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

- **PROPOSED ACQUISITION BY HIB FROM HEXTAR HOLDINGS SDN BHD OF 100% EQUITY INTEREST IN HEXTAR FERTILIZERS LIMITED FOR A TOTAL PURCHASE CONSIDERATION OF RM480.0 MILLION; AND**
- **PROPOSED OFFER FOR SALE OF SUCH NUMBER OF CONSIDERATION SHARES TO INVESTORS TO BE IDENTIFIED**

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1. INTRODUCTION

M&A Securities Sdn Bhd ("**M&A Securities**"), on behalf of the Board of Directors of HIB ("**Board**")(save for Dato' Ong Choo Meng and Ong Tzu Chuen who are collectively referred to as the "**Abstaining Directors**")) wishes to announce the following:

(i) HIB had on 8 August 2022 entered into a conditional share sale agreement ("**SSA**") with Hextar Holdings Sdn Bhd ("**HHSB**" or "**Vendor**") for the proposed acquisition of the entire equity interest in Hextar Fertilizers Limited ("**HFL**"), from the Vendor for a total purchase consideration of RM480.0 million ("**Purchase Consideration**") to be satisfied via the issuance and allotment of 1,600,000,000 new ordinary shares in HIB ("**HIB Shares**" or "**Consideration Shares**" or "**Shares**") at an issue price of RM0.30 per Consideration Share ("**Proposed Acquisition**"); and

(ii) Proposed offer for sale of such number of Consideration Shares to investors to be identified ("**Proposed Offer For Sale**").

*(The Proposed Acquisition and Proposed Offer For Sale are collectively referred to as the "**Proposals**")*

In view of the interest of the major shareholder of HIB and/or persons connected with it ("**Interested Major Shareholders**"), the Proposed Acquisition is deemed a related party transaction pursuant to Rule 10.08 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Listing Requirements**"). In this respect, the Board (save for the Abstaining Directors) has appointed Malacca Securities Sdn Bhd to act as the Independent Adviser to advise the non-interested directors and non-interested shareholders of HIB on the Proposed Acquisition. Please refer to Section 9 of this announcement for further details on the interests of the Interested Major Shareholders.

Further details on the Proposals are set out in the ensuing sections.

2. INFORMATION OF THE PROPOSALS

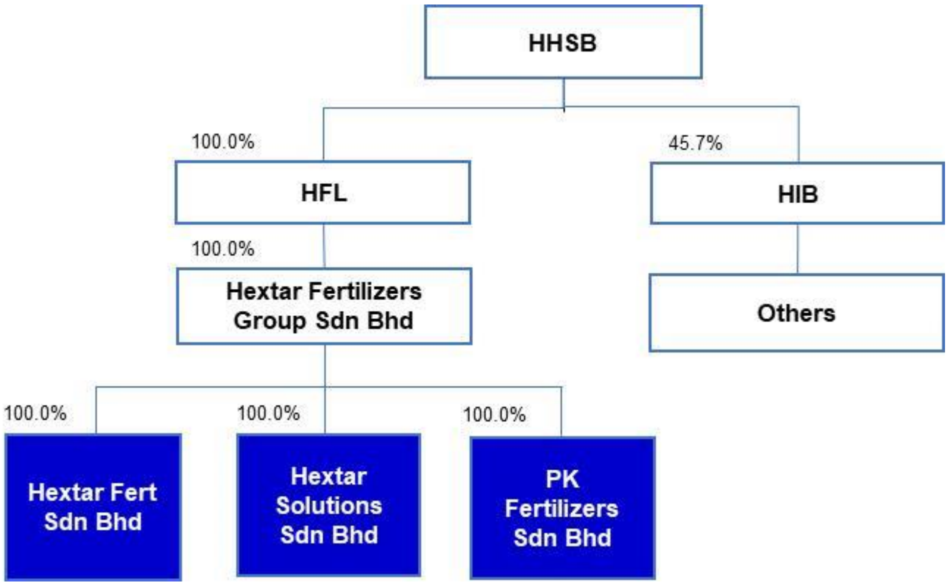
2.1 Proposed Acquisition

The Proposed Acquisition will involve HIB acquiring 5 ordinary shares of USD0.10 each in HFL ("**Sale Shares**"), representing the entire equity interest in HFL from the Vendor, for the Purchase Consideration to be satisfied via the issuance and allotment of the Consideration Shares at an issue price of RM0.30 per Consideration Share, subject to the terms and conditions contained in the SSA. Upon completion of the Proposed Acquisition, HFL and its subsidiaries ("**HFL Group**") will be wholly-owned subsidiaries of HIB.

