THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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.

Bursa Securities has not perused the Proposed Offer For Sale (as defined below). The approval of Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the Proposed Acquisition (as defined below) shall not be taken to indicate that Bursa Securities recommends the Proposed Acquisition. Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

The Circular has been reviewed by M&A Securities Sdn Bhd as the Principal Adviser for the Proposals (as defined below).

HEXTAR INDUSTRIES BERHAD

(Registration No.: 201101044580 (972700-P))

(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:

PART A

(I) PROPOSED ACQUISITION BY HEXTAR INDUSTRIES BERHAD ("HIB") FROM HEXTAR HOLDINGS SDN BHD OF 100% EQUITY INTEREST IN HEXTAR FERTILIZERS LIMITED FOR A TOTAL PURCHASE CONSIDERATION OF RM480,000,000 TO BE SATISFIED VIA THE ISSUANCE AND ALLOTMENT OF 1,600,000,000 NEW ORDINARY SHARES IN HIB ("CONSIDERATION SHARES") AT AN ISSUE PRICE OF RM0.30 PER CONSIDERATION SHARE ("PROPOSED ACQUISITION"); AND

(II) PROPOSED OFFER FOR SALE OF SUCH NUMBER OF CONSIDERATION SHARES TO INVESTORS TO BE IDENTIFIED ("PROPOSED OFFER FOR SALE")

(COLLECTIVELY, "PROPOSALS")

PART B

INDEPENDENT ADVICE LETTER FROM MALACCA SECURITIES SDN BHD TO THE NON-INTERESTED SHAREHOLDERS OF HIB IN RELATION TO THE PROPOSED ACQUISITION

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

M&A SECURITIES SDN BHD

(Registration No. 197301001503 (15017-H))

(A Wholly-Owned Subsidiary of Insas Berhad)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser

MALACCA SECURITIES SDN BHD

Registration No: 197301002760 (16121-H)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Extraordinary General Meeting ("**EGM**") will be conducted virtually through live streaming from the Broadcast Venue at No. 64, Jalan Bayu Laut 4/KS09, Kota Bayuemas, 41200 Klang, Selangor, on Wednesday, 12 October 2022 at 3:00 p.m. or at any adjournment thereof. The Notice of EGM and the Form of Proxy are attached in this Circular.

The Form of Proxy should be completed in accordance with the instructions as contained therein and deposited at the Share Registrar of the Company, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the time for holding the EGM or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending, participating and voting at the EGM should you subsequently wish to do so and in such event, your Form of Proxy shall be deemed to have been revoked.

Last date and time for lodging the Form of Proxy for the EGM:	Monday, 10 October 2022 at 3:00 p.m.
Date and time of the EGM:	Wednesday, 12 October 2022 at 3:00 p.m.

This Circular is dated 27 September 2022

DEFINITIONS

Except where the context otherwise requires, the following definition shall apply throughout this Circular:

"Abstaining Directors"	:	Collectively, Dato' Ong Choo Meng and Ong Tzu Chuen
"Act"	:	Companies Act 2016
"Board"	:	Board of Directors of HIB
"Bursa Depository"	:	Bursa Malaysia Depository Sdn Bhd
"Bursa Securities"	:	Bursa Malaysia Securities Berhad
"Circular"	:	This circular to the shareholders of HIB dated 27 September 2022
"CMSA"	:	Capital Markets and Services Act, 2007
"Consideration Shares"	:	1,600,000,000 new HIB Shares to be issued and allotted at the Issue Price pursuant to the Proposed Acquisition
"Eco Asia"	:	Eco Asia Capital Advisory Sdn Bhd, the Independent Valuer appointed to evaluate on the fairness of the Purchase Consideration for the Proposed Acquisition
"Ecovis"	:	Ecovis Malaysia PLT, the Reporting Accountants for the Proposed Acquisition
"EGM"	:	Extraordinary general meeting
"EPS"	:	Earnings per Share
"Escrowed Shares" or "Security Shares"	:	313,333,333 Consideration Shares, equivalent to approximately RM94,000,000 shall be allotted and issued and held as security by the Stakeholder/Escrow Agent
"EV/EBITDA"	:	Enterprise value over earnings before interest, tax. depreciation and amortisation
"FYE"	:	Financial year ended 31 December
"Guaranteed Period"	:	FYEs 31 December 2022 and 31 December 2023
"Guaranteed Sum"	:	RM94,000,000
"HFL"	:	Hextar Fertilizers Limited
"HFL Group"	:	Collectively, HFL, HFGSB, HSSB, HFSB and PKSB
"HFSB"	:	Hextar Fert Sdn Bhd
"HFGSB"	:	Hextar Fertilizers Group Sdn Bhd
"HHSB" or "Vendor" or "Offeror" or "Guarantor"	:	Hextar Holdings Sdn Bhd

"HHSB Group"	:	Collectively, HHSB and its subsidiaries
"HIB" or "Company" or "Purchaser" or "Offeree"	:	Hextar Industries Berhad
"HIB Group" or "Group"	:	Collectively, HIB and its subsidiaries
"HIB Shares" or "Shares"	:	Ordinary shares in HIB
"HSSB"	:	Hextar Solutions Sdn Bhd
"IAL"	:	Independent Advice letter from Malacca Securities, the Independent Adviser to the non-interested directors and non-interested shareholders of the Company in relation to the Proposed Acquisition, as set out in Part B of this Circular
"Interested Director"	:	Dato' Ong Choo Meng
"Interested Major Shareholders"	:	Collectively, HHSB, Dato' Ong Choo Meng and Dato' Ong Soon Ho
"Issue Price"	:	RM0.30 per Consideration Share
"LAT"	:	Loss after tax
"LBT"	:	Loss before tax
"Listing Requirements"	:	ACE Market Listing Requirements of Bursa Securities
"LPD"	:	6 September 2022, being the latest practicable date prior to the printing and despatch of this Circular
"LTD"	:	5 August 2022, being the last trading date prior to the execution of the SSA
"Malacca Securities"	:	Malacca Securities Sdn Bhd, the Independent Adviser to advise the non-interested directors and non-interested shareholders in respect of the Proposed Acquisition
"Maximum Scenario"	:	For illustration purposes, assuming there is 100% acceptances of Offer Shares pursuant to the Offer, at least 686,840,000 OFS Shares will be offered for sale
"Messrs Teh & Lee" or "Stakeholder" or "Escrow Agent"	:	Messrs Teh & Lee, the Legal Adviser for the Proposals
"Minimum Scenario"	:	For illustration purposes, based on the Record of Depositors as at 30 August 2022, and assuming there is no acceptances of Offer Shares pursuant to the Offer, 88,389,615 OFS Shares will be offered for sale
"M&A Securities" or "Principal Adviser"	:	M&A Securities Sdn Bhd, the Principal Adviser for the Proposals

"NA"	:	Net assets
"Offer"	:	Unconditional mandatory take-over offer by the Vendor to acquire all the remaining Shares not already owned by it
"Offer Price"	:	Minimum cash consideration of RM0.30 per Offer Share, which represents the Issue Price pursuant to the Proposed Acquisition or shall not be lower than the highest price (excluding stamp duty and commission) paid or agreed to be paid by the Offeror or PACs for the Offer Shares during the offer period and within 6 months prior to the beginning of the offer period
"Offer Shares"	:	All the remaining HIB Shares not already owned by the Offeror
"OFS Shares"	:	Such number of Consideration Shares to be received by the Vendor which will be on-sold and issued and allotted directly to the Placees, such that upon issuance of all the Consideration Shares and OFS Shares, the Company shall at all times be in compliance with the public spread requirement
"PACs"	:	Persons acting in concert with the Offeror pursuant to Sections 216(2) and 216(3) of the CMSA
"PAT"	:	Profit after tax
"PBT"	:	Profit before tax
"PKSB"	:	PK Fertilizers Sdn Bhd
"Placees"	:	Independent investors to be identified who/which are deemed as public under the Listing Requirements, qualify under Schedules 6 and 7 of the CMSA, are independent of the Offeror and its PACs and who are not shareholders of HIB during the offer period
"P/E"	:	Price to earnings
"Proposals"	:	Collectively, the Proposed Acquisition and the Proposed Offer For Sale
"Proposed Acquisition"	:	Proposed acquisition of the Sale Shares for the Purchase Consideration
"Proposed Offer For Sale"	:	Proposed offer for sale of such number of Consideration Shares to the Placees
"Protégé Associates"	:	Protégé Associates Sdn Bhd, the Independent Market Researcher for the Proposed Acquisition
"Purchase Consideration"	:	The purchase consideration of RM480,000,000 for the Proposed Acquisition to be satisfied via the issuance of the Consideration Shares at the Issue Price
"Rules"	:	Rules on Take-overs, Mergers and Compulsory Acquisitions, to be read together with the Malaysian Code on Take-overs and Mergers 2016
"RM" and "sen"	:	Ringgit Malaysia and sen, respectively
"sq m"	:	Square metres

"Sale Shares"	:	5 ordinary shares of USD0.10 each in HFL, representing 100% equity interest in HFL
"SSA"	:	Conditional share sale agreement dated 8 August 2022 entered into by the Company and the Vendor for the Proposed Acquisition
"USD"	:	United States Dollar
"VWAMP"	:	Volume weighted average market price

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 Circular 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 Circular shall be a reference to Malaysian time, unless otherwise specified.

Any discrepancy in the figures included in this Circular between the amount stated and the total thereof is due to rounding.

PART A

LETTER TO THE SHAREHOLDERS OF HIB IN RELATION TO THE PROPOSALS

THIS EXECUTIVE SUMMARY HIGHLIGHTS THE SALIENT INFORMATION OF THE PROPOSALS. YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE ENTIRE CONTENTS OF THIS CIRCULAR WITHOUT RELYING SOLELY ON THIS EXECUTIVE SUMMARY BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING EGM OF THE COMPANY.

Key information		**Summary**	**Reference to Circular**
Details of the Proposals	:	The Proposed Acquisition will involve HIB acquiring the entire equity interest in HFL from the Vendor, for the Purchase Consideration to be satisfied via the issuance and allotment of the Consideration Shares at the Issue Price subject to the terms and conditions contained in the SSA. Upon completion of the Proposed Acquisition, the HFL Group will be wholly-owned subsidiaries of HIB. Upon issuance of the Consideration Shares, the Vendor's shareholdings in the Company will increase from 45.66% to 77.31%, resulting in the Company not complying with the minimum public spread requirement of 25%. The Vendor proposes to sell down its shareholdings in the Company via an offer for sale of such number of Consideration Shares to be issued to the Placees by way of private placement, such that upon issuance of the Consideration Shares and OFS Shares, the Company shall at all times be in compliance with the public spread requirement.	Section 2
Basis and justification for the Purchase Consideration	:	The Purchase Consideration was arrived at on a willing-buyer willing-seller basis, after taking into consideration the following: (i) the cumulative audited PAT of the HFL Group shall not be less than RM94.0 million for the Guaranteed Period pursuant to the profit guarantee; (ii) implied multiples computed based on the average Guaranteed Sum of RM47.0 million per annum, translating to: (a) implied P/E multiple of 10.21 times; and (b) implied EV/EBITDA multiple of 9.53 times; (iii) rationale and benefit of the Proposed Acquisition; (iv) future earnings potential and growth of the HFL Group after considering the outlook and prospects of the fertiliser industry in Malaysia as set out in Section 4.2 of this Circular; and (v) the fairness of the Purchase Consideration for the Proposed Acquisition as opined by Eco Asia, the Independent Valuer for the Proposed Acquisition.	Section 2.1.3

Key information		**Summary**	**Reference to Circular**
Basis and justfication for the Issue Price	:	The Issue Price was determined on a willing-buyer, willing-seller basis after taking into consideration, among others, the following: (i) the closing market prices of HIB Shares for the past 12 months up to and including the LTD; and (ii) the 12 months pro-rated earnings per HIB Share of RM0.008 based on the HIB Group's unaudited financial results for the 9-month period ended 31 May 2022 which represents a P/E multiple of approximately 37.5 times. Although the Issue Price is at a discount to the closing market price as at the LTD and VWAMPs of HIB Shares (i.e. 5-day, 1-month, 3-month and 6-month) up to and including the LTD, the discount is deemed reasonable as: (i) the Issue Price represents a premium of 13.21% to the 12-month VWAMP up to and including the LTD; (ii) there is a profit guarantee of RM94.0 million (or average profit guarantee of RM47.0 million per annum) provided by the Vendor; (iii) the HIB Group would be able to conserve its cash for working capital purposes for its existing business and/or pursue other business opportunities; and (iv) the current global market sentiment and uncertain and challenging economic environment and the willingness of the Vendor to accept the Consideration Shares as settlement for the Purchase Consideration instead of cash.	Section 2.1.4
Rationale for the Proposals	:	**<u>Proposed Acquisition</u>** The Proposed Acquisition represents a strategic investment and is undertaken in-line with HIB Group's long-term plan to grow its fertiliser business through the following complementary synergies: (i) allows the HIB Group to expand its fertiliser operations in Peninsular Malaysia and Sabah as the HFL Group currently owns manufacturing plants and sales offices in these locations; and (ii) enable both HIB and HFL Group to leverage on their combined strengths in relation to key management experience, market position, production capabilities and their respective business relationships with industry stakeholders. The Proposed Acquisition will eliminate the conflict of interest arising from the involvement of the Interested Director and Interested Major Shareholders through their interests in the HFL Group. Upon completion of the Proposed Acquisition, the HFL Group will become subsidiaries of HIB, thereby enabling the Company to consolidate the financial results of the HFL Group. The Proposed	Section 3

Key information		**Summary**	**Reference to Circular**
		Acquisition is expected to contribute positively to the HIB Group in the future, thus enhancing HIB's shareholders' value. The issuance of the Consideration Shares will also strengthen the HIB Group's capital base to commensurate with its enlarged fertiliser business activities. **<u>Proposed Offer For Sale</u>** The Proposed Offer For Sale is undertaken to allow HIB to meet the public spread requirements as set out in the Listing Requirements.	
Risk factors	:	In addition to the industry risks that is inherent in the fertiliser industry in which HIB Group is already subject to, there are certain risks specifically associated with the Proposed Acquisition and certain risks relating to the business of the enlarged HIB Group, as follows: (i) Risks relating to the Proposed Acquisition (a) Non-completion of the Proposed Acquisition; (b) Non-fulfilment of the profit guarantee; (c) Investment and integration risk; (d) Dependence on key personnel of the HFL Group; and (e) Risk of changes to the British Virgin Islands' policies on repatriation of profits/dividends. (ii) Risks relating to the business of the enlarged HIB Group (a) Competition risk; and (b) Dependence on the oil palm industry.	Section 5
Effects of the Proposed Acquisition	:	The effects of the Proposed Acquisition are as follows: (i) The number of HIB Shares in issue will increase from 1,147,341,623 Shares (after the completion of the rights issue and exercise of warrants) to 2,747,341,623 Shares and the value of the issued share capital of HIB will increase from RM191,940,840 to RM671,940,840; (ii) NA per Share of the HIB Group will decrease from RM0.17 (after the completion of the rights issue and exercise of warrants) to RM0.09 arising from the dilutive effects of the issuance of the Consideration Shares; (iii) The HIB Group's gearing ratio will increase from 0.31 times (after the completion of the rights issue and exercise of warrants) to 1.61 times after consolidating the total borrowings (which includes hire purchase) of the HFL Group; and (iv) The Proposed Acquisition is expected to contribute positively to the future earnings and EPS of the HIB Group.	Section 7

Key information		Summary	Reference to Circular
Parties involved and the element of conflict of interests	:	Save as disclosed below, none of the directors, major shareholders and chief executive of the Company and/or persons connected with them has any interests, direct and/or indirect, in the Proposed Acquisition: (i) HHSB, being the major shareholder of the Company, is also the major shareholder of HFL; (ii) Dato' Ong Choo Meng, being the Non-Independent Non-Executive Director of the Company and major shareholder of the Company via his indirect interest through HHSB, is also a director and major shareholder of HFL via his indirect interest through HHSB; and (iii) Dato' Ong Soon Ho, being the major shareholder of the Company via his indirect interest through HHSB is also a major shareholder of HFL via his indirect interest through HHSB. In addition, Ong Tzu Chuen is the Non-Independent Non-Executive Director of the Company. Ong Tzu Chuen is not a director and neither is she a shareholder of HHSB. She is the daughter of Dato' Ong Soon Ho and sister of Dato' Ong Choo Meng. Although Ong Tzu Chuen has no interest in the Proposed Acquisition, she is a person connected to the Interested Major Shareholders and Interested Director. As such, Ong Tzu Chuen has abstained from deliberating and voting in respect of the Proposed Acquisition at the relevant Board meetings.	Section 11
Directors' statements and recommendation	:	After considering all aspects of the Proposals, including but not limited to the rationale and benefit, justification of arriving at the Purchase Consideration, prospects for the Proposed Acquisition and effects of the Proposals, the Board (save for the Abstaining Directors) is of the opinion that the Proposed Acquisition is in the best interest of HIB.	Section 14

HEXTAR INDUSTRIES BERHAD
(Registration No.: 201101044580 (972700-P))

Registered Office:

Level 5, Block B, Dataran PHB
Saujana Resort, Section U2
40150 Shah Alam
Selangor

27 September 2022

Board of Directors:

Dato' Chan Choun Sien *(Independent Non-Executive Chairman)*
Ang Sui Aik, Benny *(Group Managing Director)*
Wong Kin Seng *(Executive Director)*
Dato' Ong Choo Meng *(Non-Independent Non-Executive Director)*
Ong Tzu Chuen *(Non-Independent Non-Executive Director)*
Sim Yee Fuan *(Independent Non-Executive Director)*
Dato' Sri Chee Hong Leong *(Independent Non-Executive Director)*

To: The Shareholders of HIB

Dear Sir/Madam,

(I) PROPOSED ACQUISITION; AND
(II) PROPOSED OFFER FOR SALE

(COLLECTIVELY, "PROPOSALS")

1. INTRODUCTION

On 8 August 2022, M&A Securities, had on behalf of the Board (save for the Abstaining Directors), announced the Proposals.

In view of the interest of the Interested Director and Interested Major Shareholders of HIB and/or persons connected with them in the Proposed Acquisition, the Proposed Acquisition is deemed a related party transaction pursuant to Rule 10.08 of the Listing Requirements. Please refer to **Section 11** of Part A of this Circular for further details on the interest of the Interested Director and Interested Major Shareholders.

The Board (save for the Abstaining Directors) had on 28 June 2022 appointed Malacca Securities as the Independent Adviser to advise the non-interested directors and non-interested shareholders in respect of the Proposed Acquisition. The IAL from the Independent Adviser is set out in Part B of this Circular.

On 20 September 2022, M&A Securities on behalf of the Board, had announced that Bursa Securities, had vide its letter on even date, approved the listing of and quotation for the Consideration Shares to be issued on the ACE Market of Bursa Securities pursuant to the Proposed Acquisition.

Further details of the Proposals are set out in the ensuing sections of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSALS WITH THE RECOMMENDATION FROM THE BOARD (SAVE FOR THE ABSTAINING DIRECTORS) AS WELL AS TO SEEK YOUR APPROVAL FOR THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF EGM AND THE FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR AND IAL TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.

2. DETAILS OF THE PROPOSALS

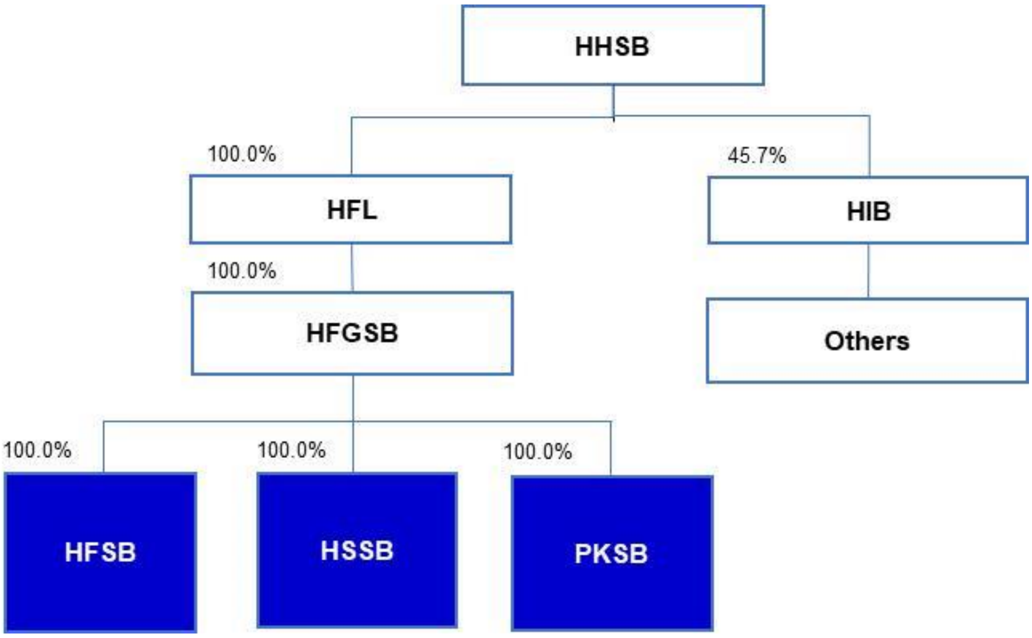
2.1 Details of the Proposed Acquisition

2.1.1 Background information on the Proposed Acquisition

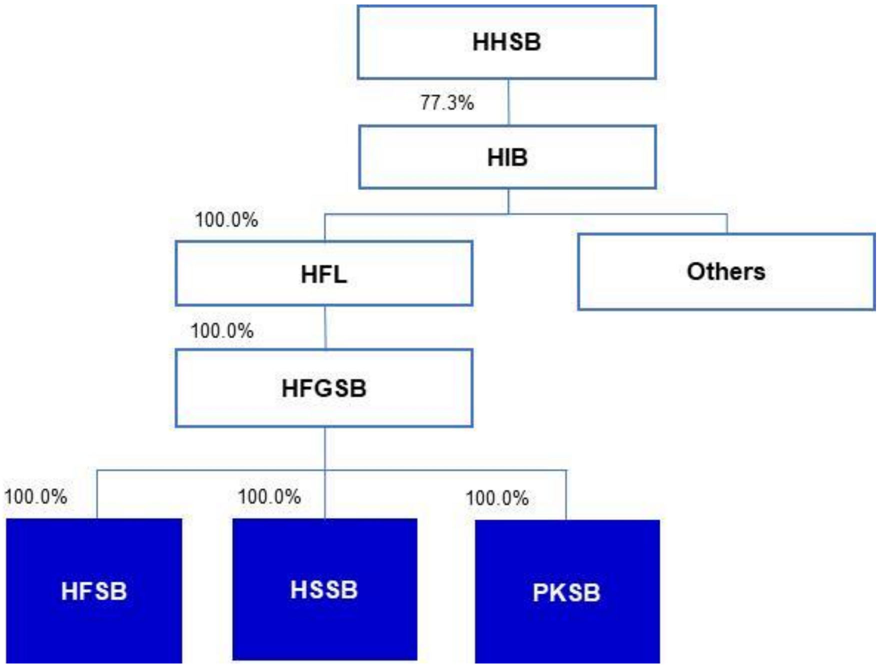
The Proposed Acquisition will involve HIB acquiring the Sale Shares, representing the entire equity interest in HFL from the Vendor, for the Purchase Consideration to be satisfied via the issuance and allotment of the Consideration Shares at the Issue Price, subject to the terms and conditions contained in the SSA. Upon completion of the Proposed Acquisition, the HFL Group will be wholly-owned subsidiaries of HIB.

HIB's corporate structure arising from the Proposed Acquisition is illustrated below:

<u>Before the Proposed Acquisition</u>



After the Proposed Acquisition but before the Proposed Offer For Sale



The issuance of the Consideration Shares will result in the shareholdings of the Vendor increasing from 45.66% to 77.31%, an increase by more than 2% of the voting shares of the Company in a 6 month period. Pursuant to Section 218(3) of the CMSA and Paragraph 4.01(b) of the Rules, the Vendor is obliged to extend a mandatory general offer to acquire the remaining HIB Shares not already owned by it immediately upon the SSA becoming unconditional. Details of the Offer are set out in **Section 2.3** of this Circular.

2.1.2 Profit guarantee

The Vendor as the Guarantor has provided a cumulative 2 year profit guarantee to be achieved for the HFL Group for the Guaranteed Period. Under the terms of the profit guarantee, the Guarantor guarantees to the Purchaser that the HFL Group shall achieve audited PAT of not less than the Guaranteed Sum for the Guaranteed Period.

In respect thereof, the Consideration Shares are proposed to be issued in the following manner:

(a) 1,286,666,667 Consideration Shares, equivalent to approximately RM386,000,000 shall be allotted and issued to the Vendor ("**Completion Shares**"); and

(b) 313,333,333 Consideration Shares, equivalent to approximately RM94,000,000 shall be allotted and issued and held as security by the Stakeholder ("**Security Shares**") who is instructed and authorised to deal with the Security Shares in accordance to the mechanism stipulated below.

The Purchaser shall also enter into an Escrow Agreement with the Vendor and the Escrow Agent as a security mechanism for the Vendor's performance of the profit guarantee. Please refer to **Appendix II** and **Appendix III** of this Circular for the salient terms of the SSA and Escrow Agreement, respectively.

The Consideration Shares will be issued simultaneous with the OFS Shares, after the close of the Offer. For the avoidance of doubt, the Proposed Acquisition and the Proposed Offer for Sale will be completed simultaneously.

Please refer to **Section 2.2** of this Circular for further details on the Proposed Offer for Sale (in respect of the OFS Shares) and **Section 2.3** of this Circular for further details on the Offer.

The salient features of the profit guarantee mechanism are as follows:

(i) The Vendor unconditionally and irrevocably guarantees that the HFL Group shall attain a minimum aggregate audited PAT of the Guaranteed Sum for the Guaranteed Period. As security for the performance of the Guaranteed Sum, part of the Consideration Shares shall be held by the Stakeholder and will be released progressively to the Vendor over the Guaranteed Period. The value of the Security Shares to be released progressively is calculated based on the Issue Price.

(ii) The Security Shares are to be released (within 14 days upon receipt of written instructions from the Purchaser) to the Vendor after every quarter for the first 3 financial quarters of each financial year of the Guaranteed Period, subject to the Purchaser's review of the unaudited quarter financial result within 14 days from its release. The amount to be released each quarter shall be proportional to the unaudited PAT of the HFL Group achieved for each respective quarter calculated based on the following formula ("**Quarterly Share Payment**").

FORMULA
"A" /"B" × "C"
whereby,
A = PAT achieved
B = Guaranteed Sum
C = 313,333,333 Security Shares

For the fourth financial quarter of each financial year of the Guaranteed Period, the Quarterly Share Payment to be released to the Vendor shall only be made 14 days upon the release of the HFL Group's audited financial statements for the corresponding financial year, notwithstanding the release of the HFL Group's unaudited 4th quarter financial result. The total Quarterly Share Payment payable shall be limited to the maximum amount of the Guaranteed Sum's worth of HIB Shares.

Note: There will not be any Quarterly Share Payment in the event of a LAT.

(iii) At the end of the FYE 31 December 2022:

(a) If there is a shortfall, where the value of the Security Shares released in the FYE 31 December 2022 exceeds the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022, the overpayment of the Security Shares released in the cumulative first 3 quarters of the FYE 31 December 2022 shall be offset against the remaining Security Shares releasable in the 4th financial quarter and the subsequent financial quarters.

Illustration:

FYE 2022			No. Security Shares Quarterly Share Payment	Released to Vendor	To retain from Vendor
Q1		RM5,000,000[1]	16,666,667	16,666,667	
Q2		RM5,000,000[1]	16,666,667	16,666,667	
Q3	(-)	RM5,000,000[2]	(16,666,667)	-	
Q4		RM3,000,000[1]	10,000,000	-	10,000,000
		RM8,000,000[3]			
FYE 2023					
Subsequent quarters					6,666,667

Notes:

[1] *PAT*
[2] *LAT*
[3] *Audited PAT for the FYE 31 December 2022*

(b) If there is a surplus, where the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022 exceeds the value of the Security Shares released during the FYE 31 December 2022, the Stakeholder will release such number of Security Shares proportional to the surplus.

Illustration:

FYE 2022		No. Security Shares Quarterly Share Payment	Released to Vendor	To release to Vendor
Q1	RM5,000,000[1]	16,666,667	16,666,667	
Q2	RM5,000,000[1]	16,666,667	16,666,667	
Q3	RM5,000,000[1]	16,666,667	16,666,667	
Q4	RM20,000,000[1]	66,666,666	-	66,666,666
	RM35,000,000[2]			

Notes:

[1] *PAT*
[2] *Audited PAT for the FYE 31 December 2022*

(c) If the HFL Group records an audited LAT for the FYE 31 December 2022, the the shortfall (being the difference between the value of Security Shares released and the audited LAT) shall be offset against the remaining Security Shares releasable for the subsequent financial quarters.

Illustration:

FYE 2022			No. Security Shares Quarterly Share Payment	Released to Vendor	To retain from Vendor
Q1		RM5,000,000[1]	16,666,667	16,666,667	
Q2		RM5,000,000[1]	16,666,667	16,666,667	
Q3		RM5,000,000[1]	16,666,667	16,666,667	
Q4	(-)	RM20,000,000[2]	(66,666,667)	-	
	(-)	RM5,000,000[3]			
FYE 2023					
Subsequent quarters					66,666,667

Notes:

[1] *PAT*
[2] *LAT*
[3] *Audited LAT for the FYE 31 December 2022*

(iv) At the end of the FYE 31 December 2023:

(a) If the HFL Group achieves or exceeds the Guaranteed Sum, any remaining amount of Security Shares held by the Stakeholder shall be released to the Vendor.

Illustration:

		No. Security Shares		
		Quarterly Share Payment	Released to Vendor	To release to Vendor
FYE 2022	RM54,000,000[1]	180,000,000[4]	180,000,000	
FYE 2023				
Q1	RM6,000,000[2]	20,000,000	20,000,000	
Q2	RM6,000,000[2]	20,000,000	20,000,000	
Q3	RM6,000,000[2]	20,000,000	20,000,000	
Q4	RM27,000,000[2]	90,000,000	-	73,333,333[5]
	RM45,000,000[3]			

Notes:

[1] *Audited PAT for the FYE 31 December 2022*
[2] *PAT*
[3] *Audited PAT for the FYE 31 December 2023*
[4] *Aggregate Quarterly Share Payment for the full FYE 31 December 2022*
[5] *As the HFL Group records a cumulative audited PAT of RM99.0 million for the Guaranteed Period, exceeding the Guaranteed Sum, the remaining balance of 73,333,333 Security Shares are released to the Vendor*

(b) If the cumulative audited PAT of the HFL Group for the Guaranteed Period is less than the Guaranteed Sum (shortfall), the Vendor shall within 14 days from the date of adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, make good the shortfall by way of cash, and after which, the Stakeholder shall release the remaining Security Shares to the Vendor, provided always that the maximum shortfall payable by the Vendor shall be the Guaranteed Sum.

Illustration:

		No. Security Shares		
		Quarterly Share Payment	Released to Vendor	To release to Vendor
FYE 2022	RM54,000,000[1]	180,000,000[4]	180,000,000	
FYE 2023				
Q1	RM6,000,000[2]	20,000,000	20,000,000	
Q2	RM6,000,000[2]	20,000,000	20,000,000	
Q3	RM6,000,000[2]	20,000,000	20,000,000	
Q4	RM6,000,000[2]	20,000,000	-	73,333,333[5]
	RM24,000,000[3]			

Notes:

[1] *Audited PAT for the FYE 31 December 2022*
[2] *PAT*
[3] *Audited PAT for the FYE 31 December 2023*
[4] *Aggregate Quarterly Share Payment for the full FYE 31 December 2022*
[5] *As the HFL Group records a cumulative audited PAT of RM78.0 million for the Guaranteed Period, which is lower than the Guaranteed Sum, only after the Vendor makes good the RM16.0 million shortfall in cash, the remaining balance of 73,333,333 Security Shares will be released to the Vendor*

In the event the Vendor fails to make good the shortfall (being the difference between the cumulative audited PAT of the HFL Group for the Guaranteed Period and the Guaranteed Sum) in cash, the Stakeholder shall act in accordance to the Purchaser's instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker's board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

(c) If the HFL Group registers a cumulative audited LAT:

(A) the Vendor shall make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT of the HFL Group for the Guaranteed Period, i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period) by way of cash, within 14 days from the adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, and after which, the Stakeholder shall release the remaining Security Shares to the Vendor; and

(B) provided always that the maximum sum payable by the Vendor shall be the Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period.

Illustration:

			No. Security Shares	
		Quarterly Share Payment	Released to Vendor	To release to Vendor
FYE 2022				
	RM3,000,000[1]	10,000,000[2]	10,000,000	
FYE 2023				
(-)	RM6,000,000[3]	(20,000,000)	-	303,333,333[4]

Notes:

[1] Audited PAT for the FYE 31 December 2022
[2] Aggregate Quarterly Share Payment for the full FYE 31 December 2022
[3] Audited LAT for the FYE 31 December 2023
[4] As the HFL Group records a cumulative audited LAT of RM3.0 million for the Guaranteed Period, only after the Vendor makes good the difference between the Guaranteed Sum and the cumulative audited LAT amounting to RM97.0 million (RM94.0 million Guaranteed Sum + cumulative audited LAT of RM3.0 million) in cash, the 303,333,333 Security Shares will be released to the Vendor

In the event the Vendor fails to make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT of the HFL Group for the Guaranteed Period i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period) in cash, the Stakeholder shall act in accordance to the Purchaser's instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker's board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

Reasonableness of the Guaranteed Sum

The Guaranteed Sum was a commercial decision arrived at between the Purchaser and the Vendor.

The Guaranteed Sum was arrived at after taking into consideration, the following:

(i) the historical financial performance of the HFL Group as set out in **Appendices IV and V** of this Circular;

(ii) the continuation of the existing management's involvement in the day-to-day operations of the HFL Group as set out in **Section 7 of Appendix IV**[(1)]; and

Note:

(1) The Board (save for the Abstaining Directors) is cognisant that there is no change in the major shareholder of HIB after the Proposed Acquisition and as such, the existing management's involvement in the HFL Group is expected to continue.

(iii) the potential growth of the HFL Group after taking into consideration the outlook and prospects of the fertiliser industry as set out in **Section 4.2** of this Circular and the future prospects of the enlarged HIB Group as set out in **Section 4.3** of this Circular.

Additionally, the Guaranteed Sum is backed by collateral in the form of the Security Shares, which forms part of the Purchase Consideration. The Security Shares will be held by the Stakeholder and will be released to the Guarantor upon fulfilment of the Guaranteed Sum.

The Board (save for the Abstaining Directors) after having considered the above, is of the view that the Guaranteed Sum for the Guaranteed Period is reasonable and realistic.

2.1.3 Basis and justification of the Purchase Consideration

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis, after taking into account the following:

(i) the cumulative audited PAT of the HFL Group shall not be less than RM94.0 million for the Guaranteed Period pursuant to the profit guarantee;

(ii) implied multiples computed based on the average Guaranteed Sum of RM47.0 million for the FYE 31 December 2022, translating to:

(a) implied P/E multiple of 10.21 times; and

(b) implied EV/EBITDA of 9.53 times;

(iii) rationale and benefit for the Proposed Acquisition; and

(iv) future earnings potential and growth of the HFL Group after considering the outlook and prospects of the fertiliser industry in Malaysia as set out in **Sections 4.2 and 4.3** of this Circular.

