

Date:

The Board of Directors

Orgabio Holdings Berhad
22-09, Menara 1MK
No.1, Jalan Kiara
Mont Kiara
50480 Wilayah Persekutuan
Kuala Lumpur

Dear Sirs/ Madams,

Independent Market Research Report on the Instant Beverage Premix Industry in Malaysia (“IMR Report”)

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD (“SMITH ZANDER”) for inclusion in the draft Prospectus in conjunction with the proposed listing of Orgabio Holdings Berhad (“Orgabio Holdings”) on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry and market(s) in which Orgabio Holdings and its subsidiaries (“Orgabio Holdings Group”) operate and to offer a clear understanding of the industry and market dynamics. As Orgabio Holdings Group is principally involved in the provision of instant beverage premix manufacturing services to third party brand owners and manufacturing, sales and marketing of house brand instant beverage premixes, the scope of work for this IMR Report will thus address the following areas:

- (i) Overview of the instant beverage premix industry;
- (ii) Key demand drivers, risk and challenges; and
- (iii) Competitive overview.

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

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an “overall industry” perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report or otherwise.

For and on behalf of SMITH ZANDER:

DENNIS TAN TZE WEN
MANAGING PARTNER

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The research for this IMR Report was completed on 24 March 2021.

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About SMITH ZANDER INTERNATIONAL SDN BHD

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

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has 23 years of experience in market research and strategy consulting, including over 18 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE INSTANT BEVERAGE PREMIX INDUSTRY IN MALAYSIA

Overview of instant beverage premixes

Instant beverage premix exists in the form of dry, water-soluble powder, which upon reconstitution with water, becomes a beverage. The dry, water-soluble powder typically comprises a combination of a base (e.g. coffee powder, tea powder and/or cocoa powder), and flavour and taste enhancing ingredients (e.g. creamer powder and sweetener). Instant beverage premixes are usually packaged in single-serve retail packs such as sachets.

As the ingredients have been proportionately measured in each serving, it provides the convenience to consumers for instant consumption due to its quick and easy preparation, and portable size. Further, instant beverage premixes are offered in a large variety of flavours at various price points making instant beverage premixes a viable option as it can cater to the various taste and pricing preferences of a wide group of consumers.

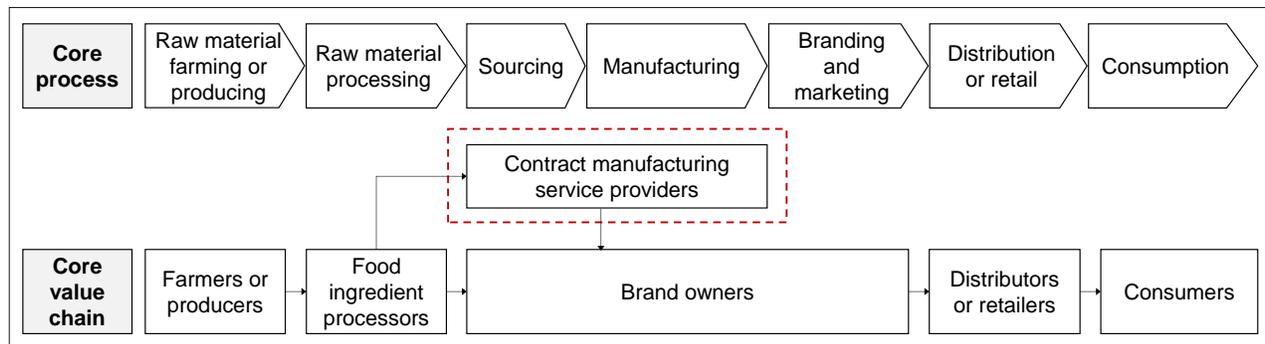
With the continuous development in product formulation, a wide range of instant beverage premixes have been introduced into the market including enhanced or new formulations which differ in terms of taste profile or even in terms of nutritional contents through addition of health extracts such as Tongkat Ali (traditionally used as an aphrodisiac, anti-aging and improvement in physical and mental energy levels), Kacip Fatimah (traditionally consumed to facilitate childbirth and as a supplement during confinement) or colostrum (consumed for modulating immune systems, improving gastrointestinal functions and anti-aging effects). As such, the intake of instant beverage premixes can also be viewed as a way to maintain general wellness without drastic lifestyle changes, in addition to enjoying instant beverage premixes as a form of beverage.