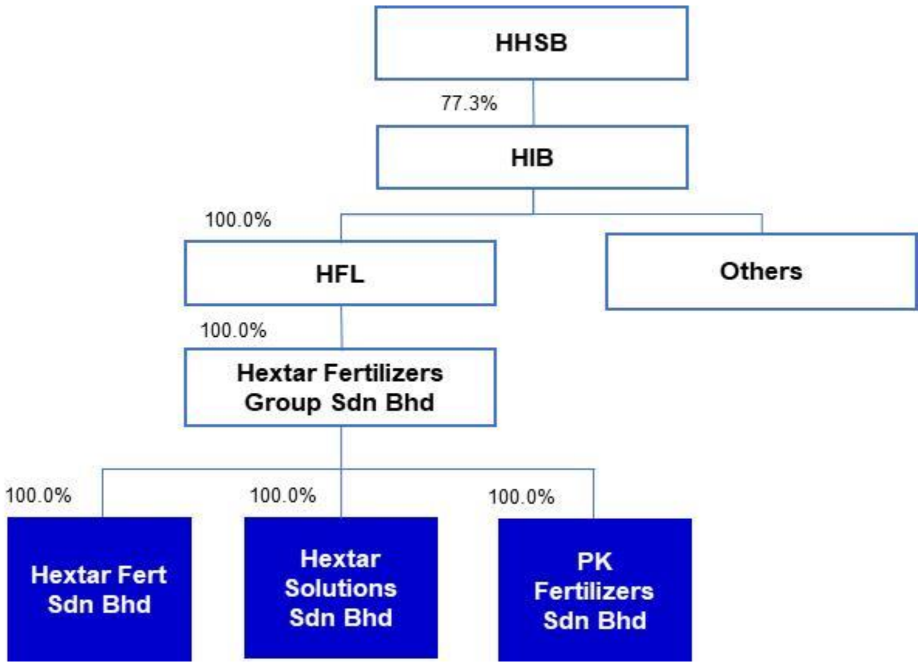
Please refer to **Appendix I** of this announcement for the salient terms of the SSA.

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

Before the Proposed Acquisition



After the Proposed Acquisition



The issuance of the Consideration Shares will result in the shareholdings of the Vendor increasing from 45.66% to 77.31%, an increase by more than 2% of the voting shares of the Company. Thus, pursuant to Paragraph 4.01(b) of the Rules on Take-Overs, Mergers and Compulsory Acquisitions ("**Rules**"), the Vendor is obliged to extend a mandatory general offer to acquire the remaining HIB Shares not already owned by it immediately upon the SSA becoming unconditional ("**Offer**"). Details of the Offer are set out in Section 2.3 of this announcement.

2.1.1 Profit guarantee

The Vendor as the Guarantor has provided a cumulative 2 year profit guarantee to be achieved for the HFL Group for the FYEs 31 December 2022 and 31 December 2023 ("**Guaranteed Period**"). Under the terms of the profit guarantee, the Guarantor guarantees to HIB that the HFL Group shall achieve an audited profit after tax ("**PAT**") of not less than RM94,000,000 on a cumulative basis ("**Guaranteed Sum**") for the Guaranteed Period.

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

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

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

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

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

(ii) The Security Shares are to be released to the Vendor after every quarter for the first 3 financial quarters of each Guaranteed Period. The amount to be released each quarter shall be proportional to the unaudited PAT of the HFL Group achieved for each respective quarter calculated based on the following formula ("**Quarterly Share Payment**").

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

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

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

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

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

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

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

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

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

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

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

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

<u>Reasonableness of the Guaranteed Sum</u>

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

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

(i) the historical financial performance of the HFL Group as set out in **Appendix II** of this announcement;

(ii) the continuation of the existing management's involvement in the day-to-day operations of the HFL Group; and

(iii) the potential growth of the HFL Group after taking into consideration the outlook and prospects of the fertiliser industry as set out in Section 4.1 of this announcement and the future prospects of the enlarged HIB and its subsidiaries' ("**HIB Group**") as set out in Section 4.2 of this announcement.

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

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

2.1.2 Basis and justification of the Purchase Consideration

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

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

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

(a) implied price to earnings multiple of 10.21 times; and

(b) implied enterprise value over earnings before interest, tax, depreciation and amortisation multiple of 9.53 times;

(iii) rationale and benefit for the Proposed Acquisition;

(iv) future earnings potential and growth of the HFL Group after considering the outlook and prospects of the fertiliser industry in Malaysia as set out in Section 4.2 of this announcement; and

(v) the fairness of the Purchase Consideration for the Proposed Acquisition by Eco Asia Capital Advisory Sdn Bhd, the Independent Valuer appointed for the Proposed Acquisition.

2.1.3 Basis and justification for the issue price of the Consideration Shares

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

(i) the closing market prices of HIB Shares for the past 12 months up to and including 5 August 2022, being the latest practicable date prior to this announcement ("**LPD**") which are illustrated in the following chart.

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

Taking into the consideration the above, the 12-month volume weighted average market price ("**VWAMP**") of HIB Shares up to and including the LPD of RM0.2631 is a more reasonable measure in determining the basis of the issue price of the Consideration Shares as it is more reflective of the share price movement of HIB Shares before and after the Russia-Ukraine war and its effects to global markets.

