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HEXTAR FERTILIZERS LIMITED

(Incorporated in British Virgin Islands)
Company Number: 1809869

ACCOUNTANTS' REPORT ON COMBINED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2021, 2020 AND 2019

ECOVIS MALAYSIA PLT
201404001750 (LLP0003185-LCA) & AF 001825
Chartered Accountants

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12 AUG 2022

Hextar Industries Berhad
No.64, Jalan Bayu Laut 4/KS09,
Kota Bayuemas,
41200 Klang,
Selangor Darul Ehsan.

Dear Sirs

REPORTING ACCOUNTANTS' OPINION ON THE COMBINED FINANCIAL STATEMENTS CONTAINED IN THE ACCOUNTANTS' REPORT OF HEXTAR FERTILIZERS LIMITED

Opinion

We have audited the combined financial statements of **Hextar Fertilizers Limited** (the "Company") and its combining entities (collectively the "Group"), which comprises the combined statements of financial position as at 31 December 2019, 31 December 2020 and 31 December 2021, and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for each of the financial years then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 83.

The historical combined financial statements of the Group have been prepared solely for inclusion in the circular to be issued in relation to the proposed corporate exercise of Hextar Industries Berhad.

In our opinion, the accompanying combined financial statements of the Group gives a true and fair view of the financial position of the Group as at 31 December 2019, 31 December 2020 and 31 December 2021, and of their financial performance and its cash flows for each of the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ECOVIS MALAYSIA PLT 201404001750 (LLP0003185-LCA) & AF 001825 Chartered Accountants, No 9-3, Jalan 109F, Plaza Danau 2, Taman Danau Desa, 58100 Kuala Lumpur, Malaysia **Phone:** +60(3) 7981 1799 **Fax:** +60(3) 7980 4796 **E-Mail:** kuala-lumpur@ecovis.com.my

Independence and Other Ethical Responsibilities

We are independent of the Group in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Director's Responsibilities for the Combined Financial Statements

The Director of the Company is responsible for the preparation of combined financial statements of the Group that gives a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Director is also responsible for such internal control as the Director determine is necessary to enable the preparation of combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the Director is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Director either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on basis of these combined financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director.

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Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements (Cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (Cont'd)

(d) Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represents the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Restriction on Distribution and Use

This report is made solely to the Hextar Industries Berhad and for inclusion in the circular to be issued in relation to the proposed corporate exercise of Hextar Industries Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

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ECOVIS MALAYSIA PLT
AF 001825
Chartered Accountants

CHUA KAH CHUN
No. 02696/09/2023 J
Chartered Accountant

Kuala Lumpur
12 AUG 2022

HEXTAR FERTILIZERS LIMITED

(Incorporated in British Virgin Islands)
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ACCOUNTANTS' REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	2021 RM	2020 RM	2019 RM
Assets				
Non-current assets				
Property, plant and equipment	7	88,760,046	187,018,788	167,805,048
Intangible assets	8	67,227	4,381	5,181
Other investments	9	-	6,800,000	6,800,000
		88,827,273	193,823,169	174,610,229
Current assets				
Inventories	10	256,252,169	80,748,331	82,239,233
Trade receivables	11	151,866,696	162,251,075	101,948,525
Other receivables, deposits and prepayments	12	38,475,630	13,952,443	12,399,376
Amount due from holding company	13	-	32,345,052	-
Amount due from subsidiaries	14	-	761,959	1,155,067
Amount due from related companies	15	17,871,198	-	6,500,000
Tax recoverable		115,200	779,039	2,816,622
Fixed deposit with financial institution		378,492	375,726	4,067,073
Cash and bank balances		28,492,563	23,354,621	17,327,978
		493,451,948	314,568,246	228,453,874
Assets classified as held for sale	16	36,500,000	-	-
		529,951,948	314,568,246	228,453,874
Total assets		618,779,221	508,391,415	403,064,103

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Note	2021 RM	2020 RM	2019 RM
Equity and liabilities				
Equity				
Share capital	17	2	64,600,002	64,600,002
Share premium	18	45,340,000	45,340,000	45,340,000
Merger reserve	19	(100,782,462)	(30,789,462)	(30,789,462)
Revaluation reserve	20	21,791,167	52,540,840	51,548,918
Capital reserve	21	30,000,000	-	-
Retained earnings/(accumulated losses)	22	57,459,391	5,670,658	(25,846,986)
Total equity		53,808,098	137,362,038	104,852,472
Non-current liabilities				
Bank borrowings	23	41,722,443	48,613,091	54,248,221
Lease liabilities	24	37,238,574	39,290,384	15,611,801
Deferred tax liabilities	25	7,801,998	19,671,195	21,292,357
		86,763,015	107,574,670	91,152,379
Current liabilities				
Trade payables	26	149,827,720	71,715,234	34,806,899
Other payables and accruals	27	24,928,010	19,200,241	16,583,387
Amount due to holding company	13	698,800	-	11,171,205
Bank borrowings	23	296,308,748	170,044,580	143,297,122
Lease liabilities	24	2,795,183	2,416,133	1,190,639
Income tax payable		3,649,647	78,519	10,000
		478,208,108	263,454,707	207,059,252
Total liabilities		564,971,123	371,029,377	298,211,631
Total equity and liabilities		618,779,221	508,391,415	403,064,103

The accompanying notes form an integral of these combined financial statements.

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2021 RM	2020 RM	2019 RM
Revenue	28	611,385,382	494,426,567	370,631,079
Cost of sales		(518,397,608)	(411,227,961)	(333,496,015)
Gross profit		92,987,774	83,198,606	37,135,064
Other income		22,398,792	9,165,233	4,193,116
Net impairment gain/(loss) on financial assets		288,297	(563,204)	576,033
Administrative expenses		(15,404,437)	(15,769,265)	(16,241,483)
Selling and distribution expenses		(31,036,910)	(25,947,818)	(14,423,976)
Other operating expenses		(3,080,126)	(4,079,592)	(1,163,799)
Profit from operations		66,153,390	46,003,960	10,074,955
Finance costs	29	(11,703,483)	(11,106,260)	(13,026,254)
Profit/(loss) before tax	30	54,449,907	34,897,700	(2,951,299)
Taxation	31	(6,287,789)	1,693,234	256,779
Net profit/(loss) for the financial year		48,162,118	36,590,934	(2,694,520)
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Net impact on revaluation of property, plant and equipment		-	2,514,095	-
Total comprehensive income/(loss) for the financial year		48,162,118	39,105,029	(2,694,520)
Earnings per ordinary share attributable to the owners				
- Basic and diluted	32	0.75	0.57	(0.04)

The accompanying notes form an integral of these combined financial statements

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Company						
		Non-distributable				Distributable		
	Note	Share capital RM	Share premium RM	Merger reserve RM	Revaluation reserve RM	Capital reserve RM	Retained earnings RM	Total Equity RM
At 1 January 2019		64,600,002	45,340,000	(30,789,462)	52,979,573	-	(22,083,121)	110,046,992
Net loss/total comprehensive loss for the financial year		-	-	-	-	-	(2,694,520)	(2,694,520)
Realisation of revaluation reserve		-	-	-	(1,430,655)	-	1,430,655	-
Dividends paid	33	-	-	-	-	-	(2,500,000)	(2,500,000)
At 31 December 2019/1 January 2020		64,600,002	45,340,000	(30,789,462)	51,548,918	-	(25,846,986)	104,852,472
Net profit for the financial year		-	-	-	-	-	36,590,934	36,590,934
Other comprehensive income for the financial year:								
- Net impact on revaluation of property, plant and equipment		-	-	-	2,514,095	-	-	2,514,095
Realisation of revaluation reserve		-	-	-	(1,522,173)	-	1,522,173	-
Dividends paid	33	-	-	-	-	-	(6,595,463)	(6,595,463)
At 31 December 2020		64,600,002	45,340,000	(30,789,462)	52,540,840	-	5,670,658	137,362,038

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

		Attributable to owners of the Company						
		Non-distributable				Distributable		
	Note	Share capital RM	Share premium RM	Merger reserve RM	Revaluation reserve RM	Capital reserve RM	Retained earnings RM	Total Equity RM
At 1 January 2021		64,600,002	45,340,000	(30,789,462)	52,540,840	-	5,670,658	137,362,038
Contributions by and distribution to owners of the Company:								
- Reduction in share capital		(42,750,000)	-	(2,250,000)	-	30,000,000	15,000,000	-
- Adjustment on acquisition of subsidiaries		(21,850,000)	-	(67,743,000)	-	-	-	(89,593,000)
Net profit for the financial year		-	-	-	-	-	48,162,118	48,162,118
Net impact on disposal of revalued properties		-	-	-	(30,244,032)	-	41,400,974	11,156,942
Realisation of revaluation reserve		-	-	-	(505,641)	-	505,641	-
Dividends paid	33	-	-	-	-	-	(53,280,000)	(53,280,000)
At 31 December 2021		2	45,340,000	(100,782,462)	21,791,167	30,000,000	57,459,391	53,808,098

The accompanying notes form an integral of these combined financial statements.

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS

	Note	2021 RM	2020 RM	2019 RM
Cash flow from operating activities				
Profit/(loss) before tax		54,449,907	34,897,700	(2,951,299)
Adjustments for:				
Amortisation of intangible assets		800	800	800
Bad debts written off		-	-	43,756
Deposits written off		-	49,900	13,539
Depreciation of property, plant and equipment		9,612,732	8,907,182	8,097,919
Dividend income		(280,000)	(6,400,000)	(600,000)
Gain on disposal of investment in subsidiaries		(2,795,001)	-	-
Gain on disposal of property, plant and equipment		(2,597,364)	(27,013)	(333,986)
Gain on rent concession		(15,000)	(362,262)	-
Impairment loss on property, plant and equipment		-	2,944,260	-
Interest income		(177,086)	(162,567)	(133,504)
Interest expenses		11,703,483	11,106,260	13,026,254
Inventories written off		2,431,848	595,204	-
Loss on disposal of investment in an associate		1,740,000	-	-
Net impairment (gain)/loss on trade receivables		(288,297)	563,204	(576,033)
Property, plant and equipment written off		447,429	156,791	94,625
Reversal of inventories written down		(399,762)	-	(522,041)
Unrealised loss/(gain) on foreign exchange		390,786	348,505	(732,215)
Operating profit before changes in working capital		74,224,475	52,617,964	15,427,815
Inventories		(177,535,924)	895,698	69,162,908
Trade and other receivables		(13,850,511)	(62,468,721)	30,328,714
Trade and other payables		83,449,469	39,176,684	(18,255,021)
Cash (used in)/generated from operations		(33,712,491)	30,221,625	96,664,416

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	Note	2021 RM	2020 RM	2019 RM
Cash (used in)/generated from operations		(33,712,491)	30,221,625	96,664,416
Interest received		177,086	162,567	133,504
Income tax (paid)/refunded		(2,765,077)	1,384,249	(39,294)
Net cash (used in)/generated from operating activities		(36,300,482)	31,768,441	96,758,626
Cash flow from investing activities				
Acquisition of subsidiaries		(89,593,000)	-	-
Dividend income received		280,000	6,400,000	600,000
Net repayment received from/ (advances to) holding company		32,345,052	(32,345,052)	3,000,000
Net repayment received from subsidiaries		761,959	393,108	100,000
Net repayment received from related parties		-	-	416,540
Net (advances to)/repayment received from related companies		(17,871,198)	6,500,000	(5,829,839)
Net repayment received from Directors		-	-	1,058,434
Proceeds from disposal of investment in subsidiaries		3,595,001	-	-
Proceeds from disposal of investment in an associate		4,260,000	-	-
Proceeds from disposal of property, plant and equipment		63,709,999	40,392	375,792
Purchase of intangible assets		(63,646)	-	(1,430)
Purchase of property, plant and equipment	(a)	(8,734,537)	(1,410,133)	(1,572,202)
Net cash used in investing activities		(11,310,370)	(20,421,685)	(1,852,705)

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	Note	2021 RM	2020 RM	2019 RM
Cash flow from financing activities				
Dividends paid		(53,280,000)	(6,595,463)	(2,500,000)
Interest paid		(11,703,483)	(11,106,260)	(13,026,254)
Net advances received from/(repayment to) holding company	(b)	698,800	(11,171,205)	-
Net repayment to related companies	(b)	-	-	(1,803,663)
Repayment of lease liabilities	(b)	(2,337,277)	(1,250,860)	(1,428,091)
Repayment of term loans	(b)	(6,890,648)	(4,777,574)	(7,749,762)
Net movement of bills payable	(b)	130,397,096	9,756,974	(57,644,340)
Net movement of revolving credit	(b)	-	12,000,000	-
Net cash generated from/(used in) financing activities		56,884,488	(13,144,388)	(84,152,110)
Net increase/(decrease) in cash and cash equivalents		9,273,636	(1,797,632)	10,753,811
Cash and cash equivalents at beginning of financial year		19,597,419	21,395,051	10,641,240
Cash and cash equivalents at end of financial year	34	28,871,055	19,597,419	21,395,051

(a) Purchase of property, plant and equipment

The Group made the following cash payments to purchase property, plant and equipment:

	2021 RM	2020 RM	2019 RM
Acquisition of property, plant and equipment	9,414,054	27,927,332	1,572,202
Amount settled by lease	(679,517)	(26,517,199)	-
	8,734,537	1,410,133	1,572,202

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ACCOUNTANTS' REPORT (CONT'D)

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

(b) Changes in liabilities arising from financing activities:

	At 1 January RM	Adoption of MFRS 16 RM	Gain on rent concession RM	Acquisition of new lease RM	Net cash flow RM	At 31 December RM
2021						
Amount due to holding company	-	-	-	-	698,800	698,800
Lease liabilities	41,706,517	-	(15,000)	679,517	(2,337,277)	40,033,757
Bills payable	146,205,779	-	-	-	130,397,096	276,602,875
Revolving credit	12,000,000	-	-	-	-	12,000,000
Term loans	56,318,964	-	-	-	(6,890,648)	49,428,316
	256,231,260	-	(15,000)	679,517	121,867,971	378,763,748
2020						
Amount due to holding company	11,171,205	-	-	-	(11,171,205)	-
Lease liabilities	16,802,440	-	(362,262)	26,517,199	(1,250,860)	41,706,517
Bills payable	136,448,805	-	-	-	9,756,974	146,205,779
Revolving credit	-	-	-	-	12,000,000	12,000,000
Term loans	61,096,538	-	-	-	(4,777,574)	56,318,964
	225,518,988	-	(362,262)	26,517,199	4,557,335	256,231,260
2019						
Amount due to holding company	11,171,205	-	-	-	-	11,171,205
Amount due to related company	1,803,663	-	-	-	(1,803,663)	-
Lease liabilities	2,896,930	15,333,601	-	-	(1,428,091)	16,802,440
Bills payable	194,093,145	-	-	-	(57,644,340)	136,448,805
Term loans	68,846,300	-	-	-	(7,749,762)	61,096,538
	278,811,243	15,333,601	-	-	(68,625,856)	225,518,988

The accompanying notes form an integral of these combined financial statements.

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

1. GENERAL INFORMATION

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

The registered office of the Company is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The principal place of business is located at No.64, Jalan Bayu Laut 4/KS09, Kota Bayuemas, 41200 Klang, Selangor Darul Ehsan.

The principal activity of the Company is investment holding.

For the purpose of its Proposed Corporate Exercise, Hextar Industries Berhad ("HIB") undertook a corporate exercise via the acquisition of Hextar Fertilizers Limited ("HFL"), Hextar Fertilizers Group Sdn. Bhd. ("HFGSB"), PK Fertilizers Sdn. Bhd. ("PKFSB"), Hextar Fert Sdn. Bhd. ("HFSB") and Hextar Solutions Sdn. Bhd. ("HSSB") (collectively known as "HFL Group").

HFL and its combining entities are collectively known as "HFL Group" in the combined financial statements contained in this Accountants' Report.

Details of the combining entities as at the date of this report are as follows:

Name of combining entities	Date of incorporation	Issued share capital (RM)	Effective equity interest (%) 2021	2020	2019	Principal activities
HFGSB	6 December 2013	45,340,002	100	100	100	Investment holding.
PKFSB	6 June 1996	15,000,000	100	100	100	Engaged in manufacturing, formulation, distribution and trading of a wide range of fertilisers.
HFSB	5 November 1980	10,000,000	100	100	100	Engaged in manufacturing, formulation, distribution and trading of a wide range of fertilisers.
HSSB	18 July 1995	15,000,000	100	100	100	Engaged in manufacturing, formulation, distribution and trading of a wide range of fertilisers.

All the combining entities within the Group at the date of this report are incorporated in Malaysia.

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

1. GENERAL INFORMATION (CONT'D)

1.1 Internal restructuring exercise

(a) Acquisition of common control combining entities

i. Movement of equity interest in PKFSB

On 29 December 2021, HFGSB had acquired 95% equity interest (representing 57,000,000 ordinary shares) in PKFSB from Hextar Holdings Sdn. Bhd. for a total purchase consideration of RM56,335,000.

ii. Movement of equity interest in HFSB

On 29 December 2021, HFGSB had acquired 76% equity interest (representing 7,600,000 ordinary shares) in HFSB from Hextar Holdings Sdn. Bhd. for a total purchase consideration of RM33,258,000.

(b) Disposal of common control entities

i. Movement of equity interest in Hextar Agriculture Sdn. Bhd.

On 10 December 2021, the Group had disposed its entire equity interest in Hextar Agriculture Sdn. Bhd. to related company, Hextar Global Berhad for a consideration of RM190,000.

ii. Movement of equity interest in Amalan Prestasi Sdn. Bhd.

