SMITH ZANDER INTERNATIONAL SDN BHD 201301028298 (1058128-V)
15-01, Level 15, Menara MBMR, 1 Jalan Syed Putra, 58000 Kuala Lumpur, Malaysia
T : +603 2732 7537 W : www.smith-zander.com

SMITH ZANDER

Date: 14 MAR 2024

The Board of Directors

MKH Oil Palm (East Kalimantan) Berhad
G-02 & G-03, Ground Floor
Wisma MKH
Jalan Semenyih
43000 Kajang
Selangor

Dear Sir / Madam,

Independent Market Research Report on the Oil Palm Industry in Indonesia ("IMR Report")

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("**SMITH ZANDER**") for inclusion in the Prospectus in conjunction with the listing of MKH Oil Palm (East Kalimantan) Berhad on the Main Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry and market(s) in which MKH Oil Palm (East Kalimantan) Berhad and its subsidiaries ("**MKHOP Group**") operate and to offer a clear understanding of the industry and market dynamics. MKHOP Group is an upstream oil palm plantation group and its operations are based in East Kalimantan, Indonesia. Through its subsidiaries, it is principally involved in the cultivation of oil palm plantation and the production and sale of crude palm oil and palm kernel. Hence, the scope of work for this IMR Report will address the following areas:

(i) The oil palm industry in Indonesia;
(ii) Industry performance, size and growth;
(iii) Key industry drivers, risk and challenges; and
(iv) Competitive overview.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held 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 mentioned in this report or otherwise.

For and on behalf of SMITH ZANDER:

DENNIS TAN TZE WEN
MANAGING PARTNER

SMITH ZANDER

The research for this IMR Report was completed on 1 March 2024.

For further information, please contact:

SMITH ZANDER INTERNATIONAL SDN BHD
15-01, Level 15, Menara MBMR
1, Jalan Syed Putra
58000 Kuala Lumpur
Malaysia
Tel: + 603 2732 7537

www.smith-zander.com

About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

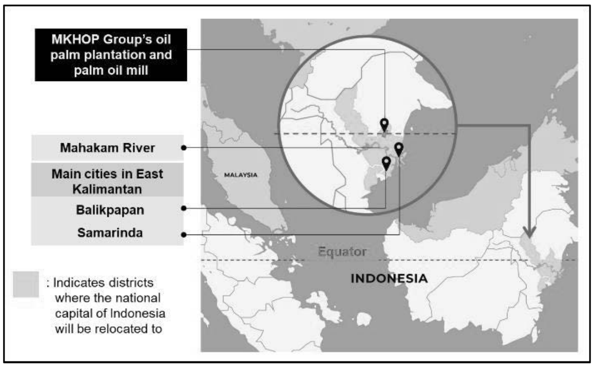
Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has over 26 years of experience in market research and strategy consulting, including over 21 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE OIL PALM INDUSTRY IN INDONESIA

Economic and geographical overview of Indonesia

Indonesia is the largest economy in Southeast Asia with a total Gross Domestic Product ("**GDP**") of IDR12.30 quadrillion (RM3.68 trillion)[1], and the world's fourth most populous nation with a population size of 278.70 million, in 2023.[2] In 2023, the economy of Indonesia was mainly supported by the manufacturing sector which was the largest contributor to the nation's GDP at IDR2.51 quadrillion (RM750.49 billion)[1], followed by wholesale and retail trade as well as repair of motor vehicles and motorcycles sector at IDR1.60 quadrillion (RM478.40 billion)[1], and agricultural, forestry and fishing sector at IDR1.45 quadrillion (RM433.55 billion)[1]. Within the agricultural, forestry and fishing sector, plantation crops, which include oil palm, was the largest contributor to the sectoral GDP at IDR439.50 trillion (RM131.41 billion)[1].[3]

Kalimantan is a territory of Indonesia located in Borneo Island. East Kalimantan, one of the five provinces in Kalimantan, has its capital Samarinda, which lies on the banks of the Mahakam River. East Kalimatan has a seaport city named Balikpapan, which is also the financial centre of Kalimantan and will be the main gateway to the new national capital of Indonesia. The economy of East Kalimantan is mainly driven by natural resources such as oil, natural gas, coal and gold. In 2019, Joko Widodo, the President of Indonesia, announced that the national capital of Indonesia will be relocated from Jakarta to East Kalimantan, whereby the new national capital will be located across 2 districts in East Kalimantan, namely North Penajam Paser and Kutai Kartanegara, both of which are located close to Samarinda and Balikpapan.



Source: SMITH ZANDER

Overview of the oil palm industry in Indonesia

The value chain of the oil palm industry can be categorised into 4 segments, comprising upstream, midstream, downstream processing, and consumer and industrial products manufacturing as follows:

Value chain of the oil palm industry

	Upstream	Midstream	Downstream processing	Consumer and industrial products manufacturing
Activities	▪ Seed production ▪ Nursery ▪ Cultivation ▪ Harvesting ▪ Palm oil milling ▪ PK crushing	▪ Trading ▪ Bulking	▪ Refining ▪ Fractionation ▪ Esterification	▪ Blending ▪ Packing ▪ Marketing and branding
Products/ output	▪ Oil palm seedling ▪ Fresh fruit bunches ("FFB") ▪ Crude palm oil ("CPO") ▪ Palm kernel ("PK") ▪ Crude palm kernel oil ("CPKO") ▪ By-products (empty fruit bunch (EFB), decanter cake, mesocarp fibre, PK shell and palm oil mill effluent)	▪ CPO ▪ PK ▪ CPKO	▪ Refined, bleached and deodorised ("RBD") palm oil ▪ RBD palm kernel oil ▪ Palm fatty acid distillate ▪ RBD palm olein ▪ RBD palm stearin ▪ Cocoa butter substitute ▪ Fatty acid, alcohols, amines, amides ▪ Glycerines ▪ Biodiesel	▪ Cooking and salad oils ▪ Margarines and spreads ▪ Bakery shortening ▪ Emulsifiers ▪ Confectionery fats ▪ Cosmetics ▪ Soaps ▪ Sanitisers ▪ Detergents

Notes:
- *The list is not exhaustive.*
- *Indicates the segment that MKHOP Group is involved in and key products sold to its customers.*

Source: SMITH ZANDER

[1] *Exchange rate for IDR to RM for 2023 is converted based on the average annual exchange rate in 2023, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0299.*
[2] *Sources: The World Bank, Badan Pusat Statistik ("**BPS**")*
[3] *Source: BPS*

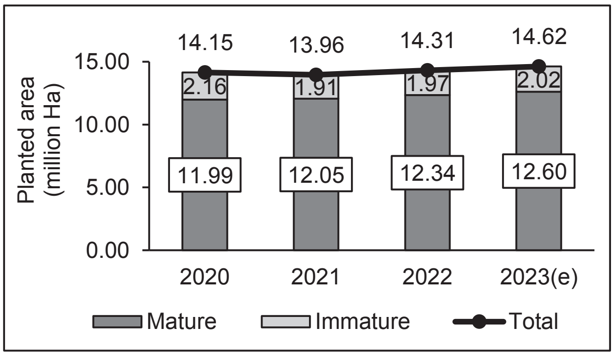
2 INDUSTRY PERFORMANCE, SIZE AND GROWTH

Supply analysis of the oil palm industry in Indonesia

From 2020 to 2023, total mature and immature oil palm planted area in Indonesia rose from 14.15 million hectares ("**Ha**") to 14.62 million Ha at a compound annual growth rate ("**CAGR**") of 1.10%. Over the same period, immature oil palm planted area in Indonesia decreased at a negative CAGR of 2.21%, while mature oil palm planted area increased at a CAGR of 1.67%.

East Kalimantan, in which MKHOP Group's plantation estates are located, recorded an increase in total mature and immature oil palm planted area at a CAGR of 1.26%, from 1.31 million Ha in 2020 to 1.36 million Ha in 2023.

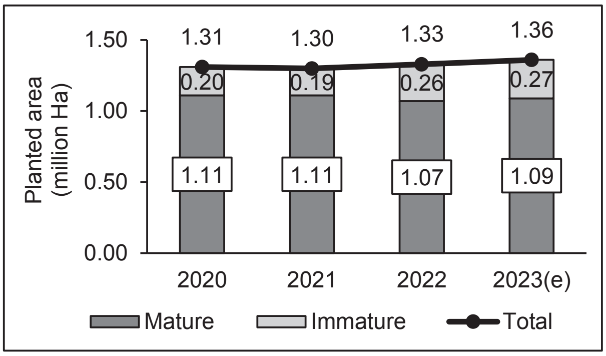
Oil palm planted area (Indonesia), 2020 - 2023(e)



Note: (e) - estimate

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

Oil palm planted area (East Kalimantan), 2020 - 2023(e)

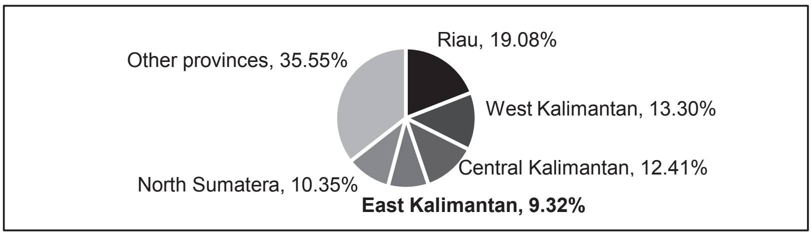


Note: (e) - estimate

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

Oil palm plantations in Indonesia are mainly centred in several provinces, namely Riau, West Kalimantan, Central Kalimantan, East Kalimantan and North Sumatera, whereby total mature and immature oil palm planted area in these provinces accounted for 19.08%, 13.30%, 12.41%, 9.32% and 10.35% respectively, of the total mature and immature oil palm planted area in Indonesia in 2023.

Contribution of oil palm planted area by province (Indonesia), 2023(e)



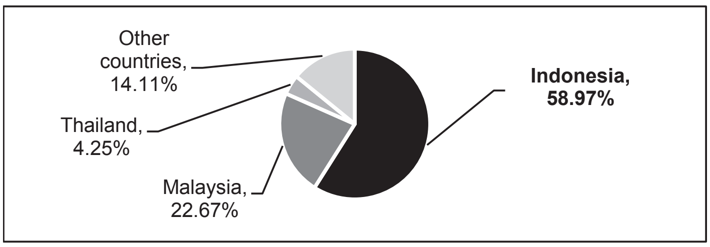
Notes: (e) - estimate; Figures may not add up due to rounding difference.

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

Indonesia is the world's largest producer of CPO. In 2023, Indonesia's CPO production, which stood at 48.24 million metric tons ("**MT**"), accounted for 58.97% of global CPO production of 81.81 million MT.

From 2020 to 2023, production of CPO in Indonesia increased from 45.74 million MT to 48.24 million MT at a CAGR of 1.79%. In East Kalimantan, production of CPO increased from 3.72 million MT in 2020 to 3.98 million MT in 2023 at a CAGR of 2.28%.

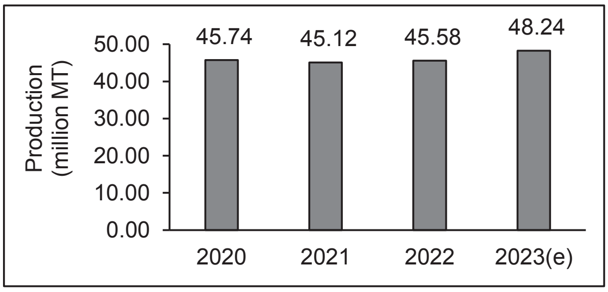
Composition of global CPO producers, 2023(e)



Note: (e) - estimate

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

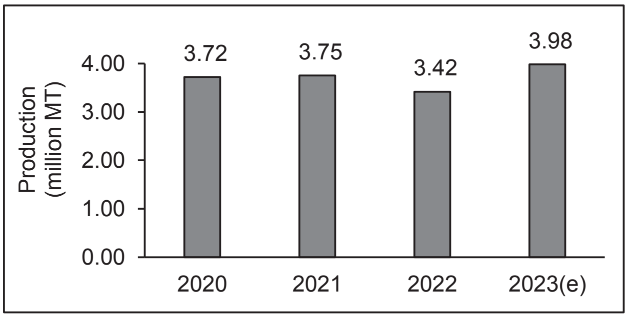
Production of CPO (Indonesia), 2020 - 2023(e)



Note: (e) - estimate

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

Production of CPO (East Kalimantan), 2020 - 2023(e)

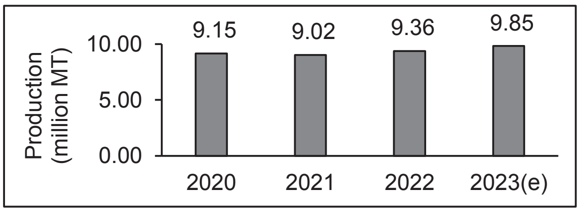


Note: (e) – estimate

Sources: Ministry of Agriculture Indonesia, SMITH ZANDER

In line with the increasing production of CPO in Indonesia, from 2020 to 2023, production of CPKO in Indonesia also increased from 9.15 million MT to 9.85 million MT at a CAGR of 2.49%. Production of CPKO in East Kalimantan is not publicly available.

Production of CPKO (Indonesia), 2020 - 2023(e)



Note:

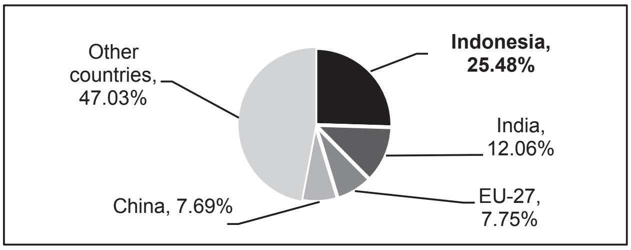
(e) – estimate

Sources: BPS, SMITH ZNDER

Demand analysis of the oil palm industry in Indonesia

Indonesia is the world's largest consumer market for CPO. In 2023, CPO consumption in Indonesia amounted to 19.72 million MT, accounting for 25.48% of global CPO consumption of 77.38 million MT. This is followed by India (12.06%), European Union ("**EU-27**") (7.75%) and China (7.69%). From 2020 to 2023, consumption of CPO in Indonesia increased from 16.71 million MT to 19.72 million MT at a CAGR of 5.68%.

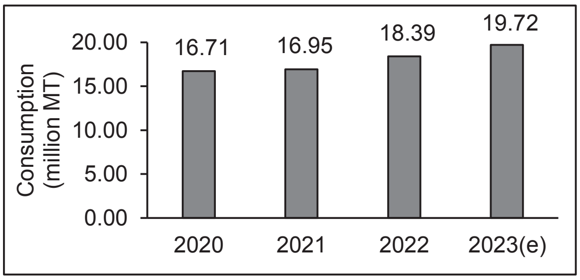
Composition of global CPO consumer markets, 2023(e)



Note: (e) - estimate

Source: SMITH ZANDER

Consumption of CPO (Indonesia), 2020 - 2023(e)

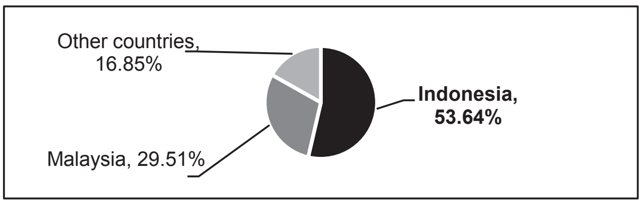


Note: (e) - estimate

Source: SMITH ZANDER

In tandem with its position as the world's largest producer of CPO, Indonesia is also the world's largest exporter of CPO, and hence it plays a significant role in supporting the global demand for palm oil. In 2023, Indonesia's CPO exports which stood at 27.50 million MT, accounted for 53.64% of global CPO exports of 51.27 million MT.

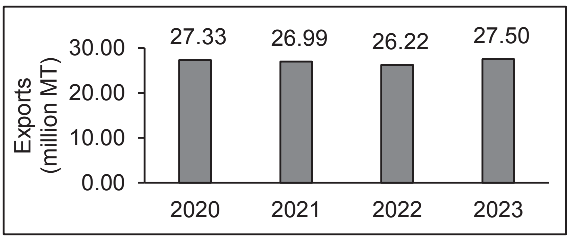
Composition of global CPO exports, 2023(e)



Note: (e) - estimate

Sources: BPS, SMITH ZANDER

Exports CPO (Indonesia), 2020 - 2023



Sources: BPS, SMITH ZANDER

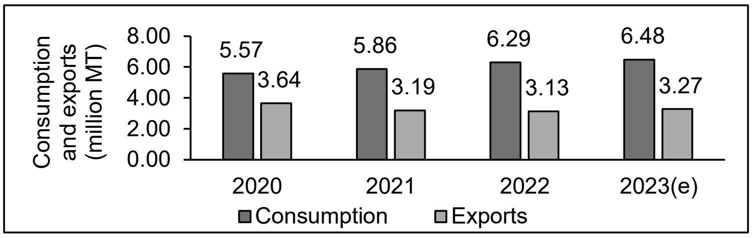
However, from 2020 to 2022, Indonesia's exports of CPO decreased from 27.33 million MT to 26.22 million MT at a negative CAGR of 2.05%. This was mainly due to the export ban on CPO, RBD palm oil, RBD palm olein and used cooking oil imposed by the Government of Indonesia from 28 April 2022 to 23 May 2022 in an effort to curb the rise in domestic cooking oil prices.

As Indonesia is the largest exporter of palm oil globally, the export ban adversely impacted global CPO supply. Conversely, Indonesia experienced a domestic oversupply of CPO during the same period, which successfully stabilised domestic cooking oil prices and subsequently drove the consumption of CPO in Indonesia. Following the upliftment of the export ban, the Government of Indonesia reinstated the domestic market obligation in which CPO exporters are required to fulfil a local CPO sales quota in order to export CPO, which also contributed to the overall decrease in CPO exports in 2022. From 2022 to 2023, Indonesia's exports of CPO increased year-on-year ("**YOY**") by 4.88% from 26.22 million MT to 27.50 million MT. Overall, from 2020 to 2023, Indonesia's exports of CPO increased at a CAGR of 0.21% from 27.33 million MT to 27.50 million MT.

In line with the increase in consumption of CPO, consumption of CPKO in Indonesia also increased from 5.57 million MT in 2020 to 6.48 million MT in 2023 at a CAGR of 5.17%.

From 2020 to 2022, exports of CPKO decreased from 3.64 million MT to 3.13 million MT at a negative CAGR of 7.27%, which is in line with the decline in Indonesia's CPO exports over the same period.

Consumption and exports of CPKO (Indonesia), 2020 - 2023(e)



Note: (e) - estimate

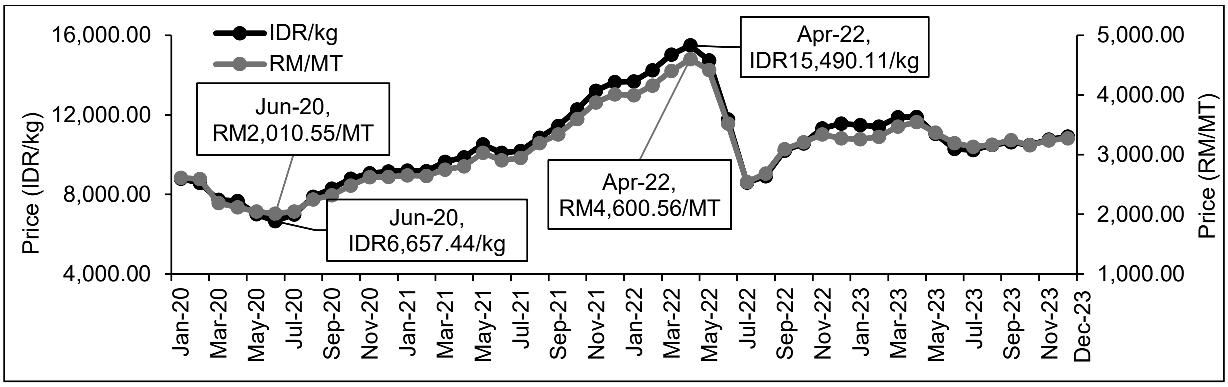
Source: SMITH ZANDER

From 2022 to 2023, Indonesia's CPKO exports increased YOY by 4.47% from 3.13 million MT to 3.27 million MT. Overall, from 2020 to 2023, Indonesia's CPKO exports decreased at a CAGR of 3.51% from 3.64 million MT to 3.27 million MT.

Price trend analysis of CPO and palm kernel ("PK")

Between 2020 and 2023, prices of CPO in East Kalimantan fluctuated, with the lowest price at IDR6,657.44/kilograms ("**kg**") (RM2,010.55/MT)[4] in June 2020 and the highest price at IDR15,490.11/kg (RM4,600.56/MT)[5] in April 2022.

CPO prices (East Kalimantan), 2020 – 2023



Sources: Dinas Perkebunan Provinsi Kalimantan Timur (Plantation Office of East Kalimantan), SMITH ZANDER

[4] *Exchange rate for IDR to RM for June 2020 is converted based on the average exchange rate in June 2020, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0302.*

[5] *Exchange rate for IDR to RM for April 2022 is converted based on the average exchange rate in April 2022, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0297.*

Local prices of CPO in East Kalimantan mirror the global prices of CPO, which are influenced by supply and demand conditions of CPO in the global market. The trend of global CPO prices between 2020 and 2023 is described as follows:

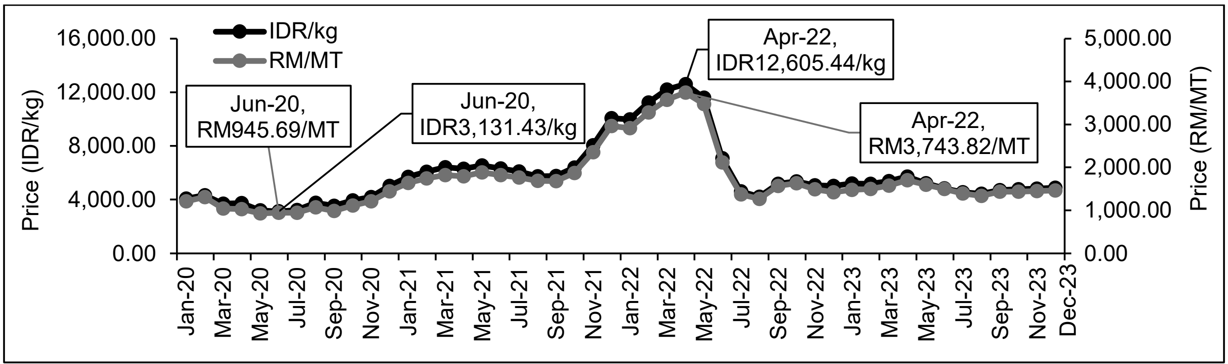
- Between January 2020 and June 2020, CPO prices were at a decreasing trend due to dampened demand for CPO as a result of the COVID-19 pandemic and the imposition of movement restrictions in a bid to curb the spread of COVID-19. Subsequently, CPO consumption had reduced due to lower import demand from India and China, which are the two largest import countries for CPO. Coupled with dry weather conditions and labour shortages, global prices of CPO decreased, which weighed down the local CPO prices in East Kalimantan to its lowest during the period of 2020 to 2023, at IDR6,657.44/kg (RM2,010.55/MT) in June 2020.
- Between July 2020 and April 2022, CPO prices were at an increasing trend mainly as a result of the continuous low CPO supply due to the earlier imposition of movement restrictions which had restricted or placed limitations on CPO production. Furthermore, shortages in foreign labour and temporary closure of operations of oil palm plantations particularly in Malaysia had further suppressed CPO production. In addition, heavy rainfall in early 2021 had disrupted oil palm harvesting activities as well as logistics on oil palm plantations, which led to lower FFB yield and subsequently lower CPO supply. The increase in CPO prices beginning 2021 was also contributed by the increasing demand for CPO due to the easing of movement restrictions globally, particularly in Europe and North America.

  In addition, the outbreak of the Russia-Ukraine conflict in February 2022 had disrupted the supply of sunflower oil from Ukraine which subsequently drove demand for CPO as a substitute, leading to the rise in global CPO prices. As Cost, Insurance and Freight ("**CIF**") Rotterdam prices continued to rise due to the Russia-Ukraine conflict, local CPO prices in East Kalimantan reached its highest since 2020 at IDR15,490.11/kg (RM4,600.56/MT) in April 2022. Consequently, the Government of Indonesia had imposed a palm oil export ban from 28 April 2022 to 23 May 2022 in a bid to lower domestic cooking oil prices, whereby the ban on exports was intended to increase the supply of domestic palm oil, which would subsequently lead to an increase in the supply of domestic cooking oil, resulting in a decrease in domestic cooking oil prices. Due to its palm oil export ban, Indonesia's exports of CPO and global CPO imports declined, which further drove global CPO prices as well as led to the drop in global CPO consumption.
- From May 2022 to July 2022, CPO prices were at a decreasing trend, which was mainly due to excessive stock of CPO in Indonesia accumulated during the export ban and increase in CPO exports by Indonesia.
- From August 2022 to April 2023, CPO prices were generally at an increasing trend due to the increase in demand for CPO as CPO exports and consumption rose as a result of the pent-up demand for CPO by importing countries such as India and China following the upliftment of the Indonesian palm oil export ban, as well as the tightening of palm oil export quotas by Indonesia in January 2023 to secure domestic palm oil supply and control domestic cooking oil prices ahead of the Islamic festivals around the end of March 2023 to end of April 2023.
- From May 2023 to July 2023, CPO prices were generally at a decreasing trend due to weaker prices of competitive oils such as soybean, sunflower and rapeseed oils which affected the demand for CPO, higher expected CPO production and inventories as well as lower import demand from India.
- From August 2023 to December 2023, CPO prices were generally moving at a consistent trend.

Between 2020 and 2023, prices of PK in East Kalimantan fluctuated, with the lowest price at IDR3,131.43/kg (RM945.69/MT)[6] in June 2020 and the highest price at IDR12,605.44/kg (RM3,743.82/MT)[7] in April 2022.

[6] *Exchange rate for IDR to RM for June 2020 is converted based on the average exchange rate in June 2020, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0302.*
[7] *Exchange rate for IDR to RM for April 2022 is converted based on the average exchange rate in April 2022, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0297.*

PK prices (East Kalimantan), 2020 – 2023



Sources: Dinas Perkebunan Provinsi Kalimantan Timur (Plantation Office of East Kalimantan), SMITH ZANDER

Generally, PK prices have similar trends with CPO prices as the production of PK is closely tied to the production of CPO given that PK is a by-product of CPO. As such, the factors which affect the production of CPO also applies to the production of PK. Local prices of PK in East Kalimantan mirror the global prices of PK, which are influenced by supply and demand conditions of PK in the global market.

3 KEY INDUSTRY DRIVERS, RISKS AND CHALLENGES

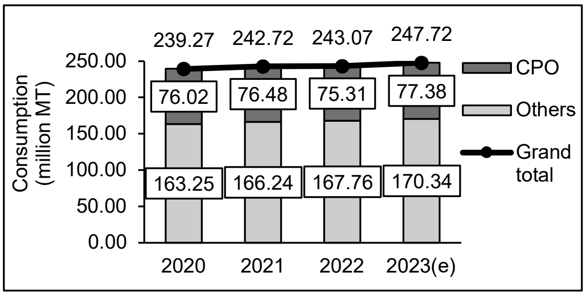
Key Industry Drivers

► **Growing demand for food drives the demand for edible oils and fats which subsequently drives the growth of the oil palm industry**

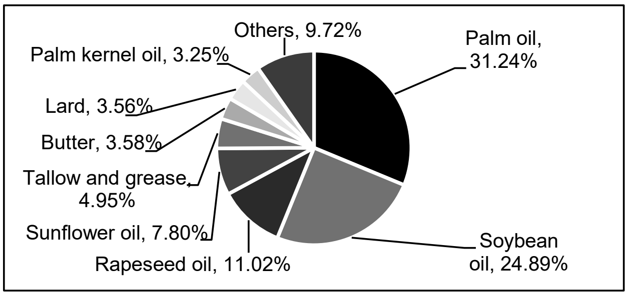
The demand for edible oils and fats such as palm oil is directly driven by the growing demand for food as a result of growing global population. According to The World Bank, world population in 2023 stood at approximately 8.02 billion and is expected to increase by 20.57% to 9.67 billion in 2050. Higher population growth rates in developing countries pressure the agricultural industry to produce sufficient food and fibre to feed and clothe the increasing world population.

In line with economic growth post COVID-19 pandemic, world urban population as a percentage of total population is expected to increase from 57.32% in 2023 to 67.97% in 2050[8] as individuals migrate from rural to urban areas to seek higher standards of living, which increases consumer spending power and thus drives the demand for food.

Consumption of CPO and other major edible oils and fats (Global), 2020 – 2023(e)



Comparative consumption of CPO and other major edible oils and fats (Global), 2023(e)



Notes:

- *Others comprise soybean oil, rapeseed oil, sunflower oil, cotton oil, corn oil, groundnut oil, olive oil, palm kernel oil, coconut oil, fish oil, sesame oil, castor oil, linseed oil, butter, lard and tallow and grease.*
- *(e) - estimate*

Source: SMITH ZANDER

[8] *Source: The World Bank*

Edible oils and fats are primarily utilised for food applications, and largely in the manufacturing of cooking and salad oils, margarines and spreads, food ingredients such as emulsifiers and shortenings, and substitutes for hard butter and cocoa butter.

The total global consumption of major edible oils and fats increased from 239.27 million MT in 2020 to 247.72 million MT in 2023 at a CAGR of 1.16%. Palm oil is the highest consumed edible oil, outstripping the consumption of other major edible oils and fats. In 2023, CPO accounted for 31.24% of total global consumption of major edible oils and fats. Palm kernel oil was the eighth most consumed edible oil globally in 2023, accounting for 3.25% of total global edible oils and fats consumption in 2023.

► **Wide range of applications of palm oil and its derivatives drives the demand for palm oil**

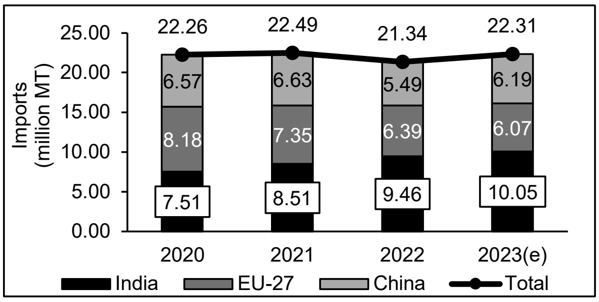
The versatility and fat content in palm oil which extends shelf life, shortens cooking time, and contributes to texture as well as flavor makes it a popular base ingredient that is utilised in a wide range of food and non-food applications. Palm oil can be used for a multitude of food applications, including the production of cooking oil, margarine, bakery shortening and confectionery fats; as well as non-food applications including the manufacturing of personal and hygiene care products such as soaps, cosmetics, sanitisers and detergents, which are produced using ingredients from oleochemical products derived from palm oil. These food and non-food products are commonly and widely used in consumers' daily lives.

Palm oil is also used in the production of polyols, which is used to make polyurethane, a plastic material with multiple applications in various industries such as building and construction, automotive, furniture and electrical and electronics.

► **Demand from India, EU-27 and China as three of the largest CPO import / consumer markets**

The demand for CPO from India, EU-27 and China, in terms of imports and consumption, are key factors in sustaining the oil palm industry. In 2023, India was the largest importer of CPO globally with a market share of 17.58% to global CPO imports, followed by China (10.83%) and EU-27 (10.62%). In the same year, after Indonesia, which was the largest consumer market for CPO with a market share of 25.48% to global CPO consumption, India was the second largest consumer market for CPO with a market share 12.06%, followed by EU-27 (7.75%) and China (7.69%).

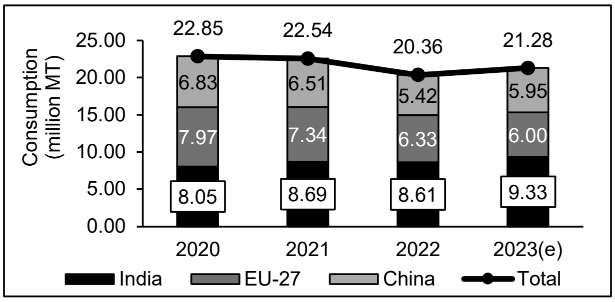
Imports of CPO (India, EU-27 and China), 2020 – 2023(e)



Note: (e) - estimate

Source: SMITH ZANDER

Consumption of CPO (India, EU-27 and China), 2020 – 2023(e)



Note: (e) - estimate

Source: SMITH ZANDER

From 2020 to 2022, total imports and total consumption of CPO in India, EU-27 and China decreased at a CAGR of 2.09% and 5.61% respectively. The overall decrease in CPO imports and consumption in these three markets was weighed down by the decrease in EU-27 and China, which was mainly due to lower CPO supply and the rise in CPO prices resulting from economic factors such as foreign labour shortages due to temporary closure of operations of oil palm plantations particularly in Malaysia following the outbreak of COVID-19, as well as geopolitical factors such as the Russia-Ukraine conflict that escalated in February 2022 which disrupted the supply of sunflower oil from Ukraine and subsequently drove the demand for CPO as a substitute by importers, as well as Indonesia's export ban on palm oil from 28 April 2022 to 23 May 2022.

From 2022 to 2023, total imports and total consumption of CPO in India, EU-27 and China increased YOY by 4.55% and 4.52%, respectively due to the recovery in imports following the upliftment of Indonesia's export ban on palm oil. Overall, from 2020 to 2023, total imports of CPO in India, EU-27 and China increased at a CAGR of 0.07% while total consumption of CPO in India, EU-27 and China decreased at a CAGR of 2.34%.

► **Strong government support to strengthen the oil palm industry**

In 2011, the Government of Indonesia introduced the Indonesian Sustainable Palm Oil ("**ISPO**") standard, which is based on Indonesian laws and regulations, to enhance the competitiveness and sustainability of the Indonesian palm oil industry. Palm oil producers that hold the ISPO certification are required to conform to ISPO principles with regards to licensing and plantation management, technical guidelines for the processing and cultivation of palm oil and environmental management, amongst others. The ISPO certification is mandatory for all Indonesian palm oil producers, from large scale producers to independent smallholders, to strengthen Indonesia's position in the global palm oil market as a palm oil producer and exporter.

In 2015, the Government of Indonesia established the Badan Pengelola Dana Perkebunan Kelapa Sawit ("**BPDPKS**") which is a fund management agency under the Ministry of Finance of Indonesia to manage funds allocated for the development of the Indonesian palm oil industry. The BPDPKS provides funding for replanting programs for smallholders through the Peremajaan Sawit Rakyat ("**PSR**") programme to improve palm oil productivity, provide biodiesel incentive to encourage the use of biodiesel by the public and research and development in the palm oil sector, amongst others. During the period of 2016 to August 2023, the BPDPKS had distributed a total replanting fund of IDR8.80 trillion (RM2.62 billion)[9].[10] In 2023, the BPDPKS had allocated IDR5.40 trillion (RM1.61 billion)[11] for the year to support the PSR programme which was expected to cover the replanting of 0.18 million Ha of oil palm trees.[10]

Key Industry Risks and Challenges

► **Dependent on weather conditions and other factors affecting crop productivity and yield**

Productivity levels may be influenced by various factors such as weather conditions, pest attacks and crop diseases, labour availability, efficient management of plantations by sourcing and utilising quality planting materials, ensuring sufficient land area for oil palm crops, maintaining plantations by weeding, pruning, soil fertilisation and harvesting during optimum seasons, age profile of the oil palm trees as well as utilising efficient production techniques in the process of oil extraction.

The annual yield of mature crops does not remain constant and varies annually arising from external factors such as soil fertility and climate as well as biological factors such as frond production, floral abortion, sex ratio, bunch survival and average bunch weight which, when affected, can possibly lead to tree stress, thus adversely impacting FFB yield. Tree stress is a biological production pattern where crops experience lower yield performance after a period of high yields. Crops that are in the latter stages of maturity are more likely to face prolonged biological stress after a period of bumper harvest.

► **Fluctuations in edible oils prices which may affect demand for palm oil**

As with any other commodity, global CPO prices have been seen to fluctuate during periods of economic growth and contractions. Global CPO prices have also been seen to be closely tied to the market price of crude oil, due to their use as feedstock in the production of biodiesel and hence, serving as a substitute for crude oil.

Other factors that have significant impact on the price movement of CPO include supply and demand forces, demand from food and oleochemicals industries, weather conditions and performance of other edible oils and fats. If both supply and demand are strong but market prices remain high, consumption levels are likely to be affected, thereby restraining the growth of the industry.

► **Product substitution with other edible oils and fats**

Edible oils and fats are typically versatile in terms of their purposes such as for cooking, baking and salad dressings. Most edible oils and fats can be used for similar purposes and thus, making them substitutable with one another. The substitutability of palm oil with other edible oils and fats, and vice versa, is mainly driven by global CPO prices as well as prices of other edible oils and fats. Global CPO prices and prices of other edible oils and fats correlate with factors such as weather conditions, labour availability, changes in government policies and geopolitical conflicts, which affect the supply and demand of palm oil and other edible oils and fats.

---

[9] Exchange rate for IDR to RM for 2016 to August 2023 is converted based on the average annual exchange rate from 1 January 2016 to 31 August 2023, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0298.
[10] Source: Indonesia Palm Oil Association
[11] Exchange rate for IDR to RM for 2023 is converted based on the average annual exchange rate in 2023, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0299.

Any changes to these factors may affect the substitutability of palm oil with other edible oils and fats and subsequently affect the growth of the oil palm industry.

► **Environmental concerns surrounding the oil palm industry**

Typically, vast areas of tropical rainforests are cleared out in order to make way for oil palm plantations. This has resulted in concerns in the rise of deforestation, biodiversity destruction and greenhouse gas emissions in countries such as Indonesia and Malaysia which are the two largest palm oil producers globally.

On 1 July 2021, through the Renewable Energy Directive II, the EU enforced a regulation on its member states in which palm oil-based biofuel is no longer considered as a renewable energy in its renewable energy targets in order to phase out the use of palm oil-based biofuel by 2030. In the long run, the EU's phasing out of use of palm oil-based biofuel may have adverse impact on the demand for palm oil from the EU.

Furthermore, on 29 June 2023, the EU began enforcing the Regulation on deforestation-free products ("**EUDR**"), which aims to avoid commodities comprising soy, beef, palm oil, wood, cocoa, coffee, rubber and some of their derivative products, such as leather, chocolate, tyres, or furniture, that are linked to deforestation or forest degradation from being placed on the EU market. As such, the EUDR mandates companies that place these commodities on the EU market to screen their suppliers through annual due diligence frameworks to attest that the products are not derived from recently deforested land or have not contributed to forest degradation. In addition, the EUDR also requires the due diligence to encompass details to verify that these suppliers are in compliance with laws pertaining to land use, labour and human rights as well as the rights of local indigenous communities of the suppliers' countries. In the event that the suppliers of these commodities are unable to meet the requirements as set out by the EUDR, the demand for these commodities in the EU may be negatively impacted, which includes the demand for palm oil and its derivatives.

There is no assurance that other countries will not adopt similar policies that phase out the use of palm oil-based biofuel as well as regulations similar to the EUDR due to environmental concerns, which may adversely impact the global demand for palm oil and thus affect the growth of the oil palm industry.

4 COMPETITIVE OVERVIEW

The oil palm industry in Indonesia is a vibrant and thriving industry owing to its strategic geographical location along the tropical belt of the equator. The oil palm industry in Indonesia, in particular the upstream segment of the oil palm industry, comprises many industry players which include private estates, smallholders and government estates, whereby private estates accounted for 55.08% of total oil palm planted area, followed by smallholders (41.17%) and government estates (3.75%).