The issue price represents the following (discount)/premium over the last transacted market price and VWAMPS of HIB Shares up to and including the LPD:

		(Discount)/Premium over share price	
	VWAMP	**RM**	**%**
Last traded market price	0.3300	(0.0300)	(9.09)
5-day VWAMP	0.3291	(0.0291)	(8.84)
1-month VWAMP	0.3388	(0.0388)	(11.45)
3-month VWAMP	0.3471	(0.0471)	(13.57)

		(Discount)/Premium over share price	
	VWAMP	**RM**	**%**
6-month VWAMP	0.3212	(0.0212)	(6.60)
12 month-VWAMP	0.2631	0.0369	14.03

(ii) the 12 months pro-rated earnings per HIB Share of RM0.010 based on the financial results for the 9-month period ending 31 May 2022 which represents a P/E multiple of approximately 30.0 times. As such, the Consideration Shares are to be issued at a higher P/E multiple (i.e. 30.0 times) as compared to the P/E multiple attributed to the HFL Group of approximately 10.0 times as implied by the Purchase Consideration. From a P/E multiple perspective, the issue price accords a higher value to the HIB Group.

Although the issue price is at a discount to the near term VWAMP of HIB Shares (i.e. last transacted market price, 5-day, 1-month, 3-month and 6-month) as illustrated above, the Board (save for the Abstaining Directors) is of the view that the discount is reasonable after taking into consideration the following:

(a) the issue price represents a premium of 14.03% to the 12-month VWAMP up to and including the LPD;

(b) the Guaranteed Sum provided by the Vendor and the rationale of the Proposed Acquisition as set out in Sections 2.1.1 and 3.1 of this announcement, respectively;

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

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

2.1.4 Ranking of the Consideration Shares

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

During the period the Security Shares are held by the stakeholder, the stakeholder is the registered owner of the Security Shares. Although the Vendor has beneficial ownership of the Security Shares, it does not have the right to exercise the voting rights of the Security Shares held by the stakeholder until the Security Shares are released by the stakeholder to the Vendor under the profit guarantee mechanism.

The Company will apply to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities.

2.1.5 Liabilities to be assumed by HIB

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

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

2.1.6 Additional financial commitment

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

2.1.7 Background information on the HFL Group

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

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

Please refer to **Appendix II** of this announcement for further information on the HFL Group.

2.1.8 Background information on the Vendor

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

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

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

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

(iv) trading and servicing of forklifts;

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

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

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

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

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

Notes:

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

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

2.2 Proposed Offer For Sale

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

The Vendor proposes to sell down its shareholdings in the Company via an offer for sale of such number of Completion Shares to be issued by way of private placement to independent investors to be identified who are deemed public under the Listing Requirements, are not shareholders of HIB during the offer period and are independent of the Vendor/offeror and persons acting in concert with the offeror ("**Placees**"). In this respect, part of the Completion Shares to be received by the Vendor will be on-sold and issued and allotted directly to the Placees ("**OFS Shares**"), such that upon issuance of all the Consideration Shares and OFS Shares, the Company shall at all times be in compliance with the public shareholding spread requirement. For avoidance of doubt, the Proposed Offer For Sale is to be implemented after the close of the Offer, simultaneous with the issuance of the Consideration Shares.

M&A Securities will act as the Placement Agent for the Proposed Offer For Sale. As the OFS Shares will be placed to Placees who/which qualify under Schedules 6 and 7 of the Capital Markets and Services Act 2007, no prospectus will be issued.

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

Depending on the acceptance level of the Offer, for the purposes of illustration, the Proposed Offer For Sale will entail:

(a) 88,311,971 OFS Shares, assuming there is no acceptances of Offer Shares (as defined in Section 2.3 of this announcement) pursuant to the Offer ("**Minimum Scenario**"); or

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

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

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

2.3 Offer

Upon issuance of the Consideration Shares, the Vendor's shareholdings in the Company will increase from 45.7% to 77.3%, an increase by more than 2% of the voting shares of the Company.

As a consequence, the Vendor will be obliged under Paragraph 4.01(b) of the Rules to extend an Offer to acquire the remaining HIB Shares not already owned by it ("**Offer Shares**"). The Offer shall extend to the Offer Shares held by persons acting in concert with the Offeror ("**PACs**").

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

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

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

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

3. RATIONALE AND BENEFITS OF THE PROPOSALS

3.1 Proposed Acquisition

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

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

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

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

Note:

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

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

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

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

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

Premised on the above and after taking into consideration the historical financial performance of the HFL Group, the industry outlook and future prospects as set out in Sections 4.1 and 4.2 of this announcement, the Board (save for the Abstaining Directors) is of the view that the Proposed Acquisition will contribute positively to the HIB Group's financial performance in the future. The Proposed Acquisition will also eliminate any business competition between the HIB Group and the HFL Group due to the similarity of the nature/purpose of the fertiliser products sold by both groups.

Please refer to **Appendix II** of this announcement for further information on the historical financial performance of the HFL Group.