On 2 August 2021, the Group had disposed its entire equity interest in Amalan Prestasi Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM3,405,000.

iii. Movement of equity interest in Evergreen Agricultural Services Sdn. Bhd.

On 30 June 2021, the Group had disposed its entire equity interest in Evergreen Agricultural Services Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM1.

iv. Movement of equity interest in Hextar Fertilizers Sdn. Bhd.

On 23 December 2021, the Group had disposed its entire equity interest in Hextar Fertilizers Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM4,260,000.

2. AUDITED COMBINED FINANCIAL STATEMENTS

This Report comprises solely the audited combined financial statements of the combining entities for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021.

3. SHARE CAPITAL

The Company was incorporated on 27 January 2014 with issued and paid-up share capital of USD0.5 comprising five (5) ordinary shares.

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ACCOUNTANTS' REPORT (CONT'D)

4. RELEVANT FINANCIAL YEARS

The relevant financial years of the audited financial statements presented for the purpose of this report ("Relevant Financial Years") and the statutory auditors of the respective companies within the Group are as follows:

Company	FYE 2019	FYE 2020	FYE 2021
HFL	#	#	#
HFGSB	*	*	#
PKFSB	*	*	#
HFSB	*	*	#
HSSB	*	*	#

* The combined financial statements of the Group for the respective financial years have been prepared based on audited financial statements which were re-audited by Ecovis Malaysia PLT for the purpose of inclusion into the combined financial statements of the Group. The audited financial statements which was lodged with Companies Commission of Malaysia were audited by a firm of chartered accountants other than Ecovis Malaysia PLT.

The combined financial statements of the Group for the respective financial years have been prepared based on audited financial statements which were audited by Ecovis Malaysia PLT.

The audited financial statements of combining entities within the Group for the Relevant Financial Years reported above were not subject to any qualification or modification.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory. Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of common controlled entities are included in the financial statements from the day that control commences until the date that control ceases.

The combined financial statements of the Group for the relevant period were prepared in a manner similar to the "pooling-of-interest" method, as if the entities within the Group were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period from the days the control commences, if later. Such manner of presentation reflects the economic substance of the combining companies, which were under common control throughout the relevant years.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The combined financial statements consist of the financial statements of the Group as disclosed in page 4 to 83 of this report, which were under common control throughout the reporting periods by virtue of common controlling shareholder, which is Vendor.

The audited combined financial statements of the Group have been prepared as if the Group has operated as a single economic entity throughout financial years ended 31 December 2019 to 31 December 2021 and have been prepared from the books and records maintained by each entity.

The accounting policies set out in Note 5.2 of this report have been applied in preparing the combined financial statements for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021.

The combined financial statements are presented in RM, which is also the functional currency of the Group.

5.1 Standards, amendments to published standards and IC interpretations issued but not yet effective

The following are standards, amendments to published standards and IC interpretations issued by Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the combined financial statements. The Group intends to adopt these standards, amendments to published standards and IC interpretations, if applicable, when they become effective in the following financial year:

MFRS (Including the Consequential Amendments)		**Effective Date**
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards - Subsidiary as a First-time Adopter	1 January 2022
Amendments to MFRS 3	Business Combinations - Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 9	Financial Instruments - Fees in the '10 percent' Test for Derecognition of Financial Liabilities	1 January 2022
Illustrative Example accompanying MFRS 16	Leases - Lease incentive	1 January 2022
Amendments to MFRS 116	Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
Amendments to MFRS 141	Agriculture - Taxation in Fair Value Measurements	1 January 2022
Amendments to MFRS 101	Presentation of Financial Statements - Classification of Liabilities as Current or Non-current	1 January 2023

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.1 Standards, amendments to published standards and IC interpretations issued but not yet effective (Cont'd)

The following are standards, amendments to published standards and IC interpretations issued by Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the combined financial statements. The Group intends to adopt these standards, amendments to published standards and IC interpretations, if applicable, when they become effective in the following financial year: (Cont'd)

MFRS (Including the Consequential Amendments)		Effective Date
Amendments to MFRS 101	Presentation of Financial Statements - Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 112	Income Taxes - Deferred Tax related to Asset and Liabilities arising from a Single Transaction	1 January 2023
MFRS 17	Insurance Contracts	1 January 2023
Amendments to MFRS 17	Insurance Contracts	1 January 2023
Amendments to MFRS 10	Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced
Amendments to MFRS 128	Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

The initial application of the abovementioned new and amendments to published standards and IC interpretation, where applicable, are not expected to have any material financial impact to the combined financial statements.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies

(a) Basis of combination

Common control business combination outside the scope of MFRS 3, 'Business Combinations' ("MFRS 3")

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. A business combination involving common control entities, are outside the scope of MFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the combined financial statements.

The Group is regarded as a continuing entity since the management of all the combining entities which took part were managed by the Directors and substantially under same major shareholders before and immediately after the subsequent event in Note 40. Accordingly, the financial information have been prepared on the basis of merger accounting.

In applying merger accounting, financial statement line items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the combined financial statements of the combining entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

A single uniform set of accounting policies is adopted by the combining entities. Therefore, the assets, liabilities and equity of the combining entities or businesses are recognised at the carrying amounts in the combined financial statements of the controlling party or parties prior to the common control combination. The carrying amounts are included as if such combined financial statements had been prepared by the controlling party, including adjustments required for conforming to the Company's accounting policies and applying those policies to all years presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the combined financial statements of the combining entity.

Non-controlling interests are identified separately from the Group's equity therein. On an acquisition-by-acquisition basis, non-controlling interests may be initially measured either at fair value or at their proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Losses in the combining entity are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The combined financial statements were prepared based on the audited financial statements of combining entities which were prepared in accordance with MFRS and IFRS for the purpose of combination. The combining entities maintain their accounting records and prepare the relevant statutory financial statements in accordance with MFRS and IFRS.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(a) Basis of combination (Cont'd)

Common control business combination outside the scope of MFRS 3, 'Business Combinations' ("MFRS 3") (Cont'd)

The Group resulting from the subsequent event as disclosed in Note 40, is made up by 5 entities under common control. Accordingly, the combined financial statements have been accounted for using the principles of merger accounting where financial statement line items of the merged entities for the reporting periods in which the common control combination occur are included in the combined financial statements of the Group as if the combination had occurred from the date when the merged entities first came under the control of the same shareholders.

(b) Basis of consolidation

i. Investment in subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Company. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

Control is achieved when the Group is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account.

The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affects the investee's return. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are measured in the Company's separate financial statements at cost less any impairment losses, unless the investment is held for sale (accounted for in accordance with MFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations') or distribution. The cost of investment includes transaction costs.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(b) Basis of consolidation (Cont'd)

i. Investment in subsidiaries (Cont'd)

The policy for the recognition and measurement of impairment losses is in accordance with Note 5.2(i) to this report. On disposal, the difference between the net disposal proceeds and its carrying amount is recognised as gain or loss on disposal in profit or loss.

ii. Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9, 'Financial Instruments' ("MFRS 9") is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of MFRS 9, it is measured in accordance with the appropriate MFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

iii. Acquisitions of non-controlling interests

Changes in the Company's ownership interest in a combining entity that do not result in a loss of control are accounted for as equity transactions between the Group and its non-controlling interest holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributable to the equity holders of the Company.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(b) Basis of consolidation (Cont'd)

iv. Loss of control

Upon the loss of control of a combining entity, the Group derecognises the assets and liabilities of the former combining entity, any non-controlling interests and the other components of equity related to the former combining entity from the consolidated statements of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former combining entity, then such interest is measured at fair value at the date the control ceases. Subsequently it is accounted for as an equity-accounted investee or as an equity instrument at fair value through other comprehensive income ("FVTOCI") depending on the level of influence retained.

v. Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a combining entity not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statements of financial position and statements of changes in equity, separately from equity attributable to equity holders of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statements of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Losses applicable to non-controlling interests in a combining entity are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and carrying amount of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

vi. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(c) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment, other than land and buildings, are measured at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings are stated at revalued amount less accumulated depreciation and any impairment losses recognised subsequent to the date of revaluation.

Land and buildings are revalued periodically, at least once in every three to five years. Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under revaluation reserve. The surplus shall be recognised in profit or loss to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in profit or loss.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation of an asset begins when it is ready for its intended use. Freehold land is not depreciated but are subject to impairment test if there are any indication of impairment. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, at the following annual rates:

Land and buildings	20 years - 87 years
Computer and software	20% - 33.33%
Factory equipment	10%
Furniture and fittings	10% - 20%
Motor vehicles	20%
Office equipment	10% - 20%
Plant and machinery	10% - 20%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The policy for recognition and measurement of impairment losses is in accordance with Note 5.2(i) to this report.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(c) Property, plant and equipment (Cont'd)

The residual values, useful lives and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Capital work-in-progress is stated at cost, and will be transferred to the relevant category of long term assets and depreciated accordingly when the assets are completed and ready for commercial use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

(d) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified are held for sale. Immediately before classification as held for sale, the non-current assets are remeasured in accordance with the Group's accounting policies. Upon classification as held for sale, the non-current assets are not depreciated and are measured at the lower of their previous carrying amount and fair value less cost to sell. Any differences are recognised in profit or loss.

(e) Investment

i. Subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Group, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investments includes transaction costs.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

ii. Associates

An associate is an entity in which the Group has a long-term equity interest and where it exercises significant influence over the financial and operating policies.

Investments in associates are stated at cost in the statement of financial position of the Group, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investment includes transaction costs.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(f) Foreign currency transactions and balances

Transactions in foreign currency are recorded in the functional currency of the respective Group entities using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are included in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are recognised in profit or loss in the Group's financial statements of the foreign operation as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the reporting period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised in other comprehensive income.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs comprises purchase price and directly attributable costs of bringing the inventories to their present location and conditions. Cost of inventories is determined by the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Intangible assets

Intangible assets, other than goodwill, that are acquired by the Group which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least once at the end of each financial reporting period.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(h) Intangible assets (Cont'd)

Trademarks are amortised on a straight-line method over their estimated useful lives or over 20 years, whichever is shorter.

Gains or losses arising from derecognition of an intangible asset are measured as the differences between the net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss when the asset is derecognised.

(i) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful lives or that are not available for use, the recoverable amount is estimated each period at the same time.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows from continuing use Cash-Generating Unit ("CGU"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGU to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of the combination.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. Where the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognised in profit or loss except for assets that have been previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro-rated basis.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(i) Impairment of non-financial assets (Cont'd)

An impairment loss in respect of goodwill is not reversed. In respect of assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously. Such reversal is credited to profit or loss in the financial year in which the reversal is recognised.

(j) Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and bank balances, deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

(k) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Group become a party to the contractual provisions of the financial instrument.

When financial assets are initially recognised, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss ("FVTPL"), directly attributable transaction costs.

The Group determines the classification of financial assets upon initial recognition. The measurement for each classification of financial assets under MFRS 9 are as below:

i. Financial assets measured at amortised cost

Financial assets that are debt instruments are measured at amortised cost if they are held within a business model whose objectives are to collect contractual cash flows and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial assets are impaired or derecognised.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(k) Financial assets (Cont'd)

ii. Financial assets measured at fair value

Financial assets that are debt instruments are measured at FVTOCI if they are held within a business model whose objectives are to collect contractual cash flows and selling the financial assets, and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets that are debt instruments are measured at fair value. Any gains or losses arising from the changes in fair value of these financial assets are recognised in other comprehensive income, except impairment losses, exchange differences and interest income which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Financial assets that are debt instruments which do not satisfy the requirements to be measured at amortised cost or FVTOCI are measured at FVTPL. The Group does not have any financial assets measured at FVTOCI.

Equity instruments are classified as financial assets measured at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired principally for sale in the near term or are derivatives that do not meet the hedge accounting criteria (including separated embedded derivatives).

Subsequent to initial recognition, financial assets that are equity instruments are measured at fair value. Any gains or losses arising from the changes in fair value of these financial assets are recognised in other comprehensive income and are not subsequently transferred to profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group' right to receive payment is established.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the settlement date, i.e. the date that the asset is delivered to or by the Group.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(k) Financial assets (Cont'd)

Impairment of financial assets

The Group assesses at each financial years end whether there has been a significant increase in credit risk for financial assets by comparing the risk of default occurring over the expected life with the risk of default since initial recognition.

In determining whether credit risk on a financial asset has increased significantly since initial recognition, the Group uses historical experience and other supportive information to assess deterioration in credit quality of a financial asset. The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For collective basis evaluation, financial assets are grouped on the basis of similar risk characteristics.

The Group considers past loss experience and observable data such as current changes and future forecasts in economic conditions to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The amount of impairment loss is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The carrying amount of the financial asset is reduced through the use of an allowance account and the impairment loss is recognised in profit or loss. When a financial asset becomes uncollectible, it is written off against the allowance account.

The Group measure the impairment loss on financial assets other than trade receivables based on the two-step approach:

i. 12-month expected credit loss ("ECL")

   For a financial asset for which there is no significant increase in credit risk since initial recognition, the Group shall measure the allowance for impairment for that financial asset at an amount based on probability of default occurring within the next 12 months considering the loss given default of that financial asset.

ii. Lifetime ECL

   For a financial asset for which there is a significant increase in credit risk since initial recognition, a lifetime ECL for that financial asset is recognised as allowance for impairment by the Group. If, in a subsequent period the significant increase in credit risk since initial recognition is no longer evident, the Group shall revert the loss allowance measurement from lifetime ECL to 12-months ECL.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(k) Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

At each financial year end, the Group assess whether there is a significant increase in credit risk for financial assets other than trade receivables since initial recognition by comparing the risk of default on these financial assets as at the financial year end with the risk of default as at the date of initial recognition. The Group consider historical experience on similar assets and other supportive information to assess deterioration in credit quality of these financial assets.

For trade receivables, the Group measures impairment loss based on lifetime ECL at each reporting date until the financial assets are derecognised.

(l) Financial liabilities

i. Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

a. Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities held for trading include derivatives entered into by the Group that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

b. Other financial liabilities

The Group's other financial liabilities consist of payables, bank borrowings and lease liabilities.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(l) Financial liabilities (Cont'd)

i. Initial recognition and subsequent measurement (Cont'd)

b. Other financial liabilities (Cont'd)

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

ii. Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(m) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(n) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditure and borrowing costs are incurred. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

All borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(o) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the proceeds received at issuance and classified as equity. Transaction costs directly related to the issuance of equity instrument are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the reporting date. A dividend proposed or declared after the reporting date, but before the report are authorised for issue, is not recognised as liability at the reporting date.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(p) Leases

i. As lessee

The Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases excluding short-term leases or leases for which the underlying asset is of low value, conveying the right to control the use of an identified asset for a period of time.

The right-of-use assets are initially recorded at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date of the lease, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the lessor.

Subsequent to the initial recognition, the right-of-use assets are measured at cost less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

Depreciation is computed on a straight-line basis over the estimated useful lives of the right-of-use assets or lease term whichever is earlier.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(p) Leases (Cont'd)

i. As lessee (Cont'd)

In determining the enforceable period of the lease, the Group considers the following:

- the broader economics of the contract, and not only contractual termination payments. If either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is deemed enforceable beyond the date on which the contract can be terminated; and

- whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. A lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is deemed enforceable beyond the date on which the contract can be terminated by that party.

The Group reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, as follows:

Land and buildings	15 years - 87 years
Motor vehicles	20%
Plant and machinery	10% - 20%

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the Group's incremental borrowing rate. Subsequent to the initial recognition, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications.

ii. As lessor

Leases where the Group retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(q) Revenue recognition

The Group recognises revenue from contracts with customers based on the five-step model as set out in MFRS 15:

i. Identify contract(s) with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

ii. Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

iii. Determine the transaction price. The transaction price is the amount of consideration to which the combining entities expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

iv. Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

v. Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time if the Group's performance:

i. Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; or

ii. Creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii. Provides benefits that the customer simultaneously receives and consumes as the Group performs.

For performance obligations where any one of the above conditions is not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(q) Revenue recognition (Cont'd)

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

Revenue is measured at the fair value of consideration received or receivable. The following describes the performance obligation in contracts with customers:

i. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfied a performance obligation by transferring a promised good or service to the customer, which is when customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

a. Sale of goods

Revenue from sales of goods is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

b. Rendering of services

Revenue from services rendered is recognised over time, as the benefits of rendering of services are simultaneously received and consumed by the customers.

c. Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(r) Other income

i. Interest income

Interest income is recognised on an accrual basis that reflects the effective yield of the asset.

(s) Employee benefits

i. Short-term employee benefits

Short-term employment benefits, such as wages, salaries and social security contributions, are recognised as an expenses in the financial year in which the associated services are rendered by employees of the Group.

Short-term accumulating compensated absences, such as paid annual leave, are recognised when the employees render services that increase their entitlement to future compensated absences.

Non-accumulating compensated absences, such as sick leave, are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as the additional amount expected to be paid as a result of the unused entitlement that has accumulated at the reporting date.

Profit-sharing and bonus plans are recognised when the Group has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when, and only when the Group has no realistic alternative but to make the payments.

ii. Defined contribution plans

Defined contributions plans are post-employment benefits plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(t) Taxes

i. Current tax

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted at the reporting date, and adjustment of tax payable in respect of the previous financial year.

Current taxes is recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

ii. Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the combined statements of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unutilised tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unutilised tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in the profit or loss, except when it arises from transaction which is recognised in other comprehensive income or directly in equity, in which case the deferred tax is charged or credited in other comprehensive income or directly in equity.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(t) Taxes (Cont'd)

iii. Sales and Service Tax ("SST")

Revenue, expenses and assets are recognised net of SST except:

- where the SST incurred in a purchase of asset or service is not recoverable from the authority, in which case the SST is recognised as part of cost of acquisition of asset or as part of the expense item as applicable; and
- receivables and payables that stated with SST inclusive.

