product categories for the financial years under review:

	FYE 31 December			
	2017	2018	2019	2020
	(%)	(%)	(%)	(%)
Manufacturing				
▪ Premixes	36.80	32.54	32.07	33.96
▪ Complete feed and formulated products	22.55	23.98	19.28	23.72
▪ Biotech animal feed ingredients	-	(22.70)	14.60	27.28
▪ Others[(1)]	18.24	22.11	18.81	22.96
Overall GP margin for manufacturing segment	***33.03***	***30.46***	***28.77***	***30.70***
Distribution				
▪ Feed additives and other animal nutrition products[(2)]	20.08	18.15	19.89	18.72
▪ Veterinary pharmaceuticals and vaccines	29.68	31.26	30.78	34.73
▪ Raw materials and commodities	10.83	11.00	10.84	10.91
▪ Others[(3)]	31.63	24.89	37.75	36.73
Overall GP margin for distribution segment	***18.95***	***19.13***	***20.02***	***19.79***
Group GP margin	**25.55**	**24.56**	**24.82**	**25.87**

Notes:

(1) This relates to the design, assembly and installation of farm equipment at our customers' farms in accordance with their requirements.

(2) These include vitamins and minerals.

(3) Other distribution products include farm equipment, livestock reproduction products and companion animal products.

The table below sets out our GP margin by subsidiaries for the financial years under review:

	FYE 31 December			
	2017	2018	2019	2020
	(%)	(%)	(%)	(%)
Yenher Agro	25.55	24.60	24.89	25.69
Yenher Biotech	-	(20.22)	12.88	31.15
Group GP margin	**25.55**	**24.56**	**24.82**	**25.87**

FYE 31 December 2018

Our GP decreased by approximately RM0.85 million or 1.87% to approximately RM44.48 million for the FYE 31 December 2018 as compared to our GP of approximately RM45.32 million for the FYE 31 December 2017. For the said financial year, we derived approximately RM26.43 million or 59.43% of our GP from our manufacturing segment while our distribution segment contributed approximately RM18.04 million or 40.57% of our GP.

Despite the increase in our revenue by approximately RM3.73 million or 2.10% for the said financial year, our GP decreased marginally mainly due to the increase in cost of vitamins, one of the main ingredients used in the production of our premixes as the global supply of vitamins was severely interrupted due to the fire accident at the production facilities of BASF SE from Germany, an international major supplier of vitamins.

In addition, for the FYE 31 December 2018, our subsidiary, Yenher Biotech also incurred a gross loss and gross loss margin of approximately RM0.04 million and 20.22% respectively, as a result of higher costs incurred for laboratory testing before the commercialisation of our new biotech animal feed ingredients while the sales volume for these products remained minimal for Yenher Biotech to even breakeven as these products were only commercialised in July 2018.

As a result of the above, our overall GP margin for the FYE 31 December 2018 decreased by approximately 0.99% to approximately 24.56% (FYE 2017: 25.55%). The GP margin for our manufacturing segment decreased by approximately 2.57% to approximately 30.46% (FYE 2017: 33.03%) as we decided not to fully pass on the increase in raw material costs (i.e. vitamins costs) to our customers since the surge in the price of vitamins was only short term due to the one-off incident as mentioned above and we intended to maintain competitive selling prices.

However, we recorded a slightly higher GP margin of approximately 19.13% (FYE 2017: 18.95%) for our distribution segment. This was mainly due to an increase in GP margin for the sale of veterinary pharmaceuticals and vaccines by approximately 1.58% as we distributed more veterinary pharmaceuticals and vaccines with higher GP margins during the said financial year.

FYE 31 December 2019

Despite the decrease in our revenue by approximately RM2.05 million or 1.13% for the FYE 31 December 2019, our GP remained relatively constant at approximately RM44.45 million but represents a slight decrease of approximately RM0.03 million or 0.06% from our GP of approximately RM44.48 million in the previous year. This was mainly due to the increase in the sale of our manufactured premixes which we have been able to garner a relatively higher GP margin of more than 30% as compared to our other manufactured products as well as the overall increase in GP margin for our distribution segment.

Our subsidiary, Yenher Biotech also recorded a gross profit of approximately RM0.18 million (FYE 2018: gross loss of approximately RM0.04 million) mainly due to the higher sales volume for our biotech animal feed ingredients, 'YenSoy®' and 'YenPalm RH®' which allowed us to cover our production overhead costs such as laboratory and R&D costs.

However, our overall GP margin for our manufacturing segment for the FYE 31 December 2019 declined slightly to approximately 28.77% (FYE 2018: 30.46%) mainly due to the increase in sales level for our complete feed for the poultry subsector which had a lower average GP margin of approximately 13% as compared to our complete feed for the swine subsector which had an average GP margin of approximately 25%. Sales for complete feed for the poultry subsector increased by approximately RM4.13 million to approximately RM5.26 million, representing approximately 2.94% of our overall revenue for the financial year (FYE 2018: RM1.13 million or 0.62% of our overall revenue).

On the other hand, for our distribution segment, we recorded a higher GP margin of approximately 20.02% for the FYE 31 December 2019 (FYE 2018: 19.13%). This was mainly due to the decrease in the sale of our lower margin products from our distribution segment such as feeds additives as well as raw materials and commodities during the financial year. On the other hand, the GP margin for our other distribution products increased by approximately 12.86% to 37.75% for the same financial year (FYE 2018: 24.89%) and this was attributed to the change in sales composition, where more products with higher GP margins such as livestock reproduction products were sold during the said financial year.

As a result of the above, our overall GP margin for the FYE 31 December 2019 increased by approximately 0.26% to 24.82% (FYE 2018: 24.56%).

FYE 31 December 2020

Our GP increased by approximately RM7.97 million or 17.94% to approximately RM52.42 million for the FYE 31 December 2020 (FYE 2019: RM44.45 million). For the said financial year, we derived approximately RM34.67 million or 66.14% of our GP from our manufacturing segment while our distribution segment contributed the remaining RM17.75 million or 33.86%.

The increase in our GP for the FYE 31 December 2020 was mainly attributable to our manufacturing segment which recorded an improvement in GP by approximately RM6.39 million. For the financial year, we recorded higher GP margin from the sale of our manufactured premixes, complete feed and formulated products as well as biotech animal feed ingredients of 33.96%, 23.72% and 27.28% respectively (FYE 2019: 32.07%; 19.28%; 14.60%). This was mainly due to lower raw materials cost per unit as we purchased larger quantities of raw materials and commodities for the production of our animal feed and nutrition products in anticipation of possible disruptions in our supply chain as a result of the COVID-19 outbreak, and we benefitted from more competitive prices.

Furthermore, we also increased the average selling prices of our biotech animal feed ingredients by approximately 25% from April 2020 onwards to cover the increase in our production overhead costs, in particular packaging costs as we used better packaging materials to preserve the quality of our biotech animal feed ingredients. As such, our subsidiary, Yenher Biotech recorded a higher GP and GP margin of approximately RM1.27 million and 31.15% respectively, for the FYE 31 December 2020 (FYE 2019: RM0.18 million; 12.88%) which was in line with the higher GP recorded from the sale of our biotech animal feed ingredients, 'YenSoy®' and 'YenPalm RH®'.

We also recorded higher GP of approximately RM17.75 million for our distribution segment for the FYE 31 December 2020 (FYE 2019: RM16.17 million). This was mainly attributed to the higher sales of third party animal nutrition products and commodities by approximately RM8.12 million and RM3.18 million respectively. However, these distribution products generally bear lower GP margins as compared to our other distribution products (such as veterinary pharmaceuticals and vaccines for which we recorded lower revenue, i.e. by approximately RM2.54 million). This led to a slight decline in our GP margin from our distribution segment by approximately 0.23% to 19.79% (FYE 2019: 20.02%).

As a result of the above, our overall GP margin for the FYE 31 December 2020 increased by approximately 1.05% to 25.87% (FYE 2019: 24.82%).

(The rest of this page has been intentionally left blank)

(iv) Other income

The table below sets out the components of our other income for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Gain on foreign exchange	160	9.91	9	0.11	143	6.76	-	-
Net reversal of impairment losses on trade receivables	-	-	80	1.02	1,422	67.20	211	47.10
Gain on disposal of property, plant and equipment	49	3.04	3,823	48.56	50	2.36	-	-
Gain on disposal of investment properties	615	38.10	3,278	41.64	-	-	-	-
Gain on disposal of a subsidiary	-	-	1	0.01	-	-	-	-
Gain on disposal of other investment	2	0.13	-	-	-	-	-	-
Rental income	536	33.21	518	6.58	-	-	-	-
Interest income	11	0.68	76	0.97	489	23.11	201	44.87
Others*	241	14.93	87	1.11	12	0.57	36	8.03
Total	**1,614**	**100.00**	**7,872**	**100.00**	**2,116**	**100.00**	**448**	**100.00**

Note:

* Others include sundry income from harvesting and selling of oil palm fruits from our vacant freehold land as well as freight and forwarding charges to customers.

FYE 31 December 2018

Our other income increased by approximately RM6.26 million or 387.73% to approximately RM7.87 million for the FYE 31 December 2018 (FYE 2017: RM1.61 million). The increase in other income was mainly due to gains from the disposal of our Group's non-operating assets to CMT Properties Sdn Bhd (formerly known as Yenher Properties Sdn Bhd) ("**CMT**") as follows:

(a) gain on disposal of property, plant and equipment amounting to approximately RM3.82 million arising from the sale of a commercial shop lot and eight (8) parcels of freehold lands located in Seberang Perai Selatan, Pulau Pinang as well as a parcel of freehold land located in Seberang Perai Tengah, Pulau Pinang; and

(b) gain on disposal of investment properties amounting to approximately RM3.28 million arising from the sale of a feedmill and poultry farm located in Seberang Perai Selatan, Pulau Pinang and the sale of a residential house located in Seberang Perai Tengah, Pulau Pinang.