In addition, the Board (save for the Abstaining Directors) had also considered the valuation range of the equity interest of the HFL Group of between RM414.86 million and RM509.95 million as at 3 August 2022, being the date of opinion ("**Date of Opinion**") of Eco Asia, the Independent Valuer who was appointed to evaluate on the fairness of the Purchase Consideration for the Proposed Acquisition. Based on the fairness opinion report, the Purchase Consideration is within the aforesaid range of values.

The valuation of the entire equity interest in the HFL Group utilises the Relative Valuation Approach ("**RVA**") to assess the fairness of the Purchase Consideration which estimates valuation metrics of selected comparable companies. Due to the dearth of available listed comparable companies on Bursa Securities to the business of the HFL Group, the selection of the comparable companies was expanded to companies operating in the manufacturing and distribution of fertilisers within the Asia Pacific region ("**Comparable Companies**") to ascertain the value accorded by the market to similar companies. The approach was used as it is much more likely to reflect the current sentiment of the market.

To this end, the following fertiliser manufacturing companies were selected as deemed to be comparable with the HFL Group:

Comparable Company	Country	Principal activities
Madras Fertilizers Ltd ("**Madras**")	India	Madras is engaged in the manufacturing and trading of complex fertilisers, biofertilisers, ammonia and urea
Khaitan Chemicals & Fertilizers Ltd ("**KCF**")	India	KCF is engagement in the manufacturing of super phosphate fertiliser and sulphuric acid
PT Saraswanti Anugerah Makmur Tbk ("**SAM**")	Indonesia	SAM is mainly engaged in the manufacturing of NPK fertilisers which have at least two primary micronutrients. SAM is also engaged in the trading of other fertilisers and agrochemical products
PM Thoresen Asia Holdings PCL ("**PMTAH**")	Thailand	PMTAH is mainly engaged in the manufacturing of fertilisers and crop care products
Lam Thao Fertilizers & Chemicals JSC ("**LTFC**")	Vietnam	LTFC is mainly engaged in the manufacturing of mineral organic fertilisers, compound fertilisers, super phosphate fertiliser, high nutrient content fertilisers and microbiological super phosphate fertilisers

It should be recognised that there is no company which is considered to be identical to the HFL Group in terms of, among others, composition of business activities, scale of business operation, asset base, accounting and tax policies, risk and financial profile, profit track record, capital structure, competitive environment, financial positions and that such business may have fundamentally different profitability objectives. In addition, the selection of the Comparable Companies is highly subjective and judgmental in view that the Comparable Companies may not be entirely comparable to the HFL Group due to various factors such as geographical factors, product market segment, client base and technical know-how. It should be noted that any comparison made with respect to the Comparable Companies is merely to provide an indicative current market expectation with regards to the implied valuation range of the HFL Group.

<u>Reasonableness of the Purchase Consideration</u>

To assess the reasonableness of the Purchase Consideration, reference was also made to the valuation statistics of these Comparable Companies. The P/E multiple was used as the primary metric while the EV/EBITDA multiple was used as the secondary metric.

Valuation ratio	General description
P/E	P/E multiple illustrates the ratio of the market capitalisation of a company relative to its historical PAT $\text{P/E multiple} = \frac{\text{Market capitalisation}}{\text{PAT}}$
EV/EBITDA	EV/EBITDA multiple illustrates the market value of a company's business relative to its historical pre-tax operation cash flow performance, without regard to the company's capital structure

Valuation ratio	General description	
	EV =	Market capitalisation + preferred equity + non-controlling interests + short and long term debt – cash and cash equivalents
	EBITDA =	PAT + taxation + interest expense – interest income + depreciation + amortisation

Comparable Company	**Market capitalisation[(a)]**	**P/E[(b)] times**	**EV/EBITDA[(b)] times**
India			
Madras	RM413.2 million (INR7.30 billion)	207.84[(c)]	17.10
KCF	RM447.8 million (INR7.91 billion)	10.82	7.65
Indonesia			
SAM	RM732.5 million (IDR2.45 trillion)	16.30	10.94
Thailand			
PMTAH	RM133.4 million (THB1.08 billion)	10.43	7.96
Vietnam			
LTFC	RM289.0 million (VND1.51 trillion)	30.78	17.16
	Median	**13.56**	**10.94**
	Average	**17.08**	**12.16**
	Minimum	**10.43**	**7.65**
	Maximum	**30.78**	**17.16**
	HFL	10.21[(d)]	9.53[(e)]

Notes:

(a) Computed based on the closing market prices as at the Date of Opinion.

(b) Computed based on the average closing market prices for the past 1 year up to the Date of Opinion and the trailing 12 months financial results. The average closing market prices were adopted as a better representation in deriving the values for the calculation of the numerator for the valuation multiples due to the volatility in the market prices of the Comparable Companies over the past 6 months.

(c) The P/E multiple of Madras Fertilizers Ltd is substantially higher than the peer group and it is deemed an outlier.

(d) Based on the value accorded to the HFL Group as implied by the Purchase Consideration over the average Guaranteed Sum of RM47.0 million per annum.

(e) Based on the value accorded to the HFL Group as implied by the Purchase Consideration while the other components of Enterprise Value were based on the combined audited financial statements of the HFL Group for the FYE 31 December 2021.

Enterprise Value ("EV")		**RM'000**
	Market capitalisation as implied by the Purchase Consideration	480,000
Less:	Cash and cash equivalents as at 31 December 2021	(28,871)
Add:	Debt as at 31 December 2021	340,108
		791,237
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		
	Average Guaranteed Sum	47,000
Add:	Assuming 24% tax	14,842
	Net interest expense	11,526
	Depreciation and amortisation as at the 31 December 2021	9,614
		82,982

Based on the RVA in the table above, the Board (save for the Abstaining Directors) noted the following:

- the implied P/E multiple of the HFL Group of 10.21 times is lower than the median and average P/E multiples of the Comparable Companies of 13.56 times and 17.08 times, respectively and is also lower than the range of P/E multiples of the Comparable Companies of between 10.43 times and 30.78 times. This means that the value as implied by the Purchase Consideration is reasonable to HIB from an earnings standpoint.
- the implied EV/EBITDA multiple of the HFL Group of 9.53 times is lower than the median and average EV/EBITDA multiples of the Comparable Companies of 10.94 times and 12.16 times. The implied EV/EBITDA multiple of the HFL Group is within the range of EV/EBITDA multiples of the Comparable Companies of between 7.65 times and 17.16 times. This means that the value as implied by the Purchase Consideration is reasonable to HIB from an EBITDA standpoint.

Other valuation approaches such as the revalued net asset value ("**RNAV**") was considered by Eco Asia but was not used as the basis of valuation in view that the RNAV values a company based on the value of its assets, net of all liabilities at a specific point in time; more suitable for valuation of property development, property investment and heavy asset based companies and which may not accurately reflect the potential of the HFL Group as it does not take into consideration its future business operations and income stream. The discounted cashflow valuation was not used as the basis of valuation in view that discounted cashflow valuation is only reliable to the extent if the underlying business has cashflow which can be consistently projected for long periods and may be more applicable to businesses which have long-term contracts or concessionaires.

Premised on the above, the Board (save for the Abstaining Directors) is of the view that the Purchase Consideration of RM480.0 million is justifiable.

2.1.4 Basis and justification for the Issue Price

The issue price of RM0.30 per Consideration Share was determined on a willing-buyer, willing-seller basis after taking into consideration, among others, the following:

(i) the closing market prices of HIB Shares for the past 12 months up to and including the LTD which are illustrated in the following chart.

It can be observed that the closing prices of HIB Shares exhibited an increasing trend since the middle of January 2022 and traded above the Issue Price on 4 February 2022 and again from 23 March 2022 until the LTD with its 12 month high on 5 May 2022. The increase in the share price of HIB Shares during the said period coincided with the release of the HIB Group's first, second and third quarter financial results for the FYE 31 August 2022 on 21 January 2022, 25 April 2022 and 22 July 2022, and the announcement of the acquisition of the remaining 16.67% equity interest in PK Fertilizers (Sarawak) Sdn Bhd for USD1.5 million on 18 March 2022. Notwithstanding the relatively higher PAT registered for the first, second and third quarters as compared to the corresponding quarters in the preceding financial year, there were no material changes in the financial performance of the HIB Group over the said period.

Taking into the consideration the above, the 12-month VWAMP of HIB Shares up to and including the LTD of RM0.2650 is a more reasonable measure in determining the basis of the Issue Price as it is more reflective of the share price movement of HIB Shares before and after the Russia-Ukraine war which commenced on 20 February 2022 and its effects to global markets.

The Issue Price represents the following (discount)/premium over the closing market price as at the LTD and VWAMPS of HIB Shares up to and including the LTD:

		(Discount)/Premium over share price	
	Share price	**RM**	**%**
LTD	0.3300	(0.0300)	(9.09)
5-day VWAMP	0.3291	(0.0291)	(8.84)
1-month VWAMP	0.3388	(0.0388)	(11.45)
3-month VWAMP	0.3451	(0.0451)	(13.07)
6-month VWAMP	0.3218	(0.0218)	(6.77)
12 month-VWAMP	0.2650	0.0350	13.21

(ii) the 12 months pro-rated earnings per HIB Share of RM0.008 based on the unaudited financial results for the 9-month period ended 31 May 2022 which represents a P/E multiple of approximately 37.5 times. As such, the Consideration Shares are to be issued at a higher P/E multiple (i.e. 37.5 times) as compared to the P/E multiple attributed to the HFL Group of 10.21 times as implied by the Purchase Consideration and the average Guaranteed Sum of RM47.0 million. From a P/E multiple perspective, the Issue Price accords a higher value to the HIB Group.

Although the Issue Price is at discounts to the closing market price as at the LTD and VWAMPs of HIB Shares (i.e. 5-day, 1-month, 3-month and 6-month) as illustrated above, the Board (save for the Abstaining Directors) is of the view that the discounts are deemed reasonable after taking into consideration the following:

(a) the Issue Price represents a premium of 13.21% to the 12-month VWAMP up to and including the LTD;

(b) the Guaranteed Sum provided by the Vendor and the rationale of the Proposed Acquisition as set out in Sections 2.1.2 and 3.1 of this Circular, respectively;

(c) the HIB Group would be able to conserve its cash for working capital purposes for its existing business and/or to pursue other business opportunities; and

(d) the current global market sentiment and uncertain and challenging economic environment and the willingness of the Vendor to accept the Consideration Shares as settlement for the Purchase Consideration instead of cash.

The Board also takes note of the (discount)/premium of the Issue Price over the closing market price as at the LPD and VWAMPS of HIB Shares up to and including the LPD:

		(Discount)/Premium over share price	
	Share price	**RM**	**%**
LPD	0.4100	(0.1100)	(26.83)
5-day VWAMP	0.4005	(0.1005)	(25.09)
1-month VWAMP	0.3753	(0.0753)	(20.06)
3-month VWAMP	0.3593	(0.0593)	(16.50)
6-month VWAMP	0.3440	(0.0440)	(12.79)
12 month-VWAMP	0.2818	0.0182	6.46

2.1.5 Ranking of the Consideration Shares

The Consideration Shares will, upon allotment and issuance, rank equally in all respects with the existing HIB Shares, save and except that the Consideration Shares will not be entitled to any dividends, rights, allotments or other distributions, which may be declared, made or paid, the entitlement date of which is before the date of allotment and issuance of the Consideration Shares.

During the period the Security Shares are held by the Stakeholder, the Stakeholder is the registered owner of the Security Shares. Although the Vendor has beneficial ownership of the Security Shares, it does not have the right to exercise the voting rights of the Security Shares held by the Stakeholder until the Security Shares are released by the Stakeholder to the Vendor under the profit guarantee mechanism. The Vendor is also entitled to all dividends, rights, allotments or other distributions of the Security Shares, which may be declared, made or paid, and shall be released in proportion to the Security Shares releasable during the Guaranteed Period.

For the avoidance of doubt, all dividends, rights, allotments or other distributions of the Security Shares, which may be declared, made or paid, shall be released together with the Security Shares[(1)].

Note:

(1) In the event the Security Shares are sold in the open market to make good the shortfall in the Guaranteed Sum, all dividends, rights, allotments or other distributions of such Security Shares will be released to the Purchaser along with the sale proceeds.

2.1.6 Liabilities to be assumed by HIB

Any liabilities arising from or in connection with the SSA will be assumed by the HIB Group. Save for the said liabilities, HIB will not assume any liabilities, contingent liabilities and/or guarantees pursuant to the Proposed Acquisition. The existing liabilities of HFL will be settled by HFL in the ordinary course of business.

However, upon the completion of the Proposed Acquisition and the transfer of the Sale Shares, HIB may be required to provide corporate guarantees to HFL and/or its subsidiaries (if any), in place of the Vendor to secure credit facilities granted to HFL and/or its subsidiaries.

2.1.7 Additional financial commitments

The Board (save for the Abstaining Directors) does not foresee any material financial commitment required to put the HFL Group's businesses on-stream following the completion of the Proposed Acquisition as HFL and its subsidiaries are already on-going businesses.

2.1.8 Listing of and quotation for the Consideration Shares

Bursa Securities had, vide its letter dated 20 September 2022, approved the listing of and quotation for the Consideration Shares to be listed on the ACE Market of Bursa Securities pursuant to the Proposed Acquisition.

2.1.9 Background information on the HFL Group

HFL was incorporated in the British Virgin Islands on 27 January 2014 under the BVI Business Companies Act as a private limited company. The HFL Group is principally involved in the manufacturing, formulation, distribution and trading of a wide range of fertilisers.

As at the LPD, the issued share capital of HFL is USD0.50 comprising 5 ordinary shares of USD0.10 each in HFL.

Please refer to **Appendix IV** of this Circular for further information on the HFL Group.

2.1.10 Background information on the Vendor

HHSB was incorporated in Malaysia under the Companies Act 1965 and is deemed registered under the Companies Act 2016 on 3 February 2006 as a private limited company. HHSB is an investment holding company, whilst its subsidiaries are principally involved in the following business activities:

(i) production, trading, marketing and distribution of pesticide, fertiliser and other industrial chemical products;

(ii) provision of property facilities, property investment holding and resources management services;

(iii) information technology consulting, research and development activities and the provision of laboratory services;

(iv) trading and servicing of forklifts;

(v) trading of building materials and civil engineering contractor; and

(vi) agro-biotechnology and other related new bio-technology products.

As at the LPD, the issued share capital of HHSB is RM44,743,580 comprising 223,717,900 ordinary shares and the directors and shareholders of HHSB and their respective shareholdings in HHSB are as follows:

		Direct		Indirect	
Shareholder	**Interest in HHSB**	**No. of shares**	**[1]%**	**No. of shares**	**[1]%**
Dato' Ong Choo Meng[2]	Director/ Shareholder	144,816,972	64.7	-	-
Dato' Ong Soon Ho[2]	Director/ Shareholder	53,444,328	23.9	-	-

Shareholder	Interest in HHSB	Direct		Indirect	
		No. of shares	(1)%	No. of shares	(1)%
Datin Teoh Siew Yoke @ Teoh Siew Chin(2)	Shareholder	25,456,600	11.4	-	-

Notes:

(1) Based on the issued shares of 223,717,900.

(2) Dato' Ong Soon Ho and Datin Teoh Siew Yoke @ Teoh Siew Chin are husband and wife and parents to Dato' Ong Choo Meng.

2.2 Details of the Proposed Offer For Sale

Upon issuance of the Consideration Shares, the Vendor's shareholdings in Company will increase from 45.66% to 77.31%, resulting in the Company not complying with the minimum public spread requirement of 25%.

The Vendor proposes to sell down its shareholdings in the Company via an offer for sale of such number of Completion Shares to be issued to Placees by way of private placement. In this respect, part of the Completion Shares to be received by the Vendor will be on-sold and issued and allotted directly to the Placees, such that upon issuance of all the Consideration Shares and OFS Shares, the Company shall at all times be in compliance with the public spread requirement. For avoidance of doubt, the Proposed Offer For Sale is to be implemented after the close of the Offer, simultaneous with the issuance of the Consideration Shares and the completion of the Proposed Acquisition.

M&A Securities will act as the Placement Agent for the Proposed Offer For Sale. As the OFS Shares will be placed to Placees who/which qualify under Schedules 6 and 7 of the CMSA, no prospectus will be issued.

The offer price for the OFS Shares shall be determined at a later date after obtaining the relevant approvals for the Proposed Acquisition and after the completion of the Offer and will be based on market principles (i.e. at market price to be based on the 5-days VWAMP prior to the price-fixing date(s), with a discount of not more than 10%) but in any case, shall not be at a price higher than the Offer Price.

Depending on the acceptance level of the Offer, for the purposes of illustration, based on the Record of Depositors of HIB as at 30 August 2022, the Proposed Offer For Sale will entail:

(a) 88,389,615 OFS Shares, assuming there is no acceptances of Offer Shares ("**Minimum Scenario**"); or

(b) at least 686,840,000 OFS Shares, assuming there is 100% acceptances of Offer Shares ("**Maximum Scenario**").

The amounts under the Minimum and Maximum Scenarios were determined premised on a minimum 25% public shareholding spread based on the enlarged share capital of the Company upon the issuance of the Consideration Shares. The actual number of OFS Shares to be placed out will be determined at a later date after the completion of the Offer and that the Company will be in compliance with the public spread requirement upon the issuance of the Consideration Shares.

As part of the completion procedures, the issuance of the Consideration Shares is subject to the Placement Agent confirming that there are acceptances by the Placees of such number of OFS Shares which will allow the Company to meet the public spread requirement upon issuance of the Consideration Shares. Although the Proposed Offer For Sale is integral and forms part of the composite scheme of the Proposed Acquisition to address the public spread situation upon the issuance of the Consideration Shares, the Proposed Offer For Sale is not subject to the approval from the shareholders and shareholders' approval is only sought for the Proposed Acquisition. Details of the Proposed Offer for Sale are for shareholders' information only.

2.3 Details of the Offer

Upon issuance of the Consideration Shares, the Vendor's shareholdings in the Company will increase from 45.66% to 77.31%, an increase by more than 2% of the voting shares of the Company.

As a consequence, the Vendor will be obliged under Section 218(3) of the CMSA and Paragraph 4.01(b) of the Rules to extend an Offer to acquire the Offer Shares. The Offer shall extend to the Offer Shares held by the PACs.

The Offer Price is a minimum cash consideration of RM0.30 per Offer Share, which represents the Issue Price pursuant to the Proposed Acquisition or shall not be lower than the highest price (excluding stamp duty and commission) paid or agreed to be paid by the Offeror or PACs for the Offer Shares during the offer period and within 6 months prior to the beginning of the offer period.

During the period the Security Shares are held by the Stakeholder, the Stakeholder is the registered owner of the Security Shares. Although the Vendor has beneficial ownership of the Security Shares, it does not have the right to exercise the voting rights of the Security Shares held by the Stakeholder until the Security Shares are released by the Stakeholder to the Vendor under the profit guarantee mechanism. Under the terms of the stakeholding (which is embodied in the Escrow Agreement), the Stakeholder shall abstain from exercising any voting and other consensual rights attached to the Security Shares and the voting rights of the Security Shares are suspended until the Security Shares are released by the Stakeholder to the Vendor.

A notice of the Offer will be served on the Board immediately upon the SSA becoming unconditional.

The Offer will not be conditional upon any minimum level of valid acceptances of the Offer Shares as the Offeror will hold more than 50% of the voting shares in the Offeree upon the issuance of the Consideration Shares pursuant to the Proposed Acquisition.

2.3.1 Listing status of HIB

If HIB fails to maintain the public spread requirement of 25% after the Offer, it must make an immediate announcement pursuant to Rule 8.02(3) of the Listing Requirements and may request for an extension of time to rectify the situation in the manner as may be prescribed by Bursa Securities. Where no extension of time is granted by Bursa Securities to rectify the public spread requirement, **Bursa Securities may take or impose any type of action or penalty pursuant to Rule 16.19 of the Listing Requirements for a breach of Rule 8.02(1) of the Listing Requirements and may, at its discretion, suspend trading in the securities of HIB pursuant to Rule 16.02(1) of the Listing Requirements.** However, the non-compliance of the public spread requirement would not automatically result in the delisting of HIB from the Official List of Bursa Securities.

Pursuant to Rule 9.19(48) of the Listing Requirements in relation to a take-over offer pursuant to the Rules, upon 90% or more of HIB Shares (excluding treasury shares, if any) is held by the Offeror, either individually or jointly with its associates, an immediate announcement must be made by HIB. Upon such announcement and where the Offeror has announced that it intends to maintain the listing status of HIB, **Bursa Securities will pursuant to Rule 16.02(2) of the Listing Requirements, suspend trading of HIB Shares upon the expiry of 30 market days from the date of the immediate announcement.** Bursa Securities will only uplift the suspension upon full compliance with the public spread requirement under Rule 8.02(1) of the Listing Requirements or as Bursa Securities may determine.

The Offeror intends to maintain the listing status of HIB on the ACE Market of Bursa Securities. Accordingly, in the event the Offeror receives valid acceptances under the Offer resulting in the Offeree not complying with the public spread requirement, the Offeror will work together with HIB to explore options to rectify the non-compliance of the public spread requirement.

The Offeror intends to undertake the Proposed Offer For Sale to facilitate HIB's compliance with the public spread requirement. In this regards, part of the Consideration Shares to be received by the Offeror pursuant to the Proposed Acquisition will be on-sold and issued and allotted directly to the Placees, such that upon issuance of all the Consideration Shares and OFS Shares, HIB shall at all times be in compliance with the public spread requirement. In this regard, the Proposed Acquisition can only be completed provided that such number of OFS Shares are successfully placed out to the Placees so that HIB meets the public spread requirement at all times.

It must be noted that save for the Proposed Offer For Sale, HIB may require the approvals of the relevant authorities and/or its shareholders before taking any further action to address the public spread requirement. HIB's actual course of action to be taken will depend on, amongst others, the circumstances as well as the prevailing market conditions at the relevant time. Whilst the Offeror will work together with HIB to attempt to rectify any shortfall in the public spread requirement, there is no assurance that HIB can rectify the public spread requirement within the stipulated time frame as allowed by Bursa Securities. In this case, HIB may seek an extension of time from Bursa Securities to do so. However, Bursa Securities reserves the absolute right to grant an extension or reject the said application.

3. RATIONALE AND BENEFITS OF THE PROPOSALS

3.1 Proposed Acquisition

On 6 July 2018, the shareholders of HIB approved the diversification of the business of HIB into the fertiliser business with the acquisition of PK Fertilizers (Sarawak) Sdn Bhd. HIB proposes to acquire the HFL Group which is also involved in the fertiliser business. The Proposed Acquisition represents a strategic investment and is undertaken in-line with the HIB Group's long-term plan to grow its fertiliser business through the following complementary synergies:

(i) Currently, the HIB Group's fertiliser business serves mainly the Sarawak market from its manufacturing plant in Bintulu (Sarawak). For the Sabah and Peninsular Malaysia markets, the HIB Group trades fertilisers by purchasing from its existing network of suppliers. The HFL Group has strong presence in Peninsular Malaysia and East Malaysia, with production facilities in Pasir Gudang (Johor), Telok Gong (Selangor), Lahad Datu (Sabah) and Bintulu and an extensive distribution network of suppliers/customers comprising wholesalers, dealers, fresh fruit bunch collectors, smallholders and estate owners from both private and public sectors throughout Malaysia. The Proposed Acquisition provides the HIB Group with an immediate presence and distribution coverage in Peninsular Malaysia and East Malaysia (particularly Sabah), leveraging on the HFL Group's network to expand its distribution base;

(ii) The Proposed Acquisition will enable both HIB and the HFL Group to leverage on their combined strengths in relation to key management experience, market position, production capabilities and their respective business relationships with industry stakeholders. These combined strengths are expected to sustain continuous business growth of the enlarged HIB Group by:

(a) offering a more extensive product range and value-added services to customers, such as customising of fertiliser formulations based on customers' requirements, and providing professional agronomic advisory and consultation services[1] (including fertilisers and manuring recommendations), an important part of the business requiring personal interaction with buyers and potential buyers; and

Note:

[1] The primary functions are to identify yield reducing factors for site-specific correction and draw up variable fertiliser rates to achieve site yield potential by observing or monitoring plant healthiness, manuring, moisture conservation, weeding and pest and disease control.

(b) benefitting from economies of scale and operational synergies through, collaboration on sales, marketing, route-to-market, procurement and administrative functions between the HIB Group and the HFL Group. The HIB Group will be able to reap synergistic benefits arising from streamlining its supply chain and gain better bargaining power through bulk purchasing and pooling of distribution network and logistics capabilities.

In addition, the HIB Group has been seeking shareholders' mandate for the renewal of recurrent related party transactions entered into with the HFL Group which are in the ordinary course of business[2]. The Proposed Acquisition will eliminate the conflict of interest arising from the involvement of the Interested Director and Interested Major Shareholders, through their interests in the HFL Group. Upon completion of the Proposed Acquisition, HIB will no longer be required to seek shareholders' mandate annually for such fertiliser related transactions with the HFL Group.

Note:

[2] Please refer to **Section 12** of this Circular for further details on the recurrent related party transactions between the HIB Group and the HFL Group.

Upon completion of the Proposed Acquisition, the HFL Group will become subsidiaries of HIB, thereby enabling the Company to consolidate the financial results of the HFL Group. The Proposed Acquisition is expected to be earnings accretive, details of which are set out in **Section 7.3** of this Circular. Premised on the foregoing and barring any unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the HIB Group in the future, thus enhancing HIB's shareholders' value.

The issuance of the Consideration Shares to satisfy the Purchase Consideration will enable the Company to conserve cash which can be used as working capital and channel it towards financing its day-to-day operations and/or pursue other business opportunities. In addition, the issuance of the Consideration Shares will strengthen the HIB Group's capital base to commensurate with its enlarged fertiliser business activities and with the larger combined asset base, the HIB Group is expected to be able to gain better access to both debt and equity capital markets to fund the enlarged HIB Group's business activities.

Premised on the above and after taking into consideration the historical financial performance of the HFL Group, the industry outlook and future prospects as set out in Sections 4.2 and 4.3 of this Circular, the Board (save for the Abstaining Directors) is of the view that the Proposed Acquisition will contribute positively to the HIB Group's financial performance in the future. The Proposed Acquisition will also eliminate any business competition between the HIB Group and the HFL Group due to the similarity of the nature/purpose of the fertiliser products sold by both groups.

Please refer to **Appendices IV and V** of this Circular for further information on the historical financial performance of the HFL Group.

3.2 Proposed Offer For Sale

The Proposed Offer For Sale is undertaken to allow the Company to meet the public spread requirements as set out in the Listing Requirements.

4. OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and prospects of the Malaysian economy

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2022 (1Q 2022: 5.0%). While growth was lifted to some extent by the low base from the Full Movement Control Order in June 2021, growth in April and May 2022 was particularly robust, underpinned by the continued recovery in labour market conditions and policy support. The improvement also reflected normalising economic activity as the country moved towards endemicity and reopened international borders. Exports remain supported by strong demand for Electrical & Electronic ("**E&E**") products. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy increased by 3.5% (1Q 2022: 3.8%).

Key economic sectors continued to expand in the second quarter of 2022. The services sector grew by 12.0% (1Q 2022: 6.5%). Consumer-related subsectors such as retail and leisure-related activities continued to recover amid the transition to endemicity, reopening of the international borders, improving labour market conditions and the additional support from policy assistance. The strong expansion was also seen in business related activities including transport and storage, due in part to higher growth in air passenger traffic and tourist arrivals. Furthermore, growth of the real estate subsector continued to improve as property transactions recovered. Additionally, the information and communication subsector provided further support to growth following greater usage of e-commerce services.

The manufacturing sector expanded by 9.2% (1Q 2022: 6.6%), supported by both the export and domestic-oriented industries. The effect of global supply disruptions was partly mitigated, as manufacturers were able to implement proactive measures to cushion the impact such as building inventory buffers through advance bookings and using alternative modes of transportation. The E&E cluster continued to record double-digit growth driven by global demand for semiconductors. The consumer cluster grew at a faster pace, supported by strong domestic spending activities. In particular, the motor vehicle and transport equipment segment ramped up production to meet order backlogs and fulfill demand as orders accelerated ahead of the expiration of Sales and Services Tax exemption on 30 June 2022. However, growth in the primary-related cluster moderated as the production of selected pandemic-induced products such as rubber gloves continued to normalise.

The construction sector grew by 2.4% (1Q 2022: -6.2%), its first positive growth since 2Q 2021. Large commercial and industrial projects as well as small-scale projects continued to support activity in the non-residential and special trade subsectors. Meanwhile, the slower progress in infrastructure projects led to subdued growth in the civil engineering subsector.

The mining sector recorded a smaller contraction of 0.5% (1Q 2022: -1.1%) amid closures of several oil and gas facilities for maintenance during the quarter. Nevertheless, higher production from oil and gas fields such as the Pegaga gas field in Block SK320 located in offshore East Malaysia provided some support to growth.

The agriculture sector declined by 2.4% (1Q 2022: 0.1%). During the quarter, production in livestock and other agriculture subsectors were affected by rising input costs particularly for animal feed and fertiliser. Growth was also weighed down by weak oil palm output as harvesting activity was hampered by prevailing labour shortages.

(Source: BNM Quarterly Bulletin, 2Q 2022, Bank Negara Malaysia)

In 2022, the Malaysian economy is expected to strengthen between 5.5% and 6.5% (2021: 3.1%), supported by significant improvement in global trade, stabilised commodity prices, containment of the pandemic, and gradual improvement in consumer and business sentiments. The 2022 Budget will advance measures to further drive economic recovery, enhance the nation's resilience, catalyse nationwide reforms and improve public service delivery. The programmes and projects in the Budget are aligned to the priorities of Twelfth Malaysia Plan and Shared Prosperity Vision 2030 and support the nation's aspiration of becoming a prosperous, inclusive and sustainable nation.

The services sector will benefit from the pent-up demand, following increased business and consumer confidence as the nation records a high national vaccination rate. As economic and social activities are allowed to operate, the services sector is expected to expand by 7% in 2022. The growth is mainly driven by wholesale and retail trade; information and communications; finance and insurance; transportation and storage; and food & beverages and accommodation subsectors. With these encouraging developments, the tourism industry is projected to rebound strongly by 28.9% with the resurgence of tourists arrivals and domestic tourism.

Following the rapid progress of the nationwide vaccination programme, economic activities in 2022 are anticipated to return to the pre-pandemic level. All expenditure items are projected to register positive growth, albeit moderation in some items due to high-base effects and external developments. Public expenditure is projected to rebound strongly in tandem with the acceleration of large infrastructure projects. Hence, domestic demand is envisaged to further expand by 6.6%.

The growth trajectory for 2022 is based on further expansion in global and domestic economic activities, fuelled by broader vaccine coverage and a further improvement in goods trade amid a slower recovery in services trade. The domestic demand recovery is projected to continue in 2022, anchored by private consumption, following the gradual improvement in labour market conditions amid a relaxation of containment measures, improved consumer sentiments and spending from the vaccine rollout as well as targeted policy support for vulnerable households. Rapid progress in the vaccination programme is also expected to release pent-up demand, particularly for domestic travel and leisure, further supporting the recovery. Stronger external demand, especially for electrical and electronics products and major commodities, is expected to support the surge in exports, thus helping to maintain a surplus in the current account of the balance of payments.

Almost all economic sectors are projected to expand on the supply side, led by the services and manufacturing sectors, accounting for more than 80% of the economy. However, the mining sector is forecast to decline partly due to scheduled maintenance works. The normalisation of economic activities underpinned by mass vaccination is anticipated to boost wholesale and retail trade subsector and domestic tourism-related activities. The projected higher volume of manufactured products is also in line with the expected rising demand from export- and domestic-oriented industries. Positive consumer and business sentiments and expected improvement in earnings will support the recovery in the labour market, albeit at a more modest level than the pre-pandemic period. The continuation of various initiatives to stabilise the labour market and high vaccination rates are expected to provide some relief for employers in retaining their workers. Thus, the nation's gross domestic product is forecast to expand in the range of 5.5% – 6.5% in 2022.

(Source: Economic Outlook 2022: Ministry of Finance, Malaysia)

4.2 Outlook and prospects of the fertiliser industry in Malaysia

Fertilisers are essential plant nutrients that are applied to a crop to achieve optimal yield and quality. There are two main types of fertilisers available in the market- organic and mineral (chemical) fertilisers. Organic fertilisers only contain plant- or animal-based materials from naturally occurring processes in nature, such as manure, compost etc. Mineral fertiliser is manufactured artificially and contains minerals or synthetic chemicals.

Fertiliser production and use in Malaysia is currently dominated by mineral fertilisers, representing around 85.5% of all local fertiliser production and use in 2020. Mineral fertilisers are preferred as they increase yields at a faster rate and are able to more accurately prescribe and fix nutrient deficiency in plants. To cater to the various needs of farmers, mineral fertilisers are manufactured and made available in various forms, ranging from straight fertilisers to complex compound fertilisers. Straight fertilisers are raw materials that contribute a single or sometimes two nutrients to crops. These fertilisers can be mixed with other types of fertilisers to form mixed (blended) or compound fertilisers. Examples of straight fertilisers are straight Nitrogenous (N), straight Phosphatic/Phosphorous (P) or straight Potash (K) fertilisers. Blended fertilisers are multi-nutrient products in which the various components are manufactured separately then mixed together in specific quantities to create the desired formulation. On the other hand, compound fertilisers are manufactured so that each and every granule contains the desired formulation instead of nutrients being brought together as separate components. Compound fertilisers also often contain other secondary nutrients such as Calcium, Sulphur and Magnesium and trace elements.

The market is dominated by 20 to 25 manufacturers which produce fertilisers mainly for large-scale industrial agriculture companies/ plantations. These companies are typically well-capitalised, possess their own fertiliser processing plant or warehouses providing bagging, bulk blending and/or granulation or compaction services, and have technical knowledge and competencies that are higher than their counterparts. The remaining fertiliser industry is highly fragmented with many small players that focus on supplying fertilisers for household use, smaller scale agriculture and commercial landscaping purposes or manufacture fertilisers as a supplementary business or as an extension of their core business.

