9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 Our business growth may be adversely affected if we fail to continuously improve our FFB yields which could result in stagnant or lower production of CPO and PK

FFB harvested from our plantation estates is the main input to our palm oil mill for the production of CPO and extraction of PK, which are then sold to our customers, thus generating revenue for our Group. Therefore, it is crucial to harvest sufficient FFB for the production of CPO and extraction of PK to generate revenue for our Group. FFB yields are generally dependent on the land profile of our plantation estates, age profile and quality of our oil palms, as well as adoption of efficient plantation practices to ensure high FFB yields including field upkeep and weed control, soil fertility and conservation, pest management, mechanisation, water management, harvesting and crop quality, as well as safety, health and environment. Further, FFB yields are also dependent on the availability of labour to carry out the daily operations in our plantation estates with further details set out in Section 9.2.3.

Our oil palm planted areas are generally flat to gently undulating with the whole of the plantation land below 50 metre AMSL which eases the operations of our plantation activities, and the majority of our oil palms (i.e. 92.7% as at LPD) are at prime mature stage which is ideal for high FFB yields. However, there can be no assurance that we will continue to achieve high FFB yields if we fail to continuously adopt or improve our plantation practices. Any failure in adopting our plantation practices by our workers, such as failure in maintaining soil fertility due to inefficient application of fertilisers as well as failure in combating pest due to inefficiency in applying chemicals (e.g. pesticides) and in the planting of biological plant for pest control, may result in low yield or poor quality of FFB. Further, failure in continuously improving our plantation practices through mechanisation along with technological advancement may also result in stagnant or lower yield of FFB. Additionally, as our oil palms will eventually enter the old age with lower FFB yields, we may face decreasing FFB yields if we are unable to implement replanting programmes on a timely manner and in the right phases, which can be caused by factors such as prolonged adverse weather conditions, shortage of suitable oil palm seedlings and fertiliser, as well as labour, at the time when our Group plans to commence replanting activities to replace old oil palms.

Any decrease in FFB yields will result in stagnant or lower production of CPO and PK, which may eventually negatively affect our financial performance and our future growth. Even if we purchase FFB from third party plantation estates for the production of CPO and PK in our palm oil mill in the event of low FFB yields in our plantation estates, we are required to incur additional costs for the purchase of FFB and there can be no assurance on the quality of FFB purchased. All of these may have a negative impact on our cost of sales and may consequently impact our financial performance.

9.1.2 Our financial performance is subject to our ability to continuously deliver CPO and PK based on industry guidelines

The quality of our CPO is mainly measured by the FFA content, of which they are mainly dependent on the quality of FFB and the duration of CPO storage prior to delivery. According to the Indonesian National Standard's quality guidelines published by the National Standardisation Agency of Indonesia, the content of FFA in CPO produced by palm oil mills in Indonesia should not be more than 5.0% at the point of loading for delivery to customers. Nevertheless, CPO with FFA content above 5.0% can still be sold to refineries for processing into non-edible oils and edible oils but the CPO must undergo additional treatment prior to further processing.

On the other hand, the quality of our PK is measured by the moisture and impurity levels as well as FFA content, of which they are dependent on, amongst others, weather conditions along with the transportation which may affect the moisture content, efficiency of our PK recovery process which involves the removal of dirt, stones and moisture content, as well as the quality of FFB and the duration of PK storage which may affect the FFA content. Based on the pre-agreed quality range with our customers, the FFA content of our PK should not be more than 5.0% and the moisture and impurity levels of our PK should not be more than 8.0% at the point of product receipt by our customers. PK with high moisture and impurity levels as well as FFA content can still be sold to customers for processing but the PK must undergo additional treatment prior to further processing.

Notwithstanding that we have quality control procedures in place to ensure the quality of FFB harvested in order to produce CPO with FFA content of below 5.0% to our customers, there is no guarantee that we will be able to continue to maintain the FFA content of our CPO. If we deliver CPO with FFA content above 5.0%, our customer can claim for a reduction in sales price based on a pre-agreed range. As for PK, if we deliver PK with impurity and moisture levels as well as FFA content that do not meet our customers' requirement, or if the delivered amount is lower than the pre-agreed amount due to adverse weather and bad road conditions that cause PK to fall off from the trucks during transportation, our customer can claim for a reduction in sales price based on a pre-agreed range.

During FYE 2020 to 2022, there were claims from our customers on sales of CPO and PK amounting to approximately RM0.1 million, RM0.2 million and RM1.7 million respectively, which accounted for approximately 0.1%, 0.1% and 0.5% of our Group's total revenue from plantation business segment respectively. Nevertheless, as the amount of claims was not substantial, it did not result in any material adverse impact to our Group's financial performance. Please refer to Section 12.2.2(e) for further details on the quality claims from our customers for FYE 2020 to 2022.