The barriers to entry in the oil palm industry is high as it requires high initial capital to establish a sizable plantation estate and palm oil milling facilities, which includes acquisition of agricultural land, construction of palm oil mill(s), purchasing of machinery and storage facility(s), as well as operating expenses and working capital for on-going cultivation and milling activities.

Closest competitors to MKHOP Group

MKHOP Group owns two plantation estates with a total planted area of 17,008.80 Ha in East Kalimantan. The basis for selection of the closest competitors to MKHOP Group is as follows:

- public listed companies involved in the upstream segment of the oil palm industry in Indonesia, in particular the cultivation of oil palm and production of CPO and PK in Indonesia, including foreign listed companies based outside Indonesia but with oil palm plantations in Indonesia; and
- companies with total planted area between 10,000 Ha and 100,000 Ha in Indonesia.

Companies with total planted area which exceed 100,000 Ha are excluded as these companies are not deemed to be the closest competitors to MKHOP Group as their scale of operations are significantly larger. Further, some of these companies are vertically integrated companies with both upstream (i.e. cultivation of oil palm and production of CPO and PK/CPKO) and downstream (i.e. palm oil refineries and/or manufacturing) operations. Some examples of these companies with total planted areas exceeding 100,000 Ha are public listed companies such as PT Astra Agro Lestari Tbk (287,044 Ha) and PT Salim Ivomas Pratama Tbk (244,768 Ha) which are headquartered in Indonesia; Kuala Lumpur Kepong Berhad (287,181 Ha), Sime Darby Plantation Berhad (579,708 Ha), IOI Corporation Berhad (173,818 Ha) and Genting Plantations Berhad (159,477 Ha) which are headquartered in Malaysia and have oil palm plantations in Indonesia; as well as Wilmar International Limited (231,697 Ha), Golden Agri-Resources Ltd (537,697 Ha) and First Resources Limited (211,409 Ha) which are headquartered in Singapore and have oil palm plantations in Indonesia. The identified key industry players include major industry players in Indonesia that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players is exhaustive.

Private companies are not included as key industry players as audited financial statements for private companies in Indonesia are not publicly available.

[The rest of this page is intentionally left blank]

Profiles of key industry players

Industry player	Country of incorporation	Stock exchange in which the industry player is listed	Location of plantations	Latest available financial year	Total planted area (Ha)[a]	Mature planted area (%)	Immature planted area (%)	FFB yield (MT/Ha)	CPO production volume (MT)	PK production volume (MT)	Oil extraction rate (OER) (%)	Kernel extraction rate (KER) (%)	Total revenue[b]	Total revenue (RM)	Gross profit margin (%)	Profit after tax margin (%)	Price-to-earnings (P/E) ratio[c]	Market capitalisation (RM)[c]
Anglo-Eastern Plantations Plc	United Kingdom	London Stock Exchange	Indonesia (Sumatra (North Sumatra, Bengkulu, Riau, Bangka Island), and Kalimantan (Central Kalimantan) and Malaysia	31 Dec 2022	68,084[d]	87.15[d]	12.85[d]	20.60[d),(e]	455,600	106,200	20.60	4.80	USD447.62 million[d]	1.97 billion[d),(f]	30.70[d]	21.37[d]	7.02	1.61 billion
PT Austindo Nusantara Jaya Tbk	Indonesia	Indonesia Stock Exchange	Indonesia (Kalimantan (West Kalimantan), Sumatra (North Sumatra, South Sumatra and Belitung Island) and Papua (Southwest Papua))	31 Dec 2022	49,409	85.48	14.52	19.40	275,769	55,011	20.10	4.40	USD269.17 million	1.18 billion[f]	20.01	7.86	53.27	729.00 million
PT Teladan Prima Agro Tbk	Indonesia	Indonesia Stock Exchange	Indonesia (Kalimantan (East Kalimantan))	31 Dec 2022	60,561	99.18	0.82	N/A[g]	300,504	49,903	22.40	3.70	IDR3.61 trillion	1.07 billion[h]	34.50	15.89	10.31	1.81 billion
R.E.A. Holdings plc	United Kingdom	London Stock Exchange	Indonesia (Kalimantan (East Kalimantan))	31 Dec 2022	35,968	98.59	1.41	21.60	218,275	46,799	22.30	4.80	USD208.78 million	918.74 million[f]	29.09	15.75	-[i]	187.60 million
Kencana Agri Limited	Singapore	Singapore Stock Exchange	Indonesia (Sumatra (Bangka Island), Kalimantan (East Kalimantan and South Kalimantan) and Sulawesi (Central Sulawesi and North Sulawesi))	31 Dec 2022	68,152[j]	94.38[j]	5.62[j]	N/A[g),(j]	163,251[j]	N/A[g),(j]	20.40[j]	N/A[g),(j]	USD152.54 million	671.25 million[f]	28.58	1.72	-[i]	80.91 million
NPC Resources Berhad	Malaysia	Bursa Malaysia	Indonesia (Kalimantan (East Kalimantan)) and Malaysia	31 Dec 2022	23,838	77.00	23.00	11.59	82,326	16,147	20.51	4.02	RM413.29 million	413.29 million	9.25	0.27	22.56	210.39 million
MKHOP Group	Malaysia	- (to be listed on Bursa Malaysia)	Indonesia (Kalimantan (East Kalimantan))	30 Sept 2021 / 30 Sept 2022 / 30 Sept 2023	17,174.54 / 17,008.80 / 17,008.80	100.00	-	26.70 / 23.30 / 24.10	89,438 / 74,942 / 89,017	17,963 / 16,245 / 16,886	19.40 / 18.50 / 20.60	3.90 / 4.00 / 3.90	RM306.61 million / RM315.82 million / RM337.98 million	306.61 million / 315.82 million / 337.98 million	45.80 / 41.10 / 27.20	25.30 / 19.00 / 9.20	20.30[k]	634.60 million
PT Jaya Agra Wattie Tbk	Indonesia	Indonesia Stock Exchange	Indonesia (Kalimantan (South Kalimantan))	31 Dec 2022	27,919	N/A[g]	N/A[g]	4.94	47,983	8,573	20.42	3.65	IDR971.54 billion	287.58 million[h]	2.81	-31.07	-[i]	608.00 million
Global Palm Resources Holdings Pte Ltd (formerly known as Global Palm Resources Holdings Limited)[l]	Singapore	Singapore Stock Exchange[l]	Indonesia (Kalimantan (West Kalimantan and East Kalimantan) and Sulawesi (Central Sulawesi))	31 Dec 2022	15,147	92.80	7.20	17.80	41,685	7,345	21.70	3.80	IDR606.51 billion	179.53 million[h]	38.44	12.81	N/A[g]	N/A[g]
PT Gozco Plantations Tbk	Indonesia	Indonesia Stock Exchange	Indonesia (Sumatra (South Sumatra) and Kalimantan (Central Kalimantan))	31 Dec 2022	12,917	98.32	1.68	14.94	48,841	9,517	23.16	4.51	IDR554.72 billion	164.20 million[h]	22.09	13.67	6.24	175.68 million
PT Andira Agro Tbk	Indonesia	Indonesia Stock Exchange	Indonesia (Sumatra (South Sumatra))	31 Dec 2022	N/A[g]	N/A[g]	N/A[g]	N/A[g]	21,524	5,759	N/A[g]	N/A[g]	IDR317.86 billion	94.09 million[h]	7.17	-3.39	-[i]	141.12 million

Notes:

- *Latest available as at 1 March 2024*

(a) May include planted area under the Plasma Programme. In Indonesia, the Government of Indonesia requires oil palm plantation companies to develop and manage new plantations under the Plasma Programme for local cooperatives which comprise local farmers. Under the Plasma Programme, oil palm plantation companies are required to provide certain area of plantation land for plantation development and management for the local cooperatives, as well as assist local cooperatives in the development and preparation of plantation land, supplying oil palm seedlings to local cooperatives as well as training and educating the farmers under the local cooperatives in oil palm cultivation and management. Oil palm plantation companies are obliged to purchase FFB harvested by local cooperatives under their Plasma Programme at prices determined by the Government of Indonesia which fluctuate in line with the prevailing CPO prices.

(b) May include revenue derived from other businesses that are not related to the cultivation of oil palm and production of CPO and PK in Indonesia.

(c) Extracted from Bloomberg as at 1 March 2024.

*(d) This information excludes the company's entire operations in South Sumatra which was classified as held for sale and discontinued operations in the consolidated statement of financial position for the financial year ended ("**FYE**") 31 December 2022.*

(e) Comprises FFB yield for plantations in Indonesia only. The FFB yield that includes the plantation in Malaysia is not available in the latest available annual report.

(f) Revenue from USD to RM for the FYE 31 December 2022 was converted based on the average annual exchange rate in 2022, extracted from published information from Bank Negara Malaysia at USD1.00 = RM4.4005.

(g) N/A – Not available.

(h) Revenue from IDR to RM for the FYE 31 December 2022 was converted based on the average annual exchange rate in 2022, extracted from published information from Bank Negara Malaysia at IDR100 = RM0.0296.

(i) This industry player recorded a negative earnings per share as at the date of extraction from Bloomberg.

(j) Includes 1,005 Ha of planted area which belongs to a subsidiary that has been disposed in February 2023.

(k) Based on MKHOP Group's earnings per share of approximately 3.05 sen for FYE 2023, calculated based on MKHOP Group's profit after tax of RM31.25 million for the FYE 2023 and enlarged share capital of 1,023,590,845 shares upon listing.

(l) This industry player has been delisted from the Singapore Stock Exchange on 4 July 2023.

Sources: MKHOP Group, various companies' annual reports and websites, Bloomberg, SMITH ZANDER

Market Share

The market share of MKHOP Group in the oil palm industry in Indonesia and East Kalimantan is represented by its share of total planted area and CPO production in Indonesia and East Kalimantan respectively. MKHOP Group captured a market share based on total planted area of 0.12% in Indonesia and 1.25% in East Kalimantan; and a market share based on CPO production of 0.18% in Indonesia and 2.24% in East Kalimantan.

[The rest of this page is intentionally left blank]

9. RISK FACTORS

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

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 Our business growth may be adversely affected if we fail to continuously improve our FFB yields which could result in stagnant or lower production of CPO and PK

FFB harvested from our plantation estates is the main input to our palm oil mill for the production of CPO and extraction of PK, which are then sold to our customers, thus generating revenue for our Group. Therefore, it is crucial to harvest sufficient FFB for the production of CPO and extraction of PK to generate revenue for our Group. FFB yields are generally dependent on the land profile of our plantation estates, age profile and quality of our oil palms, as well as adoption of efficient plantation practices to ensure high FFB yields including field upkeep and weed control, soil fertility and conservation, pest management, mechanisation, water management, harvesting and crop quality, as well as safety, health and environment. Further, FFB yields are also dependent on the availability of labour to carry out the daily operations in our plantation estates with further details set out in Section 9.2.3.

Our oil palm planted areas are generally flat to gently undulating with the whole of the plantation land below 50 metre AMSL which eases the operations of our plantation activities, and the majority of our oil palms (i.e. 94.9% as at LPD) are at prime mature stage which is ideal for high FFB yields. However, there can be no assurance that we will continue to achieve high FFB yields if we fail to continuously adopt or improve our plantation practices. Any failure in adopting our plantation practices by our workers, such as failure in maintaining soil fertility due to inefficient application of fertilisers as well as failure in combating pest due to inefficiency in applying chemicals (e.g. pesticides) and in the planting of biological plant for pest control, may result in low yield or poor quality of FFB. Further, failure in continuously improving our plantation practices through mechanisation along with technological advancement may also result in stagnant or lower yield of FFB. Additionally, as our oil palms will eventually enter the old age with lower FFB yields, we may face decreasing FFB yields if we are unable to implement replanting programmes on a timely manner and in the right phases, which can be caused by factors such as prolonged adverse weather conditions, shortage of suitable oil palm seedlings and fertiliser, as well as labour, at the time when our Group plans to commence replanting activities to replace old oil palms.

Any decrease in FFB yields will result in stagnant or lower production of CPO and PK, which may eventually negatively affect our financial performance and our future growth. Even if we purchase FFB from third party plantation estates for the production of CPO and PK in our palm oil mill in the event of low FFB yields in our plantation estates, we are required to incur additional costs for the purchase of FFB and there can be no assurance on the quality of FFB purchased. All of these may have a negative impact on our cost of sales and may consequently impact our financial performance.

9.1.2 Our financial performance is subject to our ability to continuously deliver CPO and PK based on industry guidelines

The quality of our CPO is mainly measured by the FFA content, of which they are mainly dependent on the quality of FFB and the duration of CPO storage prior to delivery. According to the Indonesian National Standard’s quality guidelines published by the National Standardisation Agency of Indonesia, the content of FFA in CPO produced by palm oil mills in Indonesia should not be more than 5.0% at the point of loading for delivery to customers. Nevertheless, CPO with FFA content above 5.0% can still be sold to refineries for processing into non-edible oils and edible oils but the CPO must undergo additional treatment prior to further processing.

On the other hand, the quality of our PK is measured by the moisture and impurity levels as well as FFA content, of which they are dependent on, amongst others, weather conditions along with the transportation which may affect the moisture content, efficiency of our PK recovery process which involves the removal of dirt, stones and moisture content, as well as the quality of FFB and the duration of PK storage which may affect the FFA content. Based on the pre-agreed quality range with our customers, the FFA content of our PK should not be more than 5.0% and the moisture and impurity levels of our PK should not be more than 8.0% at the point of product receipt by our customers. PK with high moisture and impurity levels as well as FFA content can still be sold to customers for processing but the PK must undergo additional treatment prior to further processing.

Notwithstanding that we have quality control procedures in place to ensure the quality of FFB harvested in order to produce CPO with FFA content of below 5.0% to our customers, there is no guarantee that we will be able to continue to maintain the FFA content of our CPO. If we deliver CPO with FFA content above 5.0%, our customer can claim for a reduction in sales price based on a pre-agreed range. As for PK, if we deliver PK with impurity and moisture levels as well as FFA content that do not meet our customers' requirement, or if the delivered amount is lower than the pre-agreed amount due to adverse weather and bad road conditions that cause PK to fall off from the trucks during transportation, our customer can claim for a reduction in sales price based on a pre-agreed range.

During FYE 2020 to 2023, there were claims from our customers on sales of CPO and PK amounting to approximately RM0.1 million, RM0.2 million, RM1.7 million and RM1.4 million respectively, which accounted for approximately 0.1%, 0.1%, 0.5% and 0.4% of our Group's total revenue from plantation business segment respectively. Nevertheless, as the amount of claims was not substantial, it did not result in any material adverse impact to our Group's financial performance. Please refer to Section 12.2.2(e) for further details on the quality claims from our customers for FYE 2020 to 2023.

If we fail to continuously maintain the quality of our CPO and PK, our financial performance will be negatively impacted as a result of claims from our customers. It may also negatively impact our reputation in the industry as a reliable provider of quality CPO and PK, which may result in a potential loss of confidence and sales of our CPO and PK from our existing and potential customers, and may consequently negatively impact our business growth.

9.1.3 We are dependent on our Executive Directors and key senior management for continued success and growth of our business

The continued success and growth of our Group is, to a significant extent, dependent on the abilities, skills, experience, competency and continuous efforts of our Executive Directors and key senior management. The presence of our Executive Directors and key senior management is crucial to our business continuity as they play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group.

Any significant or sudden loss of the services of our Executive Directors and/or key senior management without suitable replacement in a timely manner may have an adverse and material impact on our Group's business operations, and may eventually affect our ability to maintain and/or improve our business performance. This may in turn adversely affect our financial performance.

9.1.4 Our business may be adversely affected if we are not able to renew or maintain the licences, approvals and permits required to operate our business

We require various licences, approvals and permits such as IUP for oil palm cultivation and plantation business licence for oil palm cultivation that is integrated with licence for production of CPO and extraction of PK to operate our business. We may be required to renew these approvals, licences, permits and certificates or to obtain new licences, approvals and permits following the changes of any related regulatory requirements in Indonesia. Please refer to Section 6.7 for the licences, approvals and permits required for our business operations.

Save for the respective B3 licences of PT MKH and PT SPS that are pending renewal due to change in the regulatory regime as disclosed in Section 6.7, we have not experienced any difficulty in renewing and maintaining our licences, approvals and permits. As at LPD, PT MKH and PT SPS have not received any notice of non-compliance from the relevant authorities in relation to their B3 licences.

We cannot assure that the relevant authorities will issue or renew any required licences, approvals and/or permits in a timely manner or at all in the future. Failure by us to renew, maintain or obtain the required licences, approvals and permits may lead to interruptions to our on-going operations, affect the implementation of any planned capacity expansion and/or affect the demand for our products, which may have a material adverse effect on our business, financial performance and prospects.

In addition to the licences, approvals and permits required for our business operations, as at LPD, we have obtained ISPO certification for the plantation estates managed by PT MKH and PT SPS as a testament to our sustainable plantation practices and ability to produce sustainable palm oil. With the aim to strengthen Indonesia's position in the global palm oil market as a palm oil producer and exporter, the Indonesian Government has implemented the requirement for ISPO certification for all Indonesian oil palm plantation businesses that hold the abovementioned plantation business licences. Please refer to Section 7.1.1 for further details on our ISPO certification. In the event that our Group fails to maintain our ISPO certifications, our Group may lose our customers which may have a material adverse effect on our business, financial performance and prospects.

9.1.5 Our business and financial performance may be adversely affected if we lose significant sales from our major customers

For FYE 2020 to 2022, sales contributed by our top 5 major customers accounted for 88.2%, 95.9% and 99.9% of our total revenue respectively. In FYE 2023, our Group only transacted with 4 customers and sales to these 4 customers made up to 100.0% of our total revenue. This indicates a concentration of our revenue amongst these customers, and a risk of dependency on them. There is no assurance that we will be able to continue retaining these customers, or that the volume of purchases from our major customers will not vary significantly in the future. In the event that there are significant reductions in purchases from our major customers or a complete loss of any of our major customers, our financial performance and results of our operations may be adversely affected.

Further, amongst our top 4 major customers, our Group has entered into sale and purchase agreements with PT Kutai Refinery Nusantara (part of Apical Group of Companies) for sale of CPO and PK, and PT Binasawit Abadipratama (part of Golden Agri-Resources Group of Companies) for sale of PK, as at LPD. Both Apical Group of Companies and Golden Agri-Resources Group of Companies contributed significantly to our total revenue with a collective contribution of 55.4%, 78.7%, 92.6% and 85.9% for FYE 2020 to 2023 respectively. Our financial performance and results of our operations will be adversely affected if the sale and purchase agreements with these customers are not renewed and these customers cease to purchase from us.

Notwithstanding that we can sell our products to other customers through the e-bidding tendering process in the event of termination of these sale and purchase agreements and/or reduction of purchases from our major customers, we may experience prolonged disruptions to our business and financial performance if we are unable to replace the loss of sales with alternative customers in a timely manner. Further, we may be subject to increased price fluctuations if all sales are carried out through the e-bidding tendering process as the sales are exercised at auction prices from tenders which are generally subject to higher discounts requested by customers to compensate for freight costs, as opposed to the fixed quantum of discounts pre-agreed in the sale and purchase agreements. Please refer to Section 7.10 for further details on our Group's major customers.

9.1.6 We are exposed to costs arising from compliance with environmental, health and safety requirements in oil palm industry, and may be exposed to liabilities if we fail to comply with these requirements

We are subject to various environmental, health and safety requirements in Indonesia, whereby we are required to comply with certain requirements such as proper storage of diesel and petrol, discharge of waste (i.e. POME and used engine oil) into the environment and installation of water meter at borehole outlets. In compliance with these requirements, we have obtained the B3 Waste Storage and Management-related Licenses for the storage of waste in the oil palm plantation. The potential maximum penalties which may be imposed for not possessing the B3 Waste Storage and Management-related Licences are imprisonment for a maximum of 3 years and a maximum fine of IDR3.0 billion (equivalent to approximately RM0.9 million). As at LPD, our Group does not historically have any non-compliances relating to environmental, health and safety requirements. For FYE 2020 to 2023, we incurred RM0.7 million, RM0.7 million, RM0.8 million and RM0.7 million respectively, representing approximately 0.3% to 0.4% of our Group's cost of sales for each of the FYE 2020 to 2023, to comply with the environmental, health and safety requirements, which are a negligible portion of our total costs.

Further, as these requirements may be changed from time to time and may become more stringent, we may be required to put in additional measures such as purchase and installation of new or additional pollution control equipment or to make necessary operational changes in order to comply with the requirements. Any additional measures in place may result in additional costs incurred and may consequently increase our operational cost.

In addition, any claims on our failure to comply with any present or future environmental, health and safety requirements could result in assessment of damages and imposition of fines; or if worsen, may result in suspension or cessation of our operations.

9.1.7 Our business and operations are exposed to sudden disruptions caused by serious pandemic and epidemic outbreaks

The COVID-19 pandemic and any other possible future outbreaks/pandemics may significantly and adversely affect our business operations and financial performance. In the event of a spread of viruses among our workers, our workers will be subjected to quarantines. This may delay our plantation and milling operations due to a shortage of workers and mandatory suspension of our business operations if there is a large-scale virus spread in our plantation estates. The quality of our FFB may also be impacted if there is insufficient inventory of fertilisers and chemicals for application and a significant delay in the supply of these items from our suppliers. Further, the COVID-19 pandemic or any other possible future outbreaks/ pandemics may also lead to disruptions to the logistics and transportation ecosystem in East Kalimantan, which may consequently lead to a delay in products delivery to our customers.

During the COVID-19 pandemic, we imposed strict control at the entry points of our plantation estates to prohibit unauthorised personnel from entering our plantation estates, and there has been no COVID-19 cases detected. Save for some delays in the supply of certain fertilisers and chemicals from our suppliers during the pandemic due to global supply chain disruptions as a result of lockdown measures imposed in many countries as well as some delays in product collection by our customers, we have not experienced any other interruptions to our business operations. Please refer to Section 7.8 for further details on the interruptions to our business operations pursuant to the COVID-19 pandemic.

However, there is no assurance that our Group will be able to maintain zero-cases in our plantation estates, and be able to ensure that our operations will not be affected if the COVID-19 situation escalates with the emergence of new COVID-19 variants. Further, we cannot assure that we will be able to manage the risks efficiently in the event of any such pandemic outbreaks and/or epidemic outbreaks in the future that may affect a significantly large but more localised population.

9.1.8 Our business and operations are exposed to unexpected interruptions or delays caused by machinery and/or equipment failures

We rely on a series of machinery and equipment such as sterilisers, threshers and oil press machines to produce CPO and extract PK as part of our palm oil milling process. These machinery and equipment may, on occasion, be out of service due to unanticipated failures caused by disruptions in the supply of electricity or water; or damages caused by fire to our palm oil mill, including fires that may spread to our palm oil mill from the neighbouring areas of our plantation estates, with further details set out in Section 9.2.2(c).

The occurrence of these unexpected events that are beyond our control may cause damage or destruction to all or part of our palm oil mill and machinery, which may result in maintenance and repair works required to our palm oil mill or the affected machinery. All of these may consequently result in interruptions to or prolonged suspension of our production activities. Any prolonged interruptions to our production activities will affect our ability in fulfilling our sales orders, thus causing delivery delays to our customers. This could adversely impact our relationships with customers, financial performance and reputation in the industry.

For FYE 2020 to 2023 and up to LPD, we have not experienced any incidents of unanticipated machinery and equipment failures which led to major interruptions in our operations. However, there can be no assurance that such incidences will not happen in the future. In the event that these incidences occur, it may result in interruptions to our operations and thus adversely affect our business operations and financial performance.

9.1.9 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities, such as property all risk, motor vehicle and automobile liability, fidelity guarantee and machinery breakdown. However, in the event of claims, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations as a result of any unforeseen circumstances. For example, while we are insured against losses resulting from the liabilities as mentioned above, we do not maintain insurance against losses at our oil palm plantations as a result of natural disasters (save and except for Standard Indonesian Earthquake insurance), wars and acts of terrorism as the premiums for these insurances are generally not commercially viable.

Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business, financial condition and results of operations.

For FYE 2020 to 2023 and up to LPD, there were insurance claims for property all risk, motor vehicle and automobile liability, fidelity guarantee, business interruptions due to flood, staff medical and loss of biological asset, which amounted to approximately RM0.91 million. During the same period, we have not experienced any incidences of material losses, damages or liabilities incurred by us due to insufficient insurance coverage.

9.1.10 We may not be able to successfully implement our business strategies

Our business strategies and future plans are as follows:

(a) to expand our oil palm plantation business through the expansion of plantation estates;

(b) to enhance our operational efficiency by acquiring new machinery and equipment to be used in FFB harvesting and palm oil milling;

(c) to expand our processing capabilities and product offerings by producing and selling CPKO;

(d) to refurbish our staff quarters to improve the living conditions of our workers and their family members; and

(e) to expand the coverage of electricity supply generated through the turbines at our palm oil mill to other regions of our plantation estates.

Please refer to Section 7.15 for further details of our business strategies and future plans.

The execution of these business strategies involves capital expenditures for amongst others, acquisition costs for plantation land banks, machinery and equipment; as well as other operating expenses such as depreciation charges, machinery and equipment maintenance costs, staff costs and other working capital requirements. Some of these additional expenditures will increase our Group's operational cost including our overhead costs, and may adversely affect our profit margin if we are unable to gain sufficient revenue by securing more sales from customers.

Furthermore, the implementation of these business strategies may be influenced by factors beyond our control, such as changes in general market conditions, economic climate, regulatory guidelines and political environment in Indonesia; as well as availability of companies with suitable plantation land for acquisition and ability to achieve favourable acquisition terms, all of which may affect the commercial viability of our business strategies. We also cannot be assured that any required additional financing, in addition to the IPO proceeds raised, will be made available to us on terms that are satisfactory to us or at all. If adequate funding is not available when needed, or is available only on unfavourable terms, we may not be able to meet the capital needs, or may need to inject additional capital from internally generated funds for the implementation of our business strategies, which may consequently delay the target timeframe for our business strategies.

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

Further, we will also continue to be exposed to risks arising from operating on leased plantation land. As at LPD, both our plantation estates under PT MKH and PT SPS are granted by the National Land Office based on the HGU Certificate with the terms of 35 years and will be expiring in 2042 and 2045 respectively, with options to extend for a further period of 25 years, and subsequently be renewed a further period of 35 years upon fulfilment of conditions pursuant to the laws and regulations of the Republic of Indonesia. Likewise, when we establish a new plantation estate on the HGU, we are required to renew the term upon expiry to ensure continuity of our business operations. Failure to renew the terms of our existing plantation land and the plantation land to be acquired in the future may lead to major disruptions to our business and expose us to business continuity risk.

9.1.11 We may be adversely affected by fluctuations in prices of supplies purchased by our Group

Our Group's GP margin is also susceptible to fluctuations in the prices of some supplies, such as fertilisers, FFB from the Plasma Programme, CPO from neighbouring third-party palm oil mills, diesel and petrol as well as chemicals. The prices of these supplies are dependent on, amongst others, the prevailing global crude oil prices and CPO prices, and/or the demand and supply conditions of these supplies. Please refer to Sections 7.11 and 9.2.2 for further details on the price fluctuation of these supplies and the price volatility of CPO, respectively.

Any significant fluctuation in the prices of these supplies may significantly increase our cost of sales, which may adversely affect our business, financial condition, results of operations and prospects should we fail to pass the increase in cost to our customers.

In FYE 2022, there was an increase in the price of fertilisers resulting from shortage of supply due to the Russia-Ukraine conflict; and an increase in the price of diesel for use in our generation sets and vehicles due to the increase in global crude oil prices arising from the increase in global demand for crude oil due to fears in the market on any disruptions in supply as a result of the Russia-Ukraine conflict and sanctions implemented by the United States against Russia, which subsequently led to a reduction in subsidies on diesel as announced by the Indonesian Government in September 2022. The increase in the prices of fertilisers and diesel led to an increase in our cost of sales of approximately RM8.6 million, which led to a decline in our GP in FYE 2022 despite being cushioned by higher revenue contributed by higher average selling prices of CPO and PK. Save for the aforementioned, there was no increase in the price of our other supplies which are subject to price fluctuations and impacted our financial performance for FYE 2020 to 2023.

Moving forward, our financial performance subsequent to FYE 2023 may be adversely affected by an increase in prices of our supplies including fertiliser and diesel as the impact arising from the Russia-Ukraine conflict and sanctions implemented by the United States against Russia may continue to persist, and such impact may not be mitigated by our revenue due to potential decline in our selling prices of CPO and PK as the domestic market obligation implemented by the Indonesian Government persists.

9.1.12 We are exposed to foreign exchange transaction risks

Our Group is an oil palm plantation group principally involved in the cultivation of oil palm and production and sale of CPO and PK in Indonesia. Our sales are all made to local customers in Indonesia whereby the sales are denominated in IDR. Further, during the FYE 2020 to 2023, we also purchased spare parts from overseas suppliers to support our business operations, which were denominated in RM and/or USD. However, the purchases of spare parts from overseas suppliers were minimal. Please refer to Section 12.13(a) for the breakdown of our sales and purchases in local and foreign currencies.

Additionally, our Group has USD-denominated outstanding borrowings of RM2.4 million as at 30 September 2023, and RM-denominated loans from related company of RM112.6 million as at 30 September 2023, with further details set out in Section 12.13(a). Our Group utilises IDR to repay the USD-denominated borrowings and RM-denominated loans from related company.

As at LPD, our Group does not hedge our exposure against fluctuations in foreign currency exchange rates as currency positions in IDR are considered to be long-term in nature. As such, we are subject to foreign exchange fluctuation risk for our USD-denominated borrowings and RM-denominated loans from related company. In particular, for FYE 2020, we recorded unrealised and realised loss on foreign exchange by RM13.9 million and RM3.4 million, respectively, in respect of our borrowings and loans denominated in USD and RM against IDR. Further, for FYE 2022, we recorded realised loss on foreign exchange by RM0.6 million. For FYE 2023, we recorded unrealised and realised loss on foreign exchange by RM0.5 million and RM0.1 million, respectively. Please refer to Section 12.13(a) for further details on our foreign exchange gains and losses for FYE 2020 to 2023.

Further, as our operations are based in Indonesia, save for sales to overseas countries and some purchases from overseas suppliers which are denominated in USD, all our business transactions are denominated in IDR. However, for the purposes of financial reporting in Malaysia, all financials will be converted to RM for disclosure in financial statement. As such, our financial statement reported in RM may not be reflective of our results of operations due to the fluctuations in foreign exchange rates, mainly between IDR and RM. This has given rise to foreign exchange translation reserve amount disclosed under 'other comprehensive income' as 'foreign exchange translation differences'.

9.1.13 We are exposed to credit risk and default payment by customers

For the sale of CPO and PK, our customers are required to place an upfront payment of 90.0% of the total contract value, with the remaining 10.0% to be fulfilled upon the issuance of necessary delivery documents such as bill of lading and manifest to our customers after the product delivery, whereby our Group typically receives the payment within our credit terms which range from 30 to 60 days. The dates in which our customers are required to fulfil the upfront payment are stipulated in the contracts. In the event of delay or default in payment by our customers, our operating cash flows or financial results of operations may be affected.

While we have not impaired for any credit loss or experienced any material delay or default in payment by our customers for FYE 2020 to 2023 and up to LPD, there can be no guarantee that our customers will be able to fulfil their payment obligations within our credit terms and that we will not encounter any collection problems in the future. In the event that there is any default or delay in the collection of payment, it will lead to impairment losses on trade receivables or bad debts which may impact our financial performance.

The rest of this page is intentionally left blank

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 Our financial performance is subject to the fluctuation in the market prices of CPO and PK

As with other commodities, the market prices of CPO and PK fluctuate along with international demand and supply conditions. The highest and lowest market prices for CPO and PK published by the Plantation Office of East Kalimantan for 2020, 2021, 2022, 2023 and up to LPD are as follows:

	CPO price (IDR/kg)		PK price (IDR/kg)	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	9,148.0	6,657.4	5,013.6	3,131.4
2021 (January to December)	13,641.2	9,170.4	10,075.5	5,691.3
2022 (January to December)	15,490.1	8,584.4	12,605.4	4,216.1
2023 (January to December)	11,886.6	10,223.4	5,717.1	4,434.9
2024 (January to February)	11,310.8	10,978.7	5,290.4	5,032.8

Please refer to Section 12.2.2(a) for the average selling price of our CPO and PK for FYE 2020 to 2023.

Local and international market prices for CPO and PK are affected by a number of factors, including the following:

(a) the supply and demand levels for CPO, PK and other edible or non-edible fats and oils (such as soybean oil, rapeseed oil, sunflower oil, non-edible vegetable oils and non-edible animal fats);

(b) global production levels and physical stocks (i.e. the supply level) of CPO, PK and other edible or non-edible fats and oils, which tend to be affected principally by global weather conditions and the area of land under cultivation;

(c) global consumption levels (i.e. the demand level) of CPO, PK and other edible oils;

(d) the price of crude oil, which impacts the prices of biofuels and in turn impact the price of CPO and PK as palm oil can be used in the production of biofuels;

(e) developments in the Indonesian, regional and global economic and political situations which may affect the supply and demand conditions of CPO and PK in the global market;

(f) foreign exchange rates as any major fluctuations in the currencies in which CPO and PK are transacted may affect the favourability of CPO and PK exported from a particular country, thereby affecting demand;

(g) import and export duties and other taxes in major CPO import/ consumption/ production/ export countries which may affect the imports and/or exports of CPO and PK in the respective countries; and

(h) changes in government regulations such as implementation of any export bans and domestic regulations that may limit the export of CPO and PK.

The key underlying reason that affects the local and international market prices of CPO and PK is the supply and demand levels for CPO and PK. Any increase in demand for CPO and PK and/or shortage in supply of CPO and PK tends to result in an increase in the market price of CPO and PK, and vice versa.

In the second half of FYE 2022, our Group's financial performance was adversely affected by the decline in our average selling prices of CPO and PK, where the decline was in tandem with market prices of CPO and PK. The decline in market prices of CPO and PK from May 2022 was due to excessive stock of CPO in Indonesia accumulated during the export ban on CPO, RBD palm oil, RBD palm olein and used cooking oil implemented by the Indonesian Government from 28 April 2022 to 23 May 2022 which subsequently led to an increase in CPO export after the export ban was lifted. In FYE 2023, our Group's financial performance was affected due to the decrease in our average selling prices for CPO and PK. The decrease in our average selling prices for CPO in FYE 2023 was in tandem with the decrease in global CPO prices, which was attributed to lower demand for CPO from China as a result of reduced consumption of major vegetable oils caused by ongoing lockdowns in several big cities due to COVID-19, as well as lower demand for CPO from India and Europe resulting from higher imports of soybeans as a substitute. On the other hand, the decrease in our average selling prices for PK was also in tandem with the decrease in global PK prices, which generally move in tandem with CPO prices. Please refer to Section 12.2.2(b) for further details of our revenue performance in this respect.

Moving forward, a significant and prolonged reduction in the prices of CPO and palm oil-based products would have a material adverse effect on our results of operations, profitability and cash flows.

9.2.2 We are subject to various inherent risks in the oil palm industry

As we are involved in the cultivation of oil palm for the production and sale of CPO and PK, we are subject to risks inherent to the oil palm industry. These include, but are not limited, to:

(a) Adverse weather conditions

Overly dry or wet weather conditions can potentially induce tree-stress, leading to lower supplies of FFB. Insufficient rainfall causes oil palm trees to produce fewer flowers which develop into FFB and may delay fertilising schedules. In view of the potential onset of El Nino beginning June 2023 which may result in dry seasons in East Kalimantan, we do not expect major impact to our FFB yield, OER and KER as well as earning prospects as our integrated drainage system is equipped with stoppers to retain rainwater to help maintaining the moisture level of soil. Our plantation estates experienced dry seasons in FYE 2018, 2019 and 2020, whereby the average monthly rainfall was recorded at 179mm, 156mm and 140mm respectively. Nevertheless, our FFB yield, OER and KER during this period were not materially and adversely impacted. However, our FFB yield, OER and KER as well as earning prospects may face adverse impact in the event of any prolonged dry weather conditions where our retained rainwater is insufficient to maintain soil moisture.

On the other hand, heavy rainfall may cause the condition of the terrain on our plantation estates to be slippery or soft, thereby making it difficult for our workers to access our plantation estates and harvest our FFB. As our plantation estates generally experience high rainfall during monsoon seasons, our plantation estates may be subject to the risk of flooding if rainfalls during the monsoon seasons are beyond normal levels. Notwithstanding that we have an integrated drainage and irrigation system for water management in our plantation estates, there can be no assurance that we will not face flooding issues and our FFB yields will not be impacted by adverse weather conditions.

In FYE 2021, FYE 2022 and FYE 2023, we recorded a lower FFB yield mainly due to heavy rainfall from La Nina phenomenon, which resulted in lower CPO and PK produced for sale. The average monthly rainfall recorded in our plantation estates increased from 140mm in FYE 2020 to 198mm in FYE 2021, and to 240mm in FYE 2022. The average monthly rainfall recorded in our plantation estates reduced to 161mm in FYE 2023, which is relatively high as compared to FYE 2020.

(b) Outbreak of diseases or crop pests

Diseases and pests can cause losses in FFB yields, and in extreme cases, these attacks could destroy large areas of oil palm crops. Fungal diseases such as 'fusarium' and bacteria-related diseases such as 'endophytic bacteria' are examples of diseases that typically infect oil palm crops while pests that attack oil palm crops include rats, squirrels and 'rhinoceros beetles'.

For FYE 2020 to 2023 and up to LPD, there has not been any major outbreaks of diseases or crop pests that has led to negative impact to our crops.

(c) Fires

Fires can occur naturally during drought seasons, and the situation can be worsened if accompanied by strong wind which will spread the fire quickly. We generally do not experience extreme drought seasons as our plantation estates are situated along the equator. However, we are exposed to the risk of human and nature-caused fires, which may lead to significant damage to our oil palms. Further, as part of our oil palm planted areas are on peat soil (i.e. 49.0% as at LPD), there is a higher probability for these planted areas to catch fire as drained peatlands caused by drought and land clearance through logging and burning activities are relatively flammable during drought seasons. Smoke and haze caused by fires may also set back the ripening of oil palm fruit and disrupt our plantation activities, which may potentially reduce our FFB yields. In the event that the fire spreads to our palm oil mill, all or part of our palm oil mill may be damaged and our operations will be severely affected.

While we adopt a zero-burning policy in our plantation estates and include the usage of drones to determine any occurrence of fire at the surrounding areas of our plantation estates, there can be no assurance that no fire will be spread to our plantation estates and we are able to put out the fire on a timely manner to avoid any damage to our plantation estates and mill during the occurrence of fire in our plantation estates. In such circumstances, our business operations may be materially affected as set out in Section 9.1.7.

For FYE 2020 to 2023 and up to LPD, there has not been any occurrence of fire in our plantation estates that has led to material impact to our business operations.

All the external factors above may cause disruption to our plantation activities and/or reduction in our FFB yields, which may in turn adversely affect our production and sale of CPO and PK. Further, occurrence of fires involving our palm oil mill may cause damage to all or part of our palm oil mill, which may lead to disruptions in our palm oil milling activities, thereby impacting the production and sale of our CPO and PK. Any prolonged interruptions to our FFB yields as well as plantation and palm oil milling activities will affect our ability in fulfilling our sales orders, thus causing delivery delays to our customers. This could adversely impact our relationships with customers, our financial performance and reputation in the industry.