Overview of the instant beverage premix industry in Malaysia

The instant beverage premix industry is a part of the food manufacturing industry where it involves raw material farming or production, raw material processing, sourcing, manufacturing, branding and marketing, and ultimately distribution or retail to consumers for consumption.

Brand owners of instant beverage premixes may carry out in-house sourcing and manufacturing activities or outsource the sourcing and manufacturing activities to contract manufacturing service providers (i.e. contract manufacturers).

Value chain of the instant beverage premix industry in Malaysia



Notes:

- denotes the key segment in which Orgabio Holdings Group is principally involved in.
- This list is not exhaustive.

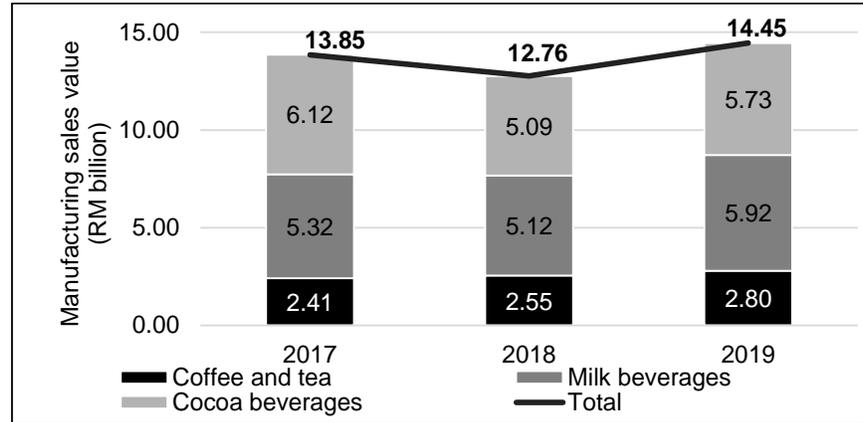
Source: SMITH ZANDER

Industry performance, size and growth

As Orgabio Holdings Group is principally involved in the provision of manufacturing services for instant beverage premixes for third party brand owners, the computation of the industry size in this section takes into consideration manufacturing of instant beverage premixes which include coffee premixes, tea premixes, chocolate premixes and other milk-based premixes.

The instant beverage premix industry is a sub-segment of the coffee, tea, milk and cocoa beverage industry. The manufacturing sales value of coffee and tea, milk and cocoa beverages (which include instant beverage premixes comprising coffee premixes, tea premixes, chocolate premixes and other milk-based premixes) in Malaysia grew from RM13.85 billion in 2017 to RM14.45 billion in 2019, registering a Compound Annual Growth Rate (“CAGR”) of 2.14% during the period.

Coffee, tea, milk and cocoa beverage industry size



Sources: Department of Statistics (“DOSM”), SMITH ZANDER analysis

The industry size of the coffee, tea, milk and cocoa beverage industry includes manufacturing sales value of brand owners with in-house manufacturing facilities who primarily manufacture their own brands of products as well as companies involved in the provision of manufacturing services for third party brand owners (i.e. manufacturing service providers or contract manufacturers). This is because they ultimately share the same pool of end consumers for their products.

The manufacturing sales value for instant beverage premixes is captured under a wider category of manufacturing sales value of coffee, tea, milk and cocoa beverages by the DOSM, and further breakdown on the specific manufacturing sales value for instant beverage premixes is not available by the DOSM. Further, it is not feasible for SMITH ZANDER to obtain and assess the industry size using the revenue of instant beverage premix industry players in view of the absence of an exhaustive list of industry players. This is because the instant beverage premix industry has a large number of industry players and there is no centralised record of the list of industry players tracked by any Government agencies in Malaysia as there are no specific licenses and/or permits required to operate as an instant beverage premix manufacturer in Malaysia. It is also not feasible to ascertain the accurate revenue generated from the instant beverage premixes by all industry players to derive the size of the instant beverage premix industry in Malaysia as many instant beverage premix industry players are also involved in the manufacturing of other products such as concentrated beverages, ready-to-drink beverages and food ingredients, amongst others. As such, the revenue for some industry players may substantially comprise sales of other products which is not an accurate representation of the instant beverage premix industry. Hence, the closest available data, which is the manufacturing sales value of coffee, tea, milk and cocoa beverages, is used to represent the performance of the instant beverage premix industry.