The SST payable to the taxation authority is included as part of payables in the combined statements of financial position.

The rate for Sales Tax is fixed at 5% or 10%, while the rate for Services Tax is fixed at 6%.

(u) Related parties

A related party is a person or an entity that is related to the Group under the following conditions:

i. A person or a close member of that person's family:

a. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
b. has control or joint control over the reporting entity; or
c. has significant influence over the reporting entity.

ii. Any one of the following condition applies:

a. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
b. either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).
c. both entities are joint ventures of a third entity.
d. either entity is a joint venture of a third entity and the other entity is an associate of the third entity.
e. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.
f. the entity is controlled or jointly controlled by a person identified in (i).
g. a person identified in (i)(b) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
h. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(u) Related parties (Cont'd)

A related party is a person or an entity that is related to the Group under the following conditions: (Cont'd)

iii. Directly, or indirectly through one or more intermediaries, the party:

a. controls, is controlled by, or is under common control with, the Group (this includes parents, subsidiaries, fellow subsidiaries and fellow associates and joint ventures);
b. has an interest in the entity that gives it significant influence over the entity; or
c. has joint control over the entity.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with entity and include:

i. that person's children and spouse or domestic partner;
ii. children of that person's spouse or domestic partner; and
iii. dependants of that person or that person's spouse or domestic partner.

(v) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within 1 level that are observable for the asset or liability, either directly or indirectly.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(v) Fair value measurements (Cont'd)

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfer between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

(w) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources would be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where the inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations not under common control, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

(x) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the years, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

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ACCOUNTANTS' REPORT (CONT'D)

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

5.2 Significant accounting policies (Cont'd)

(y) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Group, to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with MFRS requires management to exercise their judgement in the process of applying the Group's accounting policies and the use of accounting estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date and which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods. Although these judgements and estimates are based on the management's best knowledge of current events and actions, actual results may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is disclosed below:

(a) Useful lives of property, plant and equipment

MFRS 116, 'Property, Plant and Equipment' requires the review of the residual value and remaining useful life of an item of property, plant and equipment at each financial year end. The Group reviewed the residual values and remaining useful lives of its property, plant and equipment and found that no revisions to the residual values and remaining useful lives of these assets were necessary.

(b) Inventories valuation

Inventories are measured at the lower of cost and net realisable value. The Group estimates the net realisable value of inventories based on an assessment of expected selling prices. Demand levels and pricing competition could change from time to time. If such factors result in an adverse effect on the Group's products, the Group might be required to reduce the value of its inventories.

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ACCOUNTANTS' REPORT (CONT'D)

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (CONT'D)

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is disclosed below: (Cont'd)

(c) Measurement of income taxes

Liability for taxation is recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice of whether additional taxes will be payable. When the final outcome of the tax payable is determined with the tax authority, the amount might be different from the initial estimate of the tax payable. Such difference may impact the income tax in the period when such determination is made. The Group will adjust for the differences as over- or under- provision of income tax in the period in which those differences arise.

(d) Impairment of financial assets

The Group recognised impairment losses for financial assets using the ECL model based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(e) Classification of non-current bank borrowings

Bank facilities agreements entered into by the Group include clauses for repayment on demand at the discretion of financial institutions. The Group believes that in the absence of a default being committed by the Group, these financial institutions are not entitled to exercise their right to demand for repayment. Accordingly, the carrying amount of loans at reporting date have been classified between current and non-current liabilities based on their repayment period.

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ACCOUNTANTS' REPORT (CONT'D)

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT (CONT'D)

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is disclosed below: (Cont'd)

(f) Determining the lease term where the Group acts as a lessee

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determines the period for which the contract is enforceable. The Group also considers whether the lessee and lessor each has the right to terminate the lease without the permission from the other party with no more than an insignificant penalty, in determining the lease term. In determining a penalty, the Group assesses monetary and non-monetary considerations.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The determination of the lease term is a significant judgment as it will directly affect the recognition of a lease as a short-term lease or a right-of-use asset with a corresponding lease liability.

(g) Leases - estimating the incremental borrowing rate

The Group uses its incremental borrowing rate ("IBR") to measure lease liabilities as the interest rate implicit in the lease is not readily determinable. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates.

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ACCOUNTANTS' REPORT (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RM	Computer and software RM	Factory equipment RM	Furniture and fittings RM	Motor vehicles RM	Office equipment RM	Plant and machinery RM	Capital work-in-progress RM	Total RM
Cost/Valuation									
At 1 January 2019	137,915,546	2,358,075	1,048,397	1,619,795	5,638,206	489,892	47,772,524	11,448,195	208,290,630
Effect of adoption of MFRS 16	15,333,601	-	-	-	-	-	-	-	15,333,601
Additions	14,776	50,146	49,334	8,480	-	1,300	-	1,448,166	1,572,202
Disposals	-	-	-	-	(1,092,573)	-	(114,000)	-	(1,206,573)
Written off	-	(523,507)	(41,361)	(245,983)	-	(112,828)	(140,100)	-	(1,063,779)
Reclassification	1,534,454	-	-	-	-	-	2,715,907	(4,250,361)	-
At 31 December 2019/ 1 January 2020	154,798,377	1,884,714	1,056,370	1,382,292	4,545,633	378,364	50,234,331	8,646,000	222,926,081
Additions	26,330,790	33,631	244,677	-	911,792	41,501	364,941	-	27,927,332
Revaluation surplus	8,493,006	-	-	-	-	-	-	-	8,493,006
Disposals	-	-	-	-	(727,793)	(3,410)	-	-	(731,203)
Written off	(5,607,121)	(30,593)	(21,450)	(425,527)	(24,000)	(87,450)	(264,590)	-	(6,460,731)
Reclassification	8,646,000	-	-	-	-	-	-	(8,646,000)	-
At 31 December 2020/ 1 January 2021	192,661,052	1,887,752	1,279,597	956,765	4,705,632	329,005	50,334,682	-	252,154,485
Additions	344,182	155,717	1,700	89,447	654,283	297,787	7,870,938	-	9,414,054
Disposals	(74,826,702)	-	-	-	(305,810)	-	-	-	(75,132,512)
Written off	-	(4,890)	(7,450)	-	(53,704)	(447)	(3,015,794)	-	(3,082,285)
Classified as asset held for sale	(42,753,166)	-	-	-	-	-	-	-	(42,753,166)
At 31 December 2021	75,425,366	2,038,579	1,273,847	1,046,212	5,000,401	626,345	55,189,826	-	140,600,576

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ACCOUNTANTS' REPORT (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land and buildings RM	Computer and software RM	Factory equipment RM	Furniture and fittings RM	Motor vehicles RM	Office equipment RM	Plant and machinery RM	Capital work-in-progress RM	Total RM
Accumulated depreciation									
At 1 January 2019	9,916,308	2,227,167	297,112	1,005,329	4,999,864	375,091	30,336,164	-	49,157,035
Depreciation charge	4,369,521	69,181	86,321	120,797	301,516	25,731	3,124,852	-	8,097,919
Disposals	-	-	-	-	(1,092,567)	-	(72,200)	-	(1,164,767)
Written off	-	(513,060)	(10,766)	(231,102)	-	(107,650)	(106,576)	-	(969,154)
At 31 December 2019/ 1 January 2020	14,285,829	1,783,288	372,667	895,024	4,208,813	293,172	33,282,240	-	55,121,033
Depreciation charge	5,287,118	60,409	90,965	107,068	220,463	21,813	3,119,346	-	8,907,182
Disposals	-	-	-	-	(716,470)	(1,354)	-	-	(717,824)
Written off	(5,607,117)	(30,564)	(7,216)	(371,050)	(14,000)	(70,876)	(203,117)	-	(6,303,940)
At 31 December 2020/ 1 January 2021	13,965,830	1,813,133	456,416	631,042	3,698,806	242,755	36,198,469	-	57,006,451
Depreciation charge	5,801,879	56,328	102,072	81,430	349,925	26,048	3,195,050	-	9,612,732
Disposals	(10,206,218)	-	-	-	(305,807)	-	-	-	(10,512,025)
Written off	-	(4,888)	(3,813)	-	-	(312)	(2,625,843)	-	(2,634,856)
Classified as asset held for sale	(1,631,772)	-	-	-	-	-	-	-	(1,631,772)
At 31 December 2021	7,929,719	1,864,573	554,675	712,472	3,742,924	268,491	36,767,676	-	51,840,530

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7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land and buildings RM	Computer and software RM	Factory equipment RM	Furniture and fittings RM	Motor vehicles RM	Office equipment RM	Plant and machinery RM	Capital work-in-progress RM	Total RM
Accumulated impairment losses									
At 1 January 2019/ 31 December 2019/ 1 January 2020	-	-	-	-	-	-	-	-	-
Impairment loss	8,129,246	-	-	-	-	-	-	-	8,129,246
At 31 December 2020/ 1 January 2021	8,129,246	-	-	-	-	-	-	-	8,129,246
Disposal	(3,507,852)	-	-	-	-	-	-	-	(3,507,852)
Classified as asset held for sale	(4,621,394)	-	-	-	-	-	-	-	(4,621,394)
At 31 December 2021	-	-	-	-	-	-	-	-	-
Net carrying amounts									
At 31 December 2021	67,495,647	174,006	719,172	333,740	1,257,477	357,854	18,422,150	-	88,760,046
At 31 December 2020	170,565,976	74,619	823,181	325,723	1,006,826	86,250	14,136,213	-	187,018,788
At 31 December 2019	140,512,548	101,426	683,703	487,268	336,820	85,192	16,952,091	8,646,000	167,805,048

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7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) Right-of-use assets

	Land and buildings RM	Motor vehicles RM	Plant and machinery RM	Capital work-in-progress RM	Total RM
Cost/Valuation					
At 1 January 2019	-	-	-	-	-
Effect of adoption of MFRS 16	84,328,464	-	3,969,353	1,240,891	89,538,708
Reclassification	-	-	1,240,891	(1,240,891)	-
At 31 December 2019/ 1 January 2020	84,328,464	-	5,210,244	-	89,538,708
Addition	26,198,353	318,846	-	-	26,517,199
Written off	(3,908,263)	-	-	-	(3,908,263)
Reclassification	-	-	(1,645,380)	-	(1,645,380)
At 31 December 2020/ 1 January 2021	106,618,554	318,846	3,564,864	-	110,502,264
Addition	344,182	335,335	-	-	679,517
Disposals	(38,166,600)	-	-	-	(38,166,600)
Classified as asset held for sale	(13,170,000)	-	-	-	(13,170,000)
At 31 December 2021	55,626,136	654,181	3,564,864	-	59,845,181
Accumulated depreciation					
At 1 January 2019	-	-	-	-	-
Effect of adoption of MFRS 16	4,745,236	-	794,971	-	5,540,207
Depreciation charge	2,445,996	-	469,321	-	2,915,317
At 31 December 2019/ 1 January 2020	7,191,232	-	1,264,292	-	8,455,524
Depreciation charge	3,128,834	16,370	521,025	-	3,666,229
Written off	(3,908,261)	-	-	-	(3,908,261)
Reclassification	-	-	(794,817)	-	(794,817)
At 31 December 2020/ 1 January 2021	6,411,805	16,370	990,500	-	7,418,675
Depreciation charge	3,960,950	70,683	356,487	-	4,388,120
Disposals	(4,022,901)	-	-	-	(4,022,901)
Classified as asset held for sale	(192,866)	-	-	-	(192,866)
At 31 December 2021	6,156,988	87,053	1,346,987	-	7,591,028

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ACCOUNTANTS' REPORT (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) Right-of-use assets (Cont'd)

	Land and buildings RM	Motor vehicles RM	Plant and machinery RM	Capital work-in-progress RM	Total RM
Accumulated impairment losses					
At 1 January 2019/ 31 December 2019/ 1 January 2020	-	-	-	-	-
Impairment loss	4,823,735	-	-	-	4,823,735
At 31 December 2020/ 1 January 2021	4,823,735	-	-	-	4,823,735
Disposals	(3,146,601)	-	-	-	(3,146,601)
Classified as asset held for sale	(1,677,134)	-	-	-	(1,677,134)
At 31 December 2021	-	-	-	-	-
Net carrying amounts					
At 31 December 2021	49,469,148	567,128	2,217,877	-	52,254,153
At 31 December 2020	95,383,014	302,476	2,574,364	-	98,259,854
At 31 December 2019	77,137,232	-	3,945,952	-	81,083,184

(b) Carrying amount for properties of the Group that have been pledged to financial institution to secure the loan and borrowings granted to the Group as disclosed in Note 23 to this report as follows:

	2021 RM	2020 RM	2019 RM
Land and buildings	31,144,312	109,960,207	114,474,630

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7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(c) In the previous year, carrying amount for land and buildings of the Group was revalued by independent professional valuers as follows:

	2021 RM	2020 RM	2019 RM
Land and buildings	31,144,312	131,346,047	125,771,073

The valuations are based on comparison and open market value method that makes reference to comparable properties that were transacted within reasonable time frame, close proximity and similar nature of properties.

(d) The fair value of the revalued land and buildings is categorised as Level 2. There is no transfer between levels of fair value hierarchy during the financial years.

(e) If the revalued land and buildings was measured using the cost model, the carrying amount would be as follows:

	2021 RM	2020 RM	2019 RM
Cost	48,820,641	97,512,473	100,897,823
Accumulated depreciation	(8,566,618)	(13,873,940)	(14,752,969)
	40,254,023	83,638,533	86,144,854

(f) Included in land and buildings with a carrying amount of RM31,144,312 (2020: RM31,762,805; 2019: RM32,381,299) are yet to be issued individual title of the properties.

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ACCOUNTANTS' REPORT (CONT'D)

8. INTANGIBLE ASSETS

	Trademark RM
Cost	
At 1 January 2019	15,612
Addition	1,430
At 31 December 2019/31 December 2020/ 1 January 2021	17,042
Addition	63,646
At 31 December 2021	80,688
Accumulated amortisation	
At 1 January 2019	11,061
Amortisation	800
At 31 December 2019/1 January 2020	11,861
Amortisation	800
At 31 December 2020/1 January 2021	12,661
Amortisation	800
At 31 December 2021	13,461
Net carrying amounts	
At 31 December 2021	67,227
At 31 December 2020	4,381
At 31 December 2019	5,181

9. OTHER INVESTMENTS

	2021 RM	2020 RM	2019 RM
Unquoted shares, at cost			
At 1 January	7,800,000	7,800,000	7,800,000
Disposal	(7,800,000)	-	-
At 31 December	-	7,800,000	7,800,000
Less: Accumulated impairment losses	-	(1,000,000)	(1,000,000)
	-	6,800,000	6,800,000

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ACCOUNTANTS' REPORT (CONT'D)

9. OTHER INVESTMENTS (CONT'D)

The movement of accumulated impairment losses of the Group are as follows:

	2021 RM	2020 RM	2019 RM
At 1 January	1,000,000	1,000,000	1,000,000
Disposal	(1,000,000)	-	-
At 31 December	-	1,000,000	1,000,000

The details of the other investments are as follows:

Name of entities	Principal Place of Business	Effective Equity Interest 2021 %	2020 %	2019 %	Principal Activity
Subsidiary					
Hextar Agriculture Sdn. Bhd. [1,2]	Malaysia	-	100	100	Manufacturing and marketing of a wide range of fertilizers.
Amalan Prestasi Sdn. Bhd. [1,3]	Malaysia	-	100	100	Providing warehousing, labour and handling services and renting out its property to derive rental income.
Evergreen Agricultural Services Sdn. Bhd. [1,4]	Malaysia	-	100	100	Provide inland transportation services focusing on container haulage.
Associate					
Hextar Fertilizers Sdn. Bhd. [1,5]	Malaysia	-	26.67	26.67	Manufacturing, marketing and distributing of fertilizers.

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9. OTHER INVESTMENTS (CONT'D)

Notes:

[1] Not audited by Ecovis Malaysia PLT

[2] On 10 December 2021, the Group had disposed its entire equity interest in Hextar Agriculture Sdn. Bhd. to related company, Hextar Global Berhad for a consideration of RM190,000.

[3] On 2 August 2021, the Group had disposed its entire equity interest in Amalan Prestasi Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM3,405,000.

[4] On 30 June 2021, the Group had disposed its entire equity interest in Evergreen Agricultural Services Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM1.

[5] On 23 December 2021, the Group had disposed its entire equity interest in Hextar Fertilizers Sdn. Bhd. to Hextar Holdings Sdn. Bhd. for a consideration of RM4,260,000.

The financial position, financial performance and cash flows of the entities under other investments had been carved out from the combined financial statements of the Group as the entities had been disposed pursuant to the internal restructuring exercise.