9.2.3 We are dependent on manual labour for our oil palm plantation activities

The oil palm industry is labour intensive. Oil palm plantations require extensive manpower in the nurturing of seedlings, tree planting, application of fertilisers, harvesting as well as other routine maintenance work to ensure optimal FFB yield. It is crucial to have sufficient manpower in nurturing seedlings and planting to ensure infilling activities can be carried out as and when required to replace unhealthy oil palms. Further, it is also crucial to have sufficient manpower to apply fertilisers regularly, harvest FFB upon reaching its peak ripeness as well as carry out routine maintenance work. Timely and efficient undertaking of these activities are crucial in achieving optimal FFB yield. Notwithstanding that our Group has introduced and incorporated a series of mechanisation process such as the usage of powered wheelbarrow, farm ATV, UTV and monitoring facilities as part of our plantation practices, these equipment and facilities require human assistance to operate. Additionally, our Group also requires skilled labour workforce in our plantation activities to ensure maximised output, such as ability to identify FFB that are at peak ripeness for harvesting.

A shortage of labour supply, including skilled labour, will cause interruption to our plantation activities, including delays in nurturing seedlings and planting for infilling activities, irregular application of fertilisers and/or harvesting overripen FFB due to delays in harvesting activities. All of these are expected to negatively impact our FFB yield, which could consequently reduce our CPO and PK productions.

9.2.4 We face competition from other industry players in the oil palm industry as well as competition from other edible oils and fats as substitute products to palm oil

The oil palm industry in Indonesia includes a large number of industry players involving in the cultivation of oil palm and production of CPO and PK. To maintain and improve our competitive edge over our competitors, we are required to continuously improve our cost and production efficiencies as well as our product quality. In the event that we fail to remain competitive in the market, we may face decreasing demand for our products and our financial performance may be adversely affected.

We also face competition from other edible oils and fats, such as soybean oil, rapeseed oil, sunflower oil, PK oil and peanut oil. These edible oils and fats can be used for similar purposes as palm oil, such as for cooking, baking, or salad dressings. Consumers are able to choose from a wide range of edible oils and fats due to easy access to more variety of consumer products. Any increasing shift of oil consumption from palm oil to other edible oils and fats may lead to a decrease in the demand for palm oil, thereby could have a material adverse impact on our business and financial performance. Further, some edible oils such as palm oil, soybean oil and rapeseed oil can also be used in the production of biofuels. Any significant decrease in the prices of these edible oils as compared to palm oil could lead to increasing usage of these oils in biofuel production, thereby reducing the demand for palm oil.

9.2.5 Our industry is subject to negative perceptions arising from environmental concerns and labour rights issues surrounding the oil palm industry

Demand for CPO and other palm oil-based products has, in the past, and may, in the future, be affected by campaign and online articles published by environmental groups, such as Rainforest Rescue, Greenpeace International and the World Wide Fund for Nature (formerly known as the World Wildlife Fund). These environmental groups have raised concerns that oil palm plantations result in the destruction of large areas of tropical forests and wildlife habitats and have campaigned to promote sustainable oil palm cultivation and environmentally friendly practices in oil palm plantations, as well as ways to reduce purchasing products that contain palm oil.

In addition to environmental concerns, there are also concerns surrounding labour rights issues in the oil palm industry. Several labour rights groups such as International Labour Organization, Transnational Palm Oil Labour Solidarity and Verité and Liberty Shared have raised concerns related to labour abuses such as exposure to hazardous chemicals, payments below minimum-wage, suppression of independent unions and child labour, amongst others. These general negative perception on labour rights towards the oil palm industry may negatively impact the overall demand for palm oil, thereby affecting the sales of palm oil produced by our Group.

Should concerns over the environment and labour right issues surrounding the oil palm industry elevate and lead to a decrease in demand for CPO and other palm oil-based products, our business, financial condition and results of operations may be materially and adversely affected.

9.2.6 We are exposed to risks relating to the legal, regulatory, economic and political environments in Malaysia and Indonesia

Our Company was incorporated in Malaysia while our operations, through our subsidiaries, are based in East Kalimantan, Indonesia. Having a holding company incorporated in Malaysia requires us to comply with local corporate laws and regulations; and operating in Indonesia requires us to comply with local laws and regulations covering many aspects of our operations including company laws, industrial laws, plantation laws, trade laws (import and export), investment laws, laws relating to manpower (including occupational health and safety requirements), laws relating to foreign exchange controls and offshore loans, security laws, agrarian laws, laws protecting intellectual property rights, laws relating to price controls and government subsidies, environmental laws, forestry laws, anti-corruption and anti-money laundering laws, taxation and customs laws and antitrust laws. In addition, the presence of our holding company in Malaysia and our business operations in Indonesia exposes us to risks relating to economic and political environments in both Malaysia and Indonesia.

Among these risks include unfavourable changes in laws and regulations, government policies, political conditions, economic conditions, inflation rates, expropriations, interest rates, import and export restrictions, duties and tariffs, civil unrests, methods of taxation, inflation and foreign exchange controls in Malaysia and Indonesia. In particular, our subsidiaries namely PT MKH and PT SPS were not able to renew their B3 licences due to the change in regulatory regime. As at LPD, PT MKH and PT SPS have not received any notice of non-compliance from the relevant authorities in relation to their B3 licences. Further, there was no mandatory timeframe imposed by the relevant authorities for PT MKH and PT SPS to comply with the new licensing regime. Please refer section 6.7 for further details on the B3 licences. Notwithstanding that our Group has not been imposed with any administrative sanctions, penalties or fines pertaining to our major licences, permits and approvals, any unfavourable changes in applicable laws and regulations in the future could adversely impact our business operations as we may not be able to renew such licences, permits or approvals with the authorities, particularly if the authorities choose to impose new terms or conditions which we may be unable to fulfil in future. If we are unable to adhere to or successfully implement processes in response to changing regulatory requirements, our business operations may be adversely affected. We cannot predict with certainty the outcome or the impact that pending or future legislative and regulatory changes may have on our business in the future.

All of these legal, regulatory, economic and/or political changes as well as the occurrence of force majeure events, such as terrorism acts, war, riots, epidemics (such as COVID-19 pandemic) and natural disasters whether globally or in Malaysia or Indonesia, are beyond our control, and may have a material adverse effect on our business, prospects and financial performance and condition.

We understand that all operating companies in Indonesia are directly owned by foreign entities or individuals which consequently are subject to investment law and all its implementing regulations including but not limited to regulation on limitation/restriction of foreign ownership and a minimum capital of foreign investment company, which may be changed from time to time. In most cases, to protect the interest of the foreign investors, the provisions under newly enacted regulations limit its application to new foreign investment companies while those already in the system are exempt from those provisions and may continue their operation and do not need to comply with the new regulations (the so called 'grandfather rule'). Notwithstanding the above, the government can issue new regulations that may apply to all foreign investment company including the existing ones.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the Main Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the Main Market.

9.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing may be aborted or delayed should any of the following occurs:

(a) The selected investors fail to subscribe for their portion of our IPO Shares;

(b) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and

(c) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 1,000 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Application within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply, whereby in addition to our liability, our officers shall be jointly and severally liable to repay such money with interest at the rate of 10.0% per annum or at such other rate as may be prescribed by the SC from the expiration of that period.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and ROC within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile

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

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, 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 volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.4 OTHER RISKS

9.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters together with Metro Kajang (Oversea) and MKH Plantation will collectively hold approximately 63.1% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will be able to control the business direction and management of our Group and as such there can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders. The interests of our Promoters may differ from the interests of our other shareholders and they may be able to exercise significant influence over the vote of our Shares. Our Promoters could also have significant influence in determining the outcome of any corporate transactions or other matters submitted to our shareholders for approval. This includes the election of Directors, dividend policy, approval of business ventures and having voting control over our Group. As such, our Promoters will have significant influence on the outcome of any ordinary resolution (which requires a simple majority of 50.0% plus 1 voting share) to be tabled at general meeting, unless they are required to abstain from voting by law and/or as required by the relevant authorities (i.e. Bursa Securities).

The rest of this page is intentionally left blank

10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisition of PT MKH and Acquisition of PT SPS as set out in Sections 6.2.2 and 6.2.3, respectively and as disclosed below, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during FYE 2020 to 2023 and up to LPD:

				Transaction value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		(1)1 October 2023 up to LPD	
No.	Related party/ Transacting company in MKHOP Group	Interested person/ Nature of relationship	Nature of transaction	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
(a)	Metro Kajang (Oversea)/ MKHOP	MKH and Metro Kajang (Oversea)/ • MKHOP and Metro Kajang (Oversea) are both subsidiaries of MKH • Metro Kajang (Oversea) is a shareholder of MKHOP with 30.7% equity interest after our Listing	Interest expenses charged by Metro Kajang (Oversea) to MKHOP arising from the advances made by Metro Kajang (Oversea) to MKHOP(17)	126	(2)1.0	130	(2)1.7	365	(2)6.3	470	(2)9.7	124	N/A
(b)	Metro Kajang (Oversea)/ PT MKH	MKH/ PT MKH and Metro Kajang (Oversea) are both subsidiaries of MKH	Interest expenses charged by Metro Kajang (Oversea) to PT MKH arising from the loan made by Metro Kajang (Oversea) to PT MKH(7)	5,278	(2)41.9	4,538	(2)57.7	4,232	(2)72.5	4,140	(2)85.7	1,050	N/A
(c)	MKH Plantation/ PT SPS	MKH/ PT SPS and MKH Plantation are both subsidiaries of MKH	Loan made by MKH Plantation to PT SPS, which was used for the development of PT SPS's oil palm plantation located in East Kalimantan(8)	5,350	(3)1.6	2,432	(3)0.9	-	-	-	-	-	-

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

				Transaction value									
				FYE 2020		FYE 2021		FYE 2022		FYE 2023		[1]1 October 2023 up to LPD	
No.	**Related party/ Transacting company in MKHOP Group**	**Interested person/ Nature of relationship**	**Nature of transaction**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
(d)	Laju Jaya Sdn Bhd ("**Laju Jaya**")/ MKHOP	Laju Jaya/ MKHOP and Laju Jaya are both subsidiaries of MKH	Laju Jaya is the landlord and MKHOP is the tenant of MKHOP's headquarters located at G-02 & G-03, Ground Floor, Wisma MKH together with the parking lot[14]	-	-	-	-	[15]125	[4]0.3	[15]303	[4]0.8	[15]128	N/A
(e)	MKH Resources/ MKHOP	MKH/ MKHOP and MKH Resources are both subsidiaries of MKH	Management fees charged by MKH Resources to MKHOP[9]	24	[4]0.1	24	[4]0.1	-	-	-	-	-	-
(f)	MKH Building Materials/ MKHOP	MKH Building Materials/ MKHOP and MKH Building Materials are both subsidiaries of MKH	Sales of building materials by MKH Building Materials to MKHOP[10]	1,372	[5]0.8	50	[5]<0.1	-	-	-	-	-	-
(g)	MKH Resources/ PT MKH	MKH/ PT MKH and MKH Resources are both subsidiaries of MKH	Provision of management services by MKH Resources to PT MKH[9]	8,449	[4]24.8	8,320	[4]22.4	-	-	-	-	-	-
(h)	MKH Resources/ PT SPS	MKH/ PT SPS and MKH Resources are both subsidiaries of MKH	Provision of management services by MKH Resources to PT SPS[9]	280	[4]0.8	181	[4]0.5	-	-	-	-	-	-

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

No.	Related party/ Transacting company in MKHOP Group	Interested person/ Nature of relationship	Nature of transaction	Transaction value FYE 2020 RM'000	FYE 2020 %	FYE 2021 RM'000	FYE 2021 %	FYE 2022 RM'000	FYE 2022 %	FYE 2023 RM'000	FYE 2023 %	[(1)]1 October 2023 up to LPD RM'000	[(1)]1 October 2023 up to LPD %
(i)	PT Agro Raya Malindo ("**PT ARM**")/ PT MKH	Ong Khek Gee/ • Ong Khek Gee is the President Director of PT ARM and a Commissioner of PT SPS • PT MKH and PT SPS are subsidiaries of MKHOP	• Advances made by PT MKH to PT ARM which was used for sourcing of new land bank for oil palm cultivation[(11)]	347	[(6)]0.1	-	-	-	-	-	-	-	-
			• Repayment from PT ARM to PT MKH in respect of the above advances[(11)]	-	-	663	[(6)]0.1	-	-	-	-	-	-
(j)	MKH Resources/ MKHOP	MKH/ MKHOP and MKH Resources are subsidiaries of MKH	Management fees charged by MKH Resources to MKHOP[(16)]	-	-	-	-	6,372	[(4)]16.2	4,127	[(4)]10.7	-	-
(k)	Metro Kajang (Oversea)/ MKHOP	MKH and Metro Kajang (Oversea)/ • MKHOP and Metro Kajang (Oversea) are both subsidiaries of MKH • Metro Kajang (Oversea) is a shareholder of MKHOP with 30.7% equity interest after our Listing	Disposal of the entire equity interest in Restu Mesra by MKHOP ("**Disposal of Restu Mesra**")[(12)] (This is a one-off transaction pursuant to our internal reorganisation for our Listing)	-	-	-	-	-	-	50	[(6)]<0.1	-	-

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

No.	Related party/ Transacting company in MKHOP Group	Interested person/ Nature of relationship	Nature of transaction	Transaction value FYE 2020 RM'000	FYE 2020 %	FYE 2021 RM'000	FYE 2021 %	FYE 2022 RM'000	FYE 2022 %	FYE 2023 RM'000	FYE 2023 %	[(1)]1 October 2023 up to LPD RM'000	[(1)]1 October 2023 up to LPD %
(l)	Metro Kajang (Oversea)/ MKHOP	MKH and Metro Kajang (Oversea)/ • MKHOP and Metro Kajang (Oversea) are both subsidiaries of MKH • Metro Kajang (Oversea) is a shareholder of MKHOP with 30.7% equity interest after our Listing	Disposal of 99.92% equity interest in PT NMJ by MKHOP ("**Disposal of PT NMJ**"). The remaining 0.08% equity in PT NMJ is held by Restu Mesra[(13)] (This is a one-off transaction pursuant to our internal reorganisation for our Listing)	-	-	-	-	-	-	2,854	[(6)]0.6	-	-

Notes:

(1) The percentage of the related party transaction is not calculated as the financial statements up to LPD is not prepared.

(2) Calculated based on our Group's finance costs for each of the respective years.

(3) Calculated based on our Group's total liabilities for each of the respective years.

(4) Calculated based on our Group's administrative expenses for each of the respective years.

(5) Calculated based on our Group's cost of sales for each of the respective years.

(6) Calculated based on our Group's total assets for each of the respective years.

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

(7) The loan in the amount of USD40.0 million (then equivalent to RM119.5 million) was originally advanced by SJL Utama Pte Ltd (then holding company of PT MKH) in 2008. In 2009, the loan was novated to our Company and subsequently to Metro Kajang (Oversea) in 2010. The loan was used as working capital for the development of PT MKH's oil palm plantation together with the palm oil mill located in Puancepak dan Sedulang Village, Muara Kaman District, Kutai Kartanegara Regency, East Kalimantan.

(8) The loan received by PT SPS from MKH Plantation (then holding company of PT SPS) was used for the development of PT SPS' oil palm plantation. No interest was charged by MKH Plantation as PT SPS was not generating profit at initial stage given the longer gestation period of the oil palm plantation business, which generally will start generating profit when the trees have reached the optimum age of 6 to 7 years onwards. As part of the Capitalisation, our Company has capitalised RM25.5 million, being part of the amount owing by our Company to MKH Plantation into new MKHOP Shares (after PT SPS Debt Novation). The remaining RM30.0 million will be settled through the proceeds to be raised from our Public Issue as disclosed in Section 4.9.1(g). Please refer to Section 6.2.4 for further details on the Capitalisation.

(9) This transaction will be recurrent based on automatic renewal so long as neither party wishes to terminate the agreement. The agreement has been terminated on 30 June 2021.

(10) The sales of building material by MKH Building Materials to our Company were undertaken in view of our building materials trading business being newly set up, and we were unable to procure building materials at favourable credit terms. MKH Building Materials, being more established, procured the building materials and sold them to our Company at cost to facilitate such procurement for us.

(11) The advances made by PT MKH to PT ARM was used to source new land bank for oil palm cultivation. No interest was charged in consideration of an option granted by the shareholders of PT ARM to PT MKH to acquire their shares in PT ARM. The advances were fully repaid by PT ARM to PT MKH in October 2023.

(12) Our Company had on 9 January 2023 entered into a share sale agreement with Metro Kajang (Oversea) for a disposal consideration of RM0.05 million, being our Company's original cost of investment, in respect of the Disposal of Restu Mesra. The Disposal of Restu Mesra was completed on 16 January 2023 and Restu Mesra has ceased to be a subsidiary of our Company.

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

(13) Our Company had on 9 January 2023 entered into a share sale agreement with Metro Kajang (Oversea) for a disposal consideration of RM2.85 million, which was arrived based on "willing-buyer willing-seller" basis after taking into consideration of the revalued NA of PT NMJ of RM2.85 million as at 30 November 2022, in respect of the Disposal of PT NMJ. The Disposal of PT NMJ was completed on 19 January 2023 and PT NMJ has ceased to be a subsidiary of our Company.

(14) The salient terms of the tenancy agreement dated 21 September 2023 between Laju Jaya and MKHOP is set out below:

(a) The tenancy is for a term of 12 months, commencing from 1 October 2023 and expiring on 30 September 2024.

(b) The tenant shall not assign the tenancy or sublet or part with the possession or the occupation or the use of the demised premises or any part thereof unless prior written consent is obtained from the landlord. The breach of the prohibition by the tenant shall entitle the landlord (without prejudice to the landlord's other legal rights) to forceably re-enter the demised premises and physically evict the tenant and/or other persons and/or their goods using force as is necessary without any liability as to damages or otherwise and all losses, costs and expenses in connection therewith shall be borne and paid for by the tenant.

(c) The tenant or the landlord may during the term of the tenancy determine it by giving the other party three (3) calendar months' written notice. In the event the tenant fails to give the requisite notice, the landlord has the right to forfeit the rental deposit.

(d) Upon the written request of the tenant to the landlord made not less than three (3) months prior to the expiry of the first term, the Landlord shall grant to the tenant a further term of twelve (12) months ("**Second Term**") at a rental to be based on the prevailing market rate but otherwise containing the like covenants and provision as in the tenancy agreement.

(e) Upon the written request of the tenant to the landlord made not less than three (3) months prior to the expiry of the Second Term, the landlord shall grant to the tenant a further term of twelve (12) months at a rental to be based on the prevailing market rate but otherwise containing the like covenants and provision as in the tenancy agreement.

The transaction value set out in the table above includes the rental for the parking lot located outside the business premise by way of monthly subscription as set out in Note 15 below.

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

(15) Including the following rental amount:

(a) business premise of RM123,731 (with rent free period of 3 months due to renovation) and parking lot of RM1,749 for FYE 2022 (i.e. February 2022 to September 2022);

(b) business premise of RM296,954 and parking lot of RM6,519 from October 2022 to September 2023; and

(c) business premise of RM123,731 and parking lot of RM3,975 from October 2023 to February 2024.

(16) The management services agreements provide that MKH Resources shall (i) provide internal audit, human resources and administration, IT and other general advice in relation to corporate communication to MKHOP; and (ii) provide general management / administration services and other general advice in relation to the business of MKHOP, including but not limited to finance, treasury legal and accounting. This transaction was terminated on 31 March 2023. The management fees charged by MKH Resources to our Group is based on similar rates charged to its other subsidiaries of MKH.

(17) The interest expenses charged were based on prevailing market rate arising from the advances made by Metro Kajang (Oversea) to MKHOP.

Other than items (c), (f) and (i) in the table above, all the above related party transactions were carried out on arm's length basis, as the prices, rates or charges of these transactions are determined based on competitive commercial terms not more favourable to the related parties than those generally available to third parties which were not detrimental to our non-interested shareholders. The loans as set out in items (c) and (i) are not on arm's length as they do not carry interest, while the sales of building materials as set out in item (f) were transacted at cost. Moving forward, we do not expect such transactions to recur.

There were no transactions between our Group with the Directors and substantial shareholders of MKH and/or persons connected with them for FYE 2020 to 2023 other than payment of remuneration and benefits-in-kind to the common Directors of MKH and our Group in relation to their services rendered to our Group.

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

The Board of Directors of MKH confirms that MKH Group, including our Group had adhered to the Listing Requirements in relation to related party transactions, including making the necessary announcements to Bursa Securities or obtaining its shareholders' approval, where necessary. Further, the interested persons had abstained from deliberation of the Board of Directors of the respective companies and voting on the resolutions pertaining to the respective transactions (where applicable).

Moving forward, in order to ensure that related party transactions are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

(i) At least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine if the price and terms offered by related parties are fair and reasonable and comparable to those offered by other third parties for the same or substantially similar type of products/services and/or quantities; or

(ii) If quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by other third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from shareholders to enter into any recurrent related party transactions at a general meeting. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(b) Other related party transactions

(i) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;

(ii) The rationale for the Group to enter into the related party transaction and the nature of alternative transactions, if any; and

(iii) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and the nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

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

For related party transactions that require shareholders' approval, the Directors, major shareholders and/or persons connected with such Director or major shareholder, which have any interest, direct or indirect, in the proposed related party transaction will abstain from deliberating and voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transactions, the Director or major shareholder concerned will also abstain from deliberating and voting in respect of his direct and/or indirect shareholdings. The relevant Directors who are deemed interested or conflicted in such transactions shall also abstain from our Board deliberations and voting on the Board resolutions relating to these transactions.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. If a member of our Audit and Risk Management Committee has an interest in any related party transaction, he is to abstain from participating in the review and approval process in relation to that transaction. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any related party transaction entered into by us.

The rest of this page is intentionally left blank

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

10.2 OTHER TRANSACTIONS

10.2.1 Transactions entered into that are unusual in their nature or conditions

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for FYE 2020 to 2023 and up to LPD.

10.2.2 Outstanding loans (including guarantees of any kind)

(a) Outstanding loans and/or balances

Save as disclosed below, there are no outstanding loans and/or balances made by our Group to/for the benefit of any related parties or granted by any related parties to/for the benefit of our Group, whose balances remain outstanding as at 30 September 2023 and LPD:

(i) Amount owing by our Group to related parties

			Outstanding balance	
Transacting company in our Group	**Related party/ Nature of relationship**	**Purpose of the loan and/or financial assistance**	**As at 30 September 2023**	**As at LPD**
			RM'000	**RM'000**
MKHOP	Metro Kajang (Oversea)/ Metro Kajang (Oversea) is a shareholder of our Company with 43.3% equity interest after our Listing	Advances made by Metro Kajang (Oversea) to our Company, which was used for our working capital(3)	(4)8,637	-
PT MKH	Metro Kajang (Oversea)/ Metro Kajang (Oversea) is a shareholder of our Company with 43.3% equity interest after our Listing	Loan made by Metro Kajang (Oversea) to PT MKH, which was used for the development of PT MKH's oil palm plantation together with the palm oil mill located in East Kalimantan(1)(3)	(5)56,922	-

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

Transacting company in our Group	Related party/ Nature of relationship	Purpose of the loan and/or financial assistance	Outstanding balance As at 30 September 2023	Outstanding balance As at LPD
			RM'000	RM'000
PT SPS	MKH Plantation/ MKH Plantation is a shareholder of our Company with 3.7% equity interest after our Listing	Loan made by MKH Plantation to PT SPS, which was used for the development of PT SPS' oil palm plantation located in East Kalimantan(2)(3)	55,669	-
MKHOP	MKH Plantation/ MKH Plantation is a shareholder of our Company with 3.7% equity interest after our Listing	Loan made by MKH Plantation to PT SPS has been novated to MKHOP. The loan was used for the development of PT SPS' oil palm plantation located in East Kalimantan	-	30,000

Notes:

(1) The loan in the amount of RM119.4 million was originally advanced by SJL Utama Pte Ltd (then holding company of PT MKH) in 2008. In 2009, the loan was novated to our Company and subsequently to Metro Kajang (Oversea) in 2010.

(2) The loan in the amount of RM55.5 million was advanced progressively by MKH Plantation since 2016.

(3) Pursuant to the Capitalisation, RM89.0 million owing by our Company to Metro Kajang (Oversea) and MKH Plantation, have been capitalised into new MKHOP Shares and RM30.0 million will be settled through the proceeds to be raised from our Public Issue.

(4) Comprising RM8.4 million and RM0.2 million, being the advances made by Metro Kajang (Oversea) to our Company and the interest payable respectively.

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

(5) Net amount owing by our Company to Metro Kajang (Oversea) includes the following:

	RM'000
Amount owing to Metro Kajang (Oversea)	
Loan made by Metro Kajang (Oversea) to PT MKH	59,711
Interest payable	2,805
Foreign exchange translation differences	66
	62,582
Amount owing by Metro Kajang (Oversea)	
Deduction of value added tax paid on behalf of Metro Kajang (Oversea)	(5,660)
	56,922

The advances and loans provided above (save for loan by MKH Plantation which are non-interest bearing) are on arm's length basis and the provision of such advances and loans will not recur after our Listing.

Save as disclosed above, for FYE 2020 to 2023 and up to LPD, there are no other advances and/or loans made from the benefit of our Promoters, substantial shareholders and Directors.

(ii) Amount owing by related parties to our Group

There were no outstanding amount owing by related parties to our Group for FYE 2020 to 2023 and up to LPD.

(b) Guarantees

MKHOP has provided a letter of guarantee and indemnity dated 18 August 2023 for the following facilities extended by OCBC Al-Amin Bank Berhad to PT MKH:

Financial institution	Type of facility	Facility limit	Amount outstanding as at LPD
		USD'000	USD'000
OCBC Al-Amin Bank Berhad	Foreign Currency Revolving Credit Facility-i (FCRC-i)	5,000	-
	Foreign Currency Term Financing Facility-i 3 (FC Term-i 3)	9,500	-

10.2.3 Financial assistance provided for the benefit of a related party

As at LPD, there is no financial assistance provided by us for the benefit of any related party.

10.2.4 Transactions entered into with M&A Securities

Save as disclosed below, we have not entered into any transactions with M&A Securities who is our Adviser, Joint Placement Agent, Managing Underwriter and Joint Underwriter for our Listing:

(a) Agreement dated 26 April 2022 between MKHOP and M&A Securities for the appointment of M&A Securities as Adviser and Joint Placement Agent for our Listing; and

(b) Underwriting Agreement dated 21 February 2024 entered into between our Company and our Joint Underwriters for the underwriting of 51,209,800 Issue Shares.

The rest of this page is intentionally left blank

11. CONFLICT OF INTEREST

11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND SUPPLIERS

11.1.1 Interest in similar business of our Group

Save as disclosed below, none of our Directors and substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are carrying on a similar trade as our Group as at LPD:

(a) Tan Hoe Hing, our Independent Non-Executive Director, jointly owns 3 pieces of oil palm lands (approximately 4 to 5 acres) in Teluk Intan, Perak with his brother. The FFB are sold to a local collector who supplies to mills. He does not have any business transaction with our Group; and

(b) Yeo Kiat Seng, our Non-Independent Non-Executive Director, jointly owns a piece of oil palm land (approximately 35 acres) in Kuala Krai, Kelantan with his brother. The FFB are sold to local collector(s) who supplies to the mills. He does not have business transaction with our Group.

Our Board is of the view that ownerships of the abovementioned Directors in the abovementioned plantation land(s) does not give rise to a conflict of interest situation as (i) the abovementioned Directors do not have business transactions with our Group; and (ii) the abovementioned Directors are not actively involved in the day-to-day running of the business of the abovementioned plantation land(s); and (iii) the scale of the plantation lands owned by the abovementioned Directors amounting to an aggregate of 40 acres is relatively small when compared to the size of our Group's plantation estates have a total land area of 18,205.3 Ha (approximately 44,986 acres). Each of the abovementioned plantation lands have their own separate management teams and are operated and managed independently on a day-to-day basis by their respective management teams.

The business activities of the abovementioned plantation land(s) also do not compete with our Group taking into consideration the size, scale and/or nature of the oil palm cultivation and trading activities of the plantation land(s) as compared to the size, scale and/or nature of the activities of oil palm cultivation and production and sale of CPO and PK of our Group. Further, the abovementioned plantation land(s) are located in Malaysia and their business activities are carried out locally, i.e. harvested and sold to local collectors who supply to mills, as opposed to our Group's business model which encompasses the cultivation of oil palm, harvesting of FFB, and production of CPO and PK, with our principal markets being in Indonesia and our principal products being mainly sold to customers in Indonesia.

Further, there were no transactions between the abovementioned plantation land(s) and our Group during FYE 2020 to 2023 and up to LPD.

Taking into consideration the above and the abovementioned Directors' non-executive role in the abovementioned plantation land(s) as well as our Group, our Board is of the opinion that involvement of the abovementioned Directors in the abovementioned plantation land(s) does not give rise to any conflict of interest situation and will not affect their contribution to our Group or negatively impact their abilities to act as an Independent Non-Executive Director or Non-Independent Non-Executive Director of our Group.

11.1.2 Interest in the business of our customers and suppliers

As at LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are customers and/or suppliers of our Group.

It is our Director's fiduciary duty to avoid conflict, and they are required to attend courses which provide them guidelines on their fiduciary duties. In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nominating Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nominating Committee will then first evaluate if such Director's involvement gives rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest of a Director, our Nominating Committee will then:

(a) immediately inform our Audit and Risk Management Committee and Board of the conflict of interest situation;

(b) after deliberation with our Audit and Risk Management Committee, to make recommendations to our Board to direct the conflicted Director to:

    (i) withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and

    (ii) abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (b)(ii) above, the conflicted Director and persons connected to him (if applicable) shall be absent from any Board discussion relating to the recommendation of our Nominating Committee and the conflicted Director and persons connected to him (if applicable) shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of our Board, be present at our Board meeting to answer any questions.

In circumstances where a Director is determined to have a significant, ongoing and irreconcilable conflict of interest with our Group, and where such conflict of interest significantly impedes the Director's ability to carry out his fiduciary responsibility to our Group, our Nominating Committee may determine that a resignation of the conflicted Director from our Board is appropriate and necessary.

Where there are related party transactions between our Group with our Directors (or person connected to them) or companies in which our Directors (or person connected to them) have an interest, our Audit and Risk Management Committee will, amongst others, supervise and monitor such related party transaction and the terms thereof and report to our Board for further action. Please refer to Section 10.1 for the procedures to be taken to ensure that related party transactions (if any) are undertaken on arm's length basis.

11.1.3 Business independence

The principal business of our Group is in the upstream oil palm plantation industry. On the other hand, the businesses of MKH and the other companies within its group (excluding our Group) ("**Pro forma MKH Group**") comprises:

(a) property development and construction;
(b) hotel and property investment;
(c) manufacturing of furniture; and
(d) trading of building materials and other household related products.

Upon completion of our Listing, the Pro forma MKH Group will not be carrying on a similar trade as our Group or will be our customers or suppliers. The businesses of Pro forma MKH Group and our Group would be able to operate independently from each other.

Premised on the foregoing, the diversified businesses of the Pro forma MKH Group do not give rise to intra-group competition or conflict-of-interest situations with our Group, as the Pro forma MKH Group is not involved in the oil palm plantation business nor does it have customers or suppliers who are in the oil palm plantation business.

11.1.4 Operational independence

The operations of our Group are carried out independently from the Pro forma MKH Group based on the following:

(a) Dato' Lee Khee Meng, our Executive Director, is responsible for overseeing and managing our Group's overall plantation operations. He is supported by the other key senior management who have extensive knowledge and experience in our Group's business and play a significant role in the day-to-day operations as well as the implementation of our Group's business strategies.

(b) we have our own IT, human resource and administration functions, which were set up in April 2023, headed by Chen Wei Chyong, our Executive Director, where she is supported by 42 personnel with respective functional expertise as at LPD. Our Group had on 31 March 2023 terminated the management services agreement entered into with MKH Resources for the provision of internal audit, human resources and administration and IT to our Group. Please refer to Section 10.1 for further details on the said management services agreement;

(c) we have our own finance and accounting team headed by Tan Soo Hoon, our Group Financial Controller, where she is supported by 41 personnel with finance and accounting expertise as at LPD;

(d) we are not dependent on the sales and purchases to/from the Pro forma MKH Group as we have our own customer/supplier base. As at LPD, there is no common customer and supplier between our Group and the Pro forma MKH Group; and

(e) we have set up an internal audit function in October 2023 to plan and execute the annual audit plans as well as to provide assurance that our business and operations are carried out in accordance with our Group's relevant policies and procedures as set out in Section 6.12.

Premised on the above, there is no overlap in terms of operations, including purchases and sales of goods, management, management policies and finance, and our Group is able to continue to operate our business independently of the Pro forma MKH Group after our Listing.

11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

(a) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Adviser, Managing Underwriter, Joint Underwriter and Joint Placement Agent for our Listing;

(b) Kenanga IB and/or its related and associated companies ("**KIBB Group**") form a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, private banking, brokerage, securities trading, asset and funds management and credit transaction services businesses. KIBB Group's securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of KIBB Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of KIBB Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of MKHOP and/or its subsidiaries.

As at LPD, KIBB Group has extended loan facilities with a combined limit of RM61.0 million to the Promoters. Kenanga IB is of the opinion that the loan facilities do not give rise to a conflict of interest situation in its capacity as the Joint Underwriter and Joint Placement Agent for our Listing due to the following reasons:

(i) the loan facilities were provided by KIBB Group in its ordinary course of business, and the said loan facilities are not material when compared to the audited NA of KIBB Group as at 31 December 2022 of approximately RM1.02 billion;

(ii) KIBB Group forms a diversified financial group and is engaged in a wide range of transactions as highlighted above. Kenanga IB is a licensed investment bank and its appointment as the Joint Underwriter and Joint Placement Agent for our Listing is in the ordinary course of business; and

(iii) each of the entities and departments of KIBB Group are also subject to internal control and checks, which regulate the sharing of information between entities and departments. Additionally, each department and entities within KIBB Group has separate and distinct operations and decisions are monitored and reviewed by independent parties and committees. In addition, the conduct of Kenanga IB is strictly regulated by the Financial Services Act 2013 and the CMSA.

Kenanga IB has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Joint Underwriter and Joint Placement Agent for our Listing;

11. CONFLICT OF INTEREST *(Cont'd)*

(c) AmInvestment Bank is a wholly-owned subsidiary of AMMB Holdings Berhad. AMMB Holdings Berhad and its group of companies (collectively, "**AmBank Group**") form a diversified financial group and are engaged in a wide range of transactions relating to amongst others, investment banking, commercial banking, private banking, brokerage, securities trading, asset and funds management and credit transaction services businesses. AmBank Group's securities business is primarily in the areas of securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trade.

In the ordinary course of their businesses, any member of the AmBank Group may at any time extend services to any company as well as hold long or short positions, and trade or otherwise effect transactions, for its own account or the account of its other clients, in debt or equity securities or senior loans of any company. Accordingly, there may be situations where parts of the AmBank Group and/or its clients now have or in the future, may have interests or take actions that may conflict with the interests of MKHOP Group.

As at LPD, the AmBank Group has extended loan facilities with a combined limit of RM22.6 million to the Promoters. AmInvestment Bank is of the opinion that the loan facilities do not give rise to a conflict of interest situation in its capacity as the Joint Placement Agent for our Listing due to the following reasons:

(i) the loan facilities were provided by AmBank Group in its ordinary course of business, and the said loan facilities are not material when compared to the audited NA of AmBank Group as at 31 March 2023 of approximately RM18.1 billion;

(ii) AmBank Group forms a diversified financial group and is engaged in a wide range of transactions as highlighted above. AmInvestment Bank is a licensed investment bank and its appointment as the Joint Placement Agent for our Listing is in the ordinary course of business;

(iii) the loan facilities and repayment of the aforementioned credit facilities was not determined in contemplation of and not conditional upon AmInvestment Bank being appointed as the Joint Placement Agent for our Listing; and

(iv) each of the entities and departments of the AmBank Group are also subject to internal control and checks, which regulate the sharing of information between entities and departments. Additionally, each department and entities within AmBank Group has separate and distinct operations and decisions are made independent of each other. In addition, the conduct of AmInvestment Bank is regulated by BNM.

AmInvestment Bank has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Joint Placement Agent for our Listing;

(d) Cheang & Ariff has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors for our Listing in respect of Malaysian law;

(e) Ali Budiardjo, Nugroho, Reksodiputro has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors for our Listing in respect of Indonesian law;

11. CONFLICT OF INTEREST *(Cont'd)*

(f) Deloitte PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing;

(g) Smith Zander has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as IMR for our Listing; and

(h) C H Williams Talhar & Wong (Sabah) Sdn Bhd has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Independent Valuer for our Listing.

The rest of this page is intentionally left blank

12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

Our Company was incorporated on 10 August 2004 as an investment holding company, and we entered into the conditional share sale agreements pursuant to the Acquisition of PT MKH and Acquisition of PT SPS on 29 March 2023 and completed on 20 December 2023. PT MKH and PT SPS have been under the common control of our Promoters throughout FYE 2020 to 2023 and are regarded as continuing entities. As such, the historical financial information of our Group for FYE 2020 to 2023 is presented based on the audited combined financial statements of our Group. Our historical financial information for FYE 2020 to 2023 has been prepared in accordance with MFRS and IFRS.

12.1.1 Combined statements of comprehensive income

The following table sets out a summary of our combined statements of comprehensive income for FYE 2020 to 2023, which have been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	282,324	306,611	315,817	337,981
Cost of sales	(182,791)	(166,237)	(185,948)	(246,005)
GP	**99,533**	**140,374**	**129,869**	**91,976**
Other income	9,355	18,082	6,490	7,948
Administrative expenses	(34,042)	(37,175)	(39,243)	(38,736)
Sales and marketing expenses	(11,871)	(9,263)	(10,844)	(12,244)
Other expenses	(22,764)	(2,122)	(6,948)	(2,813)
Profit from operations	**40,211**	**109,896**	**79,324**	**46,131**
Finance costs	(12,605)	(7,869)	(5,840)	(4,832)
PBT	**27,606**	**102,027**	**73,484**	**41,299**
Tax expense	(8,916)	(24,575)	(13,346)	(10,045)
PAT	**18,690**	**77,452**	**60,138**	**31,254**
Other comprehensive income for the year				
Items that will not be reclassified to profit or loss subsequently:				
Remeasurement gains/(losses) on defined benefit plans	(145)	3,189	1,357	(272)
Income tax relating to components of other comprehensive (losses)/income	394	(958)	(512)	61
Revaluation surplus of building	2,838	-	-	-
Income tax relating to surplus arising from revaluation of buildings	(448)	-	-	-
Item that may be reclassified to profit or loss subsequently:				
Foreign currency translation differences	(5,231)	6,914	8,594	1,956
Total comprehensive income for the financial year	**16,098**	**86,597**	**69,577**	**32,999**

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT for the financial year attributable to:				
Owner of the parent	17,797	72,217	55,547	30,413
Non-controlling interests[(1)]	893	5,235	4,591	841
	18,690	**77,452**	**60,138**	**31,254**
Total comprehensive income for the financial year attributable to:				
Owner of the parent	15,126	81,024	64,547	32,125
Non-controlling interests[(1)]	972	5,573	5,030	874
	16,098	**86,597**	**69,577**	**32,999**
EBIT[(2)]	39,668	109,220	78,669	45,299
EBITDA[(2)]	69,996	140,292	109,666	78,932
GP margin (%)[(3)]	35.3	45.8	41.1	27.2
PBT margin (%)[(4)]	9.8	33.3	23.3	12.2
PAT margin (%)[(4)]	6.6	25.3	19.0	9.2
Effective tax rate (%)[(5)]	32.3	24.1	18.2	24.3
Basic EPS (sen)[(6)]	2.3	9.6	7.5	3.9
Diluted EPS (sen)[(7)]	1.8	7.6	5.9	3.1

Notes:

(1) The non-controlling interests comprise (i) 25.0% of the equity interests in PT SPS, and (ii) 5.7% of the equity interests in PT MKH, which are computed based on the existing group structure of MKHOP as the acquisition of 100.0% equity interests in PT SPS and 5.7% equity interests in PT MKH will be completed subsequently to FYE 2023.