For details of the sale of the abovementioned properties, please refer to Sections 9.1.1, 11.4.6(ii) and 13.5(ii) of this Prospectus.

FYE 31 December 2019

We recorded lower other income of approximately RM2.12 million for the FYE 31 December 2019, representing a decrease of approximately RM5.76 million or 73.12% as compared to approximately RM7.87 million for the FYE 31 December 2018. The decrease in other income was mainly due to the absence of the one-off gain of approximately RM7.10 million arising from the disposals of property, plant and equipment and investment properties in the previous year, as well as the decrease in rental income by approximately RM0.52 million following the disposal of our investment properties in 2018.

However, for the FYE 31 December 2019, we recorded a reversal of impairment losses on our trade receivables of approximately RM1.42 million as certain long overdue amounts owed by our customers were recovered during the said financial year. We also received higher interest income of approximately RM0.49 million due to the increase in our short-term deposits with licensed banks.

FYE 31 December 2020

For the FYE 31 December 2020, our other income decreased by approximately RM1.67 million or 78.83% to approximately RM0.45 million (FYE 2019: RM2.12 million).

The decrease was mainly due to lower net reversal of impairment losses on our trade receivables of approximately RM0.21 million (FYE 2019: RM1.42 million) as lesser long overdue amounts owed by our customers were recovered during the said financial year as compared to the preceding financial year. We also received lower interest income of approximately RM0.20 million (FYE 2019: RM0.49 million) as we placed less of our cash balances in short-term deposits with licensed banks in view of the lower interest rates offered by licensed banks during the said financial year.

(v) Selling and distribution costs

The table below sets out the components of our selling and distribution costs for the financial years under review:

	FYE 31 December							
	2017		**2018**		**2019**		**2020**	
	(RM'000)	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**
Staff costs[1]	2,974	39.93	2,888	43.50	2,840	38.74	3,813	48.52
Transportation costs[2]	1,831	24.58	1,538	23.16	1,801	24.56	2,534	32.25
Travelling expenses	656	8.81	705	10.62	763	10.41	449	5.71
Incentives[3]	579	7.77	266	4.01	357	4.87	(80)	(1.02)
Seminar costs	379	5.09	173	2.61	353	4.81	124	1.58
Entertainment expenses	495	6.65	580	8.74	522	7.12	359	4.57
Discount given[4]	320	4.30	303	4.56	289	3.94	315	4.01
Others[5]	214	2.87	186	2.80	407	5.55	344	4.38
Total	**7,448**	**100.00**	**6,639**	**100.00**	**7,332**	**100.00**	**7,858**	**100.00**

Notes:

(1) These are salaries, allowances, bonuses, sales commissions, sales incentives and other staff-related costs and benefits of our sales and marketing staff.

(2) These are transportation costs incurred for delivery of our products to our customers and to our warehouse in East Malaysia, such as freight charges, forwarding costs as well as fumigation and haulage charges.

(3) These are expenses incurred for sales achievement incentive trips (for achieving the revenue targets) organised by us for our sales and marketing staff and customers.

(4) This relates to discounts for selected products given to our customers who paid us within 30 days from the invoice date.

(5) Others include license and permit fees paid to the relevant authorities for shipment of our goods, accommodation costs incurred for our sales and marketing activities as well as upkeep and maintenance costs of motor vehicles.

FYE 31 December 2018

For the FYE 31 December 2018, our selling and distribution costs decreased by approximately RM0.81 million or 10.86% to approximately RM6.64 million (FYE 2017: RM7.45 million) mainly due to the following reasons:

(a) decrease in transportation costs by approximately RM0.29 million due to lower ocean freight costs as a result of the lower overseas sales to Brunei of approximately RM3.45 million (FYE 2017: RM6.88 million);

(b) decrease in expenses incurred for sales achievement incentive trips by approximately RM0.31 million as fewer sales and marketing staff and customers were entitled to such incentive trips and the prices for such travel packages were lower as compared to the preceding year; and

(c) decrease in seminar costs by approximately RM0.21 million as we were able to reduce cost by organising seminars at venues which were more economical.

FYE 31 December 2019

For the FYE 31 December 2019, our selling and distribution costs increased by approximately RM0.69 million or 10.44% to approximately RM7.33 million (FYE 2018: RM6.64 million) mainly due to the following reasons:

(a) increase in transportation costs by approximately RM0.26 million due to higher carriage outwards and ocean freight costs as a result of the higher sales to East Malaysia and Brunei;

(b) increase in seminar costs by approximately RM0.18 million as we organised more seminars during the year to educate farmers on the prevention of virus and at the same time, promote our products; and

(c) recognition of accommodation costs incurred for our sales and marketing activities of approximately RM0.12 million under the selling and distribution costs. For information purpose, such accommodation costs were previously recognised as administrative expenses.

FYE 31 December 2020

For the FYE 31 December 2020, our selling and distribution costs increased by approximately RM0.53 million or 7.17% to approximately RM7.86 million (FYE 2019: RM7.33 million) mainly due to the following reasons:

(a) increase in our staff costs by approximately RM0.97 million mainly as a result of the increase in head count for our sales and marketing team to 26 (FYE 2019: 24) as well as higher bonuses and sales incentives for our sales and marketing team in view of the higher revenue achieved during the financial year as compared to the preceding year; and

(b) increase in transportation costs by approximately RM0.73 million due to higher carriage outwards and ocean freight costs incurred as a result of higher sales to East Malaysia and Brunei for the said financial year.

However, the increase in selling and distribution costs was partially offset by the following:

(a) decrease in travelling expenses by approximately RM0.31 million as our employees were restricted from travelling due to the imposition of MCO by the Malaysian Government which commenced from 18 March 2020 and throughout the financial year to contain the COVID-19 outbreak;

(b) the reversal of an over accrual for sales achievement incentive trips expenses in FYE 31 December 2019 of approximately RM0.08 million and trips for year 2020 were postponed as a result of COVID-19 outbreak; and

(c) decrease in seminar costs by approximately RM0.23 million as we organised most of our seminars online during the various phases of MCO period, which were relatively cheaper.

(The rest of this page has been intentionally left blank)

(vi) Administrative expenses

The table below sets out the components of our administrative expenses for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Staff costs [(1)]	2,003	16.06	2,518	23.47	3,036	25.34	2,127	14.34
Directors' remuneration	4,941	39.62	5,435	50.66	5,759	48.06	8,867	59.78
Depreciation	992	7.96	828	7.72	782	6.53	808	5.45
Professional fees	349	2.80	449	4.18	599	5.00	1,014	6.84
Impairment loss on trade receivables	1,741	13.96	-	-	-	-	-	-
Impairment loss on property, plant and equipment	1,046	8.39	-	-	-	-	-	-
Loss on revaluation of property, plant and equipment	-	-	-	-	527	4.40	-	-
Office supplies and upkeep of office equipment	263	2.11	325	3.03	367	3.06	306	2.06
Postage and courier charges	115	0.92	131	1.22	151	1.26	150	1.01
Security cost	132	1.06	148	1.38	150	1.25	190	1.28
Insurance	64	0.51	75	0.70	61	0.51	142	0.96
Telecommunication expenses	107	0.86	104	0.97	92	0.77	109	0.73
Road tax and insurance	101	0.81	93	0.87	107	0.89	105	0.71
Accommodations[(2)]	131	1.05	141	1.31	-	-	-	-
Foreign exchange loss	104	0.83	98	0.91	24	0.20	413	2.78
Others[(3)]	381	3.06	384	3.58	327	2.73	602	4.06
Total	**12,470**	**100.00**	**10,729**	**100.00**	**11,982**	**100.00**	**14,833**	**100.00**

Notes:

(1) These are salaries, allowances, bonuses and other staff-related costs and benefits of our administrative staff.

(2) These accommodation costs relate to our sales and marketing activities and they have been reclassified to selling and distribution costs since the beginning of financial year 2019.

(3) Others include advertisement costs, bad debts written off, cleaning expenses, license and registration fees paid for the renewal of our business licenses, training and education expenses as well as bank charges.

FYE 31 December 2018

For the FYE 31 December 2018, our administrative expenses decreased by approximately RM1.74 million or 13.96% to approximately RM10.73 million (FYE 2017: RM12.47 million) mainly due to the following reasons:

(a) the absence of impairment loss on trade receivables which amounted to approximately RM1.74 million in the FYE 31 December 2017 arising from overdue trade receivables by more than 12 months as at 31 December 2017; and

(b) the absence of impairment loss on property, plant and equipment which amounted to approximately RM1.05 million in the FYE 31 December 2017 arising from a dispute on a 5.66-acre freehold land located in Kepala Batas, Pulau Pinang purchased by us from a vendor who held a forged title of the said land which resulted in the transaction becoming null and void. For information purposes, after considering the advice of our appointed solicitors for this legal case as well as the substantial legal expenses and amount of time and attention that may be required to pursue this case, we discontinued our efforts to recover the monies paid for the said land in the said financial year as the probability of succeeding was very remote.

However, the decrease in administrative expenses was partially offset by the following:

(aa) increase in our staff costs by approximately RM0.52 million due to annual salary increment and the increase in staff head count to 23 (FYE 2017: 20); and

(bb) increase in directors' remuneration by approximately RM0.49 million arising from annual salary increment for the directors of Yenher Agro.

