12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

Our Company was incorporated on 10 August 2004 as an investment holding company, and we entered into the conditional share sale agreements pursuant to the Acquisition of PT MKH and Acquisition of PT SPS on [●]. PT MKH and PT SPS have been under the common control of our Promoters throughout FYE 2020 to 2022 and are regarded as continuing entities. As such, the historical financial information of our Group for FYE 2020 to 2022 is presented based on the audited combined financial statements of our Group. Our historical financial information for FYE 2020 to 2022 has been prepared in accordance with MFRS and IFRS.

12.1.1 Combined statements of comprehensive income

The following table sets out a summary of our combined statements of comprehensive income for FYE 2020 to 2022, which have been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Revenue	282,324	306,611	315,817
Cost of sales	(182,791)	(166,237)	(185,948)
GP	**99,533**	**140,374**	**129,869**
Other income	9,355	18,082	6,490
Administrative expenses	(34,042)	(37,175)	(39,243)
Sales and marketing expenses	(11,871)	(9,263)	(10,844)
Other expenses	(22,764)	(2,122)	(6,948)
Profit from operations	**40,211**	**109,896**	**79,324**
Finance costs	(12,605)	(7,869)	(5,840)
PBT	**27,606**	**102,027**	**73,484**
Tax expense	(8,916)	(24,575)	(13,346)
PAT	**18,690**	**77,452**	**60,138**
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss subsequently:			
Remeasurement gains/(losses) on defined benefit plans	(145)	3,189	1,357
Income tax relating to components of other comprehensive (losses)/income	394	(958)	(512)
Revaluation surplus of building	2,838	-	-
Income tax relating to surplus arising from revaluation of buildings	(448)	-	-
Item that may be reclassified to profit or loss subsequently:			
Foreign currency translation differences	(5,231)	6,914	8,594
Total comprehensive income for the financial year	**16,098**	**86,597**	**69,577**

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
PAT for the financial year attributable to:			
Owner of the parent	17,797	72,217	55,547
Non-controlling interests[(1)]	893	5,235	4,591
	18,690	**77,452**	**60,138**
Total comprehensive income for the financial year attributable to:			
Owner of the parent	15,126	81,024	64,547
Non-controlling interests[(1)]	972	5,573	5,030
	16,098	**86,597**	**69,577**
EBIT[(2)]	39,668	109,220	78,669
EBITDA[(2)]	69,996	140,292	109,666
GP margin (%)[(3)]	35.3	45.8	41.1
PBT margin (%)[(4)]	9.8	33.3	23.3
PAT margin (%)[(4)]	6.6	25.3	19.0
Effective tax rate (%)[(5)]	32.3	24.1	18.2
Basic EPS (sen)[(6)]	2.3	9.6	7.5
Diluted EPS (sen)[(7)]	1.8	7.6	5.9

Notes:

(1) The non-controlling interests comprise (i) 25.0% of the equity interests in PT SPS, and (ii) 5.7% of the equity interests in PT MKH, which are computed based on the existing group structure of MKHOP as the acquisition of 100.0% equity interests in PT SPS and 5.7% equity interests in PT MKH will be completed subsequently to FYE 2022.

(2) EBIT and EBITDA are computed as follows:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
PAT	18,690	77,452	60,138
Less:			
Interest income	(543)	(676)	(655)
Add:			
Finance costs	12,605	7,869	5,840
Tax expense	8,916	24,575	13,346
EBIT	**39,668**	**109,220**	**78,669**
Add:			
Depreciation and amortisation	30,328	31,072	30,997
EBITDA	**69,996**	**140,292**	**109,666**

(3) GP margin is computed based on GP over revenue.

(4) PBT and PAT margin is computed based on PBT and PAT divided by revenue, respectively.

(5) Effective tax rate is computed based on tax expenses divided by PBT.

(6) Basic EPS is computed based on PAT divided by share capital of 803,590,845 Shares after Pre-IPO Reorganisation and before our IPO.

(7) The diluted EPS is computed based on the PAT divided by enlarged share capital of 1,023,590,845 Shares in issue after our IPO.