(2) EBIT and EBITDA are computed as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT	18,690	77,452	60,138	31,254
Less:				
Interest income	(543)	(676)	(655)	(832)
Add:				
Finance costs	12,605	7,869	5,840	4,832
Tax expense	8,916	24,575	13,346	10,045
EBIT	**39,668**	**109,220**	**78,669**	**45,299**
Add:				
Depreciation and amortisation	30,328	31,072	30,997	33,633
EBITDA	**69,996**	**140,292**	**109,666**	**78,932**

(3) GP margin is computed based on GP over revenue.

(4) PBT and PAT margin is computed based on PBT and PAT divided by revenue, respectively.

(5) Effective tax rate is computed based on tax expenses divided by PBT.

(6) Basic EPS is computed based on PAT divided by share capital of 803,590,845 Shares after Pre-IPO Reorganisation and before our IPO.

(7) The diluted EPS is computed based on the PAT divided by enlarged share capital of 1,023,590,845 Shares in issue after our IPO.

12.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 30 September 2020, 2021, 2022 and 2023, which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited			
	As at 30 September			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ASSETS				
Non-current assets				
Property, plant and equipment	325,380	320,711	317,111	312,099
Prepaid lease payments	20,878	20,342	19,933	19,024
Goodwill on consolidation	4,901	5,147	5,340	6,077
Receivables, deposits and prepayments[(1)]	1,999	2,187	1,391	1,823
Investment in former subsidiaries	*	*	50	-
Total non-current assets	**353,158**	**348,387**	**343,825**	**339,023**
Current assets				
Inventories	30,062	44,975	67,714	40,817
Biological assets[(2)]	4,233	6,177	5,917	6,231
Receivables, deposits and prepayment	36,173	22,898	15,395	22,853
Current tax assets	6,353	-	3,910	8,837
Cash and bank balances	36,250	57,465	42,014	73,896
Total current assets	**113,071**	**131,515**	**134,950**	**152,634**
TOTAL ASSETS	**466,229**	**479,902**	**478,775**	**491,657**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	112,595	112,595	112,595	82,595
Reserves	9,514	90,538	155,085	217,210
Equity attributable to the owner of the parent	122,109	203,133	267,680	299,805
Non-controlling interests	2,667	8,239	13,269	14,144
Total equity	**124,776**	**211,372**	**280,949**	**313,949**
Non-current liabilities				
Provisions[(3)]	16,655	15,211	15,706	18,784
Payables and accruals	62,457	59,517	31,327	3,422
Loan and borrowings	54,451	22,269	2,317	-
Deferred tax liabilities	7,235	9,726	5,802	3,486
Hire purchase liabilities	-	-	-	457
Total non-current liabilities	**140,798**	**106,723**	**55,152**	**26,149**
Current liabilities				
Payables and accruals	123,777	98,936	142,664	149,080
Loan and borrowings	76,769	46,499	-	2,360
Hire purchase liabilities	-	-	-	119
Current tax liabilities	109	16,372	10	-
Total current liabilities	**200,655**	**161,807**	**142,674**	**151,559**
Total liabilities	**341,453**	**268,530**	**197,826**	**177,708**
TOTAL EQUITY AND LIABILITIES	**466,229**	**479,902**	**478,775**	**491,657**

Notes:

* Representing less than RM1,000.

(1) The breakdown of receivables, deposits and prepayments classified as non-current assets are as follows:

	Audited			
	As at 30 September			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Other receivable[a]	1,035	1,087	12	11
Prepayment[b]	964	1,100	1,379	1,812
	1,999	**2,187**	**1,391**	**1,823**

(a) Other receivable represents amounts due from the Plasma Farmers from Indonesia arising from the costs of development of the plantations for small landholders. In accordance with the Indonesian Government policy, our subsidiaries, PT MKH and PT SPS, assume the responsibilities for developing plantations for Plasma Farmers in addition to their own plantation. The said subsidiaries are also required to provide training and supervise the Plasma Farmers and purchase the FFB from the Plasma Farmers at the prices determined by the Indonesian Government. The amounts are unsecured, interest-free, have no fixed term in repayment and are to be settled not within one year. The amounts owing will be repaid progressively via offset partially against the purchase of FFB from the Plasma Farmers.

(b) Comprise prepayment for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme. It will be charged to the profit or loss when plantation estates allocate the seedlings to the fields.

(2) The biological assets of our Group comprise FFB prior to harvest. Management has considered FFB less than 15 days before harvesting in calculating fair value. FFB more than 15 days before harvesting are excluded from the valuation as their fair values are considered negligible. The fair value measurement of the biological assets is valued using the present value of net cash flows expected to be generated from the sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell.

(3) Provisions comprise post-employment benefit obligations. Our Indonesia subsidiaries operate unfunded defined benefit schemes, as required under the Labour Law of the Republic of Indonesia. The defined benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for FYE 2020 to 2023, which have been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Cash flow from operating activities				
PBT	27,606	102,027	73,484	41,299
Adjustments for:				
Depreciation of property, plant and equipment	29,605	30,345	30,440	32,725
Interest expenses on:				
- loans and borrowings	7,201	3,201	1,243	200
- hire purchase liabilities	-	-	-	21
- amount due to a related company	5,404	4,668	4,597	4,611
Impairment loss on investment in subsidiary	1,222	-	3,191	-
Gain on disposal of subsidiary	-	-	-	(2,854)
Provision for post-employment benefit obligations	3,711	2,064	3,163	4,416
Property, plant and equipment written off	306	234	580	60
Changes in fair values of biological assets	913	(1,637)	577	(288)
Amortisation of prepaid lease payments	723	727	557	908
Inventories written off	4	1	1	-
Unrealised loss/(gain) on foreign exchange - net	13,879	(7,785)	(4,491)	535
Interest income	(543)	(676)	(655)	(832)
Bad debts written off	251	94	-	-
Operating profit before changes in working capital	**90,282**	**133,263**	**112,687**	**80,801**
(Increase)/decrease in inventories	(7,944)	(14,913)	(22,740)	26,896
(Decrease)/increase in receivables, deposits and prepayments	(3,740)	13,254	5,501	(11,059)
Increase/(decrease) in payables and accruals	12,293	(23,844)	16,906	(22,207)
Cash generated from operations	90,891	107,760	112,354	74,431
Interests received	543	676	655	832
Interests paid	(12,773)	(7,902)	(5,840)	(4,832)
Tax paid	(5,894)	(9,347)	(39,547)	(17,258)
Tax refunded	5,222	8,712	-	-
Retirement benefit obligation paid	(746)	(1,515)	(1,979)	(1,833)
Net cash from operating activities	**77,243**	**98,384**	**65,643**	**51,340**
Cash flow used in investing activities				
Acquisition of property, plant and equipment	(9,239)	(10,048)	(16,112)	(27,844)
Repayment from/(advance to) a subsidiary	44	(264)	2,800	3,169
Acquisition of a subsidiary	-	-	*	-
Subscription of shares in subsidiaries	-	-	(3,241)	-
Proceed from disposal of subsidiaries	-	-	-	2,904
Net cash used in investing activities	**(9,195)**	**(10,312)**	**(16,553)**	**(21,771)**
Cash flow used in financing activities				
Repayment of term loans	(82,273)	(58,602)	(36,526)	-
Drawdown of term loans	28,354	14,359	2,259	-
Repayment of revolving credits	(13,402)	(21,523)	(32,784)	-
Payment of hire-purchase liabilities	-	-	-	(89)
Advances from/(repayment to) related companies	2,436	(1,907)	1,115	-

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Deposits and bank balances released/(pledged) as securities	(313)	2,405	10,260	-
Drawdown of revolving credits	6,261	-	-	-
Net cash used in financing activities	**(58,937)**	**(65,268)**	**(55,676)**	**(89)**
Net increase/(decrease) in cash and cash equivalents	**9,111**	**22,804**	**(6,586)**	**29,480**
Effect of exchange rate changes on the balance of cash held in foreign currencies	(4,012)	815	1,395	2,402
Cash and cash equivalents at beginning of financial year	**18,487**	**23,586**	**47,205**	**42,014**
Cash and cash equivalents at end of financial year(1)	**23,586**	**47,205**	**42,014**	**73,896**

Notes:

* Representing less than RM1,000.

(1) Cash and cash equivalents included in the statements of cash flows comprise the following amounts:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	36,250	57,465	42,014	73,896
Less: Deposits pledged for credit facilities	(12,664)	(10,260)	-	-
	23,586	**47,205**	**42,014**	**73,896**

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

The following discussion and segmental analysis of our combined financial statements for FYE 2020 to 2023 should be read with the Accountants' Report included in Section 13.

12.2.1 Overview of our operations

(a) Principal activities

We are an upstream oil palm plantation group and our operations are based in East Kalimantan, Indonesia. Through our subsidiaries, we are principally involved in:

(i) cultivation of oil palm; and

(ii) production and sale of CPO and PK.

As at LPD, our Group owns 2 oil palm plantation estates, 1 palm oil mill and 1 jetty located in East Kalimantan, Indonesia. The harvested FFB in our plantation estates are sent to our palm oil mill for the production of CPO and extraction of PK for onward sales to our customers.

For further details, please refer to Section 7.2 for our Group's detailed business overview.

During FYE 2020 and FYE 2021, our Group was carrying out the business of building materials trading in Malaysia together with another subsidiary under MKH, namely MKH Building Materials Sdn Bhd. Subsequently, in FYE 2021, our Group ceased carrying out the building materials trading business since 1 January 2021 for the preparation of our Listing.

Since the cessation of trading of building materials business of our Group effective from 1 January 2021, our Group has been solely focusing on the cultivation of oil palms and production of CPO and PK in Indonesia.

(b) Revenue

Our revenue comprises the sale of CPO and PK under the plantation segment and the trading of building materials.

Revenue from the sale of CPO and PK and the trading of building materials is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Our Group entered into contracts with customers to supply goods. Revenue is recognised upon delivery and issuance of invoices to customers.

Revenue is recognised at a point in time when control of the goods underlying the performance obligation is transferred to the buyers. No allocation of the transaction price is required to performance obligation as each contract consists of one performance obligation only.

(c) Cost of sales

Our Group's cost of sales comprises 4 components, i.e. cultivation costs, harvesting costs, mill and production costs and costs for trading.

(i) Cultivation costs

Cultivation costs comprise mainly manuring, depreciation, labour-related costs and repair and maintenance.

(ii) Harvesting costs

Harvesting costs comprise mainly labour-related costs and transportation costs.

(iii) Mill and production costs

Mill and production costs comprise mainly raw materials costs, movements in inventories, depreciation, labour-related costs and repair and maintenance costs.

(iv) Costs for trading

Costs for trading represent the cost of goods sold for CPO and PK trading and building materials trading.

(d) Other income

Other income comprises mainly unrealised and realised gain on foreign exchange, the income from the sale of FFB during maintenance of our palm oil mill, sale of sludge oil, and the gain on changes in the fair value of biological assets.

(e) Administrative expenses

Administrative expenses comprise mainly staff costs, management fees, CSR expenses, depreciation for property, plant and equipment, professional fees, medical expenses and employees' benefit obligations.

(f) Sales and marketing expenses

Sales and marketing expenses comprise mainly transportation costs and jetty costs.

(g) Other expenses

Other expenses comprise mainly unrealised and realised loss on foreign exchange, value-added tax expenses, the loss on changes in the fair value of biological assets and amortisation of prepaid lease payments.

(h) Finance costs

Finance costs comprise interests on term loans, revolving credits and the amount due to a related company.

(i) Recent developments

Save as disclosed below, there were no other significant events subsequent to our audited combined financial statements for FYE 2023:

(i) the Share Split as detailed in Section 6.2.1 was completed on 29 November 2023;

(ii) the Acquisition of PT MKH as detailed in Section 6.2.2 was completed on 20 December 2023;

(iii) the Acquisition of PT SPS as detailed in Section 6.2.3 was completed on 20 December 2023;

(iv) the acquisition of 1 ordinary share in Hala Maju by MKHOP was completed on 29 December 2023. Thereafter, on 17 January 2024, MKHOP has transferred 1 ordinary share it owns in both PT MKH and PT SPS to Hala Maju to facilitate the Acquisition of PT MKH and Acquisition of PT SPS; and

(v) the Capitalisation as detailed in Section 6.2.4 was completed on 11 January 2024.

(j) Exceptional and extraordinary items

There were no exceptional or extraordinary items for FYE 2020 to 2023. In addition, our audited combined financial statements for FYE 2020 to 2023 were not subject to any audit qualifications.

12.2.2 Review of our results of operations

(a) Revenue

Analysis of revenue by business segment

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Plantation								
CPO	225,584	79.9	263,571	85.9	275,612	87.3	310,013	91.7
PK	24,870	8.8	30,887	10.1	40,205	12.7	27,968	8.3
	250,454	88.7	294,458	96.0	315,817	100.0	337,981	100.0
Trading[(1)]	31,870	11.3	12,153	4.0	-	-	-	-
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**	**337,981**	**100.0**

Note:

(1) Relates to trading of building materials in Malaysia which was carried out by our Group. Subsequently, our Group had ceased carrying out the building materials trading business from 1 January 2021 for the preparation of our Listing.

Analysis of revenue by geographical location[(1)]

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Indonesia	250,454	88.7	294,458	96.0	315,817	100.0	337,981	100.0
Malaysia[(2)]	31,870	11.3	12,153	4.0	-	-	-	-
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**	**337,981**	**100.0**

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) The classification of our revenue by geographical market is based on the locations of our customers.

(2) All revenue from Malaysia derived solely from the trading of buildings materials segment.

Our revenue from the sale of CPO and PK is a direct result of the selling prices and volume of CPO and PK. The selling price of our CPO is determined based on market prices, which are primarily influenced by supply and demand, environmental factors, as well as the prices of substitutes such as other edible oils and crude petroleum oil. Our sales volume is directly determined based on the output of CPO and PK from our mill and CPO purchased. This output is measured by the CPO or PK produced from the processing of FFB produced from our mature plantation area together with FFB purchased. The aforementioned measurements are set out in the following table:

	FYE 2020	FYE 2021	FYE 2022	FYE 2023
Selling prices				
Average CPO selling price (RM/MT)[7]	2,227	2,945	3,847	3,348
Average PK selling price (RM/MT)[7]	1,141	1,681	2,627	1,589
Volume produced				
Mature plantation area (Ha)	16,507	16,507	(5)17,009	17,009
FFB produced (MT)[1]	477,157	(2)441,016	(2)382,752	410,230
- FFB yield per Ha (MT/Ha)	29.3	26.7	23.2	24.1
FFB processed (MT)	482,889	459,940	404,901	433,011
FFB purchased (MT)	20,599	20,175	22,210	23,051
Cost of FFB purchased (RM'000)	8,976	11,819	17,947	15,656
Average FFB purchased costs per MT (RM)	436	586	808	679
CPO produced (MT)	100,010	89,438	74,942	89,017
- OER (%)	20.7	(3)19.5	(3)18.5	20.6
PK produced (MT)	20,331	17,963	16,245	16,886
- KER (%)	4.2	(4)3.9	(4)4.0	(4)3.9
Volume sold				
Sales of CPO (MT)				
- Own production[8]	99,803	86,797	71,636	92,463
- Trading of CPO[6]	1,503	2,709	-	144
Sales of PK (MT)[8]	21,800	18,378	15,305	17,603

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) FFB produced will be sent to the mill for production and selling of FFB during maintenance of our palm oil mill.

(2) Lower FFB processed in FYE 2021 and FYE 2022 was due to lower FFB harvested from our plantation estates as a result of heavy rainfall from La Nina phenomenon in FYE 2021 and FYE 2022.

(3) Lower OER in FYE 2021 and FYE 2022 were due to higher moisture content in FFB harvested as a result of heavy rainfall from La Nina phenomenon in FYE 2021 and FYE 2022.

(4) Lower KER in FYE 2021, FYE 2022 and FYE 2023 was due to the shrinking of fruitlet size as a result of heavy rainfall from La Nina phenomenon during FYE 2021.

(5) Our mature plantation area increased to 17,009 Ha for FYE 2022, mainly attributable to the reclassification of immature area to mature plantation area of 589.0 Ha after net off transfer of mature plantation land earmarked for transfer in the form of HGU to Sawit Seguntung Jaya Plantation Cooperative, Puan Cepak Village during FYE 2022. The transfer of the plantation land area was part of the Plasma Programme whereby our Group is obligated to, amongst others, provide the plantation facilities and assist in the management of the plantation land.

(6) We purchase CPO with FFA content of above or close to 5.0% from neighbouring palm oil mills to mix with our CPO in order to achieve CPO with higher FFA content but still below 5.0% for sale to customers. This enables us to increase the production of our CPO at a lower cost as CPO with higher FFA content is generally purchased at a discounted rate from our neighbouring palm oil mills, thereby increasing our sales and profitability at a cost-effective manner. There was no trading of CPO for FYE 2022, mainly attributable to no CPO purchased for FYE 2022, primarily due to lesser discounts offered by the external party was not feasible for purchase to yield a better margin. In addition, we did not purchase CPO from neighbouring palm oil mills for mixing with our CPO for FYE 2022 due to the relatively high FFA content (at an average of approximately 6.5%) in the CPO offered for sale to our Group by our neighbouring palm oil mills.

(7) The increasing demand for CPO and PK and the low supply of CPO and PK lead to increasing prices for CPO and PK. Generally, the movement of PK prices is correlative with the CPO prices.

(8) The volume sold for CPO and PK from own production includes the total volume produced during the year plus the unsold CPO and PK brought forward from the previous year, less the unsold CPO and PK volume carried forward at year-end. CPO and PK comprised solely CPO and PK produced by our palm oil mill.

Comparison between FYE 2020 and FYE 2021

Our revenue improved by RM24.3 million or 8.6% to RM306.6 million for FYE 2021 (FYE 2020: RM282.3 million), primarily contributed by revenue growth from the sale of CPO, which contributed RM263.6 million or 85.9% of our total revenue for FYE 2021 (FYE 2020: RM225.6 million or 79.9%).

Plantation

Our revenue from the plantation segment grew by RM44.0 million or 17.6% to RM294.5 million for FYE 2021 (FYE 2020: RM250.5 million) comprising CPO sales which grew by RM38.0 million or 16.8% and PK sales which grew by RM6.0 million or 24.1%, both of which were mainly attributable to the increase in our average selling prices for CPO and PK.

Our average selling prices for CPO and PK grew by RM718 per MT or 32.2% to RM2,945 per MT for FYE 2021 (FYE 2020: RM2,227 per MT) and RM540 per MT or 47.3% to RM1,681 per MT for FYE 2021 (FYE 2020: RM1,141 per MT), respectively, which moved in tandem with the global prices of CPO and PK. The said increase in global prices primarily resulted from the following factors, which caused higher demand for CPO but a lower supply of CPO:

(i) global relaxation of movement control measures and increased refining activities, which spurred the demand for CPO;

(ii) a shortage of CPO supply caused by heavy rainfall from the La Nina phenomenon in early 2021 (average monthly rainfall: FYE 2021: 198mm; FYE 2020: 140mm), which disrupted oil palm harvesting activities as well as logistics on oil palm plantations, and thus led to our FFB yield per Ha decreasing by 8.9% to 26.7MT/Ha for FYE 2021 (FYE 2020: 29.3MT/Ha) and thus lower supply of CPO. The La Nina phenomenon started in September 2020 and continued through mid-May 2022 blown by strong winds westwards from South America to Indonesia across the Pacific Ocean; and

(iii) a lower supply of CPO caused by labour shortage exacerbated by the COVID-19 pandemic which disrupted CPO supply globally. For avoidance of doubt, our Group was not affected by the labour shortage exacerbated by the COVID-19 pandemic, mainly attributable to the establishment of a standard safety protocol in accordance with the guidelines and SOPs on COVID-19 prevention to protect our employees against potential COVID-19 infection as detailed in Section 7.8.

The above incremental effects on our revenue were partially offset by lower sales volume for CPO, which decreased by 11,800MT or 11.6% to 89,506MT for FYE 2021 (FYE 2020: 101,306MT), and lower sales volume for PK by 3,422MT or 15.7% to 18,378MT for FYE 2021 (FYE 2020: 21,800MT). Such decrease in volume was mainly attributable to our Group recording a lower OER and KER of 19.5% and 3.9% for FYE 2021, respectively (FYE 2020: 20.7% and 4.2%, respectively), due to higher moisture content in FFB harvested as a result of heavy rainfall from La Nina phenomenon in FYE 2021.

Trading

Revenue from the trading segment decreased by RM19.7 million or 61.9% to RM12.2 million for FYE 2021 (FYE 2020: RM31.9 million). The said decrease was due to cessation of trading of building materials business of our Group since 1 January 2021 for the preparation of our Listing.

Comparison between FYE 2021 and FYE 2022

Our revenue has continued to grow by RM9.2 million or 3.0% to RM315.8 million for FYE 2022 (FYE 2021: RM306.6 million), primarily contributed by the revenue from our plantation segment, which increased by RM21.3 million or 7.2% to RM315.8 million for FYE 2022 (FYE 2021: RM294.5 million).

Since the cessation of trading of building materials of our Group since 1 January 2021, our Group has been solely focusing on the cultivation of oil palms and production of CPO and PK in Indonesia, whereby our customers from this business segment are solely customers from Indonesia. Thus, in FYE 2022, our Group solely generated revenue from the plantation segment and Indonesia.

Plantation

Our plantation segment revenue grew further by RM21.3 million or 7.2% to RM315.8 million for FYE 2022 (FYE 2021: RM294.5 million), contributed by higher revenue from the sale of CPO and PK, which grew by RM12.0 million or 4.6% to RM275.6 million for FYE 2022 (FYE 2021: RM263.6 million) and RM9.3 million or 30.1% to RM40.2 million for FYE 2022 (FYE 2021: RM30.9 million) respectively, mainly attributable to the increase in our average selling prices for CPO and PK.

Our average selling prices for CPO and PK grew by RM902 per MT or 30.6% to RM3,847 per MT for FYE 2022 (FYE 2021: RM2,945 per MT), and RM946 per MT or 56.3% to RM2,627 per MT for FYE 2022 (FYE 2021: RM1,681 per MT) respectively, which moved in tandem with the global prices of CPO and PK. The said increase in global prices primarily resulted from higher demand for CPO but a lower supply of CPO due to further global relaxation of movement control measures and increasing refining activities, which subsequently caused the demand for CPO to increase. Additionally, this was coupled with a shortage of CPO supply caused by the La Nina phenomenon during FYE 2021 and FYE 2022, which started in September 2020 and continued through mid-May 2022 across the tropical Pacific and brought about extreme and prolonged heavy rainfall (average monthly rainfall: FYE 2022: 240mm; FYE 2021: 198mm), had disrupted oil palm harvesting activities as well as logistics on oil palm plantations, which led to lower FFB yield per Ha recorded by our Group for FYE 2021 and FYE 2022, decreased by 13.1% to 23.2MT/Ha for FYE 2022 (FYE 2021: 26.7MT/Ha). In addition, there was lower supply of CPO caused by the labour shortage exacerbated by the COVID-19 pandemic across major palm-producing countries that disrupted CPO supply globally.

Further, there was higher demand for CPO as a substitute, due to:

(i) sunflower oil supply disruption caused by the conflict between Russia and Ukraine which started in February 2022, subsequently drove demand for CPO as a substitute, leading to the rise in global CPO prices;

(ii) dry weather that hit South America which affected soybean production, resulting in limited soy oil supply, and hence drove demand for CPO as a substitute, leading to the rise in global CPO prices; and

(iii) increased biodiesel production in Europe as biodiesel is considered as environmentally friendly renewable energy and a sustainable alternative to fossil fuels. CPO is one of the primary raw materials for producing biodiesel, and hence drove demand for CPO and led to the rise in global CPO prices.

The improved revenue contributed by the higher selling prices of CPO and PK for FYE 2022 was partially offset by lower sales volume for CPO and PK, which decreased by 17,870MT or 20.0% to 71,636MT for FYE 2022 (FYE 2021: 89,506MT), and 3,073MT or 16.7% to 15,305MT for FYE 2022 (FYE 2021: 18,378MT) respectively. Such decrease was mainly attributable to our Group recording a lower OER of 18.5% for FYE 2022 (FYE 2021: 19.5%) due to the La Nina phenomenon in FYE 2022, which brought about extreme and prolonged heavy rainfall across palm-producing countries, which disrupted the FFB production and causing higher moisture content in FFB harvested. Hence, our Group has lower production of CPO and PK.

Trading

There was no revenue from the trading segment for FYE 2022 as our Group had ceased the building materials trading business effective from 1 January 2021 (FYE 2021: RM12.2 million).

Comparison between FYE 2022 and FYE 2023

Our revenue from the plantation segment increased by RM22.2 million or 7.0% to RM338.0 million for FYE 2023 (FYE 2022: RM315.8 million), primarily attributable to the increase in revenue from the sale of CPO by RM34.4 million or 12.5% to RM310.0 million for FYE 2023 (FYE 2022: RM275.6 million), which was mainly attributable to the sales volume for CPO increased by 20,971MT or 29.3% to 92,607MT for FYE 2023 (FYE2022: 71,636MT). The increase in sales volume for CPO was mainly attributable to (i) customer's late collection of CPO orders of 6,000MT from FYE 2022 that was eventually delivered and recognised as revenue during FYE 2023; and (ii) our Group recording a higher FFB produced and higher OER of 20.6% for FYE 2023 (FYE 2022: 18.5%) due to less moisture content in FFB harvested and higher oil content resulted by the favourable weather during the last 5 months of the fruit development in the mesocarp (growing of oil content) before harvesting.

12. FINANCIAL INFORMATION *(Cont'd)*

The above increase was offset by the decrease in our average selling prices for CPO by RM499 per MT or 13.0% to RM3,348 per MT for FYE 2023 (FYE 2022: RM3,847 per MT), which moved in tandem with the global CPO prices. The decrease in average selling prices for CPO was mainly resulting from the following:

(i) the lower demand for CPO from China as a result of the reduced consumption of major vegetable oils caused by ongoing lockdowns in several big cities due to COVID-19; and

(ii) lower demand for CPO from India and Europe resulting from higher imports of soybeans as a substitute.

The increase in revenue from the sale of CPO was offset by lower revenue from the sale of PK, which decreased by RM12.2 million or 30.4% to RM28.0 million for FYE 2023 (FYE 2022: RM40.2 million). Such decrease was mainly attributable to the decrease in our average selling prices for PK by RM1,038 per MT or 39.5% to RM1,589 per MT for FYE 2023 (FYE 2022: RM2,627 per MT) which moved in tandem with global PK prices.

The impact of the decrease in PK prices was narrowed by higher sales volume for PK, which increased by 2,298MT or 15.0% to 17,603MT for FYE 2023 (FYE 2022: 15,305MT), despite our Group recording lower KER of 3.9% for FYE 2023 (FYE 2022: 4.0%) due to the shrinking of fruitlet size as a result of heavy rainfall from the La Nina phenomenon during FYE 2021 and FYE 2022 which started in September 2020 to mid-May 2022. The KER is affected by the weather conditions during fruit development, which generally takes approximately 9 to 10 months before harvesting. The increased sales volume for PK was mainly attributable to (i) customer's late collection of PK orders of 1,200MT from FYE 2022 that was delivered and recognised as revenue during FYE 2023; and (ii) higher FFB processed of 433,011MT for FYE 2023 (FYE 2022: 404,901MT).

The rest of this page is intentionally left blank

(b) Cost of sales, GP and GP margin

Analysis of cost of sales by cost component

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Cultivation costs								
- Depreciation	23,986	13.1	23,656	14.2	24,264	13.0	26,019	10.6
- Labour-related costs	22,288	12.2	27,259	16.4	34,337	18.5	36,811	15.0
- Manuring	28,762	15.7	26,836	16.1	32,202	17.3	46,928	19.1
- Utilities	4,362	2.4	4,561	2.7	7,811	4.2	10,643	4.3
- Estate maintenance costs	7,358	4.0	8,084	4.9	13,458	7.2	14,567	5.9
- Security costs	2,700	1.5	2,849	1.7	3,371	1.8	3,485	1.4
- Others[(1)]	4,963	2.8	5,610	3.5	8,066	4.4	8,825	3.6
	94,419	**51.7**	**98,855**	**59.5**	**123,509**	**66.4**	**147,278**	**59.9**
Harvesting costs								
- Labour-related cost	16,248	8.9	15,769	9.5	17,544	9.5	24,364	9.9
- Transportation	12,821	7.0	13,896	8.4	18,235	9.8	18,439	7.5
- Others[(2)]	100	0.1	81	*	179	0.1	328	0.1
	29,169	**16.0**	**29,746**	**17.9**	**35,958**	**19.4**	**43,131**	**17.5**
Mill and production costs								
- Depreciation	3,931	2.2	4,093	2.5	4,522	2.4	4,700	1.9
- Labour-related costs	5,719	3.1	5,734	3.4	6,138	3.3	7,078	2.9
- Repair and maintenance	4,901	2.7	4,196	2.5	5,009	2.7	7,551	3.1
- Purchase of FFB	8,976	4.9	11,819	7.1	17,947	9.7	15,656	6.4
- Others[(3)]	3,179	1.7	3,593	2.2	5,247	2.8	6,252	2.5
	26,706	**14.6**	**29,435**	**17.7**	**38,863**	**20.9**	**41,237**	**16.8**

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Movements in CPO and PK inventories[(4)]								
Opening inventories	4,778	2.6	6,570	4.0	17,714	9.5	30,096	12.2
Closing inventories	(6,570)	(3.6)	(17,714)	(10.7)	(30,096)	(16.2)	(16,225)	(6.6)
	(1,792)	**(1.0)**	**(11,144)**	**(6.7)**	**(12,382)**	**(6.7)**	**13,871**	**5.6**
Costs for trading								
CPO and PK	3,548	1.9	7,969	4.8	-	-	488	0.2
Building materials	30,741	16.8	11,376	6.8	-	-	-	-
	34,289	**18.7**	**19,345**	**11.6**	**-**	**-**	**488**	**0.2**
	182,791	**100.0**	**166,237**	**100.0**	**185,948**	**100.0**	**246,005**	**100.0**

Notes:

* Representing less than 0.1%.

(1) Comprise mainly assessment, pruning, office expenses and sundry expenses.

(2) Comprise mainly harvesting tools.

(3) Comprise mainly fuel and lubricants costs.

(4) Comprise of inventory movements for CPO and PK. The inventories cost of CPO and PK includes direct labour, an appropriate share of production overheads and the fair value attributed to agricultural produce at year-end in accordance with MFRS 141.

12. FINANCIAL INFORMATION *(Cont'd)*

(i) Cultivation costs

Our cultivation costs increased by RM4.5 million or 4.8% to RM98.9 million for FYE 2021 (FYE 2020: RM94.4 million), mainly attributable to the following:

(aa) increase in labour-related costs by RM5.0 million to RM27.3 million for FYE 2021 (FYE 2020: RM22.3 million) and increased estate maintenance costs by RM0.7 million to RM8.1 million for FYE 2021 (FYE 2020: RM7.4 million), both being mainly for additional road maintenance during the relatively wetter season since the beginning of the year 2021; and

(bb) other expenses increased by RM0.6 million to RM5.6 million for FYE 2021 (FYE 2020: RM5.0 million), mainly due to calibration costs incurred for 3 weighbridges, refurbishment of existing notice boards and installation of new notice boards in FYE 2021 for Environment, Social and Governance awareness among the workforce.

The abovementioned increases were partially offset by a decrease in manuring by RM2.0 million to RM26.8 million for FYE 2021 (FYE 2020: RM28.8 million), mainly due to the deferred application of fertilisers during the relatively wetter season.

Our cultivation costs increased by RM24.6 million or 24.9% to RM123.5 million for FYE 2022 (FYE 2021: RM98.9 million), mainly attributable to the following:

(aa) higher labour-related costs for FYE 2022, which rose by RM7.0 million to RM34.3 million for FYE 2022 (FYE 2021: RM27.3 million) and estate maintenance costs which increased by RM5.4 million to RM13.5 million for FYE 2022 (FYE 2021: RM8.1 million), mainly due to additional labour and materials required for road maintenance during the relatively wetter season. In addition, for the second half of FYE 2022, there was additional labour for fertiliser application and for drains maintenance, such as deepening and widening of drains for better discharge of water for post-monsoon effects;

(bb) increase in manuring costs of RM5.4 million to RM32.2 million for FYE 2022 (FYE 2021: RM26.8 million), mainly due to the increase in fertiliser price resulting from shortage of supply due to conflict between Russia and Ukraine. Additionally, more fertiliser was applied for the second half of FYE 2022 as compared to the first half of FYE 2022 as the heavy rainfall from the La Nina phenomenon in the first half of FYE 2022 made it less suitable to apply fertiliser which resulted in the postponement of fertilisers application to post-monsoon in the second half of FYE 2022;

12. FINANCIAL INFORMATION *(Cont'd)*

(cc) increase in utilities by RM3.2 million to RM7.8 million for FYE 2022 (FYE 2021: RM4.6 million), mainly due to higher diesel costs resulting from the rise in diesel prices during FYE 2022 for diesel used for our generation sets and vehicles arising from the increase in global crude oil prices following an increase in global demand for crude oil due to fears in the market on any disruptions in the supply as a result of the Russia-Ukraine conflict and sanctions implemented by the United States against Russia, which subsequently led to a reduction in subsidies on diesel as announced by the Indonesian Government in September 2022; and

(dd) increase in other cultivation costs such as pruning and sundry expenses by RM2.4 million to RM8.0 million for FYE 2022 (FYE 2021: RM5.6 million), mainly due to (i) additional pruning works resulting from the relatively wetter season; (ii) and higher ISPO certification costs mainly due to the acquisition of new machines by PT MKH and the new signup of the ISPO certification programme for PT SPS, which costs are mainly for document analysis and tests conducted by a competent third party to maintain and improve safety and environmental compliance standards, i.e. water and air quality tests, noise tests on power generators and other mill equipment, ISPO on material and equipment, and ISPO on handling and logistic expenditure by a third party on B3 waste (hazardous and toxic materials).

Our cultivation costs increased by RM23.8 million or 19.2% to RM147.3 million for FYE 2023 (FYE 2022: RM123.5 million), mainly attributable to the following:

(aa) increase in manuring costs of RM14.7 million to RM46.9 million for FYE 2023 (FYE 2022: RM32.2 million), mainly due to more fertiliser applied for FYE 2023 as compared to FYE 2022 as the heavy rainfall in FYE 2022 made it less suitable to apply fertiliser;

(bb) increase in utilities by RM2.8 million to RM10.6 million for FYE 2023 (FYE 2022: RM7.8 million), mainly due to higher diesel cost resulting from the rise in diesel prices during FYE 2023 for diesel used for our generation sets and vehicles;

(cc) higher labour-related costs for FYE 2023, which rose by RM2.5 million to RM36.8 million for FYE 2023 (FYE 2022: RM34.3 million), mainly due to additional labour for fertiliser application coupled with the increase in minimum wages by 6.1%;

(dd) increase in depreciation by RM1.7 million to RM26.0 million for FYE 2023 (FYE 2022: RM24.3 million), mainly due to the addition of building, plant and machinery during FYE 2023 as well as the reclassification of new mature bearer plant in September 2022; and

(ee) estate maintenance costs increased by RM1.1 million to RM14.6 million for FYE 2023 (FYE 2022: RM13.5 million), mainly due to post-monsoon deepening and widening of drains for better discharge of water.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) Harvesting costs

Our harvesting costs increased by RM0.5 million or 1.7% to RM29.7 million for FYE 2021 (FYE 2020: RM29.2 million), despite lower FFB produced for FYE 2021, mainly attributable to our transportation costs rose by RM1.1 million to RM13.9 million for FYE 2021 (FYE 2020: RM12.8 million), primarily in relation to the replacement of loading truck nets and higher handling costs to manage the evacuation of FFBs as the condition of the roads were affected by the relatively wetter season.

The abovementioned increases were partially offset by labour-related costs, which dropped by RM0.4 million to RM15.8 million for FYE 2021 (FYE 2020: RM16.2 million) as a result of the lower labour costs as we recruited fewer workers to collect loose fruits as we focused more on collecting FFB due to wet weather.

Our harvesting costs increased by RM6.3 million or 21.2% to RM36.0 million for FYE 2022 (FYE 2021: RM29.7 million), mainly attributable to the increase in transportation by RM4.3 million to RM18.2 million for FYE 2022 (FYE 2021: RM13.9 million) and the increase in labour-related costs by RM1.7 million to RM17.5 million for FYE 2022 (FYE 2021: RM15.8 million), primarily attributable to the higher handling costs to manage the evacuation of FFBs as the condition of the roads were affected by the relatively wetter season. In addition, higher transportation and labour-related costs were incurred in the second half of FYE 2022, resulting from the repair and maintenance costs for powered wheelbarrows and farm ATVs incurred in the second half of FYE 2022 as well as more trips due to higher FFB produced compared to the first half of FYE 2022.

Our harvesting costs increased by RM7.1 million or 19.7% to RM43.1 million for FYE 2023 (FYE 2022: RM36.0 million), mainly attributable to the increase in labour-related costs of RM6.9 million to RM24.4 million for FYE 2023 (FYE 2022: RM17.5 million), which was in line with the increase in FFB produced, coupled with the increase in minimum wages by 6.1%.

(iii) Mill and production costs

Our mill and production costs increased by RM2.7 million or 10.1% to RM29.4 million for FYE 2021 (FYE 2020: RM26.7 million), mainly attributable to the increase in FFB purchase costs of RM2.8 million to RM11.8 million for FYE 2021 (FYE 2020: RM9.0 million). The average FFB purchase costs grew by RM150 per MT to RM586 per MT for FYE 2021 (FYE 2020: RM436 per MT), which increased in tandem with the global prices for CPO as the determination of the FFB price under the provisions contained in the Regulation of the Minister of Agriculture regarding the Guidelines for Determining the Purchase Price for FFB for Plantation Production issued by the Plantation Office of East Kalimantan Province will fluctuate in line with the prevailing CPO prices, hence, the FFB price consistently correlates with the CPO price.

12. FINANCIAL INFORMATION *(Cont'd)*

Our mill and production costs increased by RM9.5 million or 32.3% to RM38.9 million for FYE 2022 (FYE 2021: RM29.4 million), mainly attributable to higher FFB purchase costs for FYE 2022, which increased by RM6.1 million to RM17.9 million for FYE 2022 (FYE 2021: RM11.8 million). The average FFB purchase costs grew by RM222 per MT to RM808 per MT for FYE 2022 (FYE 2021: RM586 per MT), which increased in tandem with global prices for CPO as the basis in determining the FFB does refer to the CPO price, hence, the FFB price consistently correlates with the CPO price. In addition, other mill and production costs rose by RM1.6 million to RM5.2 million for FYE 2022 (FYE 2021: RM3.6 million), mainly comprising fuel and lubricant costs by RM1.3 million or 92.9% to RM2.7 million for FYE 2022 (FYE 2021: RM1.4 million), primarily attributable to the rise in fuel prices resulting from the conflict between Russia and Ukraine, which led to the shortage of fuel supply.