FYE 31 December 2019

For the FYE 31 December 2019, our administrative expenses increased by approximately RM1.25 million or 11.68% to approximately RM11.98 million (FYE 2018: RM10.73 million) mainly due to the following reasons:

(a) increase in our staff costs by approximately RM0.52 million due to annual salary increment and the increase in staff head count to 27 (FYE 2018: 23);

(b) increase in directors' remuneration by approximately RM0.32 million due to the appointment of Theoh Mooi Teng as a new director in Yenher Agro on 23 October 2019 and annual salary increment for the directors of Yenher Agro during the financial year; and

(c) revaluation loss of approximately RM0.53 million recognised on our warehouse located in Kuching, Sarawak arising from the revaluation carried out by a professional valuer on 11 October 2019.

FYE 31 December 2020

For the FYE 31 December 2020, our administrative expenses increased by approximately RM2.85 million or 23.79% to approximately RM14.83 million (FYE 2019: RM11.98 million) mainly due to the following reasons:

(a) increase in directors' remuneration by approximately RM3.11 million arising from the appointment of Theoh Mooi Teng as a new director of Yenher Agro on 23 October 2019 as well as annual salary increment and higher bonuses for the directors of Yenher Agro during the said financial year;

(b) increase in professional fees by approximately RM0.42 million mainly arising from the professional fees paid for our Listing exercise during the financial year; and

(c) increase in foreign exchange loss by approximately RM0.39 million mainly attributed to our purchases denominated in EUR which strengthened against RM during the year as well as outstanding balances owed by our customers denominated in USD which weakened against RM during the year.

However, the increase in our administrative expenses was partially offset by the decrease in staff costs by approximately RM0.91 million mainly due to the salaries previously paid to Theoh Mooi Teng, a salaried employee now being recognised as director's remuneration in view of her appointment as a director of Yenher Agro, as well as the absence of revaluation loss of approximately RM0.53 million recognised on our warehouse located in Kuching, Sarawak in the previous financial year.

(The rest of this page has been intentionally left blank)

(vii) R&D costs

Our R&D costs relate to expenses incurred by our subsidiary, Yenher Biotech in carrying out its R&D activities.

The table below sets out the components of our R&D costs for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Staff costs(1)	-	-	34	69.39	117	68.02	147	83.52
Depreciation	-	-	-	-	5	2.91	6	3.41
Rental of premises	-	-	3	6.12	6	3.49	6	3.41
Laboratory costs	-	-	11	22.45	7	4.07	2	1.14
Sundry expenses	-	-	1	2.04	37	21.51	15	8.52
Total	**-**	**-**	**49**	**100.00**	**172**	**100.00**	**176**	**100.00**

Note:

(1) These are salaries, allowances, bonuses and other staff-related costs and benefits of our R&D staff.

FYE 31 December 2018

We did not incur any R&D cost during the FYE 31 December 2017 as Yenher Biotech only commenced operations in 2018. For the FYE 31 December 2018, our R&D costs were mainly made up of staff costs of approximately RM0.03 million and laboratory costs of approximately RM0.01 million.

FYE 31 December 2019

For the FYE 31 December 2019, our R&D costs increased by approximately RM0.12 million or 251.02% to approximately RM0.17 million (FYE 2018: RM0.05 million). The increase was mainly due to the increase in staff costs by approximately RM0.08 million as four (4) additional staff were hired for the expansion of Yenher Biotech's R&D activities. As a result of the increased R&D activities, sundry expenses such as cost of materials for farm trials increased by approximately RM0.04 million for the said financial year.

FYE 31 December 2020

For the FYE 31 December 2020, our R&D costs increased by approximately RM0.01 million or 2.33% to approximately RM0.18 million (FYE 2019: RM0.17 million). This was mainly due to the increase in staff costs by approximately RM0.03 million as a result of higher bonuses and annual salary increment for our R&D staff. However, the increase in our R&D costs was offset by the decrease in sundry expenses by approximately RM0.02 million due to the absence of a one-off farm trial on poultry which we conducted in the preceding financial year.

(viii) Other expenses

The table below sets out the components of our other expenses for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Donations	121	51.49	119	37.07	122	42.07	95	64.19
Gift and condolences	114	48.51	100	31.15	160	55.17	53	35.81
Harvesting expenses[(1)]	-	-	5	1.56	8	2.76	-	-
Others	-	-	97	30.22	-	-	-	-
Total	**235**	**100.00**	**321**	**100.00**	**290**	**100.00**	**148**	**100.00**

Note:

(1) These are expenses incurred for harvesting of oil palm fruits from our vacant freehold land.

FYE 31 December 2018

During the FYE 31 December 2018, a fraudster had used the identity of one of our trade suppliers to request us to make payment for outstanding trade payables due to it amounting to approximately RM0.10 million, which we did without knowing that this is an identity theft. This led to the increase in other expenses by approximately RM0.09 million or 36.60% to approximately RM0.32 million (FYE 2017: RM0.24 million). We lodged a police report for this incident and precautionary measures such as increasing staff awareness on information technology security and counter-checking with our suppliers via telephone calls before making any payment to them, have been put in place to prevent the recurrence of such incident.

FYE 31 December 2019

For the FYE 31 December 2019, our other expenses decreased by approximately RM0.03 million or 9.66% to approximately RM0.29 million (FYE 2018: RM0.32 million) mainly due to the absence of the one-off identity theft incident amounting to approximately RM0.10 million in the previous year. The decrease was partially offset by the increase in gift and condolences expenses by approximately RM0.06 million as our Group sponsored a local school sports team during the said financial year.

FYE 31 December 2020

For the FYE 31 December 2020, our other expenses decreased by approximately RM0.14 million or 48.97% to approximately RM0.15 million (FYE 2019: RM0.29 million) mainly due to decrease in donations to temples, charity and welfare homes as well as gift and condolences expenses by approximately RM0.03 million and RM0.11 million respectively, during the said financial year.

(ix) Finance costs

Our finance costs comprised, among others, interest expenses on our bank borrowings for the financial years under review. Such borrowings were obtained by our Group to finance the purchase of industrial land and building for our business operations, as well as to finance our working capital requirements.

The table below sets out the components of our finance costs for the financial years under review:

	FYE 31 December							
	2017		2018		2019		2020	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Term loan interest	697	80.67	426	97.71	335	71.89	79	40.31
Banker's acceptance interest	166	19.21	10	2.29	1	0.21	25	12.75
Lease liabilities interest	-	-	-	-	130	27.90	92	46.94
Overdraft interest	1	0.12	*	*	*	*	*	*
Total	**864**	**100.00**	**436**	**100.00**	**466**	**100.00**	**196**	**100.00**

Note:

* Negligible as the amount is less than RM200.

FYE 31 December 2018

For the FYE 31 December 2018, our finance costs decreased by approximately RM0.43 million or 49.54% to approximately RM0.44 million (FYE 2017: RM0.86 million). The decrease in finance costs was mainly due to lower term loan interest following the full settlement of two (2) of our term loans during the FYE 31 December 2018. We also recorded lower banker's acceptance interest of approximately RM0.01 million for the same financial year as opposed to approximately RM0.17 million for the preceding year.

FYE 31 December 2019

For the FYE 31 December 2019, our finance costs increased by approximately RM0.03 million or 6.88% to approximately RM0.47 million (FYE 2018: RM0.44 million). This was mainly due to the recognition of lease liabilities interest for our existing tenancies for an industrial building amounting to approximately RM0.13 million following the adoption of MFRS 16 *Leases* which was effective from 1 January 2019. The increase was partially offset by the decrease in term loan interest by approximately RM0.09 million as a result of the partial repayment of term loan during the financial year.

FYE 31 December 2020

For the FYE 31 December 2020, our finance costs decreased by approximately RM0.27 million or 57.94% to approximately RM0.20 million (FYE 2019: RM0.47 million). The decrease in finance costs was mainly due to lower term loan interest as a result of the full repayment of our term loan during the financial year.

(x) PBT and PBT margin

The table below sets out our PBT and PBT margin for the financial years under review:

	FYE 31 December			
	2017	2018	2019	2020
PBT (RM'000)	25,921	34,174	26,323	29,659
PBT margin (%)	14.61	18.87	14.70	14.64

FYE 31 December 2018

Notwithstanding the lower GP recorded for the FYE 31 December 2018 as explained in item (iii) above, our PBT increased by approximately RM8.25 million or 31.84% to approximately RM34.17 million (FYE 2017: RM25.92 million). The increase in PBT for the FYE 31 December 2018 was mainly due to the following:

(a) increase in other income by approximately RM6.26 million as a result of the one-off gain from the disposals of our Group's non-operating assets as explained in item (iv) above;

(b) decrease in selling and distribution costs by approximately RM0.81 million as a result of lower transportation costs, lower expenses incurred for sales achievement incentive trips and lower seminar costs as explained in item (v) above; and

(c) decrease in administrative expenses by approximately RM1.74 million mainly due to the absence of impairment losses on trade receivables and property, plant and equipment recognised in the previous financial year as explained in item (vi) above.

As a result of the above, our PBT margin increased by approximately 4.26% to approximately 18.87% for the FYE 31 December 2018 (FYE 2017: 14.61%) despite the slight decrease in GP margin by approximately 0.99% to approximately 24.56% for the FYE 31 December 2018 (FYE 2017: 25.55%).