2 KEY DEMAND DRIVERS, RISKS AND CHALLENGES

Key industry drivers

► **The growing need for convenience increases consumer preference for instant beverage premixes**

Rapid urbanisation has led to a change in the lifestyle of consumers in Malaysia. As such, convenience is increasingly becoming essential in the lifestyles of Malaysian consumers, particularly in the urban and suburban areas, leading to increasing demand for instant beverage premixes which promotes convenience. Over the years, the rate of urbanisation grew with Malaysia’s growing economy, rising from 32.40% of total population in 1980 to 76.20% of total population in 2019. The increasing urbanisation rate illustrates that the need for convenience in consumer lifestyle today has been, and will continue to be, a growing trend.

Instant beverage premixes are usually packaged in single-serve packs which facilitate convenience in terms of portability and on-the-go functionality, enabling consumers to enjoy quick and easy preparation of their preferred beverages instantly anywhere and at any time. Consumers leading fast-paced lifestyles tend to have, or want to spend, less time preparing beverages. This results in consumers' preference for instant beverage premixes where they will save time. In addition, instant beverage premixes also provide affordable convenience as these beverages are offered in a large variety of flavours at various affordable prices to cater to the various taste and pricing preferences of consumers.

In addition, in view of the COVID-19 pandemic since March 2020, where consumers have been required or encouraged to stay home due to the imposed mandatory movement and business operations restrictions, demand for convenient solutions have increased. As consumers have been confined to their homes, instant beverage premixes can be easily prepared at home as alternatives to beverages enjoyed in food and beverage outlets, shifting consumption behaviour from out-of-home consumption to at-home consumption. Thus, the growing need for convenience increases consumer demand for instant beverage premixes and in turn drives the demand for manufacturing services of instant beverage premixes.

► **Outsourcing to contract manufacturers for the manufacturing of instant beverage premixes**

With evolving consumer demands, brand owners are increasingly more focused on product branding and marketing, while leaving product development, sourcing, manufacturing and quality control to their appointed contract manufacturers.

By engaging contract manufacturers, brand owners are also able to leverage on the contract manufacturers' economies of scale in procuring raw materials, network of suppliers as well as the readily available manufacturing facilities which are certified with the required food safety assurance requirements.

Hence, with contract manufacturers being able to support brand owners in their manufacturing activities, brand owners can then focus resources and expertise on product branding and marketing.

In light of this, contract manufacturers in Malaysia will continue to support the growing coffee, tea, milk and cocoa beverage industry.

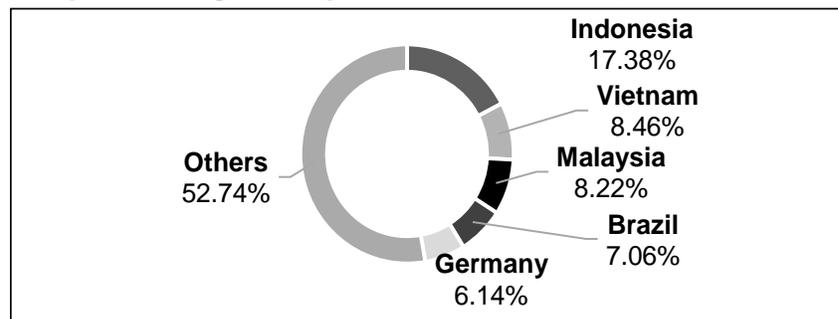
► **Malaysia, being one of the world's major exporters of coffee extracts, which include coffee premixes, will drive demand for manufacturing services of instant beverage premixes**

Malaysia was among the world's top 5 exporters of coffee extracts, which includes coffee premixes, in 2016, and subsequently became a top 3 exporter of coffee extracts in 2017, 2018 and 2019. Malaysian coffee extracts was exported globally to 118 countries in 2019.¹

In 2019, based on latest available information, Malaysia was the 3rd largest exporter of coffee extracts globally, accounting for 8.22% (115,670 tonnes) of total global exports of coffee extracts of 1.41 million tonnes.²

Indonesia dominated global exports of coffee extracts with a share of 17.38% followed by Vietnam (8.46%), Malaysia, Brazil (7.06%) and Germany (6.14%).

