

All defined terms and abbreviations used herein are defined in the "Definitions" section of this Abridged Prospectus unless stated otherwise.

No securities will be allotted or issued based on this Abridged Prospectus after six (6) months from the date of this Abridged Prospectus.

THIS ABRIDGED PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS ABRIDGED PROSPECTUS. IF YOU ARE IN DOUBT AS TO THE ACTION YOU SHOULD TAKE, PLEASE CONSULT A PROFESSIONAL ADVISER IMMEDIATELY. All enquiries concerning the Rights Issue, which is the subject matter of this Abridged Prospectus, should be addressed to our Share Registrar, Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan (Tel: +603 2084 9000).

This Abridged Prospectus has been registered by the SC. The registration of this Abridged Prospectus should not be taken to indicate that the SC recommends the Rights Issue or assumes responsibility for the correctness of any statement made, opinion expressed or report contained in this Abridged Prospectus. The SC has not, in any way, considered the merits of the Rights Issue. A copy of this Abridged Prospectus, together with the accompanying NPA and RSF (collectively, the "Documents"), has also been lodged with the Registrar of Companies who takes no responsibility for the contents of the Documents.

The approval from our shareholders for the Rights Issue was obtained at our EGM held on 27 May 2019. Approval has been obtained from Bursa Securities vide its letter dated 11 January 2019 for the admission of the Warrants to the Official List as well as the listing of and quotation for the Rights Shares, Warrants and the new Shares to be issued pursuant to the exercise of the Warrants on the Main Market of Bursa Securities. However, the admission of the Warrants to the Official List of Bursa Securities and the listing of and quotation for all the new securities on the Main Market of Bursa Securities are not to be taken as an indication of the merits of the Rights Issue.

The Documents will only be despatched to our Entitled Shareholders who have provided our Share Registrar with a registered address in Malaysia and whose names appear on our Record of Depositors and our Register of Members (in respect of the Placement Investor only) not later than 5.00 p.m. on 30 October 2019. The Documents are not intended to be (and will not be) issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue complies with the laws of any countries or jurisdictions other than the laws of Malaysia. Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) who are residents in countries or jurisdictions other than Malaysia shall solely be responsible to seek advice from their legal advisers and/or other professional advisers as to whether the acceptance and/or renunciation (as the case may be) of all or any part of their entitlements to the Rights Issue would result in the contravention of any laws of such countries or jurisdictions. Neither our Company, KAF IB nor any other professional advisers shall accept any responsibility or liability in the event that any acceptance and/or renunciation (as the case may be) of the entitlements to the Rights Issue made by the Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) is or shall become illegal, unenforceable, voidable or void in any such countries or jurisdictions.

The SC is not liable for any non-disclosure on the part of our Company and takes no responsibility for the contents of this Abridged Prospectus, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Abridged Prospectus.



LOTUS KFM BERHAD (119598-P)
(formerly known as Kuantan Flour Mills Berhad)
(Incorporated in Malaysia under the Companies Act 2016)

RENOUNCEABLE RIGHTS ISSUE OF 477,595,420 NEW ORDINARY SHARES IN LOTUS KFM BERHAD (FORMERLY KNOWN AS KUANTAN FLOUR MILLS BERHAD) ("KFM") ("RIGHTS SHARES") AT AN ISSUE PRICE OF RM0.10 PER RIGHTS SHARE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) EXISTING ORDINARY SHARE IN KFM HELD BY THE ENTITLED SHAREHOLDERS AS AT 5.00 P.M. ON 30 OCTOBER 2019 TOGETHER WITH 238,797,710 FREE DETACHABLE WARRANTS ("WARRANTS") ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) RIGHTS SHARES SUBSCRIBED FOR

Principal Adviser, Managing Underwriter and Joint Underwriter



INVESTMENT BANK BERHAD (20657-W)

Joint Underwriters



MERCURY SECURITIES SDN. BHD.
(Company No. 113193-W)

(A Participating Organisation of Bursa Malaysia Securities Berhad)



JFAPEX SECURITIES BERHAD (47680-X)
A Participating Organisation of Bursa Malaysia Securities Berhad



A Participating Organisation of Bursa Malaysia Securities Berhad
A Trading Participant of Bursa Malaysia Derivatives Berhad

IMPORTANT RELEVANT DATES AND TIMES:-

Entitlement Date	:	Wednesday, 30 October 2019, at 5.00 p.m.
Last date and time for:-		
Sale of Provisional Allotment	:	Wednesday, 6 November 2019, at 5.00 p.m.
Transfer of Provisional Allotment	:	Friday, 8 November 2019, at 4.30 p.m.
Acceptance and payment	:	Thursday, 14 November 2019, at 5.00 p.m.
Excess application and payment	:	Thursday, 14 November 2019, at 5.00 p.m.

This Abridged Prospectus is dated 30 October 2019

ALL DEFINED TERMS AND ABBREVIATIONS USED HEREIN ARE DEFINED IN THE "DEFINITIONS" SECTION OF THIS ABRIDGED PROSPECTUS UNLESS STATED OTHERWISE.

OUR DIRECTORS HAVE SEEN AND APPROVED ALL THE DOCUMENTATION RELATING TO THIS RIGHTS ISSUE. THEY COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION. HAVING MADE ALL REASONABLE ENQUIRIES, AND TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THEY CONFIRM THERE IS NO FALSE OR MISLEADING STATEMENTS OR OTHER FACTS WHICH IF OMITTED, WOULD MAKE ANY STATEMENT IN THIS ABRIDGED PROSPECTUS FALSE OR MISLEADING.

KAF IB, BEING THE PRINCIPAL ADVISER, MANAGING UNDERWRITER AND JOINT UNDERWRITER FOR THE RIGHTS ISSUE, ACKNOWLEDGES THAT, BASED ON ALL AVAILABLE INFORMATION, AND TO THE BEST OF ITS KNOWLEDGE AND BELIEF, THIS ABRIDGED PROSPECTUS CONSTITUTES A FULL AND TRUE DISCLOSURE OF ALL MATERIAL FACTS CONCERNING THE RIGHTS ISSUE.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN THE RIGHTS ISSUE. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

YOU SHOULD NOTE THAT YOU MAY SEEK RECOURSE UNDER SECTIONS 248, 249 AND 357 OF THE CMSA FOR BREACHES OF SECURITIES LAWS INCLUDING ANY STATEMENT IN THE ABRIDGED PROSPECTUS THAT IS FALSE, MISLEADING, OR FROM WHICH THERE IS A MATERIAL OMISSION; OR FOR ANY MISLEADING OR DECEPTIVE ACT IN RELATION TO THE ABRIDGED PROSPECTUS OR THE CONDUCT OF ANY OTHER PERSON IN RELATION TO OUR COMPANY.

SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC ON THE PREMISE OF FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE RIGHTS ISSUE, FOR WHICH ANY PERSON SET OUT IN SECTION 236 OF THE CMSA, IS RESPONSIBLE.

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DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Abridged Prospectus, the NPA and the RSF:-

Abridged Prospectus	: This Abridged Prospectus dated 30 October 2019 in relation to the Rights Issue
Act	: The Companies Act 2016
Amendments	: Amendments to the articles of association of our constitution to facilitate the issuance of RCPS pursuant to the Debt Conversion, which was effected on 27 May 2019
BA	: Collectively, the business collaboration agreement dated 29 March 2017 and supplemental BA dated 18 April 2019 entered into between our Company and Lotus
Bloomberg	: Bloomberg Finance Singapore L.P. and its affiliates
Board	: Board of Directors of our Company
Bursa Depository	: Bursa Malaysia Depository Sdn. Bhd.
Bursa Securities	: Bursa Malaysia Securities Berhad
CAGR	: Compound annual growth rate
Cash Option	: The conversion of RCPS through surrendering one (1) RCPS together with RM0.05 in cash for one (1) new KFM Share
CDS	: Central Depository System, the system established and operated by Bursa Depository for the central handling of securities deposited with Bursa Depository
CDS Account(s)	: A securities account established by Bursa Depository for a depositor pursuant to the SICDA and the Rules of Bursa Depository for the recording of deposits of securities and for dealings in such securities by the depositor
Closing Date	: 14 November 2019 at 5.00 p.m., being the last date and time for the acceptance of and payment for the provisional allotment of the Rights Shares or such later date and time as our Board and the Joint Underwriters may decide and announce not less than two (2) Market Days before the stipulated date and time
CMSA	: Capital Markets and Services Act 2007
CWL	: CWL Ventures Sdn. Bhd.
DCA	: Collectively, the debt conversion agreement dated 28 September 2017, the supplemental DCA dated 24 July 2018, the further supplemental DCAs dated 18 April 2019 and 20 September 2019 entered into between our Company and Lotus pursuant to the Debt Conversion
Debt Conversion	: Conversion of RM15,000,000 out of the total outstanding advances and supplier's credit extended by Lotus to our Company into 300,000,000 RCPS pursuant to the DCA
Debt Restructuring	: Collectively, the Debt Conversion and the Debt Settlement
Debt Settlement	: Settlement of the Indebtedness pursuant to the DSA

DEFINITIONS (CONT'D)

Deed Poll	: Deed poll dated 2 October 2019 constituting the Warrants
Director(s)	: Has the meaning given in Section 2(1) of the CMSA
DSA	: Collectively, the debt settlement agreements dated 28 September 2017, the supplemental DSAs dated 24 July 2018 and further supplemental DSAs dated 10 September 2019 and 20 September 2019 entered into between our Company and the Scheme Creditors pertaining to the settlement of the Indebtedness pursuant to the Debt Settlement
EGM	: Extraordinary General Meeting
Entitled Shareholder(s)	: Shareholder(s) of KFM, comprising the following:- <ul style="list-style-type: none"> ▪ whose names appear in the Record of Depositors of our Company on the Entitlement Date; and ▪ the Placement Investor, in respect of the 27,290,000 Placement Shares allotted to him on 1 October 2019, <p>who shall be entitled to participate in the Rights Issue</p>
Entitlement Date	: 30 October 2019 at 5.00 p.m., being the date and time on which our Entitled Shareholders (other than the Placement Investor) must be registered in the Record of Depositors of our Company in order to be entitled to participate in the Rights Issue. For clarity, the Placement Investor is entitled to participate in the Rights Issue by virtue of the allotment of the 27,290,000 Placement Shares to him on 1 October 2019, which is prior to the Entitlement Date.
EPS	: Earnings per share
Excess Rights Shares	: Rights Shares with Warrants which are not taken up or not validly taken up by the Entitled Shareholders and/or their renounees/transferees (if applicable) prior to the Closing Date
Exercise Price	: The exercise price of RM0.10 at which one (1) Warrant is exercisable into one (1) new KFM Share, subject to adjustments in accordance with the provisions of the Deed Poll
Foreign Entitled Shareholder(s)	: Entitled Shareholder(s) who does/do not have a registered address in Malaysia or an address for service in Malaysia
FPE	: Three (3)-month financial period ended
FYE	: Financial year ended/ending 30 September, as the case may be
GL	: Gross loss
GP	: Gross profit
IMR Report	: Independent market research report prepared by Vital Factor Consulting Sdn. Bhd. on the industry assessment of wheat flour milling and starch products in Malaysia
Indebtedness	: Being the total debts, including all interest, late charges or penalty accrued thereon, owing by our Company to the Scheme Creditors totalling RM16,654,385 as at 31 August 2017

DEFINITIONS (CONT'D)

IPS	: Inter-Pacific Securities Sdn. Bhd.
Issue Price	: The issue price of RM0.10 per Placement Share/Rights Share/Settlement Share
JF Apex	: JF Apex Securities Berhad
Joint Underwriters	: KAF IB, Mercury Securities, IPS and JF Apex, collectively
kg	: Kilogram
KAF IB, Principal Adviser or Managing Underwriter	: KAF Investment Bank Berhad
KFM or Company	: Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad)
KFM Group or Group	: KFM and its subsidiaries, collectively
KFM Share(s) or Share(s)	: Ordinary share(s) in KFM
LAT	: Loss after taxation
LBT	: Loss before taxation
LH ATF Fund	: LH Asian Trade Finance Fund Ltd
Line 2	: One of the two original wheat flour milling lines of our Company, which had since been restored and commenced production of wheat flour
Listing Requirements	: Main Market Listing Requirements of Bursa Securities
LPD	: 4 October 2019, being the latest practicable date prior to the registration of this Abridged Prospectus
LTD	: 30 May 2018, being the latest trading date prior to the announcement of the Regularisation Plan as well as the price-fixing date for the Rights Shares and Warrants
Lotus	: Lotus Essential Sdn. Bhd.
Market Day(s)	: Any day(s) between Monday and Friday (both days inclusive) which is not a public holiday and which Bursa Securities is open for trading in securities
Maximum Scenario	: Assuming all of the 300,000,000 RCPS are fully converted into 300,000,000 new KFM Shares by Lotus through the Cash Option and that all of the Warrants are fully exercised
Mercury Securities	: Mercury Securities Sdn. Bhd.
Minimum Scenario	: Assuming all of the 300,000,000 RCPS are fully converted into 150,000,000 new KFM Shares by Lotus through the Non-Cash Option and that none of the Warrants are exercised
MT	: Metric tonnes
NA	: Net assets

DEFINITIONS (CONT'D)

New Line	: The new wheat flour milling line installed at our Company's wheat flour milling plant with a processing capacity of 300 MT input of wheat per day
NL	: Net liabilities
Non-Cash Option	: The conversion of RCPS through surrendering two (2) RCPS for one (1) new KFM Share
NPA	: Notice of provisional allotment in relation to the Rights Issue
Official List	: A list specifying all securities listed on the Main Market of Bursa Securities
Payment Date	: A date no later than three (3) Market Days after receipt of the underwriting notice from our Company by the Managing Underwriter and each of the Joint Underwriters
Placement Investor	: Wong Sak Kuan
Placement Share(s)	: 27,290,000 new KFM Shares allotted to the Placement Investor on 1 October 2019 pursuant to the Private Placement
PN17	: Practice Note 17 of the Listing Requirements
PPE	: Property, plant and equipment
Private Placement	: Private placement of 27,290,000 new KFM Shares, representing approximately 40% of the existing total number of KFM Shares in issue, allotted to the Placement Investor on 1 October 2019 at the Issue Price shall be quoted concurrently with the Rights Shares, Settlement Shares and Warrants. For clarity, the Placement Shares are entitled to participate in the Rights Issue
Prospectus Guidelines	: means the prospectus guidelines issued by the SC
Provisional Allotment	: Rights Shares with Warrants provisionally allotted to our Entitled Shareholders and/or their renounees/transferees (if applicable) pursuant to the Rights Issue
RCPS	: Five (5)-year redeemable convertible preference shares in our Company to be issued pursuant to the DCA under the Debt Conversion
Record of Depositors	: A record of depositors established by Bursa Depository under the Rules of Bursa Depository
Register of Members	: The record of members of our Company kept and maintained pursuant to Section 50 of the Act
Regularisation Plan	: The Private Placement, the Rights Issue, the Debt Restructuring, the Set-Off and the Amendments, collectively
Rights Issue	: Renounceable rights issue of 477,595,420 Rights Shares at the Issue Price and on the basis of five (5) Rights Shares for every one (1) KFM Share held by our Entitled Shareholders on the Entitlement Date and the Placement Investor following the Private Placement together with 238,797,710 Warrants on the basis of one (1) Warrant for every two (2) Rights Shares subscribed for
Rights Share(s)	: New KFM Share(s) to be issued pursuant to the Rights Issue
RM and sen	: Ringgit Malaysia and sen, respectively

DEFINITIONS (CONT'D)

ROC	: Registrar of Companies of Malaysia and includes its successors-in-title
RSF	: Rights subscription form in relation to the Rights Issue
Rules of Bursa Depository	: The rules of Bursa Depository as issued pursuant to the SICDA
SC	: Securities Commission Malaysia
Scheme Creditors	: Being the trade creditors of our Company, namely, LH ATF Fund, MCC Capital Holdings Sdn. Bhd., Tepat Anggun Sdn. Bhd. and Rich Asia Ventures Ltd, whose amounts owing by us shall be settled pursuant to the DSA under the Debt Settlement
Set-Off	: Set-off of part of the net amount due to Lotus (novated by Lotus to the Placement Investor from the outstanding advances and supplier's credit extended by Lotus to our Company) against the subscription moneys payable by the Placement Investor pursuant to the Private Placement and the Rights Issue totalling RM16,374,000
Settlement Date	: The date on which the Rights Shares together with the Warrants are credited to the CDS Accounts of the Entitled Shareholders or their renounee(s) who have accepted their Rights Shares together with the Warrants and/or of the Joint Underwriters
Settlement Share(s)	: New KFM Share(s) to be issued pursuant to the DSA under the Debt Settlement
Share Registrar	: Securities Services (Holdings) Sdn. Bhd.
SICDA	: Securities Industry (Central Depositories) Act, 1991
TERP	: Theoretical ex-rights price
Trading Date	: The date of the listing of and quotation for the Rights Shares and the Warrants on the Main Market of Bursa Securities
Undertaking Shareholders	: CWL and the Placement Investor, collectively
Undertakings	: Irrevocable written undertakings obtained from the Undertaking Shareholders to subscribe in full for their respective entitlements under the Rights Issue
Underwriting Agreement	: Underwriting agreement dated 9 October 2019 entered into between our Company and the Joint Underwriters in relation to the Rights Issue
Underwriting Date	: A date no later than four (4) Market Days after the Closing Date
Underwritten Shares	: 293,115,420 Rights Shares which are not covered by the Undertakings
USD	: United States Dollar
VWAMP	: Volume weighted average market price
Warrant(s)	: Five (5)-year free detachable warrants to be issued pursuant to the Rights Issue and the Debt Restructuring

DEFINITIONS (CONT'D)

All references to “our Company” or “KFM” in this Abridged Prospectus are made to Lotus KFM Berhad and references to “our Group” are made to our Company and our subsidiaries. All references to “we”, “us”, “our” and “ourselves” are made to our Company, or where the context requires, our Group or any of our subsidiaries. All references to “you” in this Abridged Prospectus are made to our Entitled Shareholders and/or where the context otherwise requires, their renounee(s) and/or transferee(s).

Words incorporating the singular shall, where applicable, include the plural and vice versa and words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Abridged Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Abridged Prospectus shall be a reference to Malaysian time, unless otherwise specified.