If we fail to continuously maintain the quality of our CPO and PK, our financial performance will be negatively impacted as a result of claims from our customers. It may also negatively impact our reputation in the industry as a reliable provider of quality CPO and PK, which may result in a potential loss of confidence and sales of our CPO and PK from our existing and potential customers, and may consequently negatively impact our business growth.

9.1.3 We are dependent on our Executive Directors and key senior management for continued success and growth of our business

The continued success and growth of our Group is, to a significant extent, dependent on the abilities, skills, experience, competency and continuous efforts of our Executive Directors and key senior management. The presence of our Executive Directors and key senior management is crucial to our business continuity as they play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group.

Any significant or sudden loss of the services of our Executive Directors and/or key senior management without suitable replacement in a timely manner may have an adverse and material impact on our Group's business operations, and may eventually affect our ability to maintain and/or improve our business performance. This may in turn adversely affect our financial performance.

9.1.4 Our business may be adversely affected if we are not able to renew or maintain the licences, approvals and permits required to operate our business

We require various licences, approvals and permits such as IUP for oil palm cultivation and plantation business licence for oil palm cultivation that is integrated with licence for production of CPO and extraction of PK to operate our business. We may be required to renew these approvals, licences, permits and certificates or to obtain new licences, approvals and permits following the changes of any related regulatory requirements in Indonesia. Please refer to Section 6.7 for the licences, approvals and permits required for our business operations.

Save for the respective B3 licences of PT MKH and PT SPS that are pending renewal due to change in the regulatory regime as disclosed in Section 6.7, we have not experienced any difficulty in renewing and maintaining our licences, approvals and permits. As at LPD, PT MKH and PT SPS have not received any notice of non-compliance from the relevant authorities in relation to their B3 licences.

We cannot assure that the relevant authorities will issue or renew any required licences, approvals and/or permits in a timely manner or at all in the future. Failure by us to renew, maintain or obtain the required licences, approvals and permits may lead to interruptions to our on-going operations, affect the implementation of any planned capacity expansion and/or affect the demand for our products, which may have a material adverse effect on our business, financial performance and prospects.

In addition to the licences, approvals and permits required for our business operations, as at LPD, we have obtained ISPO certification for the plantation estates managed by PT MKH and PT SPS as a testament to our sustainable plantation practices and ability to produce sustainable palm oil. With the aim to strengthen Indonesia's position in the global palm oil market as a palm oil producer and exporter, the Indonesian Government has implemented the requirement for ISPO certification for all Indonesian oil palm plantation businesses that hold the abovementioned plantation business licences. Please refer to Section 7.1.1 for further details on our ISPO certification. In the event that our Group fails to maintain our ISPO certifications, our Group may lose our customers which may have a material adverse effect on our business, financial performance and prospects.

9.1.5 Our business and financial performance may be adversely affected if we lose significant sales from our major customers

For FYE 2020 to 2022, sales contributed by our top 5 major customers accounted for 88.2%, 95.9% and 99.9% of our total revenue respectively, indicating a concentration of our revenue amongst these customers, and a risk of dependency on them. There is no assurance that we will be able to continue retaining these customers, or that the volume of purchases from our major customers will not vary significantly in the future. In the event that there are significant reductions in purchases from our major customers or a complete loss of any of our major customers, our financial performance and results of our operations may be adversely affected.

Further, amongst our top 5 major customers, our Group has entered into annual sale and purchase agreements with PT Kutai Refinery Nusantara (part of Apical Group of Companies) for sale of CPO and PK, and PT Binasawit Abadipratama (part of Golden Agri-Resources Group of Companies) for sale of PK, as at LPD. Both Apical Group of Companies and Golden Agri-Resources Group of Companies contributed significantly to our total revenue with a collective contribution of 55.4%, 78.7% and 92.6% for FYE 2020 to 2022 respectively. Our financial performance and results of our operations will be adversely affected if the annual sale and purchase agreements with these customers are not renewed and these customers cease to purchase from us.

Notwithstanding that we can sell our products to other customers through the e-bidding tendering process in the event of termination of these annual sale and purchase agreements and/or reduction of purchases from our major customers, we may experience prolonged disruptions to our business and financial performance if we are unable to replace the loss of sales with alternative customers in a timely manner. Further, we may be subject to increased price fluctuations if all sales are carried out through the e-bidding tendering process as the sales are exercised at auction prices from tenders which are generally subject to higher discounts requested by customers to compensate for freight costs, as opposed to the fixed quantum of discounts pre-agreed in the annual sale and purchase agreements. Please refer to Section 7.10 for further details on our Group's major customers.