Composition of global exports of coffee extracts, 2019



Sources: FAOSTAT, SMITH ZANDER analysis

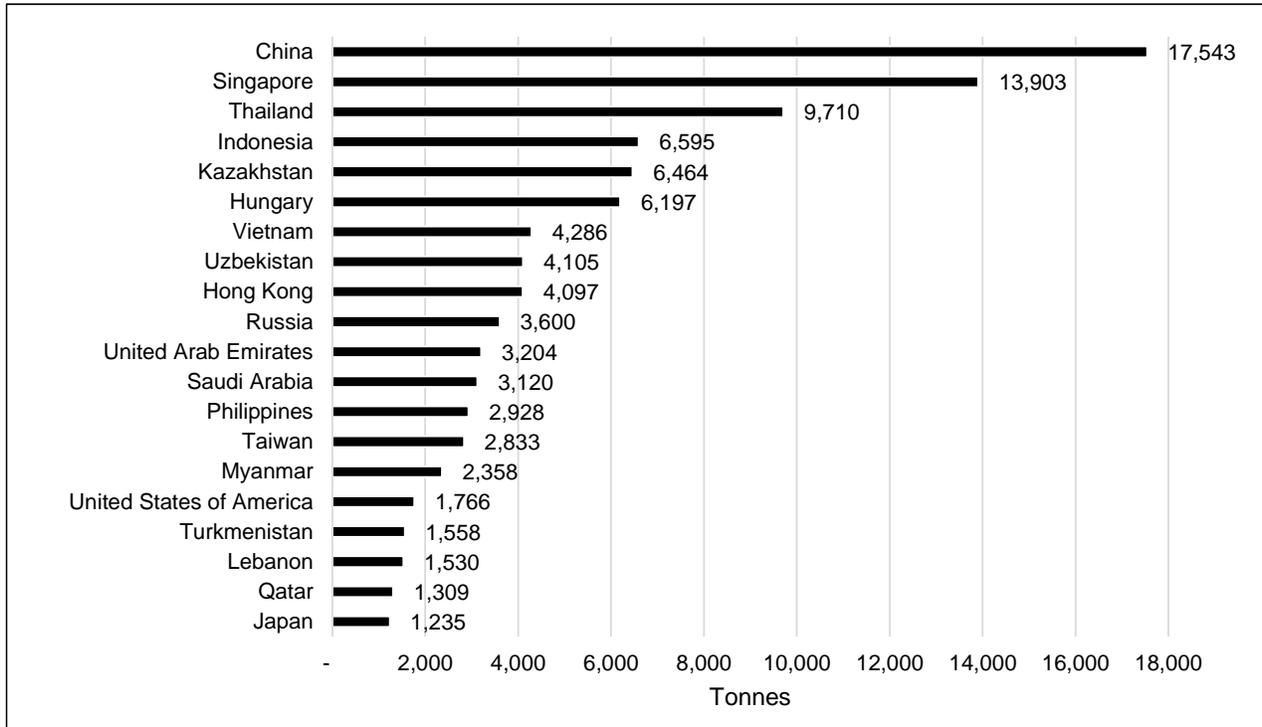
In 2019, based on latest available information, Malaysia's top 20 coffee extract export destinations were China, Singapore, Thailand, Indonesia, Kazakhstan, Hungary, Vietnam, Uzbekistan, Hong Kong, Russia,

¹ Source: Food and Agriculture Organisation Corporate Statistical Database ("FAOSTAT") based on latest available information.

² Source: FAOSTAT.

United Arab Emirates, Saudi Arabia, Philippines, Taiwan, Myanmar, United States of America, Turkmenistan, Lebanon, Qatar and Japan.