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ADVISERS' DIRECTORY

**PRINCIPAL ADVISER,
MANAGING UNDERWRITER AND
JOINT UNDERWRITER**

: KAF Investment Bank Berhad
Level 14, Chulan Tower
3, Jalan Conlay
50450 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 2171 0228
Fax No. : +604 2171 0314

**SOLICITORS FOR THE
RIGHTS ISSUE**

: Chooi & Company + Cheang & Ariff
Level 5, Menara BRDB
285, Jalan Maarof
Bukit Bandaraya
59000 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 2055 3888
Fax No. : +604 2055 3880

SHARE REGISTRAR

: Securities Services (Holdings) Sdn. Bhd.
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 2084 9000
Fax No. : +603 2094 9940 / +603 2095 0292

JOINT UNDERWRITERS

: Mercury Securities Sdn. Bhd.
L-7-2, No. 2, Jalan Solaris
Solaris Mont' Kiara
50480 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 6203 7227
Fax No. : +603 6203 7117

JF Apex Securities Berhad
6th floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan

Tel No. : +603 6203 7227
Fax No. : +603 8733 3279

Inter-Pacific Securities Sdn. Bhd.
Lot 13-01A, Level 13, (East Wing)
Berjaya Times Square
No. 1, Jalan Imbi
55100 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 6203 7227
Fax No. : +603 2144 1686

ADVISERS' DIRECTORY (CONT'D)

**INDEPENDENT MARKET
RESEARCHER**

: Vital Factor Consulting Sdn. Bhd.
V Square @ PJ City Centre (VSQ)
Block 6 Level 6, Jalan Utara
46200 Petaling Jaya
Selangor Darul Ehsan

Tel No. : +603 7931 3188
Fax No. : +603 7931 2188

Person-in-charge : Tan Wooi Keat
Qualification : Master of Business Administration
from The New South Wales Institute
of Technology (now known as
University of Technology, Sydney),
Australia, Bachelor of Science from
The University of New South Wales,
Australia and a Fellow of the
Australian Marketing Institute, and
Institute of Managers and Leaders,
Australia (formerly known as the
Australian Institute of Management)

STOCK EXCHANGE LISTING

: Main Market of Bursa Securities

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SUMMARY OF RIGHTS ISSUE

This summary of Rights Issue only highlights the key information from other parts of this Abridged Prospectus. It does not contain all the information that may be important to you. You should read and understand the contents of the whole Abridged Prospectus.

Issue size and basis of allotment : 477,595,420 Rights Shares together with 238,797,710 Warrants on the basis of five (5) Rights Shares for every one (1) KFM Share held on the Entitlement Date, together with one (1) Warrant for every two (2) Rights Shares subscribed for.

Please refer to Section 2.1 of this Abridged Prospectus for further information.

Issue Price of the Rights Shares and Exercise Price of the Warrants : Our Board has fixed both the Issue Price of the Rights Shares and the Exercise Price of the Warrants at RM0.10.

Please refer to Sections 2.2 and 2.3 of this Abridged Prospectus for further information.

Undertakings and Underwriting Agreement : The Rights Issue will be undertaken based on a full subscription basis as follows:-

(i) Undertakings

Both CWL and the Placement Investor have provided irrevocably undertakings to subscribe for their respective entitlements under the Rights Issue totalling 184,480,000 Rights Shares.

(ii) Underwriting Agreement

Our Company has entered into the Underwriting Agreement with the Joint Underwriters in relation to the underwriting for the remaining 293,115,420 Rights Shares, which are not covered by the Undertakings.

In the event the Undertaking Shareholders fail to observe their obligations as stipulated in the Undertakings, the Rights Issue will be terminated and all consideration received for the Rights Shares will be immediately returned to all subscribers of the Rights Shares without interest.

Please refer to Section 2.5 of this Abridged Prospectus for further information.

Utilisation of proceeds : Collectively, the Rights Issue and the Private Placement are expected to raise total gross proceeds of RM34.11 million, after netting-off the total subscription moneys payable by the Placement Investor pursuant to the Set-Off, as follows:-

<u>Utilisation of proceeds</u>	<u>Expected time frame for utilisation of proceeds</u>	<u>Total gross proceeds RM'000</u>
Working capital requirements of our Group's:-		
➤ wheat flour business	Within 24 months	21,414
➤ tapioca starch business	Within 24 months	10,000
Estimated expenses in relation to the Regularisation Plan	Within 3 months	2,700
Total		34,114

Please refer to Section 2.7 of this Abridged Prospectus for further information.

SUMMARY OF RIGHTS ISSUE (CONT'D)

Risk factors : There are a number of risks that you should consider before subscribing for or investing in the Rights Issue, particularly the following:-

- (i) as wheat is the key raw material used in our wheat flour milling operations, any interruptions in supply of wheat will affect our production and any fluctuations in the prices of wheat will affect our profitability. As for the trading of starches, there is a risk that we may not be able to gain sufficient market traction or may require a longer period to penetrate the market;
- (ii) we experienced cash flow constraints previously due to continuing contraction in sales volume and margin squeeze, which had led to the cessation of our wheat flour milling operations during FYE2016. However, through the BA, we managed to reactivate our wheat flour milling operations and expand our product offerings to include the trading of starches. Upon implementation, the total proceeds to be raised from the Regularisation Plan will be utilised for, amongst others, our working capital requirements; and
- (iii) our subsisting Line 2, which has been repaired and restored for operations, is not in satisfactory operating conditions. Any prolonged breakdowns in machinery and/or continuing cost incurred from maintenance and upgrading works could adversely affect our Group's financial performance. Nevertheless, we have successfully installed and commissioned the New Line with the aim of meeting the anticipated future sales growth as well as serving as an alternate milling line in the event of any abrupt disruption in the production of Line 2.

Please refer to Section 5.0 of this Abridged Prospectus for further information.

Procedures for applications : If you wish to accept all or part of your entitlement to the Provisional Allotment, please complete Parts I(A) and II of the RSF in accordance with the notes and instructions contained in the RSF. Kindly send the completed and signed RSF, together with the requisite payments, **not later than 5.00 p.m. on 14 November 2019** to our Share Registrar.

If you wish to apply for Excess Rights Shares in addition to the Provisional Allotment, you may do so by completing Part I(B) of the RSF (in addition to Parts I(A) and II of the RSF) and forwarding it (together with a separate remittance made in RM for the full amount payable in respect of the Excess Rights Shares applied for) to our Share Registrar so as to arrive **not later than 5.00 p.m. on 14 November 2019**. It is the intention of our Board to allot the Excess Rights Shares, if any, in a fair and equitable manner in the following priority:-

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, to the Entitled Shareholders who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, calculated based on their respective shareholdings as per their CDS Account(s) in our Company and our Register of Members (in respect of the Placement Investor only) on the Entitlement Date;
- (iii) thirdly, to the Entitled Shareholders who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Shares applied for; and
- (iv) lastly, to the transferee(s)/renouncee(s) who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, based on the quantum of Excess Rights Shares applied for.

Please refer to Section 9.0 of this Abridged Prospectus for further information.



LOTUS KFM BERHAD
(formerly known as Kuantan Flour Mills Berhad)
(Company No. 119598-P)
(Incorporated in Malaysia under the Companies Act 2016)

Registered Office:
Kawasan Lembaga Pelabuhan Kuantan
KM 25, Jalan Kuantan/Kemaman
Tanjung Gelang
26080 Kuantan
Pahang Darul Makmur

30 October 2019

BOARD OF DIRECTORS:

Iskandar Zurkanain Bin Mohamed (Independent Non-Executive Director)
Low Koon Min (Independent Non-Executive Director)

To: Our Entitled Shareholders

Dear Sir/Madam,

RENOUNCEABLE RIGHTS ISSUE OF 477,595,420 RIGHTS SHARES AT AN ISSUE PRICE OF RM0.10 PER RIGHTS SHARE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) KFM SHARE HELD BY THE ENTITLED SHAREHOLDERS AS AT 5.00 P.M. ON 30 OCTOBER 2019 TOGETHER WITH 238,797,710 WARRANTS ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) RIGHTS SHARES SUBSCRIBED FOR

1.0 INTRODUCTION

- 1.1** On 28 December 2015, our Board announced that our Company has been classified as an affected listed issuer under PN17. The said classification was pursuant to our Company triggering the criterion prescribed under Paragraph 2.1(a) of PN17, whereby the shareholders' equity of our Company on a consolidated basis is 25% or less of our issued share capital and such shareholders' equity is less than RM40 million, based on our unaudited consolidated management accounts for the two (2)-month financial period ended 30 November 2015.
- 1.2** On 5 February 2018, we announced that our auditors had expressed a qualification on our ability to continue as a going concern in our audited financial statements for the FYE2017, thereby triggering the criterion prescribed under Paragraph 2.1(e) of PN17 as our shareholders' equity on a consolidated basis is less than 50% of our share capital. Although our auditors continued to highlight on the material uncertainty related to our ability to continue as a going concern in our subsequent audited financial statements for the FYE2018, their opinion on the same was unqualified and without any modification.
- 1.3** On 31 May 2018, KAF IB had, on behalf of our Board, announced the Regularisation Plan.
- 1.4** On 11 January 2019, KAF IB had, on behalf of our Board, announced that Bursa Securities had, vide its letter dated 11 January 2019, approved the Regularisation Plan as well as:-
- (i) the admission of 297,088,060 Warrants to the Official List of the Main Market of Bursa Securities; and

(ii) the listing of and quotation for:-

- 27,290,000 Placement Shares issued pursuant to the Private Placement;
- 116,580,700 Settlement Shares to be issued pursuant to the Debt Settlement;
- 477,595,420 Rights Shares to be issued pursuant to the Rights Issue;
- 297,088,060 Warrants to be issued pursuant to the Rights Issue and the Debt Settlement;
- up to 297,088,060 new KFM Shares to be issued pursuant to the exercise of the Warrants; and
- up to 300,000,000 new KFM Shares to be issued pursuant to the conversion of the RCPS,

on the Main Market of Bursa Securities.

The approval of Bursa Securities for the Rights Issue is subject to the following conditions:-

	Conditions imposed	Status of compliance
(i)	KFM and KAF IB to ensure that the installation, testing and commissioning of the new wheat flour milling line is completed prior to the issuance of the securities pursuant to the Regularisation Plan;	Met
(ii)	KFM and KAF IB to ensure that the profit guarantee agreement between Lotus and KFM is entered into prior to despatching of the EGM circular to shareholders, whereby the details of the profit guarantee agreement are to be disclosed in the EGM circular;	Met
(iii)	KFM and KAF IB to ensure compliance with Paragraph 8.02 of the Listing Requirements prior to the quotation for all the new KFM Shares to be issued pursuant to the:- <ul style="list-style-type: none"> ▪ Private Placement ▪ Debt Settlement; and ▪ Rights Issue; 	To be met To be met To be met
(iv)	KFM and KAF IB to ensure that all proposed directors who have not attended the Mandatory Accreditation Programme pursuant to Paragraph 15.08 and Practice Note 5 of the Listing Requirements to do so prior to the quotation for the securities pursuant to the Regularisation Plan;	Met
(v)	KFM and KAF IB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Regularisation Plan;	Noted
(vi)	KFM and KAF IB to inform Bursa Securities upon the completion of the Regularisation Plan; and	To be met
(vii)	KFM and KAF IB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Regularisation Plan is completed.	To be met

- 1.5 On 27 May 2019, our shareholders had, during the EGM held on 27 May 2019, approved the Regularisation Plan, which include, amongst others, the Rights Issue.
- 1.6 On 10 October 2019, KAF IB had, on behalf of our Board, announced that our Company had on 9 October 2019 entered into the Underwriting Agreement with the Joint Underwriters in relation to the underwriting of the Underwritten Shares; and
- 1.7 On 11 October 2019, KAF IB had, on behalf of our Board, announced that the Entitlement Date for the Rights Issue has been fixed at 5.00 p.m. on 30 October 2019.
- 1.8 The official listing of and quotation for the Rights Shares and Warrants to be issued pursuant to the Rights Issue will commence after, amongst others, the receipt of confirmation from Bursa Depository that all the CDS Accounts of the Entitled Shareholders and/or their renounee(s)/transferee(s) have been duly credited and notices of allotment have been despatched to them.
- 1.9 No person is authorised to give any information or to make any representation not contained in this Abridged Prospectus in connection with the Rights Issue and if given or made, such information or representation must not be relied upon as having been authorised by us or KAF IB in connection with the Rights Issue.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2.0 DETAILS OF THE RIGHTS ISSUE

2.1 Particulars of the Rights Issue

The Rights Issue, which is to be undertaken on a renounceable basis, entails the issuance of 477,595,420 Rights Shares, at the Issue Price, on the basis of five (5) Rights Shares for every one (1) KFM Share held by our Entitled Shareholders on the Entitlement Date together with 238,797,710 Warrants on the basis of one (1) Warrant for every two (2) Rights Shares subscribed for.

As the Rights Issue is renounceable, our Entitled Shareholders can fully or partially subscribe for and/or renounce their entitlements to the Rights Shares in full or in part. The renunciation of the Rights Shares by our Entitled Shareholders will accordingly entail the renunciation of the Warrants to be issued together with the Rights Shares pursuant to the Rights Issue. For the avoidance of doubt, the Rights Shares and the Warrants are not separately renounceable.

However, if our Entitled Shareholders decide to accept only part of their Rights Shares entitlements, they shall be entitled to the Warrants in proportion to the acceptance of their Rights Shares entitlements. Any unsubscribed Rights Shares together with Warrants shall be made available for excess applications by our Entitled Shareholders and/or their renounee(s)/transferee(s). Our Board intends to allocate the Excess Rights Shares in a fair and equitable manner in accordance with the basis as set out in Section 9.8 of this Abridged Prospectus.

The Warrants are attached to the Rights Shares without any cost and will only be issued to our Entitled Shareholders and/or their renounee(s)/transferee(s) who subscribe for the Rights Shares. The Warrants will be immediately detached from the Rights Shares upon issuance and will be separately traded. Each Warrant will entitle its holder to subscribe for one (1) new Share at the Exercise Price. The salient terms of the Warrants, which will be issued in registered form and constituted by the Deed Poll, are set out in Section 2.6 of this Abridged Prospectus.

Any fractional entitlements under the Rights Issue will be disregarded and shall be dealt with in such manner as our Board shall in their absolute discretion deem fit, expedient and in the best interests of our Company.

As you are an Entitled Shareholder and our Shares are prescribed securities, your CDS Account will be duly credited with the number of Provisional Allotment which you are entitled to subscribe for in full or in part under the terms of the Rights Issue. You will find enclosed in this Abridged Prospectus a NPA notifying you of the number of Rights Shares which you are entitled to subscribe for under the terms of the Rights Issue and a RSF to enable you to subscribe for the Provisional Allotment as well as to apply for Excess Rights Shares if you so choose to.

Any dealings in our securities will be subject to, inter-alia, the provisions of the SICDA, the Rules of Bursa Depository and any other relevant legislation. Accordingly, the Rights Shares with Warrants will, upon allotment, be credited directly into the respective CDS Accounts of the successful applicants. No physical share or warrant certificates will be issued but notices of allotment will be despatched to the successful applicants within eight (8) Market Days from the Closing Date or such period as may be prescribed by Bursa Securities.

2.2 Basis of and justification for the Issue Price

The Issue Price of RM0.10 per Rights Share was arrived at after taking into consideration the following:-

- (i) the theoretical ex-rights price of KFM Shares after the Rights Issue. Based on the five (5)-day VWAMP of KFM Shares up to and including the LTD of RM0.1117 and LPD of RM0.1506, the TERP were RM0.1014 and RM0.1060 respectively;
- (ii) the NL position of our Company. Based on our audited consolidated financial statements as at 30 September 2018 and unaudited consolidated financial statements as at 30 June 2019, the NL per KFM Share stood at RM0.38 and RM0.41 respectively;
- (iii) our Company's existing PN17 status; and
- (iv) the pro forma consolidated NA per KFM Share of RM0.07 upon completion of the Regularisation Plan as shown in Section 7.3 of this Abridged Prospectus.

For illustration purpose, the Issue Price of RM0.1000 per Rights Share represents a discount of RM0.0014 (or 1.38%) and RM0.0060 (or 5.66%) to the TERP of RM0.1014 and RM0.1060 respectively.

2.3 Basis of and justification for the Exercise Price

The Warrants will be issued at no cost to our Entitled Shareholders who subscribed for the Rights Shares. The Exercise Price of RM0.10 was arrived at after taking into consideration the following:-

- (i) the theoretical ex-rights price of KFM Shares after the Rights Issue. Based on the five (5)-day VWAMP of KFM Shares up to and including the LTD of RM0.1117 and LPD of RM0.1506, the TERP were RM0.1014 and RM0.1060 respectively;
- (ii) the historical price movement of KFM Shares; and
- (iii) the potential future earnings of our Group.

For illustration purpose, the Exercise Price of RM0.1000 represents a discount of RM0.0014 (or 1.38%) and RM0.0060 (or 5.66%) to the TERP of RM0.1014 and RM0.1060 respectively.

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2.4 Ranking of the Rights Shares and the new KFM Shares arising from the exercise of the Warrants

The Rights Shares and the new Shares to be issued arising from the exercise of the Warrants shall, upon allotment and issue, rank *pari passu* in all respects with the then existing KFM Shares, save and except that such Rights Shares and the new Shares to be issued arising from the exercise of the Warrants shall not be entitled to any dividends, rights, allotments and/or any other forms of distribution which may be declared, made or paid, the entitlement date of which is prior to the date of allotment of such Rights Shares and the new Shares to be issued arising from the exercise of the Warrants.

2.5 Undertakings and Underwriting Agreement

2.5.1 The Rights Issue will be undertaken based on a full subscription basis, which was determined after taking into consideration the level of funds required by our Group for the purposes stated in Section 2.7 of this Abridged Prospectus and the total entitlements of our substantial shareholders under the Rights Issue following the Private Placement.

2.5.2 To facilitate the implementation of the Rights Issue on a full subscription basis:-

- (i) Our Company had, on 8 and 9 April 2019, procured written irrevocable undertakings from the following shareholders of KFM, including the Placement Investor upon subscription of the Placement Shares, to subscribe for their respective entitlements to the Rights Shares in the following manner:-

Undertaking Shareholders	As at LPD		Rights Shares Entitlements	
	No. of Shares	(1) %	No. of Shares	(2) %
CWL	9,606,000	10.06	48,030,000	10.06%
Placement Investor	27,290,000	28.57	136,450,000	28.57%
Total Undertakings			184,480,000	38.63%

Notes:-

- (1) As a percentage of our Company's enlarged total number of issued shares after the Private Placement of 95,519,084 Shares.
- (2) As a percentage of 477,595,420 Rights Shares, being the number of Rights Shares to be issued pursuant to the Rights Issue.

CWL has provided a written confirmation that it has sufficient financial resources to subscribe in full for its irrevocable undertaking pursuant to the Rights Issue. KAF IB has verified that CWL has the financial resources to fulfil its commitment pursuant to the Undertakings. As for the Placement Investor, the subscription moneys payable based on his irrevocable undertaking under the Rights Issue shall be set-off against part of the outstanding advances and supplier's credit extended by Lotus pursuant to the Set-Off. Nevertheless, in the event the aforementioned shareholders of our Company fail to observe their obligations as stipulated in the Undertakings, the Rights Issue will be terminated and all consideration received for the Rights Shares will be immediately returned to all subscribers of the Rights Shares without interest.

- (ii) Our Company had on 9 October 2019, entered into the Underwriting Agreement with the Joint Underwriters in relation to the underwriting of the remaining 293,115,420 Rights Shares, representing approximately 61.37% of the total Rights Shares, which are not covered by the Undertakings.