9.1.6 We are exposed to costs arising from compliance with environmental, health and safety requirements in oil palm industry, and may be exposed to liabilities if we fail to comply with these requirements

We are subject to various environmental, health and safety requirements in Indonesia, whereby we are required to comply with certain requirements such as proper storage of diesel and petrol, discharge of waste (i.e. POME and used engine oil) into the environment and installation of water meter at borehole outlets. In compliance with these requirements, we have obtained the B3 Waste Storage and Management-related Licenses for the storage of waste in the oil palm plantation. The potential maximum penalties which may be imposed for not possessing the B3 Waste Storage and Management-related Licences are imprisonment for a maximum of 3 years and a maximum fine of IDR3.0 billion (equivalent to approximately RM0.9 million). As at LPD, our Group does not historically have any non-compliances relating to environmental, health and safety requirements. For FYE 2020 to 2022, we incurred RM0.7 million, RM0.7 million and RM0.8 million respectively, representing approximately 0.4% of our Group's cost of sales for each of the FYE 2020 to 2022, to comply with the environmental, health and safety requirements, which are a negligible portion of our total costs.

Further, as these requirements may be changed from time to time and may become more stringent, we may be required to put in additional measures such as purchase and installation of new or additional pollution control equipment or to make necessary operational changes in order to comply with the requirements. Any additional measures in place may result in additional costs incurred and may consequently increase our operational cost.

In addition, any claims on our failure to comply with any present or future environmental, health and safety requirements could result in assessment of damages and imposition of fines; or if worsen, may result in suspension or cessation of our operations.

9.1.7 Our business and operations are exposed to sudden disruptions caused by serious pandemic and epidemic outbreaks

The COVID-19 pandemic and any other possible future outbreaks/pandemics may significantly and adversely affect our business operations and financial performance. In the event of a spread of viruses among our workers, our workers will be subjected to quarantines. This may delay our plantation and milling operations due to a shortage of workers and mandatory suspension of our business operations if there is a large-scale virus spread in our plantation estates. The quality of our FFB may also be impacted if there is insufficient inventory of fertilisers and chemicals for application and a significant delay in the supply of these items from our suppliers. Further, the COVID-19 pandemic or any other possible future outbreaks/ pandemics may also lead to disruptions to the logistics and transportation ecosystem in East Kalimantan, which may consequently lead to a delay in products delivery to our customers.
As at LPD, we have imposed strict control at the entry points of our plantation estates to prohibit unauthorised personnel from entering our plantation estates, and there has been no COVID-19 cases detected. Save for some delays in the supply of certain fertilisers and chemicals from our suppliers during the pandemic due to global supply chain disruptions as a result of lockdown measures imposed in many countries as well as some delays in product collection by our customers, we have not experienced any other interruptions to our business operations. Please refer to Section 7.8 for further details on the interruptions to our business operations pursuant to the COVID-19 pandemic.

However, there is no assurance that our Group will be able to maintain zero-cases in our plantation estates, and be able to ensure that our operations will not be affected if the COVID-19 situation escalates with the emergence of new COVID-19 variants. Further, we cannot assure that we will be able to manage the risks efficiently in the event of any such pandemic outbreaks and/or epidemic outbreaks in the future that may affect a significantly large but more localised population.

9.1.8 Our business and operations are exposed to unexpected interruptions or delays caused by machinery and/or equipment failures

We rely on a series of machinery and equipment such as sterilisers, threshers and oil press machines to produce CPO and extract PK as part of our palm oil milling process. These machinery and equipment may, on occasion, be out of service due to unanticipated failures caused by disruptions in the supply of electricity or water; or damages caused by fire to our palm oil mill, including fires that may spread to our palm oil mill from the neighbouring areas of our plantation estates, with further details set out in Section 9.2.1(c).

The occurrence of these unexpected events that are beyond our control may cause damage or destruction to all or part of our palm oil mill and machinery, which may result in maintenance and repair works required to our palm oil mill or the affected machinery. All of these may consequently result in interruptions to or prolonged suspension of our production activities. Any prolonged interruptions to our production activities will affect our ability in fulfilling our sales orders, thus causing delivery delays to our customers. This could adversely impact our relationships with customers, financial performance and reputation in the industry.

For FYE 2020 to 2022 and up to LPD, we have not experienced any incidents of unanticipated machinery and equipment failures which led to major interruptions in our operations. However, there can be no assurance that such incidences will not happen in the future. In the event that these incidences occur, it may result in interruptions to our operations and thus adversely affect our business operations and financial performance.

9.1.9 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities, such as property all risk, motor vehicle and automobile liability, fidelity guarantee and machinery breakdown. However, in the event of claims, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations as a result of any unforeseen circumstances. For example, while we are insured against losses resulting from the liabilities as mentioned above, we do not maintain insurance against losses at our oil palm plantations as a result of natural disasters (save and except for Standard Indonesian Earthquake insurance), wars and acts of terrorism as the premiums for these insurances are generally not commercially viable.

Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business, financial condition and results of operations.

For FYE 2020 to 2022 and up to LPD, there were insurance claims for property all risk, motor vehicle and automobile liability, fidelity guarantee, business interruptions due to flood, staff medical and loss of biological asset, which amounted to approximately RM0.55 million. During the same period, we have not experienced any incidences of material losses, damages or liabilities incurred by us due to insufficient insurance coverage.

9.1.10 We may not be able to successfully implement our business strategies

Our business strategies and future plans are as follows:

(a) to expand our oil palm plantation business through the expansion of plantation estates;

(b) to enhance our operational efficiency by acquiring new machinery and equipment to be used in FFB harvesting and palm oil milling;

(c) to expand our processing capabilities and product offerings by producing and selling CPKO;

(d) to refurbish our staff quarters to improve the living conditions of our workers and their family members; and

(e) to expand the coverage of electricity supply generated through the turbines at our palm oil mill to other regions of our plantation estates.

Please refer to Section 7.15 for further details of our business strategies and future plans.

The execution of these business strategies involves capital expenditures for amongst others, acquisition costs for plantation land banks, machinery and equipment; as well as other operating expenses such as depreciation charges, machinery and equipment maintenance costs, staff costs and other working capital requirements. Some of these additional expenditures will increase our Group's operational cost including our overhead costs, and may adversely affect our profit margin if we are unable to gain sufficient revenue by securing more sales from customers.
Furthermore, the implementation of these business strategies may be influenced by factors beyond our control, such as changes in general market conditions, economic climate, regulatory guidelines and political environment in Indonesia; as well as availability of companies with suitable plantation land for acquisition and ability to achieve favourable acquisition terms, all of which may affect the commercial viability of our business strategies. We also cannot be assured that any required additional financing, in addition to the IPO proceeds raised, will be made available to us on terms that are satisfactory to us or at all. If adequate funding is not available when needed, or is available only on unfavourable terms, we may not be able to meet the capital needs, or may need to inject additional capital from internally generated funds for the implementation of our business strategies, which may consequently delay the target timeframe for our business strategies.

As such, there is no assurance that the execution of our business strategies will be successful, nor will we be able to anticipate all the risks and uncertainties that may arise during the execution of these business strategies, which may materially affect the business operations and financial performance of our Group.

Further, we will also continue to be exposed to risks arising from operating on leased plantation land. As at LPD, both our plantation estates under PT MKH and PT SPS are granted by the National Land Office based on the HGU Certificate with the terms of 35 years and will be expiring in 2042 and 2045 respectively, with options to extend for a further period of 25 years, and subsequently be renewed a further period of 35 years upon fulfilment of conditions pursuant to the laws and regulations of the Republic of Indonesia. Likewise, when we establish a new plantation estate on the HGU, we are required to renew the term upon expiry to ensure continuity of our business operations. Failure to renew the terms of our existing plantation land and the plantation land to be acquired in the future may lead to major disruptions to our business and expose us to business continuity risk.

9.1.11 We may be adversely affected by fluctuations in prices of supplies purchased by our Group

Our Group's GP margin is also susceptible to fluctuations in the prices of some supplies, such as fertilisers, FFB from the Plasma Programme, CPO from neighbouring third-party palm oil mills, diesel and petrol as well as chemicals. The prices of these supplies are dependent on, amongst others, the prevailing global crude oil prices and CPO prices, and/or the demand and supply conditions of these supplies. Please refer to Sections 7.11 and 9.2.2 for further details on the price fluctuation of these supplies and the price volatility of CPO, respectively.

Any significant fluctuation in the prices of these supplies may significantly increase our cost of sales, which may adversely affect our business, financial condition, results of operations and prospects should we fail to pass the increase in cost to our customers.

In FYE 2022, there was an increase in the price of fertilisers resulting from shortage of supply due to the Russia-Ukraine conflict; and an increase in the price of diesel for use in our generation sets and vehicles due to the increase in global crude oil prices arising from the increase in global demand for crude oil due to fears in the market on any disruptions in supply as a result of the Russia-Ukraine conflict and sanctions implemented by the United States against Russia, which subsequently led to a reduction in subsidies on diesel as announced by the Government of Indonesia in September 2022. The increase in the prices of fertilisers and diesel led to an increase in our cost of sales of approximately RM8.6 million, which led to a decline in our GP in FYE 2022 despite being cushioned by higher revenue contributed by higher average selling prices of CPO and PK. Save for the aforementioned, there was no increase in the price of our other supplies which are subject to price fluctuations and impacted our financial performance for FYE 2020 to 2022.