The fertiliser industry in Malaysia was valued at RM4.72 billion in 2021, which was an increase of 12.2% as compared to the RM4.21 billion in 2020. The Malaysian fertiliser industry was adversely affected by COVID-19 in 2020, which saw the industry decline by 22.8% from RM5.45 billion recorded in 2019. During the earlier periods of the outbreak, labour shortage issues and the shutdown of several fertiliser plants located in integrated chemical complexes due to lockdown measures had affected shipments of fertilisers. While the fertiliser industry was later granted clearance to continue operations as they were considered essential in maintaining food supply, the lockdown measures created logistic problems in the distribution of products within the country, and across borders to neighbouring countries. The historical market size and growth forecast of the fertiliser industry in Malaysia is shown below and is forecast to surge to RM6.37 billion in 2022 and expand at a compounded annual growth rate ("**CAGR**") of 14.3% to reach RM9.20 billion in 2026:

Year	Market size (Revenue) (RM billion)	Growth Rate (%)
2020	4.21	-
2021	4.72	12.2
2022^f	6.37	35.0
2023^f	7.20	13.5
2024^f	7.81	8.5

Year	Market size (Revenue) (RM billion)	Growth Rate (%)
2025^{f}	8.48	8.5
2026^{f}	9.20	8.5

CAGR (2022-2026) (base year of 2021): 14.3%
Note: f denotes forecast

The local fertiliser industry is expected to recover and grow due to market players within the industry rearranging operations, which had in 2020 been restricted by containment measures and closure of commercial activities. Other factors boosting the growth within the fertiliser industry is likely to come from the continuous interest from the Government in the development of industrial crops sectors, namely the palm oil and rubber industries. The rising commodity prices of industrial crops is also expected to play a role in driving demand for fertilisers as farmers seek to increase yield to take advantage of the higher prices of their produce. For example, the price for crude palm (FOB) stood at USD1,382.50 (RM5,765.00) in November 2021, up from USD894.50 (RM3,631.00) in December 2020.

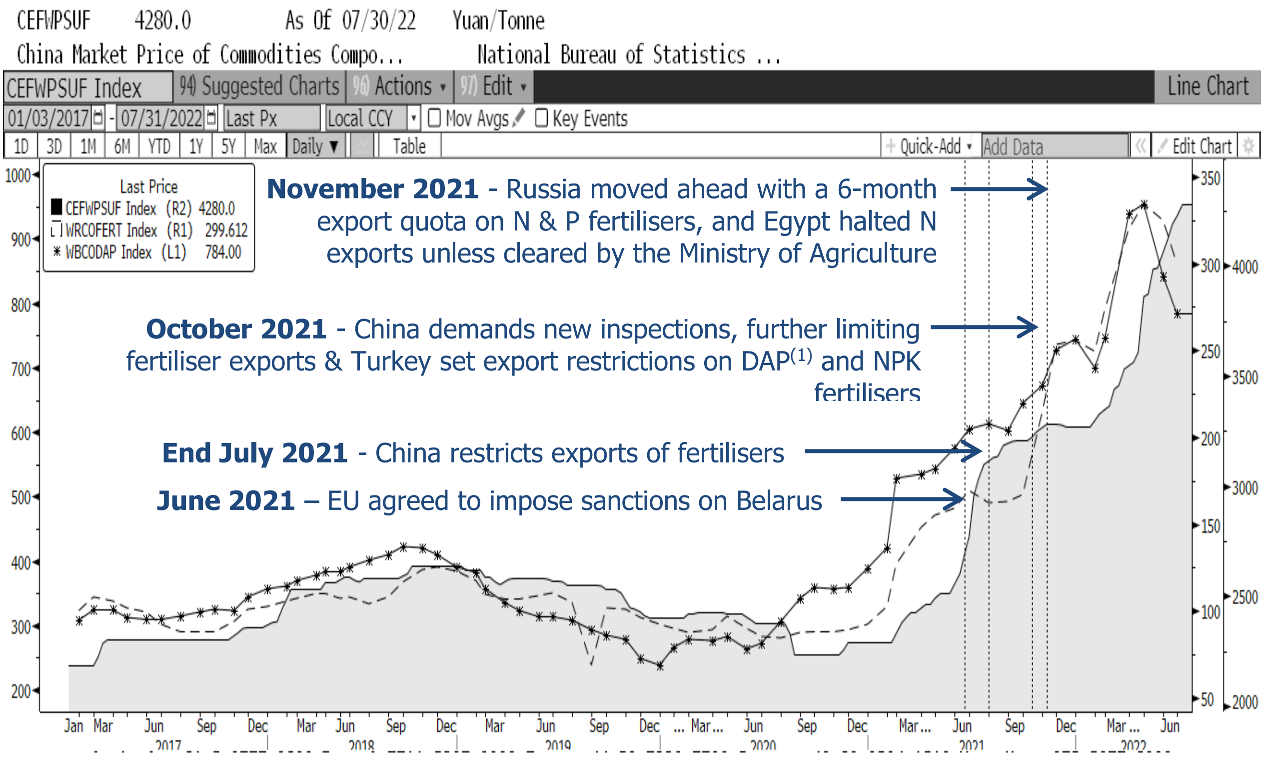
The chart below extracted from Bloomberg depicts the Malaysian Palm Oil Board crude palm oil (FOB) spot prices between the period 3 Jan 2017 and 5 September 2022.

In addition to industrial crops, demand for fertiliser is also expected to be driven by food crops, whereby the Government is trying to attain self-sufficiency in some of the major food commodities.

On the supply side, the supply of mineral fertilisers is expected to be affected by the reliance of local manufacturers in importing raw materials required for the manufacture of these fertilisers. Most of the fertiliser manufacturers in Malaysia import straight fertilisers as raw materials from foreign sources. Malaysia does not extensively mine or manufacture these straight fertilisers and have to rely on imported supply. In 2020, nitrogenous fertilisers were mainly imported from China, Indonesia, Japan, Russia and Taiwan. Phosphatic fertilisers from Algeria, Australia, China, Egypt, Latvia, Russia and Vietnam and Potassic fertilisers from Canada, Lithuania, Germany and Russia. As such, local fertiliser prices are vulnerable and dependent on international fertiliser price movements.

The supply of fertilisers in 2021 can be characterised by availability concerns, on the back of physical disruptions and high raw material prices. Many countries responded to supply chain disruptions and an inflationary economic environment with policies that impacted global trade flows of fertilisers. A number of countries increased their self-sufficiency efforts in the second half of 2021 and placed trade restrictions on agricultural inputs in anticipation of potential shortages. For example, China, Russia, Egypt and Turkey have all placed export restrictions on fertilisers in order to secure enough supply for the domestic market. In June 2021, the European Union ("**EU**") agreed to impose sanctions on specific sectors of the Belarusian economy, namely, oil, tobacco and potash. Belarus was the third largest potash producer in 2019, and accounting for 18% of global production. In the traded market, Belarus was the second largest potash exporter in 2019, accounting for 21% of global trade. *(Source: International Fertiliser Association)*

The chart below extracted from Bloomberg depicts the China Market Price of Compound Fertiliser of Potassium Sulfate Index (dashed line) vs the IMF World Fertiliser Index (includes DAP[1], Potash, Urea) (solid straight line) vs World Bank Commodity Prices Diammonium Phosphate Fertiliser (star marked line).



Note:
[1] Diammonium phosphate (DAP) is the world's most widely used phosphorus fertiliser.

In February 2022, the war between Russia and Ukraine further disrupted the global fertiliser trade, as Russia is the largest exporter of nitrogen fertilisers and second largest supplier of both potassic and phosphorous fertilisers. This led to a global shortage of fertiliser across the globe. Any fluctuation in the prices of these imported raw materials or supply disruptions is expected to have an impact on the production of fertilisers in Malaysia.

(Source: Protégé Associate)

4.3 Prospects and future plans of the enlarged HIB Group post-Proposed Acquisition

The Proposed Acquisition represents a strategic initiative to enhance the competitiveness of the HIB Group with access to an immediate distribution network and manufacturing facilities within Peninsular Malaysia and East Malaysia (particularly Sabah), and also to expand deeper into Sarawak, which the HIB Group is currently serving.

Upon completion of the Proposed Acquisition, the HFL Group will form the core business of the enlarged HIB Group, which is expected to drive future growth earnings and cashflow for the Group. The Proposed Acquisition will also offer opportunities for HIB and the HFL Group to further expand as well as benefit from complementary synergies, such as streamlining of supply chain and economies of scale through bulk purchasing as mentioned in **Section 3.1(ii)(b)** of this Circular. The enlarged HIB Group is expected to undertake the following efforts to grow its business operations:

(a) increase revenue and customer base by tapping and leveraging on the HFL Group's extensive and efficient distribution network which includes wholesalers, dealers, fresh fruit bunch collectors, smallholders and estates owners, both in the private and public sector;

(b) expand the range of fertiliser products by combining with the HFL Group's NPK[1] compound fertilisers production, formulation capabilities and the production of bulk blends and mixtures of various formulations to suit the needs of various crops in addition to trading of a wide spectrum of straight fertilisers. Currently, the HIB Group's NPK compound fertilisers production capacity is 75,000 metric tonnes per annum. Upon the completion of the Proposed Acquisition, the enlarged HIB Group's production capacity will amount to an aggregate of 679,000 metric tonnes per annum, an increase by approximately 8 times;

Note:

(1) Fertilisers are labelled N, P or K to indicate their nutrient content in terms of nitrogen (N), phosphorus (P), and potassium (K). All three are important for plant growth. Nitrogen helps plant foliage to grow strong. Phosphorous helps root development and promote flowering. Potassium (Potash) is important for overall plant health and helps in fruiting.

(c) expand the provision of value-added services to existing and new customers with the introduction of services such as formulating and customising different mixtures of fertilisers based on customers' needs, crop management solution and services, provision of fertilisers and manuring recommendations as well as providing professional agronomic advisory and consultation services via the HFL Group's existing agricultural advisory and service team; and

(d) expand production of new types of fertilisers, such as organic and specialty fertilisers. Speciality fertilisers include products ranging from single nutrient to containing multi-nutrients to products which allow controlled slow release of nutrients.

The plans in paragraphs (a) to (c) above will take effect upon completion of the Proposed Acquisition and does not require additional committed financial resources. The expansion plan in paragraph (d) is in its nascent stage and is expected to take a timeframe of 5 years to create awareness and education of the new types of fertiliser products. No additional committed financial resources is expected to be expended as the said expansion is part of the value-added services of advisory and consultation services to generate awareness and education for new types of fertilisers.

Premised on the rationale for the Proposed Acquisition, outlook and prospects of the fertiliser industry and the future plans of the HFL Group, the Board (save for the Abstaining Directors) is of the view that future prospects of the HFL Group is favourable for the enlarged HIB Group and the Proposed Acquisition is expected to be earnings accretive and thus, enhance shareholders' value.

(Source: Management of HIB)

5. RISK FACTORS

The Proposed Acquisition will not materially change the risk profile of HIB as it operates in the same industry segment as HFL and its subsidiaries. As such, the enlarged HIB will be exposed to similar risks inherent in the industry upon the completion of the Proposed Acquisition. In addition, there are certain risks specifically associated with the Proposed Acquisition, as follows:

5.1 Risks relating to the Proposed Acquisition

(a) Non-completion of the Proposed Acquisition

The completion of the Proposed Acquisition is subject to, among others, the fulfillment of the conditions precedent stipulated in the SSA as set out in **Appendix II** of this Circular, some of which are beyond the control of the Company. The Proposed Acquisition may not be completed if any of the conditions precedent cannot be fulfilled and/or waived, as the case may be, within the stipulated timeframe.

To mitigate such risk, the Company will take all reasonable steps and effort to fulfill or if necessary, waive the conditions precedent in the SSA in order to complete the Proposed Acquisition in a timely manner.

(b) Non-fulfilment of the profit guarantee

The profit guarantee is based on various bases and assumptions which are deemed reasonable, but nevertheless subject to certain uncertainties and contingencies, which may be outside HFL's control. While the Board (save for the Abstaining Directors) has taken reasonable steps to assess the achievability of the profit guarantee which includes assessing the HFL Group's past financial performance as well as its prospects as set out in **Sections 4.2 and 4.3** of this Circular, there can be no assurance that the profit guarantee will be met. To mitigate the risk of not fulfilling the profit guarantee, the value of Security Shares equivalent to the Guaranteed Sum shall be placed with a Stakeholder and will only be released progressively to the Vendor based on the unaudited/audited PAT amount of the HFL Group for the respective quarter/financial year over the Guaranteed Period.

If the HFL Group registers a cumulative PAT which is less than the Guaranteed Sum (shortfall), the Vendor shall make good the shortfall in cash or in the case where the HFL Group registers a cumulative audited LAT, the Vendor shall make good the difference between the Guaranteed Sum and the cumulative audited LAT incurred, i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period, by way of cash. The Stakeholder shall then release the remaining Security Shares to the Vendor. In the event the Vendor fails to make good the abovementioned cash payments, the Stakeholder shall act in accordance to the Purchaser's instruction to deal with the remaining Security Shares, including but not limited to sell, transfer or dispose of the remaining Security Shares, after which the Stakeholder shall then release the sale proceeds to the Purchaser. Moreover, such failure by the Vendor to make good the cash payments shall constitute a default in performance of the terms and conditions of the SSA and the Purchaser shall be entitled to claim for specific performance against the Vendor.

(c) Investment and integration risk

Although the Proposed Acquisition is expected to contribute positively to the earnings of the HIB Group, there is no guarantee that the anticipated benefits from the Proposed Acquisition will be realised or that the HIB Group would be able to generate sufficient returns from the HFL Group.

There is also no guarantee of the successful integration of the business of the HIB Group with the HFL Group arising from the Proposed Acquisition as well as the realisation of the expected business synergies from the Proposed Acquisition.

The management of HIB, together with the management of the HFL Group will oversee the integration process, daily operations and be involved in the decision making of strategic matters of the HFL Group.

(d) Dependence on key personnel of the HFL Group

The business of the HFL Group is dependent to a certain extent on the key personnel managing the operations of the business as set out in **Section 7 of Appendix IV**. The loss of key personnel of the HFL Group without suitable and timely replacement and the inability to attract or retain qualified and suitable personnel may have an unfavourable and material impact on the performance of the enlarged HIB Group.

The Board (save for the Abstaining Directors) intends to retain the employees of the HFL Group to ensure that there is continuity in the management of the HFL Group and that there is no disruption to the day-to-day operations and business. As the enlarged HIB Group is also expanding its fertiliser operations as set out in Section 4.3 above, the Group will progressively conduct internal transfers, train existing employees or recruit suitable personnel, to groom them with the necessary knowledge and skills to gradually assume higher responsibilities. In addition, the management of HIB will adopt appropriate approaches including reviewing the remuneration and incentives packages as well as providing a good working environment to retain the key personnel with the HFL Group.

(e) Risk of changes to the British Virgin Island's policies on repatriation of profits/dividends

HFL will be subject to the policies on repatriation of profits/dividends under the laws of the British Virgin Islands prevailing at the point of repatriation. Currently, profits from investments in international business companies incorporated in the British Virgin Islands can be repatriated to Malaysia by way of dividends without any regulatory or legal restrictions. However, there can be no assurance that any restrictions to the policies on repatriation of profits/dividends under the laws of the British Virgin Islands in the future will not have a material adverse effect on the HIB Group. In order to mitigate the abovementioned risk, the enlarged HIB Group will adopt a proactive approach in keeping abreast of the relevant policies in the British Virgin Islands on repatriation of profits/dividends in relation to HFL.

5.2 Risks relating to the business of the enlarged HIB Group

(a) Competition risk

The enlarged HIB Group may face competition from existing competitors and/or new entrants operating in similar business relating to the manufacture and sale of fertilisers, from both local and regional fertiliser business operators.

Nevertheless, the enlarged HIB Group will continue to take proactive measures to remain competitive in this business by inter-alia, constantly keeping abreast with the latest market conditions and continuing efforts in maintaining a competitive edge in terms of cost and operational efficiency throughout its value chain (i.e. from manufacturing to trading of different types of fertilisers) as well as product quality. However, there can be no assurance that the enlarged HIB Group will be able to compete effectively with the existing and new entrants in similar business relating to the fertiliser business in the future which may affect the enlarged HIB Group's financial performance.

(b) Dependence on the oil palm industry

The revenue generated from the fertiliser business of the HFL Group is mainly contributed by the oil palm plantation industry. As such, the growth of the enlarged HIB Group's business is highly dependent on the following factors which affect the oil palm industry:

(i) Fluctuations in prices of crude palm oil, which is subject to market vagaries.

(ii) Changes in the weather conditions which has a direct impact on oil palm yields. In particular, global warming and weather phenomena such as El Nino (prolonged dry conditions) and La Nina (prolonged wet conditions) have affected the weather in Malaysia.

(iii) Fluctuations in demand for palm oil where there are changes in consumer preference to substitute palm oil with other edible oils such as soybean oil or rapeseed oil, which would have a negative impact on the oil palm industry.

(iv) A negative performance in the end-user market of the enlarged HIB Group's customers may affect the demand for the enlarged HIB Group's products and may lead to an adverse impact on its business and financial performance. Increasing prices of fertilisers may cause oil palm plantation companies to use less fertilisers. Generally, the price of fertilisers is correlated to the average prices of crude palm oil where customers will tend to buy more fertilisers when the average price of crude palm oil is higher.

In mitigation, the HIB Group has commenced selling fertilisers to customers not within the oil palm plantation industry such as fruits, vegetables, rubber and cocoa to reduce the high dependency from oil palm plantation customers.

6. POLICIES ON FOREIGN INVESTMENTS, TAXATION AND REPATRIATION OF PROFITS

(a) Policies on repatriation of profits

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the British Virgin Islands that would prevent the repatriation of lawfully available profits by HFL in a foreign currency from the British Virgin Islands to a shareholder outside of the British Virgin Islands. There are no express restrictions stipulated in the Memorandum and Articles in relation to the repatriation of profits by HFL.

(b) Policies on foreign investments

There are no restrictions on a shareholder outside of the British Virgin Islands from owning, holding and exercising the voting rights over the shares in HFL under the Memorandum and Articles of HFL.

The transfer of the shares in HFL from HHSB to HIB does not require the consent or approval of, the giving of notice to, or the registration with, or the taking of any other action in respect of any British Virgin Islands governmental or judicial authority or agency provided that any purported transfer of the shares in HFL following the commencement of a Court supervised winding-up of the company would require the consent of the Court and any purported transfer of the shares in HFL following the commencement of a voluntary winding-up of the company would require the consent of the liquidator.

(c) Policies on taxation

There are no stamp duties, income tax, withholding tax, levies, registration taxes or other duties or similar taxes or charges now imposed or which under the present laws of the British Virgin Islands could in the future become imposed, on a shareholder outside of the British Virgin Islands in respect of shares or any acquisition, ownership or disposition of the shares. The British Virgin Islands currently have no form of income, corporate or capital gains tax, and no estate duty, inheritance tax, gift tax.

7. FINANCIAL EFFECTS OF THE PROPOSALS

The Proposed Offer For Sale will not have any effect on the Company's issued share capital, consolidated NA, gearing, earnings and EPS.

7.1 Issued share capital

The pro forma effects of the Proposed Acquisition on the issued share capital of HIB are as follows:

	No. of Shares	RM
Share capital as at the LPD	1,147,341,623	191,940,840
To be issued pursuant to the Proposed Acquisition	1,600,000,000	480,000,000
Enlarged issued share capital	**2,747,341,623**	**671,940,840**

7.2 NA and gearing

For illustration purposes only, based on the latest audited consolidated financial results of HIB for the FYE 31 August 2021, the pro forma effects of the Proposed Acquisition on the consolidated NA and gearing of HIB are shown below:

	Audited as at 31 August 2021	After subsequent event[(1)]	After the Proposed Acquisition
	RM'000	**RM'000**	**RM'000**
Share capital	76,159	191,941	671,941
Merger deficit reserve	(23,859)	(23,859)	[(2)](559,300)
Revaluation reserve	-	-	21,791
Capital reserve	-	-	[(3)]30,000
Foreign currency translation reserve	(3)	(3)	(3)
Retained earnings	27,574	27,574	85,033
Equity attributable to owners' of the Company/NA	**79,871**	**195,653**	**249,462**

	Audited as at 31 August 2021	After subsequent event(1)	After the Proposed Acquisition
	RM'000	**RM'000**	**RM'000**
No. of Shares	185,972,836	1,147,341,623	2,747,341,623
NA per Share (RM)	0.43	0.17	0.09
Borrowings (RM'000)	61,121	61,121	(4)401,228
Gearing(5) (times)	0.77	0.31	1.61

Notes:

(1) After incorporating the Company's rights issue of 929,864,180 new Shares at an issue price of RM0.12 per rights share, which was completed on 20 October 2021 and the issuance of 31,504,607 new Shares pursuant to the exercise of warrants 2016/2021 from 1 September 2021 up until 10 December 2021.

(2) After incorporating the merger reserve of RM535.4 million, which arose from the acquisition of common control entities under the merger method of accounting.

(3) After incorporating the capital reserve of RM30.0 million which arose from the share capital reduction of PKSB.

(4) After incorporating the impact of the HFL Group's borrowings and hire purchase with the HIB Group.

(5) Calculated based on borrowings over NA.

7.3 Earnings and EPS

The actual impact of the Proposed Acquisition on the consolidated earnings and EPS of HIB moving forward will depend on, among others, the market and industry conditions and the successful integration of the operations of the HFL Group into HIB. Nevertheless, the Proposed Acquisition is expected to be earnings accretive and contribute positively to the future earnings of the HIB Group upon completion of the Proposed Acquisition.

For illustration purposes only, based on the latest audited consolidated financial statements of HIB for the FYE 31 August 2021, the pro forma effects of the Proposed Acquisition on the earnings and EPS of the HIB Group, assuming the Proposed Acquisition had been completed at the beginning of the financial year, is as follows:

	Audited as at 31 August 2021 RM	After the Proposed Acquisition RM
PAT	1,915,926	1,915,926
Add: Contribution from the Proposed Acquisition(1)	-	47,000,000
PAT of the HIB Group	**1,915,926**	**48,915,926**
Less: Estimated expenses for the Proposals and Offer	-	1,200,000
Pro forma PAT of HIB Group	**1,915,926**	**47,715,926**
Number of shares in issue	185,972,836	2,747,341,623
EPS (sen)	1.03	1.74

Note:

(1) Based on the average Guaranteed Sum of RM47,000,000 for the first financial year of the Guaranteed Period.

7.4 Substantial shareholders' shareholdings

The pro forma effects of the Proposals on the substantial shareholders' shareholdings are as follows:

Minimum Scenario	Assuming there is no acceptances of Offer Shares and 88,389,615 OFS Shares are placed out under the Proposed Offer For Sale

	As at 30 August 2022				**After the Offer and Proposed Acquisition**			
	Direct		**Indirect**		**Direct**		**Indirect**	
Substantial shareholder	**No. of Shares**		**No. of Shares**		**No. of Shares**		**No. of Shares**	
	'000	**%**	**'000**	**%**	**'000**	**%**	**'000**	**%**
HHSB	523,929	45.7	-	-	2,123,929	77.3	-	-
Dato' Ong Soon Ho	2,700	0.2	(1)523,929	45.7	2,700	0.1	(1)2,123,929	77.3
Dato' Ong Choo Meng	-	-	(1)523,929	45.7	-	-	(1)2,123,929	77.3
Public(3)	598,450	52.2	-	-	598,450	21.8	-	-

	After the Proposed Offer For Sale(2)			
	Direct		**Indirect**	
Substantial shareholder	**No. of Shares**		**No. of Shares**	
	'000	**%**	**'000**	**%**
HHSB	2,035,539	74.1	-	-
Dato' Ong Soon Ho	2,700	0.1	(1)2,035,539	74.1
Dato' Ong Choo Meng	-	-	(1)2,035,539	74.1
Public(3)	686,840	25.0	-	-

Notes:
(1) Deemed interest by virtue of their interests in HHSB pursuant to Section 8 of the Act.
(2) Assuming 88,389,615 OFS Shares are placed out to Placees under the Proposed Offer For Sale to ensure that the public spread requirement of the Company is complied with upon issuance of the Consideration Shares.
(3) Excludes 22,243,894 HIB Shares held by Directors of the Company and associates of the Directors and/or substantial shareholder and 18,444 HIB Shares held by shareholders holding less than 100 HIB Shares who are not deem public based on the Record of Depositors as at 30 August 2022.

Maximum Scenario	Assuming 100% acceptances of Offer Shares and 686,840,000 OFS Shares are placed out under the Proposed Offer For Sale

	As at 30 August 2022				**After the Offer and Proposed Acquisition**			
	Direct		**Indirect**		**Direct**		**Indirect**	
Substantial shareholder	**No. of Shares**		**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
	'000	**%**	**'000**	**%**	**'000**		**'000**	
HHSB	523,929	45.7	-	-	2,747,342	100.0	-	-
Dato' Ong Soon Ho	2,700	0.2	(1)523,929	45.7	-(2)	-	(1)2,747,342	100.0
Dato' Ong Choo Meng	-	-	(1)523,929	45.7	-	-	(1)2,747,342	100.0
Public(4)	598,450	52.2	-	-	-	-	-	-

	After the Proposed Offer For Sale(3)(5)			
	Direct		**Indirect**	
Substantial shareholder	**No. of Shares**		**No. of Shares**	**%**
	'000	**%**	**'000**	**%**
HHSB	2,060,502	75.0	-	-
Dato' Ong Soon Ho	-	-	(1)2,060,502	75.0
Dato' Ong Choo Meng	-	-	(1)2,060,502	75.0
Public	686,840	25.0	-	-

Notes:
(1) Deemed interest by virtue of their interests in HHSB pursuant to Section 8 of the Act.
(2) Assuming Dato' Ong Soon Ho accepts the Offer.
(3) Assuming 686,840,000 OFS Shares are placed out to Placees under the Proposed Offer For Sale to ensure that the public spread requirement of the Company is complied with upon issuance of the Consideration Shares.
(4) Excludes 22,243,894 HIB Shares held by Directors of the Company and associates of the Directors and/or substantial shareholder and 18,444 HIB Shares held by shareholders holding less than 100 HIB Shares who are not deem public based on the Register of Depositors as at 30 August 2022.
(5) Assuming the Directors of the Company and associates of the Directors and/or substantial shareholder and shareholders holding less than 100 HIB Shares accept the Offer.

8. HISTORICAL SHARE PRICES

The monthly highest and lowest market prices of HIB Shares as traded on the ACE Market of Bursa Securities for the past 12 months are as follows:

	High	Low
	RM	RM
2021		
September	0.1950	0.1290
October	0.1650	0.1300
November	0.1900	0.1400
December	0.1600	0.1400
2022		
January	0.2550	0.1500
February	0.3250	0.2400
March	0.3300	0.2250
April	0.3950	0.3100
May	0.4000	0.3150
June	0.3850	0.3100
July	0.3700	0.3150
August	0.3850	0.3100
September (up to the LPD)	0.4200	0.3700
Last transacted market price as at the LTD		0.3300
Last transacted market price as at the LPD		0.4100

9. APPROVALS REQUIRED

The Proposed Acquisition is subject to the approvals being obtained from:

(a) Bursa Securities, for the listing of and quotation for the Consideration Shares to be issued on the ACE Market of Bursa Securities.

The approval of Bursa Securities for the Proposed Acquisition was obtained vide its letter dated 20 September 2022, and is subject to the following conditions:

No.	Conditions	Status of compliance
1.	HIB and M&A Securities must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Acquisition;	To be complied
2.	HIB and M&A Securities are required to inform Bursa Securities upon the completion of the Proposed Acquisition;	To be complied
3.	HIB is required to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Acquisition is completed;	To be complied
4.	Compliance by HIB with the public shareholding spread upon completion of the Proposed Acquisition and upon completion of the profit guarantee period. In this connection, M&A Securities is to furnish a schedule containing the information set out in Appendix 8E, Chapter 8 of the Listing	To be complied

No.	Conditions	Status of compliance
	Requirements to Bursa Securities prior to the allotment and issuance of the Consideration Shares; and	
5.	HIB is to furnish Bursa Securities with a certified true copy of the resolution passed by the shareholders at a general meeting approving the Proposed Acquisition.	To be complied

(b) the non-interested shareholders of HIB at the forthcoming EGM of the Company to be convened; and

(c) any other relevant authorities and/or parties, where required.

In compliance with Paragraph 11.02(3) of the Rules, the Securities Commission Malaysia's notification that it has no further comments on the offer document in relation to the Offer is also required and will be sought within the timeframe stipulated by the Rules once the Offer is undertaken (that is, immediately upon the SSA becoming unconditional).

Although the Proposed Offer For Sale is integral and forms part of the composite scheme of the Proposed Acquisition to address the public spread situation upon the issuance of the Consideration Shares, the Proposed Offer For Sale is not subject to the approval from the shareholders. Details of the Proposed Offer for Sale are for shareholders' information only. Shareholders' approval is only sought for the Proposed Acquisition.

Save as disclosed above, the Proposed Acquisition is not conditional or inter-conditional upon any other corporate proposals undertaken or to be undertaken by HIB.

10. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Acquisition pursuant to Rule 10.02(g) of the Listing Requirements is 2,933.73%, computed based the PAT of the assets compared with the PAT attributable to the owners of HIB. The Proposed Acquisition will not result in a significant change in business direction of HIB as the HFL Group is in a business similar to the core business of the HIB Group, i.e. manufacturing and trading of fertilisers.

11. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the directors, major shareholders and chief executive of the Company and/or persons connected with them has any interests, direct and/or indirect, in the Proposed Acquisition:

(i) HHSB (the Vendor), being the major shareholder of the Company, is also the major shareholder of HFL;

(ii) Dato' Ong Choo Meng, being the Non-Independent Non-Executive Director of the Company and major shareholder of the Company via his indirect interest through HHSB, is also a director and major shareholder of HFL via his indirect interest through HHSB; and

(iii) Dato' Ong Soon Ho, being the major shareholder of the Company via his indirect interest through HHSB is also a major shareholder of HFL via his indirect interest through HHSB.

In addition, Ong Tzu Chuen is the Non-Independent Non-Executive Director of the Company. Ong Tzu Chuen is not a director and neither is she a shareholder of HHSB. She is the daughter of Dato' Ong Soon Ho and sister of Dato' Ong Choo Meng. Although Ong Tzu Chuen has no interest in the Proposed Acquisition, she is a person connected to the Interested Major Shareholders and Interested Director. As such, Ong Tzu Chuen has abstained from deliberating and voting in respect of the Proposed Acquisition at the relevant Board meetings.

As at the LPD, the direct and indirect shareholdings of the Interested Director, Interested Major Shareholders and Ong Tzu Chuen in HIB are as follows:

	Direct		**Indirect**	
	No. of Shares	**%**	**No. of Shares**	**%**
HHSB	523,928,900	45.7	-	-
Dato' Ong Choo Meng	-	-	[(i)]523,928,900	45.7
Dato' Ong Soon Ho	2,700,000	0.2	[(i)]523,928,900	45.7
Ong Tzu Chuen	-	-	-	-

Note:

(i) Deemed interest by virtue of his interest in HHSB pursuant to Section 8 of the Act.

The Proposed Acquisition is deemed a related party transaction under Rule 10.08 of the Listing Requirements in view of the interest of the Interested Director and Interested Major Shareholders. Accordingly, Dato' Ong Choo Meng and Ong Tzu Chuen have abstained and will continue to abstain from all Board deliberations and voting in respect of the Proposed Acquisition. The Interested Major Shareholders and Ong Tzu Chuen will abstain and have undertaken to ensure that persons connected with them will also abstain from voting in respect of their direct and/or indirect interest in the Company on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

12. TOTAL AMOUNT TRANSACTED WITH THE SAME RELATED PARTIES FOR THE PRECEDING 12 MONTHS

Save as disclosed below, there is no other transaction entered into between HIB and the related parties, namely the Interested Director and Interested Major Shareholders for the 12 months preceding the LPD.

No.	**Details of transaction**	**RM'000**
1.	Rental of premises from Hextar Premier Sdn Bhd[(1)]	677
2.	Rental of lorries from Teju Logistics Sdn Bhd[(2)]	195
3.	Rental of forklift to Halex Woolton (M) Sdn Bhd[(3)]	88
4.	Maintenance charges for chillers and sales of forklift to Rubberex Alliance Sdn Bhd[(4)]	886
Transactions with the HFL Group[(5)]		
5.	Sale of industrial products and spare parts such as conveyor belt, conveyor rollers, wire mesh to HFSB and PKSB	328
6.	Sale of fertiliser goods to HFSB, HSSB and PKSB	96,990
7.	Purchase of fertiliser good from HFSB, PKSB and HSSB	39,533

No.	Details of transaction	RM'000
Transactions with the HHSB group of companies[6]		
8.	Maintenance charges for forklift to Hextar Industrial Chemicals Sdn Bhd, a wholly-owned subsidiary of HHSB	1
9.	Maintenance charges for forklift to Hextar Mitai Sdn Bhd, a 70.0%-owned subsidiary of HHSB	25
10.	Purchase of forklift from TK Equipment Sdn Bhd, a 65.0%-owned subsidiary of HHSB	748
		139,471

Notes:

(1) Dato' Ong Choo Meng and Ong Tzu Chuen are the major shareholders of Hextar Premier Sdn Bhd, with equity interests of 70.0% and 30.0%, respectively as at the LPD. The rental of premises is for use as office and warehouse by the HIB Group.

(2) Dato' Ong Choo Meng and Dato' Ong Soon Ho are the major shareholders of Teju Logistics Sdn Bhd, with equity interests of 70.0% and 30.0%, respectively as at the LPD. The rental of lorries is used for delivery of rental equipment for the HIB Group's equipment rental business.

(3) Halex Woolton (M) Sdn Bhd is a wholly-owned subsidiary of Hextar Global Berhad. HHSB is the major shareholder of Halex Woolton (M) Sdn Bhd via its 59.1% interest in Hextar Global Berhad. In addition, Dato' Ong Choo Meng also holds a direct interest of 7.8% in Hextar Global Berhad as at the LPD.

(4) Rubberex Alliance Sdn Bhd is a wholly-owned subsidiary of Rubberex Corporation (M) Berhad. As at the LPD, Dato' Ong Choo Meng is the major shareholder of Rubberex Alliance Sdn Bhd via his 35.1% interest in Rubberex Corporation (M) Berhad, through Hextar Rubber Sdn Bhd.

(5) HHSB is the 100% shareholder of HFSB, PKSB and HSSB via HFL and HFGSB.

(6) Dato' Ong Choo Meng and Dato' Ong Soon Ho are the major shareholders of HHSB, with equity interests of 64.7% and 23.9%, respectively as at the LPD.

13. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of HIB, after having considered all aspects of the Proposals, including the bases for the Purchase Consideration and Issue Price for the Consideration Shares, rationale, prospects and financial effects as well as the evaluation and opinion of the Independent Adviser, is of the opinion that the Proposed Acquisition is:

(i) in the best interest of HIB;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of the non-interested shareholders.

In arriving at the above view, the Audit Committee had taken into consideration, among others, the following:

(i) the rationale and justification for the Proposals;

(ii) the basis and justification of arriving at the Purchase Consideration;

(iii) the basis and justification of arriving at the Issue Price;

(iv) the salient terms of the SSA;

(v) the risk factors; and

(vi) the effects of the Proposals.

14. DIRECTORS' STATEMENT AND RECOMMENDATION

After considering all aspects of the Proposals, including but not limited to the rationale and benefit, justification of arriving at the Purchase Consideration, prospects for the Proposed Acquisition and effects of the Proposals, the Board (save for the Abstaining Directors) is of the opinion that the Proposed Acquisition is in the best interest of HIB.

Accordingly, the Board (save for the Abstaining Directors) recommends that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM of the Company.

15. OUTSTANDING PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and the Offer, there is no other corporate exercise that has been announced but has yet to be completed as at the LPD.

16. ESTIMATED TIMEFRAME FOR IMPLEMENTATION

Barring unforeseen circumstances and subject to all relevant approvals obtained, the Proposals and the resultant Offer are expected to be completed in the fourth quarter of the calendar year 2022.