12.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 30 September 2020, 2021 and 2022, which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited		
	As at 30 September		
	2020	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**
ASSETS			
Non-current assets			
Property, plant and equipment	325,380	320,711	317,111
Prepaid lease payments	20,878	20,342	19,933
Goodwill on consolidation	4,901	5,147	5,340
Receivables, deposits and prepayments(1)	1,999	2,187	1,391
Investment in former subsidiaries	*	*	50
Total non-current assets	**353,158**	**348,387**	**343,825**
Current assets			
Inventories	30,062	44,975	67,714
Biological assets(2)	4,233	6,177	5,917
Receivables, deposits and prepayment	36,173	22,898	15,395
Current tax assets	6,353	-	3,910
Cash and bank balances	36,250	57,465	42,014
Total current assets	**113,071**	**131,515**	**134,950**
TOTAL ASSETS	**466,229**	**479,902**	**478,775**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	112,595	112,595	112,595
Reserves	9,514	90,538	155,085
Equity attributable to the owner of the parent	122,109	203,133	267,680
Non-controlling interests	2,667	8,239	13,269
Total equity	**124,776**	**211,372**	**280,949**
Non-current liabilities			
Provisions(3)	16,655	15,211	15,706
Payables and accruals	62,457	59,517	31,327
Loan and borrowings	54,451	22,269	2,317
Deferred tax liabilities	7,235	9,726	5,802
Total non-current liabilities	**140,798**	**106,723**	**55,152**
Current liabilities			
Payables and accruals	123,777	98,936	142,664
Loan and borrowings	76,769	46,499	-
Current tax liabilities	109	16,372	10
Total current liabilities	**200,655**	**161,807**	**142,674**
Total liabilities	**341,453**	**268,530**	**197,826**
TOTAL EQUITY AND LIABILITIES	**466,229**	**479,902**	**478,775**

Notes:

* Representing less than RM1,000.

(1) The breakdown of receivables, deposits and prepayments classified as non-current assets are as follows:

	Audited		
	As at 30 September		
	2020	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**
Other receivable[(a)]	1,035	1,087	12
Prepayment[(b)]	964	1,100	1,379
	1,999	**2,187**	**1,391**

(a) Other receivable represents amounts due from the Plasma Farmers from Indonesia arising from the costs of development of the plantations for small landholders. In accordance with the Indonesian Government policy, our subsidiaries, PT MKH and PT SPS, assume the responsibilities for developing plantations for Plasma Farmers in addition to their own plantation. The said subsidiaries are also required to provide training and supervise the Plasma Farmers and purchase the FFB from the Plasma Farmers at the prices determined by the Indonesian Government. The amounts are unsecured, interest-free, have no fixed term in repayment and are to be settled not within one year. The amounts owing will be repaid progressively via offset partially against the purchase of FFB from the Plasma Farmers.

(b) Comprise prepayment for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme. It will be charged to the profit or loss when plantation estates allocate the seedlings to the fields.

(2) The biological assets of our Group comprise FFB prior to harvest. Management has considered FFB less than 15 days before harvesting in calculating fair value. FFB more than 15 days before harvesting are excluded from the valuation as their fair values are considered negligible. The fair value measurement of the biological assets is valued using the present value of net cash flows expected to be generated from the sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell.

(3) Provisions comprise post-employment benefit obligations. Our Indonesia subsidiaries operate unfunded defined benefit schemes, as required under the Labour Law of the Republic of Indonesia. The defined benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for FYE 2020 to 2022, which have been extracted from the Accountants' Report as set out in Section 13. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13, respectively.