3.2 Proposed Offer For Sale

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

4. OUTLOOK AND PROSPECTS

4.1 Outlook and prospects of the fertiliser industry in Malaysia

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

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

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

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

Year	**Market size (Revenue) (RM billion)**	**Growth Rate (%)**
2020	4.21	-
2021	4.72	12.2
2022*f*	6.37	35.0
2023*f*	7.20	13.5
2024*f*	7.81	8.5
2025*f*	8.48	8.5
2026*f*	9.20	8.5

CAGR (2022-2026) (base year of 2021): 14.3%

Note: f denotes forecast

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

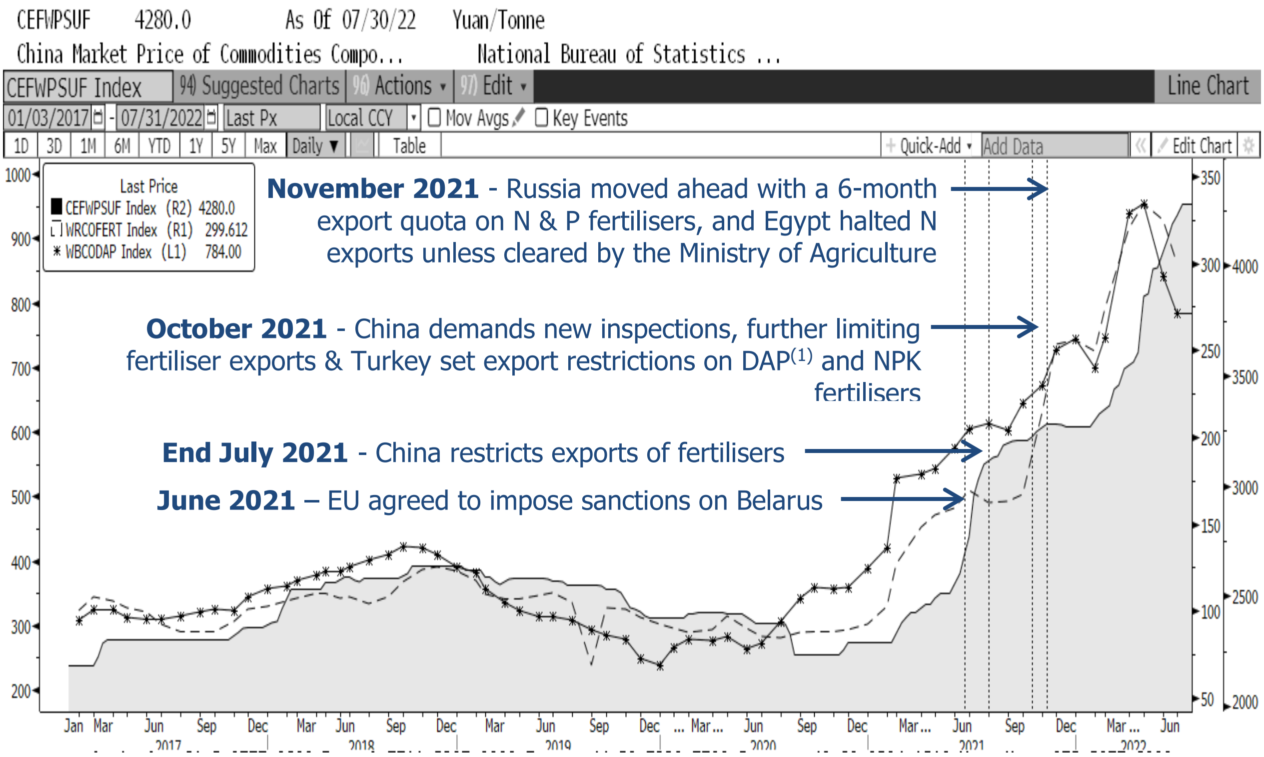
The chart below extracted from Bloomberg depicts the Malaysian Palm Oil Board crude palm oil (FOB) spot prices between the period 3 Jan 2017 and 3 August 2022.

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

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

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

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



Note:

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

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

(Source: Protégé Associate Sdn Bhd)

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

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

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

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

(b) expand the range of fertiliser products by combining with the HFL Group's production, formulation capabilities and repacking activities. This enhances the production of bulk blends and mixtures of various formulations to suit the needs of various crops in addition to trading of a wide spectrum of straight fertilisers. Currently, the HIB Group's existing production capacity is 75,000 metric tonnes per annum. Upon the completion of the Proposed Acquisition, the enlarged HIB Group's production capacity will amount to an aggregate of 679,000 metric tonnes per annum, an increase by approximately 8 times. At a production/capacity utilisation rate of 60% for the latest FYE 31 December 2021, the enlarged HIB Group still has room to increase production;

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

(d) expand production of new types of fertilisers, such as organic and specialty fertilisers to meet increasing demand for such fertilisers. Currently, the HFL Group manufactures and produces small quantities of organic and specialty fertilisers. Speciality fertilisers are a fast growing and diverse group of products with different characteristics containing one or more of the essential primary[(1)], secondary[(2)] or micro-nutrients[(3)]. Although secondary and micronutrients are required in smaller quantities than primary nutrients, they are equally important for crops to ensure balanced nutrition for optimum yield and quality. Speciality fertilisers include products ranging from single nutrient to containing micronutrients to products which either allow controlled slow release or control the release of nutrients, to complex multi-nutrient solubles to products 'designed' for specific crops. Commodity fertilisers are typically disseminated by hand or spreader, but these methods often lead to significant loss to groundwater and the atmosphere or converted into forms which plants cannot access due to soil conditions. Specialty fertilisers can reduce these losses by applying nutrients, in combination with essential water through irrigation systems, by coating fertilisers or adding inhibitors/stabilisers to reduce loss to the environment.