The details of the tentative timeline are set out below:

Tentative timeline	Events
12 October 2022	EGM for the Proposed Acquisition
Mid October 2022	▪ SSA becomes unconditional ▪ Service of the Notice of Offer to the Board
3rd week November 2022	Close of the Offer
Mid December 2022	Confirmation from the Placement Agent that Placees have been determine in respect of the Proposed Offer for Sale
End December 2022	▪ Listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities ▪ Completion of the Proposals

17. EGM

The notice of EGM which is enclosed in this Circular, will be held virtually through live streaming from the Broadcast Venue at No. 64, Jalan Bayu Laut 4/KS09, Kota Bayuemas, 41200 Klang, Selangor ("**Broadcast Venue**") on Wednesday, 12 October 2022 at 3:00 p.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the resolution to give effect to the Proposed Acquisition.

The Broadcast Venue is strictly for the purpose of complying with Section 327(2) of the Act and Guidance Note on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia which require the Chairman of the meeting to be present at the main venue of the meeting.

Members/proxies/corporate representatives **will not be allowed to attend the EGM in person at the Broadcast Venue** on the day of the meeting. Members are to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, "**participate**") remotely at the EGM via Remote Participation and Voting facilities ("**RPV**") provided by Tricor Investor & Issuing House Services Sdn Bhd via its website at https://tiih.online. Please refer to the "Procedures for RPV" provided in the Administrative Details for the EGM for further information on how to participate remotely via RPV.

If you have decided to appoint proxy(ies) to attend, participate, speak and vote at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed therein to the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

The Form of Proxy may also be lodged electronically via at https://tiih.online **no later than 10 October 2022 at 3:00 p.m.** For further information on the electronic lodgement of the Form of Proxy, kindly refer to the Administrative Details for the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting remotely at the meeting if you subsequently wish to do so.

18. FURTHER INFORMATION

Please refer to the **Appendix IX** set out in this Circular for further information.

Yours faithfully,
For and on behalf of the Board of Directors of,
HEXTAR INDUSTRIES BERHAD

DATO' CHAN CHOUN SIEN
Independent Non-Executive Chairman

PART B

INDEPENDENT ADVICE LETTER FROM MALACCA SECURITIES TO THE NON-INTERESTED SHAREHOLDERS OF HIB IN RELATION TO THE PROPOSED ACQUISITION

EXECUTIVE SUMMARY

All definitions used in this Executive Summary shall have the same meaning as the words and expressions provided in the "Definitions" section of this Circular and as defined in this IAL herein, except where the context herein requires otherwise or where otherwise defined herein. All references to "you" are references made to the non-interested shareholders of the Company, whilst references to "we", "us" or "our" are references to Malacca Securities, being the Independent Adviser for the Proposed Acquisition.

Set out hereunder is an executive summary which serves to highlight some of the salient points arising from Malacca Securities' independent evaluation of the Proposed Acquisition. The non-interested shareholders of the Company are advised to read and understand the contents of this IAL and the entire Part A of this Circular, including the appendices thereof, for more comprehensive information, evaluation and recommendation on the Proposed Acquisition before voting on the resolution pertaining to the Proposed Acquisition at the forthcoming EGM.

1. INTRODUCTION

On 8 August 2022, M&A Securities had, on behalf of the Board (save for the Abstaining Directors), announced that the Company had entered into the SSA with the Vendor for the Proposed Acquisition.

In view of the interests of the Interested Director and Interested Major Shareholders and/or persons connected with them in the Proposed Acquisition as set out in Section 11 of Part A of this Circular, the Proposed Acquisition is deemed a related party transaction pursuant to Rule 10.08 of the Listing Requirements.

Accordingly, on 28 June 2022, Malacca Securities had been appointed to act as the Independent Adviser to advise the non-interested directors and non-interested shareholders of the Company in respect of the Proposed Acquisition.

2. EVALUATION ON THE PROPOSED ACQUISITION

In our evaluation of the Proposed Acquisition, we have considered the following factors in forming our opinion:

Section of the IAL	Area of evaluation	Malacca Securities' comments
7.1	Rationale for the Proposed Acquisition	In evaluating the rationale for the Proposed Acquisition, we have taken into consideration that the Proposed Acquisition is in line with HIB Group's ordinary course of business, as HIB Group is mainly involved in the manufacturing and trading of fertilisers primarily for the palm oil industry. The Proposed Acquisition represents a strategic investment and is aligned with HIB Group's long-term plan to grow its fertiliser business. The Proposed Acquisition is earnings accretive and is expected to contribute positively to the HIB Group in the future, thus enhancing HIB's shareholders' value. We note that the Vendor has provided a cumulative 2-year profit guarantee to be achieved for HFL Group during the Guaranteed Period. Under the terms of the profit guarantee, the Vendor guarantees to HIB that HFL Group shall achieve the Guaranteed Sum for the Guaranteed Period. Upon completion of the Proposed Acquisition, HFL Group will become subsidiaries of HIB, thereby enabling the Company to consolidate the financial results of HFL Group, and assuming the Guaranteed Sum is achieved, HIB will stand to benefit immediately from increasing its PAT attributable to the owners of the Company, and in turn increasing its EPS.

Section of the IAL	Area of evaluation	Malacca Securities' comments
7.1	Rationale for the Proposed Acquisition (Cont'd)	We also note that the settlement of the Purchase Consideration will be via the issuance of Consideration Shares. This will allow HIB Group to conserve its cash which can be used as working capital and channel it towards financing the Group's day-to-day operations and/or pursuing other business opportunities such as offering a wider range of trading products and avoid incurring additional interest expenses on borrowings, as opposed to being settled entirely in cash sourced from bank borrowings. Furthermore, the issuance of the Consideration Shares will strengthen HIB Group's capital base to commensurate with its enlarged fertiliser business activities and with the larger combined asset base, HIB Group is expected to be able to gain better access to both debt and equity capital markets to fund the enlarged HIB Group's business activities. In view of the above, we are of the view that the rationale for the Proposed Acquisition is **fair and reasonable**.
7.2	Basis and justification of arriving at the Purchase Consideration	The Company had appointed Eco Asia to provide an evaluation on the fairness of the Purchase Consideration for the entire equity interest of HFL Group. In assessing the basis and justification of arriving at the Purchase Consideration, we have considered Eco Asia's Fairness Opinion Letter as part of our evaluation. We noted that in the Fairness Opinion Letter, Eco Asia took into consideration the nature of assets and the business of HFL Group in determining the most appropriate methods of evaluation amongst commonly used valuation methodologies in equity valuation. Accordingly, the P/E multiple was adopted by Eco Asia as the primary metric due to the following: (a) the purchase consideration is based on the guaranteed profit which is provided in the form of PAT; (b) the P/E multiple is a common and acceptable valuation metric which estimates a company's market value based on its PAT relative to its peers; and (c) the P/E multiple is more likely to reflect the current sentiment of the market. The EV/EBITDA multiple was adopted by Eco Asia as the secondary metric as the EV/EBITDA multiple is also commonly used in valuations as it is not affected by the differences in capital structures, borrowing costs and taxation as well as different depreciation and amortisation policies, thereby providing a normalised ratio for measuring the financial performance of different companies. We are of the opinion that the methods of valuation, and the basis and assumptions used, as set out in Eco Asia's Fairness Opinion Letter (as defined herein) for determining the valuation of 100% equity interest in HFL Group are **fair** and **reasonable**. Based on the P/E and EV/EBITDA methods of valuation, the Purchase Consideration of HFL Group of RM480.0 million falls within the valuation range of RM414.86 million and RM509.95 million. As such, we are of the view that Purchase Consideration is **fair and reasonable.**

<table>
<tr><th>Section of the IAL</th><th>Area of evaluation</th><th>Malacca Securities' comments</th></tr>
<tr><td>7.3</td><td>Basis and justification of arriving at the Issue Price</td><td>
We note that the Issue Price is within the highest and lowest traded market prices of HIB Shares for the past twelve (12) months up to the LPD.
Based on the above, the Issue Price represents:
(a) a discount ranging from 6.77% to 13.07% to the closing price, 5-day, 1-month, 3-month and 6-month VWAMPs of HIB Shares up to the LTD;
(b) a premium of 13.21% to the 12-month VWAMP of HIB Shares up to the LTD; and
(c) a discount ranging from 25.09% to 26.83% to the closing price and 5-day VWAMP of HIB Shares up to the LPD.
We are of the view that the 12-month VWAMP of HIB Shares up to the LTD is a better representation and a more appropriate indicator to evaluate the fairness and reasonableness of the Issue Price, as the market price of HIB Shares was declining from August 2021 up to mid-September 2021 and then range-bound until early January 2022, followed by a spike in the market price from mid-January 2022 up to the LTD.
Premised on the above, despite being at a discount to the closing market prices and 5-day, 1-month, 3-month and 6-month VWAMPs of HIB Shares up to the LTD, the Issue Price represents a premium over the 12-month VWAMP up to the LTD as set out above.
In addition, we further noted that the Issue Price is higher than the NA per HIB Share of RM0.18 as at the 9-month FPE 31 May 2022 by RM0.12 or 66.7%. As such, we are of the view that the Issue Price is <u>reasonable</u> and <u>fair</u> to the non-interested shareholders of HIB.
</td></tr>
<tr><td>7.4</td><td>Salient terms of the SSA</td><td>On an overall basis, we are of the view that the salient terms of the SSA are considered fair, reasonable and not detrimental to the interests of the non-interested shareholders of HIB.</td></tr>
<tr><td>7.5</td><td>Effects of the Proposed Acquisition</td><td>
The effects of the Proposed Acquisition on HIB are as follows:
<table>
<tr><th></th><th>Audited as at FYE 31 August 2021</th><th>After the Proposed Acquisition(1)</th></tr>
<tr><td>Share capital</td><td>RM191.94 million(2)
(1,147.34 million Shares)</td><td>RM671.94 million
(2,747.34 million Shares)</td></tr>
<tr><td>NA and NA per HIB Share</td><td>RM79.87 million
(RM0.43 per Share)</td><td>RM249.46 million
(RM0.09 per Share)</td></tr>
<tr><td>Gearing</td><td>0.77 times</td><td>1.61 times(3)</td></tr>
<tr><td>Earnings and EPS</td><td>RM1.92 million
(1.03 sen per Share)</td><td>RM47.72 million
(1.74 sen per Share)</td></tr>
</table>
Notes:
(1) After taking into consideration the following subsequent events up to the LPD:
(a) the Company's rights issue of 929,864,180 new Shares at an issue price of RM0.12 per rights share, which was completed on 20 October 2021; and
(b) issuance of 31,504,607 new Shares pursuant to the exercise of warrants 2016/2021 from 1 September 2021 up until 10 December 2021.
(2) As at the LPD.
(3) After incorporating the impact of the HFL Group's borrowings (which includes hire purchase) on HIB Group after the Proposed Acquisition.
</td></tr>
</table>

Section of the IAL	Area of evaluation	Malacca Securities' comments
7.5	Effects of the Proposed Acquisition (Cont'd)	In addition, after the Offer and upon completion of the Proposed Acquisition: (a) the direct shareholding of HHSB will increase from 45.7% as at the LPD to 77.3%. Thereafter, the direct shareholding of HHSB will decrease from 77.3% to 74.1% upon completion of the Proposed Offer For Sale under the Minimum Scenario; and (b) the direct shareholding of HHSB will increase from 45.7% as at the LPD to 100%. Thereafter, the direct shareholding of HHSB will decrease from 100.0% to 75.0% upon completion of the Proposed Offer For Sale under the Maximum Scenario. We noted that the Proposed Acquisition will result in an increase in the borrowings and gearing ratio of HIB Group, as well as dilution to shareholders' interests due to the issuance of the Consideration Shares. Nevertheless, we are of the opinion that the benefits of the Proposed Acquisition outweigh the short-term setbacks in the financial effects pursuant to the Proposed Acquisition, due to the increase in the NA, earnings and EPS of HIB Group upon the completion of the Proposed Acquisition. As such, we are of the view that the financial effects of the Proposed Acquisition are **not detrimental** to the interest of the non-interested shareholders of HIB.
7.6	Prospects of the Proposed Acquisition	After taking into consideration the industry overview and outlook as well as the prospects and future plans of the enlarged HIB Group after the completion of the Proposed Acquisition, where HFL Group will form the core business of the enlarged HIB Group, which is expected to drive future growth earnings and cashflow for the Group and will also offer opportunities for HIB and the HFL Group to further expand as well as benefit from complementary synergies between HIB and HFL Group, we are of the view that the Proposed Acquisition is favourable to the Group and the Proposed Acquisition is expected to contribute positively to the earnings and profitability of the enlarged HIB Group. Nonetheless, we wish to highlight that the fertiliser industry is subject to uncertainties which are not within the Board's control, such as, amongst others, changes in policies of the Government of Malaysia ("**Government**") and disruptions to the global fertiliser trade. The occurrence of any of such events may materially impact the fertiliser industry and may adversely affect the Group's financial performance.
7.7	Risk factors in relation to the Proposed Acquisition	The Proposed Acquisition is subject to the risk inherent in the fertiliser industry, of which HIB Group is already involved and will be addressed as part of the Group's ordinary course of business. Although the Proposed Acquisition is expected to contribute positively to the future earnings of the Group as mentioned in Section 7.3 of Part A of this Circular, there is no guarantee that the expected benefits from the Proposed Acquisition will materialise or that HFL will be able to generate sufficient revenue and earnings therefrom to offset the associated costs incurred for the Proposed Acquisition.

3. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposed Acquisition and our evaluation is as set out in Section 7 of this IAL. Non-interested shareholders of the Company should take into account all the merits and demerits of the Proposed Acquisition based on all relevant pertinent factors including those which are as set out in Part A of this Circular, the relevant appendices thereof, this IAL and other publicly available information.

After having considered all the various factors included in our evaluation for the Proposed Acquisition, we are of the opinion that the Proposed Acquisition is **FAIR AND REASONABLE** insofar as the non-interested shareholders of the Company are concerned and are not to the detriment of the non-interested shareholders of the Company.

Accordingly, we recommend the non-interested shareholders of the Company to **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Acquisition to be tabled at the Company's forthcoming EGM.

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Registered Office

No. 1, 3 & 5, Jalan PPM 9,
Plaza Pandan Malim,
(Business Park), Balai Panjang
75250 Melaka

27 September 2022

To: The non-interested shareholders of the Company

Dear Sir/Madam,

HEXTAR INDUSTRIES BERHAD ("HIB" OR THE "COMPANY")

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS OF HIB IN RELATION TO THE PROPOSED ACQUISITION

This IAL is prepared for inclusion in Part B of this Circular to the shareholders of the Company. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the "Definitions" section of this Circular, except where the context herein requires otherwise or where otherwise defined herein.

1. INTRODUCTION

On 8 August 2022, M&A Securities had, on behalf of the Board (save for the Abstaining Directors), announced that the Company had entered into the SSA with the Vendor for the Proposed Acquisition.

In view of the interests of the Interested Director and Interested Major Shareholders and/or persons connected with them in the Proposed Acquisition as set out in Section 11 of Part A of this Circular, the Proposed Acquisition is deemed a related party transaction pursuant to Rule 10.08 of the Listing Requirements.

Accordingly, on 28 June 2022, Malacca Securities had been appointed to act as the Independent Adviser to advise the non-interested directors and non-interested shareholders of the Company in respect of the Proposed Acquisition with:

(a) comments as to whether the Proposed Acquisition:

   (i) is fair and reasonable so far as the non-interested shareholders of the Company are concerned; and

   (ii) is to the detriment of the non-interested shareholders of the Company;

   and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;

(b) advise the non-interested shareholders of the Company on whether they should vote in favour of the Proposed Acquisition; and

(c) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in (a) and (b) above.

The purpose of this IAL is to provide the non-interested shareholders of the Company with an independent evaluation on the fairness and reasonableness of the Proposed Acquisition and whether the Proposed Acquisition is detrimental to the non-interested shareholders of the Company together with our recommendation on whether the non-interested shareholders of the Company should vote in favour of the Proposed Acquisition.

Nonetheless, non-interested shareholders of the Company should rely on their own evaluation on the merits and demerits of the Proposed Acquisition before deciding on the course of action to be taken at the Company's forthcoming EGM.

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED SHAREHOLDERS OF THE COMPANY FOR THE PURPOSE OF VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING EGM AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY FOR ANY OTHER PURPOSES WHATSOEVER.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY. YOU ARE ADVISED TO READ AND FULLY UNDERSTAND BOTH THIS IAL AND PART A OF THIS CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES THEREIN AND TO CONSIDER CAREFULLY OUR EVALUATION AND RECOMMENDATION BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM.

2. CREDENTIALS, EXPERIENCE AND EXPERTISE OF MALACCA SECURITIES

Malacca Securities is a participating organisation of Bursa Securities and provides a range of services including corporate finance advisory, stocks and futures broking and research. Malacca Securities was approved by the Securities Commission Malaysia on 10 August 2020, as a corporate finance adviser. Our corporate finance team provides a wide range of corporate finance advisory services including initial public offerings, mergers, acquisitions and divestitures, equity fund raisings, corporate restructuring and independent advisory opinions.

The credentials, professional experience and expertise of Malacca Securities, where Malacca Securities had acted and was appointed as an independent adviser in the past 2 years prior to the date of this IAL include, amongst others, the following:

(a) proposed acquisition by OCR Group Berhad ("**OCR**") of 50% equity interest in OCR Selayang Industrial Park Sdn. Bhd. from Ong Kah Hoe and Lee Wei Jack for an indicative purchase consideration of approximately RM14.12 million to be satisfied entirely via issuance and allotment of new ordinary shares in OCR, where the independent advice letter was issued and dated 9 February 2022;

(b) (i) proposed acquisition by RGT Berhad ("**RGTBHD**") of the remaining 40% equity interest in Rapid Growth Technology Sdn. Bhd. ("**RGTSB**") for a purchase consideration of RM85.6 million to be satisfied entirely via issuance of 267,500,000 new ordinary shares in RGTBHD ("**RGTBHD Share(s)**") ("**Consideration Share(s)**") at an issue price of RM0.32 per Consideration Share ("**Proposed Acquisition of RGTSB**"); and

(ii) proposed exemption to the vendors, namely Hor Lim Chee, Ng Choon Keat, Tan Song Chai, Datuk Lim Seat Hoe and Tan Ann Chee, RGT Equity Holdings Sdn. Bhd. and the persons acting in concert with them from the obligation to undertake a mandatory take-over offer for all the remaining RGTBHD Shares and warrants not already held by them pursuant to the Proposed Acquisition of RGTSB,

where the independent advice letter was issued and dated 17 December 2021;

(c) proposed disposals of:

(i) two parcels of lands held under HS(M) 1404 ("**Lot 1**") and HS(M) 1405 ("**Lot 2**") together with the buildings erected thereon located in Setapak, Kuala Lumpur by CFM Development Sdn. Bhd. ("**CFMD**"), an indirect wholly-owned subsidiary of Computer Forms (Malaysia) Berhad ("**CFM**"), to FCW Holdings Berhad ("**FCW**") or its nominee for a cash consideration of RM57.8 million for Lot 1 and a cash consideration of RM22.6 million for Lot 2 ("**Proposed Disposals of Lots 1 and 2**"); and

(ii) two parcels of lands held under HS(D) 122578 and HS(M) 1015 together with buildings erected thereon located in Setapak, Kuala Lumpur by CFM Printing & Stationery Sdn. Bhd., a wholly-owned subsidiary of CFM, to FCW or its nominee, and

the proposed tenancies of Lot 1 and Lot 2 by CFMD or its nominee from FCW or its nominee immediately after the completion of the Proposed Disposals of Lots 1 and 2, where the independent advice letter was issued and dated 8 July 2021;

(d) unconditional mandatory take-over offer by Aim Tetap Teguh Group Sdn. Bhd. ("**ATTG**") through AmInvestment Bank Berhad to acquire all the remaining ordinary shares in Grand Hoover Berhad ("**GHB Shares(s)**") not already owned by ATTG and the joint ultimate offerors, namely Dato' Hj. Abd Rahim Bin Hj. Jaafar, Teo Swee Leng and Teo Swee Phin for a cash consideration of RM0.80 per GHB Share, where the independent advice circular was issued and dated 8 March 2021;

(e) unconditional mandatory take-over offer by AKK Capital Sdn. Bhd. ("**AKKCSB**") through Hong Leong Investment Bank Berhad to acquire all the remaining ordinary shares in Paragon Union Berhad ("**PUB Shares(s)**") not already owned by AKKCSB for a cash offer price of RM0.55 per PUB Share, where the independent advice circular was issued and dated 25 February 2021;

(f) proposed joint venture between Ho Hup Dagang Jaya Sdn. Bhd., a wholly-owned subsidiary of Ho Hup Construction Company Berhad and Low Chee Group Sdn. Bhd., to undertake a residential development on 2 parcels of land located in Taman Dagang Jaya, Ampang measuring approximately 4.71 acres and 7.06 acres into 824 units of condominium and 353 units of Rumah Selangorku, where the independent advice letter was issued and dated 9 February 2021; and

(g) proposed exemption to HHSB and its PACs with HHSB from the obligation to undertake a mandatory take-over offer for all the remaining shares in HIB not already held by them pursuant to HHSB's undertakings in relation to HIB's proposed rights issue, where the independent advice letter was issued and dated 4 February 2021 ("**HIB's Proposed Exemption**").

Premised on the foregoing, the corporate finance personnel of Malacca Securities are capable and competent and have the relevant experience in carrying out its role and responsibilities as an independent adviser to advise the non-interested directors and non-interested shareholders of the Company in relation to the Proposed Acquisition.

3. DECLARATION OF CONFLICT OF INTEREST

We confirm that there are no existing or potential conflict of interest situations for us to carry out our role as the Independent Adviser in connection with the Proposed Acquisition.

Save as disclosed above in Section 2(g) of this IAL pertaining to Malacca Securities' appointment as the independent adviser in relation to HIB's Proposed Exemption, there were no other professional relationships between us and HIB in the past two (2) years prior to the date of this IAL.

4. SCOPE AND LIMITATIONS TO OUR EVALUATION OF THE PROPOSED ACQUISITION

Malacca Securities was not involved in the formulation and structuring of the Proposed Acquisition and/or any deliberations and negotiations pertaining to the terms and conditions of the Proposed Acquisition. Malacca Securities' scope of work as the Independent Adviser is limited to expressing an opinion on the fairness and reasonableness of the Proposed Acquisition and whether the transaction is to the detriment of the non-interested shareholders of the Company, based on the following sources of information and documents:

(a) information contained in Part A of this Circular and the appendices enclosed therein;

(b) other relevant information, documents, confirmations and representations provided to us by the Board and the management of HIB ("**Management**");

(c) discussions and consultation with the Board and the Management;

(d) the SSA;

(e) the fairness opinion letter dated 4 August 2022 ("**Fairness Opinion Letter**") by Eco Asia, the Independent Valuer who was appointed to provide an evaluation on the fairness of the Purchase Consideration for the entire equity interest of HFL Group, and the date of opinion of Eco Asia's Fairness Opinion Letter is 3 August 2022 ("**Date of Opinion**"); and

(f) other publicly available information.

We have made all reasonable enquiries, performed reasonableness checks and corroborated relevant information with independent sources, where possible. We are also guided by the Best Practice Guide in relation to Independent Advice Letters issued by Bursa Securities. In addition, the Board and the Management had undertaken to exercise due care to ensure that all information, data, documents and representations provided to us to facilitate our evaluation are accurate, valid, complete, reasonable and free from any material omission in all material respects. Accordingly, Malacca Securities shall not assume any responsibility or liability whatsoever to any party for any inaccuracies, misstatements or omission of facts and information provided or represented by the Board and the Management.

The directors of the Company have collectively and individually accepted full responsibility for the accuracy, validity and completeness of the information, documents, data and statements provided to us and as contained herein in relation to the Proposed Acquisition (save and except for opinion expressed by Malacca Securities which do not contain factual information provided by the Company and information procured or developed by Malacca Securities independently of the Company) and confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant facts and information in relation to the Proposed Acquisition that are necessary for our evaluation have been completely and accurately disclosed to us and there is no omission of any fact, the omission of which would render any such information provided to us false, incomplete, misleading and/or inaccurate.

We are satisfied with the information provided by the Board and the Management and are not aware of any facts or matters not disclosed which may render any such information untrue, inaccurate or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL. After making all reasonable enquiries and to the best of our knowledge and belief, the information we used is reasonable, accurate, complete and free from material omission.

Non-interested shareholders of the Company should note that the views expressed by Malacca Securities herein are, amongst others, based on the current economic, market, industry, regulatory, monetary, social-political and other conditions prevailing up to the LPD. Such conditions may change over a short period of time which may adversely affect amongst others, the financial and operational conditions of the Group. Accordingly, our evaluation and opinion in this IAL do not take into account information, events and conditions arising or may occur after the LPD. Our advice should be considered in the context of the entirety of this IAL.

In rendering our advice, we had taken note of pertinent issues which we believe are necessary and of importance to an assessment of the implications of the Proposed Acquisition and are of general concern to the non-interested shareholders of the Company. As such:

(a) the scope of Malacca Securities' responsibility regarding the evaluation and recommendation contained herein is confined to the assessment of the fairness and reasonableness of the Proposed Acquisition as well as other implications of the said Proposed Acquisition only. Comments or points of consideration which may be commercially oriented are included for our overall evaluation as we deem it necessary for disclosure purposes to enable the non-interested shareholders of HIB to consider and form their views thereon;

(b) Malacca Securities' views and recommendation as contained in the IAL only cater to the non-interested shareholders of HIB at large and not to any non-interested shareholder individually. Hence, in carrying out our evaluation, we have not given consideration to the specific investment objectives, risk profiles, financial and tax position and particular needs of any individual non-interested shareholder or any specific group of non-interested shareholders; and

(c) we recommend that any individual non-interested shareholder or group of non-interested shareholders who are in doubt as to the action to be taken or require advice in relation to the Proposed Acquisition in the context of their individual objectives, risk profiles, financial and tax position or particular needs, consult their respective stockbrokers, bankers, solicitors, accountants or other professional advisers immediately. We shall not be liable for any damages or loss sustained or suffered by any individual shareholder or any group of shareholders.

We will notify the non-interested shareholders of HIB if after the despatch of this IAL and until the date of the EGM, we become aware that the IAL:

(a) contains a material statement which is false or misleading;

(b) contains a statement from which there is a material omission; or

(c) has omitted any material information.

If circumstances require, a supplementary IAL will be sent out to the non-interested shareholders of HIB.

5. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVES AND/OR PERSONS CONNECTED TO THEM

Save as disclosed in Section 11 of Part A of this Circular, none of the directors, major shareholders of HIB, chief executive of the Company, and/or persons connected to them has any interests, direct or indirect, in the Proposed Acquisition as at the LPD.

Accordingly, the Abstaining Directors have abstained and will continue to abstain from deliberating and voting at the relevant Board meetings in relation to the Proposed Acquisition. The Interested Major Shareholders and Ong Tzu Chuen will also abstain from voting in respect of their direct and/or indirect interest in HIB on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

The Interested Major Shareholders and Ong Tzu Chuen have also undertaken that they will ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in HIB on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

6. DETAILS OF THE PROPOSED ACQUISITION

The details of the Proposed Acquisition are set out in Section 2 of Part A of this Circular.

7. EVALUATION OF THE PROPOSED ACQUISITION

In our evaluation of the Proposed Acquisition, we have considered the following factors in forming our opinion:

Factors	Section
Rationale for the Proposed Acquisition	7.1
Basis and justification of arriving at the Purchase Consideration	7.2
Basis and justification of arriving at the Issue Price	7.3
Salient terms of the SSA	7.4
Effects of the Proposed Acquisition	7.5
Prospects of the Proposed Acquisition	7.6
Risk factors in relation to the Proposed Acquisition	7.7

7.1 Rationale for the Proposed Acquisition

We have taken note of the rationale for the Proposed Acquisition as set out in Section 3 of Part A of this Circular and our comments are as follows:

Malacca Securities' comments

HIB Group is principally involved in investment holding. The main business segments of the Group comprise the following:

Segment	Description
Fertilisers	Manufacturing and trading of fertilisers primarily for the palm oil industry.
Heavy equipment	Manufacturing, trading and distribution of heavy equipment, spare parts and industrial products primarily for use in the quarry industry.
Equipment rental	Provision and trading of mobile air conditioners, tent and events-related equipment, and trading of industrial products which include forklifts, industrial batteries and/or its related products/peripherals.
Investment holding	Investment holding company.

On 6 July 2018, the Board had announced that the shareholders of HIB had approved the resolutions pertaining to the diversification of HIB's business into the fertiliser industry and the acquisition of an 83.33% equity interest in PK Fertilizers (Sarawak) Sdn Bhd ("**PKFS**") from PKSB, which was completed on 28 August 2020. PKFS is primarily involved in the business of manufacturing, merchandising, trading, distribution and wholesale warehouseman of fertilisers.

On 18 March 2022, the Company announced that it had entered into a share purchase agreement with Golden Barley International Pte Ltd ("**Golden Barley**") to acquire the remaining 16.67% equity interest in PKFS, which was completed on 18 March 2022.

The revenue and PBT/LBT of the business segments of HIB Group for FYE 31 August 2019 to FYE 31 August 2021 are as follows:

Revenue

Segment revenue	Audited FYE 31 August					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Fertilisers	73,524	62.9	81,633	67.3	81,762	66.4
Heavy equipment	26,492	22.7	22,491	18.5	16,583	13.5
Equipment rental	16,878	14.4	17,162	14.2	24,695	20.1
Investment holding	-	-	-	-	-	-
Total	**116,894**	**100.0**	**121,286**	**100.0**	**123,040**	**100.0**

PBT/(LBT)

PBT/(LBT)	Audited FYE 31 August					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Fertilisers	(899)	(12.4)	769	(10.1)	1,871	348.4
Heavy equipment	7,612	105.4	(5,258)	69.0	(144)	(26.8)
Equipment rental	3,362	46.6	(2,254)	29.6	1,479	275.4
Investment holding	(2,856)	(39.6)	(877)	11.5	(2,669)	(497.0)
HIB Group	**7,219**	**100.0**	**(7,620)**	**100.0**	**537**	**100.0**

PAT/(LAT)

PAT/(LAT)	Audited FYE 31 August					
	2019		2020		2021	
	RM'000	%	RM'000	%	RM'000	%
Fertilisers	(1,249)	(22.62)	753	(9.54)	3,503	182.83
Heavy equipment	7,183	130.10	(5,426)	68.76	(149)	(7.78)
Equipment rental	2,450	44.38	(2,300)	29.15	1,261	65.81
Investment holding	(2,863)	(51.86)	(918)	11.63	(2,699)	(140.87)
HIB Group	**5,521**	**100.0**	**(7,891)**	**100.0**	**1,916**	**100.0**

As illustrated in the table above, the fertilisers segment has been the main contributor to the Group's revenue for the past 3 financial years up to FYE 31 August 2021.

In FYE 31 August 2020 and FYE 31 August 2021, the fertiliser segment was the main contributor to the PBT of HIB Group, while the heavy equipment segment was the main contributor to the PBT of HIB Group in FYE 31 August 2019 as HIB Group's fertiliser segment had recorded a LBT of RM0.90 million due to low sales volume and low average selling prices transacted as compared to FYE 31 August 2020.

HIB Group had recorded a steady increase in revenue from FYE 31 August 2019 up to FYE 31 August 2021. However, a LBT of 7.62 million was recorded in FYE 31 August 2020, representing a decline in PBT of RM14.84 million or 205.6% from the previous financial year PBT of RM7.22 million. This was mainly due to the disruption arising from the Covid-19 pandemic which had significantly affected both HIB Group's heavy equipment and equipment rental businesses.

In FYE 31 August 2021, HIB Group had recorded a PBT of RM0.54 million, representing a decrease in the LBT of RM7.62 million and an increase in PBT of RM0.54 million or a 107.1% increase from the previous financial year, which was mainly due to an increase in the revenue and profit margin of HIB Group. The improvement in HIB Group's revenue was mainly due to the following:

(a) HIB's equipment rental business, which had supplied temperature control equipment to the Tokyo Olympics 2020;

(b) an increase in the number of forklifts being rented out due to the preferences of the customers of HIB Group to rent rather than purchase the forklifts as these customers were experiencing financial difficulties and tight budget constraints due to the Movement Control Order and lockdowns which were implemented by the Government during FYE 31 August 2021; and

(c) an increase in the revenue received from the trading of industrial batteries as HIB had begun venturing into the trading of industrial batteries and its related products in the previous financial year.

The higher PBT was also due to the inventory written down (RM2.6 million) and impairment on trade receivables (RM1.9 million) recognised in the previous financial year.

In evaluating the rationale for the Proposed Acquisition, we have taken into consideration that the Proposed Acquisition is in-line with HIB Group's ordinary course of business, as HIB Group is mainly involved in the manufacturing and trading of fertilisers primarily for the palm oil industry. The Proposed Acquisition represents a strategic investment and is aligned with HIB Group's long-term plan to grow its fertiliser business.

HFL is an investment holding company. Through its subsidiaries, the HFL Group is principally involved in the manufacturing, formulation, distribution and trading of a wide range of fertilisers and provides the following services:

(a) crop management solution and services;

(b) professional agronomic advisory and consultation services, which include fertilisers and manuring recommendations;

(c) in-house product development, manufacturing, formulating and repacking activities;

(d) manufacturing of bulk blends and mixtures of various formulations to suit the needs of various crops and actively involved in the trading of a wide spectrum of straight fertilisers; and

(e) customisation of various formulations of fertilisers based on customers' agriculture requirements.

Further information on HFL Group is set out in Appendix IV of this Circular.

We note that HIB Group's fertiliser business mainly serves the Sarawak market currently. The Proposed Acquisition will provide HIB Group with an immediate presence and expanded distribution network of suppliers and customers in Peninsular Malaysia and East Malaysia as HFL Group has production facilities in Pasir Gudang (Johor), Telok Gong (Selangor), Lahad Datu (Sabah) and Bintulu (Sarawak).

The Proposed Acquisition will also enable both HIB and HFL Group to leverage on their combined strengths in relation to key management experience and their respective business relationships with industry stakeholders. These combined strengths are expected to sustain continuous business growth of the enlarged HIB Group.

We note that the Proposed Acquisition will eliminate any business competition between the HIB Group and the HFL Group due to the similarity of the nature/purpose of the fertiliser products sold by both groups, and also eliminate the conflict of interest arising from the involvement of the Interested Major Shareholders, through their interests in the HFL Group. Upon completion of the Proposed Acquisition, HIB will no longer require to seek shareholders' mandate for such related party transactions with HFL Group.

The Proposed Acquisition is earnings accretive and is expected to contribute positively to the HIB Group in the future, thus enhancing HIB's shareholders' value. We note that the Vendor has provided a cumulative 2-year profit guarantee to be achieved for HFL Group during the Guaranteed Period. Under the terms of the profit guarantee, the Vendor guarantees to HIB that HFL Group shall achieve the Guaranteed Sum for the Guaranteed Period. Upon completion of the Proposed Acquisition, HFL Group will become subsidiaries of HIB, thereby enabling the Company to consolidate the financial results of HFL Group and HIB will stand to benefit immediately from increasing its PAT attributable to the owners of the Company, and in turn increasing its EPS.