Malaysia's top 20 coffee extract export destinations, 2019



Sources: FAOSTAT, SMITH ZANDER analysis

With Malaysia being one of the major exporters of coffee extracts, international customers will continue to seek coffee products from Malaysia. This will drive demand for manufacturing services of coffee products including coffee premixes from Malaysia. Further, Malaysia is also well positioned to leverage on the continuous growth in global export demand for coffee extracts, which grew from 1.20 million tonnes in 2017 to 1.41 million tonnes in 2019, at a CAGR of 8.40%.³

► Government initiatives in promoting the food manufacturing industry

According to Malaysian Investment Development Authority, total investments in Malaysia amounting to RM3.29 billion was approved in 2020 for 102 projects in the food manufacturing industry, a decrease from RM3.80 billion for 98 projects in 2019.

In view of the COVID-19 pandemic, in the shorter term, it is expected that investments in the food manufacturing industry may slow down due to the uncertain economic conditions. Nevertheless, as food is an essential necessity, in the longer term as economic conditions recover, investments in the food manufacturing industry is expected to normalise to pre-COVID-19 levels.

Further, the Government of Malaysia has been promoting Malaysia as a destination for Halal manufacturing due to the rapid development of Halal certification in the country, and the role of the Department of Islamic Development Malaysia (“JAKIM”) as one of the world’s major Halal certification bodies. JAKIM’s recognition programme for international Halal bodies is also one of the most stringent and sought-after bilateral Halal system recognition programmes. This encourages consumer product companies to seek manufacturing services in Malaysia that are compliant to JAKIM’s halal certification standards, and thus potentially driving the growth of the industry, including for instant beverage premix manufacturing services.

³ Source: FAOSTAT.

Key industry risks and challenges

► Dependency on the availability, quality and price of raw materials and packaging materials

The raw materials used in the manufacturing of instant beverage premixes in Malaysia are primarily coffee powder, tea powder, cocoa powder, creamer powder, sweetener, and other extracts such as calcium and colostrum powder, as well as packaging materials.

Most of these raw materials are readily available, and instant beverage premix manufacturers typically source these raw materials from local suppliers and importers. Nevertheless, the product profile may differ slightly from one supplier to another supplier and instant beverage premix manufacturers must ensure the quality of these raw materials as the product manufactured must be compliant with the safety requirements set out by the authorities. However, the prices of some of these raw materials, particularly coffee and cocoa which are global commodities, may fluctuate and have an impact on manufacturing costs.

Any disruptions in the supply of raw materials with the required product profile, quality and pricing may result in instant beverage premix manufacturers failing to adequately fulfil customer orders (i.e. failing to achieve similar taste profile in their products and delays in completing orders) or incurring higher production costs, which may lead to potential cancellation of orders from customers or lower profit margins.

► Exposure to sudden crisis or outbreak of diseases may cause disruption in operations

Unexpected crises such as political crisis, natural disasters and disease outbreaks, amongst others, may temporarily disrupt the operations and/or the supply chain of instant beverage premix manufacturers. The outbreak of the COVID-19 pandemic is an example of this risk. The outbreak of COVID-19 has caused affected countries to impose mandatory movement and business operations restrictions to contain the spread of the virus. This has temporarily disrupted the operations and supply in the industry as manufacturing activities of food ingredients and packaging material suppliers have been disrupted during the period of the mandatory movement and business operations restrictions. While the restrictions due to COVID-19 have been lifted and manufacturing activities are back to normal, any such crises in the future, including a resurgence of COVID-19 cases, may cause further disruptions to the business and operations of manufacturers in the industry.

Transportation networks have also faced disruptions due to closure of airports and other transportation hubs in Malaysia where instant beverage premix manufacturers operate and in the affected countries where their customers are located. This has also caused delays in the supply of raw materials or food ingredients, or delays in delivery of orders to customers. If such disruptions persist, instant beverage premix manufacturers may be required to purchase supplies from different suppliers which may be at a higher cost and which will adversely affect their profitability, or their delivery schedules will be affected and subsequently delay completion of orders to their customers.