Notes:

(1) Nitrogen, Phosphorus, Potassium
(2) Calcium, Magnesium, Sulfur
(3) Such as Iron, Zinc, Manganese, Copper, Boron, Molybdenum, Vanadium, Cobalt, Nickel, Chlorine, Sodium, and Silicon

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

(Source: Management of HIB)

5. RISK FACTORS

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

5.1 Risks relating to the Proposed Acquisition

(a) Non-completion of the Proposed Acquisition

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

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

(b) Non-fulfilment of the profit guarantee

The profit guarantee is based on various bases and assumptions which are deemed reasonable, but nevertheless subject to certain uncertainties and contingencies, which may be outside HFL's control. While the Board (save for the Abstaining Directors) has taken reasonable steps to assess the achievability of the profit guarantee which includes assessing the HFL Group's past financial performance as well as its prospects as set out in Section 4 of this announcement, there can be no assurance that the profit guarantee will be met. To mitigate the risk of not fulfilling the profit guarantee, the value of Security Shares equivalent to the Guaranteed Sum shall be placed with a stakeholder and will only be released progressively to the Vendor based on the unaudited/audited PAT amount of the HFL Group for the respective quarter/financial year over the Guaranteed Period. If the HFL Group registers a cumulative audited LAT, the Vendor shall make good the shortfall being the difference between the Guaranteed Sum and the cumulative audited LAT incurred, by way of cash, within 14 days from the adoption of the HFL Group's audited financial statement for the FYE 31 December 2023, and after which, the stakeholder shall release the remaining Security Shares to the Vendor.

(c) Investment and integration risk

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

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

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

(d) Dependence on key personnel of the HFL Group

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

The Board (save for the Abstaining Directors) intends to retain the employees of the HFL Group to ensure that there is continuity in the management of the HFL Group and that there is no disruption to the day-to-day operations and business. The management of HIB will adopt appropriate approaches including reviewing the remuneration and incentives packages as well as providing a good working environment to retain the key personnel with the HFL Group.

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

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

5.2 Risks relating to the business of the enlarged HIB Group

(a) Competition risk

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

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

(b) Dependence on the oil palm industry

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

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

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

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

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

6. POLICIES ON FOREIGN INVESTMENTS AND REPATRIATION OF PROFITS

The summary of the policies in relation to foreign investments and repatriation of profits of the British Virgin Islands is as follows:

(i) Policies on repatriation of profits

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

(ii) Policies on foreign investments

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

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

(iii) Policies on taxation

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

7. FINANCIAL EFFECTS OF THE PROPOSALS

The Proposed Offer For Sale will not have any effect on the Company's issued share capital, consolidated net asset ("**NA**"), gearing, earnings and earnings per Share ("**EPS**").

7.1 Issued share capital

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

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

7.2 NA and gearing

For illustration purposes only, based on the latest unaudited consolidated quarter results of HIB for the 9-month financial period ended 31 May 2022, the pro forma effects of the Proposed Acquisition on the consolidated NA and gearing of HIB are shown below:

	Unaudited as at 31 May 2022	After the Proposed Acquisition
	RM'000	RM'000
Share capital	191,941	671,941
Merger deficit reserve	(23,859)	(1)(559,300)
Revaluation reserve	7,752	29,543
Capital reserve	-	(2)30,000
Foreign currency translation reserve	(23)	(23)
Retained earnings	31,087	88,486
Equity attributable to owners' of the Company	**206,838**	**260,647**
No. of Shares	1,147,341,623	2,747,341,623
NA per Share (RM)	0.18	0.09
Borrowings (RM'000)	25,923	(3)363,953
Gearing (times)	0.13	1.40

Notes:

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

(2) After incorporating the capital reserve of RM30.0 million which arose from the share capital reduction of PK Fertilisers Sdn Bhd.

(3) After incorporating the impact of the HFL Group's borrowings with the HIB Group.

7.3 Earnings and EPS

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

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

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

Note:

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

7.4 Substantial shareholders' shareholdings

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

Minimum Scenario	Assuming there is no acceptances of Offer Shares and 88,311,971 OFS Shares are placed out under the Proposed Offer For Sale

	As at 29 July 2022				After the Proposed Acquisition			
	Direct		Indirect		Direct		Indirect	
Substantial shareholder	No. of Shares		No. of Shares		No. of Shares		No. of Shares	
	'000	%	'000	%	'000	%	'000	%
HHSB	523,929	45.7	-	-	2,123,929	77.3	-	-
Dato' Ong Soon Ho	2,700	0.2	(1)523,929	45.7	2,700	0.1	(1)2,123,929	77.3
Dato' Ong Choo Meng	-	-	(1)523,929	45.7	-	-	(1)2,123,929	77.3
Public(3)	598,583	52.2	-	-	598,583	21.8	-	-