FYE 31 December 2019

While our GP for the FYE 31 December 2019 remained relatively constant as explained in item (iii) above, our PBT decreased by approximately RM7.85 million or 22.97% to approximately RM26.32 million (FYE 2018: RM34.17 million). The decrease in PBT for the FYE 31 December 2019 was mainly due to the following reasons:

(a) absence of the one-off gains from the disposal of our Group's non-operating assets amounting to approximately RM7.10 million in total during the said financial year as explained in item (iv) above; and

(b) increase in administrative expenses by approximately RM1.25 million as a result of higher staff costs and directors' remuneration as well as the revaluation loss on property, plant and equipment recognised as explained in item (vi) above.

As a result of the above, our PBT margin decreased by approximately 4.17% to approximately 14.70% for the FYE 31 December 2019 (FYE 2018: 18.87%) although our GP margin remained relatively constant at approximately 24.82% for the FYE 31 December 2019 (FYE 2018: 24.56%).

FYE 31 December 2020

Our PBT increased by approximately RM3.34 million or 12.67% to approximately RM29.66 million (FYE 2019: RM26.32 million) which is in tandem with the increase in our GP by approximately RM7.97 million or 17.94% for the FYE 31 December 2020.

The increase in GP was nevertheless, offset by higher selling and distribution costs as well as higher administrative expenses which increased by approximately RM0.53 million or 7.17% and RM2.85 million or 23.79%, respectively, for the FYE 31 December 2020. We also recorded lower other income of approximately RM0.45 million representing a decrease by approximately RM1.67 million or 78.83% from the preceding financial year.

Notwithstanding the above, we were able to maintain our PBT margin at approximately 14.64% for the FYE 31 December 2020 (FYE 2019: 14.70%).

(xi) Taxation

The table below sets out a summary of our tax expenses, as well as a comparison of our effective tax rate and the statutory tax rate in Malaysia for the financial years under review:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Income tax	6,796	6,658	6,426	7,084
Deferred tax	87	196	(118)	178
Real property gains tax	-	35	270	-
Total	**6,883**	**6,889**	**6,578**	**7,262**
Effective tax rate[1]	26.55%	20.16%	24.99%	24.48%
Statutory tax rate	24.00%	24.00%	24.00%	24.00%

Note:

(1) Effective tax rate is computed by dividing the total tax charged over PBT of our Group for the relevant financial year.

FYE 31 December 2017

Our effective tax rate for the FYE 31 December 2017 of 26.55% was higher than the statutory tax rate of 24.00% mainly due to higher non-tax deductible expenses, which included higher depreciation arising from the purchase of plant and equipment as well as impairment loss on property, plant and equipment as explained in item (vi) above.

FYE 31 December 2018

Our effective tax rate for the FYE 31 December 2018 of 20.16% was lower than the statutory tax rate of 24.00% as the gain on disposals of property, plant and equipment as well as investment properties of approximately RM7.10 million as explained in item (iv) above were subjected to a lower tax rate under the Real Property Gains Tax Act 1976, ranging from 5% to 15%.

FYE 31 December 2019

Our effective tax rate for the FYE 31 December 2019 of 24.99% was slightly higher than the statutory tax rate of 24.00% mainly due to higher non-tax deductible expenses such as the revaluation loss of approximately RM0.53 million as explained in item (vi) above and the under-provision of real property gains tax by approximately RM0.27 million in the FYE 31 December 2018.

FYE 31 December 2020

Our effective tax rate for the FYE 31 December 2020 of 24.48% was slightly higher than the statutory tax rate of 24.00% mainly due to the adjustments for non-tax deductible expenses for the said financial year and under-provision of deferred tax expense in the previous financial year amounting to approximately RM0.30 million and RM0.15 million respectively.

(xii) PAT and PAT margin

The table below sets out our PAT and PAT margin for the financial years under review:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
PAT (RM'000)	19,038	27,285	19,745	22,397
PAT margin (%)	10.73	15.07	11.03	11.05

FYE 31 December 2018

For the FYE 31 December 2018, our PAT increased by approximately RM8.25 million or 43.32% to approximately RM27.29 million (FYE 2017: RM19.04 million) mainly due to the one-off gains from the disposal of our Group's non-operating assets amounting to approximately RM7.10 million in total.

The normalised PAT, after excluding the one-off gain on disposals, of approximately RM20.18 million which translates to a PAT margin of approximately 11.14% was relatively constant as compared to the PAT margin of approximately 10.73% for the FYE 31 December 2017.

FYE 31 December 2019

For the FYE 31 December 2019, our PAT decreased by approximately RM7.54 million or 27.63% to approximately RM19.75 million (FYE 2018: RM27.29 million). This was mainly due to the absence of the one-off gains from the disposal of our Group's non-operating assets during the FYE 31 December 2018.

In comparison with the normalised PAT margin of approximately 11.14% for the FYE 31 December 2018, our PAT margin for the FYE 31 December 2019 remained relatively constant at 11.03%.

FYE 31 December 2020

For the FYE 31 December 2020, our PAT increased by approximately RM2.65 million or 13.43% to approximately RM22.40 million (FYE 2019: RM19.75 million). This was due to the increase in our GP which is in tandem with the increase in our revenue as explained in item (iii) above.

Nevertheless, our PAT margin for the FYE 31 December 2020 remained relatively constant at approximately 11.05% (FYE 2019: 11.03%) as a result of lower other income, higher selling and distribution costs and higher administrative expenses recognised in the financial year as mentioned in item (x) above.

11.3.4 Impact of fluctuations in foreign exchange rates and interest rates, inflation and government/economic/fiscal/monetary policies

(i) Foreign exchange

Our sales are primarily denominated in RM whilst our purchases are transacted primarily in RM, USD and Euro. As such, we are exposed to foreign currency risk and any unfavourable foreign currency exchange rate fluctuation may materially affect our business operations and financial performance.

For information purposes, the breakdown of our revenue and purchases transacted in RM and other currencies for the FYEs 31 December 2019 and 2020 are summarised as follows:

	FYE 31 December							
	2019				2020			
Currency	**Revenue**		**Purchases**		**Revenue**		**Purchases**	
	(RM'000)	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**
RM	164,458	91.84	50,063	39.14	184,466	91.03	51,793	36.35
USD	14,603	8.16	58,679	45.88	18,169	8.97	69,511	48.79
Euro	-	-	19,127	14.96	-	-	21,056	14.78
GBP	-	-	28	0.02	-	-	63	0.04
RMB	-	-	-	-	-	-	58	0.04
Total	**179,061**	**100.00**	**127,897**	**100.00**	**202,635**	**100.00**	**142,481**	**100.00**

We enter into forward foreign exchange contracts with licensed financial institutions to manage our exposure to foreign currency fluctuations in relation to sales and purchases that are transacted and denominated in foreign currency. Forward foreign exchange contracts refer to agreements with licensed financial institutions to purchase or sell a set amount of a foreign currency at a specified foreign exchange rate for settlement at a predetermined future date. As at LPD, we have entered into forward foreign exchange contracts amounting to approximately RM1.54 million with a remaining validity period of less than three (3) months.

Furthermore, certain foreign currency transactions that our Group enters into provide a natural hedge against foreign currency fluctuations, for example, when our sales and purchases are both denominated in USD. We also maintain USD bank accounts in Malaysia, and as at 31 December 2020, we have cash and cash equivalents of approximately RM0.63 million held in USD.

For the financial years under review, the net gain or loss on foreign exchange was immaterial when compared to our PBT for the respective financial years as shown below:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Gain on foreign exchange:				
▪ Realised	160	-	140	-
▪ Unrealised	-	9	3	-
Loss on foreign exchange:				
▪ Realised	-	(98)	-	(286)
▪ Unrealised	(104)	-	(24)	(127)
Net gain/(loss) on foreign exchange	**56**	**(89)**	**119**	**(413)**
PBT	25,921	34,174	26,323	29,659
Net gain/(loss) on foreign exchange as a percentage of PBT	0.22%	(0.26%)	0.45%	(1.39%)

Please refer to Section 8.2.10 of this Prospectus for risk relating to adverse movements in foreign currency exchange that may materially affect our financial condition and results of operations.

(ii) Interest rate

Our exposure to interest rate fluctuation arises from a floating rate term loan which is pegged to the base financing rate as stipulated by our financial institution that may change from time to time. As such, any change in the interest rate of our floating rate term loan will raise the cost of our borrowings and our finance costs, which in turn may have an adverse effect on our financial performance.

Notwithstanding the above, as at 31 December 2020, we do not have any floating rate term loan which is subject to interest rate fluctuation as we have fully repaid our floating rate term loan in the second half of 2020. We also do not have any formal hedging policy with respect to interest rate exposures as at LPD. Our Group has monitored and will continue to monitor interest rates movements to ensure that the most competitive rates are secured and where appropriate, borrowing arrangements and interest bearing instruments are structured or reduced.

For information purposes, for the financial years under review, a change in interest rate by a 100 basis points would have the following impact on our Group's profit or loss:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Interest rate increase by 100 basis points	(140)	(58)	(52)	-
Interest rate decrease by 100 basis points	140	58	52	-

(iii) Inflation

We do not believe that inflation has had a material impact on our business, financial condition or results of operations for the financial years under review. However, inflation may affect our financial performance as it could increase our raw materials and distribution products costs, labour costs, as well as our operating costs and selling and distribution costs. Any increase in the inflation rate beyond levels experienced in the past may affect our operations and financial performance if we are unable to fully offset such higher costs through increased revenue.

(iv) Government/economic/fiscal/monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business operations, financial performance and prospects of the industry in which we operate. Please refer to Section 8.1.4 of this Prospectus for risk relating to government, economic, fiscal or monetary policies which could materially affect our operations.

Notwithstanding the above, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies during the financial years under review.