Our Company will pay the Joint Underwriters an underwriting commission at the rate of 2.50% of the value of the total Underwritten Shares multiplied by the Issue Price. KAF IB does not impose any commission for its role as the Managing Underwriter. The underwriting commission payable to the Joint Underwriters and all other incidental costs in relation to the Underwriting Agreement will be fully borne by our Company. The underwriting arrangement, subject to the terms and conditions of the Underwriting Agreement, is set out below:-

Joint Underwriters	No. of Underwritten Shares	Value of Underwritten Shares (RM'000)	% of Underwritten Shares (%)
KAF IB	149,115,420	14,911,542	50.87
Mercury Securities	100,000,000	10,000,000	34.11
JF Apex	22,000,000	2,200,000	7.51
IPS	22,000,000	2,200,000	7.51
Total	293,115,420	29,311,542	100.00

2.5.3 Unless waived by the Managing Underwriter and the Joint Underwriters, the obligations of the Managing Underwriter to manage and the obligation of the Joint Underwriters to underwrite the Underwritten Shares under the Underwriting Agreement are conditional upon the following:-

- (a) the delivery of the documents set out in the Underwriting Agreement on or before the stipulated date therein to the Managing Underwriter and the Joint Underwriters;
- (b) the documents referred to in Section 2.5.3(a) above remaining in full force and effect as at the Underwriting Date, Payment Date, Settlement Date and Trading Date and none having been rescinded or revoked or varied;
- (c) the Underwriting Date falling on a date no later than four (4) Market Days after the Closing Date unless otherwise agreed in writing by our Company, the Managing Underwriter and the Joint Underwriters;
- (d) the announcement of the book closure date must be made within five (5) Market Days from the date of the Underwriting Agreement and such book closure date shall fall on a date of at least ten (10) Market Days from the date of such announcement or such other book closure date as may be determined and agreed by our Company, the Managing Underwriter and the Joint Underwriters;
- (e) the date of submission for registration of the Abridged Prospectus with the SC on or before the date on which the Abridged Prospectus is registered with the SC and thereafter, lodged with the ROC ("**Registration Date**");
- (f) the Managing Underwriter and Joint Underwriters being reasonably satisfied that there is compliance by our Company with all of our obligations under the Underwriting Agreement up to and including each of the Underwriting Date, Payment Date, Settlement Date and Trading Date, to the extent that such obligations can be complied with up to and including each of the Underwriting Date, Payment Date, Settlement Date and Trading Date, as may be applicable;
- (g) the Managing Underwriter and the Joint Underwriters being reasonably satisfied that our Company has, in relation to the Rights Issue complied with the Prospectus Guidelines, Listing Requirements, Act, CMSA and all other policies, guidelines and requirements of the relevant authorities of Malaysia and all revisions, amendments and/or supplements thereto;

- (h) each of the warranties remaining true, accurate and correct, in all respects, at all times up to and including each of the Underwriting Date, Payment Date, Settlement Date and Trading Date, as may be applicable and no event has occurred nor any fact discovered which will render any of the representations, warranties and undertakings false or misleading or result in a material omission from such representations, warranties and undertakings;
- (i) the receipt of all approvals which include all approvals, sanctions, consents, authorisations, filings, registrations, and permission required to be obtained in respect of the Rights Issue (“**Approvals**”) and the necessary regulatory consents, including the approval of Bursa Securities for the Regularisation Plan and admission of the Warrants to the Official List of the Main Market of Bursa Securities and for the listing of and quotation for the Rights Shares, the Warrants and the new Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities, and there shall not have occurred any amendments, withdrawals or revocation of any of the Approvals and if such Approvals are granted subject to conditions, such conditions being, in the reasonable opinion of the Managing Underwriter and the Joint Underwriters, reasonably acceptable, and the same remaining valid and continuing to be in force and effect on the Underwriting Date, Payment Date, Settlement Date and Trading Date and any condition imposed by Bursa Securities in giving its approval for the Regularisation Plan (including the Rights Issue) which is required to be fulfilled (except for any which can only be fulfilled after the Rights Issue has been completed) has been fulfilled to the satisfaction of Bursa Securities and/or waived by it;
- (j) the obligations of the Joint Underwriters to subscribe for and/or procure subscriptions for the Underwritten Shares is not prohibited by any statute, order, directive or regulation amended, supplemented or introduced after the date of the Underwriting Agreement by any legislative, executive or regulatory body or authority in Malaysia at any time on or before the Settlement Date;
- (k) the specific approvals of our shareholders obtained at the EGM for the Regularisation Plan (including the Rights Issue) and the issuance of the Rights Shares and the Warrants pursuant to the Rights Issue remaining valid and continuing to be in force and effect and not having been revoked on or before the Trading Date;
- (l) the lodgement with the ROC of the Abridged Prospectus and such other documents as may be required on or before the Registration Date or its issuance;
- (m) on or prior to the Trading Date, there shall not have occurred any change, in the condition (financial, operational or other), business, management, prospects, results of operations, earnings, undertakings, properties or assets of our Company or our Group taken as a whole whether or not arising in the ordinary course of business, since the date of the Underwriting Agreement, which, in the reasonable opinion of the Managing Underwriter and Joint Underwriters, has a material adverse effect or which makes it commercially impracticable or illegal to proceed with the Rights Issue on the terms and in the manner contemplated in the Abridged Prospectus and the accompanying NPA and RSF, and the Underwriting Agreement, or which is likely to prejudice materially the dealings in the Shares, the Rights Shares and/or the Warrants in the secondary market;
- (n) as at each of the Underwriting Date, Payment Date, Settlement Date or Trading Date (as the case may be) there shall not be any subsisting moratorium, suspension or material restriction on trading in securities generally on Bursa Securities or as at the Settlement Date, trading in the Shares shall not have been suspended by Bursa Securities or limited or minimum prices shall not have been established on Bursa Securities for all securities generally;

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- (o) as at each of the Underwriting Date, Payment Date, Settlement Date and Trading Date, no stop order, withdrawal of approval or similar order has been issued by the SC, Bursa Securities or any court or other judicial, governmental or regulatory authority in relation to the Regularisation Plan (including the Rights Issue), Approvals and the Abridged Prospectus and the accompanying NPA and RSF and continues to subsist as at those dates nor in relation to the sale and subscription and/or purchase of the Rights Shares with Warrants in accordance with the provisions of the Abridged Prospectus, the Underwriting Agreement or either of the Undertakings, nor is the execution and performance of the Abridged Prospectus, the Underwriting Agreement or either of the Undertakings being prohibited by any statute, order, rule, regulation or directive issued by, or objected to by any legislative, executive or regulatory body or authority of Malaysia (including, without limitation, the SC and Bursa Securities);
- (p) there having been, as at the Underwriting Date, Payment Date or Settlement Date, no registration or lodgement of any amendment, supplement or replacement to the Abridged Prospectus with the SC or the ROC without the prior written approval of the Managing Underwriter and the Joint Underwriters;
- (q) CWL and the Placement Investor having performed their respective obligations under the Undertakings and not being in breach thereof from the date of the Underwriting Agreement to the Closing Date and before the issuance of the underwriting notice to the Joint Underwriters;
- (r) The Underwriting Agreement and the Undertakings are in full force and effect, and valid and enforceable (and not amended or supplemented, save as agreed in writing by the Managing Underwriter and the Joint Underwriters), there shall not have occurred any breach or non-compliance by any of the parties to the Underwriting Agreement and the Undertakings of their obligations and agreements under such documents, including the subscription by CWL and the Placement Investor having been accepted by our Company, and each of the conditions precedent (if any) in each of the Underwriting Agreement and the Undertakings shall have been satisfied or waived (provided that any such waiver shall not have any material adverse effect on the transaction contemplated by the Underwriting Agreement or the Undertakings);
- (s) the DCA and DSA are in full force and effect, and valid and enforceable (and not amended or supplemented, save as agreed in writing by the Managing Underwriter and the Joint Underwriters if capable of being amended or supplemented), there shall not have occurred any breach or non-compliance by any parties to the DCA and DSA and the obligations of the parties thereto have been satisfied in accordance with the terms and conditions therein; and
- (t) on or prior to the Settlement Date, no Termination Event (as defined below) shall have occurred.

2.5.4 The Managing Underwriter and the Joint Underwriters shall, on a unanimous basis, be entitled to terminate the Underwriting Agreement in relation to that Joint Underwriter by way of giving a notice in writing to our Company of such intention (“**Termination Notice**”) if in its reasonable opinion, any of the following circumstances (“**Termination Events**”) has occurred and continue to subsist unremedied prior to the close of business on the Payment Date or Settlement Date (for the Termination Events other than that described in Section 2.5.4(g) below) and on the Trading Date (in respect of the Termination Event described in 2.5.4(g) below):-

- (a) any non-fulfilment of conditions or the occurrence of any specified event or breach of any of the obligations, warranties, representations and undertakings of our Company under the Underwriting Agreement occurs; or
- (b) if the registration of the Abridged Prospectus with the SC, the approval of Bursa Securities required for the admission of the Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Rights Shares, the Warrants and the new Shares to be issued arising from the exercise of Warrants on the Main Market of Bursa Securities is revoked or withdrawn or if any of the conditions for such registration, consents or approvals has not been fulfilled to the satisfaction of the SC or Bursa Securities or waived by the SC or Bursa Securities, as the case may be; or

- (c) if the obligations of the Joint Underwriters to subscribe for and/or procure subscriptions for the Underwritten Shares is or becomes prohibited by any statute, order, rule, directive or regulation amended, supplemented or introduced after the date of the Underwriting Agreement by any legislative, executive or regulatory body or authority of any jurisdiction; or
- (d) if there shall have occurred, happened or come into effect, any of the following circumstance, namely:
 - (aa) any change in the condition (financial, operational or otherwise), business, management, prospects, results of operations, operating cash flows, properties, earnings, undertakings or assets of our Company or of our Group taken as a whole (whether or not arising in the ordinary course of business);
 - (bb) the commencement of legal proceedings or any action against our Company or any one or more company(ies) within our Group;
 - (cc) any change in or introduction of any legislation, regulation, directive, policy, guideline or interpretation or application thereof by any court or other competent authority in any relevant jurisdiction which have an adverse impact (financial, operational or otherwise) on any company of our Group in which any member of our Group conducts or carries on business;
 - (dd) any change, or any development in local, national or international monetary, financial (including stock market, foreign exchange market, inter-bank market or interest rates or money market in Malaysia or elsewhere), political, industrial, economic, legal or monetary conditions, taxation or exchange controls (including any disruption to trading generally, on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls in any jurisdiction or any force majeure event as stipulated in the Underwriting Agreement;
 - (ee) any suspension, moratorium or limitation on trading in shares or securities generally on Bursa Securities, or minimum or maximum prices for trading have been fixed, maximum ranges for prices for securities have been required by Bursa Securities or by order of any governmental authority or a general moratorium on commercial banking activities or foreign exchange rating or securities settlement or clearing services in or affecting Malaysia by the relevant authorities;
 - (ff) without limiting the foregoing, any local, national, regional or international occurrence, outbreak or escalation of epidemics, hostilities (whether or not war is or has been declared), act of terrorism, insurrection, armed conflict or any other state of emergency or calamity or crisis;

which, in the reasonable opinion of the Managing Underwriter and Joint Underwriters would (i) result in a material adverse fluctuation or material adverse conditions in the securities market in Malaysia, (ii) materially prejudice the success of the Rights Issue or the dealings in the Shares, the Rights Shares and/or the Warrants in the secondary market, or (iii) be likely to have a material adverse effect, or (iv) be commercially impracticable for the Managing Underwriter and Joint Underwriters to proceed with the Rights Issue on the terms and in the manner contemplated in the Abridged Prospectus (and the accompanying NPA and RSF) and the Underwriting Agreement;

- (e) the Undertakings have been terminated or rescinded, whether in accordance with its terms or otherwise, and the Placement Investor and/or CWL shall have failed to perform their obligations thereunder, or the Undertaking becomes void or unenforceable or performance of the relevant party's obligations thereunder becomes unlawful impossible or unenforceable for whatever reason;

- (f) the Closing Date has not occurred within eleven (11) Market Days after the issuance of the Abridged Prospectus together with the accompanying NPA and RSF, or such other extended date as may be agreed between our Company, the Managing Underwriter and the Joint Underwriters;
- (g) if the Trading Date has not occurred within thirteen (13) Market Days after the Closing Date or the Rights Shares and/or the Warrants not being listed on the Main Market of Bursa Securities on or before 31 December 2019 or such other extended date as may be agreed between our Company, the Managing Underwriter and the Joint Underwriters; or
- (h) the FTSE Bursa Malaysia Kuala Lumpur Composite Index (“**Index**”) (i) on or after the date of the Underwriting Agreement; and (ii) prior to the Settlement Date, is lower than 90% of the level of the Index as at the last close of normal trading on the relevant exchange on the Market Day immediately prior to the date of the Underwriting Agreement and remains at or below that level for at least three (3) consecutive Market Days or more; or
- (i) the closing market price of the Shares as transacted on Bursa Securities shall not be lower than 10.0 sen when the Shares are quoted on an ex-all basis for three (3) or more consecutive Market Days at any time prior to the Closing Date; or
- (j) if Bursa Securities suspends the trading of the Shares or removes our Company from the Official List of the Main Market of Bursa Securities, for any reason whatsoever; or if our Company requests for a voluntary suspension of the trading of the Shares for any reason whatsoever, for a duration of more than one (1) Market Day without the prior approval of the Managing Underwriter and the Joint Underwriters; or
- (k) the Debt Restructuring and Set-off cannot be implemented for whatsoever reason(s) prior to the Trading Date; or
- (l) any investigation had been conducted on our Group, Directors, key management members and major shareholders pursuant to any act of dishonesty, fraud, non-payment/evasion of taxes and duties, breaches in the CMSA, Listing Requirements or Anti-Money Laundering Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 by relevant authorities including but not limited to Bursa Securities, SC, Bank Negara Malaysia, Lembaga Hasil Dalam Negeri Malaysia and Royal Malaysian Customs Department.

Upon such notice as described above being given, the Underwriting Agreement shall terminate and be of no further effect whatsoever and our Company and the Underwriters shall be under no liability to each other in respect of the Underwriting Agreement, except that (i) such termination shall be without prejudice to any accrued rights or obligations of any party under the Underwriting Agreement, (ii) our Company shall remain liable for the underwriting commission, the payment of the costs and expenses already incurred or incurred in consequence of such termination and (iii) the provisions of indemnity as stipulated in the Underwriting Agreement shall remain in full force and effect.

2.6 Salient terms of the Warrants

The salient terms of the Warrants are set out below:-

Form and denomination	:	The Warrants will be issued in registered form and constituted by the Deed Poll.
Number of Warrants	:	297,088,060 Warrants to be issued pursuant to the Rights Issue and the Debt Restructuring.
Exercise Price	:	The exercise price of the Warrants has been fixed at RM0.10 per Warrant, subject to further adjustments (where applicable) in accordance with the provisions of the Deed Poll.

- Exercise Period : Five (5) years commencing from and inclusive of the date of first issue of the Warrants.
Any Warrants which are not exercised during the Exercise Period shall thereafter lapse and cease to be valid for any purpose.
- Method of exercise : The Warrant holders are required to lodge with our Share Registrar an exercise form, as set out in the Deed Poll, duly completed and signed, together with payment of the exercise price for the total number of new KFM Shares subscribed by banker's draft or cashier's order or money order or postal order issued by a post office in Malaysia.
- Expiry Date : The close of business at 5.00pm in Kuala Lumpur on the last Market Day immediately preceding the fifth (5th) anniversary date of first issue of the Warrants, and if such date is not a Market Day, then on the immediate preceding Market Day.
- Exercise Rights : Each Warrant entitles its holder to subscribe for one (1) new KFM Share at the Exercise Price at any time during the Exercise Period subject to adjustments in accordance with the provisions in the Deed Poll.
- Board lot : The Warrants are tradable upon listing on Bursa Securities in board lots of 100 Warrants.
- Status of new KFM Shares to be issued pursuant to the exercise of the Warrants : All new KFM Shares to be issued upon the exercise of the Warrants (in accordance with the provisions of the Deed Poll) shall, upon allotment and issue, rank *pari passu* in all respects with the then existing KFM Shares, save and except that the new KFM Shares shall not be entitled to any dividends, rights, allotments and/or any other distribution which may be declared, made or paid before the date of allotment of such new KFM Shares.
- Adjustment in the Exercise Price and/or the number of Warrants held by Warrant holders in the event of alteration to the share capital : Subject to the provisions of the Deed Poll, the Exercise Price and/or the number of Warrants held by each Warrant holder shall be adjusted by our Board in consultation with an approved principal advisor or an auditor in Malaysia appointed by our Company for the purposes of the Deed Poll in the event of alteration to the share capital of our Company in accordance with the provisions as set out in the Deed Poll.
- Rights of Warrants : The Warrants do not entitle the registered holders thereof to any voting rights in any general meeting of our Company or to participate in any distribution and/or offer of further securities in our Company unless the Warrant holder becomes a shareholder by exercising his/her Warrants.
- Modification of rights of Warrant holders : Save as otherwise provided in the Deed Poll, an ordinary resolution of the Warrant holders is required to sanction any modification, alteration or abrogation in respect of the rights of the Warrant holders.

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Rights of Warrant holders on winding-up, compromise or arrangement of our Company : Where a resolution has been passed for a members' voluntary winding-up of our Company, or where there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of our Company or the amalgamation of our Company with one (1) or more companies, then every Warrant holder shall be entitled, upon and subject to the provisions of the Deed Poll, at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding-up of our Company, or within six (6) weeks after (whichever is later) the court order approving the compromise or arrangement, to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement (as the case may be) exercised the Exercise Rights represented by the Warrants and had on such date been the holder of the new KFM Shares arising from the exercise of the Warrants. Upon the expiry of the above six (6) weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.

Governing Law : Laws and regulations of Malaysia.

2.7 Utilisation of proceeds

Based on the Issue Price of RM0.10 per Placement Share and Rights Share, the Private Placement and the Rights Issue, on a collective basis, are expected to raise total gross proceeds of RM34.11 million, after netting-off the total subscription moneys payable by the Placement Investor pursuant to the Set-Off, as follows:-

Gross proceeds	(RM)
Private Placement	2,729,000
Rights Issue	47,759,542
	<hr/>
	50,488,542
Less: Set-Off ⁽¹⁾	(16,374,000)
	<hr/>
Total	34,114,542

The aforesaid total gross proceeds of RM34.11 million are proposed to be utilised as follows:-

Utilisation of proceeds	Expected time frame for utilisation	Total gross proceeds RM'000
Working capital requirements of our Group's:-		
➤ wheat flour business ⁽²⁾	Within 24 months	21,414
➤ tapioca starch business ⁽³⁾	Within 24 months	10,000
Estimated expenses in relation to the Regularisation Plan ⁽⁴⁾	Within 3 months	2,700
		<hr/>
Total		34,114

Notes:-

- (1) The total outstanding advances and supplier's credit extended by Lotus to our Company stood at RM41.64 million as at the LPD, of which RM15.00 million will be converted into 300.00 million RCPS pursuant to the DCA, RM16.37 million will be settled through the Set-Off and the remaining RM10.27 million shall be settled by us in our ordinary course of business.

- (2) Intended to be utilised for the working capital requirements of our Group’s wheat flour business which comprise, amongst others, purchases of wheat and operating expenditures such as lease rental, electricity, distribution expenses, packing materials and staff cost. The exact proceeds to be utilised for each component of working capital are subject to the operating requirements of our Group at the time of utilisation and therefore has not been determined at this juncture. Solely for illustration purposes and based on our management’s best estimates, the proceeds allocated for the working capital requirements of our Group’s wheat flour business are anticipated to be utilised as per the following breakdown:-

	RM’000
Purchase of wheat	17,000
Lease rental	120
Electricity	1,000
Distribution expenses	1,300
Packing materials	640
Staff cost	1,354
Total	21,414

The aforementioned amount to be allocated for the working capital requirements of our Group’s wheat flour business and the breakdown above have been determined after taking into consideration the following:-

- (i) the level of wheat stock and finished products to be maintained by our Group from time to time so as to ensure continuity of business operations;
- (ii) the anticipated production level of our Group’s wheat flour milling facilities upon successful implementation of the Regularisation Plan;
- (iii) payment terms for wheat purchases; and
- (iv) credit terms granted to customers.