3 COMPETITIVE OVERVIEW

Competitive landscape

In Malaysia, the Food Hygiene Regulations 2009 is a regulation enacted according to Section 34 of the Food Act 1983 to regulate the hygiene and safety of food sold to protect public health. Under the Food Hygiene Regulations 2009, all food premises defined as premises used for the preparation, preservation, packaging, storage, conveyance, distribution or sale of any food, or the relabelling, reprocessing or reconditioning of any food, including food manufacturing facilities are required to implement a form of food safety assurance programme. A food safety assurance programme refers to a planned and documented system of practice which provides assurance that any particular type of food will not cause harm to a consumer when it is consumed. Amongst the food safety assurance programmes recognised by MOH are Makanan Selamat Tanggungjawab Industri (MeSTI), Good Manufacturing Practice (GMP), Hazard Analysis and Critical Control Point (HACCP) and ISO 22000.

The instant beverage premix industry players who are involved in the manufacturing of instant beverage premix would incur high capital expenditure upfront for the design and construction of manufacturing facilities to be compliant to the relevant food safety assurance programmes, as well as the technical requirements to be certified to the various standards of food safety compliance. Industry players who can secure sufficient

sales and be profitable will be able to sustain their business operations in the long term and remain competitive in the industry.

Key industry players of instant beverage premix industry

The instant beverage premix industry is competitive due to the large number of industry players which include public listed companies, large private companies as well as small to medium enterprises that compete in the manufacturing and supply of various types of instant beverage premixes. There are generally two types of industry players, namely brand owners and manufacturing service providers. Brand owners may have their own in-house manufacturing facilities for the manufacturing of instant beverage premixes under their house brands and typically do not provide manufacturing services for third party brand owners.

Brand owners may also outsource manufacturing activities to manufacturing service providers (i.e. contract manufacturers) which provide manufacturing services on contract basis. Most of these manufacturing service providers provide manufacturing services for third party brand owners, but some of these companies may also manufacture instant beverage premixes under their own house brands as an additional source of revenue.

As Orgabio Holdings Group is involved in the provision of manufacturing services for instant beverage premixes primarily for third party brand owners, the competitive landscape of the industry will focus on manufacturing service providers or contract manufacturers in Malaysia.

Therefore, the basis for selection of the key industry players in the instant beverage premix industry in Malaysia is as follows:

- manufacturing service providers or contract manufacturers involved in the provision of manufacturing services for instant beverage premixes (comprises coffee premixes, tea premixes, chocolate premixes and milk-based premixes) for third party brand owners, as these are deemed the key competitors of Orgabio Holdings Group. These companies may also be involved in the provision of manufacturing services for other products, and manufacturing and distribution of their own branded products and/or trading of other products;
- companies with manufacturing facilities in Malaysia; and
- companies which recorded more than RM10 million revenue based on their respective latest available financial years.

Brand owners of instant beverage premixes who primarily manufacture their own products in-house and/or who outsource the manufacturing of instant beverage premixes to manufacturing service providers (i.e. companies who are not deemed as manufacturing service providers or contract manufacturers) are excluded as they are not deemed as key competitors of Orgabio Holdings Group. The key industry players are as shown below:

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Company name	Examples of manufacturing services of products provided to third-party brand owners	Location of manufacturing plant	Latest available financial year	Revenue ^a (RM million)	Gross profit (RM million)	Gross profit margin (%)	Profit after tax (RM million)	Profit after tax margin (%)
Altratec Sdn Bhd	Instant beverage premixes and food related products	Selangor	31 December 2019	184.63	18.88	10.23	11.32	6.13
DCH Contract Manufacturing Sdn Bhd	Instant beverage premixes, liquid beverage and pharmaceutical tablet products	Selangor	31 December 2019	89.46	16.70	18.67	8.32	9.30
Orgabio Group	Instant beverage premixes	Selangor	30 June 2020	39.37	12.42	31.53	5.64	14.31
Syarikat Thong Guan Trading Sdn Bhd	Food products, tea and coffee bags, and instant beverage premixes	Kedah	31 December 2019	38.82	13.51	34.80	2.54	6.54
Gold Choice Food Industries Sdn Bhd	Instant beverage premixes	Penang	31 March 2020	25.91	8.81	34.00	0.75	2.89
Exclusive Mark (M) Sdn Bhd	Instant beverage premixes, cordial and food products	Selangor	31 December 2019	18.22	0.96	5.27	-2.73	-14.98
The Only One Beverage Sdn Bhd	Instant beverage premixes, liquid beverage and food related products	Penang	30 November 2019	17.67	2.69	15.22	0.28	1.58
AIM Food Manufacturing Sdn Bhd	Instant beverage premixes and food related products	Melaka	30 September 2019	17.47	4.48	25.64	0.89	5.09
Cobizco Food Industries Sdn Bhd	Instant beverage premixes	Penang	31 August 2019	16.62	2.26	13.60	0.76	4.57