11.3.5 Order book

Due to the nature of our business, we do not maintain an order book. Our sales are based on confirmed orders from our customers and we do not have any long-term contracts with our customers.

11.4 LIQUIDITY AND CAPITAL RESOURCES

11.4.1 Working capital

For the FYEs 31 December 2017, 2018, 2019 and 2020, we have financed our operations through a combination of cash generated from our operations and external borrowings from financial institutions. The principal use of these funds are to finance our working capital requirements, which include, among others, the purchases of raw materials, distribution products as well as plant and machinery, and payments to our employees and other suppliers, along with the repayment of bank borrowings.

As at 31 December 2020, we have:

(i) cash and cash equivalents of approximately RM24.70 million; and

(ii) banking facilities amounting to RM28.98 million.

As at 31 December 2020, our working capital which is calculated based on total current assets minus total current liabilities, was approximately RM94.23 million. This represents a current ratio of approximately 5.04 times.

Based on the above, after taking into consideration our evaluation of the impact of COVID-19 on our Group as discussed in Section 6.18 of this Prospectus as well as the funding requirements for our committed capital expenditure, expected cash flows to be generated from our operations, our existing level of cash and cash equivalents, credit resources and the proceeds to be raised from the Public Issue, our Board is of the opinion that we will have sufficient working capital for at least 12 months from the date of this Prospectus.

11.4.2 Cash flows

The table below sets out the summary of our Group's cash flows for the financial years under review:

	FYE 31 December			
	2017	2018	2019	2020
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Net cash from operating activities	25,781	1,427	9,964	23,369
Net cash from/(used in) investing activities	373	42,122	(2,157)	(1,510)
Net cash (used in)/from financing activities	(24,900)	(37,705)	(954)	(15,948)
Net increase in cash and cash equivalents	**1,254**	**5,844**	**6,853**	**5,911**
Effects of foreign exchange difference on cash and cash equivalents	-	-	-	-
Cash and cash equivalents at the beginning of the year	4,833	6,087	11,931	18,784
Cash and cash equivalents at the end of the year	**6,087**	**11,931**	**18,784**	**24,695**
Cash and cash equivalents comprise the following:				
Cash and bank balances	6,087	10,931	6,217	16,395
Short-term deposits with licensed banks	1,405	2,905	14,110	9,840
	7,492	13,836	20,327	26,235
Less: Short-term deposits pledged as security	(1,405)	(1,905)	(1,543)	(1,540)
Total	**6,087**	**11,931**	**18,784**	**24,695**

There is no legal, financial or economic restriction on our subsidiaries' ability to transfer/receive funds to/from our Company in the form of cash dividends, loans or advances, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenant.

FYE 31 December 2017

(i) Net cash from operating activities

For the FYE 31 December 2017, our Group generated net cash from operating activities of approximately RM25.78 million. Our operating profit before working capital changes of approximately RM30.13 million was adjusted for the changes in working capital of approximately RM2.07 million arising from the following:

(a) increase in inventories by approximately RM10.87 million mainly due to higher purchase of raw materials and distribution products as well as higher amount of goods in transit in anticipation of higher demand for our products in 2018 after taking into consideration, among others, the sales orders received towards the end of 2017;

(b) increase in trade and other receivables by approximately RM9.16 million mainly due to higher trade receivables which was in tandem with the increase in revenue for the FYE 31 December 2017 of approximately RM177.38 million (FYE 2016: RM146.64 million); and

(c) increase in trade and other payables by approximately RM22.10 million mainly due to the increase in advances given by the directors of Yenher Agro amounting to approximately RM21.37 million.

For the FYE 31 December 2017, we also paid income tax and interest on bank borrowings of approximately RM5.57 million and RM0.86 million respectively.

(ii) Net cash from investing activities

For the FYE 31 December 2017, our Group recorded net cash from investing activities of approximately RM0.37 million mainly due to the proceeds received from the disposal of investment properties of approximately RM0.91 million. The cash inflow from investing activities was partially offset by cash paid for the purchase of plant and equipment amounting to approximately RM0.60 million.

(iii) Net cash used in financing activities

For the FYE 31 December 2017, our Group recorded net cash used in financing activities of approximately RM24.90 million mainly due to the dividend paid to the shareholders of Yenher Agro amounting to RM20.00 million as well as the repayment of bank borrowings of approximately RM5.15 million.

FYE 31 December 2018

(i) Net cash from operating activities

For the FYE 31 December 2018, our Group generated net cash from operating activities of approximately RM1.43 million. Our operating profit before working capital changes of approximately RM28.32 million was substantially offset by the changes in working capital of approximately RM19.14 million arising from the following:

(a) decrease in inventories by approximately RM1.61 million as we recorded higher sales and utilised more inventories as compared to the previous financial year, as evidenced by the increase in our cost of sales for the said financial year;

(b) decrease in trade and other receivables by approximately RM5.53 million mainly due to higher collections from our customers during the said financial year and lower orders towards the end of 2018 from our foreign suppliers, which typically require advance payments, as we have sufficient inventory levels; and

(c) decrease in trade and other payables by approximately RM26.28 million mainly due to the full repayment of advances from the directors of Yenher Agro in the past years amounting to approximately RM22.92 million and the reduction in deposits received from overseas customers for their sales orders as at year end by approximately RM2.59 million.

For the FYE 31 December 2018, we also paid income tax and interest on bank borrowings of approximately RM7.42 million and RM0.44 million respectively.

(ii) Net cash from investing activities

For the FYE 31 December 2018, our Group recorded net cash from investing activities of approximately RM42.12 million mainly due to the proceeds received from the disposal of investment properties as well as the disposal of property, plant and equipment of approximately RM26.67 million and RM16.06 million respectively. These were mainly attributable to the disposal of the non-operating assets of Yenher Agro to CMT Properties Sdn Bhd (formerly known as Yenher Properties Sdn Bhd) as set out Section 11.4.6(ii)(b) of this Prospectus.

(iii) Net cash used in financing activities

For the FYE 31 December 2018, our Group recorded net cash used in financing activities of approximately RM37.71 million due to dividend paid to the shareholders of Yenher Agro amounting to RM25.00 million, repayment of bank borrowings of approximately RM12.21 million as well as higher fixed deposits pledged as a security for banking facilities granted to our Group with a licensed bank amounting to RM0.50 million.

<u>FYE 31 December 2019</u>

(i) Net cash from operating activities

For the FYE 31 December 2019, our Group generated net cash from operating activities of approximately RM9.96 million. Our operating profit before working capital changes of approximately RM27.12 million was offset by the changes in working capital of approximately RM10.35 million arising from the following:

(a) increase in inventories by approximately RM0.23 million in anticipation of the higher sales orders received for the next financial year;

(b) increase in trade and other receivables by approximately RM9.50 million mainly attributable to higher sales towards the end of FYE 31 December 2019 which resulted in higher amounts due from customers and higher advanced payments made to foreign suppliers for goods ordered from them; and

(c) decrease in trade and other payables by approximately RM0.62 million as we decided to settle more of our trade and non-trade payables at the end of 2019 to capitalise on the favourable foreign exchange rate for RM against USD.

For the FYE 31 December 2019, we also paid income tax and interest on bank borrowings of approximately RM6.83 million and RM0.47 million respectively. However, we also received higher interest income of approximately RM0.49 million for the same financial year as we placed more short-term deposits with licensed banks during the said year.

(ii) Net cash used in investing activities

For the FYE 31 December 2019, our Group recorded net cash used in investing activities of approximately RM2.16 million which was mainly attributed to the purchase of property, plant and equipment which included a ribbon mixer for our Group's production of biotech animal feed ingredients, motor vehicles and the renovation expenses incurred for our rented warehouse located at No. 1, Lorong IKS Simpang Ampat E, Taman IKS Simpang Ampat, 14100 Simpang Ampat, Seberang Perai Selatan, Pulau Pinang amounting to approximately RM2.02 million in total, as well as the purchase of computer software amounting to approximately RM0.19 million.

(iii) Net cash used in financing activities

For the FYE 31 December 2019, our Group recorded net cash used in financing activities of approximately RM0.95 million mainly due to the repayment of lease liabilities and term loans of approximately RM0.78 million and RM0.53 million respectively. The net cash used in financing activities for the said financial year was partially offset by a cash inflow of approximately RM0.36 million arising from the withdrawal of fixed deposits pledged for a banking facility granted to our Group as we terminated the banking facility and closed the said fixed deposit account in the 1st quarter of 2019.

FYE 31 December 2020

(i) Net cash from operating activities

For the FYE 31 December 2020, our Group generated net cash from operating activities of approximately RM23.37 million. Our operating profit before working capital changes of approximately RM31.37 million was offset by the changes in working capital of approximately RM1.19 million arising from the following:

(a) increase in inventories by approximately RM0.78 million mainly due to higher purchases of raw materials and distribution products that are in transit as at 31 December 2020 in anticipation of higher demand for our products in 2021 after taking into consideration, among others, the sales orders received towards the end of 2020 and to minimise possible disruption to our manufacturing operation and sales amid the COVID-19 pandemic;

(b) increase in trade and other receivables by approximately RM0.59 million mainly due to an increase in other receivables amounting to approximately RM0.40 million arising from trade commission earned from our distributors and increase in deposits of approximately RM0.29 million which were paid for, among others, the application of permit for land filling and earthworks for the construction of our new GMP-compliant manufacturing plant. However, the increase was partially offset by the decrease in trade receivables of approximately RM0.19 million due to higher collections from our customers; and

(c) increase in trade and other payables by approximately RM0.19 million mainly attributable to the increase in other payables of approximately RM2.28 million as a result of the accruals for directors' remuneration, which was offset by the decrease in trade payables of approximately RM2.11 million as we settled some of our trade payables denominated in USD earlier than the credit term granted so as to capitalise on the favourable foreign exchange rate for RM against USD towards the end of 2020.