For clarity, the wheat flour business of our Group encompasses the milling of wheat flour as well as the sales and marketing of wheat flour and its related products, such as wheat pollard and industrial flour.

- (3) Intended to be utilised for the working capital requirements of our Group’s tapioca starch business upon successful implementation of the Regularisation Plan. The RM10.00 million allocated for this purpose shall entirely be earmarked for purchases of tapioca starch for repacking and onward sales. The said amount has been determined after taking into consideration the following:-

- (i) the level of tapioca starch stocks (in finished products form) to be maintained by our Group from time to time so as to ensure continuity of business operations;
- (ii) the anticipated sales level of our Group’s tapioca starch products upon successful implementation of the Regularisation Plan;
- (iii) payment terms for tapioca starch raw material purchases; and
- (iv) credit terms granted to customers.

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- (4) The estimated expenses of RM1.90 million as disclosed in the EGM circular to our shareholders dated 2 May 2019 have not taken into account of the underwriting commission pending finalisation of the underwriting arrangement. Having incorporated the associated underwriting commission pertaining to the Rights Issue of RM0.78 million, the total estimated expenses in relation to the Regularisation Plan amounted to RM2.70 million, as follows:-

	RM'000
Professional fees	1,700
Fees payable to relevant authorities	140
Underwriting commission	780
Miscellaneous	80
Total	<u>2,700</u>

In the event where the actual expenses for the Regularisation Plan are higher than budgeted, the deficit will be funded out of proceeds allocated for our Group's working capital requirements. Conversely, if the actual expenses for the Regularisation Plan are lower than budgeted, the excess will be utilised for our Group's working capital requirements.

Prior to being utilised for the above purposes, the total gross proceeds of RM34.11 million will be placed in interest-bearing deposits and/or short-term money market instruments with financial institutions as our Board in its absolute discretion deems fit and in the best interest of our Group. The resulting interest income derived from such placements will be used as additional working capital for our Group.

The proceeds to be received by our Company pursuant to the exercise of the Warrants and the conversion of the RCPS by Lotus via the Cash Option, if any, are intended to be utilised for working capital requirements of our Group. The eventual quantum of such proceeds cannot be determined at this juncture as it would be dependent on the total number of Warrants exercised during the tenure of the Warrants as well as the number of RCPS converted under the Cash Option. However, no proceeds will be raised upon conversion of the RCPS, which are not redeemed by our Company, into new KFM Shares if the conversion of the RCPS by Lotus is via the Non-Cash Option.

3.0 RATIONALE FOR THE RIGHTS ISSUE

The Rights Issue forms an integral step of the overall Regularisation Plan of our Company, which serves to regularise the financial condition of our Group and return our Group to profitability. After due consideration of various funding options available to our Company, our Board is of the opinion that the Rights Issue is the most appropriate avenue of fund raising for our Company in view of the following reasons:-

- (i) the Rights Issue serves to raise the intended funds for the purposes as set out in Section 2.7 of this Abridged Prospectus, particularly for the working capital requirements of our Group's wheat flour and tapioca starch businesses;
- (ii) as opposed to borrowings from financial institutions, the Rights Issue enables our Group to raise funds without incurring interest costs;
- (iii) our Entitled Shareholders would have the opportunity to increase their equity participation in our Company by subscribing to the Rights Shares;
- (iv) the Rights Issue would strengthen the capital base of our Company and enhance the overall financial position of our Group; and
- (v) the free Warrants to be issued pursuant to the Rights Issue will provide our Entitled Shareholders with an incentive to subscribe for the Rights Shares. In addition, the proceeds, if any, from the exercise of the Warrants will provide an additional source of funds for our Group's future working capital requirements.

4.0 THE REGULARISATION PLAN

The Regularisation Plan serves to regularise the financial condition of our Group and return our Group to profitability. Through the Regularisation Plan, we would be able to reduce our liabilities and at the same time strengthen our cash flow position, which would in turn augur well for our on-going plan to revitalise our wheat flour milling business operations and to expand our product offerings to include the sales and distribution of other flour based products, i.e. tapioca starch and corn starch.

The Regularisation Plan consists of the Private Placement, the Rights Issue, the Debt Restructuring, the Set-Off and the Amendments.

4.1 Private Placement

The Private Placement entails the issuance of 27,290,000 Placement Shares to the Placement Investor at the Issue Price. It serves to facilitate the entry of the Placement Investor, who will then lend the necessary support through his participation in the Undertakings to facilitate the implementation of the Rights Issue. The Placement Shares, which have been allotted to the Placement Investor on 1 October 2019, shall be listed and quoted concurrently with the Rights Shares, Settlement Shares and Warrants. For clarity, the Placement Investor is entitled to participate in the Rights Issue by virtue of the allotment of the 27,290,000 Placement Shares to him on 1 October 2019, which is prior to the Entitlement Date.

4.2 Rights Issue

The Rights Issue entails the issuance of 477,595,420 Rights Shares at the Issue Price, on the basis of five (5) Rights Shares for every one (1) KFM Share held by our Entitled Shareholders on the Entitlement Date together with 238,797,710 Warrants on the basis of one (1) Warrant for every two (2) Rights Shares subscribed for. It enables our Group to raise the requisite funds for the purposes stated in Section 2.7 of this Abridged Prospectus.

Please refer to Section 2.0 of this Abridged Prospectus for further details on the Rights Issue.

4.3 Debt Restructuring

The Debt Restructuring serves to restructure:-

- (i) the Indebtedness of our Group through a waiver of 30% (or RM4,996,314) of the Indebtedness and settlement of the remaining 70% (or RM11,658,070) of the Indebtedness via the issuance of 116,580,700 Settlement Shares based on the Issue Price together with 58,290,350 Warrants; and
- (ii) RM15,000,000 out of the total outstanding advances and supplier's credit extended by Lotus by the issuance of 300,000,000 RCPS to Lotus,

and thus relieving the financial pressure on our debt settlement obligations and cash flow, which would in turn enable the management of our Group to focus on turning around our business operations.

4.4 Set-Off

The Set-Off serves to settle RM16,374,000 out of the total outstanding advances and supplier's credit extended by Lotus to our Company against the subscription moneys payable by the Placement Investor towards the Private Placement and the Rights Issue.

4.5 Amendments

The Amendments serves to facilitate the issuance of RCPS pursuant to the Debt Conversion.

5.0 RISK FACTORS

You and/or your renounee(s)/transferee(s) (if applicable) should carefully consider the following risk factors which may have an impact on the future performance of our Group, in addition to other information contained elsewhere in this Abridged Prospectus, before subscribing for or investing in the Right Issue.

5.1 Risks relating to our business and operations

5.1.1 We are subject to fluctuations in prices of wheat

Wheat represents the key raw material used in our flour milling operations which is sourced from imports. As wheat is a globally traded commodity, we are subject to the fluctuations in wheat prices from time to time. The prices of wheat are influenced by global economic factors including, among others, supply and demand of wheat as well as stock levels of wheat producing countries. Any increases in the price of wheat would directly increase the cost of our raw materials. If we are unable to pass on the price increases to our customers in a timely manner, our profitability and prospects of our Group would be adversely affected. As wheat is widely traded raw materials, all flour millers are similarly subject to the risk of fluctuations in prices of wheat.

5.1.2 We are dependent on imports of wheat

Malaysia is not a producer of wheat, therefore we are dependent on the imports of wheat for our flour milling operations. Therefore, we may face risks in terms of interruptions in supply and/or any shortages or delays in customs clearance relating to this raw material which would directly impact on our production. Although it is our policy to maintain buffer stock of raw materials, there is no assurance that our business would not be affected by any interruptions in the supply of wheat.

5.1.3 Disruptions in production of wheat flour

Our Group has two wheat flour milling lines. As part of our Company's business reactivation exercise, our second milling line, i.e. Line 2, has been repaired and restored for operations. As at the LPD, our Group has commenced commercial production for our wheat flour milling operations. Although our Group will continue to undertake maintenance and upgrading works on our production line, there is a risk of disruptions in production due to the age of the milling line. Any prolonged breakdowns in machinery and/or continuing cost incurred from maintenance and upgrading works could adversely affect our Group's financial performance. The first milling line is not in satisfactory operating conditions. To this end, through the assistance of Lotus, we have successfully installed and commissioned a new wheat flour milling line, i.e. the New Line, to replace our first milling line with a processing capacity of 300 MT input of wheat per day, with the aim of meeting the anticipated future sales growth as well as serving as an alternate milling line in the event of any abrupt disruption in production.

5.1.4 We are dependent on the performance of starch products

Starch products may be complementary to our food manufacturing customer base, however their application in the non-food industry sectors such as the paper and paperboard represent a new market for our Group. As part of the Regularisation Plan, we commenced the trading of tapioca starch and corn starch in May 2017 and December 2017 respectively. Although we have gained inroads into the non-food industry sectors, there is a risk that our Group may not be able to gain sufficient market traction or it may require a longer period to penetrate the market.

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5.1.5 Financing risk

As set out in Section 6.2.1 of this Abridged Prospectus, the continuing contraction in sales volume and uncompetitive product pricing due to margin squeeze experienced by our Group previously had gradually depleted our level of working capital and at the same time, weakened our cash flow position, which has eventually led to the cessation of our wheat flour milling operations at the end of FYE2016. Nevertheless, we managed to enter into a business collaboration arrangement with Lotus through the BA, which had assisted us to reactivate our wheat flour milling operations and at the same time, expanded our products offering to include the trading of starches through supplier's credit extended by Lotus. Upon implementation of the Regularisation Plan, we are expecting to raise a total gross proceeds of RM34.11 million, after the Set-Off, from the Private Placement and Rights Issue for, amongst others, our working capital requirements for a period of two (2) years from the date of completion of the Regularisation Plan.

5.1.6 Risk of explosion or fire due to combustion of wheat and/or flour particles

The process of handling wheat for milling and the resultant flour causes the formation of dust in the atmosphere. There is a risk that the fine particles of wheat and/or flour may give rise to combustion resulting in an explosion or fire. In the event that there is an explosion or fire, this may cause damage to human lives and property. Such combustion happens mostly in enclosed areas, however it may also happen in open areas if the dust concentration is high and the conditions are conducive for combustion.

Our fire certificate had expired in March 2016. While in the process of renewing our fire certificate, we have ceased our wheat flour milling operations during FYE2016 and following which, we did not follow-up on the same. Following the signing of BA, we have recommenced engaging with the Fire and Rescue Department ("FRD") in mid 2017 pertaining to the renewal of our fire certificate, however we have been requested by FRD to upgrade our fire fighting systems, particularly the installation of fire sprinkler system, which is not appropriate for wheat flour milling process. As a result, we have engaged an engineering firm to advise and assist us to liaise with FRD on the same, which has eventually led to an exemption for the installation of fire sprinkler system being granted by FRD for our wheat flour milling plant in March 2019. During such time, we were also in the midst of implementing our New Line and therefore, we could only commence the upgrading works for our fire fighting systems upon completion of the New Line on 31 July 2019. Currently, we are in the midst of upgrading our fire fighting systems, which are anticipated to be completed by December 2019, and thereafter, the renewal of our fire certificate is anticipated to be procured by January 2020 after inspection by FRD.

Nevertheless, we have subsisting insurance policies that cover fire (including on building, stock in trade, wheat grain silos of various capacity, all plant and machinery, office equipment, removal of debris and architect's surveyor's and consulting engineering fees), burglary (on all movable or immovable property), public liability, money and fidelity guarantee. However, there is no assurance that the said insurance coverage is adequate to cover the losses, damages or liabilities which may be incurred in the course of our business operations.

5.2 Risks relating to our industry

5.2.1 Risks of competitive pressure from other wheat flour millers and imported wheat flour and starches

We face competition from other wheat flour millers in Malaysia, as well as imported wheat flour and starches. In view of the competitive market environment, we will continue to develop new measures to counter competition which include, among others, product expansion to target opportunities in less well served segments, improvements in our distribution channels to extend our market reach, as well as improvements in our product mix and quality to meet a wider range of customers' needs and requirements. Nevertheless, there is no assurance that we will be able to remain competitive against existing competitors, imports as well as new entrants. In the event that we are unable to compete effectively, this may materially affect our business, operating results and future financial conditions.

5.2.2 Flour millers are subject to foreign exchange risks

Flour milling operators are exposed to foreign exchange risks as our purchases of wheat are mainly denominated in USD. In September 2019, the average exchange rate of the RM to USD was RM4.19 to USD1.00, compared to RM4.31 to USD1.00 in September 2015. This represented a decline of 2.9% in the value of the RM in relative to USD between September 2015 and September 2019. Any adverse changes in the exchange rate between RM and USD would have a negative impact on our financial performance.

5.2.3 Dependency on the food manufacturing and food services industry for demand of flour products

As our business is in the milling of wheat flour, the prospects of our Group are dependent on our main user industries including food manufacturers and food services. Therefore, any adverse performance in the food manufacturing or food services industry including changes in food preferences of consumers towards flour based products, would materially affect the performance of our Group. Although we may take a prudent approach in managing this risk, this is an inherent risk in the wheat flour milling industry and flour millers that serve similar end-user industries are subject to the same risk factor.

5.2.4 Changes in economic, political and regulatory conditions

Our business prospects are subject to the developments in economic, political and regulatory conditions. Any adverse development in such conditions may have a negative impact on the prospects of our Group. These adverse developments include, among others, downturn in the global and Malaysia economies, changes in political leadership, changes in interest rates, war, terrorism activities, riots, and unfavourable changes in government policies such as introduction of new regulations, import restrictions and duties, tariffs, licensing regulations or subsidies. As flour and starch products are basic food ingredients used in the manufacturing of bakery products such as breads, biscuits, cakes and other pastry products as well as other food products such as noodles, soups and sauces, there will continue to be a demand for flour. Although we may take a prudent approach to manage these risks internally, however these risks are beyond our control. Hence, there can be no assurance that any adverse economic, political and regulatory changes will not materially affect our Group's business prospects.

5.3 Risks relating to the Rights Issue**5.3.1 Investment risks**

The market price of KFM Shares will be influenced by, amongst others, prevailing market sentiments, volatility of the stock market, the prospects and operating results of our Group and the future outlook of the industries in which our Group operates. The Issue Price of the Rights Shares and the Exercise Price of the Warrants were arrived at after taking into consideration, amongst others, the TERP of KFM Shares as disclosed in Sections 2.2 and 2.3 of this Abridged Prospectus, the prevailing market price of KFM Shares and our future prospects. Hence, there can be no assurance that the KFM Shares will trade at or above the TERP subsequent to the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities.

The market price of the Warrants, like all listed securities traded on Bursa Securities and being new securities to be issued by our Company, are subject to, inter-alia, price discovery by investors, fluctuations in tandem with the overall outlook of the stock market in Malaysia and globally, and will be influenced by, amongst others, the market price, potential payments of dividends and volatility of KFM Shares and the remaining exercise period of the Warrants. There is no assurance that the Exercise Price of the Warrants will be in-the-money during the tenure of the Warrants.

5.3.2 Delay or failure in the completion of the Rights Issue

The Rights Issue is exposed to the risk that it may be aborted or delayed on the occurrence of any force majeure events or events/circumstances, which are beyond the control of our Company, KAF IB or the Joint Underwriters, arising prior to the completion of the Rights Issue. In addition, there are also certain circumstances where any of the Joint Underwriters may terminate the Underwriting Agreement on the occurrence of any of the Termination Events as set out in Section 2.5.4 of this Abridged Prospectus.

Where prior to the issuance and allotment of the Rights Shares to the successful Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable):-

- (i) in the event of failure in the completion of the Rights Issue where the SC issues a stop order pursuant to Section 245(1) of the CMSA, all applications shall be deemed to be withdrawn and cancelled and our Company shall be liable to repay all monies paid in respect of the Rights Shares within 14 days from the date of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10% per annum or at such rate which may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or
- (ii) in the event of failure in the completion of the Rights Issue (other than pursuant to Section 245(1) of the CMSA), all application money received pursuant to the Rights Issue will be refunded to the Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) who have subscribed for the Rights Shares without interest.

In the event that the Rights Shares have been allotted to the successful Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) and:-

- (i) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our Rights Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days from the stop order, the Company shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or
- (ii) the Rights Issue is subsequently cancelled or terminated for reasons other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of money to the shareholders can only be achieved by way of cancellation of our Company's share capital as provided under the Act and its related rules.

Notwithstanding the above, our Company will exercise our best endeavour to ensure the successful implementation of the Rights Issue. However, there can be no assurance that the abovementioned events will not cause a delay in or failure of the Rights Issue.

5.3.3 Factors affecting the Warrants

There is no prior market for the Warrants, and as such there is no assurance that an active market for the Warrants will develop upon their listing and quotation on the Main Market of Bursa Securities, or if developed, that such a market may be sustained or adequately liquid during the tenure of the Warrants.

Our Board believes that a variety of factors could cause the future market price performance of the Warrants to fluctuate, including but not limited to trades of substantial amount of the Warrants on Bursa Securities, fluctuations in the market price of the underlying KFM Shares, announcements of corporate developments relating to our Group's business and the future financial performance of our Group.

The future price performance of the Warrants will also depend upon various external factors, such as the prospects of the industries in which our Group operates, the economic, monetary and political and industry conditions, outlook of interest rates, the performance of domestic and regional stock markets as well as the investors' sentiments and liquidity in the local stock market.

Notwithstanding the above, it should be noted that our Group's financial performance will not be dependent on the market price performance of the KFM Shares and the Warrants.

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6.0 INDUSTRY OVERVIEW AND FUTURE PROSPECTS

6.1 Industry Outlook

6.1.1 Overview

KFM Group is principally involved in the milling of wheat flour, as well as trading of tapioca starch and corn starch. Generally, the prospects of the flour milling industry including wheat flour and other flour products such as starch are underpinned by the demand from the manufacturing of food products and food services sectors as well as household consumption. Other factors that contribute to the prospects of the flour milling industry would include global wheat prices and government regulations.

Generally, wheat flour is one of the key ingredients used in the food manufacturing industry. Some of the major food products that require the use of wheat flour include bread, biscuits, cakes, snacks, noodles and Asian dumplings and buns. Other flour products namely tapioca starch and corn starch are used in the food manufacturing industry as an additive to perform a specific function such as thickener for sauces and soups, binder to help different mixtures to hold its shape or to draw other ingredients together. In addition to the food manufacturing industry, tapioca starch and corn starch are also used in the non-food industries. Some of the common industries that use tapioca starch and corn starch include paper and paperboard, textiles, pharmaceuticals and adhesives.

6.1.2 Prospects of the wheat flour milling and starch products in Malaysia

(i) Wheat flour milling

The wheat flour milling industry is an established industry in Malaysia with the commencement of some of the major flour milling companies in the 1960s. Local production of wheat flour increased from 706,439 MT in 2000 to 949,149 MT in 2018, which grew at a CAGR of 1.7%. Similarly, the sales value of wheat flour increased from RM891.7 million in 2000 to RM2.6 billion in 2018, which recorded a CAGR of 6.1%. Some of the players in the wheat flour milling industry include FFM Berhad, Malayan Flour Mills Berhad, Interflour Holdings (M) Sdn. Bhd., United Malayan Flour (1996) Sdn. Bhd., Seberang Flour Mill Sdn. Bhd. and the KFM Group, which had reactivated its wheat flour milling operations in May 2017. The local wheat flour milling industry is an important supporting industry to the overall food manufacturing industry, particularly in the bakery products sector which includes biscuits, cookies, bread and cakes.