10. INVENTORIES

	2021 RM	2020 RM	2019 RM
At cost/net realisable value:			
Raw Materials	186,603,373	34,593,297	48,054,737
Consumables	4,688,646	3,625,793	4,318,864
Finished goods	20,509,877	21,348,006	18,769,182
Goods-in-transit	44,450,273	21,181,235	11,096,450
	256,252,169	80,748,331	82,239,233
Recognised in combined statements of comprehensive income:			
Inventories recognised in cost of sales	463,288,816	373,370,791	302,490,302
Inventories written off	2,431,848	595,204	-
Reversal of inventories written down	(399,762)	-	(522,041)

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ACCOUNTANTS' REPORT (CONT'D)

11. TRADE RECEIVABLES

	2021 RM	2020 RM	2019 RM
Third parties	151,699,300	158,651,312	100,230,684
Subsidiary	-	1,309,770	2,416,770
Associate	-	-	26,580
Related companies	3,697,024	86,847	1,821,800
Related parties	68,920	6,089,991	2,662,350
	155,465,244	166,137,920	107,158,184
Less: Accumulated impairment losses	(3,598,548)	(3,886,845)	(5,209,659)
	151,866,696	162,251,075	101,948,525

Trade receivables are non-interest bearing and are generally on credit term of 30 to 90 days (2020: 30 to 90 days; 2019: 30 to 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis on trade receivables

The ageing analysis of the Group's trade receivables are as follows:

	2021 RM	2020 RM	2019 RM
Not past due	89,834,536	83,437,360	50,808,145
Past due			
- less than 30 days	23,777,115	29,418,628	18,179,871
- 31 to 60 days	19,745,594	18,445,205	8,154,393
- 61 to 90 days	10,730,434	11,390,831	8,071,689
- over 90 days	7,779,017	19,559,051	16,734,427
	62,032,160	78,813,715	51,140,380
	151,866,696	162,251,075	101,948,525
Impairment losses	3,598,548	3,886,845	5,209,659
	155,465,244	166,137,920	107,158,184

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

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11. TRADE RECEIVABLES (CONT'D)

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM62,032,160 (2020: RM78,813,715; 2019: RM51,140,380) that are past due but not impaired at the reporting date. The remaining receivables that are past due but not impaired are expected to be collected in the next 12 months.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience and no adverse information to date, the Directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are still considered recoverable.

Receivables that are impaired

The Group have trade receivables amounting RM3,598,548 (2020: RM3,886,845; 2019: RM5,209,659) that have been impaired.

Receivables that are individually determined to be impaired at the end of the financial year relate to receivables that are in significant financial difficulties and have defaulted on payments or the Directors of the Group are of the opinion that it is not recoverable.

The movements of the accumulated impairment loss on trade receivables of the Group are as follows:

	Specific allowance RM
At 1 January 2019	5,785,692
Reversal for the year (Note 30)	(576,033)
At 31 December 2019/1 January 2020	5,209,659
Charge for the year (Note 30)	575,317
Reversal for the year (Note 30)	(12,113)
Written off for the year	(1,886,018)
At 31 December 2020/1 January 2021	3,886,845
Reversal for the year (Note 30)	(288,297)
At 31 December 2021	3,598,548

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ACCOUNTANTS' REPORT (CONT'D)

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2021 RM	2020 RM	2019 RM
Advance to suppliers	27,499,100	2,198,042	1,248,591
Dividend receivables	-	6,200,000	-
Other receivables	8,258,605	2,203,288	8,117,526
Deposits	1,247,758	1,943,520	1,580,045
Prepayments	1,470,167	1,407,593	1,453,214
	38,475,630	13,952,443	12,399,376

13. AMOUNT DUE FROM/(TO) HOLDING COMPANY

The amount due from/(to) holding company are unsecured, interest free and payable on demand in cash and cash equivalents.

14. AMOUNT DUE FROM SUBSIDIARIES

The amount due from subsidiary companies are unsecured, interest free and payable on demand in cash and cash equivalents.

15. AMOUNT DUE FROM RELATED COMPANIES

The amount due from related companies are unsecured, interest free and payable on demand in cash and cash equivalents.

16. ASSETS CLASSIFIED AS HELD FOR SALE

	2021 RM	2020 RM	2019 RM
At 1 January	-	-	-
Reclassified from property, plant and equipment (Note 7)	36,500,000	-	-
At 31 December	36,500,000	-	-

The assets classified as held for sale that have been pledged to financial institution to secure the loan and borrowings granted to the Group as disclosed in Note 23 to this report.

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17. SHARE CAPITAL

For the purpose of this report, the total number of shares for all financial year end represents the aggregate number of issued and fully paid-up shares of all entities within the Group, net of shares held by non-controlling interest.

The movement in the issued and paid-up share capital of the Company and its combining entities are as follows:

	2021		2020		2019	
	No. of shares	RM	No. of shares	RM	No. of shares	RM
Company						
Number of ordinary share of USD0.1 each						
Authorised share capital						
At 1 January / 31 December	50,000	15,000	50,000	15,000	50,000	15,000
Issued and fully paid						
At 1 January / 31 December	5	2	5	2	5	2
PK Fertilizers Sdn. Bhd.						
Issued and fully paid						
At 1 January	57,000,000	57,000,000	57,000,000	57,000,000	57,000,000	57,000,000
Reduction in share capital	-	(42,750,000)	-	-	-	-
Adjustment on acquisition of subsidiary	(57,000,000)	(14,250,000)	-	-	-	-
At 31 December	-	-	57,000,000	57,000,000	57,000,000	57,000,000
Hextar Fert Sdn. Bhd.						
Issued and fully paid						
At 1 January	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000
Adjustment on acquisition of subsidiary	(7,600,000)	(7,600,000)	-	-	-	-
At 31 December	-	-	7,600,000	7,600,000	7,600,000	7,600,000
Total share capital	5	2	64,600,005	64,600,002	64,600,005	64,600,002

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ACCOUNTANTS' REPORT (CONT'D)

17. SHARE CAPITAL (CONT'D)

(a) On 24 September 2021, PK Fertilizers Sdn. Bhd. had reduced its share capital from RM60,000,000 comprising of 60,000,000 ordinary shares to RM15,000,000 comprising of 60,000,000 ordinary shares by cancelling sum of RM45,000,000.

(b) The holders of ordinary shares are entitled to receive dividends as and when declared by the combining entities and are entitled to one vote per ordinary share at meetings of the combining entities. All ordinary share rank equally with regard to the combining entity's residual assets.

18. SHARE PREMIUM

	2021 RM	2020 RM	2019 RM
At 1 January/31 December	45,340,000	45,340,000	45,340,000

19. MERGER RESERVE

The merger reserve represents the difference between the carrying value of the investment in subsidiaries and the share capital of the Company's subsidiaries upon consolidation under the merger accounting principle.

20. REVALUATION RESERVE

The revaluation reserve represents revaluation surplus on the property of the Group (net of deferred tax, where applicable) presented under property, plant and equipment. The Group makes an annual transfer of the revaluation reserve to retained earnings on a straight-line method. Upon retirement or disposal of the property, the revaluation reserve is transferred directly to retained earnings.

21. CAPITAL RESERVE

Capital reserve arising from the share capital reduction of PK Fertilizers Sdn. Bhd., which shall be utilise for distribution to its shareholder. The remaining credit after distribution to shareholder, shall be utilised to set off the PK Fertilizers Sdn. Bhd.'s accumulated losses or retained earnings.

22. DISTRIBUTABLE RESERVES

The Group's policy is to treat all gains and losses in other statement of comprehensive income (i.e. nonowner transactions or events) as revenue reserves. Other than retained earnings, all other revenue reserves are regarded as non-distributable in the form of cash dividends to shareholders.

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ACCOUNTANTS' REPORT (CONT'D)

22. DISTRIBUTABLE RESERVES (CONT'D)

The retained earnings of the Group are available for distributions by way of cash dividends or dividends in specie. Under the single-tier system of taxation, dividends payable to shareholders are deemed net of income taxes. There are no potential income tax consequences to the Group that would result from the payment of dividends to shareholders. The dividends would not be taxable in the hands of the shareholders.

23. BANK BORROWINGS

	2021 RM	2020 RM	2019 RM
Current liabilities:			
Bank overdraft	-	4,132,928	-
Bills payable	276,602,875	146,205,779	136,448,805
Revolving credit	12,000,000	12,000,000	-
Term loans	7,705,873	7,705,873	6,848,317
	296,308,748	170,044,580	143,297,122
Non-current liabilities:			
Term loans	41,722,443	48,613,091	54,248,221
Total borrowings:			
Bank overdraft	-	4,132,928	-
Bills payable	276,602,875	146,205,779	136,448,805
Revolving credit	12,000,000	12,000,000	-
Term loans	49,428,316	56,318,964	61,096,538
	338,031,191	218,657,671	197,545,343
Maturity of borrowings:			
- Not later than one year	296,308,748	170,044,580	143,297,122
- Later than one year and not later than five years	25,272,443	29,503,489	27,833,269
- Later than five years	16,450,000	19,109,602	26,414,952
	338,031,191	218,657,671	197,545,343

The above bank borrowings obtained from banking institutions are secured on the followings:

(a) Legal charge over the properties of the Group as disclosed in Note 7 and 16 to this report;

(b) Legal charge over the properties of the related company;

(c) Negative pledge over all present and future assets of the Group;

(d) Corporate guarantee by the holding company; and

(e) Joint and several guarantee by certain Directors of the Group and a Director of holding company.

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ACCOUNTANTS' REPORT (CONT'D)

23. BANK BORROWINGS (CONT'D)

The interest rates of the above bank borrowings are as follows:

	2021 %	2020 %	2019 %
Bank overdraft	-	6.45 - 7.37	-
Bills payable	1.05 - 4.45	1.26 - 7.12	3.02 - 5.19
Revolving credit	3.45 - 4.19	3.47 - 4.15	-
Term loans	4.08 - 6.82	4.07 - 6.82	5.10 - 6.82

24. LEASE LIABILITIES

	2021 RM	2020 RM	2019 RM
Minimum lease payment			
- Not later than one year	4,711,860	4,433,568	2,007,224
- Later than one year and not later than five years	17,523,462	17,403,613	7,616,477
- Later than five years	31,476,836	35,448,519	13,130,713
	53,712,158	57,285,700	22,754,414
Less: Future finance charges	(13,678,401)	(15,579,183)	(5,951,974)
Present value of lease liabilities	40,033,757	41,706,517	16,802,440
Current			
- Not later than one year	2,795,183	2,416,133	1,190,639
Non-current			
- Later than one year and not later than five years	11,285,938	10,713,315	4,996,605
- Later than five years	25,952,636	28,577,069	10,615,196
	37,238,574	39,290,384	15,611,801
Total lease liabilities	40,033,757	41,706,517	16,802,440

Certain lease liabilities of the Group are secured by corporate guarantee of the holding company.

The lease liabilities of the Group bear effective annual interest rate as at the end of reporting period are range from 3.11% to 5.77% (2020: 4.30% to 5.57%; 2019: 5.00% to 6.81%) per annum.

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ACCOUNTANTS' REPORT (CONT'D)

24. LEASE LIABILITIES (CONT'D)

The following are the amounts recognised in profit or loss:

	2021 RM	2020 RM	2019 RM
Depreciation expenses of right-of-use assets	4,388,120	3,666,229	2,915,317
Impairment loss of right-of-use assets	-	4,823,735	-
Interest expense on lease liabilities	2,023,364	1,339,991	940,956
Expenses relating to short-term leases	3,323,915	2,403,842	2,780,549
Total amount recognised in profit or loss	9,735,399	12,233,797	6,636,822
Total cash outflows for leases (including short-term leases)	7,684,556	4,994,693	5,149,596

25. DEFERRED TAX LIABILITIES

	2021 RM	2020 RM	2019 RM
At 1 January	19,671,195	21,292,357	21,779,683
Charged to profit or loss	(712,255)	(1,708,465)	(487,326)
Charged to revaluation reserve	(11,156,942)	-	-
Arising from revaluation of properties	-	87,303	-
At 31 December	7,801,998	19,671,195	21,292,357
Revaluation reserve	7,801,998	19,671,195	20,194,357
Unrealised foreign exchange	-	-	31,000
Property, plant and equipment	-	-	1,067,000
Total deferred tax liabilities	7,801,998	19,671,195	21,292,357

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25. DEFERRED TAX LIABILITIES (CONT'D)

The components and movements of the Group's deferred tax liabilities are as follows:

	Revaluation reserve RM	Unrealised foreign exchange RM	Property, plant and equipment RM	Total RM
At 1 January 2019	20,766,683	-	1,013,000	21,779,683
Charge to profit or loss	(572,326)	31,000	54,000	(487,326)
At 31 December 2019/ 1 January 2020	20,194,357	31,000	1,067,000	21,292,357
Charge to profit or loss	(610,465)	(31,000)	(1,067,000)	(1,708,465)
Arising from revaluation of properties	87,303	-	-	87,303
At 31 December 2020/ 1 January 2021	19,671,195	-	-	19,671,195
Charge to profit or loss	(712,255)	-	-	(712,255)
Charge to revaluation reserve	(11,156,942)	-	-	(11,156,942)
At 31 December 2021	7,801,998	-	-	7,801,998

26. TRADE PAYABLES

	2021 RM	2020 RM	2019 RM
Third parties	143,708,731	70,409,878	34,403,863
Subsidiary	-	813,513	-
Associate	-	147,000	-
Related companies	5,974,989	39,987	-
Related parties	144,000	304,856	403,036
	149,827,720	71,715,234	34,806,899

Trade payables are non-interest bearing and the Group's normal trade credit term ranges from 30 to 120 days (2020: 30 to 120 days; 2019: 30 to 120 days).

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27. OTHER PAYABLES AND ACCRUALS

	2021 RM	2020 RM	2019 RM
Other payables	10,801,442	12,625,436	10,354,771
Accruals	14,126,568	6,574,805	6,228,616
	24,928,010	19,200,241	16,583,387

28. REVENUE

	2021 RM	2020 RM	2019 RM
Sales of goods	611,383,882	483,159,850	368,116,343
Rendering of services	1,500	50	14,736
Dividend income	-	11,266,667	2,500,000
	611,385,382	494,426,567	370,631,079
Local	601,057,852	485,330,266	341,633,716
Foreign	10,327,530	9,096,301	28,997,363
	611,385,382	494,426,567	370,631,079
Timing of revenue recognition			
- At a point in time	611,383,882	494,426,517	370,616,343
- Over time	1,500	50	14,736
	611,385,382	494,426,567	370,631,079

29. FINANCE COSTS

	2021 RM	2020 RM	2019 RM
Bank overdraft interest	296,160	252,969	404,413
Bills payable interest	6,706,877	5,952,110	7,537,421
Bank guarantee interest	5,611	52,612	55,355
Lease liabilities interest	2,023,364	1,339,991	940,956
Revolving credit interest	298,610	481,892	378,392
Term loans interest	2,372,861	3,026,686	3,709,717
	11,703,483	11,106,260	13,026,254

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30. PROFIT/(LOSS) BEFORE TAX

	2021 RM	2020 RM	2019 RM
Amortisation of intangible assets	800	800	800
Auditors' remuneration			
- current year	93,210	85,000	85,000
- under/(over) provision in prior years	7,500	(2,000)	4,000
Bad debts recovery	-	(8,797)	-
Bad debts written off	-	-	43,756
Capital gain on reduction of share capital in subsidiary	(14,600,000)	-	-
Deposits written off	-	49,900	13,539
Depreciation of property, plant and equipment	9,612,732	8,907,182	8,097,919
Dividend income	(280,000)	(6,400,000)	(600,000)
Employee benefits expenses:			
- Salaries, allowances and bonus	21,002,904	19,881,581	14,091,366
- Defined contribution plan	1,109,044	1,164,997	1,105,353
- Social security contributions	131,087	107,164	100,343
- Other staff related expenses	312,765	296,979	239,758
Gain on disposal of investment in subsidiaries	(2,795,001)	-	-
Gain on disposal of property, plant and equipment	(2,597,364)	(27,013)	(333,986)
Gain on rent concession	(15,000)	(362,262)	-
Impairment loss on property, plant and equipment	-	2,944,260	-
Interest income	(177,086)	(162,567)	(133,504)
Inventories written off	2,431,848	595,204	-
Loss on disposal of investment in an associate	1,740,000	-	-
Net impairment (gain)/loss on trade receivables	(288,297)	563,204	(576,033)
Property, plant and equipment written off	447,429	156,791	94,625

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30. PROFIT/(LOSS) BEFORE TAX (CONT'D)

	2021 RM	2020 RM	2019 RM
Realised loss on foreign exchange, net	691,912	1,286,758	1,011,879
Rental of machineries [1]	2,187,550	1,228,740	638,763
Rental of vehicles [1]	86,302	103,950	119,070
Rental of premises [1]	1,050,063	1,071,152	2,022,716
Rental income	(321,780)	(214,953)	(701,805)
Reversal of inventories written down	(399,762)	-	(522,041)
Unrealised loss/(gain) on foreign exchange, net	390,786	348,505	(732,215)

[1] The amount represent short-term lease and low value underlying assets under MFRS 16.

31. TAXATION

	2021 RM	2020 RM	2019 RM
Income tax			
Current year	3,419,890	15,000	10,000
Underprovision in prior years	23,210	231	154,355
	3,443,100	15,231	164,355
Real property gains tax	3,556,944	-	66,192
Deferred tax (Note 25)			
Current year	-	-	54,000
Crystalisation of deferred tax liabilities arising from revaluation reserve	(712,255)	(610,465)	(572,326)
(Over)/under provision in prior years	-	(1,098,000)	31,000
	(712,255)	(1,708,465)	(487,326)
	6,287,789	(1,693,234)	(256,779)

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31. TAXATION (CONT'D)

A reconciliation of tax expenses applicable to profit/(loss) before tax at the statutory income tax rate of the Group is as follows:

	2021 RM	2020 RM	2019 RM
Profit/(loss) before tax	54,449,907	34,897,700	(2,951,299)
Malaysian statutory tax rate of 24%	13,067,978	8,375,448	(708,312)
Tax effect in respect of:			
Non-taxable income	(4,842,235)	(4,240,000)	(758,400)
Non-deductible expenses	2,510,993	659,398	579,637
Deferred tax assets not recognised during the financial year	-	-	1,325,075
Real property gains tax	3,556,944	-	66,192
Crystalisation of deferred tax liabilities arising from revaluation reserve	(167,755)	(610,465)	(572,326)
(Over)/under provision of deferred tax in prior year	-	(1,098,000)	31,000
Underprovision of income tax in prior years	23,210	231	154,355
Utilisation of deferred tax assets previously not recognised	(7,861,346)	(4,779,846)	(374,000)
Tax expense for the financial year	6,287,789	(1,693,234)	(256,779)

	2021 RM	2020 RM	2019 RM
Tax benefits carried forward are analysed as follows:			
Unabsorbed capital allowances	13,203,412	26,848,890	49,588,837
Unutilised tax losses	47,510,811	63,281,373	63,728,023
Allowance of increase export	-	3,222,341	4,264,524
	60,714,223	93,352,604	117,581,384

Deferred tax assets have not been recognised in respect of those items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits thereon.