For the 31 December 2020, we also paid income tax and interest on bank borrowings of approximately RM6.82 million and RM0.20 million respectively. We also received lower interest income of approximately RM0.20 million for the same financial year as we placed less short-term deposits with licensed banks during the said financial year as compared to the preceding financial year due to lower interest rates offered by licensed banks.

(ii) Net cash used in investing activities

For the FYE 31 December 2020, our Group recorded net cash used in investing activities of approximately RM1.51 million due to the purchase of property, plant and equipment which included forklifts, office equipment and the renovation expenses incurred for our rented warehouse located at No. 1, Lorong IKS Simpang Ampat E, Taman IKS Simpang Ampat, 14100 Simpang Ampat, Seberang Perai Selatan, Pulau Pinang amounting to approximately RM1.39 million in total, as well as the purchase of computer software amounting to approximately RM0.12 million.

(iii) Net cash used in financing activities

For the FYE 31 December 2020, our Group recorded net cash used in financing activities of approximately RM15.95 million mainly due to the dividend paid to the shareholders of Yenher Agro amounting to RM9.90 million, repayment of term loan amounting to approximately RM5.23 million and repayment of lease liabilities amounting to approximately RM0.82 million.

11.4.3 Borrowings

The table below sets out the facilities granted to our Group as well as the amounts utilised and unutilised as at 31 December 2020:

	Amount granted (RM'000)	Amount utilised (RM'000)	Amount unutilised (RM'000)
Term loan	12,000	-	12,000
Banker's acceptance	16,530	-	16,530
Bank overdraft	450	-	450
Total	**28,980**	**-**	**28,980**

As at 31 December 2020, we do not have any outstanding bank borrowings. However, as at 30 April 2021, we have outstanding banker's acceptance of RM8.00 million which was used to fund the working capital of our Group.

The financing facilities granted to us from the licensed banks are denominated in RM and are secured by way of legal charges over certain properties and short-term deposits of our Group and are jointly and severally guaranteed by the directors of our Group. For the past four (4) FYEs 31 December 2017 to 2020, all our outstanding borrowings were interest bearing with effective interest rates ranging from 2.50% to 7.70% per annum.

The gearing ratio for the financial years under review are as follows:

	As at 31 December			
	2017	**2018**	**2019**	**2020**
Gearing ratio (times)[(1)]	0.21	0.07	0.07	0.01

Note:

(1) Gearing ratio is computed based on total borrowings and lease liabilities over total shareholders' equity as at the end of the respective financial year.

We have not been in default on payments of either interest and/or principal sums in respect of any of our borrowings for the past four (4) FYEs 31 December 2017 to 2020 as well as for the period from 1 January 2021 up to LPD. As at LPD, we are also not in breach of any term and condition or covenant associated with our credit arrangements or bank loans which can materially affect our financial position, results of business operations, or the investment by holders of our Shares.

We do not encounter seasonality in the trend of our borrowings and there is no restriction on the use of our committed banking facilities, save for prior consents from the licensed banks before using the banking facilities, where necessary.

11.4.4 Material commitments

Save as disclosed below, as at LPD, we do not have any other material commitment for capital expenditure, which upon becoming enforceable, may have a material effect on our financial position:

	RM'000
Approved but not contracted for:	
▪ Construction of a new GMP-compliant manufacturing plant	32,000
Approved and contracted for:	
▪ Purchase of machinery and equipment for our new GMP-compliant manufacturing plant	9,687
Total	**41,687**

The material commitments above are for the expansion of our manufacturing plant, which include the construction costs of our new GMP-compliant manufacturing plant as well as for the purchase of new machinery and equipment. Of the RM41.69 million, RM40.70 million will be funded through the proceeds raised from our IPO, while the remaining RM0.99 million will be funded through our internal funds.

For further details on the use of our IPO proceeds for the abovementioned material commitment and our business strategies, please refer to Sections 3.7 and 6.6 of this Prospectus.

11.4.5 Contingent liabilities

As at LPD, our Board confirms that there are no contingent liabilities, which upon becoming enforceable, may have a material adverse impact on our results of operations or financial position.

11.4.6 Material investments and material divestitures

(i) Material investments

We have paid a deposit amounting to approximately RM1.65 million to an international plant equipment manufacturer for the purchase of new machinery and equipment for our new GMP-compliant manufacturing plant to be constructed on Mukim 12, Daerah Seberang Perai Selatan, Negeri Pulau Pinang. This was financed using our internal funds during the FYE 31 December 2018.

Save as disclosed above, we have not undertaken any material investment during the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD.

(ii) Material divestitures

Save as disclosed below, we have not undertaken any material divestiture during the FYEs 31 December 2017, 2018, 2019 and 2020 as well as for the period from 1 January 2021 up to LPD:

(a) sale of a commercial building and two (2) commercial shop lots located in Mukim 15, Daerah Seberang Perai Selatan, Negeri Pulau Pinang to CMT Properties Sdn Bhd (formerly known as Yenher Properties Sdn Bhd) ("**CMT**") for a total consideration of approximately RM0.91 million, that was transacted vide a sale and purchase agreement dated 1 December 2017, and was completed on 5 January 2018; and

(b) sale of a feedmill and poultry farm, a residential house, a commercial shop lot and nine (9) parcels of freehold lands located in Mukim 02, 07 and 14, Daerah Seberang Perai Selatan, Negeri Pulau Pinang and Mukim 13 and 14, Daerah Seberang Perai Tengah, Negeri Pulau Pinang to CMT for a total consideration of RM42.67 million, that was transacted vide a sale and purchase agreement dated 19 November 2018, and was completed on 3 December 2018.

For information purposes, CMT, an investment holding company, was previously a wholly-owned subsidiary of Yenher Agro. During the 4th quarter of 2018, Yenher Agro carried out an internal restructuring which included the disposal of its non-operating assets to CMT as set out in item (b) above, the consideration for which was settled through a combination of cash and set-off against the outstanding advances from the directors to Yenher Agro; as well as the disposal of CMT to Cheng Mooh Tat, Cheng Mooh Kheng and Cheng Mooh Chye for a cash consideration of RM840.

11.4.7 Material litigation or arbitration proceedings

As at LPD, we are not engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the 12 months immediately preceding the date of this Prospectus.

11.4.8 Key financial ratios

The table below sets out our Group's key financial ratios for the financial years under review:

	As at 31 December			
	2017	2018	2019	2020
Trade receivables turnover period (days)[(1)]	101	98	102	98
Trade payables turnover period (days)[(2)]	37	38	37	30
Inventory turnover period (days)[(3)]	72	82	82	74
Current ratio (times)[(4)]	1.71	3.96	3.32	5.04
Gearing ratio (times)[(5)]	0.21	0.07	0.07	0.01

Notes:

(1) Trade receivables turnover period is computed based on the average beginning and ending balance of trade receivables (after deducting allowance for impairment losses) over our revenue for the respective financial year multiplied by the number of days in the respective financial year.

(2) Trade payables turnover period is computed based on the average beginning and ending balance of trade payables over our cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

(3) Inventory turnover period is computed based on the average beginning and ending balance of inventories over our cost of sales for the respective financial year multiplied by the number of days in the respective financial year.

(4) Current ratio is computed based on total current assets over total current liabilities as at the end of the respective financial year.

(5) Gearing ratio is computed based on total borrowings and lease liabilities over total shareholders' equity as at the end of the respective financial year.

(i) Trade receivables turnover period

	As at 31 December			
	2017	2018	2019	2020
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Trade receivables denominated in:				
▪ RM	51,389	46,499	52,865	52,327
▪ USD	2,707	2,180	2,812	2,949
	54,096	48,679	55,677	55,276
Less: Allowance for impairment losses	(1,875)	*(3,378)	(1,257)	(1,046)
Net trade receivables	**52,221**	**45,301**	**54,420**	**54,230**
Revenue	177,380	181,109	179,061	202,635
Trade receivables turnover period (days)[(1)]	101	98	102	98

Notes:

* We adopted MFRS 9 *Financial Instruments* with effect from 1 January 2018 and this resulted in additional allowance for impairment losses on our Group's trade receivables of approximately RM1.72 million recognised on 1 January 2018. For further details of the additional allowance for impairment losses, please refer to note 3.1(b) to the Accountants' Report included in Section 12 of this Prospectus.

(1) This is computed based on the average beginning and ending balance of trade receivables (after deducting allowance for impairment losses) over our revenue for the respective financial year multiplied by 365 days.

The normal credit term granted to our customers generally ranges from 30 to 120 days. Other credit terms are assessed and approved in certain cases after taking into consideration, among others, the background and creditworthiness (including payment history) of the customer as well as our business relationship with the customer.

Our trade receivables turnover period for the FYEs 31 December 2017 to 2020 were consistent at between 98 to 102 days, and were within the normal credit period granted. We have also not experienced any instances of material bad debts during these financial years.