We also note that the settlement of the Purchase Consideration will be via the issuance of Consideration Shares. This will allow HIB Group to conserve its cash which can be used as working capital and channel it towards financing the Group's day-to-day operations and/or pursuing other business opportunities such as offering a wider range of trading products and avoid incurring additional interest expenses on borrowings, as opposed to being settled entirely in cash sourced from bank borrowings. Furthermore, the issuance of the Consideration Shares will strengthen HIB Group's capital base to commensurate with its enlarged fertiliser business activities and with the larger combined asset base, HIB Group is expected to be able to gain better access to both debt and equity capital markets to fund the enlarged HIB Group's business activities.

In view of the above, we are of the view that the rationale for the Proposed Acquisition is **fair and reasonable**.

7.2 Basis and justification of arriving at the Purchase Consideration

We noted the basis and justification of arriving at the Purchase Consideration as set out in Section 2.1.3 of Part A of the Circular.

Malacca Securities' comments

As stated in Section 2.1.3 of Part A of this Circular, the Purchase Consideration for the Proposed Acquisition was arrived at on a willing buyer-willing seller basis and after taking into consideration the following:

(a) the cumulative audited PAT of the HFL Group shall not be less than RM94.0 million for the Guaranteed Period pursuant to the profit guarantee;

(b) implied multiples computed based on the average Guaranteed Sum of RM47.0 million per annum, translating to implied:

  (i) P/E multiple of 10.21 times; and

  (ii) EV/EBITDA multiple of 9.53 times;

(c) rationale and benefit of the Proposed Acquisition; and

(d) future earnings potential and growth of the HFL Group after considering the outlook and prospects of the fertiliser industry in Malaysia, as set out in Section 4.2 of Part A of this Circular and the future prospects of the enlarged HIB Group as set out in Section 4.3 of Part A of this Circular.

The basis used to arrive at the Purchase Consideration, which includes the rationale and benefit of the Proposed Acquisition and future earnings potential and growth of the HFL Group is common in transactions of such nature. In addition, the average Guaranteed Sum per annum for FYEs 31 December 2022 and 31 December 2023 of RM47.0 million is comparable to the latest audited PAT of HFL Group for FY 31 December 2021 of RM48.2 million. As such, we are of the opinion that the basis and justification used to arrive at the Purchase Consideration is **fair** and **reasonable**.

The Company had appointed Eco Asia to provide an evaluation on the fairness of the Purchase Consideration for the entire equity interest of HFL Group. In assessing the basis and justification of arriving at the Purchase Consideration, we have considered Eco Asia's Fairness Opinion Letter as part of our evaluation.

We noted that in the Fairness Opinion Letter, Eco Asia took into consideration the nature of assets and the business of HFL Group in determining the most appropriate methods of evaluation amongst commonly used valuation methodologies in equity valuation.

Further, Eco Asia had adopted the Relative Valuation Approach, where the indicative valuation of HFL Group is determined based on the valuation metrics of selected comparable companies which are broadly comparable to HFL Group.

Accordingly, the P/E multiple was adopted by Eco Asia as the primary metric due to the following:

(a) The purchase consideration is based on the guaranteed profit which is provided in the form of PAT;

(b) The P/E multiple is a common and acceptable valuation metric which estimates a company's market value based on its PAT relative to its peers; and

(c) The P/E multiple is more likely to reflect the current sentiment of the market.

The EV/EBITDA multiple was adopted by Eco Asia as the secondary metric as the EV/EBITDA multiple is also commonly used in valuations as it is not affected by the differences in capital structures, borrowing costs and taxation as well as different depreciation and amortisation policies.

A summary of the P/E and EV/EBITDA valuation methodologies are set out below:

P/E multiple	The P/E multiple is an earnings-based valuation which measures the market capitalisation of the Company to its net profits. The P/E multiple reflects the market's view of the likely future growth in earnings and the quality of those earnings.
EV/EBITDA	The EV/EBITDA multiple illustrates the ratio of the enterprise value ("**EV**") of the Company (which is the sum of the Company's market value and total debts less cash and cash equivalent balances) relative to a company's earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). It indicates the price which investors are willing to pay to invest in the Company compared to its EBITDA.

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We noted that Eco Asia did not evaluate HFL Group using the net asset valuation ("**NAV**") or revalued net asset valuation ("**RNAV**") method as it is mainly used as valuations of asset-based companies. Thus, the NAV or RNAV method may not accurately reflect the potential of HFL Group as the value of HFL Group is more likely to be derived from its future earnings of its business operations instead of its assets.

We also noted that Eco Asia did not evaluate HFL Group using the discounted free cash flow to equity ("**FCFE**") method as this valuation method is more appropriate for companies with a set of projected cash inflow and outflow that can be estimated with a high level of certainty.

At this point, it is difficult to project the future cashflow of HFL Group due to the following reasons:

(a) sales are based on spot terms and there is no long-term contract with its customers; and

(b) uncertainty in the fertiliser industry as there was a surge in selling prices and demand for fertilisers from June 2021 up to May 2022 followed by a slight decline up to the LPD, which was influenced by strong demand as well as supply disruptions.

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We have reviewed the methods of valuation considered and used for determining the valuation of 100% equity interest in HFL Group, as determined by Eco Asia and our comments are as follows:

No	Methods of valuation	Malacca Securities' comments
1.	P/E multiple	We concur with Eco Asia's adoption of the P/E multiple as the primary valuation metric as the Purchase Consideration is based on the average Guaranteed Sum of RM47.0 million per annum, which is provided in the form of PAT, and the P/E multiple estimates a company's market value based on its PAT relative to its peers. In addition, the P/E multiple is more likely to reflect the current sentiment of the market as it measures the Comparable Companies' current market value based on the latest available trailing 12 months PAT, which provides an effective way to analyse the most recent financial data of the Comparable Companies in an annualised manner. As such, we are of the view that the P/E multiple is a reasonable method of valuation for determining the fairness of the Purchase Consideration.
2.	EV/EBITDA	We concur with Eco Asia's adoption of the EV/EBITDA multiple as the secondary valuation metric as the EBITDA is also premised on the average Guaranteed Sum of RM47.0 million per annum, which is a reflection of the future earnings of HIB. In addition, the EV/EBITDA multiple is not affected by the differences in capital structures, borrowing costs and taxation as well as different depreciation and amortisation policies, thereby providing a normalised ratio for measuring the financial performance of different companies. As such, we are of the view that the EV/EBITDA multiple is a reasonable method of valuation for determining the fairness of the Purchase Consideration.
3.	NAV/RNAV	We concur with Eco Asia's opinion that the NAV/RNAV is not a suitable valuation method, as it may not accurately reflect the potential of HFL Group as the value of HFL Group is more likely to be derived from its future business operations instead of its assets.
4.	FCFE	We concur with Eco Asia's opinion that the FCFE method is not a suitable valuation method as it is difficult to project the future cashflow of HFL Group due to the fact that HFL Group's sales are based on spot terms and there are no long-term contracts with its customers, as well as the uncertainty in the fertiliser industry due to the surge in selling prices and demand for fertilisers from June 2021 up to May 2022 followed by a slight decline up to the LPD, which was influenced by strong demand as well as supply disruptions.

In addition to the above, we have not considered the comparable transactions methodology for determining the valuation of 100% equity interest in HFL Group as there were no transactions within the Asia Pacific region which were comparable in nature to the Proposed Acquisition in the past 3 years up to the LPD in terms of, among others, transaction value, market capitalisation and mode of satisfaction of the purchase consideration.

7.2.1 P/E multiple

We noted that Eco Asia had selected the comparable companies based on the following criteria ("**Comparable Companies**"):

(a) principally operating in the manufacturing and distribution of fertilisers with at least 80% of the total revenue being derived from the sale of fertilisers;

(b) due to the dearth of comparable companies listed on Bursa Securities, comparable companies which are listed within the Asia Pacific region were selected; and

(c) comparable to HFL Group in terms of total revenue for the FYE 2021 amounting to RM611.39 million.

Eco Asia had emphasised in the Fairness Opinion Letter that the selection of the comparable companies and the adjustments made are highly subjective and judgmental and that the selection of the comparable companies may not be entirely comparable to HFL Group due to various factors such as geographical factors, product market segment, client base and technical know-how.

Based on the above selection criteria, the Comparable Companies and their respective P/E multiples as at the Date of Opinion, are as follows:

Comparable Companies	**Country**	**Market capitalisation(1) (RM' million)**	**PAT(2) (RM'million)**	**P/E multiple (times)**
PT Saraswanti Anugerah Makmur Tbk	Indonesia	1,127.50	69.19	16.30
Khaitan Chemicals & Fertilizers Ltd	India	486.94	45.00	10.82
Madras Fertilizers Ltd	India	336.70	1.62	207.84(3)
Lam Thao Fertilizers & Chemicals JSC	Vietnam	394.02	12.80	30.78
PM Thoresen Asia Holdings PCL	Thailand	153.82	14.75	10.43
High				**30.78**
Low				**10.43**
Median				**13.56**

(Source: Bloomberg)

Notes:

(1) Extracted from Bloomberg as at the Date of Opinion.

We note that Eco Asia took into consideration the volatility in the historical market prices of the Comparable Companies as a result of global uncertainties arising from the Russia-Ukraine conflict and the global supply chain disruptions from the Covid-19 pandemic and the Russia-Ukraine conflict. Russia ranks as the world's top exporter of nitrogen fertilisers, the second leading supplier of potassium fertilisers and the third largest exporter of phosphorous fertilisers. Hence, Eco Asia has adopted an average market price computed based on a simple average of the daily closing market price for the past 1 year up to the Date of Opinion as a better representation in deriving the market capitalisation of the Comparable Companies. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(2) Extracted from Bloomberg as at the Date of Opinion based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(3) Deemed an outlier and has been excluded.

Based on the median P/E multiple of the Comparative Companies of 13.56 times and the average Guaranteed Sum of RM47.0 million per annum, Eco Asia had made adjustments to arrive at the indicative value of HFL Group as follows:

	Amount (RM'000)
Average Guaranteed Sum per annum	47,000
Median P/E multiple of the Comparable Companies	13.56
(-) Illiquidity discount (20%) (1)	(2.71)
(x) Adjusted P/E multiple	**10.85**
Valuation of 100% equity interest in HFL Group	**509,950**

Note:

(1) Based on "Investment Valuation: Tools and Techniques for Determining the Value of Any Assets" by Aswath Damodaran, a factor which may have an impact on the valuation is the liquidity of the asset i.e., the extent in which the asset can be freely bought or sold.

Generally, shares of non-listed companies are not freely tradeable as compared to public listed companies. Illiquidity discount typically ranges from 20% - 30%. In the case of HFL Group, an illiquidity discount of 20% was adopted.

7.2.2 EV/EBITDA multiple

As a secondary method of valuation, Eco Asia had conducted an analysis of the EV/EBITDA multiples of the Comparable Companies as at the Date of Opinion as follows:

Comparable Companies	Country	Market capitalisation(1) (RM' million)	EV/EBITDA multiple(2) (times)
PT Saraswanti Anugerah Makmur Tbk	Indonesia	1,127.50	10.94
Khaitan Chemicals & Fertilizers Ltd	India	486.94	7.65
Madras Fertilizers Ltd	India	336.70	17.10
Lam Thao Fertilizers & Chemicals JSC	Vietnam	394.02	17.16
PM Thoresen Asia Holdings PCL	Thailand	153.82	7.96
High			**17.16**
Low			**7.65**
Median			**10.94**

Notes:

(1) Please refer to Note (1) of the Comparable Companies table in relation to the P/E multiple.

(2) The EV is computed based on the adjusted market capitalisation after adding the total borrowings and minority interest, and subtracting the cash and cash equivalent as extracted from Bloomberg based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

The EBITDA is computed based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022 extracted from Bloomberg. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

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Based on the median EV/EBITDA multiple of the Comparative Companies of 10.94 times and the average Guaranteed Sum of RM47.0 million per annum, Eco Asia had made adjustments to arrive at the indicative value of HFL Group as follows:

	Amount (RM'000)
Average Guaranteed Sum per annum	47,000
(+) Taxation @ 24%(1)	14,842
(+) Finance cost(2)	11,526
(+) Amortization and Depreciation(2)	9,614
EBITDA of HFL Group	**82,982**
Median EV/EBITDA ratio of the Comparable Companies	10.94
(-) Illiquidity discount (20%)(3)	(2.19)
(x) **Adjusted EV/EBITDA ratio (times)**	**8.75**
Indicative EV of HFL Group	726,093
(-) Total debt(2)	(340,108)
(+) Total cash and cash equivalents(2)	28,871
Valuation of 100% equity interest in HFL Group	**414,856**

Notes:

(1) Based on the corporation tax rate of 24%. The estimated tax was derived by dividing the average Guaranteed Sum amount (which is based on PAT) by 76% (i.e.: 1 – corporate tax rate), and thereafter, deducting the average Guaranteed Sum amount.

(2) Based on the combined audited financial statements of HFL Group for FYE 31 December 2021.

(3) Based on "Investment Valuation: Tools and Techniques for Determining the Value of Any Assets" by Aswath Damodaran, a factor which may have an impact on the valuation is the liquidity of the asset i.e., the extent in which the asset can be freely bought or sold.

Generally, shares of non-listed companies are not freely tradeable as compared to public listed companies. Illiquidity discount typically ranges from 20% - 30%. In the case of HFL Group, an illiquidity discount of 20% was adopted.

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We have also reviewed the basis and assumptions used for determining the valuation of 100% equity interest in HFL Group as determined by Eco Asia ("**Basis and Assumptions**"), and our comments are as follows:

No	Basis and Assumptions	Malacca Securities' comments
1.	The selection criteria in determining the Comparable Companies (as set out in Section 7.2.1 of this IAL)	Eco Asia had selected the Comparable Companies that mainly derive their revenue from the sale of fertilisers. The total revenue of the Comparable Companies ranges from RM465.82 million (50% lower than HFL Group's revenue for the FYE 31 December 2021) to RM867.76 million (50% higher than HFL Group's revenue for the FYE 31 December 2021). Furthermore, Eco Asia had selected publicly listed Comparable Companies within the Asia Pacific region as there are no companies listed on Bursa Malaysia that mainly derive their revenue from the sale of fertilisers. As such, we concur with Eco Asia's selection criteria for determining the Comparable Companies.
2.	Adjustment made to arrive at the indicative value of HFL Group	Eco Asia had applied an illiquidity discount of 20% to arrive at the adjusted P/E multiple of 10.85 times and adjusted EV/EBITDA multiple of 8.75 times for HFL Group. A factor which may have an impact on valuation is the liquidity of the asset (the extent to which the asset can be freely bought and sold). For example, there may be an argument for the case that a publicly listed asset can be more freely traded than a similar asset which is not, thus the value of the latter should incorporate an "illiquidity discount". Based on a study conducted by Aswath Damodaran (a Professor of Finance at the Stern School of Business at New York University) titled "Marketability and Value: Measuring the Illiquidity Discount", investors are generally willing to pay higher prices for more liquid assets than for otherwise similar illiquid assets. However, measuring such illiquidity discount or discount for lack of marketability is highly subjective. Based on the study, it is noted that private companies were acquired at multiples about 20% to 30% lower than those paid for publicly traded firms. As such, we are of the view that it is reasonable to apply an illiquidity discount of 20% in deriving the indicative value of HFL Group as its shares are not freely traded on any market.

No	Basis and Assumptions	Malacca Securities' comments
3.	Adoption of the trailing 12 months financial results to arrive at the P/E multiples and EV/EBITDA multiples of the Comparable Companies	Eco Asia had adopted the latest available trailing 12 months financial results to arrive at the: (a) PAT of the Comparable Companies to compute the P/E multiples; (b) EV of the Comparable Companies computed based on the adjusted market capitalisation after adding the total borrowings and minority interest, and subtracting the cash and cash equivalent; and (c) EBITDA of the Comparable Companies, as extracted from Bloomberg as at the Date of Opinion. We are of the view that it is reasonable for Eco Asia to adopt the latest available trailing 12 months financial results instead of the latest audited financial results as the trailing 12 months financial results includes the latest available financial results of the Comparable Companies up to the Date of Opinion, which normalises the effects of seasonality and dilutes the impact of non-recurring abnormalities in financial results.
4.	Adoption of the average market prices in computing the market capitalisation of the Comparable Companies	We noted that Eco Asia had adopted an average market price computed based on a simple average of the daily closing market price for the past 1 year up to the Date of Opinion to arrive at the market capitalisation of the Comparable Companies. We are of the view that this is reasonable due to the volatility in the historical market prices of the Comparable Companies as a result of global uncertainties arising from the Russia-Ukraine conflict and the global supply chain disruptions from the Covid-19 pandemic and the Russia-Ukraine conflict. Hence, the average market price provides a better representation in deriving the market capitalisation of the Comparable Companies over a longer period of time.

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Based on the above, we are of the opinion that the methods of valuation, and the basis and assumptions used, as set out in Eco Asia's Fairness Opinion Letter for determining the valuation of 100% equity interest in HFL Group are **fair** and **reasonable**.

Based on the P/E and EV/EBITDA methods of valuation, the Purchase Consideration of HFL Group of RM480.0 million falls within the valuation range of **RM414.86** million and **RM509.95** million. As such, we are of the view that Purchase Consideration is **fair** and **reasonable.**

7.3 Basis and justification of arriving at the Issue Price

We noted the basis and justification in arriving at the Issue Price as set out in Section 2.1.4 of Part A of the Circular.

Malacca Securities' comments

As stated in Section 2.1.4 of Part A of this Circular, the Issue Price was arrived at on a willing buyer-willing seller basis, after taking into consideration the following:

(a) the closing market prices of HIB Shares for the past 12 months up to and including the LTD; and

(b) the 12 months pro-rated earnings per HIB Share of RM0.008 based on the unaudited financial results for the 9-month financial period ended ("**FPE**") 31 May 2022 which represents a P/E multiple of approximately 37.5 times. As such, the Consideration Shares are to be issued at a higher P/E multiple (i.e. 37.5 times) as compared to the P/E multiple attributed to the HFL Group of 10.2 times as implied by the Purchase Consideration and the average guaranteed sum of RM47.0 million per annum.

The basis used to arrive at the Issue Price, which includes the closing market prices of HIB Shares for the past 12 months up to the LTD is a reasonable measure in determining the basis of the Issue Price as it is more reflective of the share price movement of HIB Shares before and after the Russia-Ukraine war and its effects to the global markets. In addition, the Consideration Shares are to be issued at a higher P/E multiple of 37.5 times, which is derived from the 12 months pro-rated earnings per HIB Share of RM0.008 based on the unaudited financial results for the 9-month FPE 31 May 2022, as compared to the P/E multiple attributed to the HFL Group of approximately 10.2 times as implied by the Purchase Consideration. As such, we are of the opinion that the basis used to arrive at the Issue Price is **fair** and **reasonable**.

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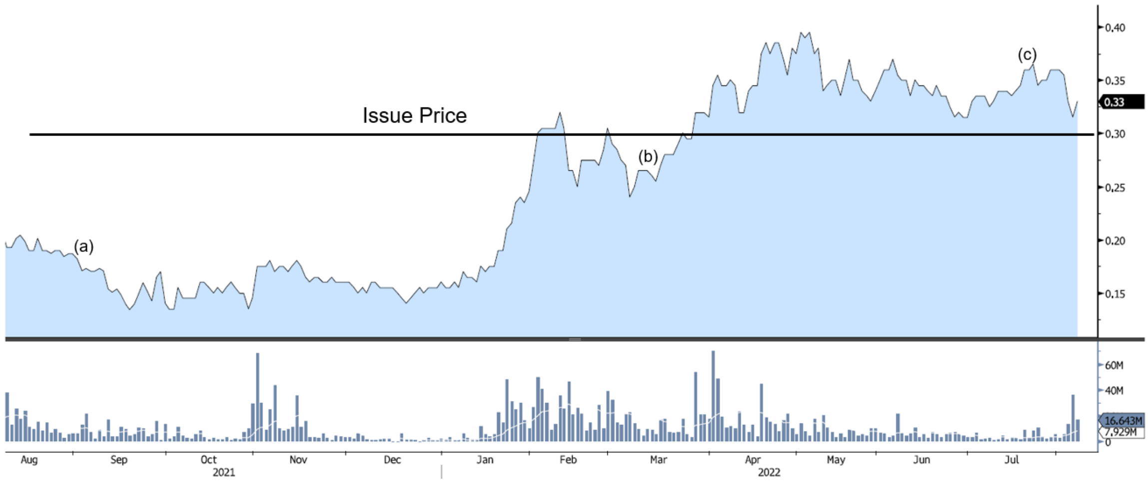
In evaluating the Issue Price, we have considered the following:

(a) Historical market price of HIB Shares

The chart below sets out the historical closing market prices of HIB Shares for the past twelve (12) months up to the LTD:



(Source: Bloomberg)

Based on the announcements made by HIB to Bursa Securities during the past twelve (12) months up to LPD, save as disclosed below, there were no key announcements made by HIB that may have affected the movement of HIB Share prices:

(a) on 9 September 2021, the Board announced that the Company had resolved to fix the issue price of the Rights Shares (as defined herein) at RM0.12 per Rights Share pursuant to the renounceable rights issue of up to 1,268,911,225 new HIB Shares ("**Rights Share(s)**") on the basis of 5 Rights Shares for every 1 existing HIB Share;

(b) on 18 March 2022, the Board announced that the Company had on 18 March 2022 entered into a share purchase agreement with Golden Barley to acquire the remaining 16.67% equity interest of PKFS, representing 3,000,000 ordinary shares in PKFS, for a cash consideration of USD1,500,000; and

(c) the release of the quarterly report of HIB for the 9-month FPE 31 May 2022 as announced on 22 July 2022.

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The monthly highest and lowest traded market prices of HIB Shares for the past twelve (12) months up to the LPD are as follows:

	High (RM)	Low (RM)
2021		
September	0.1950	0.1290
October	0.1650	0.1300
November	0.1900	0.1400
December	0.1600	0.1400
2022		
January	0.2550	0.1500
February	0.3250	0.2400
March	0.3300	0.2250
April	0.3950	0.3100
May	0.4000	0.3150
June	0.3850	0.3100
July	0.3700	0.3150
August	0.3850	0.3100
September (up to the LPD)	0.4200	0.3700

(Source: Bloomberg)

Based on the above, we note that the highest and lowest traded market prices of HIB Shares for the past twelve (12) months up to the LPD are RM0.42 (5 September 2022 and 6 September 2022) and RM0.129 (21 September 2021) respectively.

We note that the Issue Price is within the highest and lowest traded market prices of HIB Shares for the past twelve (12) months up to the LPD.

(b) VWAMP analysis

The Issue Price represents a premium/(discount) to the following closing market price/VWAMP of HIB Shares:

	Closing market price/VWAMP	Premium/(discount) of the Issue Price to closing market price/VWAMP	
	(RM)	(RM)	(%)
Up to the LTD:			
Closing price	0.3300	(0.0300)	(9.09)
Five (5)-day VWAMP	0.3291	(0.0291)	(8.84)
One (1)-month VWAMP	0.3388	(0.0388)	(11.45)
Three (3)-month VWAMP	0.3451	(0.0451)	(13.07)
Six (6)-month VWAMP	0.3218	(0.0218)	(6.77)
Twelve (12)-month VWAMP	0.2650	0.0350	13.21
Up to the LPD:			
Closing price	0.4100	(0.1100)	(26.83)
Five (5)-day VWAMP	0.4005	(0.1005)	(25.09)

(Source: Bloomberg)

Based on the above, the Issue Price represents:

(a) a discount ranging from 6.77% to 13.07% to the closing price, 5-day, 1-month, 3-month and 6-month VWAMPs of HIB Shares up to the LTD;

(b) a premium of 13.21% to the 12-month VWAMP of HIB Shares up to the LTD; and

(c) a discount ranging from 25.09% to 26.83% to the closing price and 5-day VWAMP of HIB Shares up to the LPD.

The market price of HIB Shares was declining from August 2021 up to mid-September 2021 and then range-bound until early January 2022, followed by a spike in the market price from mid-January 2022 up to the LPD. The lowest and highest traded market price of HIB Shares for the past twelve (12) months up to the LPD is RM0.129 (21 September 2021) and RM0.42 (5 September 2022 and 6 September 2022) respectively, representing a variance of RM0.291 or 225.58% in the market price.

The steady increase in the market price of HIB Shares may be due to the following:

(a) the announcement made by the Board on 18 March 2022 that the Company had entered into a share purchase agreement with Golden Barley to acquire the remaining 16.67% equity interest of PKFS, representing 3,000,000 ordinary shares in PKFS, for a cash consideration of USD1,500,000.

(b) higher PAT of RM5.73 million recorded by HIB for the 9-month FPE 31 May 2022 as compared to a PAT of RM1.71 million recorded in the corresponding period of the preceding year as announced on 22 July 2022;

(c) several countries increased their self-sufficiency efforts in the second half of 2021 and placed trade restrictions on agricultural inputs in anticipation of potential shortages. For example, China, Russia, Egypt and Turkey have all placed export restrictions on fertilisers in order to secure enough supply for the domestic market. In June 2021, the European Union agreed to impose sanctions on specific sectors of the Belarusian economy. Belarus was the third largest potash producer in 2019, accounting for 18% of global production. Potash is an important ingredient in fertiliser. In the traded market, Belarus was the second largest potash exporter in 2019, accounting for 21% of global trade. These trade restrictions had caused a disruption in the supply of fertilisers globally, coupled with the fluctuations in the prices of raw materials which had caused an increase in the price of fertilisers; and

(d) the war between Russia and Ukraine, which commenced on 20 February 2022, had resulted in sanctions being imposed by western countries on Russia. As Russia is the largest exporter of nitrogen fertilisers and second largest supplier of both potassic and phosphorous fertilisers, this has led to a global shortage in the supply of fertiliser and further disrupted the global fertiliser trade causing an increase in the price of fertiliser globally.

In view of the reasons stated above, we are of the view that the 12-month VWAMP of HIB Shares up to the LTD is a better representation and a more appropriate indicator to evaluate the fairness and reasonableness of the Issue Price, as the market price of HIB Shares was declining from August 2021 up to mid-September 2021 and then range-bound until early January 2022, followed by a spike in the market price from mid-January 2022 up to the LTD.

Premised on the above, despite being at a discount to the closing market prices and 5-day, 1-month, 3-month and 6-month VWAMPs of HIB Shares up to the LTD, the Issue Price represents a premium over the 12-month VWAMP up to the LTD as set out above.

In addition, we further noted that the Issue Price is higher than the NA per HIB Share of RM0.18 as at the 9-month FPE 31 May 2022 by RM0.12 or 66.7%. As such, we are of the view that the Issue Price is reasonable and fair to the non-interested shareholders of HIB.

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7.4 Salient terms of the SSA

The salient terms of the SSA and our comments are as follows:

No.	Salient terms of the SSA	Malacca Securities' comments
1.	**Purchase Consideration** The Vendor agrees to sell and the Purchaser agrees to purchase the Sale Shares at the Purchase Consideration free from all claims, charges, liens, encumbrances and equities whatsoever, together with all rights attached thereto, and all liabilities, dividends, rights and distributions, declared paid or made in respect thereof the entitlement date of which is on or subsequent to the completion date of the sale and purchase of the Sale Shares.	This term is to clarify that the Sale Shares are sold free of any impediments or encumbrances with all their rights attached, and is common in transactions of such nature and is reasonable. We are of the view that this clause is fair and reasonable.
2.	**Understanding of the parties** 2.1 **<u>Profit guarantee</u>**: The Vendor hereby unconditionally and irrevocably guarantees that the HFL Group shall attain the Guaranteed Sum cumulatively for the Guaranteed Period. 2.2 **<u>Satisfaction of profit guarantee:</u>** In the event that the HFL Group attains or exceeds the Guaranteed Sum, as evidenced by the audited financial statements for the Guaranteed Period, the Vendor shall be entitled to the full Purchase Consideration. 2.3 **<u>Shortfall in profit guarantee:</u>** In the event that the HFL Group fails to attain the Guaranteed Sum, the Vendor shall make good any shortfall (being the difference between the cumulative audited PAT (or cumulative audited LAT, where relevant) for the Guaranteed Period and the Guaranteed Sum) in accordance with clause 3.3 below and then be entitled to the full amount of the Purchase Consideration.	This clause sets out the terms of the profit guarantee which the Vendor, as the Guarantor, has provided and guaranteed that HFL Group shall attain the Guaranteed Sum for the Guaranteed Period, and the Vendor's entitlement to receive the full Purchase Consideration in the event that the HFL Group attains or exceeds the Guaranteed Sum during the Guaranteed Period, as well as the steps taken by the Vendor to address the shortfall in the profit guarantee in the event that HFL Group fails to attain the Guaranteed Sum during the Guaranteed Period. Even in the event of a shortfall in the profit guarantee, HIB Group will be able to recognise the Guaranteed Sum under its audited PAT in FYE 31 December 2023 as the Vendor shall make good the shortfall in cash if the HFL Group registers a cumulative PAT which is less than the Guaranteed Sum, or in the case where the HFL Group registers a cumulative audited LAT, the Vendor shall make good the difference between the Guaranteed Sum and the cumulative audited LAT incurred (i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period) by way of cash

No.	Salient terms of the SSA	Malacca Securities' comments
2.	**Understanding of the parties (Cont'd)**	Based on the above, we are of the view that this clause is fair and reasonable, and not detrimental to the non-interested shareholders of HIB. In addition, we noted the basis and justification at arriving at the Guaranteed Sum, and the reasonableness of the Guaranteed Sum as set out in Section 2.1.2 of Part A of this Circular. The Guaranteed Sum is backed by collateral in the form of the Security Shares, which form part of the Purchase Consideration, and the Security Shares will be held by the Stakeholder and will be released to the Guarantor upon fulfilment of the Guaranteed Sum. As such, we are of the view that the Guaranteed Sum is fair and reasonable and not detrimental to the non-interested shareholders of HIB.

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No.	Salient terms of the SSA	Malacca Securities' comments
3	**Satisfaction of the Purchase Consideration** **3.1. Mode of Satisfaction**: The Purchase Consideration for the Sale Shares shall be satisfied by way of allotment and issuance of the Consideration Shares in one single tranche according to the following manner, within the completion period (being 60 days after the Unconditional Date (as defined in clause 4.1 below)): **(a)** **Completion Shares**: One Billion Two Hundred Eighty Six Million Six Hundred Sixty Six Thousand and Six Hundred Sixty Seven (1,286,666,667) Consideration Shares equivalent to approximately Ringgit Malaysia Three Hundred Eighty Six Million (RM386,000,000.00) shall be allotted and issued to the Vendor's CDS account (or such other CDS account the Vendor may direct in writing); and **(b)** **Security Shares**: Three Hundred Thirteen Million Three Hundred Thirty Three Thousand and Three Hundred Thirty Three (313,333,333) Consideration Shares, equivalent to approximately Ringgit Malaysia Ninety Four Million (RM94,000,000) shall be allotted, issued and held as security by the Stakeholder who is hereby instructed and authorised to deal with the same in accordance with clause 3.2 and 3.3 below.	This clause sets out the mode of satisfaction of the Purchase Consideration for the Sale Shares, whereby 1,286,666,667 Consideration Shares shall be allotted and issued as Completion Shares to the Vendor, and 313,333,333 Consideration Shares, equivalent to the Guaranteed Sum, shall be allotted and issued and held as security by the Stakeholder who shall be instructed and authorised to deal with the same in accordance with the mechanism as set out in clauses 3.2 and 3.3 below. We are of the view that this clause is fair and reasonable, and not detrimental to the non-interested shareholders of HIB. In addition, we noted that the Vendor does not have the right to exercise the voting rights of the Security Shares held by the Stakeholder until the Security Shares are released by the Stakeholder to the Vendor under the profit guarantee mechanism. As the Vendor will only receive the Security Shares upon fulfilment of the Guaranteed Sum by the Vendor and have the right to exercise the voting rights then, we are of the view that this is fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

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No.	Salient terms of the SSA	Malacca Securities' comments
	3.2 <u>Quarterly Share Payment</u> <u>(as defined herein)</u>: For each unaudited financial quarter of the HFL Group throughout the Guaranteed Period, subject to the Purchaser's review of such unaudited quarterly financial result within 14 days from its release, the Vendor shall upon the Purchaser's approval of the unaudited quarterly financial result be entitled to receive such amount of the Security Shares proportional to the PAT achieved for each financial quarter of the HFL Group, calculated based on the following formula ("**Quarterly Share Payment**"): **FORMULA** "A" / "B" × "C" whereby, A = PAT achieved B = Guaranteed Sum C = 313,333,333 Security Shares Provided always that: (i) the Quarterly Share Payment payable for the 4th quarter of each financial year shall be made by the Purchaser within 14 days upon release of the HFL Group's audited financial statements for the corresponding financial year, notwithstanding the release of the HFL Group's unaudited quarter financial result; and (ii) the total Quarterly Share Payment payable shall be limited to a maximum amount of Ringgit Malaysia Ninety Four Million (RM94,000,000.00) worth of HIB Shares.	This clause sets out the salient features of the profit guarantee mechanism, whereby the Security Shares that the Purchaser is entitled to receive are proportional to the PAT achieved for each financial quarter of HFL Group. If there is a shortfall, where the value of the Security Shares released in the FYE 31 December 2022 exceeds the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022, the overpayment of the Security Shares released in the cumulative first 3 quarters of the FYE 31 December 2022 shall be offset against the remaining Security Shares releasable in the 4th financial quarter and the subsequent financial quarters. If HFL Group records an audited LAT for the FYE 31 December 2022, the Stakeholder shall offset the shortfall (being the difference between the value of Security Shares released and the audited LAT) against the remaining Security Shares releasable for the subsequent financial quarters. Based on the above, we are of the view that this clause is fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

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No.	Salient terms of the SSA	Malacca Securities' comments
3.	**3.3 <u>Adjustment of Consideration Shares</u>**: For the payment made under clause 3.2 herein, the parties hereby agree to the following: (a) At the end of the FYE 31 December 2022: (i) In the event of a shortfall where the value of the Security Shares released in the FYE 31 December 2022 exceeds the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022, the overpayment of the Security Shares released in the cumulative first 3 quarters of the FYE 31 December 2022 shall be offset against the remaining Security Shares releasable in the 4th financial quarter and the subsequent financial quarters; (ii) In the event of a surplus where the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022 exceeds the value of the Security Shares released during the FYE 31 December 2022, the Stakeholder shall release such number of Security Shares proportional to the said surplus. (iii) In the event the HFL Group records an audited LAT for the FYE 31 December 2022, the shortfall (being the difference between the value of the Security Shares released and the audited LAT for the FYE 31 December 2022) shall be offset against the remaining Security Shares releasable for the subsequent financial quarters. (b) At the end of the FYE 31 December 2023: (i) In the event the HFL Group achieves or exceeds the Guaranteed Sum, the Stakeholder shall be instructed to release any remaining Security Shares to the Vendor. (ii) In the event the cumulative audited PAT for the Guaranteed Period is less than the Guaranteed Sum, the Vendor shall within 14 days from the date of adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, make good the shortfall by cash payment and the Stakeholder shall release the remaining Security Shares to the Vendor, provided always that the maximum shortfall payable by the Vendor shall be the Guaranteed Sum[(1)].	This clause sets out the basis for adjustment of the Security Shares for the Quarterly Share Payment at the end of FYEs 31 December 2022 and 31 December 2023, which seeks to protect the interests of both HIB and the Vendor under the profit guarantee arrangement. In the event the cumulative audited PAT for the Guaranteed Period is less than the Guaranteed Sum, the Vendor shall make good the shortfall by cash payment within 14 days from the adoption of HFL Group's audited financial statement for FYE 31 December 2023, and the Stakeholder shall release the remaining Security Shares to the Vendor. In the event that HFL Group registers a cumulative audited LAT, the Vendor shall make good the shortfall, being the difference between the Guaranteed Sum and cumulative audited LAT, by cash payment and the remaining Security Shares will be released to the Vendor by the Stakeholder.