Moving forward, our financial performance subsequent to FYE 2022 may be adversely affected by an increase in prices of our supplies including fertiliser and diesel as the impact arising from the Russia-Ukraine conflict and sanctions implemented by the United States against Russia may continue to persist, and such impact may not be mitigated by our revenue due to potential decline in our selling prices of CPO and PK as the domestic market obligation implemented by the Government of Indonesia persists.

9.1.12 We are exposed to foreign exchange transaction risks

Our Group is an oil palm plantation group principally involved in the cultivation of oil palm and production and sale of CPO and PK in Indonesia. Our sales are all made to local customers in Indonesia whereby the sales are denominated in IDR. Further, during the FYE 2020 to 2022, we also purchased spare parts from overseas suppliers to support our business operations, which were denominated in RM and/or USD. However, the purchases of spare parts from overseas suppliers were minimal. Please refer to Section 12.13(a) for the breakdown of our sales and purchases in local and foreign currencies.

Additionally, our Group has USD-denominated outstanding borrowings of approximately RM2.3 million as at 30 September 2022, and RM-denominated loans from related companies of approximately RM110.3 million as at 30 September 2022, with further details set out in Section 12.13(a). Our Group utilises IDR to repay the USD-denominated borrowings and RM-denominated loans from related companies.

As at LPD, our Group does not hedge our exposure against fluctuations in foreign currency exchange rates as currency positions in IDR are considered to be long-term in nature. As such, we are subject to foreign exchange fluctuation risk for our USD-denominated borrowings and RM-denominated loans from related companies. In particular, for FYE 2020, we recorded unrealised and realised loss on foreign exchange by RM13.9 million and RM3.4 million, respectively, in respect of our borrowings and loans denominated in USD and RM against IDR. Further, for FYE 2022, we recorded realised loss on foreign exchange by RM0.6 million. Please refer to Section 12.13(a) for further details on our foreign exchange gains and losses for FYE 2020 to 2022.

Further, as our operations are based in Indonesia, save for sales to overseas countries and some purchases from overseas suppliers which are denominated in USD, all our business transactions are denominated in IDR. However, for the purposes of financial reporting in Malaysia, all financials will be converted to RM for disclosure in financial statement. As such, our financial statement reported in RM may not be reflective of our results of operations due to the fluctuations in foreign exchange rates, mainly between IDR and RM. This has given rise to foreign exchange translation reserve amount disclosed under 'other comprehensive income' as 'foreign exchange translation differences'.

9.1.13 We are exposed to credit risk and default payment by customers

For the sale of CPO and PK, our customers are required to place an upfront payment of 90.0% of the total contract value, with the remaining 10.0% to be fulfilled upon the issuance of necessary delivery documents such as bill of lading and manifest to our customers after the product delivery, whereby our Group typically receives the payment within our credit terms which range from 30 to 60 days. The dates in which our customers are required to fulfil the upfront payment are stipulated in the contracts. In the event of delay or default in payment by our customers, our operating cash flows or financial results of operations may be affected.

While we have not impaired for any credit loss or experienced any material delay or default in payment by our customers for FYE 2020 to 2022 and up to LPD, there can be no guarantee that our customers will be able to fulfil their payment obligations within our credit terms and that we will not encounter any collection problems in the future. In the event that there is any default or delay in the collection of payment, it will lead to impairment losses on trade receivables or bad debts which may impact our financial performance.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are subject to various inherent risks in the oil palm industry

As we are involved in the cultivation of oil palm for the production and sale of CPO and PK, we are subject to risks inherent to the oil palm industry. These include, but are not limited, to:

(a) Adverse weather conditions

Overly dry or wet weather conditions can potentially induce tree-stress, leading to lower supplies of FFB. Insufficient rainfall causes oil palm trees to produce fewer flowers which develop into FFB and may delay fertilising schedules. In view of the potential onset of El Nino beginning June 2023 which may result in dry seasons in East Kalimantan, we do not expect major impact to our FFB yield, OER and KER as well as earning prospects as our integrated drainage system is equipped with stoppers to retain rainwater to help maintaining the moisture level of soil. Our plantation estates experienced dry seasons in FYE 2018, 2019 and 2020, whereby the average monthly rainfall was recorded at 179mm, 156mm and 140mm respectively. Nevertheless, our FFB yield, OER and KER during this period were not materially and adversely impacted. However, our FFB yield, OER and KER as well as earning prospects may face adverse impact in the event of any prolonged dry weather conditions where our retained rainwater is insufficient to maintain soil moisture.

On the other hand, heavy rainfall may cause the condition of the terrain on our plantation estates to be slippery or soft, thereby making it difficult for our workers to access our plantation estates and harvest our FFB. As our plantation estates generally experience high rainfall during monsoon seasons, our plantation estates may be subject to the risk of flooding if rainfalls during the monsoon seasons are beyond normal levels. Notwithstanding that we have an integrated drainage and irrigation system for water management in our plantation estates, there can be no assurance that we will not face flooding issues and our FFB yields will not be impacted by adverse weather conditions.