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Cash flow from operating activities			
PBT	27,606	102,027	73,484
Adjustments for:			
Depreciation of property, plant and equipment	29,605	30,345	30,440
Interest expenses on:			
- loans and borrowings	7,201	3,201	1,243
- amount due to a related company	5,404	4,668	4,597
Impairment loss on investment in subsidiary	1,222	-	3,191
Provision for post-employment benefit obligations	3,711	2,064	3,163
Property, plant and equipment written off	306	234	580
Changes in fair values of biological assets	913	(1,637)	577
Amortisation of prepaid lease payments	723	727	557
Inventories written off	4	1	1
Unrealised loss/(gain) on foreign exchange - net	13,879	(7,785)	(4,491)
Interest income	(543)	(676)	(655)
Bad debts written off	251	94	-
Operating profit before changes in working capital	**90,282**	**133,263**	**112,687**
Increase in inventories	(7,944)	(14,913)	(22,740)
(Decrease)/increase in receivables, deposits and prepayments	(3,740)	13,254	5,501
Increase/(decrease) in payables and accruals	12,293	(23,844)	16,906
Cash generated from operations	90,891	107,760	112,354
Interests received	543	676	655
Interests paid	(12,773)	(7,902)	(5,840)
Tax paid	(5,894)	(9,347)	(39,547)
Tax refunded	5,222	8,712	-
Retirement benefit obligation paid	(746)	(1,515)	(1,979)
Net cash from operating activities	**77,243**	**98,384**	**65,643**
Cash flow used in investing activities			
Acquisition of property, plant and equipment	(9,239)	(10,048)	(16,112)
Repayment from/(advance to) a subsidiary	44	(264)	2,800
Acquisition of a subsidiary	-	-	*
Subscription of shares in subsidiaries	-	-	(3,241)
Net cash used in investing activities	**(9,195)**	**(10,312)**	**(16,553)**
Cash flow used in financing activities			
Repayment of term loans	(82,273)	(58,602)	(36,526)
Drawdown of term loans	28,354	14,359	2,259
Repayment of revolving credits	(13,402)	(21,523)	(32,784)
Advances from/(repayment to) related companies	2,436	(1,907)	1,115
Deposits and bank balances released/(pledged) as securities	(313)	2,405	10,260
Drawdown of revolving credits	6,261	-	-
Net cash used in financing activities	**(58,937)**	**(65,268)**	**(55,676)**

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Net increase/(decrease) in cash and cash equivalents	**9,111**	**22,804**	**(6,586)**
Effect of exchange rate changes on the balance of cash held in foreign currencies	(4,012)	815	1,395
Cash and cash equivalents at beginning of financial year	**18,487**	**23,586**	**47,205**
Cash and cash equivalents at end of financial year[(1)]	**23,586**	**47,205**	**42,014**

Note:

* Representing less than RM1,000.

(1) Cash and cash equivalents included in the statements of cash flows comprise the following amounts:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Cash and bank balances	36,250	57,465	42,014
Less: Deposits pledged for credit facilities	(12,664)	(10,260)	-
	23,586	**47,205**	**42,014**

12.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and segmental analysis of our combined financial statements for FYE 2020 to 2022 should be read with the Accountants' Report included in Section 13.

12.2.1 Overview of our operations

(a) Principal activities

We are an upstream oil palm plantation group and our operations are based in East Kalimantan, Indonesia. Through our subsidiaries, we are principally involved in:

(i) cultivation of oil palm; and

(ii) production and sale of CPO and PK.

As at LPD, our Group owns 2 oil palm plantation estates, 1 palm oil mill and 1 jetty located in East Kalimantan, Indonesia. The harvested FFB in our plantation estates are sent to our palm oil mill for the production of CPO and extraction of PK for onward sales to our customers.

For further details, please refer to Section 7.2 for our Group's detailed business overview.

During FYE 2020 and FYE 2021, our Group was carrying out the business of building materials trading in Malaysia together with another subsidiary under MKH, namely MKH Building Materials Sdn Bhd. Subsequently, in FYE 2021, our Group ceased carrying out the building materials trading business since 1 January 2021 for the preparation of our Listing.

Since the cessation of trading of building materials business of our Group effective from 1 January 2021, our Group has been solely focusing on the cultivation of oil palms and production of CPO and PK in Indonesia.

(b) Revenue

Our revenue comprises the sale of CPO and PK under the plantation segment and the trading of building materials.

Revenue from the sale of CPO and PK and the trading of building materials is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Our Group entered into contracts with customers to supply goods. Revenue is recognised upon delivery and issuance of invoices to customers.