	After the Proposed Offer For Sale(2)			
	Direct		Indirect	
Substantial shareholder	No. of Shares		No. of Shares	
	'000	%	'000	%
HHSB	2,035,617	74.1	-	-
Dato' Ong Soon Ho	2,700	0.1	(1)2,035,617	74.1
Dato' Ong Choo Meng	-	-	(1)2,035,617	74.1
Public(3)	686,840	25.0	-	-

Notes:
(1) Deemed interest by virtue of their interests in HHSB pursuant to Section 8 of the Companies Act 2016.
(2) Assuming 88,311,971 OFS Shares are placed out to Placees under the Proposed Offer For Sale to ensure that the public shareholding spread requirement of the Company is complied with upon issuance of the Consideration Shares.
(3) Excludes 22,178,894 HIB Shares held by Directors of the Company and associates of the substantial shareholder who are not deem public.

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

	As at 29 July 2022				After the Proposed Acquisition			
	Direct		Indirect		Direct		Indirect	
Substantial shareholder	**No. of Shares**		**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
	'000	**%**	**'000**	**%**	**'000**		**'000**	
HHSB	523,929	45.7	-	-	2,747,342	100.0	-	-
Dato' Ong Soon Ho	2,700	0.2	(1)523,929	45.7	-(2)	-	(1)2,747,342	100.0
Dato' Ong Choo Meng	-	-	(1)523,929	45.7	-	-	(1)2,747,342	100.0
Public(4)	598,583	52.2	-	-	-	-	-	-

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

Notes:
(1) Deemed interest by virtue of their interests in HHSB pursuant to Section 8 of the Companies Act 2016.
(2) Assuming Dato' Ong Soon Ho accepts the Offer.
(3) Assuming 686,840,000 OFS Shares are placed out to Placees under the Proposed Offer For Sale to ensure that the public shareholding spread requirement of the Company is complied with upon issuance of the Consideration Shares.
(4) Excludes 22,178,894 HIB Shares held by Directors of the Company and associates of the substantial shareholder who are not deem public.
(5) Assuming the Directors of the Company and associates of the substantial shareholder accept the Offer.

8. APPROVALS REQUIRED

The Proposed Acquisition is subject to approvals being obtained from:

(i) Bursa Securities, for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities;

(ii) non-interested shareholders of HIB; and

(iii) any other relevant authorities and/or parties, if required.

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

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

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

9. INTEREST OF THE DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

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

(i) HHSB, being the major shareholder of the Company, is also the major shareholder of HFL (the vendor to the SSA);

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

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

HHSB, Dato' Ong Soon Ho and Dato' Ong Choo Meng are referred to as the "**Interested Major Shareholders**" while Dato' Ong Choo Meng is referred to as the "**Interested Director**".

In addition, Ong Tzu Chuen is the Non-Independent Non-Executive Director of the Company. She is also the daughter of Dato' Ong Soon Ho and sister of Dato' Ong Choo Meng. Although Ong Tzu Chuen has no interest in the Proposed Acquisition, Ong Tzu Chuen has voluntarily abstained from deliberating and voting in respect of the Proposed Acquisition at the relevant Board meetings.

As at 29 July 2022, the direct and indirect shareholdings of the Interested Major Shareholders are as follows:

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

Note:

(i) Deemed interest by virtue of his interest in HHSB pursuant to Section 8 of the Companies Act 2016.

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

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

Save as disclosed below, there is no other transaction entered into between HIB and the related parties, namely the Interested Major Shareholders for the 12 months preceding 31 May 2022, being the date up to the latest financial quarter.

No.	Details of transaction	RM'000
1.	Rental of premises by Hextar Premier Sdn Bhd(1)	677
2.	Rental of lorries by Teju Logistics Sdn Bhd(2)	195
3.	Rental of forklift to Halex Woolton (M) Sdn Bhd(3)	88
4.	Maintenance charges and sales of forklift to Rubberex Alliance Sdn Bhd(4)	1,283
Transactions with the HFL Group(5)		
5.	Sale of industrial products and spare parts to Hextar Fert Sdn Bhd ("**HFSB**") and PK Fertilizers Sdn Bhd ("**PKSB**")	374
6.	Sale of fertiliser goods to PKSB	76,003
7.	Purchase of fertiliser good from HFSB, PKSB and Hextar Solutions Sdn Bhd ("**HSSB**")	26,446
Transactions with the HHSB group of companies(6)		
8.	Maintenance charges of forklift charged to Hextar Industrial Chemicals Sdn Bhd, a wholly-owned subsidiary of HHSB	1
9.	Maintenance charges of forklift, battery charger expenses and labour charges charged to Hextar Mitai Sdn Bhd, a 70.0%-owned subsidiary of HHSB	19

No.	Details of transaction	RM'000
10.	Purchase of equipment from TK Equipment Sdn Bhd, a 65.0%-owned subsidiary of HHSB	748
		105,834

Notes:

(1) Dato' Ong Choo Meng and Ong Tzu Chuen are the major shareholders of Hextar Premier Sdn Bhd, with equity interests of 70.0% and 30.0%, respectively as at the LPD.