In FYE 2021 and FYE 2022, we recorded a lower FFB yield mainly due to heavy rainfall from La Nina phenomenon, which resulted in lower CPO and PK produced for sale. The average monthly rainfall recorded in our plantation estates increased from 140mm in FYE 2020 to 198mm in FYE 2021, and to 240mm in FYE 2022.

(b) Outbreak of diseases or crop pests

Diseases and pests can cause losses in FFB yields, and in extreme cases, these attacks could destroy large areas of oil palm crops. Fungal diseases such as 'fusarium' and bacteria-related diseases such as 'endophytic bacteria' are examples of diseases that typically infect oil palm crops while pests that attack oil palm crops include rats, squirrels and 'rhinoceros beetles'.

For FYE 2020 to 2022 and up to LPD, there has not been any major outbreaks of diseases or crop pests that has led to negative impact to our crops.

(c) Fires

Fires can occur naturally during drought seasons, and the situation can be worsened if accompanied by strong wind which will spread the fire quickly. We generally do not experience extreme drought seasons as our plantation estates are situated along the equator. However, we are exposed to the risk of human and nature-caused fires, which may lead to significant damage to our oil palms. Further, as part of our oil palm planted areas are on peat soil (i.e. 49.0% as at LPD), there is a higher probability for these planted areas to catch fire as drained peatlands caused by drought and land clearance through logging and burning activities are relatively flammable during drought seasons. Smoke and haze caused by fires may also set back the ripening of oil palm fruit and disrupt our plantation activities, which may potentially reduce our FFB yields. In the event that the fire spreads to our palm oil mill, all or part of our palm oil mill may be damaged and our operations will be severely affected.

While we adopt a zero-burning policy in our plantation estates and include the usage of drones to determine any occurrence of fire at the surrounding areas of our plantation estates, there can be no assurance that no fire will be spread to our plantation estates and we are able to put out the fire on a timely manner to avoid any damage to our plantation estates and mill during the occurrence of fire in our plantation estates. In such circumstances, our business operations may be materially affected as set out in Section 9.1.7.

For FYE 2020 to 2022 and up to LPD, there has not been any occurrence of fire in our plantation estates that has led to material impact to our business operations.

All the external factors above may cause disruption to our plantation activities and/or reduction in our FFB yields, which may in turn adversely affect our production and sale of CPO and PK. Further, occurrence of fires involving our palm oil mill may cause damage to all or part of our palm oil mill, which may lead to disruptions in our palm oil milling activities, thereby impacting the production and sale of our CPO and PK. Any prolonged interruptions to our FFB yields as well as plantation and palm oil milling activities will affect our ability in fulfilling our sales orders, thus causing delivery delays to our customers. This could adversely impact our relationships with customers, our financial performance and reputation in the industry.

9.2.2 Our financial performance is subject to the fluctuation in the market prices of CPO and PK

As with other commodities, the market prices of CPO and PK fluctuate along with international demand and supply conditions. The highest and lowest market prices for CPO and PK published by the Plantation Office of East Kalimantan for 2020, 2021 and 2022 are as follows:

	CPO price (IDR/kg)		PK price (IDR/kg)	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	9,148.0	6,657.4	5,013.6	3,131.4
2021 (January to December)	13,641.2	9,170.4	10,075.5	5,691.3
2022 (January to December)	15,490.1	8,467.1	12,605.4	4,420.4

Please refer to Section 12.2.2(a) for the average selling price of our CPO and PK for FYE 2020 to 2022.

Local and international market prices for CPO and PK are affected by a number of factors, including the following:

(a) the supply and demand levels for CPO, PK and other edible or non-edible fats and oils (such as soybean oil, rapeseed oil, sunflower oil, non-edible vegetable oils and non-edible animal fats);

(b) global production levels and physical stocks (i.e. the supply level) of CPO, PK and other edible or non-edible fats and oils, which tend to be affected principally by global weather conditions and the area of land under cultivation;

(c) global consumption levels (i.e. the demand level) of CPO, PK and other edible oils;

(d) the price of crude oil, which impacts the prices of biofuels and in turn impact the price of CPO and PK as palm oil can be used in the production of biofuels;

(e) developments in the Indonesian, regional and global economic and political situations which may affect the supply and demand conditions of CPO and PK in the global market;

(f) foreign exchange rates as any major fluctuations in the currencies in which CPO and PK are transacted may affect the favourability of CPO and PK exported from a particular country, thereby affecting demand;

(g) import and export duties and other taxes in major CPO import/ consumption/ production/ export countries which may affect the imports and/or exports of CPO and PK in the respective countries; and

(h) changes in government regulations such as implementation of any export bans and domestic regulations that may limit the export of CPO and PK.