Revenue is recognised at a point in time when control of the goods underlying the performance obligation is transferred to the buyers. No allocation of the transaction price is required to performance obligation as each contract consists of one performance obligation only.

(c) Cost of sales

Our Group's cost of sales comprises 4 components, i.e. cultivation costs, harvesting costs, mill and production costs and costs for trading.

(i) Cultivation costs

Cultivation costs comprise mainly manuring, depreciation, labour-related costs and repair and maintenance.

(ii) Harvesting costs

Harvesting costs comprise mainly labour-related costs and transportation costs.

(iii) Mill and production costs

Mill and production costs comprise mainly raw materials costs, movements in inventories, depreciation, labour-related costs and repair and maintenance costs.

(iv) Costs for trading

Costs for trading represent the cost of goods sold for CPO and PK trading and building materials trading.

(d) Other income

Other income comprises mainly unrealised and realised gain on foreign exchange, the income from the sale of FFB during maintenance of our palm oil mill, sale of sludge oil, and the gain on changes in the fair value of biological assets.

(e) Administrative expenses

Administrative expenses comprise mainly staff costs, management fees, CSR expenses, depreciation for property, plant and equipment, professional fees, medical expenses and employees' benefit obligations.

(f) Sales and marketing expenses

Sales and marketing expenses comprise mainly transportation costs and jetty costs.

(g) Other expenses

Other expenses comprise mainly unrealised and realised loss on foreign exchange, value-added tax expenses, the loss on changes in the fair value of biological assets and amortisation of prepaid lease payments.

(h) Finance costs

Finance costs comprise interests on term loans, revolving credits and the amount due to a related company.

(i) Recent developments

Save as disclosed below, there were no other significant events subsequent to our audited combined financial statements for FYE 2022:

(i) the Share Split as detailed in Section 6.2.1 was completed on [•];

(ii) the Acquisition of PT MKH as detailed in Section 6.2.2 was completed on [•];

(iii) the Acquisition of PT SPS as detailed in Section 6.2.3 was completed on [•];

(iv) the Capitalisation as detailed in Section 6.2.4 was completed on [•];

(v) impact of conflict between Russia and Ukraine on the supply chain disruptions to fuel and fertiliser, which resulted in a surge in fuel and fertiliser prices and had an impact on the performance of our Group as detailed in Note 28(a) of the Accountants' Report;

(vi) disposal of the entire equity interest in Restu Mesra by our Company to Metro Kajang (Oversea), a related party to our Group for a disposal consideration of RM0.05 million, being our Company's original cost of investment, which was completed on 16 January 2023. This is a one-off transaction pursuant to our internal reorganisation for our Listing; and

(vii) disposal of 99.92% equity interest in PT NMJ by our Company to Metro Kajang (Oversea), a related party to our Group for a disposal consideration of RM2.85 million, which was arrived at based on a "willing-buyer willing-seller" basis after taking into consideration of the revalued NA of PT NMJ of RM2.85 million as at 30 November 2022, which was completed on 19 January 2023. The remaining 0.08% equity in PT NMJ is held by Restu Mesra. This is a one-off transaction pursuant to our internal reorganisation for our Listing.

(j) Exceptional and extraordinary items

There were no exceptional or extraordinary items for FYE 2020 to 2022. In addition, our audited combined financial statements for FYE 2020 to 2022 were not subject to any audit qualifications.

12.2.2 Review of our results of operations

(a) Revenue

Analysis of revenue by business segment

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Plantation						
CPO	225,584	79.9	263,571	85.9	275,612	87.3
PK	24,870	8.8	30,887	10.1	40,205	12.7
	250,454	88.7	294,458	96.0	315,817	100.0
Trading[1]	31,870	11.3	12,153	4.0	-	-
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**

Note:

(1) Relates to trading of building materials in Malaysia which was carried out by our Group. Subsequently, our Group had ceased carrying out the building materials trading business from 1 January 2021 for the preparation of our Listing.

Analysis of revenue by geographical location[1]

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Indonesia	250,454	88.7	294,458	96.0	315,817	100.0
Malaysia[2]	31,870	11.3	12,153	4.0	-	0.0
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**

Notes:

(1) The classification of our revenue by geographical market is based on the locations of our customers.