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31. TAXATION (CONT'D)

The availability of unutilised tax losses for offsetting against future taxable profits of the Group is subject to the requirements under the Income Tax Act 1967 and guidelines issued by the Inland Revenue Board.

Under the current tax legislation in Malaysia, unabsorbed losses from year of assessment ("YA") 2019 onwards can only be carried forward for a maximum period of 10 consecutive YAs. Unabsorbed losses for YA 2019 can be set off against income from any business source for 10 YAs and will be disregarded in YA 2030. Unabsorbed losses accumulated up to YA 2018 can be utilised for another 10 YAs and will be disregarded in YA 2029.

Unutilised tax losses of the Group can be carried forward until the following YAs:

	2021 RM	2020 RM	2019 RM
YA 2028	47,246,895	62,189,199	62,189,199
YA 2029	263,916	1,092,174	1,538,824
	47,510,811	63,281,373	63,728,023

32. EARNINGS PER SHARE

Basic and diluted earnings per ordinary share are calculated by dividing the profit/(loss) for the financial years attributable to owners of the Company by the weighted average number of ordinary shares in issue for the financial year.

For the purpose of this report, the number of ordinary shares for the financial years 31 December 2021, 31 December 2020 and 31 December 2019 represents the weighted average aggregate ordinary shares issued of the Company and its combining entities.

	2021	2020	2019
Profit/(loss) for the financial years attributable to owners of the Company (RM)	48,162,118	36,590,934	(2,694,520)
Weighted average number of ordinary shares at 31 December (units)	64,069,046	64,600,005	64,600,005
Basic and diluted earnings per ordinary share (RM)	0.75	0.57	(0.04)

There were no dilutive potential equity instruments in issue as at each FYE that have dilutive effect to the earnings per ordinary share.

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33. DIVIDENDS

	2021 RM	2020 RM	2019 RM
Company			
Interim dividend of RM500,000 per ordinary share for the financial year ended 31 December 2019 paid on 16 December 2019	-	-	2,500,000
Interim dividend of RM939,092.52 per ordinary share for the financial year ended 31 December 2020 paid on 31 December 2020	-	4,695,463	-
Interim dividend of RM9,592,000 per ordinary share for the financial year ended 31 December 2021 paid on 30 September 2021	47,960,000	-	-
Hextar Fertilizers Group Sdn. Bhd.			
Interim dividend of RM500,000 per ordinary share for the financial year ended 31 December 2019 paid on 16 December 2019	-	-	2,500,000
Interim dividend of RM939,092.52 per ordinary share for the financial year ended 31 December 2020 paid on 31 December 2020	-	4,695,463	-
Interim dividend of RM9,592,000 per ordinary share for the financial year ended 31 December 2021 paid on 30 September 2021	47,960,000	-	-

33. DIVIDENDS (CONT'D)

	2021 RM	2020 RM	2019 RM
Hextar Solutions Sdn. Bhd.			
Interim dividend of RM800,000 for every 133,349 share for the financial year ended 31 December 2020 paid on 31 March 2020	-	4,000,000	-
Interim dividend of RM4,000,000 for every 133,349 share for the financial year ended 31 December 2021 paid on 30 September 2021	20,000,000	-	-
Hextar Fert Sdn. Bhd.			
Interim dividend of RM0.25 per ordinary share for the financial year ended 31 December 2020 paid on 31 December 2020	-	2,500,000	-
Interim dividend of RM0.70 per ordinary share for the financial year ended 31 December 2021 paid on 30 September 2021	7,000,000	-	-

34. CASH AND CASH EQUIVALENTS

	2021 RM	2020 RM	2019 RM
Fixed deposit with financial institution	378,492	375,726	4,067,073
Cash and bank balances	28,492,563	23,354,621	17,327,978
	28,871,055	23,730,347	21,395,051
Less: Bank overdraft	-	(4,132,928)	-
	28,871,055	19,597,419	21,395,051

Fixed deposit with financial institution as at end of reporting period have average maturity period of 365 days (2020: 365 days; 2019: 2 to 365 days) with effective interest rates of 1.25% to 2.50% (2020: 1.50% to 2.50%; 2019: 2.00% to 2.70%) per annum.

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35. RELATED PARTY DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group have the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where combining entities and the parties are subject to common control or common significant influence. Related parties could be individual or other entities.

Related parties of the Group included:-

(i) Entities in which the Directors have substantial financial interest; and
(ii) Key management personnel of the Group, comprise persons (including Directors) having the authorities and responsibility for planning, directing and controlling the activities.

(b) In addition to the information detailed elsewhere in the report, the combining entities had the following transactions with related parties during the reporting periods:

	2021 RM	2020 RM	2019 RM
Sales to an associate	-	275,637	22,146,623
Sales to a subsidiary	-	2,997,479	3,644,032
Sales to related companies	31,904,552	372,924	5,015,050
Sales to related parties	305,764	18,894,103	6,511,346
Purchase from an associate	-	(2,082,069)	(8,246,933)
Purchase from a subsidiary	-	(41,196,485)	(3,650,847)
Purchase from related companies	(20,997,587)	(13,350)	(1,127,216)
Purchase from related parties	(523,799)	(3,335,537)	(3,066,530)
Loan stock to related companies	(15,225,475)	-	-
Acquisition of subsidiaries from holding company	(89,593,000)	-	-
Proceeds of disposal of investment in subsidiaries to holding company	3,595,001	-	-
Proceeds of disposal of investment in associate to holding company	4,260,000	-	-

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35. RELATED PARTY DISCLOSURES (CONT'D)

(b) In addition to the information detailed elsewhere in the report, the combining entities had the following transactions with related parties during the reporting periods: (Cont'd)

	2021 RM	2020 RM	2019 RM
Proceeds of disposal of property, plant and equipment to a related company	9,800,000	-	-
Purchase of property, plant and equipment from a related company	(5,565,936)	-	-
Purchase of property, plant and equipment from a related party	-	(30,000)	-
Purchase of property, plant and equipment from subsidiaries	-	(748,982)	-
Sale of equipment to a related party	-	22,800	-
Transportation cost charged to a related party	-	238,706	-
Management fee charged by a related company	(1,560,000)	(1,560,000)	(1,560,000)
Lease payment paid to related companies	(1,815,048)	-	-
Lease payment paid to a related party	(2,094,000)	(872,500)	(275,087)
Lease payment paid to a subsidiary	-	(1,086,786)	(1,449,048)
Lease payment paid to an associate	-	(90,000)	-
Rental of machinery charged by a related company	(750,000)	-	-
Rental of machinery charged by a subsidiary	-	(625,000)	-
Software license fees charged by a related company	(105,900)	(17,650)	(105,900)

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35. RELATED PARTY DISCLOSURES (CONT'D)

(b) In addition to the information detailed elsewhere in the report, the combining entities had the following transactions with related parties during the reporting periods: (Cont'd)

	2021 RM	2020 RM	2019 RM
Net repayment received from Directors	-	-	1,058,434
Net (advance to)/repayment received from related companies	(17,871,198)	6,500,000	(7,633,502)
Net repayment received from related parties	-	-	416,540
Net repayment received from subsidiaries	761,959	393,108	100,000
Net repayment received from/ (advance to) holding company	33,043,852	(43,516,257)	3,000,000

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group.

	2021 RM	2020 RM	2019 RM
Directors' compensation:			
- Directors' salary	857,000	737,625	1,259,325
- Defined contribution plan	102,840	101,907	74,745
- Social security contributions	829	829	997
- Other benefits	95	95	103
	960,764	840,456	1,335,170

36. SEGMENT INFORMATION

(a) Operating segments

Information about operating segments has not been reported separately as the Group's revenue, profit or loss, assets and liabilities are primarily involved in the fertilisers industry.

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36. SEGMENT INFORMATION (CONT'D)

(b) Geographical segments

Revenue of the Group based on geographical location of its customers are as follows:

	2021 RM	2020 RM	2019 RM
Peninsular Malaysia	402,844,834	338,257,621	288,904,034
East Malaysia	198,213,018	147,072,645	52,729,682
Overseas	10,327,530	9,096,301	28,997,363
	611,385,382	494,426,567	370,631,079

(c) Major customers

The Group does not have any customers with revenue equal or more than 10% of the Group's total revenue.

37. FINANCIAL INSTRUMENTS

(i) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost based on their respective classification. The significant accounting policies in Note 5.2(k) & (l) describe how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The table below provides an analysis of financial instruments of the Group in the statement of financial position by the classes and categories of financial instruments to which they are assigned and therefore by the measurement basis, as follows:

	2021 RM	2020 RM	2019 RM
Financial assets			
At amortised cost:-			
Trade receivables	151,866,696	162,251,075	101,948,525
Other receivables and deposits	37,005,463	12,544,850	10,946,162
Amount due from holding company	-	32,345,052	-
Amount due from subsidiaries	-	761,959	1,155,067
Amount due from related companies	17,871,198	-	6,500,000
Tax recoverable	115,200	779,039	2,816,622
Fixed deposit with financial institution	378,492	375,726	4,067,073
Cash and bank balances	28,492,563	23,354,621	17,327,978
	235,729,612	232,412,322	144,761,427

37. FINANCIAL INSTRUMENTS (CONT'D)

(i) Classification of financial instruments (Cont'd)

The table below provides an analysis of financial instruments of the Group in the statement of financial position by the classes and categories of financial instruments to which they are assigned and therefore by the measurement basis, as follows: (Cont'd)

	2021 RM	2020 RM	2019 RM
Financial liabilities			
At amortised cost:-			
Trade payables	149,827,720	71,715,234	34,806,899
Other payables and accruals	24,928,010	19,200,241	16,583,387
Amount due to holding company	698,800	-	11,171,205
Bank borrowings	338,031,191	218,657,671	197,545,343
Lease liabilities	40,033,757	41,706,517	16,802,440
	553,519,478	351,279,663	276,909,274

(ii) Financial risk management policies

The Group is exposed to financial risk arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, credit risk, foreign currency risk and liquidity risk.

The Board of Directors review and agree policies and procedure for the management of these risks, which are executed by the Managing Director. The Group's financial risk management policies are to ensure that adequate financial resources are available for the development of the Group's operations whilst managing its interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group operates within clearly defined guidelines that are approved by the Board of Directors.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of those risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group manages the net exposure to interest rate risks by maintaining sufficient lines of credit to obtain acceptable lending costs and by monitoring the exposure to such risks on an ongoing basis. The management does not enter into interest rate hedging transactions as the cost of such instruments outweighs the potential risk of interest rate fluctuation.

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(a) Interest rate risk (Cont'd)

The interest rate profile of the Group's significant interest bearing financial instruments, based on the carrying amounts as at end of the financial year is as follows:

	2021 RM	2020 RM	2019 RM
Fixed rate instruments			
Financial asset			
Fixed deposit with financial institution	378,492	375,726	4,067,073
Financial liability			
Lease liabilities	40,033,757	41,706,517	16,802,440
Floating rate instruments			
Financial liability			
Bank borrowings	338,031,191	218,657,671	197,545,343

Interest rate risk sensitivity analysis

Sensitivity analysis is not disclosed for fixed rate instruments as fixed rate instruments are not exposed to interest rate risk and are measured at amortised cost.

A 50 basis points strengthening in the interest rate of floating rate instruments as at the end of the reporting periods would have decreased profit before tax by RM1,690,156 (2020: RM1,093,288; 2019: RM987,727). A 50 basis points weakening would have had an equal but opposite effect on the profit before tax. This assumes that all other variables remain constant.

(b) Credit risk

Credit risk is the risk of a financial loss to the Group that may arise if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its trade and other receivables, amount due from holding company, amount due from subsidiaries, amount due from related parties, amount due from related companies, fixed deposit with financial institution and bank balances.

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37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(b) Credit risk (Cont'd)

The management has in place a credit procedure to monitor and minimise the exposure of default. Receivables are monitored on a regular and an ongoing basis.

i. Trade receivables

Credit risk concentration profile

The Group major concentration of credit risk relates to the amount due from 4 (2020: 5; 2019: 5) receivables which constituted 20% (2020: 28%; 2019: 27%) respectively of its trade receivables as at the end of each reporting period.

Exposure to credit risk

At the end of the financial year, as the Group does not hold any collateral, the Group's maximum exposure to credit risk is represented by the carrying amount of trade receivables recognised in the statement of financial position.

Impairment of trade receivables

The Group considers the probability of default upon initial recognition of trade receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group categorises a receivable as impaired when a debtor fails to make contractual payments more than 365 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

An impairment analysis is performed at each reporting date using provision matrix to measure expected credit losses for all trade receivables.

The expected credit losses incorporate historical default experience, customer financial information, past trend of payments of each customer individually and forward looking information such as forecast of economic conditions where the gross domestic product is expected to deteriorate over the next year, leading to increase in the number of defaults.

No expected credit loss allowance provision to be made as at the end of each reporting period as it is immaterial.

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37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(b) Credit risk (Cont'd)

ii. Other receivables

Exposure to credit risk, credit quality and collateral

Other receivables balances are monitored on an ongoing basis.

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of other receivables as at the end of the reporting period.

Ageing analysis of other receivables and impairment losses

The Group does not maintain ageing analysis for other receivables. Based on past experience, the management determine that no impairment is necessary in respect of other receivables. There had been no allowance for impairment losses on other receivables during the financial year.

iii. Amount due from holding company, subsidiaries, related parties and related companies (non-trade balance)

Exposure to credit risk, credit quality and collateral

The Group considers loans and advances to holding company, subsidiaries, related parties and related companies have low credit risks. The Group assumes that there is a significant increase in credit risk when the financial position of the receivables are deteriorates significantly. As the Group is able to determine the timing of payments of the receivables when they are payable, the Group considers the loan and advances to be in default when the receivables are not able to pay when demanded. The Group considers the loans and advances to be credit impaired when the receivables are unlikely to repay their loan or advance in full or the receivables having a deficit in its total equity.

Impairment losses

The Group determines the probability of default for these loans and advances individually using internal information available. The Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

HEXTAR FERTILIZERS LIMITED

(Incorporated in British Virgin Islands)
Company Number: 1809869

ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(b) Credit risk (Cont'd)

iv. Other financial assets (including fixed deposits with financial institution and bank balances)

Other financial assets are held with licensed financial institutions. The Group minimise credit risk by dealing exclusively with high credit rating counterparties.

Exposure to credit risk, credit quality and collateral

In view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meets its obligations. As at the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of fixed deposits with financial institution and bank balances in the combined statements of financial position.

Impairment losses

The credit risk for other financial assets are low as those assets are held with licensed financial institutions which are reputable banks and with high quality external credit ratings. Consequently, the Group are of the view that loss allowance is not material and hence it is not provided for.

v. Financial guarantees contracts

	2021 RM	2020 RM	2019 RM
Corporate guarantee given to licensed banks to secure credit facilities granted to holding company	225,000,000	90,000,000	90,000,000
Bank guarantee given to licensed banks and customers	2,814,287	5,267,844	4,121,298
Third party utilisation of banking facilities given to related companies	-	16,721,077	29,583,063
Letter of credit issued by licensed banks	22,116,096	9,464,513	1,539,787

HEXTAR FERTILIZERS LIMITED

(Incorporated in British Virgin Islands)
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ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(b) Credit risk (Cont'd)

v. Financial guarantees contracts (Cont'd)

All of the financial guarantees contracts are considered to be performing, have low risks of default and historically there were no instances where these financial guarantee contracts were called upon by the parties of which the financial guarantee contracts were issued to. Accordingly, there was no loss allowance as determined by the Group for the financial guarantee.

(c) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that were denominated in foreign currencies. The currency gave rise to this risk was solely in United States Dollar ("USD"). Foreign currency risk was monitored closely and managed to an acceptable level. The Group's exposure to foreign currency are as follows:

	2021 RM	2020 RM	2019 RM
Financial assets			
Trade receivables	4,482,057	576,246	5,891,608
Other receivables	27,468,523	2,198,042	962,369
Cash and bank balances	1,418,775	2,279,979	407,236
Trade payables	(46,740,007)	(21,778,460)	(10,839,579)
Other payables	(6,869)	-	-
Bank borrowings	(31,930,166)	(16,826,305)	(32,424,945)
Net exposure	(45,307,687)	(33,550,498)	(36,003,311)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in USD exchange rate against Ringgit Malaysia ("RM"), with all other variables held constant.

	2021 (Decrease)/ Increase RM	2020 (Decrease)/ Increase RM	2019 (Decrease)/ Increase RM
USD against the RM			
- strengthened 5 %	(2,265,384)	(1,677,525)	(1,800,166)
- weakened 5 %	2,265,384	1,677,525	1,800,166

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group objectives is to maintain a balance between continuity of funding and flexibility of cash flow though the use of standby credit facilities.