(2) Dato' Ong Choo Meng and Dato' Ong Soon Ho are the major shareholders of Teju Logistics Sdn Bhd, with equity interests of 70.0% and 30.0%, respectively as at the LPD.

(3) HHSB is the major shareholder of Halex Woolton (M) Sdn Bhd via its 59.3% interest in Hextar Global Berhad. In addition, Dato' Ong Choo Meng also holds a direct interest of 7.7% in Hextar Global Berhad as at the LPD.

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

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

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

11. DIRECTORS' STATEMENT

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

12. AUDIT COMMITTEE'S STATEMENT

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

(i) in the best interest of HIB;

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

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

13. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Acquisition pursuant to Rule 10.02(g) of the Listing Requirements is >2,000%, computed based the net profits of the assets compared with the net profits attributable to the owners of HIB. The Proposed Acquisition will not result in a significant change in business direction of HIB as it is a business similar to the core assets of the HIB.

14. ADVISERS

M&A Securities has been appointed as the Principal Adviser for the Proposals.

In view that the Proposed Acquisition is deemed a related party transaction pursuant to Rule 10.08 of the Listing Requirements, Malacca Securities Sdn Bhd has been appointed to act as Independent Adviser to undertake the following:

(i) comment as to:

   (a) whether the Proposed Acquisition is fair and reasonable insofar as the non-interested shareholders of HIB are concerned;

   (b) whether the Proposed Acquisition is detrimental to the non-interested shareholders of HIB; and

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

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

(iii) take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in items (i) and (ii) above.

In view of the Offer, Malacca Securities Sdn Bhd has also been appointed to act as Independent Adviser to the Company, to provide comments, opinion, information and recommendation on the Offer.

15. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances:

(a) the submissions to the relevant authorities for the Proposals are expected to be made within 2 months from the date of this announcement; and

(b) the Proposals are expected to be completed in the fourth quarter of the calendar year 2022.

16. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SSA in respect of the Proposed Acquisition will be made available for inspection at the Registered Office of HIB at Level 5, Block B, Dataran PHB Saujana Resort, Section U2, 40150 Shah Alam, Selangor Darul Ehsan, during normal office hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 8 August 2022.

1. PURCHASE CONSIDERATION

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

2. UNDERSTANDING OF THE PARTIES

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

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

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

3. SATISFACTION OF THE PURCHASE CONSIDERATION

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

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

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

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

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

Provided always that:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. CONDITIONS PRECEDENT

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

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

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

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

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

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

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

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

5. COMPLETION

5.1 **Conditions for Completion:** If:

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

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

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

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

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

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

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

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

6. TERMINATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. BACKGROUND

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

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

(a) crop management solution and services;

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

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

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

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

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

Name	Date / Country of incorporation	Share capital/ Number of shares	% of issued share capital held by parent	Principal activities
Hextar Fertilizers Limited	27 January 2014/British Virgin Islands	USD0.5 or equivalent to RM2/ 5 shares	100.0	Investment holding
Direct holding through Hextar Fertilizers Limited:				
Hextar Fertilizers Group Sdn Bhd ("**HFGSB**")	6 December 2013/Malaysia	RM45,340,002 /5 shares	100.0	Investment holding
Indirect holding through Hextar Fertilizers Group Sdn Bhd:				
Hextar Fert Sdn Bhd ("**HFSB**")	5 November 1980 Malaysia	RM10,000,000 /10,000,000 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers
Hextar Solutions Sdn Bhd ("**HSSB**")	18 July 1995 /Malaysia	RM15,000,000 /666,745 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers
PK Fertilizers Sdn Bhd ("**PKSB**")	6 June 1996 /Malaysia	RM15,000,000 /60,000,000 shares	100.0	Manufacturing, formulation, distribution and trading of a wide range of fertilisers

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

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

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

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

2. PRINCIPAL PRODUCTS AND MARKETS

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

Types		Details
Straight fertiliser 	:	• A raw fertiliser material that may contain only one primary plant nutrient, namely nitrogen, or phosphorus, potassium, magnesium, or boron.
Bulk blend and mixture fertiliser 	:	• A type of fertiliser that is produced through the process of physical mix of various types of straight fertilisers. • May contain two or more nutrients. • The HFL Group is able to perform mixing of powder or granular blend form of fertilisers. Various formulations can be made to suit any special-order request.

Types		Details
Compound fertilisers/ NPK(1) compact 	:	• Compound fertiliser is fertiliser which contains two or three nutrients of N, P, K. NPK fertilisers are three-component fertilizers providing nitrogen, phosphorus, and potassium. Compound fertiliser is produced through a process of granulation/compaction of a mixture of various types of straight fertilisers. • As two or three primary nutrients are combined within each granule in consistent ratios, each granule of compound fertiliser is homogenous in nutrient contents so as to achieve a desired average nutrient composition. • Compound fertilisers differ from a blend of fertilisers mixed together. This difference allows farmers to spread compound fertilisers so that each granule delivers a uniform distribution of nutrients as it dissolves in the soil and eliminates the potential for segregation of nutrient sources during transport or application, which in turn enhances quality produces and greater yields.