The key underlying reason that affects the local and international market prices of CPO and PK is the supply and demand levels for CPO and PK. Any increase in demand for CPO and PK and/or shortage in supply of CPO and PK tends to result in an increase in the market price of CPO and PK, and vice versa.

In the second half of FYE 2022, our Group's financial performance was adversely affected by the decline in our average selling prices of CPO and PK, where the decline was in tandem with market prices of CPO and PK. The decline in market prices of CPO and PK from May 2022 was due to excessive stock of CPO in Indonesia accumulated during the export ban on CPO, RBD palm oil, RBD palm olein and used cooking oil implemented by the Government of Indonesia from 28 April 2022 to 23 May 2022 which subsequently led to an increase in CPO export after the export ban was lifted. Please refer to Section 12.2.2(b) for further details of our revenue performance in this respect.

Moving forward, a significant and prolonged reduction in the prices of CPO and palm oil-based products would have a material adverse effect on our results of operations, profitability and cash flows.

9.2.3 We are dependent on manual labour for our oil palm plantation activities

The oil palm industry is labour intensive. Oil palm plantations require extensive manpower in the nurturing of seedlings, tree planting, application of fertilisers, harvesting as well as other routine maintenance work to ensure optimal FFB yield. It is crucial to have sufficient manpower in nurturing seedlings and planting to ensure infilling activities can be carried out as and when required to replace unhealthy oil palms. Further, it is also crucial to have sufficient manpower to apply fertilisers regularly, harvest FFB upon reaching its peak ripeness as well as carry out routine maintenance work. Timely and efficient undertaking of these activities are crucial in achieving optimal FFB yield. Notwithstanding that our Group has introduced and incorporated a series of mechanisation process such as the usage of powered wheelbarrow, farm ATV, UTV and monitoring facilities as part of our plantation practices, these equipment and facilities require human assistance to operate. Additionally, our Group also requires skilled labour workforce in our plantation activities to ensure maximised output, such as ability to identify FFB that are at peak ripeness for harvesting.

A shortage of labour supply, including skilled labour, will cause interruption to our plantation activities, including delays in nurturing seedlings and planting for infilling activities, irregular application of fertilisers and/or harvesting overripen FFB due to delays in harvesting activities. All of these are expected to negatively impact our FFB yield, which could consequently reduce our CPO and PK productions.

9.2.4 We face competition from other industry players in the oil palm industry as well as competition from other edible oils and fats as substitute products to palm oil

The oil palm industry in Indonesia includes a large number of industry players involving in the cultivation of oil palm and production of CPO and PK. To maintain and improve our competitive edge over our competitors, we are required to continuously improve our cost and production efficiencies as well as our product quality. In the event that we fail to remain competitive in the market, we may face decreasing demand for our products and our financial performance may be adversely affected.

We also face competition from other edible oils and fats, such as soybean oil, rapeseed oil, sunflower oil, PK oil and peanut oil. These edible oils and fats can be used for similar purposes as palm oil, such as for cooking, baking, or salad dressings. Consumers are able to choose from a wide range of edible oils and fats due to easy access to more variety of consumer products. Any increasing shift of oil consumption from palm oil to other edible oils and fats may lead to a decrease in the demand for palm oil, thereby could have a material adverse impact on our business and financial performance. Further, some edible oils such as palm oil, soybean oil and rapeseed oil can also be used in the production of biofuels. Any significant decrease in the prices of these edible oils as compared to palm oil could lead to increasing usage of these oils in biofuel production, thereby reducing the demand for palm oil.

9.2.5 Our industry is subject to negative perceptions arising from environmental concerns and labour rights issues surrounding the oil palm industry

Demand for CPO and other palm oil-based products has, in the past, and may, in the future, be affected by campaign and online articles published by environmental groups, such as Rainforest Rescue, Greenpeace International and the World Wide Fund for Nature (formerly known as the World Wildlife Fund). These environmental groups have raised concerns that oil palm plantations result in the destruction of large areas of tropical forests and wildlife habitats and have campaigned to promote sustainable oil palm cultivation and environmentally friendly practices in oil palm plantations, as well as ways to reduce purchasing products that contain palm oil.

In addition to environmental concerns, there are also concerns surrounding labour rights issues in the oil palm industry. Several labour rights groups such as International Labour Organization, Transnational Palm Oil Labour Solidarity and Verité and Liberty Shared have raised concerns related to labour abuses such as exposure to hazardous chemicals, payments below minimum-wage, suppression of independent unions and child labour, amongst others. These general negative perception on labour rights towards the oil palm industry may negatively impact the overall demand for palm oil, thereby affecting the sales of palm oil produced by our Group.