The Group maintains a level of cash and cash equivalents, bank overdrafts and loan facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

HEXTAR FERTILIZERS LIMITED
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ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(d) Liquidity risk (Cont'd)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM	Contractual undiscounted cash flows RM	On demand or within one year RM	Two to five years RM	More than five years RM
2021					
Trade payables	149,827,720	149,827,720	149,827,720	-	-
Other payables and accruals	24,928,010	24,928,010	24,928,010	-	-
Amount due to holding company	698,800	698,800	698,800	-	-
Bank borrowings	338,031,191	350,664,364	298,861,168	30,942,173	20,861,023
Lease liabilities	40,033,757	53,712,158	4,711,860	17,523,462	31,476,836
Financial guarantees contracts*	-	249,930,383	249,930,383	-	-
	553,519,478	829,761,435	728,957,941	48,465,635	52,337,859
2020					
Trade payables	71,715,234	71,715,234	71,715,234	-	-
Other payables and accruals	19,200,241	19,200,241	19,200,241	-	-
Bank borrowings	218,657,671	233,590,370	172,954,707	37,119,790	23,515,873
Lease liabilities	41,706,517	57,285,700	4,433,568	17,403,613	35,448,519
Financial guarantees contracts*	-	121,453,434	121,453,434	-	-
	351,279,663	503,244,979	389,757,184	54,523,403	58,964,392

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ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(ii) Financial risk management policies (Cont'd)

(d) Liquidity risk (Cont'd)

Analysis of financial instruments by remaining contractual maturities (Cont'd)

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on undiscounted contractual payments (Cont'd):

	Carrying amount RM	Contractual undiscounted cash flows RM	On demand or within one year RM	Two to five years RM	More than five years RM
2019					
Trade payables	34,806,899	34,806,899	34,806,899	-	-
Other payables and accruals	16,583,387	16,583,387	16,583,387	-	-
Amount due to holding company	11,171,205	11,171,205	11,171,205	-	-
Bank borrowings	197,545,343	215,393,490	146,555,752	37,046,855	31,790,883
Lease liabilities	16,802,440	22,754,414	2,007,224	7,616,477	13,130,713
Financial guarantees contracts*	-	125,244,148	125,244,148	-	-
	276,909,274	425,953,543	336,368,615	44,663,332	44,921,596

* This has been included for illustration purpose only as the related financial guarantees contracts have not crystallised as at the end of the reporting period.

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

37. FINANCIAL INSTRUMENTS (CONT'D)

(iii) Fair value of financial instruments

Financial assets and financial liabilities not carried at fair value are disclosed in Note 37(i) to this report. These financial instruments are carried at the amounts approximate of their fair values on the statements of financial position of the Group due to the relatively short-term maturity of these financial instruments and the Group do not anticipate the carrying amounts recorded at the reporting date to be significantly different from the values that would eventually be received or settled.

As at the end of each financial year, the carrying amounts of floating rate bank borrowings approximate their fair values as their effective interest rates change accordingly to movements in the market interest rates.

38. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital using a gearing ratio. The Group's policy is to maintain a prudent level of gearing ratio that complies with debt covenants. This ratio is calculated as total bank borrowings divided by total equity. Total bank borrowing is calculated as total bank borrowings including 'current and non-current borrowings and lease liabilities' as shown in the combined statement of financial position. Total equity is calculated as 'equity' as shown in the combined statement of financial position. The gearing ratios at end of the reporting period are as follows:

	2021 RM	2020 RM	2019 RM
Bank borrowings	338,031,191	218,657,671	197,545,343
Lease liabilities	40,033,757	41,706,517	16,802,440
Total borrowings	378,064,948	260,364,188	214,347,783
Total equity	53,808,098	137,362,038	104,852,472
Gearing ratio	7.03	1.90	2.04

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ACCOUNTANTS' REPORT (CONT'D)

39. SIGNIFICANT EVENT DURING THE REPORTING PERIOD

The World Health Organisation declared the novel coronavirus ("Covid-19") a global pandemic on 11 March 2020. To curb the spread of Covid-19 outbreak in Malaysia, the government imposed the Movement Control Order ("MCO") from 18 March 2020 to 3 May 2020 that involved strict movement restrictions and closure of non-essential business premises, followed by Conditional MCO ("CMCO") and Recovery MCO ("RMCO") until the end of December 2020. Various measures to prevent the spread of the virus such as restricted movement, overseas and interstate travel bans, closure of businesses and education institutions and work-from-home arrangements have impacted consumer spending power and pattern and brought about significant economic uncertainties in Malaysia.

On 1 June 2021, the Government again imposed a nationwide MCO in response to the third wave of Covid-19 pandemic in the country and the escalating infection rate of the Covid-19. These orders and the resurgence of Covid-19 cases, movement restriction orders and targeted containment measures in most states have caused disruptions to business activities nationwide.

The restrictions imposed have not, however, negatively impacted the Group's financial performance as most of its operations were allowed to operate throughout the MCO under the respective guidelines set by the National Security Council and the Ministry of International Trade and Industry.

The Group had considered the impact of Covid-19 on its operations, as well as financial impact in the preparation of the financial statements for the current year in terms of the recoverability of the carrying amount of the assets and remeasurement of assets and liabilities as at 31 December 2021.

As the situation continues to evolve with significant level of uncertainty, the Group is unable to reasonably estimate the full financial impact of the Covid-19 outbreak for financial year ending 31 December 2022. The Group is monitoring the situation closely and to take appropriate and timely measures to minimise the impact of the outbreak on the Group's operations.

40. SIGNIFICANT EVENT SUBSEQUENT TO THE REPORTING PERIOD

On 8 August 2022, HIB entered into a conditional share sale agreement with Hextar Holdings Sdn. Bhd. (collectively known as "Vendors") to acquire the entire equity interest in Hextar Fertilizers Limited for a total purchase consideration of RM480,000,000, satisfied by issuance and allotment of new ordinary shares in HIB of 1,600,000,000, at an issue price of RM0.30 per share. The new Shares issued under the Acquisition rank equally in all respects with existing HIB Shares. Thereafter, Hextar Fertilizers Limited becomes a wholly-owned subsidiary of the HIB.

HEXTAR FERTILIZERS LIMITED

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ACCOUNTANTS' REPORT (CONT'D)

STATEMENT BY DIRECTOR

I, **Dato' Ong Choo Meng**, being the Director of **Hextar Fertilizers Limited**, state that, in the opinion of the Director, the combined financial statements set out on pages 4 to 83 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group as at 31 December 2019, 31 December 2020 and 31 December 2021 and of their financial performance, changes in equity and cash flows for each of the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021.

Signed by the Director in accordance with a resolution dated 12 AUG 2022

DATO' ONG CHOO MENG
Director

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Chartered Accountants. Kuala Lumpur, Malaysia

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The Board of Directors
HEXTAR INDUSTRIES BERHAD
No. 64, Jalan Bayu Laut 4/KS09,
Kota Bayuemas,
41200 Klang,
Selangor Darul Ehsan.

Kuala Lumpur, 23 SEP 2022

Dear Sirs

HEXTAR INDUSTRIES BERHAD ("HIB" OR "THE COMPANY") AND ITS SUBSIDIARIES ("HIB GROUP")

REPORTING ACCOUNTANT'S REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2021 FOR INCLUSION IN CIRCULAR OF HIB IN RELATION TO THE PROPOSED ACQUISITION BY HIB FROM HEXTAR HOLDINGS SDN. BHD. OF 100% EQUITY INTEREST IN HEXTAR FERTILIZERS LIMITED FOR A TOTAL PURCHASE CONSIDERATION OF RM480,000,000 AND PROPOSED OFFER FOR SALE OF SUCH NUMBER OF CONSIDERATION SHARES TO INVESTORS TO BE IDENTIFIED

(REFERRED TO AS THE "PROPOSALS").

We have completed our assurance engagement to report on the compilation of pro forma consolidated statements of financial position of HIB Group as at 31 August 2021. The pro forma consolidated statements of financial position as at 31 August 2021 together with the accompanying notes, as set out in Appendix I ("Pro Forma Consolidated Statements of Financial Position") are prepared by the Board of Directors of HIB ("the Directors") and have been stamped by us for identification purposes.

The applicable criteria in the preparation of the Pro Forma Consolidated Statements of Financial Position is in accordance with Chapter 6, New Issues of Securities of the ACE Market Listing Requirements issued by Bursa Malaysia Securities Berhad ("Listing Requirements"). The basis on which the Directors has compiled the Pro Forma Consolidated Statements of Financial Position is described in the notes of Appendix I.

The Pro Forma Consolidated Statements of Financial Position has been compiled by the Directors, for illustrative purposes only, solely to illustrate the impact of events or transactions as set out in the notes of Appendix I, as if the events or transactions had taken place on 31 August 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the financial statements of the Group for the year ended 31 August 2021, on which auditors' report has been issued.

Directors' Responsibilities

The Directors of the Company are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis described in the notes of Appendix I as required by the Listing Requirements.

Reporting Accountants' Independence and Quality Control

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

Our firm applies International Standard on Quality Control 1 (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion whether the Pro Forma Consolidated Statements of Financial Position has been compiled, in all material respects, by the Directors on the basis described in the notes of Appendix I.

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

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

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

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Reporting Accountants' Responsibilities (cont'd)

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

(i) the related pro forma adjustments give appropriate effect to those criteria; and

(ii) the Pro Forma Consolidated Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position has been compiled, in all material respects, on the basis stated in the notes of Appendix I.

Other Matters

Our report has been prepared solely for the use of the Directors in connection with the Proposals, and not to be included in any documents for public circulation. This report should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Ecovis

ECOVIS MALAYSIA PLT
AF 001825
Chartered Accountants
23 SEP 2022

CHUA KAH CHUN
02696/09/2023 J
Chartered Accountant

ECOVIS MALAYSIA PLT
(AF 001825)
Chartered Accountants
For identification purposes only

1.0 Abbreviations

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

HIB	:	Hextar Industries Berhad
HIB Group or Group	:	Collectiely, HIB and its subsidiaries
HFL	:	Hextar Fertilizers Limited
HFL Group	:	Collectively, HFL and its subsidiaries
HHSB or Vendor	:	Hextar Holdings Sdn. Bhd.
ACE Market	:	ACE Market of Bursa Securities
Proposed Acquisitions	:	Proposed acquisition of the entire equity interest in HFL from the vendor 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 at an issue price of RM0.30 per consideration share.
Proposed Offer For Sale		Proposed offer for sale of such number of Consideration Shares to investors to be identified.
Act	:	Companies Act, 2016
Board	:	Board of Directors of HIB
Bursa Securities	:	Bursa Malaysia Securities Berhad
Consideration shares	:	1,600,000,000 new HIB share(s) to be issued and alloted at the issue price pursuant to the Proposed Acquisition
Director(s)	:	An executive director or a non-executive director of our Company within the meaning of Section 2 of the Act
FYE 31 August	:	Financial year ended 31 August
IFRS	:	International Financial Reporting Standards
MFRS	:	Malaysian Financial Reporting Standards
NA	:	Net assets
PPE	:	Property, plant and equipment
RM or sen	:	Ringgit Malaysia and sen, respectively

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HEXTAR INDUSTRIES BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2021

APPENDIX I

ECOVIS MALAYSIA PLT
(AF 001825)
Chartered Accountants
For identification purposes only

2.0 Pro Forma Group and Basis of Preparation

2.1 Basis of Preparation

The pro forma consolidated statement of financial position of HIB Group has been prepared by the Board based on the following:

(a) HIB Group : Audited consolidated statement of financial position as at 31 August 2021
(b) HFL Group : Audited combined statement of financial position as at 31 December 2021

As of the date of this report, HIB Group had changed its accounting policy on land and building from cost model to revaluation model. The pro forma consolidated statement of financial position of HIB Group has been prepared in accordance with MFRS, IFRS, and in a manner consistent with the format of the audited consolidated statement of financial position of HIB as at 31 August 2021. The pro forma consolidated statement of financial position as at 31 August 2021 has been prepared solely for illustrative purposes, to show the effects of transactions as disclosed in Note 3.

The pro forma consolidated statement of financial position is consolidated using the merger method as both HIB Group and HFL Group are under the common control of the same party both before and after the Proposed Acquisitions. When the merger method is used, the difference between the cost of investment recorded by HIB and the share capital of the subsidiaries are accounted for as merger deficit reserve in the pro forma consolidated statement of financial position.

The pro forma financial information of the Group comprises the pro forma consolidated statement of financial position as at 31 August 2021, and adjusted for the impact of the subsequent events and Proposed Acquisitions (Note 2.2.1).

The pro forma consolidated statement of financial position is presented in Ringgit Malaysia.

The pro forma financial information, because of its nature, may not reflect the actual financial position of the Group. Furthermore, such information does not predict the future financial position of the Group.

2.2 Proposals

2.2.1 Proposed Acquisitions

Proposed acquisition of the entire equity interest in HFL from the vendor 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 at an issue price of RM0.30 per consideration share.

2.2.2 Proposed Offer For Sale

Proposed offer for sale of such number of Consideration Shares to investors to be identified.

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3.0 Pro Forma Consolidated Statement of Financial Position as at 31 August 2021

	Audited as at 31 August 2021 RM'000	Subsequent events (1) RM'000	After Subsequent events RM'000	Proposed Acquistions (2)(3) RM'000	Pro Forma I After Proposed Acquisitions RM'000
Assets					
Non-current assets					
Property, plant and equipment	57,407	-	57,407	88,760	146,167
Intangible assets	19,276	-	19,276	67	19,343
Other receivables	50	-	50	-	50
	76,733	-	76,733	88,827	165,560
Current assets					
Inventories	29,637	-	29,637	256,252	285,889
Trade receivables	40,786	-	40,786	151,867	192,653
Other receivables, deposits and prepayments	6,043	-	6,043	38,476	44,519
Contract assets	146	-	146	-	146
Amount due from related companies	-	-	-	17,871	17,871
Tax recoverable	1,387	-	1,387	115	1,502
Fixed deposit with financial institution	6,460	-	6,460	378	6,838
Cash and bank balances	9,846	115,782	125,628	28,493	154,121
	94,305	115,782	210,087	493,452	703,539
Non-current assets held for sale	-	-	-	36,500	36,500
	94,305	115,782	210,087	529,952	740,039
Total assets	171,038	115,782	286,820	618,779	905,599
Equity and liabilities					
Equity					
Share capital	76,159	115,782	191,941	480,000	671,941
Merger deficit reserve	(23,859)	-	(23,859)	(535,441)	(559,300)
Revaluation reserve	-	-	-	21,791	21,791
Capital reserve	-	-	-	30,000	30,000
Foreign currency translation reserves	(3)	-	(3)	-	(3)
Retained earnings	27,574	-	27,574	57,459	85,033
	79,871	115,782	195,653	53,809	249,462
Non-controlling interest	4,020	-	4,020	-	4,020
Total equity	83,891	115,782	199,673	53,809	253,482
Liabilities					
Non-current liabilities					
Borrowings (including lease liabilities)	43,372	-	43,372	78,960	122,332
Deferred tax liabilities	6,540	-	6,540	7,802	14,342
	49,912	-	49,912	86,762	136,674

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AS AT 31 AUGUST 2021

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3.0 **Pro Forma Consolidated Statement of Financial Position as at 31 August 2021 (Cont'd)**

	Audited as at 31 August 2021 RM'000	Subsequent events (1) RM'000	After Subsequent events RM'000	Proposed Acquistions (2)(3) RM'000	Pro Forma I After Proposed Acquisitions RM'000
Current liabilities					
Trade payables	14,038	-	14,038	149,828	163,866
Other payables and accruals	4,697	-	4,697	24,928	29,625
Contract liabilities	259	-	259	-	259
Amount due to holding company	-	-	-	699	699
Borrowings (including lease liabilities)	18,239	-	18,239	299,103	317,342
Tax payables	2	-	2	3,650	3,652
	37,235	-	37,235	478,208	515,443
Total liabilities	87,147	-	87,147	564,970	652,117
Total equity and liabilities	171,038	115,782	286,820	618,779	905,599
Number of HIB Shares in issue	185,972,836		1,147,341,623		2,747,341,623
NA (RM'000)	79,871		195,653		249,462
NA per Share (RM)	0.43		0.17		0.09
Borrowings (RM'000) (4)	61,121		61,121		401,228
Gearing (times)	0.77		0.31		1.61
Current ratio (times)	2.5		5.6		1.4

(1) Subsequent events in relation to the completion of right issue and conversion of warrants.

(2) The financial assets that arising from the contingent consideration in relation to the profit guarantee conditions is not recognised as the amount is immaterial.

(3) The fair value of the consideration paid for the proposed acquisitions was computed based on RM0.30 per HIB share.

(4) Calculated based on the total borrowings (excluding lease liabilities arising from right-of-use assets) divided by total equity.

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
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3.1 Notes to Pro Forma Consolidated Statement of Financial Position

3.1.1 Pro Forma I

Pro Forma I incorporates the effects of Acquisitions as set out in Note 2.2.1.