Our mill and production costs increased by RM2.3 million or 6.1% to RM41.2 million for FYE 2023 (FYE 2022: RM38.9 million), mainly attributable to the following:

(aa) increase in repair and maintenance of RM2.6 million to RM7.6 million for FYE 2023 (FYE 2022: RM5.0 million), mainly due to costs incurred for service and repair of boiler, the overhaul of weighbridge, periodic replacement of FFB conveyor, decanter and purifier service and spare parts during FYE 2023;

(bb) increase in labour-related costs of RM1.0 million to RM7.1 million for FYE 2023 (FYE 2022: RM6.1 million), mainly due to the increase in minimum wages by 6.1%; and

(cc) increase in other mill and production costs of RM1.1 million to RM6.3 million for FYE 2023 (FYE 2022: RM5.2 million) resulting from the rise in fuel prices.

Such increases were partially offset by the lower FFB purchase costs for FYE 2023, which decreased by RM2.2 million to RM15.7 million for FYE 2023 (FYE 2022: RM17.9 million). The decrease in FFB purchase costs was mainly attributable to the decrease in the average FFB purchase costs, which decreased by RM129 per MT to RM679 per MT for FYE 2023 (FYE 2022: RM808 per MT), which decreased in tandem with global prices for CPO as the basis in determining the FFB does refer to the CPO price, hence, the FFB price consistently correlates with the CPO price.

12. FINANCIAL INFORMATION *(Cont'd)*

(iv) Costs for trading

Costs for trading are the cost of goods sold for CPO and PK trading and building materials trading.

CPO and PK

Our purchase costs for CPO and PK increased by RM4.5 million to RM8.0 million for FYE 2021 (FYE 2020: RM3.5 million), mainly attributable to the rise in the total purchase volume of CPO from the external party by 1,206MT to 2,709MT for FYE 2021 (FYE 2020: 1,503MT) mainly due to the CPO purchase prices with better discounts offered by the external party were feasible for purchase to yield a better margin. The offered CPO prices rose from RM2,043 per MT for FYE 2020 to RM2,769 per MT for FYE 2021, which moved in tandem with the global prices of CPO.

There were no CPO and PK purchased during FYE 2022 (FYE 2021: RM8.0 million), mainly attributable to less discounts offered by the external party, which were not feasible for purchase to yield a better margin. In addition, we did not purchase CPO from neighbouring palm oil mills for mixing with our CPO in the FYE 2022 due to the relatively high FFA content (at an average of approximately 6.5%) in the CPO offered for sale to our Group by our neighbouring palm oil mills.

The CPO purchase costs of RM0.5 million during FYE 2023 (FYE 2022: RM Nil) were mainly for mixing with our CPO produced.

Building materials

Our cost for trading decreased by RM19.3 million or 62.9% to RM11.4 million for FYE 2021 (FYE 2020: RM30.7 million), and thereafter contributed no revenue for FYE 2022, following the cessation of our building materials trading business since 1 January 2021 onwards.

Analysis of cost of sales by business segment

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Plantation	152,050	83.2	154,861	93.2	185,948	100.0	246,005	100.0
Trading	30,741	16.8	11,376	6.8	-	-	-	-
	182,791	**100.0**	**166,237**	**100.0**	**185,948**	**100.0**	**246,005**	**100.0**

12. FINANCIAL INFORMATION *(Cont'd)*

Analysis of GP and GP margin by business segment

	Audited							
	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	GP	**GP margin**	**GP**	**GP margin**	**GP**	**GP margin**	**GP**	**GP margin**
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Plantation	98,404	39.3	139,597	47.4	129,869	41.1	91,976	27.2
Trading	1,129	3.5	777	6.4	-	-	-	-
	99,533	**35.3**	**140,374**	**45.8**	**129,869**	**41.1**	**91,976**	**27.2**

Comparison between FYE 2020 and FYE 2021

Our Group's cost of sales decreased by RM16.6 million or 9.1% to RM166.2 million for FYE 2021 (FYE 2020: RM182.8 million), mainly attributable to the trading of building materials costs which decreased by RM19.3 million or 62.9% to RM11.4 million for FYE 2021 (FYE 2020: RM30.7 million), which is in tandem with the decrease in revenue from the trading segment following the cessation of our building materials trading business since 1 January 2021 onwards.

The above decrease was offset by increased costs of sales for the plantation segment by RM2.8 million or 1.8% to RM154.9 million for FYE 2021 (FYE 2020: RM152.1 million), due to the following:

(i) cultivation costs which increased by RM4.5 million or 4.8% to RM98.9 million for FYE 2021 (FYE 2020: RM94.4 million);

(ii) mill and production costs which increased by RM2.7 million or 10.1% to RM29.4 million for FYE 2021 (FYE 2020: RM26.7 million); and

(iii) purchase costs for CPO and PK which increased by RM4.5 million to RM8.0 million for FYE 2021 (FYE 2020: RM3.5 million),

all of which are explained in earlier sections above for each cost component.

Additionally, higher closing inventories for CPO and PK for FYE 2021, which increased by RM11.1 million to RM17.7 million for FYE 2021 (FYE 2020: RM6.6 million) mainly due to the higher fair value of CPO and closing inventory which increased by 2,808MT also contributed to the lower cost of sales for FYE 2021.

Our Group recorded an increase in GP by RM40.9 million or 41.1% to RM140.4 million for FYE 2021 (FYE 2020: RM99.5 million), and our GP margin improved to 45.8% for FYE 2021 (FYE 2020: 35.3%), mainly attributable to the increased GP and improved GP margin from our plantation segment.

12. FINANCIAL INFORMATION *(Cont'd)*

Our GP for the plantation segment increased by RM41.2 million or 41.9% to RM139.6 million for FYE 2021 (FYE 2020: RM98.4 million), which was in tandem with its revenue growth. Our GP margin for the plantation segment improved to 47.4% for FYE 2021 (FYE 2020: 39.3%), mainly attributable to our revenue from the plantation segment grew by 17.6% for FYE 2021, primarily resulting from the increase in our average selling prices of CPO and PK by 32.2% and 47.3% respectively for FYE 2021, which rose in tandem with the global prices of CPO and PK due to higher demand for CPO and PK but a lower supply of CPO and PK, as explained in Section 12.2.2(a) above. In addition, our cost of sales for the plantation segment increased by 1.8% in FYE 2021, which grew at a rate lower than our revenue growth rate of 17.6%, primarily due to our relatively fixed in-nature depreciation and labour-related costs rising at a rate lower than our revenue growth rate.

Our GP for the trading segment decreased by RM0.3 million or 27.3% to RM0.8 million for FYE 2021 (FYE 2020: RM1.1 million) as a result of the cessation of our building materials trading business effective from 1 January 2021 onwards. Despite the decrease in GP, our GP margin for the trading segment increased to 6.4% for FYE 2021 (FYE 2020: 3.5%), mainly attributable to higher sales of building materials, such as ready mixed concrete, tiles and doors, which yielded a better GP margin as compared with other products.

Comparison between FYE 2021 and FYE 2022

Our Group's cost of sales increased by RM19.7 million or 11.9% to RM185.9 million for FYE 2022 (FYE 2021: RM166.2 million), mainly attributable to the costs of sales for the plantation segment increased by RM31.0 million or 20.0% to RM185.9 million for FYE 2022 (FYE 2021: RM154.9 million), due to the following:

(i) the cultivation costs increased by RM24.6 million or 24.9% to RM123.5 million for FYE 2022 (FYE 2021: RM98.9 million);

(ii) the harvesting costs increased by RM6.3 million or 21.2% to RM36.0 million for FYE 2022 (FYE 2021: RM29.7 million); and

(iii) the mill and production cost increased by RM9.5 million or 32.3% to RM38.9 million for FYE 2022 (FYE 2021: RM29.4 million),

all of which are explained in earlier sections above for each cost component.

The above increases were partially offset as no CPO and PK were purchased during FYE 2022 (FYE 2021: RM8.0 million), mainly attributable to the shortage of CPO supply and CPO prices being not feasible for purchase.

There were no trading of building materials costs for FYE 2022 as we ceased the building materials trading business since 1 January 2021.

Our Group recorded a decrease in GP by RM10.5 million or 7.5% to RM129.9 million for FYE 2022 (FYE 2021: RM140.4 million), while our GP margin decreased to 41.1% for FYE 2022 (FYE 2021: 45.8%), mainly attributable to the plantation segment. Our GP for the plantation segment decreased by RM9.7 million or 6.9% to RM129.9 million for FYE 2022 (FYE 2021: RM139.6 million), and its GP margin decreased to 41.1% for FYE 2022 (FYE 2021: 47.4%), mainly due to the increase in our cost of sales from our plantation segment increased by 20.1%, which grew at a rate higher than our revenue growth rate for the plantation segment of 7.2%, primarily due to higher cultivation costs, harvesting costs and mill and production costs incurred during FYE 2022, mainly due to the reasons as explained above.

Our Group recorded lower GP for the second half of FYE 2022, which decreased by RM54.4 million to RM37.7 million as compared to the first half of FYE 2022 of RM92.1 million, primarily due to the following:

(i) lower revenue recorded in the second half of FYE 2022, which decreased by RM21.5 million to RM147.2 million (first half of FYE 2022: RM168.7 million), resulted mainly from our average selling prices of CPO and PK declined by RM570 per MT or 13.8% to RM3,563 per MT for the second half of FYE 2022 (first half of FYE 2022: RM4,133 per MT) and RM468 per MT or 16.3% to RM2,404 per MT between second half of FYE 2022 (i.e. 1 April 2022 to 30 September 2022) (first half of FYE 2022: RM2,872 per MT), respectively, which moved in tandem with the global prices of CPO and PK. The decline in global prices of CPO and PK from May 2022 was due to excessive stock of CPO in Indonesia accumulated during the export ban on CPO, RBD palm oil, RBD palm olein and used cooking oil implemented by the Indonesian Government from 28 April 2022 to 23 May 2022 which subsequently led to an increase in CPO export after the export ban was lifted;

(ii) higher cultivation costs incurred for the second half of FYE 2022, which increased by RM15.1 million to RM69.3 million (first half of FYE 2022: RM54.2 million), mainly due to additional labour for fertiliser application and for drains maintenance, such as deepening and widening of drains for better discharge of water for post-monsoon effects in the second half of FYE 2022. Additionally, higher manuring costs as more fertiliser was applied for the second half of FYE 2022 as compared to the first half of FYE 2022 due to the heavy rainfall from the La Nina phenomenon in the first half of FYE 2022 made it less suitable to apply fertiliser which resulted in the postponement of fertilisers application to post-monsoon in the second half of FYE 2022;

(iii) higher harvesting costs incurred for the second half of FYE 2022, which increased by RM6.7 million to RM21.3 million (first half of FYE 2022: RM14.6 million), mainly due to higher transportation and labour-related costs which were incurred in the second half of FYE 2022, resulting from the repair and maintenance costs for powered wheelbarrows and farm ATVs incurred in the second half of FYE 2022 as well as more trips due to higher FFB produced compared to the first half of FYE 2022; and

(iv) the movements in CPO and PK inventories for the first half of FYE 2022 amounted to RM11.1 million was higher as compared to the second half of FYE 2022 of RM1.3 million, mainly attributable to the higher closing inventories volume for CPO and PK and higher fair value of CPO and PK as at 31 March 2022 as compared to 30 September 2021.

Thus, our Group's GP margin decreased from 54.6% for the first half of FYE 2022 to 25.6% for the second half of FYE 2022.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2022 and FYE 2023

Our cost of sales for the plantation segment increased by RM60.1 million or 32.3% to RM246.0 million for FYE 2023 (FYE 2022: RM185.9 million), mainly attributable to the following:

(i) cultivation costs increased by RM23.8 million or 19.2% to RM147.3 million for FYE 2023 (FYE 2022: RM123.5 million);

(ii) harvesting costs increased by RM7.1 million or 19.7% to RM43.1 million for FYE 2023 (FYE 2022: RM36.0 million); and

(iii) mill and production costs increased by RM2.3 million or 5.9% to RM41.2 million for FYE 2023 (FYE 2022: RM38.9 million),

all of which are explained in the sections above with respect to each cost component.

Additionally, the closing inventories for CPO and PK as at 30 September 2023 decreased by RM13.9 million to RM16.2 million (as at 30 September 2022: RM30.1 million). Such decrease was mainly attributable to the realisation of prior period CPO closing stock of 3,000MT and 1,200MT of PK, both of which were recognised as revenue during FYE 2023. The higher closing inventories as at 30 September 2022 were mainly due to higher volume for CPO and PK of 3,192MT and 940MT respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022.

Our GP for the plantation segment decreased by RM37.9 million or 29.2% to RM92.0 million for FYE 2023 (FYE 2022: RM129.9 million), while our GP margin decreased to 27.2% for FYE 2023 (FYE 2022: 41.1%). This was mainly due to the decrease in our average selling prices for CPO and PK as explained in Section 12.2.2(a) and the increase in our cost of sales from our plantation segment as explained above.

12. FINANCIAL INFORMATION *(Cont'd)*

(c) Other income

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Realised gain on foreign exchange	-	-	3,079	17.0	-	-	-	-
Unrealised gain on foreign exchange	-	-	7,785	43.1	4,491	69.2	-	-
Sales of sludge oil[(1)]	1,742	18.6	3,374	18.7	367	5.7	2,292	28.8
Sales of FFB[(2)]	5,959	63.7	646	3.6	-	-	-	-
Sales of PK shell	248	2.7	109	0.6	-	-	-	-
Gain on fair value of biological assets[(3)]	-	-	1,637	9.1	-	-	288	3.6
Interest income from bank balances	543	5.8	676	3.7	655	10.1	832	10.5
Management fee[(4)]	232	2.5	270	1.5	340	5.2	393	5.0
Gain on disposal of former subsidiaries	-	-	-	-	-	-	2,854	35.9
Insurance compensation[(5)]	70	0.7	59	0.3	12	0.2	515	6.5
Sales of scrap[(6)]	341	3.6	155	0.9	455	7.0	503	6.3
Miscellaneous[(7)]	220	2.4	292	1.5	170	2.6	271	3.4
	9,355	**100.0**	**18,082**	**100.0**	**6,490**	**100.0**	**7,948**	**100.0**

Notes:

(1) We sell sludge oil to external customers and the proceeds was contributed to the community of the Plasma Farmers in our estates as part of our CSR under the Plasma Programme.

(2) Our Group sells FFB during the major maintenance works of our palm oil mill during FYE 2020 and FYE 2021. No sales of FFB for FYE 2022 as our major maintenance works carried out during FYE 2022 did not involve the shutdown of our production facilities. Thus, our Group did not sell any FFB to other mills during the maintenance period in FYE 2022. Routine maintenance is carried out daily at different stations or sub-points based on Preventive Maintenance Program which is consistent with the wear and tear by industry practice and OEM recommendation, such that the production line is not affected by the routine maintenance. Major maintenance is carried out based on our observations while carrying out the Preventive Maintenance Program on the machinery, whereby part of the production lines is affected, therefore excess FFB will be sold as the capacity of the processing of FFB is affected.

(3) Fair value of biological assets is determined based on the present value of expected net cash flows from the produce growing on bearer plants. The expected net cash flow are estimated using expected output method and the estimated market price of the produce growing on bearer plants. Any gains arising from changes in the fair value of biological assets less cost of sales are recognised in other income.

(4) Management fee is received from the Plasma Farmers for the services we rendered to them, such as planting consultation and management services. The management fee is charged based on 5.0% of the total operational costs of Sawit Sendowan Plantation Cooperative, Sedulang Jaya.

(5) Comprises insurance claims for property all risk, motor vehicle and automobile liability, fidelity guarantee, business interruptions due to flood, and staff medical expenses.

(6) Represents sales of scrap such as spoiled machines at recycle value.

(7) Comprises mainly claims received from fertiliser suppliers for moisture content not following specifications.

Comparison between FYE 2020 and FYE 2021

Our other income increased by RM8.7 million or 92.6% to RM18.1 million for FYE 2021 (FYE 2020: RM9.4 million), mainly attributable to the following:

(i) there was unrealised gain on foreign exchange of RM7.8 million for FYE 2021 (FYE 2020: RM Nil) in relation to our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR resulting from the strengthening of IDR against USD and RM at the end of FYE 2021 compared to FYE 2020 (as at 30 September 2021: USD1: IDR14,307 and RM1: IDR3,419; as at 30 September 2020: USD1: IDR14,918 and RM1: IDR3,590);

(ii) there was realised gain on foreign exchange of RM3.1 million for FYE 2021 (FYE 2020: RM Nil) in relation to repayments of our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR, resulting from the overall strengthening of IDR against USD and RM during the FYE 2021 compared to FYE 2020 (FYE 2021: USD1: IDR14,296 and RM1: IDR3,505; FYE 2020: USD1: IDR14,982 and RM1: IDR3,624);

(iii) there was a gain on changes in fair value of biological assets of RM1.6 million for FYE 2021 (FYE 2020: RM Nil). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. The said gain on changes in fair value of biological assets of RM1.6 million was mainly due to the higher estimated FFB price being used in the measurement of biological assets at the end of FYE 2021 as compared to FYE 2020, in which the increase in estimated FFB price was in tandem with the rise in the global prices of CPO; and

(iv) income from sales of sludge oil increased by RM1.7 million to RM3.4 million for FYE 2021 (FYE 2020: RM1.7 million), mainly due to a higher selling price of RM2,109 per MT for 1,600MT for FYE 2021, as compared to RM968 per MT for 1,800MT for FYE 2020, as the selling price for sludge oil was correlated to the CPO prices, which increase in tandem with the rise in global prices of CPO.

The abovementioned increases were partially offset by lower sales of FFB which decreased by RM5.4 million to RM0.6 million for FYE 2021 (FYE 2020: RM6.0 million), mainly attributable to a shorter maintenance period carried out during FYE 2021, which disrupted our CPO production, i.e. 3 days major maintenance work for FYE 2021 as compared to 6 weeks scheduled major maintenance works undertook during FYE 2020. During maintenance, less FFB is processed, which results in excess FFB, which we will sell. Thus, less maintenance resulted in less excess FFB sold during FYE 2021. During the 6 weeks scheduled major maintenance period, the mill was still running albeit at a lower capacity, which resulted in more excess FFB sold to other mills during FYE 2020.

Comparison between FYE 2021 and FYE 2022

Our other income decreased by RM11.6 million or 64.1% to RM6.5 million for FYE 2022 (FYE 2021: RM18.1 million), mainly attributable to the following:

(i) we recorded lower unrealised gain on foreign exchange, which decreased by RM3.3 million to RM4.5 million for FYE 2022 (FYE 2021: RM7.8 million). Such a decrease was primarily due to the unrealised gain on foreign exchange for FYE 2021 in relation to our USD-denominated borrowings of RM68.8 million as of 30 September 2021 which were fully settled during FYE 2022. The unrealised gain on foreign exchange for FYE 2022 were mainly in relation to loans from Metro Kajang (Oversea) and MKH Plantation of RM110.3 million as of 30 September 2022 as a result of the strengthening of IDR against RM at the end of FYE 2022 as compared to FYE 2021;

(ii) our Group recorded a realised loss on foreign exchange which was recognised under other expenses for FYE 2022 (FYE 2021: realised gain on foreign exchange of RM3.1 million), in relation to the repayments of our USD-denominated borrowings against IDR, resulting from the weakening of IDR against USD during the FYE 2022 as compared to FYE 2021 (FYE 2022: USD1: IDR14,479, FYE 2021: USD1: IDR14,296);

(iii) the decrease in income from the sale of sludge oil of RM3.0 million to RM0.4 million for FYE 2022 (FYE 2021: RM3.4 million), which declined in tandem with lower CPO produced for FYE 2022 mainly due to continuing effects of the La Nina phenomenon up to mid-May 2022, which brought about extreme and prolonged heavy rainfall across palm-producing countries, which disrupted the FFB production and causing higher moisture content in FFB harvested and a lower OER of 18.5% recorded for FYE 2022; and

(iv) our Group recorded a loss on fair value of biological assets which was recognised under other expenses for FYE 2022 (FYE 2021: gain on fair value of biological assets of RM1.6 million). The said loss on changes in fair value of biological assets was mainly due to the lower FFB price at the end of FYE 2022 compared to FYE 2021, which decreased in tandem with the global prices of CPO.

Comparison between FYE 2022 and FYE 2023

Our other income increased by RM1.4 million or 21.5% to RM7.9 million for FYE 2023 (FYE 2022: RM6.5 million), mainly attributable to the following:

(i) there was a gain on disposal of former subsidiaries, PT NMJ and Restu Mesra, of RM2.9 million for FYE 2023 (FYE 2022: RM Nil), which were disposed to a related party, Metro Kajang (Oversea), on 9 January 2023 for a total consideration of RM2.9 million as part of our Pre-IPO Reorganisation;

(ii) increase in income from the sale of sludge oil of RM1.9 million or 475.0% to RM2.3 million for FYE 2023 (FYE 2022: RM0.4 million), which increased in tandem with higher CPO produced for FYE 2023 mainly due to post-monsoon and favourable weather during FYE 2023, which improved the FFB production and causing lower moisture content in FFB harvested and a higher OER of 20.6% recorded for FYE 2023;

(iii) increase in insurance compensation of RM0.51 million or 5,100.0% to RM0.52 million for FYE 2023 (FYE 2022: RM0.01 million), mainly due to insurance claims for business interruptions due to floods; and

(iv) there was gain on fair value of biological assets of RM0.3 million for FYE 2023 (FYE 2022: loss on fair value of biological assets of RM0.6 million). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. The said gain on changes in fair value of biological assets was mainly due to the higher unharvested FFB, which increased in tandem with the FFB yield.

12. FINANCIAL INFORMATION *(Cont'd)*

Such increases were partially offset by there was no unrealised gain on foreign exchange for FYE 2023 as our Group recorded unrealised loss on foreign exchange of RM0.5 million, which was recognised under other expenses for FYE 2023 (FYE 2022: unrealised gain on foreign exchange of RM4.5 million), mainly in relation to our RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation as well as USD-denominated borrowings against IDR. The IDR weakened against RM at the end of FYE 2023 as compared to FYE 2022 (as of 30 September 2023: RM1: IDR3,300 and USD1: IDR15,526 as compared to as of 30 September 2022: RM1: IDR3,281 and USD1: IDR15,247).

(d) Administrative expenses

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs[1]	10,769	31.6	10,566	28.3	11,607	29.6	10,602	27.4
Management fee[2]	8,753	25.7	8,525	22.9	6,372	16.2	4,127	10.7
CSR[3]	2,015	5.9	3,394	9.1	567	1.4	2,506	6.5
Depreciation	1,178	3.5	2,277	6.1	1,579	4.0	1,388	3.6
Medical expenses	298	0.9	2,071	5.6	1,098	2.8	849	2.2
Employment benefit obligations[4]	3,711	10.9	2,064	5.6	3,163	8.1	4,416	11.4
Travelling and transportation	1,697	5.0	1,971	5.3	2,252	5.8	2,495	6.4
Professional fees[5]	1,201	3.5	2,135	5.7	4,995	12.7	3,723	9.6
Accommodation	1,014	3.0	941	2.5	1,421	3.6	1,324	3.4
Entertainment expenses[6]	706	2.1	730	2.0	1,889	4.8	1,742	4.5
Security service fee	545	1.6	337	0.9	769	2.0	836	2.2
Directors' fees and remuneration	-	-	205	0.6	429	1.1	1,521	3.9
Repair and maintenance	400	1.2	253	0.7	277	0.7	281	0.7
Miscellaneous[7]	1,755	5.1	1,706	4.7	2,825	7.2	2,926	7.5
	34,042	**100.0**	**37,175**	**100.0**	**39,243**	**100.0**	**38,736**	**100.0**

Notes:

(1) Comprises salaries, bonuses, allowances, statutory social contributions and employees' provident fund contributions.

(2) Comprises management fees paid to MKH Resources, a subsidiary of MKH, for providing us with corporate, managerial, financial administration and other related services. The management fees are charged on a 6.0% margin of all chargeable expenses allocated using a hybrid method. The hybrid method is computed based on revenue, GP and the NBV of assets of the respective subsidiaries of MKH Group to allow all active companies within MKH Group fairly share the common expenses incurred per our transfer pricing policy.

12. FINANCIAL INFORMATION *(Cont'd)*

(3) CSR expenses are expenses for activities for the community of the Plasma Farmers, such as welfare home visitations, charity donation drives and festive celebrations.

(4) Our subsidiaries, PT MKH and PT SPS, operate unfunded defined benefit schemes for employees, as required under the Labour Law of the Republic of Indonesia. The defined benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

(5) Comprises mainly fees paid to auditors, lawyers and tax consultants.

(6) Comprise mainly recurring entertainment expenses for consultants, officers and visitors who visit the estate, surveying potential land and activities for Plasma, such as transportation and food provided during meetings with Plasma.

(7) Comprise mainly utilities, printing, insurance, bank charges and expenses relating to short-term leases.

Comparison between FYE 2020 and FYE 2021

Our administrative expenses increased by RM3.2 million or 9.4% to RM37.2 million for FYE 2021 (FYE 2020: RM34.0 million), mainly attributable to the following:

(i) medical expenses increased by RM1.8 million or 600.0% to RM2.1 million for FYE 2021 (FYE 2020: RM0.3 million), mainly due to the increase in COVID-19 tests for our staff and visitors to our estate to ensure all visitors or contractors to perform COVID-19 test before entering our estate. In addition, we also incurred other COVID-19 related costs such as sanitisation expenses and quarantine costs during FYE 2021;

(ii) the increase in CSR expenses by RM1.4 million or 70.0% to RM3.4 million for FYE 2021 (FYE 2020: RM2.0 million) was due to increase in our corporate social activities for the community of the Plasma Farmers, such as welfare home visitations, charity donation drives and festive celebrations; and

(iii) depreciation increased by RM1.1 million or 91.7% to RM2.3 million for FYE 2021 (FYE 2020: RM1.2 million), mainly due to higher depreciation for building and plant and machinery resulting from the new plant and machinery acquired and the completion of additional staff quarters during FYE 2021.

The abovementioned increases were partially offset by a decrease in the employment benefits obligations expenses by RM1.6 million or 43.2% to RM2.1 million for FYE 2021 (FYE 2020: RM3.7 million), mainly attributable to a change in assumption used based on historical data, i.e. higher turnover rate in the actuarial report as the management of PT MKH and PT STS are of the view that the current assumptions are more reasonable to reflect the staff retirement as advised by the independent actuary. The employment benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

Comparison between FYE 2021 and FYE 2022

Our administrative expenses increased by RM2.0 million or 5.4% to RM39.2 million for FYE 2022 (FYE 2021: RM37.2 million), mainly attributable to the following:

(i) higher staff costs for FYE 2022, which increased by RM1.0 million or 9.4% to RM11.6 million (FYE 2021: RM10.6 million), mainly in relation to the full year impact of remuneration for our key senior management who were transferred from MKH Resources effective from 1 April 2021;

(ii) higher employment benefit obligations for FYE 2022, which increased by RM1.1 million or 52.4% to RM3.2 million for FYE 2022 (FYE 2021: RM2.1 million), mainly due to our increased average group age for our Indonesia employees which resulted in higher statutory provision for employment benefits;

(iii) higher professional fees for FYE 2022, which increased by RM2.9 million or 138.1% to RM5.0 million for FYE 2022 (FYE 2021: RM2.1 million), mainly due to professional fees and related expenses incurred for our IPO of RM2.5 million;

(iv) higher entertainment expenses for FYE 2022, which increased by RM1.2 million or 171.4% to RM1.9 million for FYE 2022 (FYE 2021: RM0.7 million), following the relaxation of the movement controls, there were more activities for surveying potential plantation land for our Group and activities for Plasma Farmers such as transportation and food provided during meetings with the Plasma Farmers on recurring basis, fund raising for fire at Plasma (fire due to human negligence) in FYE 2022 and sponsor for materials, labours and vehicle and machinery running costs for Plasma's road maintenance due to the wetter season in FYE 2022; and

(v) higher miscellaneous expenses for FYE 2022, which increased by RM1.1 million or 64.7% to RM2.8 million for FYE 2022 (FYE 2021: RM1.7 million), mainly due to increased diesel prices for generating electricity. The average diesel prices increased from RM2.61 per litre for FYE 2021 to RM4.18 per litre for FYE 2022.

The abovementioned increases were partially offset by the decrease in management fees of RM2.1 million or 24.7% to RM6.4 million for FYE 2022 (FYE 2021: RM8.5 million). Such decrease was mainly attributable to lower management fees allocated to our Group for FYE 2022 in line with the transfer of key senior management from MKH Resources effective from 1 April 2021. Correspondingly, we recorded higher staff costs for FYE 2022. There is also a decrease in CSR expenses by RM2.8 million or 82.4% to RM0.6 million for FYE 2022 (FYE 2021: RM3.4 million) due to fewer corporate social activities during FYE 2022.

Comparison between FYE 2022 and FYE 2023

Our administrative expenses decreased by RM0.5 million or 1.3% to RM38.7 million for FYE 2023 (FYE 2022: RM39.2 million), mainly attributable to the following:

(i) decrease in management fee of RM2.3 million or 35.9% to RM4.1 million for FYE 2023 (FYE 2022: RM6.4 million), following the termination of management service agreement with MKH Resources on 31 March 2023;

(ii) decrease in professional fees of RM1.3 million or 26.0% to RM3.7 million for FYE 2023 (FYE 2022: RM5.0 million), mainly due to professional fees incurred for our Listing being recognised as prepayment instead of expenses in FYE 2023; and

(iii) decrease in staff costs of RM1.0 million or 8.6% to RM10.6 million for FYE 2023 (FYE 2022: RM11.6 million), mainly due to decrease in average staff headcount from 177 for FYE 2022 to 170 for FYE 2023.

The above decreases were partially offset by the increase in the following:

(i) increase in CSR expenses of RM1.9 million or 316.7% to RM2.5 million for FYE 2023 (FYE 2022: RM0.6 million), mainly due to the increase in our corporate social activities for the community of the Plasma Farmers;

(ii) increase in employment benefit obligations of RM1.3 million or 41.9% to RM4.4 million for FYE 2023 (FYE 2022: RM3.1 million), primarily due to increase in staff headcount to 3,647 as of 30 September 2023 as compared to 3,310 as of 30 September 2022; and

(iii) increase in directors' fees and remuneration of RM1.1 million or 275.0% to RM1.5 million for FYE 2023 (FYE 2022: RM0.4 million), being mainly due to remuneration payments to an Executive Director from April 2023 onwards as well as there were directors' fees for Non-Executive Directors for FYE 2023. For further details, please refer to footnote 2 of Section 5.2.5.

12. FINANCIAL INFORMATION *(Cont'd)*

(e) Sales and marketing expenses

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Transportation costs	8,778	74.0	6,223	67.2	5,753	53.0	7,196	58.8
Jetty costs[(1)]	1,884	15.9	2,050	22.1	2,696	24.9	2,985	24.4
Jetty depreciation	787	6.6	740	8.0	701	6.5	618	5.0
Trading segment costs[(2)]	291	2.5	65	0.7	-	-	-	-
Quality claims of CPO and PK[(3)]	131	1.0	185	2.0	1,694	15.6	1,445	11.8
	11,871	**100.0**	**9,263**	**100.0**	**10,844**	**100.0**	**12,244**	**100.0**

Notes:

(1) Mainly comprises staff costs for jetty operations, security charges, fuel and lubricants and jetty maintenance costs.

(2) Comprises marketing staff costs for the trading segment.

(3) Comprises customers' claims on our CPO and PK sales with FFA content above 5.0%.

Comparison between FYE 2020 and FYE 2021

Our sales and marketing expenses decreased by RM2.6 million or 21.8% to RM9.3 million for FYE 2021 (FYE 2020: RM11.9 million), mainly attributable to a decrease in transportation costs of RM2.6 million or 29.5% to RM6.2 million for FYE 2021 (FYE 2020: RM8.8 million), mainly due to fewer trips as a result of the decline in the sales volume for PK to a customer with a cost, insurance and freight arrangement decreased by 7,950MT or 71.0% in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our sales and marketing expenses increased by RM1.5 million or 16.1% to RM10.8 million for FYE 2022 (FYE 2021: RM9.3 million), mainly attributable to an increase in CPO and PK quality claims of RM1.5 million to RM1.7 million for FYE 2022 (FYE 2021: RM0.2 million) resulting from higher FFA due to the relatively wetter season caused by La Nina phenomenon, despite having quality control procedures in FFB harvesting and transportation processes to minimise processing of overripe fruits that may increase the FFA content in CPO. The higher FFA was primarily attributable to the imposition of a domestic market obligation on the refinery plant operators which does not allow to export cooking oil from Indonesia in April and May 2022 which in turn resulted in our customers delaying their collections of the CPO.

Comparison between FYE 2022 and FYE 2023

Our sales and marketing expenses increased by RM1.4 million or 13.0% to RM12.2 million for FYE 2023 (FYE 2022: RM10.8 million), mainly attributable to an increase in transportation costs of RM1.4 million or 24.1% to RM7.2 million for FYE 2023 (FYE 2022: RM5.8 million), mainly due to more trips for delivery of CPO to our customers, which increased in tandem with the increase in CPO sales volume for FYE 2023.

(f) Other expenses

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Value-added tax[(1)]	2,094	9.2	1,051	49.5	1,388	20.0	1,188	42.2
Amortisation of prepaid lease payments	723	3.2	727	34.3	557	8.0	908	32.3
Property, plant and equipment written off[(2)]	306	1.3	234	11.0	580	8.4	60	2.1
Inventories written off[(3)]	4	-	1	-	1	*	-	-
Realised loss on foreign exchange	3,366	14.8	-	-	642	9.2	117	4.2
Unrealised loss on foreign exchange	13,879	61.0	-	-	-	-	535	19.0
Loss on changes in fair value of biological assets	913	4.0	-	-	577	8.3	-	-
Bad debts written off[(4)]	251	1.1	94	4.4	-	-	-	-
Miscellaneous	6	*	15	0.8	12	0.2	5	0.2
Impairment loss on investment in former subsidiary	1,222	5.4	-	-	3,191	45.9	-	-
	22,764	**100.0**	**2,122**	**100.0**	**6,948**	**100.0**	**2,813**	**100.0**

Notes:

* Representing less than 0.1%.

(1) Value-added tax expenses comprise the excess value-added input tax paid on purchases from our suppliers, after netting off with the value-added output tax for sales to our customers, more than 3 months were charged to combined statement of comprehensive income.

[2] Property, plant and equipment written off comprise mainly buildings, motor vehicles, plant and machinery and furniture, fittings and office equipment written off due to damage.

[3] Inventories written off comprise damaged spare parts.

[4] Bad debts written off for FYE 2020 and FYE 2021 comprise staff advances of RM0.1 million for each financial year in relation to estate workers who left our Group without clearing the staff advances and a non-refundable deposit of RM0.2 million for the construction of a road which did not materialise after 3 years.

Comparison between FYE 2020 and FYE 2021

Our other expenses decreased by RM20.7 million or 90.8% to RM2.1 million for FYE 2021 (FYE 2020: RM22.8 million), mainly attributable to the following:

(i) our Group recorded an unrealised gain on foreign exchange recognised under other income for FYE 2021 (FYE 2020: unrealised loss on foreign exchange of RM13.9 million), mainly in relation to our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR. The IDR strengthened against USD and RM (as at 30 September 2021: USD1: IDR14,307 and RM1: IDR3,419; as at 30 September 2020: USD1: IDR14,918 and RM1: IDR3,590);

(ii) our Group recorded a realised gain on foreign exchange recognised under other income for FYE 2021 (FYE 2020: realised loss on foreign exchange of RM3.4 million), mainly in relation to repayments of our USD-denominated borrowings and RM-denominated loan from Metro Kajang (Oversea) against IDR. The IDR strengthened against USD and RM (FYE 2021: USD1: IDR14,296 and RM1: IDR3,505; FYE 2020: USD1: IDR14,982 and RM1: IDR3,624);

(iii) the value-added tax expenses decreased by RM1.0 million to RM1.1 million for FYE 2021 (FYE 2020: RM2.1 million), mainly due to fewer value-added tax expenses expensed out during FYE 2021. Our Group has adopted a strategy to reduce the sales made to our customers from the tax-free zone. Thus, more value-added output taxes were available to offset the value-added input taxes for purchases from our suppliers during FYE 2021; and

(iv) there was no impairment loss on investment in a former subsidiary for FYE 2021 (FYE 2020: RM1.2 million). The investment in a former subsidiary, PT NMJ of RM1.2 million had been fully impaired in FYE 2020 due to its deficit in shareholders' funds, which were a result of recorded losses, with net liabilities position and there being no business plan to turn around its financial performance and financial position. PT NMJ was subsequently disposed to Metro Kajang (Oversea) on 9 January 2023.

Comparison between FYE 2021 and FYE 2022

Our other expenses increased by RM4.8 million or 228.6% to RM6.9 million for FYE 2022 (FYE 2021: RM2.1 million), mainly attributable to the following:

(i) there were impairment loss on investment in a former subsidiary of RM3.2 million for FYE 2022 (FYE 2021: RM Nil), mainly due to further impairment on investment in a former subsidiary, PT NMJ, resulting from the additional capital injection of RM3.2 million during FYE 2022 to repay the advances from MKHOP. PT NMJ was subsequently disposed to Metro Kajang (Oversea) on 9 January 2023;

(ii) our Group recorded a realised loss on foreign exchange of RM0.6 million for FYE 2022 (FYE 2021: realised gain on foreign exchange of RM3.1 million), mainly in relation to the repayments of our USD-denominated borrowings against IDR. The IDR has weakened against USD (FYE 2022: USD1: IDR14,479; FYE 2021: USD1: IDR14,296); and

(iii) our Group recorded a loss on fair value of biological assets of RM0.6 million for FYE 2022 (FYE 2021: gain on fair value of biological assets of RM1.6 million). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. Loss on changes in fair value of biological assets was mainly due to the lower FFB price at the end of FYE 2022 compared to FYE 2021, which moved in tandem with global prices of CPO.

Comparison between FYE 2022 and FYE 2023

Our other expenses decreased by RM4.1 million or 59.4% to RM2.8 million for FYE 2023 (FYE 2022: RM6.9 million), mainly attributable to the following:

(i) the impairment loss on investment in subsidiary during FYE 2022 of RM3.2 million was one-off. The investment in a former subsidiary, PT NMJ had been fully impaired in FYE 2022. PT NMJ was subsequently disposed to a related party, namely Metro Kajang (Oversea) on 9 January 2023;

(ii) there was no loss on fair value of biological assets for FYE 2023 as our Group recorded gain on fair value of biological assets of RM0.3 million for FYE 2023 (FYE 2022: loss on fair value of biological assets of RM0.6 million). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. The said gain on changes in fair value of biological assets was mainly due to the higher unharvested FFB, which increased in tandem with the FFB yield;

12. FINANCIAL INFORMATION *(Cont'd)*

(iii) decrease in realised loss on foreign exchange of RM0.5 million to RM0.1 million for FYE 2023 (FYE 2022: RM0.6 million). Such a decrease was primarily due to the realised loss on foreign exchange for FYE 2022 in relation to our USD-denominated borrowings of RM68.8 million as of 30 September 2021 which were fully settled during FYE 2022. The realised loss on foreign exchange for FYE 2023 was mainly in relation to repayments of our RM-denominated loan from Metro Kajang (Oversea) against IDR. The IDR weakened against RM during FYE 2023; and

(iv) decrease in property, plant and equipment written off of RM0.5 million to RM0.1 million for FYE 2023 (FYE 2022: RM0.6 million), mainly due to inoperable plant and machinery being written off in FYE 2022.