<table>
<tr><th>No.</th><th>Salient terms of the SSA</th><th>Malacca Securities’ comments</th></tr>
<tr><td>3.</td><td>(iii) In the event the HFL Group registers a cumulative audited LAT:

(A) the Vendor shall make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT) by cash payment within 14 days from the date of adoption of the HFL Group’s audited financial statement for the FYE 31 December 2023 and the Stakeholder shall release the remaining Security Shares to the Vendor; and

(B) provided always the maximum sum payable by the Vendor for the Guaranteed Sum shall be the Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period(2).

Notes:

(1) In the event the Vendor fails to make good the shortfall (being the difference between the cumulative audited PAT of the HFL Group for the Guaranteed Period and the Guaranteed Sum) in cash, the Stakeholder shall act in accordance to the Purchaser’s instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker’s board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

(2) In the event the Vendor fails to make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT of the HFL Group for the Guaranteed Period) in cash, the Stakeholder shall act in accordance with the Purchaser’s instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker’s board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.</td><td>In the event of the following:

(a) the cumulative audited PAT for the Guaranteed Period is less than the Guaranteed Sum and the Vendor fails to make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited PAT of the HFL Group for the Guaranteed Period) in cash; or

(b) HFL Group registers a cumulative audited LAT and the Vendor fails to make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT of the HFL Group for the Guaranteed Period) in cash,

the Stakeholder shall act in accordance with the Purchaser’s instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker’s board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor.

In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

Even in the event of a shortfall in the profit guarantee, HIB Group will be able to recognise the Guaranteed Sum under its audited PAT in FYE 31 December 2023 as the Vendor shall make good the shortfall in cash if the HFL Group registers a cumulative PAT which is less than the Guaranteed Sum, or in the case where the HFL Group registers a cumulative audited LAT, the Vendor shall make good the difference between the Guaranteed Sum and the cumulative audited LAT incurred (i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period) by way of cash.</td></tr>
</table>

No.	Salient terms of the SSA	Malacca Securities' comments
3.		Based on the above, we are of the view that this clause is fair and reasonable, and not detrimental to the non-interested shareholders of HIB.
4.	**Conditions Precedent** 4.1 **<u>Conditions Precedent:</u>** The SSA shall be conditional upon the following being obtained, procured and/or fulfilled within the conditional period (being 90 days from the date of the SSA or such further period as the parties may mutually agree): (a) satisfactory legal, financial and/or business due diligence findings on the HFL Group by the Purchaser; (b) approval of Bursa Securities for the listing of and quotation for the Consideration Shares; (c) approval of the shareholders of the Purchaser in relation to the acquisition contemplated in the SSA; (d) receipt by the Purchaser of an opinion from an expert of competent jurisdiction in relation to the enforceability of the SSA, policies on foreign investments, taxation and repatriation of profits of HFL and the compliance with all relevant laws; (e) approval of the directors and members of the Vendor in relation to the disposal of the Sale Shares; and (f) such other waivers, consents or approvals as may be required (or deemed necessary) by the parties from any third party or governmental, regulatory body or competent authority having jurisdiction over any part of the transaction contemplated under the SSA to the effect that if such waivers, consents, approvals are not obtained, the sale and purchase of the Sale Shares will be rendered null and void by law. 4.2 **<u>Waiver:</u>** Although it is intended that the transaction set out in the SSA shall only be implemented upon all the Conditions Precedent as set out in clause 4.1 herein being satisfied, the parties may with mutual consent of each other and to the extent permissible by law, proceed with completion in accordance with clause 5 herein.	The Conditions Precedent sets out the prerequisite conditions, approvals, waivers and consents which are required to be obtained, procured and/or fulfilled to comply with the necessary rules and regulations imposed by relevant authorities/parties, as well as the expert opinion of competent jurisdiction to be received by HIB in relation to the enforceability of the SSA, policies on foreign investments, taxation and repatriation of profits of HFL and the compliance with all relevant laws within the conditional period to give effect to the Proposed Acquisition. These Conditions Precedent are ordinary terms typical to a transaction of such nature and are fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

No.	Salient terms of the SSA	Malacca Securities' comments
5.	**Completion** 5.1 **<u>Conditions for Completion:</u>** If: (a) no event of default has occurred or would occur as a result of the completion of the SSA; (b) the Conditions Precedent as set out in clause 4.1 above have been procured, obtained, fulfilled and/or waived; (c) there has been no material adverse change in the financial condition or operation of the HFL Group since the date of the SSA, including but not limited to the maintenance of management continuity by the Vendor in the HFL Group; (d) all sums owing by the Vendor, the director or affiliated companies (if any) to the HFL Group have been fully repaid and/or recovered; (e) each of the representations and warranties set out in the SSA remains accurate at the completion date of the sale and purchase of the Sale Shares as if given on that date by reference to the facts and circumstances then existing; (f) the Vendor has not breached any undertakings, representations, warranties and covenants under the SSA; and (g) no Governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order, whether temporary, preliminary or permanent, which is in effect and which has or would have the effect of making the transaction contemplated by the SSA, illegal or restraining or prohibiting consummation of such transaction. Then, subject to the provisions of the SSA and in particular subject to the clause in the SSA in relation to Transfer Documents, the parties shall, on the completion date, complete the sale of the Sale Shares under the SSA.	These terms set out the conditions to be fulfilled and steps to be taken by both parties prior to the completion date to complete the sale of the Sale Shares to HIB, subject to the provisions of the SSA. We view these terms as fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

No.	Salient terms of the SSA	Malacca Securities' comments
6.	**Termination** 6.1 **<u>Termination Event:</u>** On the occurrence of any of the following defaulting events hereunder and provided that the event of default occurs before the completion date of the sale and purchase of the Sale Shares, the other non-defaulting party may (but is not obliged to) give notice in writing to the defaulting party, which shall mean the Purchaser or the Vendor, and shall include the HFL Group's conduct below. In the event that such conduct of default relates to the HFL Group, then it shall be deemed to be the Vendor's default enabling the non-defaulting party to send notice to the defaulting party for termination specifying the default or breach of the defaulting party and requiring the defaulting party to remedy the said default or breach within 14 business days or such extended period as may be allowed by the non-defaulting party, of the receipt of such notice: (a) **<u>Breach</u>**: breach of any material or fundamental terms or conditions of the SSA or a failure to perform or observe any material or fundamental undertakings, obligations or agreements expressed or implied in the SSA including the breach of any material warranties; or (b) **<u>Receiver</u>**: a receiver, receiver and manager, trustee or similar official is appointed over any of the assets or undertakings of the defaulting party; or (c) **<u>Arrangements</u>**: save and except as stated in the SSA, pursuant to the acquisition and disposal of the Sale Shares, the defaulting party enters into or resolves to enter into any arrangements, compositions or compromises with, or assignment for the benefit of, the defaulting party's creditors or any classes of them; or (d) **<u>Winding-Up</u>**: an application, petition or order is made for the winding-up or dissolution of the defaulting party, or a resolution is passed or any steps taken to pass a resolution for the winding-up or dissolution of the defaulting party, otherwise than for the purpose of an amalgamation or reconstruction which has prior written consent of the non-defaulting party; or	This clause is a normal commercial term that spells out the basis on which an event or outcome can be considered grounds for termination. The termination clause is a common and acceptable term which serves to protect the interests of each party in the event there is any defaulting event or material breach of any of the obligations of the other party under the SSA which is incapable of remedy or if capable of remedy, is not remedied within 14 business days of it being given notice so to do. This clause also stipulates the procedures and consequences in the event that the SSA is terminated by either party prior to the completion date. Based on the above, we are of the view that this clause is common in transactions of such nature and is fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

No.	Salient terms of the SSA	Malacca Securities' comments
6.	(e) **Cessation of Business**: the defaulting party ceases or threatens to cease carrying on a substantial portion of the defaulting party's business other than in compliance with the defaulting party's obligations under the SSA; or (f) **Events of Default**: the defaulting party commits any act or omits to do an act which results in the breach or non-fulfilment of any terms or conditions of any banking, finance or credit facility which has the effect of causing the events specified in sub-clauses (b), (c), (d) and (e) to occur; or (g) **Misrepresentation**: any representations, warranties or statements which is made (or acknowledged to have been made) by the parties in the SSA or which is contained in any certificates, statements, legal opinions, notices, replies made in the course of the due diligence review or information furnished in the due diligence review or provided under or in connection herewith or therewith proves to be incorrect in any material respect. 6.2 **Termination**: If the defaulting party fails to remedy the relevant default or breach within the said 14 business days or such extended period as may be allowed by the non-defaulting party after being given notice by the non-defaulting party, to rectify such breach, the non-defaulting party may elect to terminate the SSA and claim damages or pursue its action as set out in clause 6.2 and/or 6.3 below. (a) **Purchaser's default**: In the event of termination due to the default or breach of the Purchaser pursuant to clause 6.2 herein, the Vendor shall be entitled to give the Purchaser a notice of termination to terminate the SSA and shall thereupon refund to the Purchaser in cash the amount equivalent to all sum or sums paid by the Purchaser, if any, towards the Purchase Consideration, free of interest. Upon such refund being made, the SSA shall come to an end and become null and void and be of no further effect and neither party shall have any claim whatsoever against the other under or in respect of the SSA (save for the return of any documents belonging to the Vendor) and the Vendor shall have the right to resell the Sale Shares to such person in such manner at such price and on such terms as the Vendor may think fit and the Purchaser shall have no right to any part of the purchase money thereby arising.	

No.	Salient terms of the SSA	Malacca Securities' comments
6.	(b) **Vendor's default**: In the event of termination due to the default or breach of the Vendor pursuant to this clause 6.2 herein, the Purchaser shall be entitled to give the Vendor a notice of termination to terminate the SSA, and the Vendor shall within 14 business days from the date of receipt of the notice of termination from the Purchaser, refund to the Purchaser in cash the amount equivalent to the Purchase Consideration and/or all sum or sums paid by the Purchaser towards the Purchase Consideration, if any, free of interest, without prejudice to the rights of the Purchaser against the Vendor for damages in respect of such breach and/or default and thereafter the SSA shall come to an end and become null and void and be of no further effect and neither party shall have any claim whatsoever against the other under or in respect of the SSA (save for the return of any documents belonging to the Vendor). 6.3 **Specific Performance:** The Purchaser shall be entitled to claim specific performance of the SSA against the other party and for this purpose, the parties hereby agree that an alternative remedy of monetary compensation shall not be regarded as sufficient compensation for such other party's default in the performance of the terms and conditions of the SSA.	This clause stipulates the entitlement of HIB to claim specific performance against the Vendor under the SSA, in the event of a default in performance of the terms and conditions of the SSA by the Vendor, which includes the Vendor failing to make good on the shortfall of the profit guarantee by way of cash as provided in the terms and conditions of the SSA. Based on the above, we view this term as fair and reasonable, and not detrimental to the non-interested shareholders of HIB.

On an overall basis, we are of the view that the salient terms of the SSA are considered fair, reasonable and not detrimental to the interests of the non-interested shareholders of HIB.

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7.5 Effects of the Proposed Acquisition

We note the following financial effects of the Proposed Acquisition as set out in Section 7 of Part A of the Circular:

Effects of the Proposed Acquisition	Malacca Securities' comments
Issued share capital	The Proposed Acquisition will result in an increase in the issued share capital of the Company from RM191,940,840 comprising 1,147,341,623 Shares as at the LPD to RM671,940,840 comprising 2,747,341,623 Shares upon the issuance of the Consideration Shares pursuant to the Proposed Acquisition.
NA per Share and gearing	Upon completion of the Proposed Acquisition: (a) the pro forma NA as at FYE 31 August 2021 will increase from RM79.87 million to RM249.46 million, and the pro forma NA per HIB Share as at FYE 31 August 2021 will decrease from RM0.43 to RM0.09; (b) the pro forma gearing of HIB Group as at FYE 31 August 2021 will increase from 0.77 times to 1.61 times; and We note that the decrease in the NA per HIB Share is due to the dilutive impact arising from the following: (a) the Company's rights issue of 929,864,180 new Shares at an issue price of RM0.12 per rights share, which was completed on 20 October 2021; (b) issuance of 31,504,607 new Shares pursuant to the exercise of warrants 2016/2021 from 1 September 2021 up until 10 December 2021; and (c) the Consideration Shares being issued at the Issue Price for the settlement of the Purchase Consideration. Despite the dilutive impact, it is pertinent to note that the Issue Price of the Consideration Shares is higher than the NA per HIB Share of RM0.18 as at the 9-month FPE 31 May 2022 by RM0.12 or 66.7%. The increase in the gearing level of the Group upon completion of the Proposed Acquisition is mainly due to the consolidation of the total borrowings of HFL Group (which includes hire purchase) as at FYE 31 December 2021 of approximately RM340.11 million, which mainly comprises bills payable that are trade in nature.
Earnings and EPS	Upon completion of the Proposed Acquisition: (a) the pro forma PAT of HIB Group will increase from RM1.92 million as at FYE 31 August 2021 to RM47.72 million; and (b) the EPS of the Company will increase from 1.03 sen as at FYE 31 August 2021 to 1.74 sen. Moving forward, the actual impact of the Proposed Acquisition on the consolidated earnings and EPS of HIB will depend on, among others, the market and industry conditions and the successful integration of the operations of the HFL Group into HIB.

Effects of the Proposed Acquisition	Malacca Securities' comments
Earnings and EPS (Con'td)	Nevertheless, the Proposed Acquisition is expected to be earnings accretive and contribute positively to the future earnings of the HIB Group upon completion of the Proposed Acquisition, premised on the prospects and future plans of the enlarged HIB Group after the completion of the Proposed Acquisition as set out in Section 4.3 of Part A of this Circular.
Substantial shareholders' shareholdings	Upon issuance of the Consideration Shares, the Vendor's shareholdings in the Company will increase from 45.7% to 77.3%, an increase by more than 2% of the voting shares of the Company. As a consequence, the Vendor will be obliged under Section 218(3) of the CMSA and Paragraph 4.01(b) of the Rules to extend an Offer to acquire the Offer Shares and the Offer will not be conditional upon any minimum level of valid acceptances of the Offer Shares as the Offeror will hold more than 50% of the voting shares or voting rights in the Offeree upon the issuance of the Consideration Shares pursuant to the Proposed Acquisition. The Offer shall also be extended to the Offer Shares held by the PACs. Depending on the acceptance level of the Offer, for the purposes of illustration based on the Record of Depositors as at 30 August 2022, the Proposed Offer For Sale will entail: **Minimum Scenario**: Assuming there are no acceptances of Offer Shares and 88,389,615 OFS Shares are placed out under the Proposed Offer For Sale **Maximum Scenario**: Assuming 100% acceptances of Offer Shares and 686,840,000 OFS Shares are placed out under the Proposed Offer For Sale. Upon the issuance of the Consideration Shares, the Proposed Acquisition will result in a dilution in the shareholdings of the existing shareholders of HIB. The issuance of the Consideration Shares is subject to the Placement Agent confirming that there are acceptances by Placees of such number of OFS Shares which will allow the Company to meet the public spread requirement upon issuance of the Consideration Shares. Under the Minimum Scenario, the direct shareholding of HHSB will increase from 45.7% as at the LPD to 77.3% after the Offer and upon completion of the Proposed Acquisition. Thereafter, the direct shareholding of HHSB will decrease from 77.3% to 74.1% upon completion of the Proposed Offer For Sale in order to meet the public spread requirement. Under the Maximum Scenario, the direct shareholding of HHSB will increase from 45.7% as at the LPD to 100% after the Offer and upon completion of the Proposed Acquisition. Thereafter, the direct shareholding of HHSB will decrease from 100.0% to 75.0% upon completion of the Proposed Offer For Sale in order to meet the public spread requirement. Notwithstanding the dilutive impact on the shareholdings of the non-interested shareholders of HIB arising from the issuance of Consideration Shares to HHSB, we are of the opinion that the issuance of the Consideration Shares to satisfy the Purchase Consideration will enable HIB Group to conserve its cash and channel it towards financing its day-to-day operations and/or pursuing other business opportunities such as offering a wider range of trading products. In addition, the Proposed Acquisition is earnings accretive and is expected to improve the Group's financial performance in the short term.

Effects of the Proposed Acquisition	Malacca Securities' comments
Substantial shareholders' shareholdings (Cont'd)	The Proposed Acquisition will also eliminate any business competition between the HIB Group and the HFL Group, and HFL Group will become subsidiaries of HIB, thereby enabling the Company to consolidate the financial results of HFL Group, thus enhancing HIB Group's shareholders' value in the medium to long term. For information purposes, as the Proposed Offer for Sale is to be implemented after the close of the Offer, simultaneous with the issuance of the Consideration Shares and the completion of the Proposed Acquisition, there is a risk that HIB will be unable to procure sufficient acceptances of the OFS Shares. However, the offer price for the OFS Shares may be set at a discount (i.e. at market price to be based on the 5-days VWAMP prior to the price-fixing date(s), with a discount of not more than 10%) but shall not be at a price higher than the Offer Price, hence the Placees may be more inclined to take up the OFS Shares due to the discount of the offer price for the OFS Shares compared to the market price.

Based on the above, we are of the view that the financial effects of the Proposed Acquisition are not detrimental to the interest of the non-interested shareholders of HIB.

7.6 Prospects of the Proposed Acquisition

In evaluating the prospects of the Proposed Acquisition, we have considered the overview and outlook of the Malaysian economy, the overview of the fertiliser industry in Malaysia, prospects and future plans of the enlarged HIB Group after the completion of the Proposed Acquisition.

Malacca Securities' comments

We noted that the Malaysian economy registered a strong growth of 8.9% in the second quarter of 2022 (first quarter ("**1Q**") of 2022: 5.0%). While growth was lifted to some extent by the low base from the Full Movement Control Order in June 2021, growth in April and May 2022 was particularly robust, underpinned by the continued recovery in labour market conditions and policy support. The improvement also reflected normalising economic activity as the country moved towards endemicity and reopened international borders. Exports remain supported by strong demand for E&E products. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy increased by 3.5% (1Q 2022: 3.8%).

We also noted that the manufacturing sector expanded by 9.2% (1Q 2022: 6.6%), supported by both the export and domestic-oriented industries. The effect of global supply disruptions was partly mitigated, as manufacturers were able to implement proactive measures to cushion the impact such as building inventory buffers through advance bookings and using alternative modes of transportation.

The agriculture sector declined by 2.4% (1Q 2022: 0.1%). During the quarter, production in livestock and other agriculture subsectors was affected by rising input costs particularly for animal feed and fertiliser. Growth was also weighed down by weak oil palm output as harvesting activity was hampered by prevailing labour shortages.

In 2022, the Malaysian economy is expected to strengthen between 5.5% and 6.5%, supported by significant improvement in global trade, stabilised commodity prices, containment of the pandemic, and gradual improvement in consumer and business sentiments. Following the rapid progress of the nationwide vaccination programme, economic activities in 2022 are anticipated to return to the pre-pandemic level.

The growth trajectory for 2022 is based on further expansion in global and domestic economic activities, fuelled by broader vaccine coverage and a further improvement in goods trade amid a slower recovery in services trade. The domestic demand recovery is projected to continue in 2022, anchored by private consumption, following the gradual improvement in labour market conditions amid a relaxation of containment measures, improved consumer sentiments and spending from the vaccine rollout as well as targeted policy support for vulnerable households.

We observed that almost all economic sectors are projected to expand on the supply side, led by the services and manufacturing sectors, accounting for more than 80% of the economy. The projected higher volume of manufactured products is also in line with the expected rising demand from export- and domestic-oriented industries. We noted the nation's gross domestic product is forecast to expand in the range of 5.5% – 6.5% in 2022.

Fertiliser production and use in Malaysia is currently dominated by mineral fertilisers, representing around 85.5% of all local fertiliser production and use in 2020. The market is dominated by 20 to 25 manufacturers which produce fertilisers mainly for large-scale industrial agriculture companies/ plantations. These companies are typically well-capitalised, possess their own fertiliser processing plant or warehouses providing bagging, bulk blending and/or granulation or compaction services, and have technical knowledge and competencies that are higher than their counterparts. The remaining fertiliser industry is highly fragmented with many small players that focus on supplying fertilisers for household use, smaller scale agriculture and commercial landscaping purposes or manufacturing fertilisers as a supplementary business or as an extension of their core business.

We noted that the fertiliser industry in Malaysia was valued at RM4.72 billion in 2021, which was an increase of 12.2% as compared to RM4.21 billion in 2020. The Malaysian fertiliser industry was adversely affected by Covid-19 in 2020, which saw the industry decline by 22.8% from RM5.45 billion recorded in 2019. The historical market size and growth forecast of the fertiliser industry in Malaysia is forecast to surge to RM6.37 billion in 2022 and expand at a compounded annual growth rate of 14.3% to reach RM9.20 billion in 2026.

The local fertiliser industry is expected to recover and grow due to market players within the industry rearranging operations, which had in 2020 been restricted by containment measures and closure of commercial activities. Other factors boosting the growth within the fertiliser industry are likely to come from the continuous interest from the Government in the development of industrial crops sectors, namely the palm oil and rubber industries. The rising commodity prices of industrial crops are also expected to play a role in driving demand for fertilisers as farmers seek to increase yield to take advantage of the higher prices of their produce. In addition to industrial crops, demand for fertiliser is also expected to be driven by food crops, whereby the Government is trying to attain self-sufficiency in some of the major food commodities.

We note that the supply of mineral fertilisers is expected to be affected by the reliance of imports of raw materials required for the manufacture of fertilisers. Most of the fertiliser manufacturers in Malaysia import straight fertilisers as raw materials from foreign sources. Malaysia does not extensively mine or manufacture straight fertilisers and has to rely on imported supply. As such, local fertiliser prices are vulnerable and subjected to international fertiliser price movements. The supply of fertilisers in 2021 can be characterised by availability concerns, on the back of physical disruptions and surge in energy prices. Many countries responded to supply chain disruptions and an inflationary economic environment with policies that impacted global trade flows of fertilisers. A number of countries increased their self-sufficiency efforts in the second half of 2021 and placed trade restrictions on agricultural inputs in anticipation of potential shortages.

Several countries increased their self-sufficiency efforts in the second half of 2021 and placed trade restrictions on agricultural inputs in anticipation of potential shortages. For example, China, Russia, Egypt and Turkey have all placed export restrictions on fertilisers in order to secure enough supply for the domestic market. In June 2021, the European Union agreed to impose sanctions on specific sectors of the Belarusian economy. Belarus was the third largest potash producer in 2019, and accounting for 18% of global production. In the traded market, Belarus was the second largest potash exporter in 2019, accounting for 21% of global trade. These trade restrictions had caused a disruption in the supply of fertilisers globally.

Subsequently, the war between Russia and Ukraine, which commenced on 20 February 2022, had resulted in sanctions being imposed by western countries on Russia. As Russia is the largest exporter of nitrogen fertilisers and second largest supplier of both potassic and phosphorous fertilisers, this has led to a global shortage in the supply of fertiliser and further disrupted the global fertiliser trade, causing a further increase in the price of fertiliser globally.

After taking into consideration the industry overview and outlook as well as the prospects and future plans of the enlarged HIB Group after the completion of the Proposed Acquisition where HFL Group will form the core business of the enlarged HIB Group, which is expected to drive future growth earnings and cash flow for the Group and will also offer opportunities for HIB and the HFL Group to further expand as well as benefit from complementary synergies between HIB and HFL Group, we are of the view that the Proposed Acquisition is favourable to the Group and the Proposed Acquisition is expected to contribute positively to the earnings and profitability of the enlarged HIB Group.

Nonetheless, we wish to highlight that the fertiliser industry is subject to uncertainties which are not within the Board's control, such as, amongst others, changes in policies of the Government and disruptions to the global fertiliser trade. The occurrence of any of such events may materially impact the fertiliser industry and may adversely affect the Group's financial performance.

7.7 Risk factors in relation to the Proposed Acquisition

In considering the Proposed Acquisition, the non-interested shareholders of the Company are advised to give careful consideration to the risk factors as set out in Section 5 of Part A of this Circular.

<u>Malacca Securities' comments</u>

We take note and concur with the risk factors as well as the relevant mitigating factors as set out in Section 5 of Part A of this Circular. Notwithstanding, the non-interested shareholders should also take note of these additional risk factors in relation to the Proposed Acquisition as follows:

(a) Inherent risks in the fertiliser industry

The Proposed Acquisition is subject to the risk inherent in the fertiliser industry, in which HIB Group is already involved and will be addressed as part of the enlarged HIB Group's ordinary course of business.

Some of these risks may include, amongst others, adverse changes in the supply and demand of fertilisers, changes in economic, social and political conditions, and foreign currency exchange fluctuations as some of HFL's export sales are transacted in foreign currency. A depreciation of the RM against these currencies may affect the profit margins of HIB. Any adverse changes in these abovementioned conditions may have an adverse effect on the fertiliser industry in Malaysia and the enlarged HIB Group.

The business and industry risks relating to the fertiliser business of the Proposed Acquisition are not new to HIB. As such, risk factors associated with the Proposed Acquisition are already known to HIB and mitigating measures would have already been implemented and will continuously be implemented given HIB Group's experience in the fertiliser industry. However, there is no assurance that the global supply chain disruptions will be mitigated or that such disruptions would not have an adverse impact on the Group's operations or financials.

(b) Increase in prices of raw materials and labour costs

Considering the current circumstances with the war between Russia and Ukraine, and the shortage of migrant workers in Malaysia, the Group may face increased prices of raw materials and labour costs, given the supply chain disruption and immigration restrictions. The risks of increased raw material prices and labour costs may have a big impact on the profit margins of the fertiliser business of the enlarged HIB Group after the completion of the Proposed Acquisition. There can be no assurance that the anticipated benefits of the Proposed Acquisition will be realised or that the Group will be able to generate the desired returns to alleviate the rising costs of raw materials and labour.

(c) Risk of increased interest rates

An increase in interest rates in Malaysia will result in increased borrowing costs which will negatively impact the Company's business activities and will have a material effect on the Group's net profits. In addition, an increase in interest rates will result in increased costs incurred by the Company in obtaining additional bank borrowings for working capital and capital expenditure purposes.

(d) Increase in cost of transportation

The lockdown measures imposed by the Government to eradicate the Covid-19 pandemic in March 2020 had caused the shutdown of several fertiliser plants in Malaysia, and created logistic problems in the distribution of products within Malaysia and across borders to neighbouring countries. These measures had affected HFL Group's fertiliser manufacturing operations in 2020 as they were restricted by the containment measures and closure of commercial activities. The fertiliser industry in Malaysia was later granted clearance to continue operations as they were considered essential in maintaining food supply.

Further, the Russia-Ukraine conflict, which resulted in sanctions being imposed by western countries on Russia, had disrupted the global fertiliser trade as Russia is the largest exporter of nitrogen fertilisers and second largest supplier of both potassic and phosphorous fertilisers. This has led to a shortage in the supply of fertiliser and the rise in the prices of fertiliser across the globe, and has subsequently led to a rise in the prices of food and industrial crop, causing an increased demand for fertilisers as farmers seek to increase yield to take advantage of the higher prices of their produce. As such, HFL Group's fertiliser manufacturing business was able to benefit from the increase in the price and demand for fertiliser.

Notwithstanding the above, both the Covid-19 pandemic and the Russia-Ukraine conflict had caused a significant increase in the cost of shipping globally, which was also attributed to the increase in fuel prices and marine insurance costs. Further rising shipping costs and supply chain disruptions will have an adverse impact on the profit margins of the enlarged Group's fertiliser business.

(e) Increase in the gearing ratio of HIB

HIB Group's gearing ratio will increase from 0.77 times as at FYE 31 August 2021 to 1.64 times after consolidating the total borrowings (which includes hire purchase) of the HFL Group upon completion of the Proposed Acquisition. As such, HIB will be required to have sufficient cash flows to meet its operational costs and make debt payments. However, it is pertinent to note that the total borrowings of HFL Group (which includes hire purchase) as at FYE 31 December 2021 of approximately RM340.11 million mainly comprises bills payable that are trade in nature.

Notwithstanding the above, under the profit guarantee that the Vendor guarantees to HIB, the Guaranteed Sum to be achieved for the Guaranteed Period will eventually provide HIB the opportunity to pare down their debts in FYEs 31 December 2022 and 31 December 2023, and subsequently lower the gearing ratio of HIB.

8. CONCLUSION AND RECOMMENDATION

The non-interested shareholders of the Company should take into account all the merits and demerits of the Proposed Acquisition based on all relevant pertinent factors including those which are set out in Part A of this Circular, the relevant appendices thereof, this IAL and other publicly available information.

In our evaluation of the Proposed Acquisition and in arriving at our opinion, we have taken into consideration various factors which are summarised as follows:

(a) the rationale for the Proposed Acquisition;

(b) evaluation on the basis and justification of arriving at the Purchase Consideration;

(c) evaluation on the basis and justification of arriving at the Issue Price;

(d) salient terms of the SSA;

(e) effects of the Proposed Acquisition;

(f) prospects of the Proposed Acquisition; and

(g) risk factors in relation to the Proposed Acquisition.

After having considered all the various factors included in our evaluation for the Proposed Acquisition and based on the information made available to us, we are of the opinion that the Proposed Acquisition is **fair and reasonable** insofar as the non-interested shareholders of the Company are concerned and are not to the detriment of the non-interested shareholders of HIB.

Accordingly, we recommend the non-interested shareholders of HIB to **vote in favour** of the ordinary resolution pertaining to the Proposed Acquisition that is to be tabled at the Company's forthcoming EGM.

Yours faithfully,
For and on behalf of
MALACCA SECURITIES SDN BHD

TAN KOK TIAM	**YAP SIEW THEE**
Head	Senior Vice President
Corporate Finance	Corporate Finance

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04 August 2022

The Board of Directors
Hextar Industries Berhad
Lot 35, Jalan CJ 1/1
Kawasan Perusahaan Cheras Jaya
43200 Cheras
Selangor

Dear Sirs,

FAIRNESS OPINION ON THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HEXTAR FERTILIZERS LIMITED ("HFL") AND ITS WHOLLY-OWNED SUBSIDIARIES, HEXTAR FERTILIZERS GROUP SDN BHD, PK FERTILIZERS SDN BHD, HEXTAR FERT SDN BHD AND HEXTAR SOLUTIONS SDN BHD (COLLECTIVELY REFERRED TO AS "HFL GROUP") FOR A PURCHASE CONSIDERATION OF RM480,000,000 ("PROPOSED ACQUISITION")

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1. INTRODUCTION

Eco Asia Capital Advisory Sdn Bhd (**"Eco Asia"**) was appointed by the Board of Directors ("**Board**") of Hextar Industries Berhad (**"HIB" or the "Company"**) to provide an evaluation on the fairness of the purchase consideration of the entire equity interest of the HFL Group for RM480.0 million ("**Purchase Consideration**") to be satisfied via the issuance and allotment of new ordinary shares in HIB ("**Consideration Shares**").

On 8 August 2022, M&A Securities Sdn Bhd, on behalf of the Board announced that the Company had entered into a conditional share sale agreement (**"SSA"**) with Hextar Holdings Sdn Bhd (**"HHSB"** or **"Vendor"**) for the Proposed Acquisition.

The Vendor as the Guarantor has provided a cumulative 2 years profit guarantee to be achieved by HFL Group for the financial years ended 31 December 2022 and 31 December 2023 ("**Guaranteed Period**"). Under the terms of the profit guarantee, the Guarantor guarantees to HIB that HFL shall achieve an audited profit after tax (**"PAT"**) of not less than RM94.0 million on a cumulative basis ("**Guaranteed Sum**") for the Guaranteed Period.

In respect thereof, the Consideration Shares are proposed to be issued in the following manner:

(a) 1,286,666,667 Consideration Shares, equivalent to approximately RM386.0 million will be issued to the Vendor; and

(b) 313,333,333 Consideration Shares, equivalent to approximately RM94.0 million shall be allotted and issued and held as security by the stakeholder (**"Security Shares"**) who is instructed and authorised to deal with the Security Shares in accordance to the profit guarantee mechanism.

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In the event if HFL Group fails to achieve the Guaranteed Sum within the Guaranteed Period, the Vendor shall within 14 days from the date of adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, make good the shortfall by way of cash, and after which, the stakeholder shall release the remaining Security Shares to the Vendor.

This report ("**Report**") has been prepared for inclusion into the circular to shareholders of HIB in relation to the Proposed Acquisition ("**Circular**") and should be read in conjunction with the same.

This Report must be read in conjunction with the limitation and restrictions set out in paragraph 4 and 5 respectively and the key bases of the valuation set out in paragraph 7.1 below.

2. SOURCES OF INFORMATION

In preparation of this Report, Eco Asia has relied on the following sources of information and documents:

(i) Accountants' Report on the combined audited financial statements of HFL Group for the financial years ended 31 December 2019, 2020 and 2021 prepared by Ecovis Malaysia PLT;

(ii) Conditional SSA dated 8 August 2022 between HIB and the Vendor;

(iii) HIB's announcement dated 8 August 2022;

(iv) Other relevant information, documents, representation and explanation furnished to us by the directors and management of HFL Group and HIB (collectively referred to as the **"the Management"**); and

(v) Other publicly available information in respect of the industry that HFL Group and HIB are involved in.

3. DATE OF OPINION

The date of our opinion is 03 August 2022 (herein also referred to as the "**Date of Opinion**").

4. SCOPE AND LIMITATION TO THE EVALUATION

Eco Asia was not involved in the formulation of the Proposed Acquisition or any deliberation and negotiation on the terms and conditions of the Proposed Acquisition. Our scope is limited to expressing an opinion on the fairness of the Purchase Consideration of HFL Group to the Board based on the information and documents made available to us as mentioned in paragraph 2 above.

Our role does not extend to us expressing an opinion on the commercial merits of the Proposed Acquisition. The assessment of the commercial merits of the Proposed Acquisition is solely the responsibility of the Board, although we may draw upon their views in arriving at our opinion. Further, our terms of reference do not include us rendering an expert opinion on the legal, accounting and taxation issues relating to the Proposed Acquisition.

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We have made all reasonable enquiries and conducted our own reviews, where possible, with regards to the information provided to us. We have also relied on the Management to exercise due care to ensure that all information and documents as mentioned above and that all relevant facts, information and representations necessary for our assessment have been disclosed to us and that such information is accurate, valid and there is no omission of material facts, which would make any information provided to us incomplete, misleading or inaccurate. This includes carrying out reasonableness checking and/or corroborating documents prepared by and/or signed off by independent parties where possible.

Our procedures and inquiries do not include any verification work that constitutes an audit on the information that we have relied upon in preparing this Report. Accordingly, we issue no warranty or any other form of assurance as to the accuracy or completeness of the information provided by the Management.