3.2 Pro Forma Effects on Financial Statement Line Items

3.2.1 Effects on PPE

	RM'000
As at 31 August 2021	**57,407**
Pro Forma I:	
Acquisitions	88,760
After effects of Pro Forma I	**146,167**

3.2.2 Effects on Intangible Assets

	RM'000
As at 31 August 2021	**19,276**
Pro Forma I:	
Acquisitions	67
After effects of Pro Forma I	**19,343**

3.2.3 Effects on Inventories

	RM'000
As at 31 August 2021	**29,637**
Pro Forma I:	
Acquisitions	256,252
After effects of Pro Forma I	**285,889**

3.2.4 Effects on Trade Receivables

	RM'000
As at 31 August 2021	**40,786**
Pro Forma I:	
Acquisitions	151,867
After effects of Pro Forma I	**192,653**

3.2.5 Effects on Other Receivables, Deposits and Prepayments

	RM'000
As at 31 August 2021	**6,093**
Pro Forma I:	
Acquisitions	38,476
After effects of Pro Forma I	**44,569**

3.2.6 Effects on Amount due from Related Companies

	RM'000
As at 31 August 2021	-
Pro Forma I:	
Acquisitions	17,871
After effects of Pro Forma I	**17,871**

3.2.7 Effects on Tax Recoverable

	RM'000
As at 31 August 2021	**1,387**
Pro Forma I:	
Acquisitions	115
After effects of Pro Forma I	**1,502**

HEXTAR INDUSTRIES BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2021

APPENDIX I

ECOVIS MALAYSIA PLT
(AF 001825)
Chartered Accountants
For identification purposes only

3.2 Pro Forma Effects on Financial Statement Line Items (Cont'd)

3.2.8 Effects on Fixed Deposit with Financial Institution

	RM'000
As at 31 August 2021	**6,460**
Pro Forma I:	
Acquisitions	378
After effects of Pro Forma I	**6,838**

3.2.9 Effects on Cash and Bank Balances

	RM'000
As at 31 August 2021	**9,846**
Subsequent events	115,782
After effects of Subsequent events	**125,628**
Pro Forma I:	
Acquisitions	28,493
After effects of Pro Forma I	**154,121**

3.2.10 Effects on Non-current Assets Held For Sale

	RM'000
As at 31 August 2021	-
Pro Forma I:	
Acquisitions	36,500
After effects of Pro Forma I	**36,500**

3.2.11 Effects on Share Capital

	No. of shares	RM'000
As at 31 August 2021	**185,972,836**	**76,159**
Subsequent events	961,368,787	115,782
After effects of Subsequent events	**1,147,341,623**	**191,941**
Pro Forma I:		
Acquisitions	1,600,000,000	480,000
After effects of Pro Forma I	**2,747,341,623**	**671,941**

3.2.12 Effects on Merger Deficit Reserve

	RM'000
As at 31 August 2021	**(23,859)**
Pro Forma I:	
Acquisitions	(535,441)
After effects of Pro Forma I	**(559,300)**

3.2.13 Effects on Revaluation Reserve

	RM'000
As at 31 August 2021	-
Pro Forma I:	
Acquisitions	21,791
After effects of Pro Forma I	**21,791**

3.2.14 Effects on Capital Reserve

	RM'000
As at 31 August 2021	-
Pro Forma I:	
Acquisitions	30,000
After effects of Pro Forma I	**30,000**

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2021

APPENDIX I

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3.2 **Pro Forma Effects on Financial Statement Line Items (Cont'd)**

3.2.15 Effects on Retained Earnings

	RM'000
As at 31 August 2021	**27,574**
Pro Forma I:	
Acquisitions	57,459
After effects of Pro Forma I	**85,033**

3.2.16 Effects on Borrowings (Non-current and current)

	RM'000
As at 31 August 2021	**61,611**
Pro Forma I:	
Acquisitions	378,063
After effects of Pro Forma I	**439,674**

3.2.17 Effects on Deferred Tax Liabilities

	RM'000
As at 31 August 2021	**6,540**
Pro Forma I:	
Acquisitions	7,802
After effects of Pro Forma I	**14,342**

3.2.18 Effects on Trade Payables

	RM'000
As at 31 August 2021	**14,038**
Pro Forma I:	
Acquisitions	149,828
After effects of Pro Forma I	**163,866**

3.2.19 Effects on Other Payables and Accruals

	RM'000
As at 31 August 2021	**4,697**
Pro Forma I:	
Acquisitions	24,928
After effects of Pro Forma I	**29,625**

3.2.20 Effects on Amount Due To Holding Company

	RM'000
As at 31 August 2021	**-**
Pro Forma I:	
Acquisitions	699
After effects of Pro Forma I	**699**

3.2.21 Effects on Tax Payables

	RM'000
As at 31 August 2021	**2**
Pro Forma I:	
Acquisitions	3,650
After effects of Pro Forma I	**3,652**

HEXTAR INDUSTRIES BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2021

APPENDIX I

ECOVIS MALAYSIA PLT
(AF 001825)
Chartered Accountants
For identification purposes only

4.0 Approval by the Board of Directors

The pro forma consolidated statement of financial position is approved by the Board of Directors of Hextar Industries Berhad in accordance with Directors' resolution dated 2 3 SEP 2022

Wong Kin Seng
Director

Ang Sui Aik
Director

WALKERS

12 August 2022

Our Ref: TS/VL/H3969-S13730

The Board of Directors of
Hextar Industries Berhad
64, Jalan Bayu Laut 4/KS9,
Kota, Bayuemas,
41200 Klang, Selangor

Dear Sir or Madam

HEXTAR FERTILIZERS LIMITED

We have been asked to provide this legal opinion to you with regard to the laws of the British Virgin Islands in relation to the transfer of five shares with a par value of US$ 0.5 each (the "**Shares**") in Hextar Fertilizers Limited (the "**Company**") from Hextar Holdings SDN. BHD to Hextar Industries Berhad (the "**Transfer**") pursuant to a share sale agreement (the "**SSA**"). We do not opine on the enforceability of the SSA noting that SSA is governed under the laws of Malaysia and the Company is not a party to the SSA.

For the purposes of giving this opinion, we have examined and relied upon the originals, copies or translations of the documents listed in Schedule 1.

In giving this opinion we have relied upon the assumptions set out in Schedule 2, which we have not independently verified.

We are British Virgin Islands Lawyers and express no opinion as to any laws other than the laws of the British Virgin Islands in force and as interpreted at the date of this opinion. We have not, for the purposes of this opinion, made any investigation of the laws, rules or regulations of any other jurisdiction.

Based upon the foregoing examinations and assumptions and upon such searches as we have conducted and having regard to legal considerations which we consider relevant, and subject to the qualifications set out in Schedule 3, and under the laws of the British Virgin Islands, we give the following opinions in relation to the matters set out below.

1. The Company is a company duly incorporated under the BVI Business Companies Act, 2004 (as amended) (the "**BVI BCA**") and validly exists as a BVI business company limited by shares in the British Virgin Islands. Based solely on the Registered Agent's Certificate referred to in Schedule 1 and the Certificate of Good Standing referred to in Schedule 1, the Company is in good standing under the laws of the British Virgin Islands.

2. Based solely on a search of:

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Walkers (Singapore) Limited Liability Partnership
UEN/Reg. No. T09LL0833E
3 Church Street, 16-02 Samsung Hub, Singapore 049483
T +65 6595 4670 **F** +65 6595 4671 www.walkersglobal.com
Bermuda | British Virgin Islands | Cayman Islands | Dubai | Dublin | Guernsey | Hong Kong | Jersey | London | Singapore

(a) the public records in respect of the Company maintained at the offices of the Registrar of Corporate Affairs in the British Virgin Islands (the "**Registrar**"); and

(b) the High Court database of issued proceedings (the "**High Court database**"),

(together the "**Searches**") conducted on the Search Date (as defined in Schedule 1) and the information contained within the Registered Agent's Certificate referred to in Schedule 1 there are no actions, suits or proceedings pending against the Company before the High Court and the Searches do not reveal any steps having been taken in the British Virgin Islands for the appointment of a receiver or liquidator to, or for the winding-up, dissolution, reconstruction or reorganisation of the Company (to the extent that such steps would result in a filing with the Registrar or the High Court and such filing has been made).

3. Based solely on our review of the Register of Members, the Register of Directors and the Registered Agent's Certificate (each as defined in Schedule 1 hereto), the sole registered member and sole director of the Company are as follows:-

Member	**Number of Shares**
Hextar Holdings SDN. BHD.	5

Director

ONG Choo Meng

4. The Transfer 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 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 following the commencement of a voluntary winding-up of the Company would require the consent of the liquidator.

5. Save as set out in Qualification 5 in Schedule 3, there are no stamp duties, income taxes, withholdings, 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 the 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 or gift tax.

6. Subject to the BVI BCA and any other legislation in the British Virgin Islands, the Company has, irrespective of corporate benefit:

(a) full capacity to carry on or undertake any business or activity, do any act or enter into any transaction; and

(b) for the purposes of paragraph (a), full rights, powers and privileges.

7. Based solely on our review of the Memorandum and Articles (as defined in Schedule 1), the Shares may be transferred by a written instrument of transfer signed by the transferor and

containing the name and address of the transferee, which shall be sent to the Company at the office of its registered agent for registration pursuant to Sub-Regulation 6.1 of the Articles.

8. 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 the Company in a foreign currency from the British Virgin Islands to a shareholder outside of the British Virgin Islands.

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

10. Based on our review of the Memorandum and Articles, there are no express restrictions stipulated in the Memorandum and Articles in relation to the repatriation of profits by the Company other than Regulation 18 which sets out the requirements and procedures on dividend distribution as follows:

"18.1 The directors of the Company may, by Resolution of Directors, authorise a distribution by way of dividend at a time and of an amount they think fit if they are satisfied, on reasonable grounds, that, immediately after the distribution, the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

18.2 Dividends may be paid in money, shares, or other property.

18.3 Notice of any dividend that may have been declared shall be given to each Shareholder as specified in Sub-Regulation 20.1 and all dividends unclaimed for 3 years after having been declared may be forfeited by Resolution of Directors for the benefit of the Company.

18.4 No dividend shall bear interest as against the Company and no dividend shall be paid on Treasury Shares."

11. It is not necessary under the laws of the British Virgin Islands that any agreements to which the Company is party (the "**Agreements**") be registered or recorded in any public office or elsewhere in the British Virgin Islands in order to ensure the validity or enforceability of the Agreements.

12. It is not necessary under the laws of the British Virgin Islands:

    (a) in order to enable any party to the Agreements to enforce their rights under the Agreements; or

    (b) solely by reason of the execution, delivery and performance of the Agreements,

    that any party to the Agreements should be licensed, qualified or otherwise entitled to carry on business in the British Virgin Islands.

This opinion is limited to the matters referred to herein and shall not be construed as extending to any other matter or document not referred to herein. This opinion is given solely for your benefit and the benefit of your legal advisers acting in that capacity in relation to the acquisition of the Company's shares and save as set out below may not be relied upon by any other person without our prior written consent.

This opinion is issued on the date above and may be disclosed to assignees on the basis that:

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(a) such copy is provided solely to enable any such person or entity to be informed that an opinion has been given and to be made aware of its terms but not for the purposes of reliance by them;

(b) we do not assume any duty or liability to any person or entity to whom such copy is provided; and

(c) such person or entity (other than any legislative, administrative, judicial or regulatory body, court or tribunal) agrees not to further disclose this opinion or its contents to any other person or entity, other than as permitted above, without our prior written consent.

This opinion shall be construed in accordance with the laws of the British Virgin Islands.

Yours faithfully

Walkers (Singapore) Limited Liability Partnership

WALKERS (SINGAPORE) LIMITED LIABILITY PARTNERSHIP

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SCHEDULE 1

LIST OF DOCUMENTS EXAMINED

1. The Certificate of Incorporation dated 27 January 2014 and Memorandum and Articles of Association (which Memorandum and Articles of Association were registered on 27 January 2014) (the "**Memorandum and Articles**") as obtained by us from the Registry of Corporate Affairs in the British Virgin Islands pursuant to the search referred to in paragraph 3 of this Schedule below.

2. A copy of the Company's Register of Members (the "**Register of Members**"), Register of Secretaries and Register of Directors (the "**Register of Directors**"), as provided to us by the Company (the documents in this paragraph 2 and paragraph 1 immediately above, together the "**Company Records**").

3. The public records of the Company on file and available for inspection at the Registry of Corporate Affairs, as at 9.00 am British Virgin Islands time on 11 August 2022, (the "**Search Date**").

4. The records of proceedings on file with, and available for inspection at the High Court, examined on the Search Date.

5. A copy of a certificate issued by the Registered Agent of the Company in the British Virgin Islands dated 5 July 2022 (the "**Registered Agent's Certificate**").

6. A copy of a Certificate of Good Standing dated 4 July 2022 in respect of the Company issued by the Registrar (the "**Certificate of Good Standing**").

SCHEDULE 2

ASSUMPTIONS

1. There are no provisions of the laws of any jurisdiction outside the British Virgin Islands which would be contravened by or in respect of the Transfer and the Transfer will not be illegal by virtue of the laws of any jurisdiction outside of the British Virgin Islands.

2. All authorisations, approvals, consents, licences and exemptions required by, and all filings and other steps required outside the British Virgin Islands in respect of the Transfer have been or will be duly obtained, made or fulfilled and are and will remain in full force and effect and any conditions to which they are subject have been satisfied.

3. The originals of all documents examined in connection with this opinion are authentic. All documents purporting to be sealed have been so sealed. All copies are complete and conform to their originals. Any translations are a complete and accurate translation of the original document they purport to translate.

4. The Memorandum and Articles are the memorandum and articles of the Company and are in force at the date hereof.

5. The Registered Agent's Certificate and the results of the Searches are complete, true and accurate as at the date of this opinion and, furthermore, such Searches were complete, true and accurate as at the Search Date and disclose:

   (a) in the case of the Registry of Corporate Affairs, all matters which have been filed for registration in respect of the Company at the offices of the Registrar; and

   (b) in the case of the High Court, all actions, suits and proceedings pending against the Company before the Courts.

6. The Company Records are complete and accurate and all matters required by law and the Memorandum and Articles to be recorded therein are completely and accurately so recorded.

7. There are no records of the Company (other than the Company Records) agreements, documents or arrangements other than the documents expressly referred to herein as having been examined by us which materially affect, amend or vary the transactions envisaged in the documents or restrict the powers and authority of the directors of the Company in any way or which would affect any opinion given herein.

8. No resolution to appoint a voluntary liquidator of the Company has been adopted by the members, or directors of the Company if the Memorandum and Articles permit.

9. There are no provisions of the laws of any jurisdiction outside the British Virgin Islands which would be contravened by the execution or delivery of the Agreements and, insofar as any obligation expressed to be incurred under the Agreements is to be performed in or is otherwise subject to the laws of any jurisdiction outside the British Virgin Islands, its performance will not be illegal by virtue of the laws of that jurisdiction.

10. The Agreements are within the capacity and power of, and have been or will be duly authorised, executed and delivered by, each of the parties thereto.

11. The choice of the laws of the jurisdiction selected to govern the Agreements has been made in good faith and will be regarded as a valid and binding selection which will be upheld in the courts of that jurisdiction and all relevant jurisdictions (other than the British Virgin Islands).

12. All authorisations, approvals, consents, licences and exemptions required by, and all filings and other steps required of each of the parties to the Agreements outside the British Virgin Islands to ensure the legality, validity and enforceability of the Agreements have been or will be duly obtained, made or fulfilled and are and will remain in full force and effect and any conditions to which they are subject have been satisfied.

13. On the date of execution of the Agreements, no party to the Agreements was carrying on any business or activity which required such party to be authorised, licensed, registered or recognised under regulatory legislation (as defined in the Financial Services Commission Act, 2001 (as amended)).

14. All conditions precedent, if any, contained in the Agreements have been or will be satisfied or waived.

15. No director of the Company has an interest in the transactions contemplated by the Agreements, or if any other interest does exist:

    (a) the material facts of the interest are known by the members of the Company and such transactions have been unanimously approved or ratified; or

    (b) the Company received fair value for the transactions.

16. The board of directors of the Company considers (acting honestly and in good faith) the execution of the Agreements and the transactions contemplated thereby to be in the best interests of the Company.

17. On the date of execution of the Agreements, the Company was able to pay its debts as they became due, the Company had not failed to comply with the requirements of a statutory demand that had not been set aside under section 157 of the British Virgin Islands' Insolvency Act, 2003 (as amended) (the "**Insolvency Act**"), and no execution or other process issued on a judgment, decree or order of a Court in favour of a creditor of the Company has been returned wholly or partly unsatisfied (each of which not being the case would mean that the Company is "**Insolvent**" for the purposes of the Insolvency Act), and the transactions contemplated by the Agreements will not cause the Company to become Insolvent.

18. No sale, transfer, lease, exchange or other disposition of property effected by the Agreements nor any transaction contemplated thereby is a gift made for no consideration or for consideration the value of which, in money or money's worth, is significantly less than the value, in money or money's worth, of the consideration provided by the Company, but if it is then the Company entered into the transaction in good faith and for the purposes of its business and, at the time the transaction was entered into, there were reasonable grounds for believing that the transaction would benefit the Company.

19. The transactions contemplated by the Agreements do not have the effect of putting a creditor of the Company into a position which, in the event of the Company going into insolvent liquidation, will be better than the position it would have been in if the transactions had not been entered into, but if any of the transactions do have this effect, then such transactions are entered into in the ordinary course of business.

20. To the extent that the terms of the transactions contemplated by the Agreements relate to the provision of credit to the Company, and having regard to the risk accepted by the person

providing the credit, the terms of the transactions are not such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of credit, or which otherwise grossly contravenes ordinary principles of fair trading.

21. Any floating charge created by any of the Agreements has been given to secure:

(a) money advanced or paid to the Company, or at its direction, at the same time as, or after, the creation of the floating charge; or

(b) the amount of any liability of the Company discharged or reduced, at the same time as, or after, the creation of the charge; or

(c) the value of assets sold or supplied, or services supplied to the Company at the same time as, or after, the creation of the floating charge; and

(d) the interest, if any, payable on the amount referred to in (a) to (c) above, pursuant to any of the Agreements under which the money was advanced or paid, the liability was discharged or reduced, the assets were sold or supplied or the services were supplied.

22. No amounts paid to or for the account of any party under the Agreements or any property received or disposed of by any party to the Agreements in each case in connection with the performance of the Agreements or the consummation of the transactions contemplated thereby, represent or will represent proceeds of criminal conduct as defined in the British Virgin Islands Proceeds of Criminal Conduct Law, 1997.