In 2018, the market size of the wheat flour milling industry based on sales value of production was RM2.6 billion. Over the last five (5) years between 2014 and 2018, the sales value of the production of wheat flour milling industry in Malaysia has been relatively stable and experienced growth, from RM2.0 billion in 2014 to RM2.6 billion in 2018. This is supported by a CAGR of 5.8% between 2014 and 2018 in sales value of wheat flour milling in Malaysia. Overall, the production of wheat flour, in terms of tonnage, declined at an average annual rate of 1.9% between 2014 and 2018, but experienced a rebound in 2016 to grow by 9.6% to approximately 890,209 MT, and further increased by 12.1% to approximately 998,163 MT in 2017. However, the production of wheat flour experienced a decline in volume by 4.9% to 949,149 MT in 2018. The decline was likely attributed to the lower demand from its user industries, namely the manufacture of biscuits and cookies as well as bread, cakes and other bakery products. In 2018, the manufacture of biscuits recorded a decline in sales value of 9.5% compared to a 5.1% growth in 2017. Meanwhile, the growth in sales value of the manufacture of bread, cakes and other bakery products also moderated from 27.1% in 2017 to 4.8% in 2018.

For the first seven months of 2019, sales value and volume of wheat flour amounted to RM1.8 billion and 529,773 MT respectively. Compared to the corresponding period in 2018, the sales value increased by 22.9% while the sales volume decreased by 3.9%.

Between 2014 and 2018, the import value and volume of wheat flour declined at an average annual rate of 16.0% and 26.9% respectively. The import value of wheat flour declined from RM258.5 million in 2014 to RM128.6 million in 2018 while the import volume of wheat flour declined from 214,797 MT in 2014 to 61,330 MT in 2018. For the first eight months of 2019, the import value of wheat flour amounted to RM104.9 million, an increase of 22.8% compared to the same period in 2018.

The prospect of the wheat flour milling industry is largely dependent on the demand and performance of the user industries as well as household consumption. The most common user industries of wheat flour include manufacturers of bakery products such as biscuits, cookies, bread and cakes as well as the food services sector. The following statistics provides an indication of the performance of selected user industries:-

- Between 2014 and 2018, the sales value of the manufacture of biscuits and cookies in Malaysia increased at a CAGR of 19.2% from RM1.1 billion in 2014 to RM2.2 billion in 2018. However, sales value of the manufacture of biscuits and cookies declined by 9.5% in 2018 compared to 2017. For the first seven months of 2019, sales value of the manufacture of biscuits and cookies amounted to RM1.2 billion, a decline of 11.5% compared to the corresponding period in 2018.
- Between 2014 and 2018, sales value of the manufacture of bread, cakes and other bakery products grew at a CAGR of 7.4% from RM2.0 billion in 2014 to RM2.6 billion in 2018. The growth in sales value of the manufacture of bread, cakes and other bakery products moderated to 4.8% in 2018 as compared to 2017. For the first seven months of 2019, sales value of the manufacture of bread, cakes and other bakery products amounted to RM1.8 billion, a growth of 18.4% compared to the corresponding period in 2018.
- Between 2009 and 2016, based on the latest statistics available from the Department of Statistics, Malaysia, the average monthly household consumption expenditure of wheat flour and other cereals grew at a CAGR of 9.9%, from RM7.88 per month in 2009 to RM15.28 per month in 2016.
- Generally, the food services sector is also a major user-industry of wheat flour, corn starch and tapioca starch, therefore performance of this sector would also have some implications on the demand for wheat flour as well as starch products. The food services outlets include stand-alone bakeries selling freshly baked goods in retail outlets, commercial or industrial bakeries producing mass market baked goods for retail outlets and cafes, cottage industry supplying to convenience stores as well as night markets, on-line or boutique bakeries, restaurants and café chains with their own baking facilities.

As general purpose flour is a controlled item that is subsidised by the Malaysian Government, the industry prospects may be affected by changes in government policies and regulations. On 1 March 2016, the Malaysian Government removed the subsidy for wheat flour in 25 kg bag, while retaining the subsidy for the 1 kg pack of wheat flour. As a result of the removal of subsidy, the price of a 25 kg bag of flour increased from RM33.75 to an average of RM42.00 as at 1 March 2016.

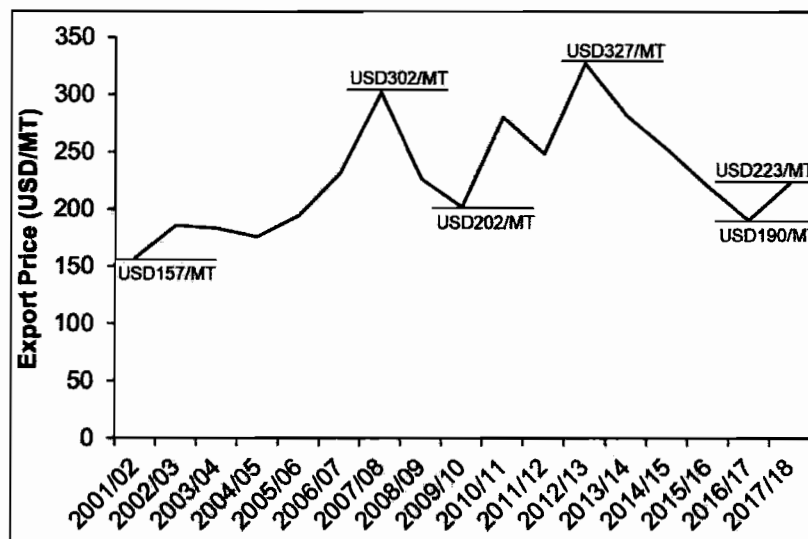
In the 2019 Budget announcement, the Malaysian Government has allocated RM150 million to stabilise the supply and standardise the prices of essential goods including wheat flour.

As Malaysia is not a wheat producer, wheat as a raw material for flour milling is largely imported. Therefore, the prospects of the industry are also dependent, to a certain extent, on the availability of imported wheat as a raw material. In 2018, the import value and volume of wheat amounted to RM1.6 billion and approximately 1.5 million MT respectively. Between 2014 and 2018, the import value and volume of wheat grew at a CAGR of 4.5% and 4.7% respectively. In 2018, the largest source countries for wheat imports into Malaysia were Australia, Canada and Russia, which represented a combined total of 73.3% of imports of wheat into Malaysia in terms of volume.

For the first eight months of 2019, the import value and volume of wheat amounted to RM1.1 billion and 942,016 MT respectively. As compared to the first eight months of 2018, the import value and volume of wheat declined by 3.0% and 12.5% respectively in 2019.

As wheat is a globally traded commodity, the prices of wheat may fluctuate from time to time depending on supply and demand. The prices of wheat would affect the import prices of wheat and subsequently the cost of wheat flour milling in Malaysia. Malaysia's wheat supply is mainly imported from Australia, where Australian wheat accounted for more than 40% of the total imports of wheat. As such, the Australia wheat prices are used to provide an indication of the overall trend in import prices of wheat.

Australian Wheat* Average Export Price



Note: * Australian Standard White (Eastern States); prices quoted free on board (FOB).

The Australian wheat prices have been fluctuating over the past seventeen (17) years between 2001 and 2018. During this period of assessment, the lowest value recorded was USD157 per MT in 2001/2002. Subsequently, the Australian wheat price increased to USD302 per MT in 2007/2008, which was mainly due to lower production. The wheat price declined to USD202 per MT in 2009/2010 before recovering to USD327 per MT in 2012/2013. Subsequently, wheat prices declined to USD190 per MT in 2016/2017 before it rebounded to USD223 per MT in 2017/2018. Hence, any fluctuations in wheat prices would have a direct impact on the performance of the wheat flour milling industry in Malaysia.

Within wheat flour operations, the KFM Group is also involved in the production of premixed flour or premixes. Premixes are ready-made mixtures made from wheat flour and other ingredients such as sugar, raising agents and flavourings that are used for the production of bakery products including bread, cakes and cookies. According to the Department of Statistics, Malaysia, there is no official data captured on the production of premixes. In this respect, import and export statistics are used as a proxy to provide as an indication of demand. According to the Department of Statistics, Malaysia, premixes refers to mixes and dough for the preparation of bakery products such as bread, pastry, cakes and biscuits.

Between 2014 and 2018, the import value of premixes recorded a CAGR of 14.7%, from RM76.8 million in 2014 to RM133.2 million in 2018. However, the export value of premixes declined at an average annual rate of 4.4% between 2014 and 2018, from RM77.1 million in 2014 to RM64.4 million in 2018.

For the first eight months of 2019, the import and export values of premixes amounted to RM79.0 million and RM46.4 million respectively. As compared to the first eight months of 2018, the import value of premixes decreased by 15.4%, while the export value increased by 5.4%.

(ii) Tapioca starch and corn starch products

Malaysia is a net importer of starches (including among others, corn, tapioca, potato and sago) and this is supported by the fact that in 2018, the import value of starches amounted to RM789.0 million compared to an export value of RM50.7 million.

The starch sector has been experiencing a growing trend over the last five (5) years, mainly driven by demand from the user industries. In 2018, the import value and volume of starches amounted to RM789.0 million and 431,509 MT respectively. The import value of starches grew at a CAGR of 8.3% between 2014 and 2018, from RM573.1 million in 2014 to RM789.0 million in 2018. Of the total RM789.0 million in value of starch imports in 2018, tapioca starch and corn starch accounted for 63.2% and 26.2% respectively of imports under this category. Similarly, the import volume also recorded a CAGR of 4.9% between 2014 and 2018, from 356,844 MT in 2014 to 431,509 MT in 2018. For the first eight months of 2019, the import value of starches amounted to RM451.7 million, a decrease of 9.8% compared to the same period in 2018.

Between 2014 and 2018, the import value and volume of tapioca starch increased at a CAGR of 17.9% and 10.3% respectively. In 2018, the imports of tapioca starch in Malaysia amounted to RM498.4 million with an import volume of approximately 262,815 MT. For the first eight months of 2019, the import value of tapioca starch amounted to RM200.0 million, a decrease of 37.0% compared to the same period in 2018.

The import value and volume of corn starch grew at a CAGR of 23.7% and 26.6% respectively between 2014 and 2018. In 2018, the import value of corn starch grew extensively by 103.4% to RM206.8 million, while the import volume increased by 113.0% to 134,026 MT. For the first eight months of 2019, the import value of corn starch amounted to RM197.5 million, an increase of 59.7% compared to the same period in 2018.

Both tapioca starch and corn starch are used in food manufacturing industry, food services sectors as well as household consumption. In addition to these user industries, tapioca starch and corn starch are also commonly used in industrial applications such as paper and paperboard manufacturing industry, textile and adhesive industries. The performance of the selected user industries for tapioca starch and corn starch are as follows:-

- Between 2014 and 2018, for the textile industry, the sales value of spinning, weaving and finishing of textiles (excluding batek making) decreased at an annual rate of 1.1%, from RM4.7 billion in 2014 to RM4.5 billion in 2018. The sales value of spinning, weaving and finishing of textiles increased by 2.5% in 2018. For the first seven months of 2019, sales value of the spinning, weaving and finishing of textiles (excluding batek making) amounted to RM2.6 billion, a growth of 2.3% compared to the corresponding period in 2018.
- Between 2014 and 2018, the sales value of the manufacture of pulp, paper and paperboard grew at a CAGR of 1.7%, from RM2.2 billion in 2014 to RM2.4 billion in 2018. The sales value of the manufacture of pulp, paper and paperboard grew by 18.1% in 2018. For the first seven months of 2019, sales value of the manufacture of pulp, paper and paperboard amounted to RM1.4 billion, a growth of 1.3% compared to the corresponding period in 2018.

- Between 2014 and 2018, the sales value of the manufacture of corrugated paper and paperboard, and containers made of paper and paperboard grew at a CAGR of 4.4%, from RM3.5 billion in 2014 to RM4.2 billion in 2018. The sales value of manufacture of corrugated paper and paperboard and containers made of paper and paperboard increased by 1.6% in 2018. For the first seven months of 2019, sales value of the manufacture of corrugated paper and paperboard, and containers made of paper and paperboard amounted to RM2.6 billion, a growth of 5.8% compared to the corresponding period in 2018.
- Between 2014 and 2018, the sales value of the manufacture of veneer sheet and plywood recorded a CAGR of 9.1%, from RM6.9 billion in 2014 to RM9.7 billion in 2018. The sales value of the manufacture of veneer sheet and plywood increased by 2.3% in 2018. For the first seven months of 2019, sales value of the manufacture of veneer sheet and plywood amounted to RM5.8 billion, a growth of 3.2% compared to the corresponding period in 2018.
- Between 2014 and 2018, sales value of the manufacture of sauces and condiments recorded a CAGR of 1.0% from approximately RM1,100 million in 2014 to RM1,144 million in 2018. However, the sales value of the manufacture of sauces and condiments decreased by 2.4% in 2018. For the first seven months of 2019, sales value of the manufacture of sauces and condiments amounted to RM745 million, a growth of 13.8% compared to the corresponding period in 2018.

The raw material used in the production of corn starch is corn. As Malaysia is not a major corn producer, the country is dependent on the imports of corn as a raw material for the production of corn starch. In 2018, the import value of corn amounted to RM3.3 billion with a corresponding import volume of 3.8 million MT. Between 2014 and 2018, the import value of corn as a raw material grew at a CAGR of 1.4% while import volume grew at a CAGR of 0.1%.

The raw material used in the production of tapioca starch is tapioca, which is also known as cassava. Based on the latest available statistics and information, the sales value of local production of cassava amounted to RM59.7 million in 2017. The import value of cassava increased at a CAGR of 44.9%, from RM3.1 million in 2014 to RM13.8 million in 2018. In 2018, Malaysia imported cassava (including fresh, chilled and frozen types) from foreign countries including China and Hong Kong, as well as other neighbouring countries such as Thailand, Vietnam and Indonesia. In 2018, the import value of cassava declined by 36.5% from RM21.8 million in 2017 to RM13.8 million.

(iii) Market size and market share

In 2018, the market size of the wheat flour milling industry based on sales value of production was RM2.6 billion.

In 2018, the KFM Group had a market share of less than 1% in the flour milling industry. This was based on the KFM Group's revenue of RM11.1 million for FYE2018, which was derived from sales of wheat flour, including main flour, wheat pollard and industrial flour alone.

(Source: IMR Report)

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6.2 Prospects of our Group

6.2.1 Cessation of wheat flour milling operations

Our Group incurred losses between the financial years ended 31 March 2001 and 31 March 2008 due largely to a provision made in respect of a corporate guarantee issued by our Company as well as the volatile wheat prices which had affected all flour millers, whilst from the financial year ended 31 March 2009 onwards, our profitability was adversely affected by the margin squeeze experienced by our Group, which was mainly due to cash flow constraints as a result of depleted working capital arising from continuing contraction in sales volume and the erosion in profit margin, which had affected our product pricing competitiveness, our ability in purchasing the requisite raw materials and managing wheat price fluctuations.

Over time, these adverse developments had triggered a chain effect that had gradually tapering our production volume of wheat flour and hence, the associated sales volume, revenue and profit margin. This has eventually led to the cessation of our wheat flour milling operations at the end of FYE2016. The continuous losses incurred by us had also depleted the level of our Group's shareholders' equity to below 25% of our issued share capital, thereby triggering the criterion prescribed under Paragraph 2.1(a) of PN17 and leading to us announcing on 28 December 2015 that our Company has become a PN17 company.

Through the advances and suppliers' credit extended by Lotus to our Company pursuant to the BA, the margin squeeze experienced by our Group due to cash flow constraints has been addressed. The advances and suppliers' credit extended by Lotus to our Company, which will be substantially settled via the Debt Conversion and Set-Off, had enabled us to reactivate and continue with our flour milling operations as well as the commencement of trading of starches, while the proceeds to be raised from the Private Placement and the Rights Issue will provide for the working capital requirements of our Group's wheat flour and starches businesses for a period of twenty-four (24) months from the completion of the Regularisation Plan.

6.2.2 All requisite business processes have been recommissioned

As with any manufacturing operations, it would be extremely challenging to revive once it has ceased operations, particularly on the restoration of machinery after prolong idling, re-employment of employees and re-establishment of working relationship with customers and suppliers. In addition, as wheat flour is a consumer product, we need to assure our former/potential new customers on the quality of wheat flour produced as well as the consistency of supplies before they would begin placing bulk orders with our Company.

We had, through the efforts expended and financial assistance provided by Lotus pursuant to the business collaboration arrangement via the BA, recommissioned the following requisite business processes of our Group, which had led to the reactivation of Line 2 in May 2017 and subsequently, enabled us to "break-even" and achieve our first (1st) monthly profit before tax in April 2018 and first (1st) quarterly profit (for the FPE 30 June 2018) in less than one (1) year since the commencement of reactivation of our flour milling operations.

Business process Efforts and financial assistance provided by Lotus

Input

- Procurement of raw materials

The temporary cessation of our flour milling operations in September 2016 was mainly due to the cash constraint experienced by us. Pursuant to the BA, Lotus had since extended supplier's credit totalling RM120.40 million (up to the LPD) to our Company to enable us to procure the required raw materials for our wheat flour milling operations as well as the trading of starches.

In terms of wheat flour, Lotus had since mid-April 2017 up to the LPD assisted us, through supplier's credit, for the purchase of approximately 37,190 MT of wheat (with an aggregate value of RM44.37 million) for the purpose of our wheat flour production. As for tapioca starch, Lotus had since May 2017 up to the LPD supplied us, as a distributor of Lotus, with a total of approximately 35,119 MT of starches (with an aggregate value of RM57.66 million) for our trading of starches.

Production

- Employees on production floor
- Production line

To reactivate our wheat flour milling line, we need to retain the remaining staff and continue to recruit suitable former staff as well as new staff to participate in the restoration of Line 2 and thereafter, to operate Line 2 upon successful recommissioning.

To facilitate the aforesaid action plans, Lotus had, up to the LPD, extended advances of approximately RM18.37 million to our Company for the purpose of:-

- Working capital for payment of staff salaries and operational expenses. This serves to retain and recruit the necessary staff for our wheat flour milling operations as well as trading of tapioca starch.
- Restoration of Line 2, including parts replacement, repair, testing and commissioning. The said milling line had since been restored and commenced production of wheat flour from May 2017 onwards.

Since reactivation, the production of Line 2 has been on a rising trend, but with production volume gradually stepping up in excess of 1,300 MT per month, we begun to experience breakdown on Line 2 in July 2018, which is due primarily to the subsisting condition of Line 2, where certain core components are not at their optimum condition (“**Machine Disruption**”). Such machine downtime has affected the monthly production volume and extraction yield of wheat flour. In addressing the foregoing issue, we had to cap the production volume of wheat flour at 1,000 MT per month in order not to exert undue pressure on Line 2. This serves to facilitate continuity of production through slowing down production volume thereby reducing disruption caused by machine breakdown and increasing product quality/extraction yield with the aim of minimising disruption in supply to customers pending the installation of the New Line.