Should concerns over the environment and labour right issues surrounding the oil palm industry elevate and lead to a decrease in demand for CPO and other palm oil-based products, our business, financial condition and results of operations may be materially and adversely affected.

9.2.6 We are exposed to risks relating to the legal, regulatory, economic and political environments in Malaysia and Indonesia

Our Company was incorporated in Malaysia while our operations, through our subsidiaries, are based in East Kalimantan, Indonesia. Having a holding company incorporated in Malaysia requires us to comply with local corporate laws and regulations; and operating in Indonesia requires us to comply with local laws and regulations covering many aspects of our operations including company laws, industrial laws, plantation laws, trade laws (import and export), investment laws, laws relating to manpower (including occupational health and safety requirements), laws relating to foreign exchange controls and offshore loans, security laws, agrarian laws, laws protecting intellectual property rights, laws relating to price controls and government subsidies, environmental laws, forestry laws, anti-corruption and anti-money laundering laws, taxation and customs laws and antitrust laws. In addition, the presence of our holding company in Malaysia and our business operations in Indonesia exposes us to risks relating to economic and political environments in both Malaysia and Indonesia.

Among these risks include unfavourable changes in laws and regulations, government policies, political conditions, economic conditions, inflation rates, expropriations, interest rates, import and export restrictions, duties and tariffs, civil unrests, methods of taxation, inflation and foreign exchange controls in Malaysia and Indonesia. In particular, our subsidiaries namely PT MKH and PT SPS were not able to renew their B3 licences due to the change in regulatory regime. As at LPD, PT MKH and PT SPS have not received any notice of non-compliance from the relevant authorities in relation to their B3 licences. Further, there was no mandatory timeframe imposed by the relevant authorities for PT MKH and PT SPS to comply with the new licensing regime. Please refer section 6.7 for further details on the B3 licences. Notwithstanding that our Group has not been imposed with any administrative sanctions, penalties or fines pertaining to our major licences, permits and approvals, any unfavourable changes in applicable laws and regulations in the future could adversely impact our business operations as we may not be able to renew such licences, permits or approvals with the authorities, particularly if the authorities choose to impose new terms or conditions which we may be unable to fulfil in future. If we are unable to adhere to or successfully implement processes in response to changing regulatory requirements, our business operations may be adversely affected. We cannot predict with certainty the outcome or the impact that pending or future legislative and regulatory changes may have on our business in the future.

All of these legal, regulatory, economic and/or political changes as well as the occurrence of force majeure events, such as terrorism acts, war, riots, epidemics (such as COVID-19 pandemic) and natural disasters whether globally or in Malaysia or Indonesia, are beyond our control, and may have a material adverse effect on our business, prospects and financial performance and condition.

We understand that all operating companies in Indonesia are directly owned by foreign entities or individuals which consequently are subject to investment law and all its implementing regulations including but not limited to regulation on limitation/restriction of foreign ownership and a minimum capital of foreign investment company, which may be changed from time to time. In most cases, to protect the interest of the foreign investors, the provisions under newly enacted regulations limit its application to new foreign investment companies while those already in the system are exempt from those provisions and may continue their operation and do not need to comply with the new regulations (the so called 'grandfather rule'). Notwithstanding the above, the government can issue new regulations that may apply to all foreign investment company including the existing ones.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the Main Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the Main Market.

9.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing may be aborted or delayed should any of the following occurs:

(a) The selected investors fail to subscribe for their portion of our IPO Shares;

(b) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and

(c) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 1,000 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Application within 14 days, failing which the provisions of Section 243(2) of the CMSA will apply, whereby in addition to our liability, our officers shall be jointly and severally liable to repay such money with interest at the rate of 10.0% per annum or at such other rate as may be prescribed by the SC from the expiration of that period.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and ROC within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.3 The trading price and trading volume of our Shares following our Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial performance. These factors may include variations in our financial performance, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.4 OTHER RISKS

9.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters together with Metro Kajang (Oversea) and MKH Plantation will collectively hold approximately 63.1% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will be able to control the business direction and management of our Group and as such there can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders. The interests of our Promoters may differ from the interests of our other shareholders and they may be able to exercise significant influence over the vote of our Shares. Our Promoters could also have significant influence in determining the outcome of any corporate transactions or other matters submitted to our shareholders for approval. This includes the election of Directors, dividend policy, approval of business ventures and having voting control over our Group. As such, our Promoters will have significant influence on the outcome of any ordinary resolution (which requires a simple majority of 50.0% plus 1 voting share) to be tabled at general meeting, unless they are required to abstain from voting by law and/or as required by the relevant authorities (i.e. Bursa Securities).

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