Such decrease was partially offset by unrealised loss on foreign exchange of RM0.5 million for FYE 2023 (FYE 2022: unrealised gain on foreign exchange of RM4.5 million), mainly in relation to our RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation as well as USD-denominated borrowings against IDR. The IDR weakened against RM at the end of FYE 2023 (as of 30 September 2023: RM1: IDR3,300 and USD1: IDR15,526 as compared to as of 30 September 2022: RM1: IDR3,281 and USD1: IDR15,247).

(g) Finance costs

	Audited							
	FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Term loans[1]	4,785	37.9	2,230	28.3	568	9.7	200	4.1
Revolving credit[1]	2,416	19.2	971	12.4	675	11.6	-	-
Hire purchase	-	-	-	-	-	-	21	0.5
Amount due to a related company[2]	5,404	42.9	4,668	59.3	4,597	78.7	4,611	95.4
	12,605	**100.0**	**7,869**	**100.0**	**5,840**	**100.0**	**4,832**	**100.0**

Notes:

(1) We utilise term loans and revolving credit to fund our plantation development and palm oil mill upgrading and working capital of our operations.

(2) We utilise the loan from Metro Kajang (Oversea) for our working capital to fund our plantation development and palm oil mill upgrading.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2020 and FYE 2021

Our finance costs decreased by RM4.7 million or 37.3% to RM7.9 million for FYE 2021 (FYE 2020: RM12.6 million), mainly attributable to the net repayments of term loans, revolving credits and loan from Metro Kajang (Oversea) by RM44.2 million, RM21.5 million and RM1.9 million, respectively. In addition, the lower term loan interests for FYE 2021 compared to FYE 2020 was mainly due to full settlement of PT SPS's term loan in September 2021.

Comparison between FYE 2021 and FYE 2022

Our finance costs decreased by RM2.1 million or 26.6% to RM5.8 million for FYE 2022 (FYE 2021: RM7.9 million), mainly attributable to the net repayments of term loans and revolving credits by RM34.3 million and RM32.8 million, respectively during FYE 2022.

Comparison between FYE 2022 and FYE 2023

Our finance costs decreased by RM1.0 million or 17.2% to RM4.8 million for FYE 2023 (FYE 2022: RM5.8 million), mainly attributable to the decrease in term loan interest of RM0.4 million to RM0.2 million for FYE 2023 (FYE 2022: RM0.6 million), primarily due to loan repayments of RM36.5 million made during FYE 2022.

In addition, there was no revolving credit interest for FYE 2023 (FYE 2022: RM0.7 million), due to the full settlement of revolving credit with no further utilisation during FYE 2023.

The rest of this page is intentionally left blank

(h) PBT and PBT margin

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
PBT (RM'000)	27,606	102,027	73,484	41,299
PBT margin (%)	9.8	33.3	23.3	12.2
PAT (RM'000)	18,690	77,452	60,138	31,254
PAT margin (%)	6.6	25.3	19.0	9.2

Comparison between FYE 2020 and FYE 2021

We recorded an increase in PBT of RM74.4 million or 269.6% for FYE 2021. Our PBT margin improved from 9.8% in FYE 2020 to 33.3% in FYE 2021. The improvement was mainly attributable to higher GP and GP margin for FYE 2021 as explained in Section 12.2.2(b), and a gain on foreign exchange of RM10.9 million in FYE 2021 compared to a loss on foreign exchange of RM17.2 million in FYE 2020.

Correspondingly, we recorded an increase in PAT of RM58.8 million or 314.4% for FYE 2021 and our PAT margin improved from 6.6% in FYE 2020 to 25.3% in FYE 2021. The improvement was mainly attributable to higher PBT and PBT margin for FYE 2021, as explained above and higher tax expenses, as explained in Section 12.2.2(i) below.

Comparison between FYE 2021 and FYE 2022

We recorded a decrease in PBT of RM28.5 million or 28.0% for FYE 2022. Our PBT margin decreased from 33.3% in FYE 2021 to 23.3% in FYE 2022. Such decline was mainly attributable to the following:

(i) lower GP and GP margin recorded for FYE 2022, as explained in Section 12.2.2(b);

(ii) the decrease in net gain on foreign exchange of RM7.0 million in FYE 2022;

(iii) an impairment loss on investment in a former subsidiary, PT NMJ, of RM3.2 million;

(iv) the increase in professional fees of RM2.9 million, primarily due to professional fees and the related expenses incurred for our IPO of RM2.5 million; and

(v) our Group recorded a loss on fair value of biological assets of RM0.6 million for FYE 2022.

Our PAT decreased by RM17.3 million or 22.4% for FYE 2022 and our PAT margin decreased from 25.3% in FYE 2021 to 19.03% in FYE 2022. Such decline was mainly attributable to lower PBT and PBT margin for FYE 2022, as explained above and lower tax expenses, as explained in Section 12.2.2(i) below.

We recorded lower PAT for the second half of FYE 2022, which decreased by RM52.7 million to RM3.7 million as compared to the first half of FYE 2022 of RM56.4 million, and our PAT margin decreased from 33.4% in the first half of FYE 2022 declined to 2.5% in the second half of FYE 2022, primarily due to the following:

(i) lower GP and GP margin recorded for the second half of FYE 2022, as explained in Section 12.2.2(b);

(ii) our Group recorded a loss on fair value of biological assets of RM4.6 million in the second half of FYE 2022 (first half of FYE 2022: gain on fair value of biological assets of RM4.1 million).The said loss on changes in fair value of biological assets of RM4.6 million was mainly due to the lower estimated FFB prices being used in the measurement of biological assets at the end of FYE 2022 as compared to the first half of FYE 2022. The decrease in the estimated FFB prices were in tandem with the decline in the global prices of CPO;

(iii) the increase in net gain on foreign exchange by RM3.6 million to RM3.8 million for the second half of FYE 2022 (first half of FYE 2022: RM0.2 million). The net gain on foreign exchange for the second half of FYE 2022 was mainly in relation to loans from Metro Kajang (Oversea) and MKH Plantation of RM110.3 million as of 30 September 2022 as a result of the strengthening of IDR against RM at the end of FYE 2022 as compared to FYE 2021;

(iv) an impairment loss on investment in a former subsidiary, PT NMJ, of RM3.2 million was made in the second half of FYE 2022;

(v) professional fees and the related expenses incurred for our IPO of RM2.5 million incurred in the second half of FYE 2022;

(vi) management fees increased by RM2.8 million to RM4.6 million in the second half of FYE 2022 (first half of FYE 2022: RM1.8 million), mainly due to the management fees for the second quarter of FYE 2022 being recognised upon finalisation of the billable amount in April 2022; and

(vii) lower tax expenses for the second half of FYE 2022 due to lower PBT recorded for the said period.

Comparison between FYE 2022 and FYE 2023

We recorded a decrease in PBT of RM32.2 million or 43.8% for FYE 2023. Our PBT margin decreased from 23.3% in FYE 2022 to 12.2% in FYE 2023. Such decline was mainly attributable to the lower GP and GP margin recorded for FYE 2023, as explained in Section 12.2.2(b), which was partially narrowed by the absence of the one-off impairment loss on investment in subsidiary for FYE 2023 (FYE 2022: RM3.2 million) and one-off gain on disposal of former subsidiaries, PT NMJ and Restu Mesra, of RM2.9 million for FYE 2023 (FYE 2022: RM Nil).

Our PAT decreased by RM28.9 million or 48.0% for FYE 2023 and our PAT margin decreased from 19.0% in FYE 2022 to 9.2% in FYE 2023. Such decline was mainly attributable to lower PBT and PBT margin for FYE 2023, as explained above and partially offset by the lower tax expenses, as explained in Section 12.2.2(i) below.

(i) Tax expense

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
Tax expense (RM'000)	8,916	24,575	13,346	10,045
Statutory tax rate (%)				
- Malaysia	24.0	24.0	24.0	24.0
- Indonesia(1)	25.0	22.0	22.0	22.0
Effective tax rate (%)(2)	32.3	24.1	18.2	24.3

Notes:

(1) The statutory tax rate of 25.0% for FYE 2020 and 22.0% for FYE 2021, 2022 and 2023 represents the Indonesian national statutory tax rate for companies incorporated in Indonesia.

(2) Our effective tax rate is computed based on our total tax expense over our PBT. As the respective companies within our Group are subjected to the statutory tax rate of the respective jurisdictions, the effective tax rate of our Group will be affected by the statutory tax rates of the respective jurisdictions.

We are subject to income tax at the applicable statutory tax rates in Malaysia and Indonesia, where we have foreign subsidiaries. We assume responsibility for withholding tax on payments to our service providers who are not residents in the relevant country where the services are rendered. We remit such withheld tax to the relevant tax authorities.

Comparison between FYE 2020 and FYE 2021

Our tax expenses increased by RM15.7 million or 176.4% to RM24.6 million for FYE 2021 (FYE 2020: RM8.9 million), mainly attributable to higher PBT recorded for FYE 2021. Our effective tax rate of 24.1% for FYE 2021 was consistent with statutory tax rate of 24.0%.

We recorded higher effective tax rate of 32.3% for FYE 2020, mainly due to non-deductible expenses of RM13.0 million, being largely in relation to an impairment loss on investment in a former subsidiary, CSR expenses and unrealised loss on foreign exchange and restriction on interest being tax deductible, based on prevailing regulations, for PT SPS.

Comparison between FYE 2021 and FYE 2022

Our tax expenses decreased by RM11.3 million or 45.9% to RM13.3 million for FYE 2022 (FYE 2021: RM24.6 million), mainly attributable to lower PBT recorded for FYE 2022.

Our effective tax rate of 18.2% for FYE 2022 was lower than the statutory tax rate, mainly attributable to the following:

(i) the realisation of the deferred tax asset of RM4.2 million from unused tax losses of PT SPS, which were not recognised in prior financial years as it was uncertain that PT SPS would realise a higher taxable profit for which PT SPS can utilise against its unused tax losses; and

(ii) our Indonesian subsidiaries were subject to a lower statutory tax rate of 22.0%.

The abovementioned were partially offset by the following:

(i) there were non-deductible expenses of RM8.8 million, which mainly comprises CSR expenses, an impairment loss on investment in a former subsidiary, professional fees for our IPO, and disallowed staff welfare; and

(ii) there was an underprovision of deferred tax in prior financial years of RM3.8 million arising from the property, plant and equipment.

Comparison between FYE 2022 and FYE 2023

Our tax expenses decreased by RM3.3 million or 24.8% to RM10.0 million for FYE 2023 (FYE 2022: RM13.3 million), mainly attributable to lower PBT recorded for FYE 2023.

Our effective tax rate of 24.3% for FYE 2023 was fairly consistent with statutory tax rate of 24.0%.

Other tax related information

On 4 January 2021, our subsidiary, namely PT MKH received a Notice of Tax Overpaid Assessment from the Indonesia's Director General of Tax ("**DGT**") amounting to IDR29,816 million (equivalent to RM8.7 million) for the year of assessment 2019.

On 1 April 2021, PT MKH filed an objection letter in reply to the above Notice of Tax Overpaid Assessment, as our management are of the opinion that, PT MKH should have a tax refund amounting to IDR35,281 million (equivalent to RM10.3 million). DGT has restricted the claim on the management fee incurred by PT MKH amounted to IDR21,855 million (equivalent to RM6.4 million) where the excess tax payment of IDR5,464 million (equivalent to RM1.6 million) shall not be refunded. Such restriction from DGT arose as DGT is of the view that no economic benefits have actually been provided pursuant to the management services that are in accordance with the needs of PT MKH.

	RM'000
Tax refund based on Notice of Tax Ovepaid Assessment from the DGT for year of assessment 2019	8,677
Tax refund based on our management's computation	10,267
Shortfall of tax refund	**(1)(1,590)**

Note:

(1) The shortfall of tax refund of RM1.6 million was derived based on the management fee incurred by PT MKH for FYE 2019 amounted to IDR21,855 million (equivalent to RM6.4 million) and the statutory tax rate for year of assessment 2019 of 25.0%, of which our management is of the opinion that PT MKH's total tax refund should be RM10.3 million instead of RM8.7 million.

On 24 December 2021, the objection letter has been rejected by the tax appeal office in Balikpapan, Indonesia.

On 18 March 2022, PT MKH filed an appeal to the tax court in Jakarta, Indonesia. On 24 August 2022, PT MKH received a notice of tax hearing from Jakarta's tax court to attend the said appeal on 7 September 2022. The Jakarta's tax court had requested PT MKH to provide additional analysis and a summary report for the tax assessment during the tax hearings on 7 September 2022, 5 October 2022, 9 November 2022, 7 December 2022, 25 January 2023, 22 February 2023, 29 March 2023 and 17 May 2023. As at LPD, the Jakarta's tax court has yet to make a conclusion on our appeal to the aforementioned.

In the event that PT MKH is unable to defend the tax appeal, the pro forma impact to our Group's financial performance for FYE 2023 is as follows:

Management fee	Statutory tax rate for year of assessment 2019	Potential tax expenses
RM'000	**(%)**	**RM'000**
6,360	25.0	[(1)]1,590
As a % of PAT for FYE 2023		5.1%
As a % of NA as at 30 September 2023		0.5%

Note:

(1) The potential tax expenses of RM1.6 million will be charged to profit or loss for the financial year under review in the event that PT MKH is unable to defend the tax appeal. However, there is no probability of cash outflow by PT MKH pursuant to the tax appeal as there was an overpayment of RM1.6 million in tax expenses by PT MKH which were recognised as tax assets in the financial statements of PT MKH. Hence, with the overpaid taxes, our Group is not potentially liable in anyway whatsoever, to make any further tax payments to DGT.

Based on consultation with the local tax experts, our Board is of the opinion that PT MKH has a valid defence against DGT's assessment on the grounds that PT MKH does not have any experts who have skills and experience in the field of oil palm plantation and mill operations at that point in time, and therefore it was deemed necessary for PT MKH to outsource the management services function to MKH Resources Sdn Bhd. These are the grounds for PT MKH's appeal to the tax court in Jakarta, Indonesia. Hence, PT MKH has not made any adjustment in respect of the tax assessment in the financial statements of PT MKH. The potential tax expenses of RM1.6 million was not recognised as contingent liabilities as there is no probability of cash outflow by PT MKH pursuant to the tax appeal as there was an excess of tax payment of RM1.6 million for the year of assessment 2019, of which the excess tax payment is a refundable tax payment subject to the outcome of the tax appeal, as explained in Note (1) above. For avoidance of doubt, the relevant key management personnel with expertise have now been appointed in our Group. Accordingly, PT MKH has not made any adjustments in respect of the tax assessment in the combined financial statements of our Group and PT MKH.

The rest of this page is intentionally left blank

12.2.3 Review of financial position

(a) Assets

	Audited			
	As at 30 September			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
Property, plant and equipment	325,380	320,711	317,111	312,099
Prepaid lease payment	20,878	20,342	19,933	19,024
Goodwill on consolidation	4,901	5,147	5,340	6,077
Investment in former subsidiaries	*	*	50	-
Receivables, deposits and prepayments[1]	1,999	2,187	1,391	1,823
Total non-current assets	353,158	348,387	343,825	339,023
Current assets				
Inventories	30,062	44,975	67,714	40,817
Biological assets	4,233	6,177	5,917	6,231
Receivables, deposits and prepayment	36,173	22,898	15,395	22,853
Current tax assets	6,353	-	3,910	8,837
Cash and bank balances	36,250	57,465	42,014	73,896
Total current assets	113,071	131,515	134,950	152,634
Total assets	**466,229**	**479,902**	**478,775**	**491,657**

Notes:

* Representing less than RM1,000.

(1) The breakdown of receivables, deposits and prepayments classified as non-current assets are as follows:

	Audited			
	As at 30 September			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other receivable[a]	1,035	1,087	12	11
Prepayment[b]	964	1,100	1,379	1,812
	1,999	**2,187**	**1,391**	**1,823**

(a) Other receivable represents amounts due from the Plasma Farmers from Indonesia arising from the development costs of the plantations for small landholders. In accordance with the Indonesian Government policy, our subsidiaries, PT MKH and PT SPS, assume the responsibilities for developing plantations for Plasma Farmers in addition to their own plantation. The said subsidiaries are also required to provide training and supervise the Plasma Farmers and purchase the FFB from the Plasma Farmers at the prices determined by the Indonesian Government. The amounts are unsecured, interest-free, have no fixed term in repayment and are to be settled not within one year. The amounts owing will be repaid progressively via offset partially against the purchase of FFB from the Plasma Farmers.

(b) Comprise prepayment for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme. It will be charged to profit or loss when plantation estates allocate the seedlings to the fields.

Comparison between 30 September 2020 and 30 September 2021

Our total assets increased by RM13.7 million or 2.9% to RM479.9 million as at 30 September 2021 (as at 30 September 2020: RM466.2 million).

Our non-current assets decreased by RM4.7 million, mainly attributable to our property, plant and equipment decreased by RM4.7 million. Such a decrease was a result of (i) depreciation charges of RM30.3 million; (ii) upward effect from changes in the exchange rate of RM15.8 million; and (iii) the purchase of property, plant and equipment of RM10.1 million which primarily comprises plant and machinery of RM3.5 million and construction of plantation infrastructure and immature plantation area of RM5.9 million during FYE 2021.

The increase in current assets of RM18.4 million was mainly attributable to the net effects of the following:

(i) increase in cash and bank balances of RM21.2 million, mainly due to improved internally generated funds from our business operations;

(ii) the increase in inventories of RM14.9 million, mainly due to accumulation of plantation consumables such as spare parts to avoid a shortage resulting from the interruption of the global supply chain due to the COVID-19 pandemic and for stockpiling for immediate repair as the delivery of spare parts might take more than 6 months, and increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT of which 2,500MT of CPO was subsequently contracted and delivered in October, which supposed to be contracted in September 2021;

(iii) the increase in biological assets of RM1.9 million, mainly due to the rise in its fair value, which is measured using the present value of net cash flows expected to be generated from the sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell;

(iv) the decrease in receivables, deposits and prepayment of RM13.3 million, mainly due to the net effects of the following:

(aa) the decrease in trade receivables of RM14.9 million, mainly contributed by no outstanding trade receivables from the trading segment following the cessation of our building materials trading business effective from 1 January 2021;

(bb) the decrease in other receivables of RM4.0 million, mainly contributed by the value-added input taxes available to offset against future value-added output taxes declined by RM1.4 million, resulting from lower CPO sold to customers from the free tax zone. In addition, advances to the Plasma Farmers to develop plantations for the Plasma Farmers decreased by RM2.8 million;

(cc) deposits increased by RM4.3 million, mainly contributed by the deposit of RM2.7 million paid to secure the supply of fertiliser, and a deposit of RM1.2 million paid to secure the purchase of plant and machinery for the usage of our estate and spare parts to avoid shortage of supplies resulting from interruption of COVID-19 pandemic;

(dd) prepayments increased by RM1.1 million, mainly contributed by the expenses incurred for our IPO of RM1.2 million, which were still on-going as of 30 September 2021; and

(v) the decrease in current tax assets of RM6.4 million, mainly due to the lower tax estimation for the year of assessment 2021.

Comparison between 30 September 2021 and 30 September 2022

Our total assets decreased by RM1.1 million or 0.2% to RM478.8 million as at 30 September 2022 (as at 30 September 2021: RM479.9 million).

Our non-current assets decreased by RM4.6 million, mainly attributable to the following:

(i) the decrease in property, plant and equipment of RM3.6 million, primarily due to (i) depreciation charges of RM30.4 million; (ii) upward effect from changes in the exchange rate of RM11.3 million; and (iii) the purchase of property, plant and equipment of RM16.1 million, which comprised mainly plant and machinery of RM8.7 million, construction of plantation infrastructure and immature plantation area of RM3.9 million, furniture, fittings and office equipment of RM1.9 million and motor vehicles of RM1.6 million;

(ii) the lower receivables, deposits and prepayments of RM0.8 million, mainly attributable to the net effect of the following:

(aa) decrease in the amount due from the Plasma Farmers to develop plantations for the Plasma Farmers of RM1.1 million, mainly due to the reclassification of the amount due for payment within 1 year from non-current assets to current assets following the commencement of the harvesting period of the Plasma Farmers' plantations; and

(bb) increase in prepayment of RM0.3 million for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme.

The increase in current assets of RM3.4 million, mainly attributable to the net effect of the following:

(i) inventories increased by RM22.7 million, mainly due to the increase in fertiliser by RM8.1 million primarily resulting from (a) the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser; (b) fertiliser costs increased by RM501 per MT from RM1,420 per MT for FYE 2021 to RM1,920 per MT for FYE 2022, resulting from the shortage of supply due to the conflict between Russia and Ukraine; and (c) the increase in CPO and PK inventories by RM12.4 million was primarily due to higher volume for CPO and PK of 3,192MT and 940MT respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022; and

(ii) the current tax assets increased by RM3.9 million, mainly due to the higher tax estimation for year of assessment 2022.

The above increases were partially offset by the following decreases:

(i) The decrease in cash and bank balances of RM15.5 million was mainly due to (a) the net repayments of term loans of RM34.2 million, revolving credits of RM32.8 million and the related interests of RM5.8 million during FYE 2022; and (b) the tax payments of RM39.5 million for (b)(i) the final tax assessment for FYE 2021 of RM18.2 million upon finalisation during FYE 2022; and (b)(ii) estimated tax instalments of RM21.3 million paid for FYE 2022. Such payments were offset by the internally generated funds from our business operations;

(ii) the decrease in receivables, deposits and prepayment of RM7.5 million, mainly due to the following:

    (aa) the decrease in trade receivables of RM2.2 million was primarily attributable to lower sales from the plantation segment in the last quarter of FYE 2022;

    (bb) the decrease in the amount owing from a former subsidiary, PT NMJ, of RM2.8 million was attributable to repayment during FYE 2022; and

    (cc) deposits decreased by RM2.7 million, mainly attributable to less deposits paid to secure fertiliser supply.

Comparison between 30 September 2022 and 30 September 2023

Our total assets increased by RM12.9 million or 2.7% to RM491.7 million as at 30 September 2023 (as at 30 September 2022: RM478.8 million). Such an increase was mainly attributable to the increase in current assets by RM17.7 million, which was offset by the decrease in non-current assets of RM4.8 million.

The increase in current assets of RM17.7 million was mainly attributable to the net effects of the following:

(i) the increase in cash and bank balances of RM31.9 million, which derived primarily from the internally generated funds from our business operations;

(ii) the increase in receivables, deposits and prepayment of RM7.5 million was mainly due to the net effects of the following:

(aa) the increase in other receivables of RM7.8 million, mainly contributed by the value-added input taxes available to offset against future value-added output taxes increased by RM8.6 million, resulting from higher CPO sold to customers from the free tax zone. The amount will be claimable after FYE 2023. Such increase was partially offset by the decrease in receivables from employees of RM0.8 million, mainly due to repayment by employees via monthly salary deductions;

(bb) the decrease in the amount owing from a former subsidiary, PT NMJ, of RM3.2 million was attributable to repayment received during FYE 2023;

(cc) the increase in prepayments of RM1.8 million was mainly due to our prepaid IPO expenses incurred during FYE 2023;

(dd) the increase in trade receivables of RM0.8 million was primarily attributable to higher sales made towards the last quarter of FYE 2023 as compared to the last quarter of FYE 2022; and

(iii) the current tax assets increased by RM4.9 million, mainly due to the higher tax estimation for the year of assessment 2023 following higher profit in FYE 2022.

The above increases were partially offset by the decrease in inventories by RM26.9 million, mainly due to the net effects of the following:

(i) the decrease in CPO and PK inventories of RM13.9 million, primarily due to the customer's late collection of 3,000MT of CPO with 90.0% downpayment duly paid as at 30 September 2022, which were subsequently collected by the customer on 5 October 2022, as well as the 1,200MT of PK which were contracted in the last quarter of FYE 2022, which were only collected by the customer in November 2022 and recognised as revenue during FYE 2023;

(ii) the decrease in fertiliser of RM13.9 million was primarily due to more fertiliser applied for FYE 2023 as there was heavy rainfall from the La Nina phenomenon in FYE 2022, which was less suitable to apply fertiliser; and

(iii) the increase in plantation consumables of RM0.9 million was primarily due to increase in purchases of spare part for mill repair and maintenance for machinery.

Our non-current assets decreased by RM4.8 million, mainly attributable to the decrease in property, plant and equipment of RM5.0 million, primarily due to (i) depreciation charges of RM32.7 million; (ii) the downward effect from changes in the exchange rate of RM0.7 million; and (iii) the purchase of property, plant and equipment of RM28.5 million, which comprised mainly plant and machinery of RM7.4 million, construction of buildings, plant and machinery of RM16.5 million, furniture, fittings and office equipment of RM0.9 million and motor vehicles of RM3.7 million.

(b) Liabilities

	Audited			
	As at 30 September			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current liabilities				
Provisions	16,655	15,211	15,706	18,784
Payables and accruals	62,457	59,517	31,327	3,422
Loan and borrowings	54,451	22,269	2,317	-
Deferred tax liabilities	7,235	9,726	5,802	3,486
Hire purchase liabilities	-	-	-	457
Total non-current liabilities	140,798	106,723	55,152	26,149
Current liabilities				
Payables and accruals	123,777	98,936	142,664	149,080
Loan and borrowings	76,769	46,499	-	2,360
Hire purchase liabilities	-	-	-	119
Current tax liabilities	109	16,372	10	-
Total current liabilities	200,655	161,807	142,674	151,559
Total liabilities	**341,453**	**268,530**	**197,826**	**177,708**

Comparison between 30 September 2020 and 30 September 2021

Our total liabilities decreased by RM73.0 million or 21.4% to RM268.5 million as at 30 September 2021 (as at 30 September 2020: RM341.5 million), mainly attributable to the decrease in loans and borrowings of RM62.5 million due to the repayment of term loans of RM58.6 million and revolving credits of RM21.5 million, after netting the drawdown of term loans of RM14.4 million for our Group's working capital purposes.

The above decrease was also contributed by lower payables and accruals of RM27.8 million, mainly attributable to the net effects of the following:

(i) net repayments to related companies of RM20.0 million;

(ii) decrease in trade payables of RM12.6 million and the amount due to MKH Building Materials Sdn Bhd, a related company (trade-in nature) of RM1.4 million, both were mainly due to lower outstanding balances arising from the purchase of building materials for our trading business as our Group had ceased the building materials trading business effective from 1 January 2021;

(iii) increase in accruals of RM4.4 million, mainly due to the increase in accrued salaries by RM1.0 million, and the accrued CSR payable to Plasma Farmers; and

(iv) other payables increased by RM2.0 million, mainly due to the higher amounts owing to spare parts suppliers for the powered wheelbarrow and farm ATV in which the goods were received but pending receiving invoices.

The abovementioned decreases were partially offset by the increase in current tax liabilities of RM16.3 million, mainly due to the higher tax expenses resulting from higher profits recorded for FYE 2021.

Comparison between 30 September 2021 and 30 September 2022

Our total liabilities decreased by RM70.7 million or 26.3% to RM197.8 million as at 30 September 2022 (as at 30 September 2021: RM268.5 million), mainly attributable to the decrease in loans and borrowings of RM66.5 million due to the repayment of term loans of RM36.5 million and revolving credits of RM32.8 million, after netting the drawdown of term loans of RM2.3 million for working capital purposes.

In addition, such a decrease was also contributed by the current tax liabilities decreased by RM16.4 million, mainly attributable to final tax assessment for FYE 2021 of RM18.2 million being paid upon finalisation during FYE 2022, amounting to RM18.2 million.

The abovementioned decreases were partially offset by the increase in payables and accruals of RM15.5 million, mainly attributable to the net effects of the following:

(i) net repayments to Metro Kajang (Oversea) of RM3.4 million;

(ii) increase in trade payables of RM3.9 million due to higher amounts owing to fertiliser suppliers for the plantation consumables accumulated in September 2022 to avoid the supply shortage of fertiliser resulting from the conflict between Russia and Ukraine;

(iii) the increase in downpayment from our CPO and PK customers of RM11.4 million was mainly in relation to a 90.0% downpayment by a customer for 3,000MT CPO that subsequently collected by the customer on 5 October 2022; and

(iv) increase in other payables of RM4.2 million due to (a) overpayment from a CPO customer of RM3.1 million, which was subsequently refunded to the said customer on 25 October 2022; and (b) higher amount owing to suppliers for diesel and petrol received before 30 September 2022.

Comparison between 30 September 2022 and 30 September 2023

Our total liabilities decreased by RM20.1 million or 10.2% to RM177.7 million as at 30 September 2023 (as at 30 September 2022: RM197.8 million), mainly attributable to the following:

(i) the decrease in payables and accruals of RM21.5 million was primarily due to the net effects of the following:

  (aa) the decrease in trade payables of RM9.3 million was mainly due to the lower purchase of fertilisers towards the end of FYE 2023 as compared to FYE 2022;

  (bb) the decrease in downpayment from our CPO and PK customers of RM6.2 million was mainly due to a deposit of RM9.2 million received in September 2022 for sales secured in September 2022 that were subsequently delivered and recognised as revenue in FYE 2023, and the said decrease was partially narrowed by a deposit of RM3.9 million received for 1,500MT CPO that were subsequently collected by the customer on 13 October 2023;

  (cc) the decrease in other payables of RM6.1 million was mainly due to the refund of RM3.1 million to a CPO customer who overpaid in FYE 2022 and payment to spare parts and construction suppliers carried from FYE 2022;

  (dd) net repayments to MKH Resources of RM5.5 million;

(ee) net interest payables to Metro Kajang (Oversea) of RM2.1 million;

(ff) the increase in accruals of RM3.2 million was mainly due to higher accrued CSR payable to Plasma Farmers and higher purchase of FFB from Plasma Farmers towards the end of FYE 2023 as compared to FYE 2022 as a result of the higher FFB produced; and

(ii) the decrease in deferred tax liabilities of RM2.3 million was mainly due to the decline in taxable temporary difference arising from the realisation of the fair value of opening inventory in FYE 2023.

The above decreases were partially offset by the following:

(i) increase in provisions of RM3.1 million was mainly due to higher provision for employment benefits obligations for FYE 2023, primarily due to increase in staff headcount to 3,647 as of 30 September 2023 as compared to 3,310 as of 30 September 2022; and

(ii) the hire purchase liabilities of RM0.6 million were related to the additional two units of motor vehicles acquired under hire purchase arrangements during FYE 2023.

12.2.4 Review of cash flows

The table below sets out the summary of our historical audited combined statements of cash flows for FYE 2020 to 2023.

Our cash and cash equivalents are primarily held in IDR and some in USD and RM. Where cash is held in foreign currencies, there may be an exchange rate fluctuation effect on the cash held.

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash from operating activities	77,243	98,384	65,643	51,340
Net cash used in investing activities	(9,195)	(10,312)	(16,553)	(21,771)
Net cash used in financing activities	(58,937)	(65,268)	(55,676)	(89)
Net increase/(decrease) in cash and cash equivalents	9,111	22,804	(6,586)	29,480
Cash and cash equivalents at the beginning of the financial year	18,487	23,586	47,205	42,014
Effect of exchange rate changes on the balance of cash held in foreign currencies	(4,012)	815	1,395	2,402
Cash and cash equivalents at the end of the financial year	**23,586**	**47,205**	**42,014**	**73,896**
Cash and cash equivalents at the end of the financial year comprise:				
Cash and bank balances	36,250	57,465	42,014	73,896
Less: Deposits and bank balances pledged with financial institutions for credit facilities	(12,664)	(10,260)	-	-
	23,586	**47,205**	**42,014**	**73,896**

FYE 2020

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM77.2 million. We collected RM277.1 million, mainly attributable from the following:

(a) collections of RM262.6 million from our customers;

(b) fixed deposit interests of RM0.5 million;

(c) refund of income tax of RM5.2 million from Indonesia's Directorate General of Taxes; and

(d) other income of RM8.8 million mainly from selling sludge oil and FFB.

The above collections were partially offset by cash payments of RM199.9 million in respect of the following:

(a) payments of RM105.3 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM55.5 million and RM19.7 million respectively;

(c) interests paid for term loans of RM5.0 million, revolving credits of RM2.4 million and amount due to Metro Kajang (Oversea) of RM5.4 million;

(d) payment of income tax of RM5.9 million paid to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to retired employees of RM0.7 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM9.2 million from investing activities, mainly attributable to the cash payments for the construction of plantation infrastructure, which comprised mainly staff quarters; and immature plantation area, which comprised the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured, all of which amounts to RM4.7 million, the purchase of plant and machinery of RM4.2 million which are mainly for the estate cultivation and mill production and the purchase of furniture fittings and office equipment of RM0.3 million.

Net cash for financing activities

Our Group recorded a net cash outflow of RM58.9 million from financing activities, mainly attributable to:

(a) drawdowns of term loans of RM28.4 million and revolving credits of RM6.3 million, bearing lower interest rates to refinance our existing term loans and revolving credits and for working capital purposes;

(b) additional deposits and bank balances pledged as securities for term loans of RM0.3 million;

(c) repayments of term loans of RM82.3 million and revolving credits of RM13.4 million; and

(d) Loan received from Metro Kajang (Oversea) of RM2.4 million for the purchase of powered wheelbarrow and farm ATV.

FYE 2021

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM98.4 million. We collected RM335.5 million, mainly attributable from the following:

(a) collections of RM321.2 million from our customers;

(b) fixed deposit interests of RM0.7 million;

(c) refund of income tax of RM8.7 million from Indonesia's Directorate General of Taxes, resulting from tax overpaid in FYE 2019 due to higher tax estimation for the year of assessment 2019; and

(d) other income of RM4.9 million, mainly from the selling sludge oil and FFB.

The above collections were partially offset by cash payments of RM237.1 million in respect of the following:

(a) payments of RM135.6 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM59.9 million and RM22.9 million respectively;

(c) interests paid for term loans of RM2.2 million, revolving credits of RM1.0 million and amount due to Metro Kajang (Oversea) of RM4.7 million;

(d) payments of income tax of RM9.3 million paid to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to the retired employees of RM1.5 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM10.3 million from investing activities, mainly attributable to the cash payment for the construction of plantation infrastructure, which comprised primarily staff quarters and immature plantation area of RM5.8 million, which included the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured and the purchase of plant and machinery of RM3.5 million, furniture, fittings and office equipment of RM0.5 million and motor vehicles and plantation infrastructure of RM0.2 million. In addition, there was an advance to a former subsidiary, PT NMJ, of RM0.3 million for its administrative expenses, such as staff costs and professional fees.

Net cash for financing activities

Our Group recorded a net cash outflow of RM65.3 million from financing activities, mainly attributable to the following:

(a) drawdowns of term loans of RM14.4 million for working capital purposes;

(b) deposits and bank balances released as securities for term loans of RM2.4 million;

(c) repayments of term loans of RM58.6 million and revolving credits of RM21.5 million; and

(d) repayment of loan from Metro Kajang (Oversea) of RM1.9 million.

FYE 2022

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM65.6 million. We collected RM331.4 million mainly from the following:

(a) collection of RM329.4 million from our customers;

(b) fixed deposit interests of RM0.7 million; and

(c) other income of RM1.3 million mainly from the selling of sludge oil, scrap and management fees received from the Plasma Farmers for the services we rendered to them, such as planting consultation and management services.

The above collections were partially offset by cash payments of RM265.8 million in respect of the following:

(a) payments of RM124.3 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM70.5 million and RM23.7 million respectively;

(c) interests paid for term loans of RM0.5 million, revolving credits of RM0.7 million and amount due to Metro Kajang (Oversea) of RM4.6 million;

(d) payments of income tax of RM39.5 million to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to the retired employees of RM2.0 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM16.6 million from investing activities, mainly attributable to the cash payment for the construction of plantation infrastructure, which comprised primarily staff quarters and immature plantation area of RM3.9 million, which comprised the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured, the purchase of plant and machinery of RM8.7 million, furniture, fittings and office equipment of RM1.9 million and motor vehicles of RM1.6 million. In addition, there were subscriptions of shares in former subsidiaries, i.e. PT NMJ of RM3.2 million to regularise its deficit shareholder's funds position and Restu Mesra of RM0.1 million for the acquisition of the non-controlling interests, and repayment from a former subsidiary, PT NMJ, of RM2.8 million to PT MKH for advances to PT NMJ to finance its operating expenses.

Net cash for financing activities

Our Group recorded a net cash outflow of RM55.7 million from financing activities, mainly attributable to:

(a) deposits and bank balances released as securities for term loans of RM10.2 million;

(b) drawdowns of term loans of RM2.3 million for working capital purposes;

(c) repayments of term loans of RM36.5 million and revolving credits of RM32.8 million; and

(d) Loan received from Metro Kajang (Oversea) of RM1.1 million for our working capital purposes, such as professional fees and related expenses incurred for our IPO and cost incurred for office renovation of MKHOP.

FYE 2023

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM51.3 million. We collected RM335.8 million, mainly attributable from the following:

(a) collections of RM331.0 million from our customers;

(b) interests from bank balances of RM0.8 million; and

(c) other income of RM4.0 million mainly from the selling of sludge oil, scrap, management fee and insurance compensations received.

The above collections were partially offset by cash payments of RM284.5 million in respect of the following:

(a) payments of RM158.2 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM80.8 million and RM21.6 million respectively;

(c) interests paid for term loans, hire purchase and amount due to Metro Kajang (Oversea) of RM4.8 million;

(d) payment of income tax of RM17.3 million to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to retired employees of RM1.8 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM21.8 million from investing activities, mainly attributable to the construction of building and plant and machinery of RM16.5 million, the purchase of plant and machinery of RM7.4 million, furniture, fittings and office equipment of RM0.9 million and motor vehicles of RM3.1 million.

The above cash outflows were narrowed by the repayments from a former subsidiary, PT NMJ, of RM3.2 million and proceeds from the disposal of former subsidiaries, PT NMJ and Restu Mesra, of RM2.9 million to a related party, Metro Kajang (Oversea) on 9 January 2023.

Net cash for financing activities

Our Group recorded a net cash outflow of RM0.09 million from financing activities, mainly attributable to the payments of hire purchase for the purchase of motor vehicles.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

We finance our operations with cash generated from operations, credit extended by trade payables and/or financial institutions and existing cash and bank balances. Our facilities from financial institutions comprise term loans and revolving credits.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and interest rates on borrowings. We carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

Our Board confirms that we have sufficient funds for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

(a) Our cash and cash equivalent of RM93.6 million as at LPD;

(b) Our expected future cash flows from operations;

(c) Our total banking facilities as at LPD of RM68.9 million; and

(d) Our pro forma gearing level of 0.005 times, computed based on our pro forma combined statements of financial position as at 30 September 2023 after the Acquisition of PT MKH, Acquisition of PT SPS, acquisition of Hala Maju, Capitalisation, Public Issue and utilisation of proceeds.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. This measure has proven to be effective while maintaining a cordial relationship with our customers.

The rest of this page is intentionally left blank

12. FINANCIAL INFORMATION *(Cont'd)*

12.4 BORROWINGS

All of our borrowings are interest-bearing and denominated in USD and RM. Our total outstanding borrowings as at 30 September 2023 stood at RM2.9 million, which included USD-denominated term loan of RM2.4 million (equivalent to USD0.5 million), details of which are set out below:

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 30 September 2023
				%	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Unsecured term loan	To finance and/or reimburse the purchase of machineries for plantation estate and equipment for palm oil mill, capital expenditure and for general working capital requirement	Supported by corporate guarantee of the Company	5 years	7.8%	2,360
Secured hire purchase	To finance the purchase of motor vehicles	Secured by assets purchased through the hire purchase arrangements	5 years	2.3% to 2.4%	119
					2,479
Interest bearing long-term borrowings, payable after 1 year:					
Secured hire purchase	To finance the purchase of motor vehicles	Secured by assets purchased through the hire purchase arrangements	5 years	2.3% to 2.4%	457
					457
Total borrowings					**2,936**
Gearing (times)					
After Pre-IPO Reorganisation but before Public Issue and utilisation of proceeds(1)					<0.1
After Public Issue and utilisation of proceeds(2)					<0.1

Notes:

(1) Computed based on our pro forma total equity of RM445.2 million in the pro forma combined statements of financial position after the Pre-IPO Reorganisation but before Public Issue and utilisation of proceeds.