The ageing analysis of our trade receivables as at 31 December 2020 and the subsequent collections and balance of our trade receivables as at LPD are set out below:

	Within credit period	Past due 1-30 days	Past due 31-120 days	Past due More than 120 days	Total
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Trade receivables	38,754	7,470	6,014	3,038	55,276
Less: Allowance for impairment loss	(74)	(54)	(89)	(829)	(1,046)
Net trade receivables	**38,680**	**7,416**	**5,925**	**2,209**	**54,230**
% of total net trade receivables	71.33	13.67	10.93	4.07	100.00
Subsequent collections up to and including LPD	34,200	6,917	4,517	2,004	47,638
Outstanding net trade receivables as at LPD	**4,480**	**499**	**1,408**	**205**	**6,592**
% of trade receivables collected as at LPD over total net trade receivables	63.06	12.75	8.33	3.70	87.84

As at 31 December 2020, our total net trade receivables stood at approximately RM54.23 million, of which approximately RM15.55 million or 28.67% of our net trade receivables exceeded the normal credit period.

As at LPD, we have collected approximately RM47.64 million, representing approximately 87.84% of our total net trade receivables as at 31 December 2020.

As part of our credit control policy, we closely monitor our aging report and assess the collectability of trade receivables on each of our customers regularly. For any trade receivables which have exceeded the normal credit period granted by more than 30 days, we will follow up with calls and send reminders and where appropriate, provide for specific impairment on those trade receivables where recoverability are uncertain based on our dealings with the customers. In addition, we have also purchased trade credit insurance with a maximum coverage value of up to RM3.70 million to provide coverage against any unforeseen event that may affect the recoverability of our trade receivables.

We are in the midst of collecting the remaining outstanding trade receivables of approximately RM6.59 million. Notwithstanding the above, our Board is of the opinion that the remaining outstanding trade receivables are recoverable after taking into consideration these customers' payment history, credentials as well as their established long-term relationships with us.

(ii) Trade payables turnover period

	As at 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Trade payables denominated in:				
▪ RM	6,982	7,589	8,438	8,554
▪ USD	6,270	5,057	2,961	1,798
▪ Euro	1,358	1,185	1,973	909
Total	**14,610**	**13,831**	**13,372**	**11,261**
Cost of sales	132,056	136,633	134,612	150,213
Trade payables turnover period (days)[(1)]	37	38	37	30

Note:

(1) This is computed based on the average beginning and ending balance of trade payables over our cost of sales for the respective financial year multiplied by 365 days.

The normal credit period granted to us by our suppliers typically ranges from 7 to 90 days. Our trade payables turnover period for the FYEs 31 December 2017 to 2020 were consistent at between 30 to 38 days, and were within the normal credit period granted. It is our practice to make prompt payment to our suppliers in order to maintain good business relationships with our suppliers, safeguard the continuity of our supplies as well as enjoy early settlement discounts from certain suppliers.

The ageing analysis of our trade payables as at 31 December 2020 and the subsequent payments and balance of our trade payables as at LPD are set out below:

	Within credit period	Past due 1-30 days	Past due 31-90 days	Past due More than 90 days	Total
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Trade payables	8,664	2,394	55	148	11,261
% of trade payables	76.94	21.26	0.49	1.31	100.00
Subsequent payments up to and including LPD	8,661	2,389	55	-	11,105
Outstanding trade payables as at LPD	**3**	**5**	**-**	**148**	**156**
% of trade payables paid as at LPD over total trade payables	76.91	21.21	0.49	-	98.61

As at 31 December 2020, our total trade payables stood at approximately RM11.26 million, of which approximately RM2.60 million or 23.06% of our trade payables exceeded the normal credit period. However, as at LPD, we have settled approximately RM11.11 million or 98.61% of our trade payables which were outstanding as at 31 December 2020.

We have not been involved in any dispute with any of our suppliers nor has any legal action been initiated by our suppliers on us during the FYEs 31 December 2017 to 2020 and up to LPD.

(iii) **Inventory turnover period**

	As at 31 December 2017	2018	2019	2020
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Inventories comprised:				
▪ Raw materials	17,196	17,562	16,842	16,729
▪ Finished goods	4,189	4,191	5,636	5,454
▪ Distribution products	5,401	6,816	6,335	5,855
▪ Good in transit	4,836	1,441	1,429	2,987
Total	**31,622**	**30,010**	**30,242**	**31,025**
Cost of sales	132,056	136,633	134,612	150,213
Inventory turnover period (days)[(1)]	72	82	82	74

Note:

(1) This is computed based on the average beginning and ending balance of inventories over our cost of sales for the respective financial year multiplied by 365 days.

It is our Group's general practice to maintain adequate level of raw materials to reduce the risk of disruption to our manufacturing operation as well as adequate level of distribution products, all of which are aimed to meet our customers' demand and ensure timely delivery of our manufactured and distribution products.

Our inventory turnover period increased from 72 days in the FYE 31 December 2017 to 82 days in the FYEs 31 December 2018 and 2019. This was mainly attributable to lower inventory opening balance as at 1 January 2017 of approximately RM20.75 million in comparison with the inventory balance as at 31 December 2017 of approximately RM31.62 million as we have increased our inventory levels in the subsequent years to meet the higher demand for our products. However, our inventory turnover period has reduced to 74 days in the FYE 31 December 2020 mainly due to the increase in the cost of sales as a result of higher sales volume in the said financial year.

We review the condition of our inventories on a product-by-product basis at the end of each reporting period and assess if there is any indication for impairment for our inventories such as obsolescence, slow-moving inventories that are nearing their expiry dates or non-sellable inventories. We did not record any write-down in value of inventories in each of the financial years indicated above. Please also refer to Section 6.8 of this Prospectus for further information on our Group's inventory management.

(iv) Current ratio

	As at 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Current assets	95,079	92,572	110,213	117,566
Current liabilities	55,718	23,362	33,237	23,332
Current ratio (times)(1)	1.71	3.96	3.32	5.04

Note:

(1) This is computed based on total current assets over total current liabilities as at the end of the respective financial year.

Current ratio measures our Group's liquidity and our ability to meet our short term obligations. Our current ratio increased from 1.71 times as at 31 December 2017 to 3.96 times as at 31 December 2018. This was mainly due to lower other payables upon the full repayment of the advances from the directors of Yenher Agro of approximately RM22.92 million as well as the lower short-term bank borrowings as at 31 December 2018 after the repayment thereon.

Our current ratio decreased slightly from 3.96 times as at 31 December 2018 to 3.32 times as at 31 December 2019. Notwithstanding the higher trade and other receivables as well as higher cash and cash equivalents recorded as at 31 December 2019 by approximately RM10.92 million and RM6.49 million respectively, as compared to 31 December 2018, our current liabilities also increased by approximately RM9.87 million mainly arising from the dividend payable to the shareholders of Yenher Agro for the FYE 31 December 2019 of RM9.90 million.

Our current ratio increased from 3.32 times as at 31 December 2019 to 5.04 times as at 31 December 2020. This was due to the increase in our current assets by approximately RM7.35 million which is mainly attributable to the increase in our cash and bank balances as a result of the improvement in our operating cash flows in 2020 and the decrease in our current liabilities by approximately RM9.91 million as the dividend payable to the shareholders of Yenher Agro for the FYE 31 December 2019 of RM9.90 million was paid to the said shareholders on 28 August 2020. Furthermore, we have fully repaid our term loan in the second half of 2020.

(v) Gearing ratio

	As at 31 December			
	2017	**2018**	**2019**	**2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Total borrowings	17,971	5,765	5,231	-
Lease liabilities[(1)]	-	-	2,349	1,530
Total shareholders' equity	86,187	87,164	105,421	128,758
Gearing ratio (times)[(2)]	0.21	0.07	0.07	0.01

Notes:

(1) We adopted MFRS 16 *Leases* with effect from 1 January 2019 and this resulted in the recognition of lease liabilities since then. For further details of the lease liabilities, please refer to notes 3.3 and 27 of the Accountants' Report included in Section 12 of this Prospectus.

(2) This is computed based on total borrowings and lease liabilities over total shareholders' equity as at the end of the respective financial year.

Our gearing ratio improved from 0.21 times as at 31 December 2017 to 0.07 times as at 31 December 2018 and 31 December 2019. It further improved to 0.01 times as at 31 December 2020. The improvement in our gearing ratio during the financial years under review is mainly attributable to the increase in our retained profits as well as the repayment of our bank borrowings. As at 31 December 2020, we have fully repaid all of our bank borrowings. As at 31 December 2019, we also recognised revaluation reserve for our land and buildings of approximately RM8.41 million and additional revaluation reserve for our land and buildings of approximately RM0.92 million as at 31 December 2020 which resulted in higher shareholders' equity in both years. For information purposes, we changed our accounting policy from the cost model to the revaluation model in measuring our land and buildings with effect from 31 December 2019. For further details of the accounting policy, please refer to notes 2.2.2 and 2.9 of the Accountants' Report included in Section 12 of this Prospectus.

11.4.9 Types of financial instruments used

As at LPD, saved for the forward foreign exchange contracts and bank borrowings as disclosed in Sections 11.3.4(i) and 11.4.3 of this Prospectus respectively, we do not use any other financial instruments.

However, from accounting perspective, our financial instruments comprised cash and cash equivalents, borrowings, trade and other receivables as well as trade and other payables, as shown in our Group's statements of financial position. We use these financial instruments in the ordinary course of our business.

11.4.10 Treasury policies and objectives

Our main treasury policy is to maintain sufficient working capital to finance our operations, coupled with adequate credit facilities to meet the estimated commitments arising from our operational expenditures and financial liabilities. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations and borrowings from financial institutions.

Our cash and cash equivalents and trade receivables are primarily maintained in RM, USD, Euro, NTD and SGD. As at 31 December 2020, the cash and cash equivalents and trade receivables of our Group were held in the following currencies:

	RM	USD	Euro	NTD	SGD
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Cash and cash equivalents	23,931	632	23	109	*
Trade receivables	51,295	2,935	-	-	-

Note:

* Negligible as the amount is less than RM100.