Note:

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

For the FYE 31 December 2021, 98.3% of the HFL Group's revenue was contributed by the domestic market and the remaining 1.7% of revenue was exported, mainly to Indonesia.

3. DATE AND ORIGINAL COST OF INVESTMENT

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

Date of investment	No. of shares	Investment amount (RM equivalent)
13 September 2016	5	45,340,000

4. HISTORICAL FINANCIAL INFORMATION

The summary of the financial information of the HFL Group based on the combined audited financial statements of the HFL Group for the FYEs 31 December 2019, 2020 and 2021.

	Audited		
	FY2019	**FY2020**	**FY2021**
	RM'000	**RM'000**	**RM'000**
Revenue	370,631	494,427	611,385
Gross profit ("**GP**")	37,135	83,199	92,988
Other income	4,193	9,165	22,399
(Loss before tax) ("**LBT**")/ Profit before tax ("**PBT**")	(2,951)	34,898	54,450
(Loss after tax) ("**LAT**")/ PAT	(2,695)	36,591	48,162
GP margin (%)	*10.0*	*16.8*	*15.2*
Total current assets	228,454	314,568	529,952[(a)]
Total non-current assets	174,610	193,823	88,827
Total current liabilities	207,059	263,455	478,208
Total non-current liabilities	91,152	107,575	86,763
Share capital[(b)]	109,940	109,940	45,340
Shareholders' funds/NA	104,852	137,362	53,808
Cash (used in)/generated from operations	96,759	31,768	(36,300)
Net cash used in investing activities	(1,853)	(20,422)	(11,310)
Net cash generated from/ (used in) financing activities	(84,152)	(13,144)	56,884
Number of shares (units)	64,600,005	64,600,005	5
Weighted average number of shares in issuance (units)	64,600,005	64,600,005	64,069,046
EPS (RM)[(c)]	(0.04)	0.57	0.75
NA per share (RM)[(c)]	1.62	2.13	0.84
Total borrowings	197,545	218,658	338,031
Gearing (times)	1.88	1.59	6.28
Current ratio (times)	1.10	1.19	1.11[(d)]

Notes:

(a) Includes RM36.50 million worth of properties in Lahad Datu and Butterworth that are expected to be disposed in the short term, thus being classified as assets held for sale.

(b) Includes share premium amounting to RM45.34 million.

(c) Computed based on weighted average number of shares.

(d) Computation includes assets held for sale. If computation of current ratio excludes assets held for sale, the current ratio is 1.03 times.

Financial commentaries:

FYE 31 December 2020 vs FYE 31 December 2019

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

In line with higher revenue and GP margin, the HFL Group recorded a PBT of RM34.9 million from a loss before tax position of RM3.0 million in the preceding financial year. The higher PBT achieved for the FYE 31 December 2020 was also attributed by higher dividend income of RM6.4 million received from subsidiaries as compared to RM0.6 million received in the FYE 31 December 2019. Excluding the one-off dividend income, PBT was RM28.5 million.

Despite an increase in borrowings by RM21.1 million from RM197.5 million as at 31 December 2019 to RM218.6 million as at 31 December 2020, gearing improved from 1.88 times as at 31 December 2019 to 1.59 times as at 31 December 2020 due to higher profitability.

FYE 31 December 2021 vs FYE 31 December 2020

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

In line with the increase in revenue, PBT increased by RM19.6 million (56.0%) from RM34.9 million in the preceding year to RM54.5 million principally due to the recognition of one-off (1) capital gain on reduction of share capital in subsidiary amounting to RM14.6 million, (2) gain on disposal of investment in subsidiaries amounting to RM2.8 million and (3) gain on disposal of property, plant and equipment amounting to RM2.6 million, as a result from an internal reorganisation of HHSB and the HFL Group. Excluding the one-off other income, PBT was RM34.5 million.

Current asset increased by RM178.9 million (56.9%) from RM314.6 million as at 31 December 2020 to RM530.0 million as at 31 December 2021. Similarly, current liabilities also increased by RM214.7 million (81.5%) from RM263.5 million as at 31 December 2020 to RM478.2 million as at 31 December 2021. The increase in current asset and current liabilities were due mainly to higher trade banking facilities utilised to finance higher inventories arising from the increasing raw material fertiliser prices and to stock up on raw materials. The higher stock holding as at 31 December 2021 was part of the HFL Group's risk mitigation efforts to the escalating global raw material fertiliser prices and supply chain disruptions due to export restrictions of fertilisers from a number of countries in anticipation of potential shortages as highlighted in Section 4.1 of this announcement. As a result, the HFL Group recorded negative operating cashflow of RM36.3 million for the FYE 31 December 2021.

Gearing increased from 1.59 times as at 31 December 2020 to 6.28 times as at 31 December 2021 principally due to higher trade banking facilities utilised to finance the higher inventories coupled with the internal reorganisation which had resulted in the reduction in shareholders' funds.