Through the assistance of Lotus, we have, on 31 July 2019, successfully installed and commissioned the New Line with a processing capacity of 300 MT input of wheat per day with the aim of meeting the anticipated future sales growth as well as serving as an alternate milling line in the event of any abrupt disruption in production.

The total cost incurred for the implementation of the New Line is as follows:-

	RM'000
Cost of the New Line	10,558
Renovation of section of factory for the New Line, including electrical and wiring related expenses	151
Total	10,709

The New Line serves to meet the potential orders from both domestic and overseas in view of the production constraint experienced by our Company due to the Machine Disruption.

Output

- Finished goods

Wheat flour

Upon recommission, the restored Line 2 had gradually stepping up production volume, which had enable us to achieve an increasing sales volume on wheat flour from a low of 66 MT in May 2017 to a peak of 2,130 MT in April 2019. Nevertheless, due to the Machine Disruption, which has affected our extraction yield of wheat flour and the associated production costs, we have installed and commissioned the New Line on 31 July 2019.

Starches

At the same time, through the assistance of Lotus, we had also commenced the trading of starches in May 2017. We managed to increase the trading volume of starches from 384 MT in May 2017 to a peak of 1,727 MT in July 2019.

Pursuant to the supplemental BA, the trading of tapioca starch and corn starch business will be fully assumed by us, while Lotus will cease to be involved in such business upon implementation of the Regularisation Plan. This serves to prevent any future conflict of interest as the controlling shareholder of Lotus, i.e. the Placement Investor, has emerged as a major shareholder of our Company pursuant to the Private Placement.

Since recommencement in May 2017 and up to the LPD, we have recorded total revenue and profit before tax of approximately RM66.60 million and RM8.94 million respectively from the trading of tapioca starch and corn starch.

Sales

- **Marketing** We had also re-established the marketing of our wheat flour products as well as starches through our regional offices located in Johor, Selangor and Malacca.
- **Delivery** To ensure timely and uninterrupted delivery of our products to customers, Lotus had since supplied six (6) units of box vans and three (3) units of flour tankers to us for the delivery of wheat flour in bags as well as bulk delivery. The leasing of the box vans and flour tankers will continue until the PN17 status of our Company has been normalised as we intend to procure hire-purchase financing for the purchase of the same from Lotus.

- **Orders**

Domestic market

Upon obtaining the International Organization for Standardization (ISO) certification in July 2018, we began to receive larger volume of orders from some bulk purchase customers. As at the LPD, such customers have purchased a total of approximately 8,644 MT of wheat flour with the sales value of RM13.90 million.

Overseas market

Our management ascertained the market potential of premixes in China through Lotus' business network and marketing trips carried out by certain management staff of our Company to China. Currently, we are in the midst of procuring the requisite permit for the export of premixes to China through trading partners/traders based in China/Hong Kong.

In relation to the foregoing, we have demonstrated through our third (3rd) quarterly results for the FYE2018 that with the commissioning of all requisite business processes as highlighted above, we managed to turn around and register our first (1st) quarterly profit for the FPE 30 June 2018 since the commencement of reactivation of our wheat flour milling operations.

Nevertheless, we recorded lower GPs of RM0.68 million, RM0.48 million and RM0.20 million for the FPE 30 September 2018, FPE 31 December 2018 and FPE 31 March 2019 respectively (FPE 30 June 2018: RM0.86 million) due to the Machine Disruption despite higher revenue of RM11.92 million, RM12.71 million and RM14.36 million for the same periods (FPE 30 June 2018: RM11.49 million). In tandem with the lower GPs recorded, we incurred LATs of RM0.54 million, RM0.44 million and RM0.78 million for the FPE 30 September 2018, FPE 31 December 2018 and FPE 31 March 2019 respectively as opposed to a profit after tax of RM0.03 million registered for FPE 30 June 2018.

Although we slipped into losses after July 2018 due to the Machine Disruption, with all requisite business processes being fully recommissioned and coupled with the commissioning of the New Line on 31 July 2019, both our Company and Lotus are confident that we would be able to firm up potential orders from both domestic and overseas markets, and hence, return to a significant level of operations.

In fact, it is with due consideration to the foregoing, Lotus is confident on our future profitability and hence, has provided a two (2)-year profit guarantee of RM4.00 million in aggregate on the after tax profit of KFM upon full implementation of the Regularisation Plan.

6.2.3 Future prospects

The prospects of our Group are dependent on the successful implementation of the Regularisation Plan and our Group's ability to continue penetrating the market with the assistance of Lotus. This is underpinned by the continuing demand for wheat flour and starch products in Malaysia.

Some of the key strengths that will support the prospects of our Group are as follows:-

- (i) Our Group has an established track record of more than thirty (30) years in the wheat flour milling industry since we commenced operations in 1986;
- (ii) Our Group has reactivated our plant and facilities and started commercial production for wheat flour milling and commenced the trading of tapioca starch and corn starch as well as the production of premixed flour or premixes as at the LPD. In addition, we have also successfully installed and commissioned the New Line with a processing capacity of 300 MT input of wheat per day on 31 July 2019;
- (iii) Our Group has the financial resources to purchase raw materials after addressing our financial constraints, which had resulted in the temporary cessation of our wheat flour milling operations in September 2016, through a business collaboration arrangement with Lotus via the BA. In addition, we are expecting to raise a total gross proceeds of RM34.11 million, after the Set-Off, upon completion of the Regularisation Plan; and
- (iv) Our Group has the distribution network in place, established market presence with over thirty (30) years of operating history as well as an experienced production team in place to continue operations.

We have an enlarged addressable market with the introduction of starch products and premixes, which are flour related, as part of our new product portfolio. In addition to our traditional wheat flour milling products which primarily serves the food manufacturing sector and food services, our business model of expanding into flour related products, namely starch products, has enable us to target industrial applications within non-food based industries.

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7.0 EFFECTS OF THE REGULARISATION PLAN

The Amendments and the Set-Off will not have any effect on the share capital, earnings, EPS, NA, gearing and substantial shareholders' shareholdings of our Company.

7.1 Share capital

The pro forma effects of the Private Placement, the Rights Issue and the Debt Restructuring on our issued share capital are as follows:-

<u>Minimum Scenario</u>	No. of ordinary shares	Total Value (RM)	No. of RCPS	Total Value (RM)
Issued share capital as at the LPD	95,519,084	⁽¹⁾ 6,062,377	-	-
To be issued pursuant to the Rights Issue	477,595,420	⁽²⁾ 37,876,021	-	-
After the Rights Issue	573,114,504	43,938,398	-	-
To be issued pursuant to the Debt Restructuring	116,580,700	⁽³⁾ 11,051,850	300,000,000	15,000,000
After the Debt Restructuring	689,695,204	54,990,248	300,000,000	15,000,000
To be issued pursuant to conversion of RCPS	150,000,000	15,000,000	(300,000,000)	(15,000,000)
To be issued upon exercise of Warrants	-	-	-	-
Enlarged issued share capital	839,695,204	69,990,248	-	-
<u>Maximum Scenario</u>				
Issued share capital as at the LPD	95,519,084	⁽¹⁾ 6,062,377	-	-
To be issued pursuant to the Rights Issue	477,595,420	⁽²⁾ 37,876,021	-	-
After the Rights Issue	573,114,504	43,938,398	-	-
To be issued pursuant to the Debt Restructuring	116,580,700	⁽³⁾ 11,051,850	300,000,000	15,000,000
After the Debt Restructuring	689,695,204	54,990,248	300,000,000	15,000,000
To be issued pursuant to conversion of RCPS	300,000,000	30,000,000	(300,000,000)	(15,000,000)
To be issued upon full exercise of Warrants	297,088,060	⁽⁴⁾ 38,292,672	-	-
Enlarged issued share capital	1,286,783,264	123,282,920	-	-

Notes:-

- (1) Having accounted for the 27,290,000 Placement Shares issued to the Placement Investor on 1 October 2019 pursuant to the Private Placement as well as RM2,729,000 capitalised as share capital and RM108,902 estimated expenses deducted against share capital.
- (2) Out of the RM47,759,542 arising from the Rights Issue, RM39,019,546 will be capitalised as share capital, whilst the remaining RM8,739,996 will be recognised as warrant reserve. The estimated expenses of RM1,905,875 will be deducted against share capital and warrant reserve by RM1,143,525 and RM762,350 respectively.
- (3) Pursuant to the Debt Settlement, 70% of the Indebtedness or RM11,658,070 is proposed to be settled via the issuance of Settlement Shares with free Warrants. Out of which, RM11,051,850 will be capitalised as share capital, whilst the remaining RM606,220 will be recognised as warrant reserve.
- (4) Pursuant to full exercise of 297,088,060 Warrants at the Exercise Price and the reversal of warrant reserve totalling RM8,583,866.

For clarity, the estimated expenses are allocated for each of the proposals in notes (1) and (2) above, as transaction costs of an equity transaction are accounted for as a deduction from equity to the extent that costs are directly attributable to the equity transaction in accordance with Malaysian Financial Reporting Standard 132 (“MFRS 132”), paragraph 37. However, the transaction costs incurred for the Proposed Debt Restructuring does not meet the definition of MFRS 132 as the new ordinary shares (equity instrument) are issued to a creditor by way of indebtedness/settlement/extinguishment.

7.2 Earnings and EPS

The Regularisation Plan is expected to be completed by the first (1st) quarter of FYE2020. Our Board expects the Regularisation Plan, as part of our plan to regularise our financial condition and return our Group to profitability, to contribute positively to the future earnings of our Group for the FYE2020. We would also recognise a one-off gain of approximately RM5.00 million as a result of the waiver of debts pursuant to the Debt Restructuring.

Moving forward, our Group’s future earnings would depend on, amongst others, the return generated from the utilisation of the proceeds arising from the Private Placement and the Rights Issue.

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7.3 NA and gearing

As at the LPD, there are no material transactions which may have a material effect on the operations, financial position and results of our Group since our latest unaudited consolidated financial statement for the nine (9)-month financial period ended 30 June 2019 (“FPE2019”).

The pro forma effects of the Private Placement, the Rights Issue and the Debt Restructuring on the consolidated gearing and NA per share of our Company based on our latest unaudited consolidated financial statement for the FPE2019 are as follows:-

	Unaudited as at 30 June 2019 RM'000	(I) After the Private Placement and Set-Off RM'000	(II) After (I) and the Rights Issue and Set-Off RM'000	(III) After (II) and the Debt Restructuring RM'000	(IV) After (III) and conversion/exercise of RCPS/Warrants (where relevant) RM'000
Minimum Scenario					
Share capital	3,442	6,062	43,938	54,990	69,990
RCPS	-	-	-	15,000	(6) -
Warrant reserve	-	-	(2) 7,978	(4) 8,584	(7) 8,584
Accumulated losses	(31,145)	(31,145)	(3) (31,365)	(5) (26,834)	(26,834)
Shareholders' equity	(27,703)	(25,083)	20,551	51,740	51,740
No. of shares ('000)	68,229	95,519	573,114	689,695	839,695
(NL)/NA per share (RM)	(0.41)	(0.26)	0.04	0.08	0.06
Borrowings (RM'000)	-	-	-	-	-
Gearing (times)	*	*	*	*	*
Maximum Scenario					
Share capital	3,442	6,062	43,938	54,990	123,283
RCPS	-	-	-	15,000	(8) -
Warrant reserve	-	-	(2) 7,978	(4) 8,584	(9) -
Accumulated losses	(31,145)	(31,145)	(3) (31,365)	(5) (26,834)	(26,834)
Shareholders' equity	(27,703)	(25,083)	20,551	51,740	96,449
No. of shares ('000)	68,229	95,519	573,114	689,695	1,286,783
(NL)/NA per share (RM)	(0.41)	(0.26)	0.04	0.08	0.07
Borrowings (RM'000)	-	-	-	-	-
Gearing (times)	*	*	*	*	*

Notes:-

- (1) After adjusted for the 27,290,000 Placement Shares allotted to the Placement Investor on 1 October 2019 pursuant to the Private Placement.
 - (2) After recognising the fair value per Warrant based on apportionment to the Rights Shares and Warrants pursuant to the Rights Issue of approximately RM8.74 million and the deduction of estimated expenses of approximately RM0.76 million.
 - (3) After deducting the remaining estimated expenses of approximately RM0.22 million to be incurred pursuant to the Regularisation Plan.
 - (4) After recognising the fair value per Warrant based on apportionment to the Settlement Shares and Warrants pursuant to the Debt Settlement. The fair value per Warrant was derived with the Trinomial Option Pricing Model through Bloomberg based on, inter-alia, the indicative salient terms of the Warrants as given in Section 2.6 of this Abridged Prospectus and the TERP of RM0.1060 per KFM Share after the Rights Issue, calculated based on the Issue Price and the five (5)-day VWAMP of KFM Shares up to and including the LPD of RM0.1506.
 - (5) After taking into consideration of the debt waiver of approximately RM5.00 million and estimated expenses of approximately RM0.46 million to be incurred pursuant to the Debt Restructuring.
 - (6) After conversion of all 300,000,000 RCPS into 150,000,000 new KFM Shares under the Non-Cash Option.
 - (7) Assuming all of the 297,088,060 Warrants will remain unexercised.
 - (8) After conversion of all 300,000,000 RCPS into 300,000,000 new KFM Shares under the Cash Option
 - (9) After the exercise of all 297,088,060 Warrants at an exercise price of RM0.10 each and setting off warrant reserve of approximately RM8.58 million against share capital.
- * Not applicable.

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7.4 Substantial shareholders' shareholdings

The pro forma effects of the Regularisation Plan on the substantial shareholders' shareholdings in our Company are as follows:-

<u>Minimum Scenario</u>	As at the LPD				(I) After the Rights Issue				(II) After (I) and the Debt Restructuring			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of shares	(1) %	No. of shares	%	No. of shares	(2) %	No. of shares	(3) %	No. of shares	(3) %	No. of shares	%
Substantial Shareholders	9,606,000	10.06	-	-	57,636,000	10.06	-	-	57,636,000	8.36	-	-
CWL	-	-	9,606,000	10.06	-	-	57,636,000	10.06	-	-	57,636,000	8.36
Chia Weng Lock ⁽⁵⁾	5,346,250	5.60	-	-	32,077,500	5.60	-	-	32,077,500	4.65	-	-
Neo Kim Hock	27,290,000	28.57	-	-	163,740,000	28.57	-	-	163,740,000	23.74	-	-
Placement Investor	-	-	-	-	-	-	-	-	44,610,520	6.47	-	-
LH ATF Fund ⁽⁷⁾	-	-	-	-	-	-	-	-	-	-	-	-
Lotus ⁽⁷⁾	-	-	-	-	-	-	-	-	-	-	-	-

	(III) After (II) and conversion of all RCPS			
	Direct		Indirect	
	No. of shares	(4) %	No. of shares	%
Substantial Shareholders	57,636,000	6.86	-	-
CWL	-	-	57,636,000	6.86
Chia Weng Lock ⁽⁵⁾	32,077,500	3.82	-	-
Neo Kim Hock	163,740,000	19.50	(6) 150,000,000	17.86
Placement Investor	44,610,520	5.31	-	-
LH ATF Fund ⁽⁷⁾	150,000,000	17.86	-	-
Lotus ⁽⁷⁾	-	-	-	-

Notes:-

- (1) As a percentage of the enlarged 95,519,084 KFM Shares after the Private Placement.
- (2) As a percentage of the enlarged 573,114,504 KFM Shares after the Rights Issue.
- (3) As a percentage of the enlarged 689,695,204 KFM Shares after the Debt Restructuring.
- (4) As a percentage of the enlarged 839,695,204 KFM Shares after the full conversion of all RCPS under the Non-Cash Option, while all of the Warrants are assumed to remain unexercised.

- (5) Deemed interested pursuant to Section 8(4) of the Act by virtue of his substantial shareholding in CWL.
- (6) Deemed interested pursuant to Section 8(4) of the Act by virtue of his substantial shareholding in Lotus.
- (7) Pursuant to the Debt Restructuring.

For clarity, the Settlement Shares shall be issued after the Entitlement Date and hence will not be entitled to participate in the Rights Issue.

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Maximum Scenario

Substantial Shareholders	As at the LPD				(I) After the Rights Issue				(II) After (I) and the Debt Restructuring			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of shares	(1) %	No. of shares	%	No. of shares	(2) %	No. of shares	(3) %	No. of shares	(3) %	No. of shares	%
CWL	9,606,000	10.06	-	-	57,636,000	10.06	-	-	57,636,000	8.36	-	-
Chia Weng Lock (5)	-	-	9,606,000	10.06	-	-	57,636,000	10.06	-	-	57,636,000	8.36
Neo Kim Hock	5,346,250	5.60	-	-	32,077,500	5.60	-	-	32,077,500	4.65	-	-
Placement Investor LH ATF Fund (7)	27,290,000	28.57	-	-	163,740,000	28.57	-	-	163,740,000	23.74	-	-
Lotus (7)	-	-	-	-	-	-	-	-	44,610,520	6.47	-	-

(III)

After (II) and the conversion/exercise of all RCPS and Warrants

Substantial Shareholders	Direct			Indirect		
	No. of shares	(4) %	No. of shares	No. of shares	(4) %	%
CWL	81,651,000	6.35	-	-	-	-
Chia Weng Lock (5)	-	-	81,651,000	6.35	-	-
Neo Kim Hock	45,443,125	3.53	-	-	-	-
Placement Investor	231,965,000	18.03	(6) 300,000,000	23.31	-	-
LH ATF Fund (7)	66,915,780	5.20	-	-	-	-
Lotus (7)	300,000,000	23.31	-	-	-	-

Notes:-

- (1) As a percentage of the enlarged 95,519,084 KFM Shares after the Private Placement.
- (2) As a percentage of the enlarged 573,114,504 KFM Shares after the Rights Issue.
- (3) As a percentage of the enlarged 689,695,204 KFM Shares after the Debt Restructuring.
- (4) As a percentage of the enlarged 1,286,783,264 KFM Shares after the full conversion of all RCPS under the Cash Option and full exercise of all Warrants.
- (5) Deemed interested pursuant to Section 8(4) of the Act by virtue of his substantial shareholding in CWL.
- (6) Deemed interested pursuant to Section 8(4) of the Act by virtue of his substantial shareholding in Lotus.

(7) Pursuant to the Debt Restructuring.

For clarity, the Settlement Shares shall be issued after the Entitlement Date and hence will not be entitled to participate in the Rights Issue.

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7.5 Convertible securities

As at the LPD, our Company does not have any outstanding convertible securities in issue.

8.0 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

8.1 Working Capital

Our Group's current working capital is funded by Lotus through advances and supplier's credit pursuant to the BA. As at the LPD, the total outstanding advances and supplier's credit extended by Lotus to our Group stood at RM41.64 million, of which RM15.00 million will be converted into 300.00 million RCPS pursuant to the DCA, RM16.37 million will be settled through the Set-Off and the remaining RM10.27 million shall be settled by us in our ordinary course of business.

Our Directors are of the opinion that after taking into account the current cash flow position, the expected fund to be generated from operating activities and the proceeds to be raised from the Regularisation Plan, we will have adequate working capital to meet the present and foreseeable requirements for a period of twelve (12) months from the date of this Abridged Prospectus.