(2) Computed based on our pro forma total equity of RM563.2 million in the pro forma combined statements of financial position after Public Issue and utilisation of proceeds.

As at LPD, we did not utilise our revolving credit facility and we do not have any borrowings which are non-interest bearing.

We have not defaulted on payments of principal sums and/or interests in respect of any of our borrowings throughout FYE 2020 to 2023 and up to LPD.

As at LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan, which can materially affect our financial position and results or business operations or the investments by holders of our securities. During FYE 2020 to 2023, we did not experience any clawback or reduction in the facilities limit granted to us by our lenders.

12.5 LOANS AND AMOUNTS OWING FROM/TO RELATED COMPANIES

All of our loans from related companies are unsecured and denominated in RM. Our total outstanding loans and amounts owing from/to related companies as at 30 September 2023 stood at RM121.2 million, details of which are set out below:

	Purpose	Term	Effective interest rate	As at 30 September 2023
			%	RM'000
Short-term loans and other amounts owing, payable within 1 year:				
Loan from Metro Kajang (Oversea)	Plantation development, construction of new mill and mill upgrading	Unsecured and repayable by 19 quarterly instalments commencing from June 2020	7.0	(3)56,289
Amount owing to/by related company(ies)	Interest payable, management fee and working capital	Unsecured, interest-free and repayable on demand	N/A	(1)53,110
Loan from Metro Kajang (Oversea)	Working capital	Unsecured and repayable on demand	5.8	(2)8,408
				117,807
Long-term loan, payable after 1 year:				
Loan from Metro Kajang (Oversea)	Plantation development, construction of new mill and mill upgrading	Unsecured and repayable by 19 quarterly instalments commencing from June 2020	7.0	(3)3,422
Total loans from related companies				**121,229**

Notes:

(1) Comprising amounts owing to related companies (including interest-free loan and other repayables) as well as an amount owing by a related company totalling RM53.1 million, as follows:

		RM'000
Amount owing to MKH Plantation		
MKH Plantation	Loan made by MKH Plantation to PT SPS	55,487
	Foreign exchange translation	182
		55,669
Amount owing to other related companies		
Metro Kajang (Oversea)	Interest payable	(2)228
Laju Jaya	Reimbursable electricity expenses	1
		55,898
Amount owing from a related company		
Metro Kajang (Oversea)	Reimbursable value added tax	(3)(2,954)
	Foreign exchange translation	166
		53,110

For reference, the amount of RM55.5 million (excluding foreign exchange translation for reporting purposes) owing to MKH Plantation is novated to our Company pursuant to the PT SPS Debt Novation and capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(b) for details of the Capitalisation with respect to this amount. The remaining balance of RM30.0 million will be settled via proceeds from our IPO as detailed in Section 4.9.1(g).

(2) Outstanding balance excluding interest payable of RM0.2 million. For reference, the partial amount of RM8.5 million including interest payable is capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(c) for details of the Capitalisation with respect to this amount. The balance of RM0.1 million will be paid via internally generated fund.

(3) For reference, these partial amounts owing from and to Metro Kajang (Oversea) totalling RM55.0 million (excluding foreign exchange translation for reporting purposes) were novated to our Company pursuant to the PT MKH Debt Novation and capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(a) for details of the Capitalisation with respect to this amount. The balance of RM1.7 million will be paid via internally generated fund.

All loans from related parties (save for the interest-free loan by MKH Plantation) were transacted on an arm's length basis. The provision of such loans will not recur after our Listing. Additionally, all amounts owing to related parties not already capitalised pursuant to the Capitalisation as mentioned above arose from the ordinary course of business, and have been duly repaid as at LPD, other than the amount payable to MKH Plantation of RM30.0 million which will be settled via proceeds from our IPO as detailed in Section 4.9.1(g).

12.6 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at LPD, save as disclosed in Section 12.4 above, we do not have nor utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers and external sources of funds comprising borrowings. The principal usages of these bank borrowings are for working capital, plantation development, mill upgrading and for purchase of machineries for plantation estate and equipment for palm oil mill.

Save for our hire purchase which carry fixed interest rates, all other borrowings bear variable interest rates based on the bank's cost of fund rate plus a rate, which varies depending on the different types of bank facilities.

12.7 MATERIAL CAPITAL COMMITMENTS

As at LPD, our Group has committed to RM25.4 million capital expenditure comprising the purchase of buildings (including the construction of staff quarters, boiler house and PK crushing facility) and plant and machineries for our business operations, which will be financed by our internally generated funds and/or proceeds from the Public Issue.

The material capital commitments as at LPD are as follows:

	As at LPD
	RM'000
Approved but not contracted for:	
- Buildings[(1)]	5,555
- Plants and machinery[(2)]	15,977
	21,532
Approved and contracted for:	
- Buildings[(3)]	586
- Plants and machinery[(4)]	3,241
	3,827
	25,359

Notes:

(1) RM2.9 million to be funded through internally generated funds and the balance of RM2.7 million to be funded by the proceeds from the Public Issue allocated for capital expenditures for refurbishment and construction of workers/staff housing quarters.

(2) RM10.9 million to be funded through internally generated funds and the balance of RM5.1 million to be funded by the proceeds from the Public Issue allocated for refurbishment and/or upkeep of existing palm oil mill and capital expenditures for existing plantation lands.

(3) RM0.3 million to be funded through internally generated funds and the balance of RM0.3 million to be funded by the proceeds from the Public Issue allocated for setup of PK crushing facility.

(4) RM0.4 million to be funded through internally generated funds and the balance of RM2.8 million to be funded by the proceeds from the Public Issue allocated for setup of PK crushing facility.

Save as disclosed above, we do not have any other material capital commitments as at LPD.

12.8 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant. There is no proceeding pending or threatened or any fact likely to give rise to any proceeding, which might materially or adversely affect our position or business as at LPD.

As at LPD, there are no material contingent liabilities incurred by our Group, which upon becoming enforceable, may have a material effect on our business, financial results or position.

12.9 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYE 2020 to 2023 are as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
Trade receivables turnover (days)[(1)]	15	14	3	2
Trade payables turnover (days)[(2)]	39	31	19	10
Inventory turnover (days)[(3)]	52	82	111	81
Current ratio (times)[(4)]	0.6	0.8	0.9	1.0
Gearing ratio (times)[(5)]	1.6	0.6	0.2	0.2

Notes:

(1) Computed based on the average trade receivables and net of allowances for impairment loss as at financial year-end over revenue for the respective financial years, multiplied by 365 days for each financial year.

(2) Computed based on the average trade payables as at financial year-end over cost of sales for the respective financial years, multiplied by 365 days for each financial year.

(3) Computed based on the average inventory as at financial year-end over cost of sales for the respective financial years, multiplied by 365 days for each financial year.

(4) Computed based on current assets over current liabilities as at the end of each financial year.

(5) Computed based on total interest-bearing borrowings over total equity as at the end of each financial year.

12.9.1 Trade receivables turnover

The key financial ratios of our Group for FYE 2020 to 2023 are as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade receivables	4,619	18,916	4,061	1,871
Closing trade receivables	18,916	4,061	1,871	2,626
Average trade receivables	11,768	11,489	2,966	2,249
Revenue	282,324	306,611	315,817	337,981
Trade receivables turnover period (days)	15	14	3	2

Our trade receivables comprise amounts receivable for the plantation and trading segments. The Group's normal credit term to its customers for the trading of CPO and PK is 30 days, whereas for the trading of building materials is 30 to 60 days. For the Group's plantation customers, the customer will pay 90.0% of the purchase value as a deposit before loading. The balance of 10.0% will be collected within 1 month after delivery.

Our Group established policies on credit control involving comprehensive credit evaluations, setting up appropriate credit limits, ensuring the sales are made to customers with good credit history and regular review of customers' outstanding balances and payment trends. Our Group considers the risk of material loss in the event of non-performance by the customers to be unlikely.

As our Group did not hold any collateral, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position. A significant portion of trade receivables represents regular customers of our Group. Our Group uses ageing analysis to monitor the credit quality of the trade receivables.

Our Group has not recognised an allowance for impairment loss because there has not been a significant change in credit quality, and the amounts are still considered recoverable. Our Group applies the simplified approach to measure the impairment of trade receivables, contract assets and lease receivables at lifetime expected credit loss. The expected credit losses on trade receivables are estimated by reference to the past default experience of the debtor and an analysis of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Our trade receivables turnover periods for FYE 2020, 2021, 2022 and 2023 were 15 days, 14 days, 3 days and 2 days, respectively, and are within our trade terms period. Therefore, our Group is not subject to a significant concentration of credit risk.

Our trade receivables turnover period for FYE 2021 of 14 days has remained consistent with FYE 2020 of 15 days. The opening trade receivables in FYE 2021 comprised mainly trade receivables from the trading segment, during which we ceased business effective on 1 January 2021.

Our trade receivables turnover period decreased from 14 days for FYE 2021 to 3 days for FYE 2022 as we had fully collected all trade receivables from the trading segment. The lower turnover period for FYE 2022 reflects our policy of collecting 90% of our CPO and PK sales prior to delivery.

Our trade receivables turnover period of 3 days for FYE 2022 and 2 days for FYE 2023 were fairly consistent.

The rest of this page is intentionally left blank

The ageing analysis of our trade receivables as at 30 September 2023 is as follows:

	Trade receivables as at 30 September 2023 (Audited)		Collection from 1 October 2023 to LPD	Balance trade receivables as at LPD
	RM'000	Percentage of trade receivables	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Neither past due nor impaired	2,626	100.0	2,626	-
Past due but not impaired:				
- less than 30 days	-	-	-	-
- 31 to 60 days	-	-	-	-
- over 60 days	-	-	-	-
	-	-	-	-
	2,626	**100.0**	**2,626**	-

As at LPD, our trade receivables as at 30 September 2023 have been fully collected.

Our customers generally paid within the credit period granted. Our Group has not encountered any major disputes with our trade receivables.

There were no impairment losses on trade receivables for FYE 2020 to 2023.

12.9.2 Trade payables turnover

Our average trade payables turnover period for FYE 2020 to 2023 is as follows:

	Audited			
	FYE 2020	FYE 2021	FYE 2022	FYE 2023
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	18,619	20,477	7,874	11,730
Closing trade payables	20,477	7,874	11,730	2,421
Average trade payables	19,548	14,176	9,802	7,076
Cost of sales	182,791	166,237	185,948	246,005
Trade payables turnover period (days)	39	31	19	10

Trade payables comprise amounts outstanding for trade purchases. The credit terms granted to our Group for trade purchases ranged from 30 to 90 days for the plantation segment and 14 to 90 days for the trading segment. To maintain a good relationship with our suppliers, we will pay them within the respective credit periods.

Our trade payables turnover periods for FYE 2020, 2021, 2022 and 2023 were 39 days, 31 days, 19 days and 10 days, respectively, which were within the normal credit terms granted by our suppliers.

Our trade payables turnover period decreased from 39 days for FYE 2020 to 31 days for FYE 2021, mainly attributable to less outstanding balances for our trading segment following the cessation of the business in this trading segment effective on 1 January 2021.

Our trade payables turnover period decreased from 31 days for FYE 2021 to 19 days for FYE 2022 as there were no trading purchases in FYE 2022 as our Group has ceased the building materials trading business effective from 1 January 2021.

Our trade payables turnover period decreased from 19 days for FYE 2022 to 10 days for FYE 2023, mainly attributable to the decrease in trade payables as lower purchase of fertilisers towards the end of FYE 2023 as compared to FYE 2022 as our Group purchased more fertilisers towards the end of FYE 2022 to keep more fertilisers to avoid the supply shortage of fertiliser.

The ageing analysis of our trade payables as at 30 September 2023 is as follows:

	Trade payables as at 30 September 2023		**Settlement from 1 October 2023 to LPD**	**Balance trade payables as at LPD**
	RM'000	**Percentage of trade payables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**I = (a)-(b)**
Within credit period	2,345	96.9	2,345	-
Exceeding credit period:				
- 1 to 30 days	76	3.1	76	-
- 31 to 60 days	-	-	-	-
- More than 60 days	-	-	-	-
	76	3.1	76	-
	2,421	**100.0**	**2,421**	**-**

As at LPD, we have fully settled the outstanding trade payables as at 30 September 2023.

As at LPD, we do not have any material disputes in respect of our trade payables and no material legal proceedings to demand for payment have been initiated by our suppliers against us.

12.9.3 Inventory turnover

Our inventories comprise fertiliser, plantation consumables as well as CPO and PK. Plantation consumables consist of chemicals, spare parts and lubricants. Inventory cost of CPO and PK includes direct labour, an appropriate share of production overheads and the fair value attributable to agriculture produce at year end in accordance to MFRS 141. Our average inventory turnover period for FYE 2020 to 2023 is set out below:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening inventories				
- CPO and PK	4,778	6,570	17,714	30,096
- Fertiliser and plantation consumables	17,344	23,492	27,261	37,618
	22,122	30,062	44,975	67,714

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Closing inventories				
- CPO and PK	6,570	17,714	30,096	16,225
- Fertiliser and plantation consumables	23,492	27,261	37,618	24,592
	30,062	44,975	67,714	40,817
Average inventories				
- CPO and PK	5,674	12,142	23,905	23,161
- Fertiliser and plantation consumables	20,418	25,377	32,440	31,105
	26,092	37,519	56,345	54,266
Cost of sales	182,791	166,237	185,948	246,005
Inventory turnover period (days)				
- CPO and PK	11	27	47	34
- Fertiliser and plantation consumables	41	56	64	46
- Overall	52	82	111	81

Our inventories consist fertiliser, plantation consumables as well as CPO and PK that we purchased from our suppliers. We constantly endeavour to maintain a sufficient inventory level to avoid instances of stock unavailability at our stores. Our inventory turnover periods for FYE 2020, 2021, 2022 and 2023 were 52 days, 82 days, 111 days and 81 days, respectively.

Our inventory turnover period increased from 52 days for FYE 2020 to 82 days for FYE 2021, mainly attributable to the following:

(a) our Group maintains a higher inventory level for plantation consumables such as spare parts to avoid the shortage of plantation consumables resulting from the interruption of the global supply chain primarily due to the COVID-19 pandemic for stockpiling for immediate repair as the delivery of spare parts might take more than 6 months; and

(b) increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT as CPO sales slowed towards the end of FYE 2021 due to the delay in receiving a sale contract for 2,500MT of CPO from a customer, which resulted in the accumulation of CPO stock. The said sale contract for the 2,500MT of CPO was received in October 2023 and the delivery took place in the even month.

Our inventory turnover period increased from 82 days for FYE 2021 to 111 days for FYE 2022, mainly attributable to the following:

(a) increase in fertiliser inventory level by RM8.1 million resulting from the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser;

(b) fertiliser costs increased by RM501 per MT from RM1,420 per MT for FYE 2021 to RM1,920 per MT for FYE 2022, resulting from the shortage of supply due to the conflict between Russia and Ukraine and sanctions implemented by the United States against Russia; and

(c) the increase in CPO and PK inventories by RM12.4 million was primarily due to higher volume for CPO and PK of 3,192MT and 940MT, respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022.

Our inventory turnover period decreased from 111 days for FYE 2022 to 81 days for FYE 2023, mainly attributable to the following:

(a) the decrease in CPO and PK inventories of RM13.9 million was primarily due to the delivery of 3,000MT of CPO with 90.0% downpayment duly paid as at 30 September 2022, which was subsequently collected by the customer on 5 October 2022, as well as the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 and recognised as revenue during FYE 2023;

(b) the decrease in fertiliser of RM13.9 million was primarily due to more fertiliser applied for FYE 2023 as there was heavy rainfall from the La Nina phenomenon in FYE 2022, making it less suitable to apply fertiliser; and

(c) the increase in plantation consumables of RM0.9 million was primarily due to increase in purchase of spare part for mill repair and maintenance for machinery.

We review our inventories on a product-by-product and ageing basis during the periodic stock count and we make allowance for damaged, obsolete and slow-moving inventories, when necessary. Management estimates the net realisable value for such inventory items based primarily on the current market conditions.

During FYE 2020 to 2023, our Group had written down inventories as below:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Inventories written off[1]	4	1	1	-

Note:

(1) Comprise plantation consumables written-off due to damaged spare parts that were no longer in good condition.

We are of the opinion that there are no material slow-moving and/or obsolete inventories as at LPD.

12.9.4 Current ratio

Our current ratio throughout FYE 2020 to 2023 is as follows:

	Audited			
	As at 30 September			
	2020	**2021**	**2022**	**2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	113,071	131,515	134,950	152,634
Current liabilities	200,655	161,807	142,674	151,559
Net current (liabilities)/assets	**(87,584)**	**(30,292)**	**(7,724)**	**1,075**
Current ratio (times)	0.6	0.8	0.9	1.0

Our current ratio ranges from 0.6 times to 1.0 times for FYE 2020 to 2023.

Our current ratio increased from 0.6 times as at 30 September 2020 to 0.8 times as at 30 September 2021, mainly attributable to the following:

(a) increase in cash and bank balances of RM21.2 million, mainly due to improved internally generated funds from our business operations;

(b) the increase in inventories of RM14.9 million, mainly due to the accumulation of plantation consumables such as spare parts to avoid a shortage resulting from the interruption of the global supply chain due to the COVID-19 pandemic, and increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT;

(c) decrease in loans and borrowings of RM30.3 million, mainly due to scheduled repayments of term loans and revolving credits;

(d) net repayments to Metro Kajang (Oversea) of RM17.1 million for advances mainly to finance our plantation's working capital purposes, such as our plantation development costs, costs for construction of a new mill and upgrading of our existing mill; and

(e) decrease in trade payables of RM12.6 million and the amount due to MKH Building Materials Sdn Bhd, a related company (trade-in nature) of RM1.4 million, both were mainly in relation to building materials for our trading business, as our Group had ceased the building materials trading business effective from 1 January 2021 and there were no such purchases thereafter.

The above increase contributed to the improvement in our current ratio as at 30 September 2021, and were partially offset by the following:

(a) the decrease in trade receivables of RM14.9 million, mainly due to no outstanding trade receivables from the trading segment following the cessation of our building materials trading business effective from 1 January 2021; and

(b) the increase in current tax liabilities of RM16.3 million, mainly due to the higher tax expenses resulting from higher profits recorded for FYE 2021.

Our current ratio continuously improved from 0.8 times as at 30 September 2021 to 0.9 times as at 30 September 2022, mainly attributable to the following:

(a) increase in inventories of RM22.7 million, mainly due to the increase in fertiliser by RM8.1 million primarily resulting from (i) the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser; (ii) fertiliser costs increased by RM501 per MT, resulting from the conflict between Russia and Ukraine; and (iii) the increase in CPO and PK inventories by RM12.4 million primarily due to higher volume for CPO and PK of 3,192MT and 940MT respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022;

(b) decrease in loans and borrowings of RM46.5 million, mainly due to scheduled repayments of term loans and early settlement of revolving credits; and

(c) the current tax liabilities decreased by RM16.3 million, mainly due to the final tax assessment for FYE 2021 of RM18.2 million being paid upon finalisation during FYE 2022.

The above increases contributed to the improvement in the current ratio as at 30 September 2022 were partially offset by the following:

(a) the decrease in cash and bank balances of RM15.5 million was mainly due to the following outflows of cash:

    (i) the net repayments of term loans of RM34.2 million and revolving credits of RM32.8 million and the related interests of RM5.8 million during FYE 2022; and

    (ii) tax payments of RM39.5 million comprising:

        (aa) the final tax assessment for FYE 2021 of RM18.2 million upon finalisation during FYE 2022; and

        (bb) estimated tax instalments of RM21.3 million paid for FYE 2022.

    Such payments were offset by the internally generated funds from our business operations;

(b) increase in loans from Metro Kajang (Oversea) of RM24.8 million, mainly due to reclassification of amounts due within 1 year from non-current liabilities to current liabilities;

(c) increase in trade payables of RM3.9 million due to higher amounts owing to fertiliser supplier for the plantation consumables accumulated in September 2022 to avoid the supply shortage of fertiliser resulting from the conflict between Russia and Ukraine; and

(d) increase in downpayment from our CPO and PK customers of RM11.4 million, mainly in relation to a 90.0% downpayment by a customer for 3,000MT CPO that subsequently collected by the customer on 5 October 2022.

Our current ratio continuously improved from 0.9 times as at 30 September 2022 to 1.0 times as at 30 September 2023, mainly attributable to the following:

(a) the increase in cash and bank balances of RM31.9 million, which derived primarily from the internally generated funds from our business operations;

(b) the increase in receivables, deposits and prepayment of RM7.5 million was mainly due to the net effects of the following:

(i) the increase in other receivables of RM7.8 million, mainly contributed by the value-added input taxes available to offset against future value-added output taxes increased by RM8.6 million, resulting from higher CPO sold to customers from the free tax zone. The amount will be claimable after FYE 2023. Such increase was partially offset by the decrease in receivables from employees of RM0.8 million, mainly due to repayment by employees via monthly salary deductions;

(ii) the decrease in the amount owing from a former subsidiary, PT NMJ, of RM3.2 million was attributable to repayment received during FYE 2023;

(iii) the increase in prepayments of RM1.8 million was mainly due to our prepaid IPO expenses incurred during FYE 2023; and

(iv) the increase in trade receivables of RM0.8 million was primarily attributable to higher sales made towards the last quarter of FYE 2023 as compared to the last quarter of FYE 2022.

(c) the current tax assets increased by RM4.9 million, mainly due to the higher tax estimation for the year of assessment 2023 following higher profit in FYE 2022.

The above increases contributed to the improvement in the current ratio as at 30 September 2023 were partially offset by the following:

(a) the decrease in inventories by RM26.9 million, mainly due to the following:

(i) the decrease in CPO and PK inventories of RM13.9 million was primarily due to the undelivered 3,000MT of CPO with 90.0% downpayment duly paid as at 30 September 2022, which was subsequently collected by the customer on 5 October 2022, as well as the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 and recognised as revenue during FYE 2023;

(ii) the decrease in fertiliser of RM13.9 million was primarily due to more fertiliser applied for FYE 2023 as there was heavy rainfall from the La Nina phenomenon in FYE 2022, making it less suitable to apply fertiliser; and

(iii) the increase in plantation consumables of RM0.9 million was primarily due to increase in purchase of spare part for mill repair and maintenance for machinery;

(b) increase in current payables and accruals of RM6.4 million was primarily due to the net effects of the following;

(i) increase in loans from related companies of RM24.9 million, primarily due to the reclassification of amounts due within 1 year from non-current liabilities to current liabilities for loans from Metro Kajang (Oversea);

(ii) the increase in accruals of RM3.2 million was mainly due to higher accrued CSR payable to Plasma Farmers and higher purchase of FFB from Plasma Farmers towards the end of FYE 2023 as compared to FYE 2022 as a result of the higher FFB produced;

(iii) the decrease in trade payables of RM9.3 million was mainly due to the lower purchase of fertilisers towards the end of FYE 2023 as compared to FYE 2022;

(iv) the decrease in downpayment from our CPO and PK customers of RM6.2 million was mainly due to a deposit of RM9.2 million received in September 2022 for sales secured in September 2022 that were subsequently delivered and recognised as revenue in FYE 2023 and partially offset by deposit of RM3.9 million received for 1,500MT CPO that subsequently collected by the customer on 13 October 2022; and

(v) the decrease in other payables of RM6.1 million was mainly due to the refund of RM3.1 million to a CPO customer that overpaid in FYE 2022 and payment to spare parts and construction suppliers carried from FYE 2022.

(c) the increase in loans and borrowings of RM2.4 million was mainly due to the reclassification of unsecured term loans from non-current to current of RM2.4 million.

12.9.5 Gearing ratio

Our gearing ratio throughout FYE 2020 to 2023 is as follows:

	Audited			
	As at 30 September			
	2020	2021	2022	2023
	RM'000	RM'000	RM'000	RM'000
Borrowings	131,220	68,768	2,317	2,936
Interest bearing loan from Metro Kajang (Oversea)	68,672	66,904	67,765	68,119
Total	**199,892**	**135,672**	**70,082**	**71,055**
Total equity	124,776	211,372	280,949	313,949
Gearing ratio (times)[(1)]	1.6	0.6	0.2	0.2

Note:

(1) Computed based on total interest-bearing borrowings and loan from Metro Kajang (Oversea) over total equity as at the end of each financial year.

Our gearing ratio ranges from 0.2 times to 1.6 times for FYE 2020 to 2023.

As at 30 September 2021, our gearing ratio decreased to 0.6 times (as at 30 September 2020: 1.6 times), mainly attributable to the decrease in loans and borrowings of RM62.5 million as a result of the repayment of term loans of RM58.6 million and revolving credits of RM21.5 million, and netting the drawdown of term loans of RM14.4 million for working capital purpose. Additionally, our improved financial performance and position for FYE 2021 also contributed to the lower gearing ratio as at 30 September 2021.

Our gearing ratio decreased to 0.2 times as at 30 September 2022 (as at 30 September 2021: 0.6 times), mainly attributable to the decrease in loans and borrowings of RM66.5 million as a result of the repayment of term loans of RM36.5 million and revolving credits of RM32.8, and netting the drawdown of term loans of RM2.3 million for working capital purposes. In addition, our improved financial performance and position for FYE 2022 also contributed to the lower gearing ratio as at 30 September 2022.

Our gearing ratio for FYE 2022 and FYE 2023 were constant at 0.2 times.

12.10 SIGNIFICANT FACTORS AFFECTING OUR BUSINESS

Section 9 details the risk factors relating to our business and the industry in which we operate. Some of these risk factors have an impact on our revenue and financial performance. The main factors which affect revenues and profits include but are not limited to the following:

(a) Our business growth may be adversely affected if we fail to continuously improve our FFB yields which could result in stagnant or lower production of CPO and PK

FFB yields are generally dependent on the land profile of our plantation estates, age profile and quality of our oil palms, as well as adoption of efficient plantation practices to ensure high FFB yields including field upkeep and weed control, soil fertility and conservation, pest management, mechanisation, water management, harvesting and crop quality, as well as safety, health and environment.

Our Group achieved average FFB yields of 29.3MT per Ha, 26.7MT per Ha, 23.2MT per Ha and 24.1MT per Ha in FYE 2020, FYE 2021, FYE 2022 and FYE 2023, respectively. There can be no assurance that we will continue to achieve high FFB yields if we fail continuously to adopt or improve our plantation practices.

Any decrease in FFB yields will result in stagnant or lower production of CPO and PK, which may eventually negatively affect our financial performance and our future growth. Even if we purchase FFB from third party plantation estates for the production of CPO and PK in our palm oil mill in the event of low FFB yields in our plantation estates, we are required to incur additional costs for the purchase of FFB and there can be no assurance on the quality of FFB purchased. All of these may have a negative impact on our cost of sales and may consequently impact our financial performance.

(b) Our financial performance is subject to our ability to continuously deliver CPO and PK based on our customers' requirements

The ability to deliver CPO and PK based on the customers' requirements, i.e. the content of FFA in CPO produced by palm oil mills in Indonesia should not be more than 5.0% at the point of loading for delivery to customers. The FFA content in CPO produced by our Group is generally lower than 5.0%, at averages of 3.4%, 4.0% 4.6% and 4.3% for FYE 2020, FYE 2021, FYE 2022 and 2023, respectively.

Our customer can claim for a reduction in sales price based on a pre-agreed range, if we deliver CPO with FFA content above 5.0%. During FYE 2020 to 2023, there were claims from our customers on sales of CPO and PK amounting to approximately RM0.1 million, RM0.2 million, RM1.7 million and RM1.4 million respectively, which accounted for approximately 0.1%, 0.1%, 0.5% and 0.4% of our Group's total revenue from plantation business segment respectively.

If we fail to continuously maintain the quality of our CPO and PK, our financial performance will be negatively impacted as a result of claims from our customers. It may also negatively impact our reputation in the industry as a reliable provider of quality CPO and PK, which may result in a potential loss of confidence and sales of our CPO and PK from our existing and potential customers, and may consequently negatively impact our business growth.

(c) Our business and financial performance may be adversely affected if we lose significant sales from our major customers

For FYE 2020 to 2022, sales contributed by our top 5 major customers accounted for 88.2%, 95.9% and 99.9% of our total revenue respectively. In FYE 2023, our Group only transacted with 4 customers and sales to these 4 customers made up to 100.0% of our total revenue. This indicates a concentration of our revenue amongst these customers, and a risk of dependency on them. There is no assurance that we will be able to continue retaining these customers, or that the volume of purchases from our major customers will not vary significantly in the future. In the event that there are significant reductions in purchases from our major customers or a complete loss of any of our major customers, our financial performance and results of our operations may be adversely affected.

Further, our Group has entered into sale and purchase agreements with PT Kutai Refinery Nusantara (part of Apical Group of Companies) for sale of CPO and PK, and PT Binasawit Abadipratama (part of Golden Agri-Resources Group of Companies) for sale of PK, as at LPD. Our financial performance and results of our operations will be adversely affected if the sale and purchase agreements with these customers are not renewed and these customers cease to purchase from us.

(d) We may be adversely affected by fluctuations in prices of supplies purchased by our Group

Our Group's GP margin is also susceptible to fluctuations in the prices of some supplies, such as fertilisers, FFB from the Plasma Programme, CPO from neighbouring third-party palm oil mills, diesel and petrol as well as chemicals. The prices of these supplies are dependent on, amongst others, the prevailing global crude oil prices and CPO prices, and/or the demand and supply conditions of these supplies.

Any significant fluctuation in the prices of these supplies may significantly increase our cost of sales, which may adversely affect our business, financial condition, results of operations and prospects should we fail to pass the increase in cost to our customers. For FYE 2020, FYE 2021, FYE 2022, FYE 2023 and up to the LPD, we did not encounter any material increase in the cost of these purchases which substantially increase our cost of sales and lead to an adverse impact on our financial performance.

(e) Exposure to foreign exchange transaction risks

Our Group is an oil palm plantation group principally involved in the cultivation of oil palm and production and sale of CPO and PK in Indonesia. Our sales are all made to local customers in Indonesia whereby the sales are denominated in IDR. Further, during the FYE 2020 to 2023, we also purchased spare parts from overseas suppliers to support our business operations, which were denominated in RM and/or USD. However, the purchases of spare parts from overseas suppliers were minimal, which accounted for 1.7%, 1.2%, 1.6% and 1.7% to our total purchases for FYE 2020 to 2023 respectively.

Additionally, our Group has USD-denominated outstanding borrowings of approximately RM2.4 million as at 30 September 2023, and RM-denominated advances from related companies of approximately RM112.6 million as at 30 September 2023, with further details set out in Section 12.13(a). Our Group utilises IDR to repay the USD-denominated borrowings and RM-denominated advances from related companies.

As at LPD, our Group does not hedge our exposure against fluctuations in foreign currency exchange rates as currency positions in IDR are considered to be long-term in nature. As such, we are subject to foreign exchange fluctuation risk for our USD-denominated borrowings and RM-denominated advances from related companies. In particular, for FYE 2020, we recorded unrealised and realised losses on foreign exchange by RM13.9 million and RM3.4 million, respectively, in respect of our borrowings denominated in USD and RM against IDR. Further, for FYE 2022, we recorded realised loss on foreign exchange of RM0.6 million. For FYE 2023, we recorded unrealised and realised loss on foreign exchange by RM0.5 million and RM0.1 million, respectively. Please refer to Section 12.13(a) for further details on our foreign exchange gains and losses for FYE 2020 to 2023.

For FYE 2020 to 2023, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised (loss)/gain on foreign exchange	(3,366)	3,079	(642)	(117)
Unrealised (loss)/gain on foreign exchange	(13,879)	7,785	4,491	(535)
Net (loss)/gain	**(17,245)**	**10,864**	**3,849**	**(652)**

Further, as our operations are based in Indonesia, save for sales to overseas countries and some purchases from overseas suppliers which are denominated in USD, all our business transactions are denominated in IDR. However, for the purposes of financial reporting in Malaysia, all financials will be converted to RM for disclosure in financial statement. As such, our financial statement reported in RM may not be reflective of our results of operations due to the fluctuations in foreign exchange rates, mainly between IDR and RM. This has given rise to foreign exchange translation reserve amount disclosed under 'other comprehensive income' as 'foreign exchange translation differences'.

(f) Exposure to credit risk and default payment by customers

For the sale of CPO and PK, our customers are required to place an upfront payment of 90.0% of the total contract value, with the remaining 10.0% to be fulfilled upon the issuance of necessary delivery documents such as bill of lading and manifest to our customers after the product delivery, whereby our Group typically receives the payment within our credit terms which range from 30 to 60 days. The dates in which our customers are required to fulfil the upfront payment are stipulated in the contracts. In the event of delay or default in payment by our customers, our operating cash flows or financial results of operations may be affected.

While we have not impaired for any credit loss or experienced any material delay or default in payment by our customers for FYE 2020 to 2023 and up to the LPD, there can be no guarantee that our customers will be able to fulfil their payment obligations within our credit terms and that we will not encounter any collection problems in the future. In the event that there is any default or delay in the collection of payment, it will lead to impairment losses on trade receivables or bad debts which may impact our financial performance.

(g) Exposure to various inherent risks in the plantation industry

As we are involved in the cultivation of oil palm for the production and sale of CPO and PK, we are subject to risks inherent to the oil palm plantation industry. These include, but are not limited, to:

(i) adverse weather conditions;

(ii) outbreak of diseases or crop pests; and

(iii) fires.

All the external factors above may cause disruption to our plantation activities and/or reduction in our FFB yields, which may in turn adversely affect our production and sale of CPO and PK. Further, occurrence of fires involving our palm oil mill may cause damage to all or part of our palm oil mill, which may lead to disruptions in our palm oil milling activities, thereby impacting the production and sale of our CPO and PK. Any prolonged interruptions to our FFB yields as well as plantation and palm oil milling activities will affect our ability in fulfilling our sales orders, thus causing delivery delays to our customers. This could adversely impact our relationships with customers, our financial performance and reputation in the industry.

(h) Our financial performance is subject to the fluctuation in the market prices of CPO and PK

As with other commodities, the market prices of CPO and PK fluctuate along with international demand and supply conditions. The highest and lowest market prices (in IDR and RM) for CPO and PK published by the Plantation Office of East Kalimantan for 2020, 2021, 2022, 2023 and up to LPD are as follows:

	CPO price (IDR/kg)		PK price (IDR/kg)	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	9,148.02	6,657.44	5,013.61	3,131.43
2021 (January to December)	13,641.24	9,170.35	10,075.49	5,691.30
2022 (January to December)	15,490.11	8,584.40	12,605.44	4,216.06
2023 (January to December)	11,886.41	10,233.38	5,717.11	4,434.91
2024 (January to February)	11,310.80	10,978.65	5,290.40	5,032.79

	CPO price (RM/MT)		PK price (RM/MT)	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	2,625.48	2,010.55	1,438.91	945.69
2021 (January to December)	4,010.52	2,641.06	2,962.19	1,639.09
2022 (January to December)	4,600.56	2,540.98	3,743.82	1,269.03
2023 (January to December)	3,542.20	3,128.35	1,703.70	1,339.34
2024 (January to February)	3,449.79	3,293.59	1,613.57	1,509.84

A significant and prolonged reduction in the prices of CPO and palm oil-based products would have a material adverse effect on our results of operations, profitability and cash flows.

12.11 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Save for policies in relation to COVID-19, there were no government, economic, fiscal or monetary policies or factors which had materially affected our operations during FYE 2020 to 2023. There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward.

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9.2.6.

12.12 IMPACT OF INFLATION

During FYE 2020 to 2023, our financial performance was not materially affected by inflation. However, there is no assurance that our financial performance will not be adversely affected by inflation moving forward. Any significant increase in our costs of sales in the future may adversely affect our operations and performance if we are unable to pass on the higher costs to our customers through an increase in selling prices.

12.13 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR OPERATIONS

(a) Impact of foreign exchange rates

Our Group is an oil palm plantation group principally involved in the cultivation of oil palm and the production and sale of CPO and PK in Indonesia. Our sales are all made to local customers in Indonesia. All our sales to local customers in Indonesia are denominated in IDR.

Further, for FYE 2020 to 2023, we also purchased spare parts from overseas suppliers to support our plantation business, which were denominated in RM and/or USD.

Our proportions of sales and purchases transactions denominated in local and foreign currencies are as follows:

	FYE 2020		**FYE 2021**		**FYE 2022**		**FYE 2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Sales denominated in:								
(i) IDR	250,454	88.7	294,458	96.0	315,817	100.0	337,981	100.0
(ii) RM	31,870	11.3	12,153	4.0	-	-	-	-
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**	**337,981**	**100.0**
Purchases denominated in:								
(i) IDR	55,718	63.4	65,258	84.2	83,929	98.4	107,019	98.3
(ii) RM	32,181	36.6	12,266	15.8	952	1.1	767	0.7
(iii) USD	32	*	-	-	424	0.5	1,111	1.0
	87,931	**100.0**	**77,524**	**100.0**	**85,305**	**100.0**	**108,897**	**100.0**

Note:

* Representing less than 0.1%.

As our current operations are based in Indonesia, save for sales to overseas countries and some purchases from overseas suppliers which are denominated in USD, all our business transactions are denominated in IDR. However, for the purposes of financial reporting in Malaysia, all financials will be converted to RM for disclosure in the financial statements. As such, our financial statements reported in RM may not be reflective of our results of operations due to the fluctuations in foreign exchange rates, mainly between IDR and RM. This has given rise to foreign exchange translation reserve amount disclosed under 'other comprehensive income' as 'foreign exchange translation differences'.

However, our Group has USD-denominated outstanding borrowings of RM2.4 million as at 30 September 2023 and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation of RM112.6 million as at 30 September 2023. Our Group utilises IDR to repay such foreign denominated borrowings and loans. Our Group also holds cash and bank balances denominated in USD and IDR for our Group's working capital purposes.

Our cash and bank balances, outstanding borrowings and loans denominated in the respective currencies are as follows:

	As at 30 September							
	2020		**2021**		**2022**		**2023**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Cash and bank balances denominated in:								
(i) IDR	19,164	52.9	36,654	63.8	32,358	77.0	68,079	92.1
(ii) USD	15,458	42.6	19,433	33.8	4,919	11.7	2,352	3.2
(iii) RM	1,628	4.5	1,378	2.4	4,737	11.3	3,465	4.7
	36,250	**100.0**	**57,465**	**100.0**	**42,014**	**100.0**	**73,896**	**100.0**
Borrowings denominated in:								
USD	131,220	100.0	68,768	100.0	2,317	100.0	2,360	80.4
RM	-	-	-	-	-	-	576	19.6
	131,220	**100.0**	**68,768**	**100.0**	**2,317**	**100.0**	**2,936**	**100.0**
Loans from Metro Kajang (Oversea) and MKH Plantation denominated in:								
RM[(1)]	127,940	100.0	121,026	100.0	110,270	100.0	112,591	100.0

Note:

(1) Our Group utilises IDR to repay the RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation.

For FYE 2020 to 2023, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised (loss)/gain on foreign exchange	(3,366)	3,079	(642)	(117)
Unrealised (loss)/gain on foreign exchange	(13,879)	7,785	4,491	(535)
Net (loss)/gain	**(17,245)**	**10,864**	**3,849**	**(652)**

We currently do not have a formal policy with respect to our foreign exchange transactions. Exposure on foreign exchange is monitored on an ongoing basis.