Company name	Examples of manufacturing services of products provided to third-party brand owners	Location of manufacturing plant	Latest available financial year	Revenue ^a (RM million)	Gross profit (RM million)	Gross profit margin (%)	Profit after tax (RM million)	Profit after tax margin (%)
Ideal Beverage Marketing Sdn Bhd	Instant beverage premixes, cordial and food products	Selangor	30 June 2019	15.34	2.30	14.99	-0.01	-0.07
One Auto Worldwide (M) Sdn Bhd	Instant beverage premixes and food related products	Melaka	31 December 2019	14.28	2.68	18.77	0.70	4.90
Orang Kampung Corporation (M) Sdn Bhd	Instant beverage premixes, liquid beverage and supplements	Melaka	31 December 2018	13.94	4.69	33.64	0.50	3.59
Ori Bionature (M) Sdn Bhd	Instant beverage premixes, food related products and skin care products	Selangor	31 December 2019	12.32	7.80	63.31	1.19	9.66
Guan Tong Industries Sdn Bhd	Instant beverage premixes and liquid beverages	Kedah	31 December 2019	11.17	1.97	17.64	0.30	2.69
Malcoplus Foods Industry Sdn Bhd	Instant beverage premixes and food products	Perak	31 December 2019	10.73	1.18	11.00	0.40	3.73

Notes:

- Latest available as at 24 March 2021.
 - The list above comprises manufacturing service providers or contract manufacturers. It excludes brand owners who are not deemed as manufacturing service providers or contract manufacturers, and excludes brand owners who outsource to manufacturing service providers or contract manufacturers. Hence, the total revenue of the key industry players shown in this list is not the same as the industry size shown under Industry Performance, Size and Growth section of this IMR Report.
- ^a Revenue may derive from other products and/or businesses as segmental revenue is not publicly available.

Sources: Orgabio Holdings Group, various company websites, Companies Commission of Malaysia, SMITH ZANDER analysis

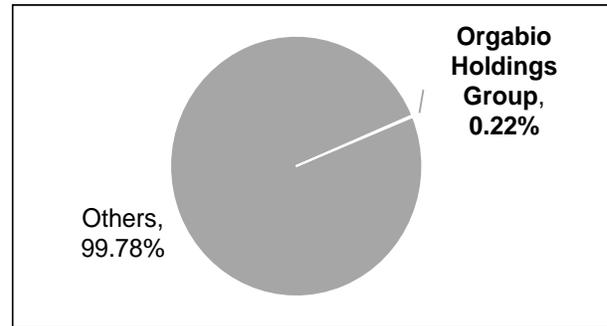
The key industry players identified in this IMR Report include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of key industry players is exhaustive.

Market Share

Based on latest available information, in 2019, the size of the coffee, tea, milk and cocoa beverage industry, as represented by manufacturing sales value (which include instant beverage premixes comprising coffee premixes, tea premixes, chocolate premixes and milk-based premixes) in Malaysia, was recorded at RM14.45 billion.

For the year ended 30 June 2019, the revenue from instant beverage premix manufacturing services and house brands for Orgabio Holdings Group was recorded at RM31.31 million, and thereby Orgabio Holdings Group captured a market share of 0.22% in Malaysia.

Instant beverage premix market share in Malaysia, 2019



Sources: Orgabio Holdings Group, SMITH ZANDER analysis

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