Immediately upon full implementation of the Regularisation Plan, we would be expecting to raise a gross proceeds of RM34.11 million, which has been substantially earmarked for our working capital purposes. Thereafter, we may raise further proceeds from the conversion/exercise of RCPS (under Cash Option)/Warrants, if any and where relevant, from time to time. In addition, we may procure credit facilities from financial institutions should the need arises with due consideration to our then no-gearing and enhanced financial position.

8.2 Borrowings

As at the LPD, our Group has no outstanding bank borrowings.

Our Board confirmed that there has been no default on payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year and the subsequent financial period up to the LPD.

8.3 Material commitments and contingent liabilities

As at the LPD, our Board confirmed that there are no material commitments and contingent liabilities incurred or known to be incurred by our Group which, upon becoming due and enforceable, may have a material and adverse impact on the financial results/position of our Group.

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9.0 INSTRUCTIONS FOR ACCEPTANCE, PAYMENT, SALE/TRANSFER AND EXCESS APPLICATION

9.1 General

FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL ALLOTMENT, EXCESS APPLICATION FOR THE RIGHTS SHARES AND THE PROCEDURES TO BE FOLLOWED SHOULD YOU WISH TO SELL/TRANSFER ALL OR ANY PART OF YOUR ENTITLEMENT ARE SET OUT IN THIS ABRIDGED PROSPECTUS AND THE ACCOMPANYING RSF.

YOU AND/OR YOUR RENOUNCEE(S)/TRANSFeree(S) (IF APPLICABLE) ARE ADVISED TO READ THIS ABRIDGED PROSPECTUS, THE ACCOMPANYING RSF AND THE NOTES AND INSTRUCTIONS PRINTED THEREIN CAREFULLY.

If you are an Entitled Shareholder, your CDS Account will be duly credited with the number of Provisional Allotment which you are entitled to subscribe for in full or in part under the terms and conditions of the Rights Issue. You will find enclosed together with this Abridged Prospectus, one (1) NPA notifying you of the crediting of such Provisional Allotment into your CDS Account and one (1) RSF to enable you to subscribe for the Provisional Allotment in respect of the Rights Shares (together with Warrants) that you have been provisionally allotted as well as to apply for Excess Rights Shares if you choose to do so. This Abridged Prospectus and the RSF are also available on Bursa Securities' website (<http://www.bursamalaysia.com>).

You and/or your renounee(s)/transferee(s) (if applicable) should take note that a trading board lot for the Rights Shares and Warrants will comprise 100 Rights Shares and 100 Warrants each respectively. Successful applicants of the Rights Shares in relation to the Rights Issue will be given free Warrants on the basis of one (1) Warrant for every two (2) Rights Shares successfully subscribed for. The minimum number of Rights Share that can be subscribed for or accepted in relation to the Rights Issue is one (1) Rights Share. Fractions of a Rights Share and Warrants which may arise from the Rights Issue will be disregarded and shall be dealt with in such manner as our Board shall in their absolute discretion deem fit, expedient and in the best interests of our Company.

Our Share Registrar will not contact you and/or your renounee(s) and/or transferee(s) (where applicable) for acceptance which do not strictly conform with the terms and conditions of this Abridged Prospectus or the RSF and the notes and instruction contained in the RSF or which are illegible. An announcement on the outcome of the Rights Issue shall be released to Bursa Securities after the Closing Date.

9.2 NPA

The Provisional Allotment are prescribed securities pursuant to Section 14(5) of the SICDA and therefore, all dealings in the Provisional Allotment will be by book entries through CDS Accounts and will be governed by the SICDA and the Rules of Bursa Depository. You and/or your renounee(s)/transferee(s) (if applicable) are required to have valid and subsisting CDS Accounts when making your applications.

9.3 Last date and time for acceptance and payment

The last date and time for acceptance and payment for the Rights Issue is at **5.00 p.m. on 14 November 2019**, or such extended date and time as our Board and the Joint Underwriters may decide at their absolute discretion. Where the closing date of the acceptance and payment is extended from the original closing date, the announcement of such extension will be made not less than two (2) Market Days before the original closing date.

9.4 Procedures for acceptance and payment

Acceptance and payment for the Provisional Allotment allotted to you as an Entitled Shareholder must be made using the relevant RSF enclosed together with this Abridged Prospectus and must be completed in accordance with the notes and instructions contained in these documents. Acceptances which do not strictly conform to the terms of this Abridged Prospectus, NPA or RSF or the notes and instructions contained in these documents or which are illegible may not be accepted at the absolute discretion of our Board.

You and/or your renounee(s)/transferee(s) (if applicable) who are accepting the Provisional Allotment are required to fill and complete Parts I(A) and II of the RSF in accordance with the notes and instructions contained in the RSF. Each completed and signed RSF together with the relevant payment must be despatched by **ORDINARY POST, COURIER** or **DELIVERED BY HAND** using the envelope provided (at your own risk) to our Share Registrar at the following address:-

Securities Services (Holdings) Sdn. Bhd.
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Wilayah Persekutuan

Tel No. : +603 2084 9000

Fax No. : +603 2094 9940 / +603 2095 0292

so as to arrive **not later than 5.00 p.m. on 14 November 2019**, being the last date and time for acceptance and payment for the Rights Issue, or such later date and time as our Board and the Joint Underwriters may decide and announce not less than two (2) Market Days before the stipulated date and time.

One (1) RSF can only be used for acceptance of the Provisional Allotment standing to the credit of one (1) CDS Account. Separate RSF must be used for the acceptance of the Provisional Allotment standing to the credit of more than one (1) CDS Account. If successful, Rights Shares (together with the Warrants) subscribed by you or your renounee(s)/transferee(s) (if applicable) will be credited into the respective CDS Account(s) where the Provisional Allotment is standing to the credit.

A reply envelope is enclosed in this Abridged Prospectus. In order to facilitate the processing of the RSF by our Share Registrar for the Provisional Allotment, you are advised to use one (1) reply envelope for each completed RSF.

If acceptance and payment for the Provisional Allotment is not received by our Share Registrar by **5.00 p.m. on 14 November 2019**, being the last date and time for acceptance and payment for the Rights Issue, or such later date and time as our Board and the Joint Underwriters may decide and announce not less than two (2) Market Days before the stipulated time and date, you will be deemed to have declined the Provisional Allotment made to you and it will be cancelled. In the event that the Rights Shares are not fully taken up by such applicants, our Board will then have the right to allot such Rights Shares to the applicants who have applied for Excess Rights Shares in the manner as set out in Section 9.8 of this Abridged Prospectus. Proof of time of postage shall not constitute proof of time of receipt by our Share Registrar. Our Board reserves the right to accept or reject any application in full or in part only without providing any reasons.

If you lose, misplace or for any other reasons require another copy of the RSF, you may obtain additional copies from your stockbrokers, Bursa Securities' website (<http://www.bursamalaysia.com>), our Share Registrar at the address stated above or our registered office.

EACH COMPLETED RSF MUST BE ACCOMPANIED BY THE APPROPRIATE REMITTANCE MADE IN RM FOR THE FULL AMOUNT PAYABLE FOR THE RIGHTS SHARES ACCEPTED IN THE FORM OF BANKER'S DRAFT(S), CASHIER'S ORDER(S), MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA CROSSED "ACCOUNT PAYEE ONLY" AND MADE PAYABLE TO "KFM RIGHTS SHARES ACCOUNT" AND ENDORSED ON THE REVERSE SIDE WITH YOUR NAME IN BLOCK LETTERS, CONTACT NUMBER TOGETHER WITH YOUR CDS ACCOUNT NUMBER SO AS TO BE RECEIVED BY OUR SHARE REGISTRAR NOT LATER THAN THE LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT AS SET OUT ON THE COVER PAGE OF THIS ABRIDGED PROSPECTUS.

APPLICATIONS ACCOMPANIED BY PAYMENT OTHER THAN IN THE MANNER STATED ABOVE OR WITH EXCESS OR INSUFFICIENT REMITTANCES MAY NOT BE ACCEPTED AT THE ABSOLUTE DISCRETION OF OUR BOARD. DETAILS OF THE REMITTANCES MUST BE FILLED IN THE APPROPRIATE BOXES PROVIDED IN THE RSF. CHEQUES OR OTHER MODE(S) OF PAYMENT NOT PRESCRIBED HEREIN ARE NOT ACCEPTABLE.

NO ACKNOWLEDGEMENT OF RECEIPT OF THE RSF OR APPLICATION MONEY IN RESPECT OF THE RIGHTS ISSUE WILL BE MADE BY OUR COMPANY OR OUR SHARE REGISTRAR. HOWEVER, SUCCESSFUL APPLICANTS WILL BE ALLOTTED WITH THEIR RIGHTS SHARES AND WARRANTS, AND NOTICES OF ALLOTMENT WILL BE ISSUED AND DESPACHED BY ORDINARY POST TO THEM AT THEIR OWN RISK TO THE ADDRESS SHOWN IN THE REGISTER OF MEMBERS (IN RESPECT OF THE PLACEMENT INVESTOR ONLY) AND THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS ISSUE OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

APPLICANTS SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN.

WHERE AN APPLICATION IS NOT ACCEPTED OR ACCEPTED ONLY IN PART, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONEY, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPACHED TO THE APPLICANTS WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS ISSUE BY ORDINARY POST TO THE ADDRESS SHOWN IN THE REGISTER OF MEMBERS (IN RESPECT OF THE PLACEMENT INVESTOR ONLY) AND THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK.

APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT. THE BOARD RESERVES THE RIGHT NOT TO ACCEPT ANY APPLICATION OR TO ACCEPT ANY APPLICATION IN PART ONLY WITHOUT ASSIGNING ANY REASON THEREOF.

9.5 Procedures for part acceptance

If you do not wish to accept the Rights Shares provisionally allotted to you in full, you are entitled to accept part of your Provisional Allotment. The minimum number of securities that can be subscribed for or accepted in relation to the Rights Issue is one (1) Rights Share. Fractions of a Rights Share and/or Warrant arising from the Rights Issue will be disregarded and the aggregate of such fractions shall be dealt with as our Board may at their absolute discretion deem fit and expedient and in the best interest of our Company. Applicants should take note that a trading board lot comprises 100 KFM Shares and 100 Warrants respectively.

You must complete Parts I(A) and II of the RSF by specifying the number of Rights Shares which you are accepting and deliver the completed RSF together with the relevant payment to our Share Registrar, in the same manner as set out in Section 9.4 of this Abridged Prospectus.

YOU ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.

The portion of the Provisional Allotment not taken up shall be allotted to any other person allowed under any laws, regulations or rules to accept the transfer of the Provisional Allotment and the balance, if any, will be made available for excess applications.

9.6 Procedures for sale or transfer of Provisional Allotment

As the Provisional Allotment are prescribed securities, you may sell or transfer all or part of your entitlement to the Rights Shares to one (1) or more person(s) through your stockbroker in the period up to the last date and time for sale or transfer of such Provisional Allotment, without first having to request for a split of the Provisional Allotment standing to the credit of your CDS Account. To dispose of all or part of your entitlement to the Provisional Allotment, you may sell such entitlement on the open market or transfer such entitlement to such persons as may be allowed pursuant to the Rules of Bursa Depository.

In selling or transferring all or part of your Provisional Allotment, you and/or your renounee(s)/transferee(s) (if applicable) need not deliver any document, including the RSF, to any stockbroker. However, you and/or your renounee(s)/transferee(s) (if applicable) must ensure that there is sufficient Provisional Allotment standing to the credit of your CDS Accounts that are available for settlement of the sale or transfer.

If you have sold or transferred only part of your Provisional Allotment, you may still accept the balance of your Provisional Allotment by completing the RSF. Please refer to Section 9.4 of this Abridged Prospectus for the procedures for acceptance and payment.

Purchaser(s) or transferee(s) of the Provisional Allotment may obtain a copy of this Abridged Prospectus and the RSF from their stockbrokers or from our Share Registrar as stated above. This Abridged Prospectus and RSF are also available on Bursa Securities' website (<http://www.bursamalaysia.com>).

ENTITLED SHAREHOLDERS WHO SELL OFF OR TRANSFER THEIR PROVISIONAL ALLOTMENT WILL AUTOMATICALLY BE SELLING OFF OR TRANSFERRING THEIR ENTITLEMENTS TO THE RIGHTS SHARES AND WARRANTS IN THE PROPORTION OF FIVE (5) RIGHTS SHARES TOGETHER WITH ONE (1) WARRANT FOR EVERY TWO (2) RIGHTS SHARES. THEY CANNOT RETAIN THE PROVISIONALLY ALLOTTED RIGHTS SHARES WHILE SELLING OFF OR TRANSFERRING THE WARRANTS, OR VICE VERSA, NOR CAN THEY SELL OFF OR TRANSFER THEIR ENTITLEMENTS IN ANY PROPORTION OTHER THAN THAT STATED ABOVE.

9.7 Procedures for acceptance by renounee(s)/transferee(s)

Renounee(s)/Transferee(s) who wish to accept the Provisional Allotment must obtain a copy of the RSF from their stockbrokers, our Share Registrar, our registered office or from Bursa Securities' website (<http://www.bursamalaysia.com>) and complete the RSF, submit the same together with the remittance to our Share Registrar in accordance with the notes and instructions printed therein.

The procedures for acceptance and payment applicable to the Entitled Shareholders as set out in Section 9.4 of this Abridged Prospectus also apply to renounee(s)/transferee(s) who wish to accept the Provisional Allotment.

RENOUNCEE(S)/TRANSFEREE(S) ARE ADVISED TO READ, UNDERSTAND AND CONSIDER CAREFULLY THE CONTENTS OF THIS ABRIDGED PROSPECTUS AND ADHERE TO THE NOTES AND INSTRUCTIONS CONTAINED IN THIS ABRIDGED PROSPECTUS AND THE RSF CAREFULLY.

9.8 Procedures for excess application

You and/or your renounee(s)/transferee(s) (if applicable) may apply for Excess Rights Shares in addition to the Provisional Allotment by completing Part I(B) of the RSF (in addition to Parts I(A) and II of the RSF) and forward it (together with a **separate remittance in RM** for the full amount payable in respect of the Excess Rights Shares applied for) to our Share Registrar at the address set out above, so as to arrive **not later than 5.00 p.m. on 14 November 2019**, being the last date and time for excess application and payment, or such later date and time as our Board and the Joint Underwriters may decide and announce not less than two (2) Market Days before the stipulated date and time.

PAYMENT FOR THE EXCESS RIGHTS SHARES APPLIED FOR SHOULD BE MADE IN THE SAME MANNER AS DESCRIBED ABOVE, AND IN THE FORM OF BANKER'S DRAFT(S), CASHIER'S ORDER(S), MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA CROSSED "ACCOUNT PAYEE ONLY" AND MADE PAYABLE TO "KFM EXCESS RIGHTS SHARES ACCOUNT" AND ENDORSED ON THE REVERSE SIDE WITH YOUR NAME IN BLOCK LETTERS, CONTACT NUMBER TOGETHER WITH YOUR CDS ACCOUNT NUMBER SO AS TO BE RECEIVED BY OUR SHARE REGISTRAR NOT LATER THAN THE LAST DATE AND TIME FOR EXCESS APPLICATION AND PAYMENT AS SET OUT ON THE COVER PAGE OF THIS ABRIDGED PROSPECTUS. ANY EXCESS OR INSUFFICIENT PAYMENT MAY BE REJECTED AT THE ABSOLUTE DISCRETION OF THE BOARD. CHEQUES OR OTHER MODE(S) OF PAYMENT NOT PRESCRIBED HEREIN ARE NOT ACCEPTABLE.

It is the intention of our Board to allot the Excess Rights Shares, if any, in a fair and equitable manner in the following priority:-

- (v) firstly, to minimise the incidence of odd lots;
- (vi) secondly, to the Entitled Shareholders who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, calculated based on their respective shareholdings as per their CDS Account(s) in our Company and our Register of Members (in respect of the Placement Investor only) on the Entitlement Date;
- (vii) thirdly, to the Entitled Shareholders who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, calculated based on the quantum of Excess Rights Shares applied for; and
- (viii) lastly, to the transferee(s)/renounee(s) who have applied for Excess Rights Shares, on a pro-rata basis and in board lots, based on the quantum of Excess Rights Shares applied for.

In the event of any balance of Excess Rights Shares after steps (i), (ii), (iii) and (iv) are carried out, steps (ii), (iii) and (iv) will be repeated in the same sequence again to allocate the balance Excess Rights Shares until such balance is exhausted.

In the event of an under subscription by the Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable), even after all the application for the Excess Rights Shares have been taken into consideration, the remaining unsubscribed Rights Shares will be subscribed by the Joint Underwriters in accordance with the terms and conditions as set out in the Underwriting Agreement.

Nevertheless, our Board reserves the right to allot the Excess Rights Shares applied for under Part I (B) of the RSF in such manner as our Board deems fit and expedient, and in the best interest of our Company, subject always to such allocation being made in a fair and equitable basis, and that the intention of our Board as set out in items (i) to (iv) above is achieved. In addition, our Board reserves the right not to accept any application for the Excess Rights Shares or to accept any such application in part only, without assigning any reason.

APPLICATIONS ACCOMPANIED BY PAYMENT OTHER THAN IN THE MANNER STATED ABOVE OR WITH EXCESS OR INSUFFICIENT REMITTANCES MAY NOT BE ACCEPTED AT THE ABSOLUTE DISCRETION OF OUR BOARD. DETAILS OF THE REMITTANCES MUST BE FILLED IN THE APPROPRIATE BOXES PROVIDED IN THE RSF.

NO ACKNOWLEDGEMENT OF RECEIPT OF THE RSF OR APPLICATION MONEY WILL BE MADE BY OUR COMPANY OR OUR SHARE REGISTRAR IN RESPECT OF THE EXCESS RIGHTS SHARES. HOWEVER, SUCCESSFUL APPLICANTS WILL BE ALLOTTED WITH THEIR RIGHTS SHARES, AND NOTICES OF ALLOTMENT WILL BE ISSUED AND DESPACHED BY ORDINARY POST TO THE APPLICANTS AT THEIR OWN RISK TO THE ADDRESS SHOWN IN THE REGISTER OF MEMBERS (IN RESPECT OF THE PLACEMENT INVESTOR ONLY) AND THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR EXCESS APPLICATION AND PAYMENT OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.

APPLICANTS SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY SUCCESSFUL EXCESS RIGHTS SHARES APPLICATIONS, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONEY, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPACHED TO THE APPLICANTS WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR EXCESS APPLICATION AND PAYMENT BY ORDINARY POST TO THE ADDRESS SHOWN IN THE REGISTER OF MEMBERS (IN RESPECT OF THE PLACEMENT INVESTOR ONLY) AND THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK.

However, if you are successful, notices of allotment will be despatched by the Share Registrar to you by ordinary post to the address as shown in our Record of Depositors at your own risk within eight (8) Market Days from the last date for excess application and payment or such other period as may be prescribed by Bursa Securities.

APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.

9.9 Form of issuance

Bursa Securities has prescribed our Shares listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Right Shares and Warrants are prescribed securities and as such, the SICDA and the Rules of Bursa Depository shall apply in respect of the dealings in the Rights Shares and Warrants.

Failure to comply with the specific instructions for applications or inaccuracy in the CDS Account number may result in the application being rejected. No physical share or warrant certificate shall be issued to you under the Rights Issue. The notices of allotment will be issued and forwarded to you by ordinary post at your own risk to the address shown in our Register of Members (in respect of the Placement Investor only) and the Record of Depositors provided by Bursa Depository within eight (8) Market Days from the last date and time for acceptance and payment of the Rights Issue.