Our Group is exposed to currency translation risk arising from its net investments in our Indonesia operations. Our Group's investment in Indonesia is not hedged as currency positions in IDR are considered to be long term in nature.

As at LPD, our Group does not hedge our exposure to fluctuation in foreign currency exchange rates. As at LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for our loans and borrowings in USD (where applicable) and loans from MKH Plantation in RM.

(b) Impact of interest rates

Interest coverage ratio measures the number of times a company can make its interest payments with its EBIT. Our interest coverage ratio for FYE 2020 to 2023 is as follows:

	Audited			
	FYE 2020	**FYE 2021**	**FYE 2022**	**FYE 2023**
Interest coverage ratio (times)[1]	3.1	13.9	13.5	9.4

Note:

(1) Computed based on EBIT over finance costs for FYE 2020 to 2023.

Our interest coverage ratios range from 3.1 times to 13.9 times during FYE 2020 to 2023, indicating that our Group has been able to generate sufficient profits from operations to meet our interest-serving obligations.

Our financial results for FYE 2020 to 2023 were not materially affected by fluctuations in interest rates. However, any major increase in interest rates would raise the cost of our borrowings and our finance costs, which may have an adverse effect on the performance of our Group.

(c) Impact of commodity prices

As with other commodities, the market prices of CPO and PK fluctuate along with international demand and supply conditions. The highest and lowest market prices for CPO and PK published by the Plantation Office of East Kalimantan for years 2020, 2021, 2022, 2023 and up to LPD are as follows:

	CPO price (IDR/kg)		**PK price (IDR/kg)**	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	9,148.02	6,657.44	5,013.61	3,131.43
2021 (January to December)	13,641.24	9,170.35	10,075.49	5,691.30
2022 (January to December)	15,490.11	8,584.40	12,605.44	4,216.06
2023 (January to December)	11,886.59	10,223.38	5,717.11	4,434.91
2024 (January to February)	11,310.80	10,978.65	5,290.40	5,032.79

Local and international prices for CPO and PK are affected by a number of factors, including the following:

(i) the supply and demand levels for CPO, PK and other edible or non-edible fats and oils (such as soybean oil, rapeseed oil, sunflower oil, non-edible vegetable oils and non-edible animal fats);

(ii) global production levels and physical stocks (i.e. the supply level) of CPO, PK and other edible or non-edible fats and oils, which tend to be affected principally by global weather conditions and the area of land under cultivation;

(iii) global consumption levels (i.e. the demand level) of CPO, PK and other edible oils;

(iv) the price of crude oil, which impacts the prices of biofuels and in turn impact the price of CPO and PK as palm oil can be used in the production of biofuels;

(v) developments in the Indonesian, regional and global economic and political situations which may affect the supply and demand conditions of CPO and PK in the global market;

(vi) foreign exchange rates as any major fluctuations in the currencies in which CPO and PK are transacted may affect the favourability of CPO and PK exported from a particular country, thereby affecting demand;

(vii) import and export duties and other taxes in major CPO import/ consumption/ production/ export countries which may affect the imports and/or exports of CPO and PK in the respective countries; and

(viii) changes in government regulations such as implementation of any export bans and domestic regulations that may limit the export of CPO and PK.

The key underlying reason that affects the local and international market prices of CPO and PK is the supply and demand levels for CPO and PK. Any increase in demand for CPO and PK and/or shortage in supply of CPO and PK tends to result in an increase in the market price of CPO and PK, and vice versa. A significant and prolonged reduction in the prices of CPO and palm oil-based products would have a material adverse effect on our results of operations, profitability and cash flows.

12.14 SIGNIFICANT CHANGES

There are no significant changes which may have a material effect on the financial position and results of our Group subsequent to FYE 2023 and up to LPD.

12.15 ORDER BOOK

Our Group is primarily involved in the cultivation of oil palm and harvesting of its FFB, and the production and sale of CPO and PK. Due to the nature of our business, we do not maintain an order book.

Our CPO and PK are primarily sold to customers who have entered into sale and purchase agreements with our Group. As at LPD, we have entered into sale and purchase agreements with agreement terms ranging from 10 months to 1 year, with 2 of our major customers (i.e. PT Kutai Refinery Nusantara for sales of CPO; and PT Binasawit Abadipratama for sale of PK), whereby the agreements are subject torenewal. Based on the sale and purchase agreements, our Group is obliged to sell a pre-agreed quantity of CPO or PK to the respective customers, whereby the selling prices of the CPO to PT Kutai Refinery Nusantara are determined based on the auction price published by PT Perkebunan Nusantara for CPO on spot trading day, while the selling price of PK to PT Binasawit Abadipratama is based on the average of PT Astra Agro Lestari Tbk's PK daily price in the preceding month. As at LPD, based on the existing sale and purchase agreements entered with our customers, there are CPO and PK volumes totalling 77,000MT and 1,800MT respectively that have yet to be delivered to our customers, in which 49,000MT of CPO and 1,800MT of PK will be fulfilled in FYE 2024 and the balance 28,000MT of CPO will be fulfilled in FYE 2025.

On top of the CPO and PK produced to fulfill the sale obligations under the sale and purchase agreements, we also produce additional CPO and PK for sales. These CPO and PK can be sold to customers for whom we entered into sale and purchase agreements as a top-up to their pre-agreed amount, whereby the selling prices are determined based on spot price used by PT Perkebunan Nusantara for CPO and PT Astra Agro Lestari Tbk for PK. Further, the additional CPO and PK produced can also be sold to other customers through e-bidding tendering process, whereby the sales are exercised at auction price from tenders and the delivery is typically carried out within 30 days from the confirmation of tenders. There were no outstanding tender as at LPD.

12.16 DIRECTORS' STATEMENT ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) our revenue will remain sustainable with an upward growth trend, in line with the anticipated growth in the oil palm industry as set out in the IMR Report in Section 8;

(b) our liquidity will improve further subsequent to our Public Issue given the additional funds to be raised for our Group to carry out our business strategies as stated in Section 7.15; and

(c) our capital resources will strengthen, taking into account the amount to be raised from the Public Issue as well as internally generated funds. We may consider debt or equity funding for our capital expansion should the need arise.

In addition to the above, our Board confirms that there are no circumstances which would result in a significant decline in our revenue and GP margin or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

12.17 TREND INFORMATION

Based on our tracked record for FYE 2020 to 2023, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

(a) revenue contribution from plantation segment has been the main revenue contributor for our business. We expect this segment to continue contributing significantly to our revenue in future;

(b) for FYE 2020 to 2023, the main component of our cost of sales are cultivation costs which contributed 51.7%, 59.5%, 66.4% and 59.9% of our total cost of sales for FYE 2020 to 2023, respectively. Moving forward, we expect this trend will continue; and

(c) we achieved a GP margin of 35.3%, 45.8%, 41.1% and 27.2% for FYE 2020 to 2023 respectively. Our GP margin in the future would depend on, amongst others, our continued ability to manage our cost efficiently and subject to prevailing market prices for CPO and PK.

As at LPD, after all reasonable enquires, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations, save as disclosed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13;

(b) material commitments for capital expenditure disclosed in Section 12.7;

(c) 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 discussed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discusses in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13; and

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13.

Based on the above, our Board is optimistic about the future prospects of our Group given our competitive strengths as set out in Section 7.14, the outlook of the oil palm industry in Indonesia as set out in the IMR Report in Section 8 and our commitment to implement the business strategies and future plans as set out in Section 7.15.

12.18 DIVIDEND POLICY

It is our Directors' policy to allow our shareholders to participate in the profits of our Group as well as adequate reserves for the future growth of our Group.

Our Group intends to recommend and distribute a dividend of at least 50% of our annual audited consolidated PAT attributable to the owners of our Company from financial year ending 2024 onwards after taking into account our Group's working capital requirements, subject to any applicable law, licence conditions and contractual obligations and provided that such distribution will not be detrimental to our cash requirements or any plans approved by our Board. However, it is not a legally binding obligation or guaranteed commitment to the shareholders.

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our subsidiaries, present and future. Upon completion of our IPO, save as disclosed in Section 16.4, there are no legal, financial or economic restrictions on the ability of our subsidiaries to transfer/receive funds to/from our Company, subject to the availability of distributable reserves and compliance with financial covenants, in the form of cash dividends, loans or advances, prior written notification has been given to lender, confirming that (i) all covenants including but not limited to financial covenants, representations and warranties have been complied with by PT MKH pertaining to the Foreign Currency Term Financing Facility-i 3 (FC Term-i 3) extended by OCBC Al-Amin Bank Berhad to PT MKH; and (ii) no event of default has occurred or is continuing or would occur. Moving forward, the payment of dividends by our subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of Directors deem relevant. Save for certain restrictive covenants from our credit facilities, which our subsidiaries are subject to, there is no other dividend restriction imposed on our subsidiaries as at LPD.

The dividends paid by our Indonesia subsidiaries may be taxed in Indonesia for withholding tax at a rate not exceeding 10.0% of the gross amount of the dividends. According to the prevailing Double Tax Agreement between Indonesia and Malaysia, dividend payments paid to our Company will be subject to a withholding tax. PT MKH and PT SPS have an obligation to withhold the tax of dividends distribution and pay to the tax authority. For avoidance of doubt, the dividend income received by our Company are exempted from corporate income tax in Malaysia up to 31 December 2026 based on the following qualifying conditions:

(a) the foreign source dividend income has been subjected to tax in the country of origin i.e. Indonesia;

(b) the highest corporate tax rate in the country of origin i.e. Indonesia is at least 15.0%; and

(c) our Group has complied with the economic substance requirements where (i) adequate number of employees are employed with necessary qualifications to carry out our operations in Malaysia; and (ii) adequate amount of operating expenditure has been incurred for carrying out our operations in Malaysia.

Our Board will consider the following factors when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(a) the level of cash and level of indebtedness;

(b) required and expected interest expense, cash flows, profits, return on equity and retained earnings;

(c) our expected results of operations and future level of operations;

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

(e) the prior consent from our lenders, if any.

The payment and amount of any dividends or distributions to our shareholders will be at the discretion of our Board, and will depend on factors stated above. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

Subject to the Act, our Company, in a general meeting, may from time to time approve dividend or other distribution. However, no dividend or distribution shall be declared in excess of the amount recommended by our Board. Further, under the Act, our Company may not declare or pay dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(a) our Company is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than its liabilities.

For FYE 2020 to 2023 and up to LPD, no dividends were declared and paid to shareholders of our Company and our subsidiaries.

As at LPD, there is no outstanding dividends declared and unpaid. Subsequent to LPD, no dividend was declared, made or paid by our Group. Our Group does not intend to declare any dividend prior to our Listing.

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

12. FINANCIAL INFORMATION *(Cont'd)*

12.19 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 January 2024 and after adjusting for the effects of Public Issue and utilisation of proceeds.

	Unaudited	**I**	**II**
	[1]As at 31 January 2024	**After Public Issue**	**After I and utilisation of proceeds**
	RM'000	**RM'000**	**RM'000**
Capitalisation			
Share capital	250,815	387,215	378,474
Total capitalisation	**250,815**	**387,215**	**378,474**
Indebtedness[1]			
Current			
Loans and borrowings	122	122	122
Non-current			
Loans and borrowings	414	414	414
Total indebtedness	**536**	**536**	**536**
Total capitalisation and indebtedness	**251,351**	**387,751**	**379,010**
Gearing ratio (times)[2]	**<0.1**	**<0.1**	**<0.1**

Notes:

(1) All of our indebtedness are secured and/or guaranteed.

(2) Calculated based on total indebtedness divided by total capitalisation.

Deloitte.

Deloitte PLT (LLP0010145-LCA)
Chartered Accountants (AF0080)
Level 12A Hunza Tower
163E Jalan Kelawei
10250 Penang
Malaysia

Tel: +604 2945500
Fax: +604 2189278
mypenang@deloitte.com
www.deloitte.com/my

The Board of Directors
MKH Oil Palm (East Kalimantan) Berhad
G-02 & G-03, Ground Floor, Wisma MKH,
Jalan Semenyih,
43000 Kajang,
Selangor Darul Ehsan

Dear Sirs,

Reporting Accountants' opinion on the combined financial statements contained in the Accountants' Report of MKH Oil Palm (East Kalimantan) Berhad

Opinion

We have audited the combined financial statements of MKH Oil Palm (East Kalimantan) Berhad ("the Company") and its combining entities as disclosed in Note 35 to the combined financial statements ("the Group"), which comprise the combined statements of financial position as at September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and combined statements of cash flows for the financial years ended September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020, and notes to the combined financial statements, including a summary of significant accounting policies, as set out on pages 4 to 102. The combined financial statements of the Group have been prepared for inclusion in the Prospectus of MKH Oil Palm (East Kalimantan) Berhad in connection with the listing of and quotation for the entire enlarged issued share capital of MKH Oil Palm (East Kalimantan) Berhad on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") and for no other purposes.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined financial position of the Group as at September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020 and of its combined financial performance and its combined cash flows for the financial years ended September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020, in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our reporting accountants' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Forward)

MAKING AN IMPACT THAT MATTERS

Independence and Other Ethical Responsibilities

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

Directors' Responsibilities for the Combined Financial Statements

The directors of the Company are responsible for the preparation of the combined financial statements of the Group that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternatives but to do so.

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a reporting accountants' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(Forward)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our reporting accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the combining entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Restriction on Distribution and Use

This report is made solely to the Company and for inclusion in the Prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the Main Market of Bursa Securities and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

Deloitte PLT

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF0080)

ALVIN CHANG SHU-WEI
Partner – 03480/01/2026 J
Chartered Accountant

Penang,
March 14, 2024

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020

	Notes	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
Revenue	4	337,980,732	315,817,268	306,610,806	282,323,509
Cost of sales	5	(246,004,301)	(185,948,501)	(166,236,960)	(182,790,649)
Gross profit		91,976,431	129,868,767	140,373,846	99,532,860
Other income		7,947,526	6,489,524	18,082,628	9,355,350
Administration expenses		(38,735,370)	(39,242,652)	(37,175,492)	(34,042,801)
Sales and marketing expenses		(12,244,189)	(10,844,455)	(9,262,495)	(11,870,648)
Other expenses		(2,813,483)	(6,947,520)	(2,122,659)	(22,763,982)
Profit from operations		46,130,915	79,323,664	109,895,828	40,210,779
Finance costs		(4,832,045)	(5,839,934)	(7,868,609)	(12,605,090)
Profit before tax	6	41,298,870	73,483,730	102,027,219	27,605,689
Tax expenses	8	(10,045,196)	(13,345,821)	(24,575,444)	(8,915,766)
Profit for the financial year		31,253,674	60,137,909	77,451,775	18,689,923
Other comprehensive income for the financial year					
Items that will not be reclassified to profit or loss subsequently:					
Remeasurement (losses)/gains on defined benefit plans	21	(272,040)	1,357,260	3,189,373	(144,860)
Income tax relating to remeasurement gains/(losses) on defined benefit plans	8	61,670	(512,070)	(958,113)	393,890
Revaluation surplus of buildings		-	-	-	2,838,040
Income tax relating to surplus arising from revaluation of buildings	8	-	-	-	(448,070)
		(210,370)	845,190	2,231,260	2,639,000

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

	Notes	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
Item that may be reclassified to profit or loss subsequently:					
Foreign currency translation differences		1,956,242	8,593,890	6,913,588	(5,231,019)
Total comprehensive income for the financial year		32,999,546	69,576,989	86,596,623	16,097,904
Profit for the financial year attributable to:					
Owner of the parent		30,413,315	55,547,284	72,217,410	17,797,114
Non-controlling interests	20	840,359	4,590,625	5,234,365	892,809
		31,253,674	60,137,909	77,451,775	18,689,923
Total comprehensive income for the financial year attributable to:					
Owner of the parent		32,125,259	64,546,855	81,024,225	15,126,001
Non-controlling interests	20	874,287	5,030,134	5,572,398	971,903
		32,999,546	69,576,989	86,596,623	16,097,904
Earnings per ordinary share (sen):					
Basic earnings per ordinary share	9	27.53	50.28	96.77	28.40
Diluted earnings per ordinary share	9	27.53	50.28	65.37	16.11

The accompanying Notes form an integral part of the combined financial statements of the Group.

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020

	Notes	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	10	312,099,010	317,110,711	320,711,215	325,380,408
Prepaid lease payments	11	19,024,019	19,933,403	20,341,816	20,878,248
Goodwill on consolidation	12	6,077,776	5,340,011	5,146,787	4,900,865
Receivables, deposits and prepayments	13	1,822,727	1,390,752	2,187,461	1,998,836
Investment in subsidiaries	14	-	50,001	1	1
Total Non-Current Assets		339,023,532	343,824,878	348,387,280	353,158,358
Current Assets					
Inventories	15	40,817,670	67,714,407	44,974,687	30,062,243
Biological assets	16	6,231,392	5,917,360	6,177,026	4,233,267
Receivables, deposits and prepayments	13	22,852,654	15,394,533	22,899,420	36,172,301
Current tax assets		8,837,410	3,909,828	-	6,352,358
Cash and bank balances	17	73,895,739	42,014,471	57,464,522	36,250,247
Total Current Assets		152,634,865	134,950,599	131,515,655	113,070,416
TOTAL ASSETS		491,658,397	478,775,477	479,902,935	466,228,774

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

	Notes	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	18	82,595,375	112,595,375	112,595,375	112,595,375
Reserves	19	217,209,844	155,084,585	90,537,730	9,513,505
Equity attributable to the owner of the parent		299,805,219	267,679,960	203,133,105	122,108,880
Non-controlling interests	20	14,143,799	13,269,512	8,239,378	2,666,980
Total Equity		313,949,018	280,949,472	211,372,483	124,775,860
Non-Current Liabilities					
Provisions	21	18,784,548	15,705,767	15,210,765	16,654,766
Payables and accruals	22	3,421,585	31,326,624	59,516,424	62,457,570
Loan and borrowings	23	-	2,317,544	22,269,300	54,450,908
Deferred tax liabilities	24	3,485,653	5,802,468	9,726,487	7,234,613
Hire purchase liabilities	25	457,066	-	-	-
Total Non-Current Liabilities		26,148,852	55,152,403	106,722,976	140,797,857
Current Liabilities					
Payables and accruals	22	149,080,705	142,663,413	98,937,002	123,777,673
Loan and borrowings	23	2,359,952	-	46,498,949	76,768,645
Hire purchase liabilities	25	119,870	-	-	-
Current tax liabilities		-	10,189	16,371,525	108,739
Total Current Liabilities		151,560,527	142,673,602	161,807,476	200,655,057
Total Liabilities		177,709,379	197,826,005	268,530,452	341,452,914
TOTAL EQUITY AND LIABILITIES		491,658,397	478,775,477	479,902,935	466,228,774

The accompanying Notes form an integral part of the combined financial statements of the Group.

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020

		Non-distributable		Distributable			
	Issued capital RM	Translation reserve RM	Revaluation reserve RM	(Accumulated losses)/Retained earnings RM	Attributable to owner of the parent RM	Non-controlling interests RM	Total equity RM
Balance as at October 1, 2019	112,595,375	(2,540,911)	4,518,887	(7,590,472)	106,982,879	1,695,077	108,677,956
Comprehensive income							
Profit for the financial year	-	-	-	17,797,114	17,797,114	892,809	18,689,923
Other comprehensive (loss)/income							
Foreign currency translation differences	-	(5,142,400)	-	-	(5,142,400)	(88,619)	(5,231,019)
Revaluation surplus of building - net of tax	-	-	2,256,313	-	2,256,313	133,657	2,389,970
Remeasurement gain on defined benefits plans - net of tax	-	-	-	214,974	214,974	34,056	249,030
Total comprehensive (loss)/income for the financial year	-	(5,142,400)	2,256,313	18,012,088	15,126,001	971,903	16,097,904
Balance as at September 30, 2020	112,595,375	(7,683,311)	6,775,200	10,421,616	122,108,880	2,666,980	124,775,860

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

		Non-distributable		Distributable			
	Issued capital RM	Translation reserve RM	Revaluation reserve RM	Retained earnings RM	Attributable to owner of the parent RM	Non-controlling interests RM	Total equity RM
Balance as at October 1, 2020	112,595,375	(7,683,311)	6,775,200	10,421,616	122,108,880	2,666,980	124,775,860
Comprehensive income							
Profit for the financial year	-	-	-	72,217,410	72,217,410	5,234,365	77,451,775
Other comprehensive income							
Foreign currency translation differences	-	6,693,735	-	-	6,693,735	219,853	6,913,588
Remeasurement gain on defined benefits plans - net of tax	-	-	-	2,113,080	2,113,080	118,180	2,231,260
Total comprehensive income for the financial year	-	6,693,735	-	74,330,490	81,024,225	5,572,398	86,596,623
Balance as at September 30, 2021	112,595,375	(989,576)	6,775,200	84,752,106	203,133,105	8,239,378	211,372,483

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

		Non-distributable		Distributable			
	Issued capital RM	Translation reserve RM	Revaluation reserve RM	Retained earnings RM	Attributable to owner of the parent RM	Non-controlling interests RM	Total equity RM
Balance as at October 1, 2021	112,595,375	(989,576)	6,775,200	84,752,106	203,133,105	8,239,378	211,372,483
Comprehensive income							
Profit for the financial year	-	-	-	55,547,284	55,547,284	4,590,625	60,137,909
Other comprehensive income							
Foreign currency translation differences	-	8,206,343	-	-	8,206,343	387,547	8,593,890
Remeasurement gain on defined benefits plans-net of tax	-	-	-	793,228	793,228	51,962	845,190
Total comprehensive income for the financial year	-	8,206,343	-	56,340,512	64,546,855	5,030,134	69,576,989
Balance as at September 30, 2022	112,595,375	7,216,767	6,775,200	141,092,618	267,679,960	13,269,512	280,949,472

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

		Non-distributable		Distributable			
	Issued capital RM	Translation reserve RM	Revaluation reserve RM	Retained earnings RM	Attributable to owner of the parent RM	Non-controlling interests RM	Total equity RM
Balance as at October 1, 2022	112,595,375	7,216,767	6,775,200	141,092,618	267,679,960	13,269,512	280,949,472
Comprehensive income							
Profit for the financial year	-	-	-	30,413,315	30,413,315	840,359	31,253,674
Other comprehensive income							
Foreign currency translation differences	-	1,914,458	-	-	1,914,458	41,784	1,956,242
Remeasurement gain on defined benefits plans-net of tax	-	-	-	(202,514)	(202,514)	(7,856)	(210,370)
Total comprehensive income for the financial year	-	1,914,458	-	30,210,801	32,125,259	874,287	32,999,546
Transaction with owners							
Capital reduction pursuant to Section 116 of the Companies Act, 2016	(30,000,000)	-	-	30,000,000	-	-	-
Balance as at September 30, 2023	82,595,375	9,131,225	6,775,200	201,303,419	299,805,219	14,143,799	313,949,018

The accompanying Notes form an integral part of the combined financial statements of the Group.

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020

	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	41,298,870	73,483,730	102,027,219	27,605,689
Adjustments for:				
Depreciation of property, plant and equipment	32,724,714	30,440,013	30,344,627	29,605,106
Interest expenses on:				
Amount due to related company	4,610,748	4,596,524	4,667,598	5,404,304
Loan and borrowings	200,342	1,243,410	3,201,011	7,200,786
Hire purchase liabilities	20,955	-	-	-
Provision for post-employment benefit obligations	4,415,620	3,163,357	2,064,106	3,711,395
Amortisation of prepaid lease payments	908,566	556,716	727,493	723,141
Unrealised loss/(gain) on foreign exchange-net	534,827	(4,490,904)	(7,785,247)	13,878,605
Property, plant and equipment written off	60,489	579,953	234,376	305,513
Gain on disposal of subsidiary	(2,853,713)	-	-	-
Interest income	(832,320)	(654,507)	(675,821)	(543,266)
Changes in fair values of biological assets	(288,344)	577,142	(1,637,252)	913,440
Impairment loss on investment in subsidiary	-	3,191,184	-	1,222,445
Inventories written off	-	577	721	4,493
Bad debts written off	-	-	94,291	251,486
Operating Profit Before Working Capital Changes	80,800,754	112,687,195	133,263,122	90,283,137
Decrease/(Increase) in inventories	26,896,737	(22,740,297)	(14,913,165)	(7,944,686)
(Increase)/Decrease in receivables, deposits and prepayments	(11,059,153)	5,501,065	13,253,625	(3,740,184)
(Decrease)/Increase in payables and accruals	(22,206,890)	16,906,305	(23,843,565)	12,292,863
Cash Generated from Operations	74,431,448	112,354,268	107,760,017	90,891,130

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
Interest received	832,320	654,507	675,821	543,266
Interest paid	(4,832,045)	(5,839,934)	(7,901,850)	(12,772,693)
Tax paid	(17,258,197)	(39,547,245)	(9,346,974)	(5,893,673)
Tax refunded	-	-	8,712,054	5,222,049
Retirement benefit obligation paid	(1,833,446)	(1,978,519)	(1,514,693)	(746,241)
Net Cash from Operating Activities	51,340,080	65,643,077	98,384,375	77,243,838
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(27,844,060)	(16,111,976)	(10,048,714)	(9,238,777)
Repayment from/(Advance to) a subsidiary	3,169,057	2,800,531	(263,660)	43,625
Proceeds of disposal of subsidiaries	2,903,714	-	-	-
Acquisition of a subsidiary	-	(1)	-	-
Subscription of shares in subsidiaries	-	(3,241,183)	-	-
Net Cash Used in Investing Activities	(21,771,289)	(16,552,629)	(10,312,374)	(9,195,152)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Payments of hire purchase liabilities	(89,064)	-	-	-
Repayment of term loans	-	(36,526,371)	(58,602,014)	(82,273,796)
Drawdown of term loans	-	2,258,872	14,359,254	28,354,387
Repayment of revolving credits	-	(32,783,522)	(21,523,614)	(13,402,050)
Advance from/(Repayment to) related companies	-	1,115,524	(1,906,623)	2,436,477
Deposits and bank balances released/(pledged) as securities	-	10,259,714	2,404,960	(313,717)
Drawdown of revolving credits	-	-	-	6,261,288
Net Cash Used in Financing Activities	(89,064)	(55,675,783)	(65,268,037)	(58,937,411)

(Forward)

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED SEPTEMBER 30, 2023, SEPTEMBER 30, 2022, SEPTEMBER 30, 2021 AND SEPTEMBER 30, 2020 (CONTINUED)

	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	29,479,727	(6,585,335)	22,803,964	9,111,275
Effect of exchange rate fluctuations	2,401,541	1,394,998	815,271	(4,012,358)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	42,014,471	47,204,808	23,585,573	18,486,656
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	73,895,739	42,014,471	47,204,808	23,585,573

Cash and cash equivalents

Cash and cash equivalents included in the combined statements of cash flows comprise the following amounts:

	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
Cash and bank balances (Note 17)	73,895,739	42,014,471	57,464,522	36,250,247
Less: Deposits and bank balances pledged for credit facilities	-	-	(10,259,714)	(12,664,674)
	73,895,739	42,014,471	47,204,808	23,585,573

Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment by the following means:

	September 30, 2023 RM	September 30, 2022 RM	September 30, 2021 RM	September 30, 2020 RM
Interest capitalised	-	-	(34,190)	(167,603)
Financed by hire purchase arrangement	(666,000)	-	-	-
Acquisition of property, plant and equipment ("PPE") (Note 10)	28,510,060	16,111,976	10,082,904	9,406,380
Cash payments	27,844,060	16,111,976	10,048,714	9,238,777

Reconciliation of liabilities arising from financing activities are as per below:

	As at October 1, 2022 RM	Non-cash charges RM	Financing cash flows RM	Effect of movements in exchange rate RM	As at September 30, 2023 RM
Term loans	2,317,544	-	-	42,408	2,359,952
Amount due to related companies	67,764,953	-	-	353,893	68,118,846
Hire purchase liabilities	-	666,000	(89,064)	-	576,936
	70,082,497	666,000	(89,064)	396,301	71,055,734

	As at October 1, 2021 RM	Financing cash flows RM	Effect of movements in exchange rate RM	As at September 30, 2022 RM
Term loans	37,328,595	(34,267,499)	(743,552)	2,317,544
Revolving credits	31,439,654	(32,783,522)	1,343,868	-
Amount due to related companies	66,903,620	1,115,524	(254,191)	67,764,953
	135,671,869	(65,935,497)	346,125	70,082,497

	As at October 1, 2020 RM	Financing cash flows RM	Effect of movements in exchange rate RM	As at September 30, 2021 RM
Term loans	79,193,028	(44,242,760)	2,378,327	37,328,595
Revolving credits	52,026,525	(21,523,614)	936,743	31,439,654
Amount due to related companies	68,671,968	(1,906,623)	138,275	66,903,620
	199,891,521	(67,672,997)	3,453,345	135,671,869

	As at October 1, 2019 RM	Financing cash flows RM	Effect of movements in exchange rate RM	As at September 30, 2020 RM
Term loans	134,831,001	(53,919,409)	(1,718,564)	79,193,028
Revolving credits	60,629,285	(7,140,762)	(1,461,998)	52,026,525
Amount due to related companies	66,300,552	2,436,477	(65,061)	68,671,968
	261,760,838	(58,623,694)	(3,245,623)	199,891,521

The accompanying Notes form an integral part of the combined financial statements of the Group.

MKH OIL PALM (EAST KALIMANTAN) BERHAD
(Incorporated in Malaysia)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

MKH Oil Palm (East Kalimantan) Berhad was incorporated on August 10, 2004 under the Companies Act, 2016 ("the Act") as a private limited company.

On January 7, 2021, the Company changed its name from Detik Merdu Sdn. Bhd. to MKH Global Plantation Sdn. Bhd..

On October 1, 2021, the Company changed its name from MKH Global Plantation Sdn. Bhd, to MKH Oil Palm (East Kalimantan) Sdn. Bhd..

On August 11, 2022, the Company converted from a private limited company to a public limited company and the name of the Company converted from MKH Oil Palm (East Kalimantan) Sdn. Bhd. to MKH Oil Palm (East Kalimantan) Berhad.

The registered office and principal place of business of the Company is located at G-02 & G-03, Ground Floor, Wisma MKH, Jalan Semenyih, 43000 Kajang, Selangor Darul Ehsan.

The Company is principally an investment holding and management services company. The principal activities of the combining entities are set out in Note 35.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Basis of preparation

The restructuring exercise, as part of the listing scheme in relation to the listing of and quotation for the entire issued share capital of the Company on the Main Market of Bursa Securities ("IPO"), will result in the Company becoming the holding company of the combined entities as set out in Note 35.

The combined financial statements of the Group have been prepared solely in connection with the IPO and for no other purposes.

The combined financial statements consist of the financial statements of the Company and the combining entities under common control of MKH Berhad. The Company's ultimate holding company is MKH Berhad, which is incorporated in Malaysia and is a public limited liability company listed on the Main Market of Bursa Malaysia Securities Berhad.

The combined financial statements of the Group have been prepared as if the Group has been operated as a single economic entity throughout the financial years ended September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory. Common control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain the benefits from their activities and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

The financial information as prepared in the combined financial statements may not correspond with the consolidated financial statements of the Group after incorporating or effecting the relevant acquisitions, as the combined financial statements reflect business combinations under common control for the purpose of the IPO. Such financial information from the combined financial statements does not purport to predict the financial positions, results of operations and cash flows of the Group.

The combined financial statements of the Group for the financial years ended September 30, 2023, September 30, 2022, September 30, 2021 and September 30, 2020 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The combined financial statements of the Group have been prepared under the historical cost basis, except as disclosed in the material accounting policy information in Note 3 and in accordance with Chapter 10 Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission of Malaysia for purpose of inclusion in the Prospectus of the Company in connection with the IPO.

The preparation of combined financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported periods. It also requires directors to exercise their judgements in the process of applying the accounting policies. Although these estimates and judgements are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(b).

Adoption of New and Amendments of MFRS and Issues Committee ("IC") Interpretation

As at September 30, 2023, the Group has adopted all the amendments to MFRS issued by the Malaysia Accounting Standards Board ("MASB") that are relevant to its operations and effective for annual periods beginning on or after October 1, 2022.

Amendments to MFRS 3	References to the Conceptual Framework
Amendments to MFRS 116	Property, Plant, and Equipment – Proceeds before Intended Use
Amendments to MFRS 137	Onerous Contracts – Costs of Fulfilling a Contract
Amendments to MFRSs	Annual Improvements to MFRS Standards 2018-2020

The adoption of these amendments to MFRSs have not had any material impact on the disclosures or on the amounts reported in the financial statements.

New and amendments to Standards in issue but not yet effective

At the date of authorisation for issue of these combined financial statements, the new and amendments to MFRS which were in issue but not yet effective and not early adopted by the Group and by the Company are as listed below:

MFRS 17	Insurance Contracts [a]
Amendments to MFRS 17	Insurance Contracts [a]
Amendments to MFRS 17	Initial Application of MFRS 17 *Insurance Contracts* and MFRS 9 *Financial Instruments* - Comparative Information [a]
Amendments to MFRS 101 and MFRS Practice Statements 2	Disclosure of Accounting Policies [a]
Amendments to MFRS 112	Deferred Tax related to Assets and Liabilities arising from a Single Transaction [a]
Amendments to MFRS 112	International Tax Reform – Pillar Two Model Rules [d]
Amendments to MFRS 108	Definition of Accounting Estimates [a]
Amendments to MFRS 16	Lease Liability in a Sale and Leaseback [b]
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current [b]
Amendments to MFRS 101	Non-current Liabilities with Covenants [b]
Amendments to MFRS 107 and MFRS 7	Supplier Finance Arrangements [b]
Amendments to MFRS 121	Lack of Exchangeability [c]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [e]

[a] Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

[b] Effective for annual periods beginning on or after January 1, 2024, with earlier application permitted.

[c] Effective for annual periods beginning on or after January 1, 2025, with earlier application permitted.

[d] Immediately for Para 4A and 88A and effective for annual period beginnings on or after 1 January 2023 for Para 88B - 88D.

[e] Effective for annual periods beginning on or after a date to be determined.

The directors anticipate that the abovementioned new and amendments to MFRS will be adopted in the combined financial statements of the Group when they become effective and that the adoption of these new and amendments to MFRS will have no material impact on the combined financial statements of the Group in the period of initial application.

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The combined financial statements of the Group are presented in Ringgit Malaysia ("RM"). All financial information presented in RM has been rounded to the nearest RM, unless otherwise stated.

(b) Significant accounting estimates and judgements

Significant areas of estimation, uncertainty and critical judgements used in applying accounting principles that have significant effect on the amount recognised in the combined financial statements are described in the following paragraphs:

(i) Tax expense (Note 8) – significant judgement is required in determining the capital allowances and deductibility of certain expenses when estimating the tax expense. There were transactions during the ordinary course of business for which the ultimate tax determination of whether additional taxes will be due is uncertain. The Group recognises liabilities for tax based on estimates of assessment of the tax liability due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax in the periods in which the outcome is known.

(ii) Valuation of land and buildings (Note 10) – the valuation of land and buildings performed by management is based on independent professional valuations with reference to the direct comparison method, being comparison of current prices in an active market for similar properties in the same location and condition and when necessary, adjusting for location, accessibility, visibility, time, terrain, size, present market trends and other differences, and cost method of valuation, being assumed to have a direct relationship with its cost of construction, is then adjusted to allow for cost of finance, profit and demand to reflect its profitable present market value. Management believes that the chosen valuation techniques and assumptions are appropriate in determining the valuation of the Group's land and buildings.

(iii) Impairment of property, plant and equipment (Note 10) – the Group assesses impairment of property, plant and equipment when there is an indication that the carrying amount of an asset may be impaired, the asset's recoverable amount, being the higher of its fair value less costs to sell and its value-in-use ("VIU"), will be assessed. The assessment of the recoverable amounts involves a number of methodologies. In determining the VIU of an asset, being the future economic benefits to be expected from its continued use and ultimate disposal, the Group makes estimates and assumptions that require significant judgements. While the Group believes these estimates and assumptions of VIU such as discount rate, revenue growth and costs of sales could be reasonable and appropriate, changes on these estimates and assumptions of VIU could impact the Group's financial position and results.

(iv) Depreciation of property, plant and equipment (Note 10) – the cost of property, plant and equipment are depreciated on a straight line basis over the assets' useful lives and lease term respectively. Management estimates the useful lives of these property, plant and equipment to be within 4 to 99 years based on past experience with similar assets or/and common life expectancies of the industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets resulting in revision of future depreciation or amortisation charges. Depreciation of bearer plants is charged so as to write off the cost of mature plantations, using the straight line method, over the estimated useful lives of 20 years or over the lease period, whichever is shorter.

(v) Impairment loss on receivables (Note 13) – the Group accounts for expected credit losses ("ECL") and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. The Group uses a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables.

(vi) Inventories (Note 15) – the saleability of inventories such as crude palm oil and palm kernel are reviewed by management on a periodic basis. This review involves comparison of the carrying values of the inventory items with the respective net realisable values. The purpose is to ascertain whether a write down to net realisable value is required to be made.

(vii) Provision of post-employment benefit obligations (Note 21) – the provision is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involves making assumptions about discount rate, future salary increase, mortality rates, resignation rate and normal retirement age. As such, this estimated provision amount is subject to significant uncertainty.

(viii) Fair values of biological assets (Note 16) – to arrive at the fair values of Fresh Fruits Bunches ("FFB"), management considered the oil content of the unripe FFB and derived the assumption that the net cash flow to be generated from FFB prior to more than 15 days to harvest to be negligible, therefore quantity of unripe FFB on bearer plants of up to 15 days prior to harvest was used for valuation purposes. Costs to sell, which include harvesting and transport cost, are deducted in arriving at the net cash flows to be generated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements, and have been applied consistently by the Group, unless otherwise stated.

(a) Basis of combination

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group and its subsidiaries.

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed off during the financial year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted at the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or a loss is recognised and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable MFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the combination method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the combination date fair value of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Combination-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or deferred tax liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with MFRS 9 or MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete at the reporting date in which the combination occurs, the Group reports provisional amounts for the items of which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

(c) Business Combinations Involving Common Control Entities

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.

The combined financial statements incorporate the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling parties. The share capital of all the combining entities is presented as invested capital in the combined statement of financial position.

A single uniform set of accounting policies is adopted by the combining entities. Therefore, the net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control, where this is a shorter period, regardless of the date of the common control combination.

The combined statement of profit or loss and other comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination. Expenditure incurred in connection with the restructuring is recognised as an expense in profit or loss.

The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the combined financial statements of the combining entities.

The debit differences arising between the cost of acquisition and the nominal value of share capital of the subsidiaries are reflected within equity as invested capital.

(d) Foreign currency

(i) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Group entities' functional currency (foreign currencies) are recorded in the Group entities' functional currency at the exchange rates prevailing at the date of the transaction. Monetary items denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary items denominated in foreign currencies are not retranslated at the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are recognised in profit or loss in the Company's separate financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The results and financial position of foreign operations that have a functional currency different from the presentation currency ("RM") of the combined consolidated financial statements are translated into RM as follows:

(i) assets and liabilities for each reporting date presented are translated at the closing rate prevailing at the reporting date;
(ii) income and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
(iii) all resulting exchange differences are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rate prevailing at the date of acquisition.

Upon disposal of a foreign subsidiary, the cumulative amount of translation differences accumulated in equity at the date of disposal of the subsidiary is reclassified to the combined consolidated profit or loss.

(e) Revenue recognition

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation is a promise to transfer a distinct goods or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's customary business practices.