Our Directors monitor the adequacy of capital on an ongoing basis. Our strategy is to maintain the debt-to-equity ratio at an optimal level based on our business requirements and prevailing economic conditions. It is also the responsibility of our Directors to identify, quantify, monitor and control the key risks (credit, liquidity, currency and interest rate) associated with these activities.

11.5 TREND ANALYSIS

As at LPD, our Board confirms that there are no:

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on the financial performance, position and operations of our Group other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(ii) material commitment for capital expenditure, save as set out in Section 11.4.4 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group's total revenue and/or profits as well as our Group's liquidity and capital resources, save for those that have been disclosed in this Section and in Sections 6 and 8 of this Prospectus; and

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of the future financial performance and position other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus.

11.6 SIGNIFICANT CHANGES

There are no other significant changes that have occurred which may have a material effect on the financial position and results of our Group since 31 December 2020 up to the date of this Prospectus.

11.7 DIVIDEND POLICY

It is the intention of our Board to recommend and distribute dividend of at least 40% of our annual audited profit attributable to the shareholders of our Company. This will allow our shareholders to participate in the profits of our Group while leaving adequate reserves for the future growth of our Group.

Notwithstanding our intention above, as we are a holding company, our income and ability to pay dividends are dependent upon the dividends received from our subsidiaries. The payment of dividends by our subsidiaries is dependent on their distributable profits, financial performance and cash flow requirements for operations and capital expenditures, the covenants in their existing loan agreements which prior written consent from the respective financial institutions are required for the payment of dividends of more than certain percentage of their respective PAT as well as other factors.

In addition to the factors above which may affect the ability of our subsidiaries to pay dividends to us, when recommending the actual dividends for approval by shareholders or when declaring any interim dividend, our Board will also consider, among others:

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

(ii) our expected financial performance;

(iii) our working capital requirements;

(iv) our projected levels of expenditure and other investment plans;

(v) any restrictive covenants contained in our current and future financing arrangements; and

(vi) any material impact of tax laws and other regulatory requirements.

Save for certain banking restrictive covenants which our subsidiaries are subject to, there is no other dividend restriction imposed on our subsidiaries as at LPD.

For information purposes, the table below sets out the dividend pay-out ratio of our Group for the financial years indicated:

	FYE 31 December			
	2017	**2018**	**2019**	**2020**
Dividend declared (RM'000)	20,000	25,000	9,900	-
PAT (RM'000)	19,038	27,285	19,745	22,397
Dividend pay-out ratio	105.05%	91.63%	50.14%	*-

Note:

* For information purposes, Yenher Agro, our wholly-owned subsidiary, declared a first and final single-tier dividend of RM5.80 per ordinary share amounting to RM11.60 million in total in respect of the FYE 31 December 2020. The said dividend was paid to our Company, being the sole shareholder of Yenher Agro, on 20 April 2021 out of its operating cash flows.

Subsequently, on 30 April 2021, our Company declared an interim dividend of RM10.80 million for the FYE 31 December 2021 which was then paid to our existing shareholders on 3 May 2021. Such dividend paid is not expected to affect the execution and implementation of our future plans and strategies as set out in Section 6.6 of this Prospectus.

Save as disclosed above, there is no dividend paid or declared subsequent to 31 December 2020 but prior to our Listing.

Investors should note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends which are subject to modification (including non-declaration) thereof at our Board's discretion. We cannot assure you that we will be able to pay dividends or that our Board will declare dividends in the future. There can also be no assurance that further dividends declared by our Board, if any, will not differ materially from historical pay-outs. Please refer to Section 8.3.4 of this Prospectus for the risk factor which may affect or restrict our ability to pay dividends.

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

(The rest of this page has been intentionally left blank)

11.8 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Folks DFK & Co (No. AF 0502)
Chartered Accountants

An Independent Member Firm of DFK INTERNATIONAL

Date : 08 JUN 2021

The Board of Directors
YENHER HOLDINGS BERHAD
No. 35, 1st Floor, Jalan Kelisa Emas 1
Taman Kelisa Emas
13700 Seberang Jaya
Pulau Pinang

Dear Sirs,

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF YENHER HOLDINGS BERHAD AS AT 31 DECEMBER 2020

We have completed our assurance engagement to report on the compilation of pro forma consolidated statements of financial position of Yenher Holdings Berhad ("Yenher" or the "Company") and its subsidiaries, namely Yenher Agro-Products Sdn Bhd and Yenher Biotech Sdn Bhd (collectively referred to as the "Group") as at 31 December 2020 (the "Pro Forma Consolidated Statements of Financial Position"). The Pro Forma Consolidated Statements of Financial Position and the accompanying notes (the "Notes") which are set out in Attachment A (for which we have stamped for identification purposes) have been compiled by the Board of Directors of the Company (the "Directors") for inclusion in the Prospectus of the Company in connection with the initial public offering and the listing and quotation of the entire enlarged issued shares of the Company on the Main Market of Bursa Malaysia Securities Berhad.

The applicable criteria on the basis of which the Directors have compiled the Pro Forma Consolidated Statements of Financial Position are specified in Chapter 9, Part II Division 1 : Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and are described in the Notes to Attachment A.

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Directors to illustrate the impact of events or transactions as set out in the Notes to Attachment A on the Group's financial position as at 31 December 2020, as if such events or transactions had taken place on 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the audited consolidated financial statements of the Group for the financial year ended 31 December 2020, on which an audit report dated 24 March 2021 has been issued by us without any qualification.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Directors are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis specified in the Prospectus Guidelines and as described in the Notes to Attachment A.

Reporting Accountants' Independence and Quality Control

We have complied with the independence and other ethical requirements of the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Folks 12th Floor, Wisma Tun Sambanthan, No. 2, Jalan Sultan Sulaiman, 50000 Kuala Lumpur, Malaysia.
Tel: 603-2273 2688 Fax: 603-2274 2688 e-mail: audit@folkdfk.com / general@folksdfk.com

DFK INTERNATIONAL

Reporting Accountants' Independence and Quality Control (Cont'd)

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

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion as required by the Prospectus Guidelines about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Directors on the basis specified in the Prospectus Guidelines and as described in the Notes to Attachment A.

We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis specified in the Prospectus Guidelines and as described in the Notes to Attachment A.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Position.

The purpose of the Pro Forma Consolidated Statements of Financial Position for inclusion in the Prospectus is solely to illustrate the impact of significant events or transactions on unadjusted financial information of the Group as if such events had occurred or such transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of such events or transactions at 31 December 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis specified in the Prospectus Guidelines and as described in the Notes to Attachment A involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether :-

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

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

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis specified in the Prospectus Guidelines and as described in the Notes to Attachment A.

Other Matter

This report has been prepared solely to comply with the Prospectus Guidelines and for inclusion in the Prospectus of the Company in connection with the initial public offering and the listing and quotation of the entire enlarged issued shares of the Company on the Main Market of Bursa Malaysia Securities Berhad, and should not be used or relied upon for any other purposes. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

FOLKS DFK & CO.
No. : AF 0502
Chartered Accountants

LEONG KOK TONG
No. : 02973/11/2021 J
Chartered Accountant

Yenher Holdings Berhad **Attachment A**
Registration No. : 202001008388 (1364708-X)
Incorporated in Malaysia

Pro Forma Consolidated Statements of Financial Position

1. Introduction

The pro forma consolidated statements of financial position of Yenher Holdings Berhad ("Yenher" or the "Company"), Yenher Agro-Products Sdn Bhd and Yenher Biotech Sdn Bhd (collectively referred to as the "Group") as at 31 December 2020 (the "Pro Forma Consolidated Statements of Financial Position") and the notes thereon, for which the Directors of the Company are solely responsible, have been prepared for illustrative purposes only and for inclusion in the Prospectus of the Company in connection with the initial public offering and the listing and quotation of the entire enlarged issued shares of the Company on the Main Market of Bursa Malaysia Securities Berhad (the "Listing").

The Pro Forma Consolidated Statements of Financial Position have been prepared based on the assumption that the Material Subsequent Event and the Listing Scheme as described in Notes 2 and 3 respectively, were effected on 31 December 2020. The Pro Forma Consolidated Statements of Financial Position may not, because of their nature, give a true picture of the Group's actual financial position. Further, such financial information does not purport to predict the future financial position of the Group.

2. Material Subsequent Event

Distribution of Dividend

On 30 April 2021, the Directors of the Company declared an interim dividend of RM10,800,000 for the financial year ending 31 December 2021. This dividend was subsequently paid on 3 May 2021.

3. Listing Scheme

The Listing of the Company involves the following :-

3.1 Initial Public Offering ("IPO")

(a) Public Issue

Public issue of 64,431,000 new Shares ("Issue Shares") representing approximately 21.48% of the enlarged issued shares of the Company at an issue price of RM0.95 per Issue Share. The Issue Shares will be offered in the following manner :-

(i) 15,000,000 Issue Shares will be made available for application by the Malaysian public;

(ii) 15,000,000 Issue Shares will be reserved for application by the eligible Directors of the Company, eligible employees of the Group as well as other persons who have contributed to the success of the Group; and

(iii) 34,431,000 Issue Shares will be made available for application by way of a private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry ("MITI").

(Collectively hereinafter referred to as the "Public Issue")

The proceeds to be raised from the Public Issue of approximately RM61,209,450 would be used for the Group's capital expenditure, working capital and listing expenses as detailed in Note 5.4.

FOLKS DFK & CO. (AF 0502)
Chartered Accountants, Kuala Lumpur
For Identification Purposes Only