We have not undertaken an independent investigation into the business of HFL Group. Based on the above and from our review of the relevant documents provided by the Management, we are satisfied that the information and documents provided to us by the Management are sufficient and we have no reason to believe that any such information provided to us are untrue, inaccurate or misleading or the disclosure of which might reasonably affect our assessment as set out in this Report. We have also assumed that the Proposed Acquisition will be implemented based on the terms set out in the SSA without any material waiver or modifications.

As part of the SSA, the Vendor as the Guarantor has provided a Guaranteed Sum to be achieved for HFL Group within the Guaranteed Period. Eco Asia, in no way, guarantees or otherwise warrants the achievability of the Guaranteed Sum.

The Directors of HIB have individually and collectively, accept full responsibility to all material facts, financial and other information contained in this Report, and for the accuracy of the information in respect of the Proposed Acquisition (save for those in relation to our evaluation and opinion) as prepared herein and confirmed that after making all reasonable enquires and to the best of their knowledge and belief, there are no other facts omitted which would make any statement herein incomplete, false and/or misleading.

It should be noted that the evaluation in itself is highly dependent on, amongst others, the achievability of the Guaranteed Sum as the prevailing economic, market and other conditions may change significantly over a relatively short period of time. It should also be highlighted that the evaluation may be materially or adversely affected should the actual results or events differ from any of the bases and assumptions upon which the valuation was based. As such, the adoption of such bases and assumptions does not imply that we warrant their validity or achievability.

No representation or warranty, whether expressed or implied, is given by Eco Asia that the information and documents provided will remain unaltered subsequent to the issuance of this Report.

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5. RESTRICTIONS

This Report is prepared strictly and solely for the inclusion in the Circular and is not intended for general circulation in whole or in part. Accordingly, we shall not be responsible or liable for any losses or damages as a result of reliance by any party contrary to the provision set out in this Report or our Engagement Letter.

Save for the purpose stated herein, this Report cannot be relied upon by any party other than HIB and its shareholders. Accordingly, we are not responsible or liable for any form of losses however occasioned to any third party as a result of the circulation, publication, reproduction or used of, or reliance on this Report, in whole or in part.

Neither Eco Asia nor any of its partners, principals, directors, shareholders, agents or employees undertake responsibility arising in any way whatsoever to any person other than HIB in respect of this Report, including any error or omission therein, however caused. We are under no obligation to update our Report in respect of any events or information that come to our attention subsequent to the Opinion Date.

6. BACKGROUND INFORMATION ON HFL GROUP

Hextar Fertilizers Limited was incorporated on 27 January 2014 under the BVI Business Companies Act as a private limited company. The company is domiciled in the British Virgin Islands.

HFL Group is principally involved in manufacturing, formulation, distribution and trading of a wide range of fertilizers. The principal activities of the companies within HFL Group are as follows:

Company	Country of incorporation	Principal activities
Hextar Fertilizer Limited	British Virgin Islands	Investment holding
Hextar Fertilizer Group Sdn. Bhd.	Malaysia	Investment holding
PK Fertilizers Sdn. Bhd.	Malaysia	Manufacturing, formulation, distribution and trading of a wide range of fertilizers
Hextar Fert Sdn. Bhd.	Malaysia	Manufacturing, formulation, distribution and trading of a wide range of fertilizers
Hextar Solutions Sdn. Bhd.	Malaysia	Manufacturing, formulation, distribution and trading of a wide range of fertilizers

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7. VALUATION

7.1 Basis of Valuation

The basis of our valuation is the fair market value which is defined as the arms' length price at which such assets would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, in an open and unrestricted market and both having reasonable knowledge of relevant facts. The concept of market value means the cash equivalent price of an asset being valued assuming the transaction took place under conditions existing at the date of valuation of the assets. The amount would not be considered as market value if it was influenced by special motivation or characteristic of a typical buyer or seller.

In addition, the range of values that we have estimated is based on a going concern use and not, for example, on the break-up value of the business.

7.2 Method of Valuation

We took into consideration the nature of asset and the business of HFL Group in determining the most appropriate methods of valuation amongst the following commonly used valuation methodologies in equity valuation: -

Valuation Methodologies	Discussion
Net Asset Valuation ("**NAV**") / Revalued Net Asset Valuation ("**RNAV**") • The starting point and yet the simplest method will be the balance sheet which is based on the historical document showing the assets and liabilities of the business at a point in time. • A revalued approach can be undertaken to account for the market value of tangible assets such as property, plant and equipment, inventories and etc., as well as intangible assets such as goodwill and brands.	NAV/ RNAV valuation method may not accurately reflect the potential of HFL Group as the value of HFL Group is more likely to be derived from its future business operations instead of its assets.
Relative Valuation Approach ("**RVA**") (i) Price-to-Earnings ("**PE**") Multiple • This is the most commonly used valuation method for either listed or unlisted companies. • PE multiples is an earnings-based valuation which measures the market capitalization of a company to its net profits. • PE multiples reflects the market's view of the likely future growth in earnings and the quality of those earnings.	We have adopted the PE multiple as our primary metric due to the following: - • The purchase consideration is based on the Guaranteed Sum which is provided in the form of PAT; • The PE multiple is a common and acceptable valuation metric which estimates a company's market value based on its PAT relative to its peers;

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(ii) <u>Enterprise Value ("**EV**") over Earnings Before Interest, Tax, Depreciation and Amortization ("**EBITDA**") ("**EV/EBITDA**")</u> • EV/EBITDA multiple illustrates the ratio of the EV of a company (which is the sum of the company's market value and total debts less cash and cash equivalent balances) relative to a company's EBITDA. • It indicates the price which investors are willing to pay to invest in a company compared to its EBITDA.	• The PE multiple is more likely to reflect the current sentiment of the market. We have also adopted the EV/EBITDA multiple as our secondary metric due to the following: - • EV/EBITDA multiple is also commonly used in valuations as it is not affected by the differences in capital structures, borrowing costs and taxation as well as different depreciation and amortization policies.
<u>Discounted Free Cash Flow to Equity ("**FCFE**")</u> • FCFE measures the value of the free cash flows which are generated by a company over time which are available to equity shareholders. • In order to value shares using free cash flows, the future free cash flows must be discounted over time using the cost of capital. • The present value of the cash flows, after deducting amounts owing to lenders, will represent that portion of the free cash flows which accrue to the equity shareholders.	FCFE valuation method was not adopted as this is more appropriate for companies with a set of projected cash inflow and outflow that can be estimated with a high level of certainty. At this point, it is difficult to project the future cashflow of HFL Group due to the following reasons: • Sales are based on spot terms and there is no long-term contract with its customers; • Uncertainty in the industry as there was a recent surge in selling prices and demand for fertilizers which might be influenced by strong demand as well as supply disruptions.

For the purpose of this valuation, we have adopted the RVA, where the PE multiple was used as the primary metric while the EV/EBITDA multiple was used as the secondary metric to evaluate the fairness of the Purchase Consideration. Based on the RVA, the indicative valuation of HFL Group is determined based on the valuation metrics of selected comparable companies which are broadly comparable to HFL Group.

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7.3 Valuation Results

We have selected the comparable companies based on the following criteria:

(i) Principally operating in the manufacturing and distribution of fertilizers with at least 80% of the total revenue being derived from the sale of fertilizers;

(ii) Due to the dearth of comparable companies listed on Bursa Securities, we have selected comparable companies which are listed within the Asia Pacific region; and

(iii) Comparable to HFL Group in terms of total revenue for the financial year ended 31 December 2021 amounting to RM611.39 million, ranging within 50% above and below HFL Group's revenue.

It should be noted that the selection of the comparable companies and the adjustments made are highly subjective and judgmental and that the selection of the comparable companies may not be entirely comparable to HFL Group due to various factors such as geographical factors, product market segment, client base and technical know-how.

Based on the selection criteria above, we have identified the following comparable companies (**"Comparable Companies"**).

Comparable Companies	Country	Principal Activities	(1) Market Capitalization	(2) Revenue
Madras Fertilizers Ltd ("**Madras**")	India	Madras is engaged in the manufacturing and trading of complex fertilizers, biofertilizers, ammonia and urea.	INR7.30 billion (RM413.15 million)	INR15.33 billion (RM867.76 million)
Khaitan Chemicals & Fertilizers Ltd ("**KCF**")	India	KCF is engagement in the manufacturing of super phosphate fertilizer and sulphuric acid.	INR7.91 billion (RM447.83 million)	INR8.23 billion (RM465.82 million)
PT Saraswanti Anugerah Makmur Tbk ("**SAM**")	Indonesia	SAM is mainly engaged in the manufacturing of NPK fertilizers which have at least two primary micronutrients. SAM is also engaged in the trading of other fertilizers and agrochemical products.	IDR2.45 trillion (RM732.48 million)	IDR2.40 trillion (RM716.14 million

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7.3 Valuation Results (cont'd)

Comparable Companies	Country	Principal Activities	(1) Market Capitalization	(2) Revenue
PM Thoresen Asia Holdings PCL ("**PMTAH**")	Thailand	PMTAH is mainly engaged in the manufacturing of fertilizers and crop care products.	THB1.08 billion (RM 133.36 million)	THB4.14 billion (RM509.84 million)
Lam Thao Fertilizers & Chemicals JSC ("**LTFC**")	Vietnam	LTFC is mainly engaged in the manufacturing of mineral organic fertilizers, compound fertilizers, super phosphate fertilizer, high nutrient content fertilizers and microbiological super phosphate fertilizers.	VND1.51 trillion (RM288.96 million)	VND2.80 trillion (RM535.00 million)

Note A:

(1) Extracted from Bloomberg based on the closing share prices as at the Date of Opinion. Converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(2) Extracted from Bloomberg as at the Date of Opinion based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022. Converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

7.3.1 PE Multiple

The PE multiple of Comparable Companies are as follows:

Comparable Companies	(1) No. of shares (Units' million)	(2) Average Market Price (RM)	(3) Market Capitalisation (RM' million)	(4) Profit After Tax (RM million)	P/E Multiple (Times)
Madras	161.10	2.09	336.70	1.62	(5) 207.84
SAM	5,125.00	0.22	1,127.50	69.19	16.30
PMTAH	101.20	1.52	153.82	14.75	10.43
KCF	97.00	5.02	486.94	45.00	10.82
LTFC	112.90	3.49	394.02	12.80	30.78
				(6) Median	**13.56**

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7.3.1 PE Multiple (cont'd)

Note B:

(1) Extracted from Bloomberg as at the Date of Opinion.

(2) We took into consideration the volatility in the historical market prices of the Comparable Companies as a result of global uncertainties arising from the Ukraine-Russia conflict and the global supply chain disruptions from the COVID-19 pandemic and the Ukraine-Russia conflict. Russia ranks as the world's top exporter of nitrogen fertilizers, the second leading supplier of potassium fertilizers and the third largest exporter of phosphorous fertilizers (*Source: Food and Agriculture Organization of the United Nations*). The fluctuation in the share price of the Comparable Companies for the past six months up to the Date of Opinion are as follows:

Comparable Companies	Low	High	Variance (%)
Madras	INR 28.10	INR 57.85	105.87
SAM	IDR 420.00	IDR 773.00	84.05
PMTAH	THB 10.50	THB 16.50	57.14
KCF	INR 81.55	INR 150.79	84.90
LTFC	VND 11,700	VND 24,700	111.11

Hence, we have adopted an average market price computed based on a simple average of the daily closing market prices for the past 1 year up to the Date of Opinion as a better representation in deriving the market capitalization of the Comparable Companies. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(3) Computed based on the average daily closing market prices for the past 1 year up to the Date of Opinion and number of outstanding shares as at the Date of Opinion as extracted from Bloomberg.

(4) Extracted from Bloomberg as at the Date of Opinion based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(5) Deemed as an outlier and has been excluded due to extreme deviation from the average.

(6) Median is selected as a more informative measure of central tendency for distribution which contains outliers.

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7.3.1 PE Multiple (cont'd)

Based on the median PE multiple of the Comparative Companies and the average Guaranteed Sum per year of RM47.0 million, the indicative value of HFL Group is as follows:

	Amount (RM'000)
Average Guaranteed Sum per annum	47,000
Median PE multiple of the Comparable Companies (times)	13.56
(-) Illiquidity discount (20%) [(1)]	(2.71)
(x) Adjusted PE multiple	10.85
Valuation of 100% equity interest in HFL Group	**509,950**

Note C:

(1) Based on "Investment Valuation: Tools and Techniques for Determining the Value of Any Assets" by Aswath Damodaran, a factor which may have an impact on the valuation is the liquidity of the asset i.e., the extent in which the asset can be freely bought or sold. Generally, shares of non-listed companies are not freely tradeable as compared to public listed companies. Illiquidity discount typically ranges from 20% - 30%. In the case of HFL Group, we adopted an illiquidity discount of 20% after taking into consideration that the revenue of the Comparable Companies approximates that of HFL Group for the financial year ended 31 December 2021.

7.3.2 EV/EBITDA Multiple

As a secondary method of valuation, we have conducted an analysis of the EV/EBITDA multiple of the Comparable Companies as follows:

Comparable Companies	[(1)] Market Capitalisation (RM' million)	[(2)] Enterprise Value (RM' million)	[(3)] EBITDA (RM' million)	EV/EBITDA multiple (times)
Madras	336.70	1,072.40	62.72	17.10
SAM	1,127.50	1,232.88	112.66	10.94
PMTAH	153.82	159.62	20.04	7.96
KCF	486.94	533.69	69.79	7.65
LTFC	394.02	494.03	28.79	17.16
			[(4)] Median	**10.94**

Note D:

(1) As explained in Note B above.

(2) Computed based on the market capitalization adjusted for total borrowings, cash and cash equivalent and minority interest as extracted from Bloomberg based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

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7.3.2 EV/EBITDA Multiple (cont'd)

(3) Computed based on the latest available trailing 12 months financial results as at 31 December 2021 or 31 March 2022 extracted from Bloomberg. This is then converted to RM based on the exchange rates quoted from Bank Negara Malaysia website as at the Date of Opinion.

(4) Median is selected as a more informative measure of central tendency for distribution which contains outliers.

Based on the median EV/EBITDA multiple of the Comparative Companies and the average Guaranteed Sum per year of RM47.0 million, the indicative value of HFL Group is as follows:

	Amount (RM'000)
Average Guaranteed Sum per annum	47,000
(+) Taxation @ 24% (1)	14,842
(+) Finance cost (2)	11,526
(+) Amortization and Depreciation (2)	9,614
EBITDA of HFL Group (a)	82,982
Median EV/EBITDA ratio of Comparable Companies (times)	10.94
(-) Illiquidity discount (20%) (3)	(2.19)
Adjusted EV/EBITDA ratio (times) (b)	8.75
Indicative EV of HFL Group (c) = (a) x (b)	726,093
(-) Total debt (2)	(340,108)
(+) Total cash and cash equivalents (2)	28,871
Valuation of 100% equity interest in HFL Group	**414,856**

Note E:

(1) Based on corporation tax rate of 24%. The estimated tax was derived by dividing the average Guaranteed Sum amount (which is based on PAT) by 76% (i.e.: 1 – corporate tax rate), and thereafter, deducting the average Guaranteed Sum amount.

(2) Extracted from the Accountants' Report on the combined audited financial statements of HFL Group for the financial year ended 31 December 2021.

(3) As explained in Note C above.

ECO ASIA

8. CONCLUSION

Based on the selected methods of valuation, we are of the opinion that the Purchase Consideration of HFL Group is fair as it falls within the valuation range of **RM414.86 million and RM509.95 million** as at the Date of Opinion. These values are limited by the approaches as outlined in paragraph 7.2 above and any reference to the values will have to be read in context of the approaches used in the valuation as well as the basis of the valuation as detailed in paragraph 7.1.

It should be recognised that the valuation of any entity is always subject to a great deal of uncertainty and involves a high degree of subjectivity and element of judgment. Because of the susceptibility of valuation inputs of the model applied, valuations can change quite quickly in response to market changes or changes in the surrounding circumstances, including the market outlook. These values represent the range that a well-informed general investor may pay. The final price of HFL Group will reflect the specific circumstances of the buyer and seller, their perceptions of business and market factors as the point of execution.

Yours faithfully,
For and behalf of
Eco Asia Capital Advisory Sdn Bhd

Kelvin Khoo
Managing Director

1. PURCHASE CONSIDERATION

1.1 **<u>Purchase Consideration</u>**: The Vendor agrees to sell and the Purchaser agrees to purchase the Sale Shares at the Purchase Consideration free from all claims, charges, liens, encumbrances and equities whatsoever, together with all rights attached thereto, and all liabilities, dividends, rights and distributions, declared paid or made in respect thereof the entitlement date of which is on or subsequent to the completion date of the sale and purchase of the Sale Shares.

2. UNDERSTANDING OF THE PARTIES

2.1 **<u>Profit Guarantee</u>**: The Vendor hereby unconditionally and irrevocably guarantees that the HFL Group shall attain a minimum aggregated audited PAT of Ringgit Malaysia Ninety Four Million (RM94,000,000.00) ("**Guaranteed Sum**") cumulatively for the FYE 31 December 2022 and FYE 31 December 2023 ("**Guaranteed Period**").

2.2 **<u>Satisfaction of Profit Guarantee:</u>** In the event that the HFL Group attains or exceeds the Guaranteed Sum, as evidenced by the audited financial statements for the Guaranteed Period, the Vendor shall be entitled to the full Purchase Consideration.

2.3 **<u>Shortfall in Profit Guarantee:</u>** In the event that the HFL Group fails to attain the Guaranteed Sum, the Vendor shall make good any shortfall (being the difference between the cumulative audited PAT (or cumulative audited LAT, where relevant) for the Guaranteed Period and the Guaranteed Sum) in accordance with clause 3.3 herein and then be entitled to the full amount of the Purchase Consideration.

3. SATISFACTION OF THE PURCHASE CONSIDERATION

3.1. **<u>Mode of Satisfaction</u>**: The Purchase Consideration for the Sale Shares shall be satisfied by way of allotment and issuance of the Consideration Shares in one single tranche* according to the following manner, within the completion period (being 60 days after the Unconditional Date (as defined in clause 4.1 herein)):

(a) **Completion Shares**: One Billion Two Hundred Eighty Six Million Six Hundred Sixty Six Thousand and Six Hundred Sixty Seven (1,286,666,667) Consideration Shares equivalent to approximately Ringgit Malaysia Three Hundred Eighty Six Million (RM386,000,000.00) shall be allotted and issued to the Vendor's CDS account (or such other CDS account the Vendor may direct in writing); and

(b) **Security Shares**: Three Hundred Thirteen Million Three Hundred Thirty Three Thousand and Three Hundred Thirty Three (313,333,333) Consideration Shares, equivalent to approximately Ringgit Malaysia Ninety Four Million (RM94,000,000) shall be allotted, issued and held as security by the Stakeholder who is hereby instructed and authorised to deal with the same in accordance with clause 3.2 and 3.3 herein.

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* The Consideration Shares will be issued simultaneous with the OFS Shares, after the close of the Offer.

3.2. **Quarterly Share Payment**: For each unaudited financial quarter of the HFL Group throughout the Guaranteed Period, subject to the Purchaser's review of such unaudited quarterly financial result within 14 days from its release, the Vendor shall upon the Purchaser's approval of the unaudited quarterly financial result be entitled to receive such amount of the Security Shares proportional to the PAT achieved for each financial quarter of the HFL Group, calculated based on the following formula ("**Quarterly Share Payment**"):

FORMULA
"A" / "B" × "C" whereby, A = PAT achieved B = Guaranteed Sum C = 313,333,333 Security Shares

Provided always that:

(i) the Quarterly Share Payment payable for the 4th quarter of each financial year shall be made by the Purchaser within 14 days upon release of the HFL Group's audited financial statements for the corresponding financial year, notwithstanding the release of the HFL Group's unaudited quarter financial result; and

(ii) the total Quarterly Share Payment payable shall be limited to a maximum amount of Ringgit Malaysia Ninety Four Million (RM94,000,000.00) worth of HIB Shares.

Note: There will not be any Quarterly Share Payment in the event of a LAT.

3.3 **Adjustment of Consideration Shares**: For the payment made under clause 3.2 herein, the parties hereby agree to the following:

(a) At the end of the FYE 31 December 2022:

(i) In the event of a shortfall where the value of the Security Shares released in the FYE 31 December 2022 exceeds the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022, the overpayment of the Security Shares released in the cumulative first 3 quarters of the FYE 31 December 2022 shall be offset against the remaining Security Shares releasable in the 4th financial quarter and the subsequent financial quarters;

(ii) In the event of a surplus where the Vendor's entitlement based on the HFL Group's audited PAT for the FYE 31 December 2022 exceeds the value of the Security Shares released during the FYE 31 December 2022, the Stakeholder shall release such number of Security Shares proportional to the said surplus.

(iii) In the event the HFL Group records an audited LAT for the FYE 31 December 2022, the shortfall (being the difference between the value of the Security Shares released and the audited LAT for the FYE 31 December 2022) shall be offset against the remaining Security Shares releasable for the subsequent financial quarters.

(b) At the end of the FYE 31 December 2023:

(i) In the event the HFL Group achieves or exceeds the Guaranteed Sum, the Stakeholder shall be instructed to release any remaining Security Shares to the Vendor.

(ii) In the event the cumulative audited PAT for the Guaranteed Period is less than the Guaranteed Sum, the Vendor shall within 14 days from the date of adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, make good the shortfall by cash payment and the Stakeholder shall release the remaining Security Shares to the Vendor, provided always that the maximum shortfall payable by the Vendor shall be the Guaranteed Sum[(1)].

(iii) In the event the HFL Group registers a cumulative audited LAT:

(A) the Vendor shall make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT) by cash payment within 14 days from the date of adoption of the HFL Group's audited financial statement for the FYE 31 December 2023 and the Stakeholder shall release the remaining Security Shares to the Vendor; and

(B) provided always the maximum sum payable by the Vendor shall be the Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period[(2)].

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(1) In the event the Vendor fails to make good the shortfall (being the difference between the cumulative audited PAT of the HFL Group for the Guaranteed Period and the Guaranteed Sum) in cash, the Stakeholder shall act in accordance to the Purchaser's instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker's board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

(2) In the event the Vendor fails to make good the shortfall (being the difference between the Guaranteed Sum and the cumulative audited LAT of the HFL Group for the Guaranteed Period i.e. Guaranteed Sum plus any audited LAT incurred on an aggregate basis for the Guaranteed Period) in cash, the Stakeholder shall act in accordance with the Purchaser's instruction including but not limited to sell, transfer or dispose of the remaining Security Shares and either by dealings at any broker's board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. In the event the sale proceeds by the Stakeholder to the Purchaser from the dealing in the remaining Security Shares is insufficient to cover the shortfall, the Purchaser may claim for specific performance against the Vendor.

4. CONDITIONS PRECEDENT

4.1 **Conditions Precedent:** The SSA shall be conditional upon the following being obtained, procured and/or fulfilled within the conditional period (being 90 days from the date of the SSA or such further period as the parties may mutually agree):

(a) satisfactory legal, financial and/or business due diligence findings on the HFL Group by the Purchaser;

(b) approval of Bursa Securities for the listing of and quotation for the Consideration Shares;

(c) approval of the shareholders of the Purchaser in relation to the acquisition contemplated in the SSA;

(d) receipt by the Purchaser of an opinion from an expert of competent jurisdiction in relation to the enforceability of the SSA, policies on foreign investments, taxation and repatriation of profits of HFL and the compliance with all relevant laws;

(e) approval of the directors and members of the Vendor in relation to the disposal of the Sale Shares; and

(f) such other waivers, consents or approvals as may be required (or deemed necessary) by the parties from any third party or governmental, regulatory body or competent authority having jurisdiction over any part of the transaction contemplated under the SSA to the effect that if such waivers, consents, approvals are not obtained, the sale and purchase of the Sale Shares will be rendered null and void by law.

4.2 **Waiver:** Although it is intended that the transaction set out in the SSA shall only be implemented upon all the Conditions Precedent as set out in clause 4.1 herein being satisfied, the parties may with mutual consent of each other and to the extent permissible by law, proceed with completion in accordance with clause 5 herein.

5. COMPLETION

5.1 **Conditions for Completion:** If:

(a) no event of default has occurred or would occur as a result of the completion of the SSA;

(b) the Conditions Precedent as set out in clause 4.1 herein have been procured, obtained, fulfilled and/or waived;

(c) there has been no material adverse change in the financial condition or operation of the HFL Group since the date of the SSA, including but not limited to the maintenance of management continuity by the Vendor in the HFL Group;

(d) all sums owing by the Vendor, the director or affiliated companies (if any) to the HFL Group have been fully repaid and/or recovered;

(e) each of the representations and warranties set out in clause 6 in the SSA remains accurate at the completion date of the sale and purchase of the Sale Shares as if given on that date by reference to the facts and circumstances then existing;

(f) the Vendor has not breached any undertakings, representations, warranties and covenants under the SSA; and

(g) no Governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order, whether temporary, preliminary or permanent, which is in effect and which has or would have the effect of making the transaction contemplated by the SSA, illegal or restraining or prohibiting consummation of such transaction.

Then, subject to the provisions of the SSA and in particular subject to clause 4.2 in the SSA (in relation to Transfer Documents), the parties shall, on the completion date, complete the sale of the Sale Shares under the SSA.

6. TERMINATION

6.1 **Termination Event:** On the occurrence of any of the following defaulting events hereunder and provided that the event of default occurs before the completion date of the sale and purchase of the Sale Shares, the other non-defaulting party may (but is not obliged to) give notice in writing to the defaulting party, which shall mean the Purchaser or the Vendor, and shall include the HFL Group's conduct below. In the event that such conduct of default relates to the HFL Group, then it shall be deemed to be the Vendor's default enabling the non-defaulting party to send notice to the defaulting party for termination specifying the default or breach of the defaulting party and requiring the defaulting party to remedy the said default or breach within 14 business days or such extended period as may be allowed by the non-defaulting party, of the receipt of such notice:

(a) **Breach**: breach of any material or fundamental terms or conditions of the SSA or a failure to perform or observe any material or fundamental undertakings, obligations or agreements expressed or implied in the SSA including the breach of any material warranties; or

(b) **Receiver**: a receiver, receiver and manager, trustee or similar official is appointed over any of the assets or undertakings of the defaulting party; or

(c) **Arrangements**: save and except as stated in the SSA, pursuant to the acquisition and disposal of the Sale Shares, the defaulting party enters into or resolves to enter into any arrangements, compositions or compromises with, or assignment for the benefit of, the defaulting party's creditors or any classes of them; or

(d) **Winding-Up**: an application, petition or order is made for the winding-up or dissolution of the defaulting party, or a resolution is passed or any steps taken to pass a resolution for the winding-up or dissolution of the defaulting party, otherwise than for the purpose of an amalgamation or reconstruction which has prior written consent of the non-defaulting party; or

(e) **Cessation of Business**: the defaulting party ceases or threatens to cease carrying on a substantial portion of the defaulting party's business other than in compliance with the defaulting party's obligations under the SSA; or

(f) **Events of Default**: the defaulting party commits any act or omits to do an act which results in the breach or non-fulfilment of any terms or conditions of any banking, finance or credit facility which has the effect of causing the events specified in sub-clauses (b), (c), (d) and (e) to occur; or

(g) **Misrepresentation**: any representations, warranties or statements which is made (or acknowledged to have been made) by the parties in the SSA or which is contained in any certificates, statements, legal opinions, notices, replies made in the course of the due diligence review or information furnished in the due diligence review or provided under or in connection herewith or therewith proves to be incorrect in any material respect.

6.2 **Termination**: If the defaulting party fails to remedy the relevant default or breach within the said 14 business days or such extended period as may be allowed by the non-defaulting party after being given notice by the non-defaulting party, to rectify such breach, the non-defaulting party may elect to terminate the SSA and claim damages or pursue its action as set out in clause 6.2 and/or 6.3 herein.

(a) **Purchaser's default**:

In the event of termination due to the default or breach of the Purchaser pursuant to clause 6.2 herein, the Vendor shall be entitled to give the Purchaser a notice of termination to terminate the SSA and shall thereupon refund to the Purchaser in cash the amount equivalent to all sum or sums paid by the Purchaser, if any, towards the Purchase Consideration, free of interest. Upon such refund being made, the SSA shall come to an end and become null and void and be of no further effect and neither party shall have any claim whatsoever against the other under or in respect of the SSA (save for the return of any documents belonging to the Vendor) and the Vendor shall have the right to resell the Sale Shares to such person in such manner at such price and on such terms as the Vendor may think fit and the Purchaser shall have no right to any part of the purchase money thereby arising.

(b) **Vendor's default**:

In the event of termination due to the default or breach of the Vendor pursuant to this clause 6.2 herein, the Purchaser shall be entitled to give the Vendor a notice of termination to terminate the SSA, and the Vendor shall within 14 business days from the date of receipt of the notice of termination from the Purchaser, refund to the Purchaser in cash the amount equivalent to the Purchase Consideration and/or all sum or sums paid by the Purchaser towards the Purchase Consideration, if any, free of interest, without prejudice to the rights of the Purchaser against the Vendor for damages in respect of such breach and/or default and thereafter the SSA shall come to an end and become null and void and be of no further effect and neither party shall have any claim whatsoever against the other under or in respect of the SSA (save for the return of any documents belonging to the Vendor).

6.3 **Specific Performance:** The Purchaser shall be entitled to claim specific performance of the SSA against the other party and for this purpose, the parties hereby agree that an alternative remedy of monetary compensation shall not be regarded as sufficient compensation for such other party's default in the performance of the terms and conditions of the SSA.

1. APPOINTMENT OF ESCROW AGENT

1.1 **Appointment:** The Vendor and the Purchaser jointly appoint Messrs Teh & Lee, a firm of advocates and solicitors as Stakeholder to hold the Escrowed Shares, and the Escrow Agent accepts the appointment subject always to the rules and rulings by the Malaysian Bar pertaining to the practice, conduct and etiquette of an advocate and solicitor as Stakeholder.

1.2 **Commencement:** The Escrow Agreement shall come into force on the date of its execution ("**Commencement Date**") and shall continue until and unless it is terminated in accordance with clause 8 below.

2. ESCROW ACCOUNT AND ESCROWED SHARES

2.1 **Escrow Account:** Within 3 months from the date of the Escrow Agreement, the Escrow Agent shall cause to open a nominee securities account with a licensed financier registered under the Financial Services Act 2013 ("**Escrow Account**"). The Purchaser and the Vendor agree that the Escrow Agent shall hold the Escrowed Shares in the Escrow Account as Stakeholder and shall deal with in such manner stated in the Escrow Agreement. Any transaction of the Escrow Account shall be approved by at least 1 partner of the Escrow Agent whom shall be named as the signatory of the Escrow Account.

2.2 **Escrowed Shares:** Upon opening of the Escrow Account and subject to the satisfaction of the terms and conditions under the SSA, the Purchaser shall issue and deposit the Escrowed Shares into the Escrow Account. Thereafter, the Escrow Agent shall deal with the Escrowed Shares strictly in accordance with the terms and conditions of the SSA and the Escrow Agreement.

2.3 **Dividends:** Until and unless the Escrowed Shares are transferred to the Escrow Account, the parties irrevocably agree that-

(i) all cash dividends and distributions payable in respect of the Escrowed Shares in the Escrow Account;

(ii) all other or additional securities (other than cash) paid or distributed by way of dividend, distribution or otherwise in respect of the Escrowed Shares in the Escrow Account;

(iii) all other or additional securities payable or distributable in respect of the Escrowed Shares in the Escrow Account by way of merger, consolidation, conveyance of assets, liquidation, exchange of stock, stock-split, spin-off, split-up, reclassification, combination of shares or similar re-arrangement; and

(iv) all other property payable or distributable by way of dividend or distribution in respect of the Escrowed Shares in the Escrow Account,

(collectively, the "**Accrued Benefits**") shall be held by the Escrow Agent as Stakeholder.

Upon fulfilment of the terms and conditions provided in the SSA, the Vendor shall be entitled to receive such quantum of Accrued Benefits proportional to the Escrowed Shares transferred by the Escrow Agent to the Vendor under the Escrow Agreement.

2.4 **Voting Rights:** The Escrow Agent shall abstain from exercising all voting and other consensual rights pertaining to the Escrowed Shares in the Escrow Account.

3. FUNCTIONS AND OBLIGATIONS OF THE ESCROW AGENT

3.1 **Roles of the Escrow Agent:** Throughout the Escrow Agent's appointment as a Stakeholder and subject always to the Purchaser's settlement of any transaction cost, fee and charges levied by the relevant bank for such transfer (if any and such other fees or expenses due to the Escrow Agent), the Escrow Agent shall:

(i) hold or procure to be held to the Escrowed Shares in the Escrow Account;

(ii) on receipt from the Purchaser of a written confirmation as to a dividend declared on the Escrowed Shares or a statement that any dividend is to be paid on the Escrowed Shares, together with a statement of the total amount payable by way of dividend and the date of payment, cause such dividend to be deposited in the Escrow Agent's bank account to be held as Stakeholder whereupon the fulfilment of the terms and conditions provided in the SSA, the Vendor shall be entitled to receive such quantum of dividend proportional to the Escrowed Shares to be transferred by the Escrow Agent to the Vendor under the Escrow Agreement;

(iii) keep or cause to be kept such records and statements as may be necessary to give a complete record of all assets and documents as referred to in the Escrow Agreement and transactions carried out by it on behalf of the parties;

(iv) may in performing its duties and discretions with written instructions of the Purchaser or the Vendor (which shall not be unreasonably withheld), as the case may be, appoint sub-custodians, nominees, agents or other delegates permitted by law to perform in whole or in part its duties or discretions (including in such appointment powers of sub-delegation) and on the basis that assets held on its own account or for the account of third parties are separately identifiable;

(v) within 14 days upon receipt of written instructions from the Purchaser (and countersigned by the Vendor), that such number of Escrowed Shares forming part of the Purchase Consideration as contemplated under the SSA being payable to the Vendor upon fulfilment of the terms and conditions in the SSA, transfer or cause to be transferred such number of the Escrowed Shares and Accrued Benefits to the Vendor's designated CDS account and/or bank account (if applicable); and

(vi) subject always to the release of the Vendor's entitlement strictly in accordance with the terms and conditions of the SSA, the Escrow Agent shall deal with any remaining Escrowed Shares in the Escrow Account together with the Accrued Benefits thereof (collectively, the "**Undistributed Shares**") in accordance with the Purchaser's instruction including but not limited to sell, transfer or dispose of the Undistributed Shares and either by dealings at any broker's board or by public or private sale or in such manner as the Purchaser may deem fit without prior notice to the Vendor. For the avoidance of doubt, the Vendor shall not be entitled to the Undistributed Shares.

4. STAKEHOLDER'S FEES

(a) In consideration of the Escrow Agent acting as Stakeholder, the Escrow Agent shall be entitled to be paid as follows:

(i) RM1,300.00 per month, excluding sale and services tax, from the Commencement Date ("**Stakeholder's Fee**");

(ii) 2% of any sale proceeds of the Escrow Shares; and

(iii) reimbursement of all costs, fees and expenses reasonably incurred by the Escrow Agent including administrative charges in connection with it acting as a Stakeholder including without limitation to transaction and delivery costs and bank charges which may be incurred by the Escrow Agent.

(b) The Purchaser shall be responsible for the payment of the Stakeholder's Fees, together with the service tax payable thereon, and reimbursement of any fees or expenses due to the Escrow Agent. The Stakeholder's Fee shall be paid to the Escrow Agent monthly in advance against production by the Escrow Agent of invoices issued.