23. Any disposition of the assets of the Company (other than a mortgage, charge or other encumbrance or the enforcement thereof) pursuant to the Agreements does not amount to a disposition of more than 50 percent in value of the assets of the Company if not made in the usual or regular course of the business carried out by the Company or, if it does, such disposition has been:

(a) approved by the directors of the Company; and

(b) authorised by the members of the Company by resolution, and for these purposes details of the disposition shall have been provided to the members whether or not such members were entitled to vote on the disposition.

24. As a matter of all relevant laws (other than the laws of the British Virgin Islands) the Agreements do not constitute a security interest.

SCHEDULE 3

QUALIFICATIONS

1. To maintain the Company in good standing under the laws of the British Virgin Islands, annual filing fees must be paid to the Registrar.

2. The Searches may not reveal the following:

   (a) in the case of the public records in respect of the Company maintained at the offices of the Registrar, details of matters which have not been lodged for registration or have been lodged for registration but not actually registered at the time of our search;

   (b) in the case of the High Court database, details of proceedings which have been filed but not actually entered in the High Court database at the time of our search;

   (c) whether a liquidator or a receiver has been appointed out of Court, or whether any out of court dissolution, reconstruction or reorganisation of the Company has been commenced;

   (d) any originating process (including an application to appoint a liquidator) in respect of the Company in circumstances where the High Court has prior to the issuance of such process ordered that such process upon issuance be anonymised (whether on a temporary basis or otherwise); or

   (e) any proceedings recorded in the Civil Cause Book of the High Court before 1 January 2000.

3. Where a resolution is passed to amend the memorandum and articles of association of a British Virgin Islands company, such British Virgin Islands company is required to file for registration with the Registrar a notice of amendment in the approved form or a restated memorandum or articles incorporating the amendment made.

4. The Transfer and the obligations of the Company may be subject to restrictions pursuant to United Nations and United Kingdom sanctions extended to the British Virgin Islands by the Order of Her Majesty in Council.

5. The exemption provided to the Company pursuant to section 242(3) of the BVI BCA from the payment of stamp duty does not apply to an instrument relating to transactions in respect of the shares, debt obligations or other securities of a land owning company. For this purpose, the Company is a "land owning company" if it, or any of its subsidiaries, has an interest in any land in the British Virgin Islands.

6. The term "**enforceable**" and its cognates as used in this opinion means that the obligations assumed by any party under the Agreements are of a type which the Courts enforce. This does not mean that those obligations will necessarily be enforced in all circumstances in accordance with its terms. In particular:

   (a) enforcement of obligations and the priority of obligations may be limited by bankruptcy, insolvency, liquidation, dissolution, reorganisation, readjustment of debts, disclaimer of onerous property in liquidation or moratorium and other laws of general application relating to or affecting the rights of creditors or by prescription or lapse of time;

   (b) enforcement of obligations and the priority of obligations may be limited by general principles of equity and, in particular, the availability of certain equitable remedies such as injunction or specific performance of an obligation may be limited where a Court considers damages to be an adequate remedy;

(c) claims may become barred under statutes of limitation or may be or become subject to defences of set-off, counterclaim, estoppel and similar defences;

(d) where obligations are to be performed in a jurisdiction outside the British Virgin Islands, they may not be enforceable in the British Virgin Islands to the extent that performance would be illegal under the laws of, or contrary to the public policy of, that jurisdiction;

(e) in liquidation proceedings in respect of the Company before a Court it is likely that the Court will require all debts of the Company to be proved in a common currency, which is likely to be the Company's functional currency;

(f) to the extent that any provision of the Agreements is adjudicated to be penal in nature, it will not be enforceable in the Courts; in particular, the enforceability of any provision of the Agreements that is adjudicated to constitute a secondary obligation which imposes a detriment on the contract-breaker out of all proportion to any legitimate interest of the innocent party in the enforcement of the primary obligation may be limited;

(g) to the extent that the performance of any obligation arising under the Agreements would be fraudulent or contrary to public policy, it will not be enforceable in the Courts;

(h) a Court will not necessarily award costs in litigation in accordance with contractual provisions in this regard; and

(i) the effectiveness of terms in the Agreements excusing any party from a liability or duty otherwise owed or indemnifying that party from the consequences of incurring such liability or breaching such duty shall be construed in accordance with, and shall be limited by, applicable law, including generally applicable rules and principles of common law and equity.

7. A certificate, determination, calculation or designation of any party to the Agreements as to any matter provided therein might be held by a Court not to be conclusive, final and binding, notwithstanding any provision to that effect therein contained, for example if it could be shown to have an unreasonable, arbitrary or improper basis or in the event of manifest error.

8. If any provision of the Agreements is held to be illegal, invalid or unenforceable, severance of such provision from the remaining provisions will be subject to the discretion of the Courts notwithstanding any express provisions in this regard.

9. We express no opinion upon any provisions in the Memorandum and Articles or any document which contains a reference to any law or statute that is not a British Virgin Islands law or statute.

10. We express no opinion upon the effectiveness of any clause of the Agreements which provides that the terms of such Agreements may only be amended in writing.

11. Notwithstanding any purported date of execution in the Agreements, the rights and obligations therein contained take effect only on the actual execution and delivery thereof but the Agreements may provide that it has retrospective effect as between the parties thereto alone.

12. Persons who are not party to the Agreements (other than persons acting pursuant to powers contained in a deed poll) under the laws of the British Virgin Islands have no direct rights or obligations under the Agreements.

13. All powers of attorney granted by the Company in the Agreements must either be executed as a deed or signed by a person acting under the authority of the Company. Powers of attorney granted by a British Virgin Islands company which by their terms are expressed to be irrevocable are valid and irrevocable only if given for valuable consideration (unless such powers of attorney are expressed to be irrevocable for a fixed time not exceeding one year, in which case valuable consideration is not required for the powers of attorney to be irrevocable).

14. Where a document provides for an exclusive or non-exclusive jurisdiction clause submitting (or permitting the submission) to the jurisdiction of the Courts, a Court may decline to accept jurisdiction in any matter where:

    (a) it determines that some other jurisdiction is a more appropriate or convenient forum;

    (b) another court of competent jurisdiction has made a determination in respect of the same matter; or

    (c) litigation is pending in respect of the same matter in another jurisdiction.

    Proceedings may be stayed in the British Virgin Islands if concurrent proceedings in respect of the same matter are or have been commenced in another jurisdiction.

15. Where a document provides for an exclusive jurisdiction clause submitting to the jurisdiction of a court other than the Courts, notwithstanding any provision of the document providing for the exclusive jurisdiction of a court other than the Courts, the Court may, if it is satisfied that it is just and equitable to allow such proceedings to continue in the British Virgin Islands:

    (a) decline to stay proceedings issued in contravention of such provision; or

    (b) grant leave to serve British Virgin Islands proceedings out of the British Virgin Islands.

HEXTAR FERTILIZERS LIMITED
(Company No. 1809869)
(Incorporated in British Virgin Islands)

Date: 2 3 SEP 2022

To: The Shareholders of Hextar Industries Berhad

Dear Sir/Madam,

On behalf of the Board of Directors ("**Board**") of Hextar Fertilizers Limited ("**HFL**"), I report after due enquiries that during the period from 31 December 2021 (being the date to which the last audited combined financial statements of HFL have been made) to the date hereof, being a date not earlier than 14 days before the date of issue of this Circular:

(a) the business of HFL has, in the opinion of the Board of HFL, been satisfactory maintained;

(b) in the opinion of the Board of HFL, since the last audited combined financial statements of HFL, there has been no circumstances which have adversely affected the trading or the value of the assets of HFL;

(c) the current assets of HFL appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) Save as disclose in Appendix III, there are no other contingent liabilities by reason of any guarantees or indemnities given by HFL;

(e) since the last audited combined financial statements of HFL, there are no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and

(f) since the last audited combined financial statements of HFL, there have been no material changes in the published reserves or any unusual factors affecting the profits of HFL.

Yours faithfully,
For and on behalf of the Board of
HEXTAR FERTILIZERS LIMITED

Dato Ong Choo Meng
DIRECTOR

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board who collectively and individually accepts full responsibility for the completeness and accuracy of the information contained in this Circular and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no facts, the omission of which would make any statement in this Circular false or misleading.

2. CONSENT AND DECLARATION

2.1 M&A Securities

M&A Securities, the Principal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereon in the form and context in which they appear in this Circular.

M&A Securities confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Principal Adviser for the Proposals.

2.2 Malacca Securities

Malacca Securities, the Independent Adviser for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the IAL and all references thereon in the form and context in which they appear in this Circular.

Malacca Securities confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Independent Adviser for the Proposed Acquisition.

2.3 Messrs Teh & Lee

Messrs Teh & Lee, the Legal Adviser for the Proposals, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereon in the form and context in which they appear in this Circular.

Messrs Teh & Lee confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Legal Adviser for the Proposals.

2.4 Eco Asia

Eco Asia, the Independent Valuer for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the fairness opinion report set out in Appendix I of this Circular and all references thereon in the form and context in which they appear in this Circular.

Eco Asia confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Independent Valuer for the Proposed Acquisition.

2.5 Ecovis Malaysia PLT

Ecovis, the Reporting Accountants for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name, the Accountants Report on the HFL Group set out in Appendix V of this Circular, the Reporting Accountants' letter on the pro forma consolidated statement of financial position of HIB as at 31 August 2021 set out in Appendix VI of this Circular and all references thereon in the form and context in which they appear in this Circular.

Ecovis confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Reporting Accountants for the Proposed Acquisition.

2.6 Protégé Associates

Protégé Associates, the Independent Market Researcher for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereon in the form and context in which they appear in this Circular.

Protégé Associates confirms that there is no conflict of interest that exists or is likely to exist in relation to its role as the Independent Market Researcher for the Proposed Acquisition.

3. MATERIAL COMMITMENT

As at the LPD, there is no material commitment, incurred or known to be incurred, by the HIB Group which upon becoming enforceable may have a material impact on the results or financial position of the HIB Group.

4. 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 HIB Group's profits or NA.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of the Company at Level 5, Block B, Dataran PHB, Saujana Resort, Section U2 40150 Shah Alam Selangor during normal business hours from Monday to Friday (except public holidays) from the date of this Circular up to the date of the EGM:

(i) Constitutions of HIB and HFL;
(ii) The SSA and the material contracts referred to in Appendix IV;
(iii) Audited consolidated financial statements of HIB for the FYEs August 2020 and August 2021 and the latest unaudited results for the 9-month financial period ended 31 May 2022;
(iv) The Accountants Report on the HFL Group referred to in Appendix V;
(v) The Reporting Accountants' letter on the pro forma consolidated statement of financial position of HIB as at 31 August 2021 referred to in Appendix VI;
(vi) The fairness opinion report referred to in Appendix I;
(vii) The Directors' report on the HFL Group referred to in Appendix VIII;
(viii) The expert's report on policies on foreign investments, taxation and repatriation of profits of the British Virgin Islands referred to in Appendix VII;
(ix) The letters of consent and declaration of conflict of interest referred to in Section 2 of this Appendix IX; and
(x) Independent market research report prepared by Protégé Associates.

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("**EGM**") of Hextar Industries Berhad ("**HIB**" or the "**Company**") to 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 any adjournment thereof, for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution:

ORDINARY RESOLUTION 1

PROPOSED ACQUISITION BY HIB FROM HEXTAR HOLDINGS SDN BHD ("HHSB") OF 100% EQUITY INTEREST IN HEXTAR FERTILIZERS LIMITED ("HFL") 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")

"**THAT,** subject to fulfilment of the conditions precedent and the approvals of all relevant parties and/or authorities being obtained, where required, approval be and is hereby given for the Company to acquire 100% equity interest in HFL, comprising 5 ordinary shares of USD0.10 from HHSB 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 at an issue price of RM0.30 per Consideration Share, upon the terms and conditions set out in the conditional share sale agreement dated 8 August 2022 entered into between the Company and HHSB in respect of the Proposed Acquisition;

THAT, any statutory pre-emptive rights to the Consideration Shares in respect of the Proposed Acquisition which rank equally to all existing ordinary shares in issue that each shareholder of HIB have pursuant to Section 85 of Companies Act 2016 and the constitution of HIB, be waived;

AND THAT approval be and is hereby given to the Board of Directors of the Company ("**Board**") to sign, execute and deliver on behalf of the Company all necessary documents and to do all acts and things as may be required for or in connection with and to give full effect to and complete the Proposed Acquisition, with full powers and discretion to assent to or make any modifications, variations and/or amendments in any manner as may be imposed, required or permitted by the relevant authorities or deemed necessary by the Board, and to take all steps and actions as it may deem necessary or expedient in the best interests of the Company to finalise, implement and give full effect to the Proposed Acquisition."

BY ORDER OF THE BOARD

TAN TONG LANG (MAICSA 7045482 / SSM PC No. 202208000250)
LEE KOK PING (MIA 44986 / SSM PC No. 202008004407)
Company Secretaries

Selangor
27 September 2022

Notes:

(i) The Broadcast Venue of the EGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 and Guidance Note on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia which requires the Chairman of the meeting to be present at the main venue of the meeting.

(ii) Members/proxies/corporate representatives **WILL NOT BE ALLOWED** to attend the EGM in person at the Broadcast Venue on the date of the meeting.

(iii) 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 the Remote Participation and Voting facilities ("**RPV**") provided by the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd at **https://tiih.online**.

Please follow the "Procedures for RPV" in the Administrative Guide for the EGM and read the notes therein in order to participate remotely via RPV.

(iv) A member of the Company shall be entitled to appoint another person as his proxy to exercise all or any of his rights to attend, participate, speak and vote at the meeting of members of the Company. A member may appoint more than one proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. A proxy may but need not be a member of the Company.

(v) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**SICDA**"), it may appoint not more than 2 proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

(vi) For a member of the Company who is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in 1 securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

(vii) Where a member or the authorised nominee appoints more than 2 proxies, or where an exempt authorised nominee appoints more than 1 proxy in respect of each omnibus account to attend and vote at the same meeting, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the Form of Proxy.

(viii) The Form of Proxy shall be in writing signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the Form of Proxy must be made either under its common seal or signed by an officer or an attorney duly authorised.

(ix) A member who has appointed a proxy or attorney or corporate representative to participate and vote at the EGM must request his/her proxy or attorney or corporate representative to register himself/herself for the RPV at https://tiih.online. Please follow the Procedures for RPV in the Administrative Details for the EGM.

(x) The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than 48 hours before the time appointed for holding the EGM or adjourned meeting:

(a) <u>In hard copy form</u>

In the case of an appointment made in hard copy form, the Form of Proxy must be deposited at the Company's 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.

(b) <u>By electronic form</u>

The Form of Proxy can be electronically lodged at https://tiih.online. Please refer to the Administrative Details on the procedure for electronic lodgement of Form of Proxy.

(xi) Please ensure ALL the particulars as required in the Form of Proxy are completed, signed and dated accordingly.

(xii) Last date and time for lodging the Form of Proxy is **Monday, 10 October 2022 at 3:00 p.m.**

(xiii) Any authority pursuant to which such an appointment is made by a power of attorney must be deposited with the Share Registrar of the Company in accordance with Note (x)(a) above **not less than 48 hours before the time appointed for holding the EGM** or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

(xiv) For a corporate member who has appointed a representative, please deposit the **ORIGINAL OR DULY CERTIFIED** certificate of appointment with the Share Registrar of the Company in accordance with Note (x)(a) above. The certificate of appointment should be executed in the following manner:

(a) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

(b) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

1. at least two (2) authorised officers, of whom one shall be a director; or

2. any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

(xv) For the purpose of determining a member who shall be entitled to attend and vote at the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, a **Record of Depositors as at 5 October 2022** and only a depositor whose name appears on the Record of Depositors shall be entitled to attend the meeting or appoint proxies to attend and vote in his stead.

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

No. of Shares held	
CDS Account No.	- -

I / We____
(*FULL NAME IN BLOCK LETTERS)*
(NRIC No./Company Registration No./Passport No.)____________________________
of ____
(*FULL ADDRESS)*
being a member/members of **HEXTAR INDUSTRIES BERHAD**, hereby appoint

Full name of proxy		Proportion of shareholdings represented	
		No of shares	%
Address	NRIC No/Passport No/ Company No		

and/or failing him/her

Full name of proxy		Proportion of shareholdings represented	
		No of shares	%
Address	NRIC No/Passport No/ Company No		

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held 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 any adjournment thereof.

** Please strikethrough the words "the Chairman of the Meeting" if you wish to appoint some other person to be your proxy.*

Resolution		**FOR**	**AGAINST**
Ordinary Resolution 1	Proposed Acquisition		

(Please indicate with a cross "X" in the space provided whether you wish your vote to be cast for or against the Resolution. If in the absence of specific directions, your proxy will vote or abstain from voting as he/she thinks fit).

Signed this ___________ day of ___________________, 2022.

____
Signature of shareholder or Common Seal

Notes:

(i) The Broadcast Venue of the EGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 and Guidance Note on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia which requires the Chairman of the meeting to be present at the main venue of the meeting.

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(viii) The Form of Proxy shall be in writing signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the Form of Proxy must be made either under its common seal or signed by an officer or an attorney duly authorised.

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(b) By Electronic Form

The Form of Proxy can be electronically lodged at https://tiih.online. Please refer to the Administrative Details on the procedure for electronic lodgement of Form of Proxy.

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(a) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

(b) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

1. at least 2 authorised officers, of whom one shall be a director; or

2. any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

(xv) For the purpose of determining a member who shall be entitled to attend and vote at the meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, a **Record of Depositors as at 5 October 2022** and only a depositor whose name appears on the Record of Depositors shall be entitled to attend the meeting or appoint proxies to attend and vote in his stead.

Then fold here

Affix
Stamp

The Share Registrars
HEXTAR INDUSTRIES BERHAD
(Registration No. 201101044580 (972700-P))
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

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