Subscription of Rights Shares by Entitled Shareholders

Where the Rights Shares with Warrants are provisionally allotted to you as an Entitled Shareholder in respect of your existing KFM Shares standing to the credit of your CDS Account and our Register of Members (in respect of the Placement Investor only) on the Entitlement Date, the acceptance by you of the Provisional Allotment shall mean that you consent to receive such Rights Shares and Warrants as prescribed or deposited securities credited directly into your CDS Account. Hence, the Rights Shares and the Warrants will be credited directly into your CDS Account where the Provisional Allotment is standing to the credit upon allotment and issuance.

Subscription of Rights Shares by a renounee/transferee

Any person who has purchased the Provisional Allotment or to whom the Provisional Allotment has been transferred and intends to subscribe for the Rights Shares must state his/her CDS Account number in the space provided in the relevant RSF. The Rights Shares and Warrants will be credited directly as prescribed or deposited securities into his/her CDS Account where the Provisional Allotment is standing to the credit upon allotment and issuance.

Application for the Excess Rights Shares by an Entitled Shareholder and/or his renounee(s)/transferee(s) (if applicable)

The Excess Rights Shares, if allotted to the successful applicant who applies for the Excess Rights Shares, will be credited directly as prescribed securities into the CDS Account of the successful applicant where the Provisional Allotment is standing to the credit. The allocation of the Excess Rights Shares will be made on a fair and equitable basis as disclosed in Section 9.8 of this Abridged Prospectus.

9.10 Laws of foreign jurisdictions

This Abridged Prospectus and the accompanying NPA and RSF are not intended to be (and will not be) issued, circulated or distributed in countries or jurisdictions other than Malaysia.

This Abridged Prospectus and the accompanying NPA and RSF have not been (and will not be) made to comply with the laws of any foreign country or jurisdiction, and have not been (and will not be) lodged, registered or approved pursuant to or under any legislation (or with or by any regulatory authorities or other relevant bodies) of any foreign country or jurisdiction. The Rights Issue will not be made or offered for subscription in any foreign country or jurisdiction.

Accordingly, this Abridged Prospectus and the accompanying NPA and RSF will not be sent to the Foreign Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) who do not have a registered address in Malaysia. However, such Foreign Entitled Shareholders or their renounee(s)/transferee(s) (if applicable) may collect this Abridged Prospectus, including the accompanying NPA and RSF, from our Share Registrar, in which event our Share Registrar shall be entitled to request for such evidence as it deems necessary to satisfy itself as to the identity and authority of the person collecting the aforesaid documents relating to the Rights Issue.

The Foreign Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) may accept or renounce (as the case may be) all or any part of their entitlements and exercise any other rights in respect of the Rights Issue only to the extent that it would be lawful to do so. KAF IB, our Company, our Directors and officers and other professional advisers would not, in connection with the Rights Issue, be in breach of the laws of any country or jurisdiction to which the Foreign Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) are or may be subject to. The Foreign Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) shall solely be responsible to seek advice from their legal advisers and/or other professional advisers as to the laws of the countries or jurisdictions to which they are or may be subject to. KAF IB, our Company, our Directors and officers and other professional advisers shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any Foreign Entitled Shareholders and/or their renounee(s)/transferee(s) (if applicable) is or shall become unlawful, unenforceable, voidable or void in any such country or jurisdiction.

The Foreign Entitled Shareholders or their renouncee(s)/transferee(s) (if applicable) will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such country or jurisdiction and we shall be entitled to be fully indemnified and held harmless by such Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) for any issue, transfer or other taxes or other requisite payments that such person may be required to pay in any country or jurisdiction. They will have no claims whatsoever against us, our Directors and officers and/or KAF IB in respect of their rights and entitlements under the Rights Issue. Such Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to accept the Rights Issue.

By signing any of the forms accompanying this Abridged Prospectus, the NPA and the RSF, the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) KAF IB, other experts, our Company and our Board and officers that:-

- (i) we would not, by acting on the acceptance or renunciation in connection with the Rights Issue, be in breach of the laws of any jurisdiction to which that Foreign Entitled Shareholders and/or renouncee(s)/transferee(s) (if applicable) are or may be subject to;
- (ii) the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation of the Provisional Allotment;
- (iii) the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) are not nominees or agents of a person in respect of whom we would, by acting on the acceptance or renunciation of the Provisional Allotment, be in breach of the laws of any jurisdiction to which that person is or may be subject to;
- (iv) the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) are aware that the Rights Shares and the Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;
- (v) the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) have received a copy of this Abridged Prospectus, and have had access to such financial and other information and have been afforded the opportunity to pose such questions to the representatives of our Company and receive answers thereto as they deem necessary in connection with their decision to subscribe for or purchase the Rights Shares and the Warrants; and
- (vi) the Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Rights Shares and the Warrants, and are and will be able, and are prepared to bear the economic and financial risks of investing in and holding the Rights Shares and the Warrants.

Persons receiving this Abridged Prospectus, NPA and RSF (including without limitation custodians, nominees and trustees) must not, in connection with the offer, distribute or send it into any country or jurisdiction, where to do so would or might contravene local securities, exchange control or relevant laws or regulations. If this Abridged Prospectus, NPA and RSF are received by any persons in such country or jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the offer unless he has complied with and observed the laws of the relevant country or jurisdiction in connection herewith.

Any person who does forward this Abridged Prospectus, NPA and RSF to any foreign country or jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section and we reserve the right to reject a purported acceptance of the Rights Shares and the Warrants from any such application by Foreign Entitled Shareholders and/or their renouncee(s)/transferee(s) (if applicable) in any foreign country or jurisdiction.

Our Company reserves the right, in our absolute discretion, to treat any acceptance of the Rights Shares and the Warrants as invalid if it believes that such acceptance may violate any applicable legal or regulatory requirements in Malaysia.

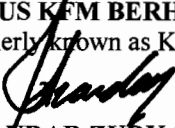
10.0 TERMS AND CONDITIONS

The issuance of the Rights Shares and the Warrants pursuant to the Rights Issue is governed by the terms and conditions as set out in this Abridged Prospectus, the Deed Poll, the NPA and the RSF.

11.0 FURTHER INFORMATION

You are advised to refer to the attached appendix for further information.

Yours faithfully,
For and on behalf of our Board
LOTUS KFM BERHAD
(formerly known as Kuantan Flour Mills Berhad)


ISKANDAR ZURKANAIN BIN MOHAMED
Independent Non-Executive Director

APPENDIX I – INFORMATION ON OUR COMPANY

1.0 SHARE CAPITAL

As at the LPD, the issued share capital of our Company is RM6,062,377 comprising 95,519,084 KFM Shares.

2.0 SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

Please refer to Section 7.4 of this Abridged Prospectus for information on the substantial shareholders' shareholdings prior to and after the Rights Issue.

3.0 DIRECTORS

The particulars of our Directors as at the LPD are set out below:-

Name	Address	Age	Nationality
Iskandar Zurkanain Bin Mohamed <i>(Independent Non-Executive Director)</i>	No. 17, Lrg Chan Chin Mooi (1) Taman Tasik Titiwangsa Setapak, 53200 Kuala Lumpur Wilayah Persekutuan	46	Malaysian
Low Koon Min <i>(Independent Non-Executive Director)</i>	No. 7, Jalan Anggerik Oncidium 31/78E, Kota Kemuning 40460 Shah Alam Selangor Darul Ehsan	48	Malaysian

As at the LPD, none of our Directors have any direct and/or indirect shareholding in our Company.

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APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)

4.0 HISTORICAL FINANCIAL INFORMATION

Our Group's historical financial information based on our audited consolidated financial statements for the past three (3) FYE2016, FYE2017 and FYE2018 as well as our unaudited consolidated financial statement for the nine (9)-month financial period ended 30 June 2018 ("FPE2018") and FPE2019 are as follows:-

4.1 Historical Financial Performance

	←-----Audited-----→			←-----Unaudited-----→	
	FYE2016 RM'000	FYE2017 RM'000	FYE2018 RM'000	FPE2018 RM'000	FPE2019 RM'000
Revenue	3,924	7,521	39,007	27,090	42,188
Cost of sales	(9,008)	(10,826)	(38,720)	* (27,412)	* (41,407)
(GL)/GP	(5,084)	(3,305)	287	(322)	781
Other operating income	2,702	4	4	4	120
Impairment loss for PPE	(4,283)	-	-	-	-
Administrative expenses	(4,493)	(8,369)	(1,762)	* (1,016)	* (1,358)
Selling expenses	(637)	(589)	(1,434)	(1,031)	(1,273)
Finance costs	(298)	(1)	-	-	-
(LBT)	(12,093)	(12,260)	(2,905)	(2,365)	(1,730)
Taxation	-	-	-	-	-
(LAT)	(12,093)	(12,260)	(2,905)	(2,365)	(1,730)
Attributed to:					
- Equity holders of our Company	(12,092)	(12,259)	(2,903)	(2,365)	(1,730)
- Non controlling interests	(1)	(1)	(2)	-	-
(GL)/GP margin (%)	(129.56)	(43.94)	0.74	(1.19)	1.85
(LBT) margin (%)	(308.18)	(163.01)	(7.45)	(8.73)	(4.10)
(LAT) margin (%)	(308.18)	(163.01)	(7.45)	(8.73)	(4.10)
No. of Shares in issue ('000)	68,229	68,229	68,229	68,229	68,229
Net loss per share (sen)	(17.72)	(17.97)	(4.25)	(3.47)	(2.54)

Note:-

- * The depreciation cost of RM0.404 million (FPE2018 ; RM0.681 million) as disclosed in the unaudited consolidated financial statement for the FPE2019 has been separated into the cost of sales and administrative expenses for the amount of RM0.360 million (FPE2018 ; RM0.627 million) and RM0.044 million (FPE2018 ; RM0.054 million) respectively to be in consistent with the disclosure in our past annual reports.

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APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)

4.2 Historical Financial Position

	<-----Audited----->			<-----Unaudited----->	
	FYE2016 RM'000	FYE2017 RM'000	FYE2018 RM'000	FPE2018 RM'000	FPE2019 RM'000
Non-current assets	7,157	5,910	4,859	5,335	15,213
Current assets	1,076	9,334	10,749	9,331	18,274
Total assets	8,233	15,244	15,608	14,666	33,487
Share capital	3,411	3,442	3,442	3,442	3,442
Share premium	31	-	-	-	-
Accumulated losses	(14,252)	(26,512)	(29,415)	(28,876)	(31,145)
Shareholders' equity	(10,810)	(23,070)	(25,973)	(25,434)	(27,703)
Non-controlling interests	2	2	-	1	-
Total equity	(10,808)	(23,068)	(25,973)	(25,433)	(27,703)
Non-current liabilities	5	-	-	-	-
Current liabilities	19,036	38,312	41,581	40,099	61,190
Total liabilities	19,041	38,312	41,581	40,099	61,190
Total equity and liabilities	8,233	15,244	15,608	33,487	33,487

4.3 Historical Cash Flow

	<-----Audited----->			<-----Unaudited----->	
	FYE2016 RM'000	FYE2017 RM'000	FYE2018 RM'000	FPE2018 RM'000	FPE2019 RM'000
Net cash from/(used in)					
Operating activities	(2,917)	(40)	1,150	568	10,299
Investing activities	3,249	(25)	(108)	(102)	(10,758)
Financing activities	(585)	(35)	-	-	-
Net increase/decrease in cash and cash equivalents	(253)	(100)	1,042	466	(459)
Cash and cash equivalents at beginning of the year/period	687	434	334	334	1,376
Cash and cash equivalents at end of the year/period	434	334	1,376	800	917

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APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)

4.4 Financial Commentaries**(i) FYE2018 vs FYE2017**

Following the reactivation of our wheat flour milling operations in May 2017 as well as the launching of our starch products, our revenue increased by RM31.49 million or 418.75% to RM39.01 million (FYE2017 : RM7.52 million) as a consequence of the business collaboration arrangement entered into between our Company and Lotus, where we managed to:-

- reactivate our flour milling operations, which had temporary ceased operations at the end of FYE2016, and grew our wheat flour sales by RM10.30 million or more than 12 folds to RM11.13 million (FYE2017 : RM0.83 million); and
- continue growing our starches sales. For FYE2018, our starches sales grew by RM21.19 million or more than 3 folds to RM27.88 million (FYE2017 : RM6.69 million),

through the advances and supplier's credit extended by Lotus pursuant to the BA.

We recorded a lower LBT of RM2.91 million (FYE2017 : RM12.26 million) due mainly to:-

- a GP of RM0.29 million recorded for the FYE2018 as opposed to a GL of RM3.31 recorded for the FYE2017; and
- the decrease in our administrative and selling expenses by RM5.76 million to RM3.20 million (FYE2017 : RM8.96 million) due mainly to the following:-
 - RM3.73 million decrease in overdue interests charged by our wheat supplier to RM0.06 million (FYE2017 : RM3.79 million) as we managed to repay our suppliers earlier through advances from Lotus; and
 - RM1.97 million decrease in other miscellaneous expenses to RM0.35 million (FYE2017 : RM2.32 million) as much of expenses relating to the repair works for our factory building pursuant to the reactivation of our wheat flour milling operations were incurred during FYE2017.

For the FYE2018, we recorded a negative operating cash flow before working capital changes of RM1.75 million on the back of a LBT of RM2.91 million, after adjusting for, inter-alia, depreciation of PPE of RM0.82 million and impairment loss for PPE of RM0.23 million. Having been adjusted further for a net inflow of RM2.90 million from working capital changes, we generated a net cash inflow from operating activities of RM1.15 million for the FYE2018. As for the net cash outflow of RM0.11 million for FYE2018 recorded from investing activities, it was in relation to the purchase of PPE for the refurbishment of our machineries during the period.

(ii) FPE2019 vs FPE2018

Our revenue increased by 55.74% or RM15.1 million from RM27.09 million for FPE2018 to RM42.19 million for FPE2019 mainly attributable to the improvement on our wheat flour sales. In line with an improved GP of RM0.78 million (FPE2018 : GL of RM0.32 million), we incurred a lower LBT of RM1.73 million (FPE2018 : RM2.37 million).

For the FPE2019, we recorded a net cash flow from operating activities of RM10.30 million, due mainly to an increase in our trade and other payables by RM19.61 million in relation to further advances and suppliers' credit extended by Lotus, mainly catered for the installation and commissioning of the New Line. In tandem, we recorded a net cash outflow of RM10.76 million from investing activities pertaining to the installation and commissioning of the New Line.

APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)**5.0 HISTORICAL SHARE PRICES**

The monthly highest and lowest prices of KFM Shares as traded on Bursa Securities for the past twelve (12) months up to the LPD are as follows:-

	Highest (RM)	Lowest (RM)
<u>2018</u>		
October	0.145	0.110
November	0.130	0.115
December	0.170	0.080
<u>2019</u>		
January	0.170	0.110
February	0.170	0.130
March	0.225	0.140
April	0.200	0.160
May	0.195	0.160
June	0.180	0.150
July	0.180	0.160
August	0.180	0.160
September	0.180	0.150
Last transacted market price on 30 May 2018 (being the latest market day preceding the announcement of the Regularisation Plan)		0.110
Last transacted market price on 25 October 2019 (being the date prior to the ex-date for the Rights Issue)		0.165
Last transacted market price prior to the LPD		0.140

(Source: Bloomberg)

6.0 OPTION TO SUBSCRIBE FOR SHARES

As at the LPD, save for the Provisional Allotment, no person has been or is entitled to be granted an option to subscribe for any securities of our Company and no capital of our Company is under any option at the date of this Abridged Prospectus.

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APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)

7.0 MATERIAL CONTRACTS

Save for the BA, DSA, DCA, profit guarantee agreement dated 18 April 2019 (entered into between our Company and Lotus), the letter of set-off dated 18 April 2019 (entered into between our Company, Lotus and the Placement Investor) and the material contracts disclosed below, our Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two (2) years preceding the date of this Abridged Prospectus:-

- (i) On 9 February 2018, we entered into a memorandum of understanding with Shou Guang Chang Tai Economic And Trade Co. Ltd (“**SGCT**”) (“**SGCT MOU**”) pertaining to a proposed collaboration through either a business collaboration arrangement between both parties or a direct acquisition of a majority equity interest in SGCT by our Company to facilitate the expansion of our trading of starch business as well as our premix flour in China, subject to the terms and conditions of a definitive agreement to be entered into between the same parties (“**SGCT Definitive Agreement**”). The SGCT MOU is deemed to be terminated as both parties to the SGCT MOU are unable to execute the SGCT Definitive Agreement within a period of six (6) months from the date of the SGCT MOU, i.e. 9 August 2018;
- (ii) On 21 February 2018, we entered into a memorandum of understanding with MCM Petcare Sdn. Bhd. (“**MCM**”) (“**MCM MOU**”) pertaining to a proposed collaboration through either a business collaboration arrangement between both parties or a direct acquisition of a majority equity interest in MCM by our Company to facilitate the expansion of our trading and retailing of pet food products with the eventual plan of manufacturing pet foods products, subject to the terms and conditions of a definitive agreement to be entered into between the same parties (“**MCM Definitive Agreement**”). The MCM MOU is deemed to be terminated as both parties to the MCM MOU are unable to execute the MCM Definitive Agreement within a period of six (6) months from the date of the MCM MOU, i.e. 21 August 2018; and
- (iii) Underwriting Agreement dated 9 October 2019 entered into between our Company and the Joint Underwriters for the underwriting of the Underwritten Shares.

8.0 MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, our Board confirmed that our Group is not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, and that there are no proceedings pending or threatened against our Group or any facts which are likely to give rise to any proceedings, which may materially and adversely affect the business or financial position of our Group.

9.0 CONSENTS

The Principal Adviser, Solicitors, Joint Underwriters and Share Registrar have given and have not subsequently withdrawn their written consents to the inclusion in this Abridged Prospectus of their names and all references thereto in the form and context in which they appear in this Abridged Prospectus.

Our Independent Market Researcher has given and has not subsequently withdrawn its written consent to the inclusion in this Abridged Prospectus of its name, extract of the IMR Report and all references thereto in the form and context in which it appears in this Abridged Prospectus.

Bloomberg has given and has not subsequently withdrawn its written consent to the inclusion of this Abridged Prospectus of its name and citation of the market data made available to its subscribers in the form and context in which it appears in this Abridged Prospectus.

APPENDIX I – INFORMATION ON OUR COMPANY (CONT'D)

10.0 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at our Company's registered office at Kawasan Lembaga Pelabuhan Kuantan, KM 25, Jalan Kuantan/Kemaman, Tanjung Gelang, 26080 Kuantan, Pahang during normal business hours from Monday to Friday (except public holidays) for a period of six (6) months from the date of this Abridged Prospectus:-

- (i) the articles of association of our Company's constitution;
- (ii) the material contracts referred to in Section 7 above;
- (iii) the letters of consent referred to in Section 9 above;
- (iv) the Deed Poll;
- (v) the IMR Report; and
- (vi) the Undertakings as referred to in Section 2.5.2(i) of this Abridged Prospectus.

11.0 RESPONSIBILITY STATEMENT

This Abridged Prospectus together with the accompanying NPA and RSF have been seen and approved by our Board. They collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that after making all reasonable enquiries, and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement/information herein misleading.

KAF IB, being the Principal Adviser and Joint Underwriter for the Rights Issue, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning this Rights Issue.

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