5. DISPUTE RESOLUTION

(a) In the event of any ambiguity in or inconsistency between any of the obligations of the Escrow Agent or any instructions received by the Escrow Agent under the Escrow Agreement, the Escrow Agent may at its absolute discretion apply to a court of competent jurisdiction for directions by that court as to the manner in which the Escrow Agent's obligations under the Escrow Agreement may be discharged. The Escrow Agent shall act in accordance with these Court directions.

(b) All reasonable costs and expenses incurred by the Escrow Agent in relation to or in connection with this clause, including the costs of engaging legal counsel and the costs of procuring legal advice shall be borne by the Purchaser and/or the Vendor in such quantum and proportion as may be decided by the Court, failing which the Purchaser agrees to reimburse the Escrow Agent and its officers, agents and employees for all such costs and expenses incurred.

(c) The Escrow Agent shall be entitled to hold the Escrowed Shares pending directions from the Court and the settlement of all reasonable costs and expenses that may be incurred by the Escrow Agent in connection with this clause 5 and prior to dealing with the Escrowed Shares in accordance with any directions from the Court.

(d) The Escrow Agent may rely on a copy of the relevant order duly sealed or certified by an officer of that Court.

(e) The provisions of the Escrow Agreement shall not limit the rights and remedies of any party against any other party in respect of any breach of any term contained in any other agreement between the parties.

6. LIABILITY AND INDEMNITY

(a) The Escrow Agent undertakes to perform only such duties expressly set forth in the Escrow Agreement and no duties shall be implied. It is further agreed that the Escrow Agent:

(i) shall have no liability under and no duty to inquire as to the provisions of any agreement other than the SSA and the Escrow Agreement;

(ii) may rely upon and shall not be liable for acting or refraining from acting upon any written notice, instruction or request furnished to it and believed by it to be genuine and to have signed or presented by the authorised representatives of the Vendor or the Purchaser;

(iii) shall be under no duty to inquire into or investigate the authenticity, correctness, validity, accuracy or content of any such document nor that the circumstances giving rise or entitling the Vendor and/or the Purchaser to issue such documents are in existence;

(iv) shall have no duty to solicit any payments which may be due to it or the Escrowed Shares; and

(vi) shall not be liable for any action taken or omitted by it in good faith.

(b) In the event the Escrow Agent carries out the instruction given by the Purchaser or the Vendor in accordance with the Escrow Agreement, the instructing party shall indemnify, defend and save harmless the Escrow Agent and its officers, agents and employees from:

(i) all loss, liability, cost, damage or expense which the Escrow Agent may sustain or incur in any way, either directly or indirectly, arising out of or in connection with:

(aa) the Escrow Agent's execution and performance of the Escrow Agreement (including but without limitation to any costs associated with seeking directions from a court of competent jurisdiction), except in the case of any indemnities to the extent that such loss, liability, cost, damage or expense is due to the negligence or willful misconduct of the Escrow Agent; or

(bb) the Escrow Agent's following any instruction or other directions from the Vendor and/or the Purchaser, except to the extent that its following of any such instruction or directions is expressly forbidden by the terms hereof;

(ii) all claims, demand, action, fines, penalties and legal proceedings whatsoever made against or charged or imposed upon the Escrow Agent by the government or any other authority or any person, firm or corporation whatsoever arising from or in connection with any act or omission done or omitted to be done by the Escrow Agent, unless caused by the negligence and/or malicious intent of the Escrow Agent;

(iii) the parties acknowledge that the foregoing indemnities shall survive the resignation or removal of the Escrow Agent or the termination of the Escrow Agreement.

7. PERIOD OF APPOINTMENT

(a) Notwithstanding the Commencement Date, the obligations of the Escrow Agent as a Stakeholder shall only take effect upon the transfer of the Escrowed Shares into the Escrow Account and shall terminate upon:

(i) the discharge of the Escrow Agent's obligations under clause 3.1 above which shall not be later than 14 days after:

(aa) the transfer of all the Escrowed Shares from the Escrow Account into the Vendor's designated CDS account as Purchase Consideration subject to the fulfilment of the terms and conditions provided in the SSA; or

(bb) the Escrow Agent finishes dealing with any Undistributed Shares in accordance with the Purchaser's instruction or such other manner stipulated under the Escrow Agreement.

(ii) the earlier termination of the Escrow Agent's appointment as provided under clause 8.

8. TERMINATION OF APPOINTMENT

8.1 **Resignation of the Escrow Agent:**

(a) The Escrow Agent may resign at any time by giving not less than 30 days' prior written notice to each party. Both the Vendor and the Purchaser shall jointly be responsible to appoint a successor to the Escrow Agent before the expiry of the 30 days' period.

(b) The Escrow Agent shall forthwith, on the joint written instruction of the Vendor and the Purchaser, pay or cause to be paid the Escrowed Shares to the successor appointed by the Vendor and the Purchaser.

(c) In the event that the Vendor and the Purchaser have not appointed a successor by the expiry of the said 30 days, the Escrow Agent shall transfer or cause to be transferred the Escrowed Shares in accordance with the Vendor's and the Purchaser's joint written instruction and if none, the Escrow Agent shall be entitled to seek directions pursuant to clause 5(a) above.

(d) All costs and expenses (if any) incurred by the Escrow Agent in relation to or in connection with this clause in respect of engaging legal counsel shall be borne by the Purchaser and/or the Vendor in such quantum and proportion as may be decided by the Court, failing which the Purchaser agrees to reimburse the Escrow Agent and its officers, agents and employees for all such costs and expenses incurred.

8.2 **Not Determined by Appointment of Liquidator:** The Escrow Agent's appointment will not be determined by the appointment of a liquidator to any of the parties.

1. HISTORY AND BUSINESS OF THE HFL GROUP

HFL, an investment holding company, was incorporated on 27 January 2014 under the BVI Business Companies Act as a private limited company, domiciled in the British Virgin Islands. It commenced operations on the same date.

The HFL Group is principally involved in the manufacturing, formulation, distribution and trading of a wide range of fertilisers and provides the following services:

(a) crop management solution and services;
(b) professional agronomic advisory and consultation services, which include fertilisers and manuring recommendations;
(c) in-house product development, manufacturing, formulating and repacking activities;
(d) manufacturing of bulk blends and mixtures of various formulations to suit the needs of various crops and actively involved in the trading of a wide spectrum of straight fertilisers; and
(e) customisation of various formulation of fertilisers based on customers' agriculture requirements.

The principal activities of the companies within the HFL Group are as follows:

Name	Date / Country of incorporation	Share capital/ Number of shares	% of issued share capital held	Principal activities
Direct holding through HHSB				
HFL	27 January 2014 / British Virgin Islands	USD0.50 or equivalent to RM2.00 / 5 shares	100.0	Investment holding company
Direct holding through HFL				
HFGSB	6 December 2013 / Malaysia	RM45,340,002 / 5 shares	100.0	Investment holding company
Indirect holding through HFGSB				
HFSB	5 November 1980 / Malaysia	RM10,000,000 / 10,000,000 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers
HSSB	18 July 1995 / Malaysia	RM15,000,000 / 666,745 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers
PKSB	6 June 1996 / Malaysia	RM15,000,000 / 60,000,000 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers

HHSB had in December 2021, undertaken an internal reorganisation of the holdings of its group of companies. As a result of the internal restructuring, HFGSB holds 100% equity interests in HSSB, HFSB and PKSB. HFGSB is an investment holding company and commenced operations on 6 December 2013.

The HHSB group acquired HFSB from its previous owner, Yinpolin Holdings Sdn Bhd in 2010. As HFSB was acquired from Yinpolin Holdings Sdn Bhd, HHSB is unable to determine the commencement date of the business operations of HFSB.

HSSB was previously a wholly-owned subsidiary of Chemical Company of Malaysia Berhad (delisted on 19 February 2021) prior to its disposal to HFGSB in June 2016. As such, HHSB is unable to determine the commencement date of the business operations of HSSB.

Prior to the internal reorganisation, HHSB held a 95% direct interest in PKSB with the remaining 5% held by HFGSB. PKSB was previously a wholly-owned subsidiary of PK Resources Berhad (now known as Nilai Resources Group Berhad) prior to its disposal in 2005 to the then major shareholder of PK Resources Berhad, Pristine Acres Sdn Bhd. Subsequently in 2019, the HHSB group acquired PKSB from Pristine Acres Sdn Bhd. PKSB commenced operations on 1 January 2001. Prior to 1 January 2001, PKSB was dormant. *(Source: Circular of PK Resources Berhad dated 11 April 2005)*

2. PRINCIPAL LOCATION OF OPERATIONS

The HFL Group's manufacturing activities are carried out in factories located at the address below.

No.	Address	Activity	Built-up	Tenancy / Tenure
(a)	Lot 33A, Phase 2 POIC Complex Jalan Kastam Baru 91100 Lahad Datu Sabah	Production factory for the manufacturing, formulation, distribution of compaction fertiliser, mixture fertiliser and straight fertiliser	67,380 sq m	Owned
(b)	MDLD 3790, Batu 4 Jalan Tengah Nipah P.O. Box 61752 91111 Lahad Datu Sabah	Warehouse for the storage of raw materials/finished products	53,300 sq m	Owned
(c)	PT 20117, Jalan Ikan Mata Duyong Kampong Telok Gong 42000 Port Klang Selangor	Warehouse for the storage of raw materials/finished products	9,797 sq m	Rented[(1)] /12 months tenancy from 15 December 2021 to 14 December 2022
(d)	PT 8896, Jalan Ikan Mata Duyong Kampong Telok Gong 42000 Port Klang Selangor	Warehouse for the storage of raw materials/finished products	9,409 sq m	Rented[(1)] /12 months tenancy from 1 October 2021 to 30 September 2022*

* The tenancy has been renewed on 1 September 2022 for another 12 months from 1 October 2022 to 30 September 2023

No.	Address	Activity	Built-up	Tenancy / Tenure
(e)	PT 11772, Jalan Ikan Mata Duyong Kampong Telok Gong 42000 Port Klang Selangor	Office, production factory for the manufacturing, formulation, distribution of compaction fertiliser, mixture fertiliser and straight fertiliser and warehouse for the storage of raw materials/ finished products	10,740 sq m	Rented[(1)] /12 months tenancy from 1 January 2022 to 31 December 2022
(f)	PT 11773, Jalan Ikan Mata Duyong Kampong Telok Gong 42000 Port Klang Selangor	Warehouse for the storage of raw materials/finished products	11,189 sq m	Rented[(1)] /12 months tenancy from 1 January 2022 to 31 December 2022
(g)	Lot 9077, Jalan Udang Galah Telok Gong 42000 Port Klang Selangor	Office and warehouse for the storage of raw materials/ finished products	4,553 sq m	Rented /2 years tenancy from 23 March 2022 to 31 March 2024
(h)	Lots 3121 & 3122 Kidurong Industrial Area Jalan Kidurong 97000 Bintulu Sarawak	Production factory for the manufacturing, formulation, distribution of compact fertiliser, mixture fertiliser and straight fertiliser and warehouse for the storage of raw materials/finished products	78,780 sq m	Rented[(1)] /12 months tenancy from 1 August 2022 to 31 July 2023
(i)	Lot 117, Jalan Pukal Kawasan Perindustrian Lembaga Pelabuhan Johor 81700 Pasir Gudang Johor	Office, production factory for the manufacturing, formulation, distribution of compaction fertiliser, mixture fertiliser and straight fertiliser and warehouse for the storage of raw materials/finished products	23,119 sq m	Rented[(1)] / 12 months tenancy from 1 January 2022 to 31 December 2022
(k)	PLO 293, Jalan Suasa Kawasan Perindustrian Pasir Gudang 81700 Pasir Gudang Johor	Office, production factory for the manufacturing, formulation, distribution of compaction fertiliser, mixture fertiliser and straight fertiliser and warehouse for the storage of raw materials/finished products	80,883 sq m	Rented[(1)] / 36 months tenancy from 1 January 2022 to 31 December 2024

Note:

(1) Properties are rented from related parties and can be easily renewed.

3. PRINCIPAL PRODUCTS AND MARKETS

3.1 Principal products

The principal products of the HFL Group are fertilisers which comprise:

Types		Details
Straight fertiliser 	:	• A raw fertiliser material that may contain only one primary plant nutrient, namely nitrogen, or phosphorus, potassium, magnesium, or boron.
Bulk blend and mixture fertiliser 	:	• A type of fertiliser that is produced through the process of physical mix of various types of straight fertilisers. • May contain two or more nutrients. • The HFL Group is able to perform mixing of powder or granular blend form of fertilisers. Various formulations can be made to suit any special-order request.
Compound fertilisers/ NPK compact   	:	• Compound fertiliser is fertiliser which contains two or three nutrients of N, P, K. NPK fertilisers are three-component fertilisers providing nitrogen, phosphorus, and potassium. Compound fertiliser is produced through a process of granulation/compaction of a mixture of various types of straight fertilisers. • As two or three primary nutrients are combined within each granule in consistent ratios, each granule of compound fertiliser is homogenous in nutrient contents so as to achieve a desired average nutrient composition. • Compound fertilisers differ from a blend of fertilisers mixed together. This difference is that each granule of compound fertilisers, when spread by farmers, delivers a uniform distribution of nutrients as it dissolves in the soil and eliminates the potential for segregation of nutrient sources during transport or application, which in turn enhances quality produces and greater yields.

3.2 Principal revenue segments and product markets

By geographical location, Malaysia remains the HFL Group's largest revenue contributor, contributing between 92.0% and 98.3% of total revenue during the financial years under review. The breakdown of revenue by geographical location for the past 3 financial years is as follows:

	Audited					
	FYE 2019		FYE 2020		FYE 2021	
Countries	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Malaysia	341,634	92.2	485,330	98.2	601,058	98.3
Indonesia	10,690	2.9	671	0.1	7,952	1.3
Myanmar	1,441	0.4	1,873	0.4	1,098	0.2
Republic of Mauritius	2,838	0.8	1,357	0.3	60	~
Australia	7,065	1.9	4,024	0.8	248	~
Ghana	4,679	1.3	-	-	-	-
Others(1)	2,284	0.5	1,172	0.2	969	0.2
Total	**370,631**	**100.0**	**494,427**	**100.0**	**611,385**	**100.0**

Notes:

~ Less than 0.1%

(1) Other countries include Cambodia, Fiji, Singapore, Vietnam, Liberia, Taiwan and the Philippines.

3.3 Key sources of raw materials and supplies

The HFL Group sources its raw materials and supplies which comprises nitrogen, phosphorus, potassium, magnesium, boron, ammonium sulphate, ammonium chloride, urea, diammonium phosphate, monoammonium phosphate, rock phosphate, muriate of potash, sulphate of potash, magnesium sulphate and phosphorous.

Total raw materials sourced for the past 3 financial years are set out below:

	FYE 2019		FYE 2020		FYE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Domestic	271,449	81.4	351,223	85.4	333,399	64.3
Foreign*	62,047	18.6	60,005	14.6	184,999	35.7
Total	**333,496**	**100.0**	**411,228**	**100.0**	**518,398**	**100.0**

Note:

* Foreign countries mainly comprises of China, Egypt, Hong Kong, Marshall Islands and United Arab Emirates.

3.4 Key assets of the HFL Group

The key assets of the HFL Group are as follows:

Details	**Net book value as at 31 December 2021 RM**
Land and buildings	67,495,647
Computers and software	174,006
Factory equipment	719,172
Furniture and fittings	333,740
Motor vehicles	1,257,477
Office equipment	357,854
Plant and machinery	18,422,150
Total	**88,760,046**

4. PRODUCTION CAPACITY AND OUTPUT

The production output, capacity and capacity utilisation for the past 3 financial years are as follows:

	FYE 2019	**FYE 2020**	**FYE 2021**
Production output (metric tonnes)	175,233	244,413	365,187
Capacity (metric tonnes)	397,600	508,000	604,000
Capacity utilisation	44.07%	48.11%	60.46%

FYE 31 December 2020 vs FYE 31 December 2019

The HFL Group increased its capacity by 110,400 metric tonnes per annum (27.8%) after the acquisition of 5 additional lines for its Lahad Datu and Bintulu production plants in 2020. Production output of the HFL Group increased by 69,180 metric tonnes (39.5%) from 175,233 metric tonnes for the FYE 31 December 2019 to 244,413 metric tonnes for the FYE 31 December 2020 in line with higher orders and demand for fertilisers from oil palm plantation companies and smallholders.

FYE 31 December 2021 vs FYE 31 December 2020

The HFL Group increased its capacity by a further 96,000 metric tonnes (18.9%) after completing the acquisition of 4 additional lines for its Bintulu production plants in mid-2021. The increase in production capacity was in line with the increase in production output, which increased by 120,774 metric tonnes (49.4%) from 244,413 metric tonnes to 365,187 metric tonnes. The further increase in production output was due principally to higher orders of fertiliser from oil palm plantation customers, in line with higher crude palm oil prices.

During the 3 financial years under review, the HFL Group did not conduct any material research and development activities.

5. SHAREHOLDER AND DIRECTOR

As at the LPD, HFL is wholly-owned by HHSB.

As at the LPD, the director of HFL is Dato' Ong Choo Meng, a Malaysian.

The shareholdings of the shareholders and director in HFL are as follows:

	Direct		Indirect	
Name	**No. of shares**	**%**	**No. of shares**	**%**
HHSB	5	100.0	-	-
Dato' Ong Choo Meng	-	-	(1)5	100.0
Dato' Ong Soon Ho	-	-	(1)5	100.0

Note:

(1) Deemed interest by virtue of his interest in HHSB pursuant to Section 8 of the Act.

6. DATE AND ORIGINAL COST OF INVESTMENT

The original cost and date of investment HFL is as follows:

Date of investment	No. of ordinary shares	Investment amount
13 September 2016	5	RM45,340,000

7. KEY MANAGEMENT OF THE HFL GROUP

Name	Role(s)	Tenure with HFL Group
Sham Weng Kong	• Managing Director of the HFL Group • Manages the business of the HFL Group	14 years (since 2008) including tenure under Hextar Fertilizers Sdn Bhd
Tan Chee Tiong	• General Manager of HFSB and HSSB • Responsible for overseeing the entire operations of HFSB and HSSB, covering East and West Malaysia	10 years (since 2012)
Diong Sheih Hoe	• Senior Manager of PKSB • Responsible for overseeing the daily operations of PKSB's plants in Pasir Gudang	13 years (since 2009)

Sham Weng Kong, Malaysian, aged 45, is the Managing Director of the HFL Group. He has more than 20 years of working experience in the fertiliser industry. He graduated with a Bachelor's Degree in Business and Marketing from University Tun Abdul Razak in 1999. Upon graduation, he started his career as a Sales Executive in a fertiliser company, where he was in charge of the sales of fertiliser products. In 2003, he was promoted to Sales Manager and subsequently promoted to General Manager in 2005, where he was responsible for the entire operations of the fertiliser business. In 2008, he started Hextar Fertilizers Sdn Bhd (a subsidiary of HHSB) on behalf of the HHSB group to manufacture, market and sell fertilisers in the Malaysian market. In 2018, he was designated Managing Director[(1)] of the HFL Group, where he is responsible for managing the fertiliser segment[(2)] of the HFL Group, covering Peninsular Malaysia, Sabah, Sarawak and export markets (which include Indonesia, Vietnam, Myanmar, Thailand etc). In 2019, he was appointed director of HSSB to oversee the entire operations of the fertiliser business of HSSB in Malaysia.

Notes:

(1) The business of Hextar Fertilizers Sdn Bhd was transferred to the HFL Group during 2019 to 2020.

(2) HHSB had in December 2021 undertaken an internal reorganisation of the holdings of its group of companies. Arising from the internal reorganisation, non-fertiliser businesses were disposed to HHSB.

Tan Chee Tiong, Malaysian, aged 40, is the General Manager of HFSB and HSSB. He has more than 17 years of working experience in the fertiliser and agrochemical industry. He graduated with a Bachelor of Science in Business Studies from University of Southern New Hampshire, United States of America in 2004. Upon graduation, he commenced his career as Marketing and Customer Relations Executive in Actmar Sdn Bhd. In 2005, he joined Hextar Chemicals Sdn Bhd, a company which is involved in the manufacturing, export and distribution of agrichemicals (subsidiary of Hextar Global Berhad, a company listed on the Main Market of Bursa Securities) as a Planner Executive and was subsequently promoted to Factory Manager in 2008, where he was responsible for overseeing the factory operations of Hextar Chemicals Sdn Bhd. In 2012, he was designated as the Operations Manager of HFSB, where his responsibilities were to oversee the factory operations of HFSB. In 2015, he was appointed Assistant General Manager of HFSB and subsequently in 2018, promoted to General Manager, where he is responsible to oversee the entire operations of HFSB and HSSB, covering East and West Malaysia.

Diong Sheih Hoe, Malaysian, aged 39, is the Senior Manager of PKSB. He has more than 10 years of working experience in the fertiliser industry. He graduated with a Bachelor of Science in Electrical Engineering from Carnegie Mellon University, United States of America in 2006. Upon graduation in 2007, he started his career as a Process Engineer with Procter & Gamble (M) Sdn Bhd, where he was responsible for the daily operations and quality control of Procter & Gamble's manufacturing plant in Pasir Gudang, Johor. In 2009, he joined PKSB as a Process Engineer where he was mainly in charge of overseeing the installation, commissioning of one of PKSB's NPK granulation plant at Pasir Gudang, Johor. In addition, he was also responsible for overseeing the daily operations of PKSB's fertiliser plants at Pasir Gudang. In 2016, he was promoted to Warehouse Manager, where he was responsible for managing the daily operations of PKSB's plants in Pasir Gudang. In 2021, he was designated as Senior Manager of PKSB and oversees the daily operations of PKSB's plants in Pasir Gudang to ensure maximum production and delivery capabilities. He also works closely with the Johor Port Authority and local authorities to facilitate the plants' day-to-day operations.

8. HISTORICAL FINANCIAL INFORMATION

The summary of the financial information of the HFL Group based on its combined audited financial statements for the FYEs 31 December 2019, 2020 and 2021 are as follows:

	Audited		
	FYE 2019	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**
Revenue	370,631	494,427	611,385
Gross profit ("**GP**")	37,135	83,199	92,988
Other income	4,193	9,165	22,399
(LBT)/PBT	(2,951)	34,898	54,450
(LAT)/PAT	(2,695)	36,591	48,162
GP margin (%)	10.0	16.8	15.2
Total current assets	228,454	314,568	[(a)]529,952
Total non-current assets	174,610	193,823	88,827
Total current liabilities	207,059	263,455	478,208
Total non-current liabilities	91,152	107,575	86,763
Share capital[(b)]	109,940	109,940	45,340
Shareholders' funds/NA	104,852	137,362	53,808
Cash generated from/(used in) operations	96,759	31,768	(36,300)
Net cash used in investing activities	(1,853)	(20,422)	(11,310)
Net cash (used in)/generated from financing activities	(84,152)	(13,144)	56,884
Number of shares (units)	64,600,005	64,600,005	5
Weighted average number of shares in issuance (units)	64,600,005	64,600,005	64,069,046
EPS (RM)[(c)]	(0.04)	0.57	0.75
NA per share (RM)[(c)]	1.62	2.13	0.84
Total borrowings (includes hire purchase)	199,718	220,735	340,108
Gearing (times)	1.90	1.61	6.32
Current ratio (times)	1.10	1.19	[(d)]1.11

Notes:

(a) Includes RM36.50 million worth of properties in Lahad Datu and Butterworth that are expected to be disposed in the short term, thus being classified as assets held for sale.
(b) Includes share premium amounting to RM45.34 million.
(c) Computed based on weighted average number of shares.
(d) Computation includes assets held for sale. If computation of current ratio excludes assets held for sale, the current ratio is 1.03 times.

Financial commentaries

FYE 31 December 2019 vs FYE 31 December 2018

For the FYE 31 December 2019, revenue decreased by RM114.3 million (23.6%) from RM484.9 million in the preceding year to RM370.6 million due to the change in sales strategy focusing on higher margin products. Accordingly, GP margin improved from 8.4% to 10.0%.

Despite recording lower revenue for the FYE 31 December 2019 as compared to the preceding financial year, the HFL Group recorded a lower LAT of RM2.7 million as compared to LAT of RM63.5 million in the preceding financial year. The higher LAT recorded for the preceding financial year was principally due to a one-off inventory written down of RM50.7 million in PKSB.

Total borrowings decreased from RM273.2 million to RM199.7 million principally due to the decrease in the utilisation of bills payable. This contributed the improvement in gearing from 2.48 times as at 31 December 2018 to 1.90 times as at 31 December 2019.

FYE 31 December 2020 vs FYE 31 December 2019

For the FYE 31 December 2020, revenue increased by RM123.8 million (33.4%) from RM370.6 million in the preceding year to RM494.4 million driven primarily by the recovery of prices of crude palm oil ("**CPO**"), from approximately RM2,500 per tonne to above RM3,500 per tonne during the financial year. The higher CPO price resulted in higher application (and therefore increase in orders) of various types of fertilisers as a result in increase in plantation activities by oil palm plantation companies and smallholders. GP margin improved from 10.0% for the FYE 31 December 2019 to 16.8% for the FYE 31 December 2020 primarily due to the increase in the average selling price of fertilisers by 11.5% arising from an increased in demand. There was an upward trend of key global prices of raw material commodities for fertilisers from the second quarter of 2020.

In line with higher revenue and GP margin, the HFL Group recorded a PAT of RM36.6 million from a LAT position of RM2.7 million in the preceding financial year. The higher PAT achieved for the FYE 31 December 2020 was also attributed by higher dividend income of RM17.7 million received from subsidiaries as compared to RM3.1 million received in the FYE 31 December 2019. Excluding the one-off dividend income, PAT was RM18.9 million.

Despite an increase in borrowings by RM21.0 million from RM199.7 million as at 31 December 2019 to RM220.7 million as at 31 December 2020, gearing improved from 1.90 times as at 31 December 2019 to 1.61 times as at 31 December 2020 due to higher profitability.

FYE 31 December 2021 vs FYE 31 December 2020

For the FYE 31 December 2021, revenue further increased by RM117.0 million (23.7%) from RM494.4 million in the preceding financial year to RM611.4 million due principally to higher orders for fertiliser from oil palm plantation customers. In the last quarter of 2021, prices of CPO increased to above RM5,000 per tonne. With the surging CPO price, application (and therefore, higher orders) of fertilisers in oil palm plantation increased. GP margin however reduced from 16.8% to 15.2%, due to the increase in raw material prices of fertilisers and transportation cost.

In line with the increase in revenue, PAT increased by RM11.6 million (31.6%) from RM36.6 million in the preceding year to RM48.2 million principally due to the recognition of one-off (1) capital gain on reduction of share capital in subsidiary amounting to RM14.6 million, (2) gain on disposal of investment in subsidiaries amounting to RM2.8 million and (3) gain on disposal of property, plant and equipment amounting to RM2.6 million, as a result from an internal reorganisation of HHSB and the HFL Group. Excluding the one-off other income, PAT was RM27.9 million.

Current asset increased by RM215.3 million (68.4%) from RM314.6 million as at 31 December 2020 to RM530.0 million as at 31 December 2021. Similarly, current liabilities also increased by RM214.7 million (81.5%) from RM263.5 million as at 31 December 2020 to RM478.2 million as at 31 December 2021. The increase in current asset and current liabilities were due mainly to higher trade banking facilities utilised to finance higher inventories arising from the increasing raw material fertiliser prices and to stock up on raw materials. The higher stock holding as at 31 December 2021 was part of the HFL Group's risk mitigation efforts to the escalating global raw material fertiliser prices and supply chain disruptions due to export restrictions of fertilisers from a number of countries in anticipation of potential shortages as highlighted in **Section 4.2** of this Circular. As a result, the HFL Group recorded negative operating cashflow of RM36.3 million for the FYE 31 December 2021.

Gearing increased from 1.61 times as at 31 December 2020 to 6.32 times as at 31 December 2021 principally due to higher trade banking facilities utilised to finance the higher inventories coupled with the internal reorganisation which had resulted in the reduction in shareholders' funds.

Save as disclosed in the financial commentaries above, there were no significant and specific factors contributing to the exceptional performance in the financial years under review and no significant changes in the financial performance on a year-to-year basis.

There are no accounting policies adopted by the HFL Group which are peculiar to the HFL Group or its business due to the nature of its business or industry. The combined financial statements of HFL were not subject to audit qualification for the years under review.

9. MATERIAL CONTRACTS

Save as disclosed below, as at the LPD, the HFL Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the 2 years immediately preceding the date of this Circular:

(a) Sale and purchase agreement dated 21 May 2021 entered between PKSB as the vendor and Shanmugam A/L Palaniappan as the purchaser for the purchase of one unit of shop lot known as No. 3-G-02, Cempakapuri Apartments, Jalan BBN 6/2, Putra Nilai, 71800 Nilai, Negeri Sembilan held under strata title Geran 51667/M3/1/130, Petak No. 130, Tingkat No. 1 Bangunan No. M3, Lot 19442 in Mukim Labu, District of Seremban, Negeri Sembilan, for a cash consideration of RM145,000.00. The agreement was completed on 20 August 2021;

(b) Share transfer form dated 2 August 2021 between HFSB as the transferor and HHSB as the transferee, for the transfer by HFSB of 700,000 issued and fully paid-up ordinary shares, representing representing 100% of the total issued share capital in Amalan Prestasi Sdn Bhd to HHSB for a cash consideration of RM3,405,000.00. The share transfer was completed on 9 August 2021;

(c) Sale and purchase agreement dated 23 August 2021 entered between HFSB as the vendor and Amalan Prestasi Sdn Bhd as the purchaser for the purchase of an industrial land held under H.S.(M) 12054, PT 11772, Tempat Kampong Nelayan Telok Gong, Mukim Klang, District of Klang, Selangor, together with a factory and warehouse erected thereon bearing postal address at Lot 11772, Jalan Ikan Mata Duyong, Telok Gong, 42000 Port Klang, Selangor, for a cash consideration of RM9,800,000.00. The agreement was completed on 29 August 2022;

(d) Sale and purchase agreement dated 23 August 2021 entered between PKSB as the vendor and Amalan Prestasi Sdn Bhd as the purchaser for the purchase of an industrial land held under PN 6653, Lot 51608, Mukim Plentong, District of Johor Bharu, Johor, together with a factory and warehouse erected thereon bearing postal address at PLO 293, Jalan Suasa, Kawasan Perindustrian Pasir Gudang, 81700 Pasir Gudang, Johor, for a cash consideration of RM34,500,000.00. The agreement was completed on 7 July 2022;

(e) Sale and purchase agreement dated 1 September 2021 entered between PKSB as the vendor and Amalan Prestasi Sdn Bhd as the purchaser for the purchase of a piece of land held under GRN 489953, Lot 66247, Mukim Plentong, District of Johor Bahru, Johor, together with a factory and warehouse erected thereon bearing postal address at Lot 117, Jalan Pukal, Kawasan Perindustrian Lembaga Pelabuhan Johor, 81700 Pasir Gudang Johor, for a cash consideration of RM19,000,000.00. The completion date is expected to take place within 2 months after the conditions precedent have been fulfilled. As at the LPD, the conditions precedent have yet to be fulfilled;

(f) Sale and purchase agreement dated 15 September 2021 entered between HFSB as the vendor and Abers Resources Sdn Bhd as the purchaser for the purchase of a 1 1/2 storey terrace factory known as Lot No. 101, West Port Tech Zone, Pulau Indah bearing postal address No. 18, Lorong Sungai Chandong 18D, Bandar Sg Chandong, Pulau Indah, 42920 Port Klang, Selangor, for a cash consideration of RM110,000.00. The agreement was completed on 1 November 2021;

(g) Sale and purchase agreement dated 15 September 2021 entered between HFSB as the vendor and Abers Resources Sdn Bhd as the purchaser for the purchase of a 1 1/2 storey terrace factory known as Lot No. 102, West Port Tech Zone, Pulau Indah bearing postal address No. 16, Lorong Sungai Chandong 18D, Bandar Sg Chandong, Pulau Indah, 42920 Port Klang, Selangor, for a cash consideration of RM110,000.00. The agreement was completed on 1 November 2021;

(h) Share sale agreement dated 10 December 2021 entered between HFGSB as the transferor and Hextar Global Berhad as the transferee for 400,000 issued and fully paid-up ordinary shares in Hextar Agriculture Sdn Bhd, for a cash consideration of RM190,000.00. The agreement was completed on 29 December 2021;

(i) Share transfer form dated 20 December 2021 between HFGSB as the transferor and HHSB as the transferee, for the transfer by HFGSB of 4,000,000 issued and fully paid-up ordinary shares, representing 26.67% of the total issued share capital in Hextar Fertilizers Sdn Bhd to HHSB for a cash consideration of RM4,260,000.00. The share transfer was completed on 23 December 2021;

(j) Share transfer form dated 29 December 2021 between HHSB as the transferor and HFGSB as the transferee, for the transfer by HHSB of 7,600,000 issued and fully paid-up ordinary shares, representing 76% of the total issued share capital in HFSB to HFGSB for a cash consideration of RM33,258,000.00. The share transfer was completed on 31 December 2021;

(k) Share transfer form dated 29 December 2021 between HHSB as the transferor and HFGSB as the transferee, for the transfer by HHSB of 57,000,000 issued and fully paid-up ordinary shares, representing 95% of the total issued share capital in PKSB to HFGSB for a cash consideration of RM56,335,000.00. The share transfer was completed on 31 December 2021; and

(l) Sale and purchase agreement dated 23 February 2022 entered between PKSB as the vendor and V-Cycle Metal Industries Sdn Bhd as the purchaser for the purchase of a piece of land held under No. Hakmilik Geran Mukim 1303, Lot No. 10357, Mukim 12, District of Seberang Perai Tengah, Pulau Penang, together with a factory/industrial building erected thereon bearing assessment address at No.10, Jalan Industri Seri Juru, Taman Industri Seri Juru, 14100 Simpang Ampat, Pulau Pinang, for a cash consideration of RM8,400,000.00. The agreement was completed on 12 May 2022.

10. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, the HFL Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Directors of HFL and the subsidiaries are not aware of any proceedings, pending or threatened against the HFL and/or its subsidiaries or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the HFL Group.

11. MATERIAL COMMITMENT

As at the LPD, there is no material commitment, incurred or known to be incurred, by the HFL Group which upon becoming enforceable may have a material impact on the results or financial position of the HFL Group.

12. CONTINGENT LIABILITIES

As at the LPD, there are no contingent liabilities, incurred or known to be incurred, which upon becoming enforceable, may have a material impact on the HFL Group's profits or NA.

However, as at the LPD, the following are financial guarantees contracts which are considered to be performing, have low risks of default and historically have no instances of having been called upon by the parties of which these financial guarantees contracts were issued to:

	RM'000
Corporate guarantee given to licensed banks to secure credit facilities granted to HHSB[(1)]	225,000
Bank guarantee given to licensed banks and customers	3,604

Notes:

(1) As part of the compliance for the satisfactory legal due diligence pursuant to the SSA, the HFL Group will obtain consent(s) from the financiers for the discharge of the corporate guarantee(s) given to licensed banks for credit facilities granted to HHSB. At this juncture, there is no replacement required for the corporate guarantee.

(2) The bank guarantee given to licensed banks and customers is for the purchase of raw materials, for utilities and given to customers as part of a sales tender