(2) All revenue from Malaysia derived solely from the trading of buildings materials segment.

Our revenue from the sale of CPO and PK is a direct result of the selling prices and volume of CPO and PK. The selling price of our CPO is determined based on market prices, which are primarily influenced by supply and demand, environmental factors, as well as the prices of substitutes such as other edible oils and crude petroleum oil. Our sales volume is directly determined based on the output of CPO and PK from our mill and CPO purchased. This output is measured by the CPO or PK produced from the processing of FFB produced from our mature plantation area together with FFB purchased. The aforementioned measurements are set out in the following table:

	FYE 2020	FYE 2021	FYE 2022
Selling prices			
Average CPO selling price (RM/MT)(7)	2,227	2,945	3,847
Average PK selling price (RM/MT)(7)	1,141	1,681	2,627
Volume produced			
Mature plantation area (Ha)	16,507	16,507	(5)17,009
FFB produced (MT)(1)	477,157	(2)441,016	(2)382,752
- FFB yield per Ha (MT/Ha)	29.3	26.7	23.2
FFB processed (MT)	482,889	459,940	404,901
FFB purchased (MT)	20,599	20,175	22,210
Cost of FFB purchased (RM'000)	8,976	11,819	17,947
Average FFB purchased costs per MT (RM)	436	586	808
CPO produced (MT)	100,010	89,438	74,942
- OER (%)	20.7	(3)19.5	(3)18.5
PK produced (MT)	20,331	17,963	16,245
- KER (%)	4.2	(4)3.9	(4)4.0
Volume sold			
Sales of CPO (MT)			
- Own production(8)	99,803	86,797	71,636
- Trading of CPO(6)	1,503	2,709	-
Sales of PK (MT)(8)	21,800	18,378	15,305

Notes:

(1) FFB produced will be sent to the mill for production and selling of FFB during maintenance of our palm oil mill.

(2) Lower FFB processed in FYE 2021 and FYE 2022 was due to lower FFB harvested from our plantation estates as a result of heavy rainfall from La Nina phenomenon in FYE 2021 and FYE 2022.

(3) Lower OER in FYE 2021 and FYE 2022 were due to higher moisture content in FFB harvested as a result of heavy rainfall from La Nina phenomenon in FYE 2021 and FYE 2022.

(4) Lower KER in FYE 2021 was due to the shrinking of fruitlet size as a result of heavy rainfall from La Nina phenomenon during FYE 2021.

(5) Our mature plantation area increased to 17,009 Ha for FYE 2022, mainly attributable to the reclassification of immature area to mature plantation area of 589.0 Ha after net off transfer of mature plantation land earmarked for transfer in the form of HGU to Sawit Seguntung Jaya Plantation Cooperative, Puan Cepak Village during FYE 2022. The transfer of the plantation land area was part of the Plasma Programme whereby our Group is obligated to, amongst others, provide the plantation facilities and assist in the management of the plantation land.

(6) We purchase CPO with FFA content of above or close to 5.0% from neighbouring palm oil mills to mix with our CPO in order to achieve CPO with higher FFA content but still below 5.0% for sale to customers. This enables us to increase the production of our CPO at a lower cost as CPO with higher FFA content is generally purchased at a discounted rate from our neighbouring palm oil mills, thereby increasing our sales and profitability at a cost-effective manner. There was no trading of CPO for FYE 2022, mainly attributable to no CPO purchased for FYE 2022, primarily due to lesser discounts offered by the external party was not feasible for purchase to yield a better margin. In addition, we did not purchase CPO from neighbouring palm oil mills for mixing with our CPO for FYE 2022 due to the relatively high FFA content (at an average of approximately 6.5%) in the CPO offered for sale to our Group by our neighbouring palm oil mills.

(7) The increasing demand for CPO and PK and the low supply of CPO and PK lead to increasing prices for CPO and PK. Generally, the movement of PK prices is correlative with the CPO prices.

(8) The volume sold for CPO and PK from own production includes the total volume produced during the year plus the unsold CPO and PK brought forward from the previous year, less the unsold CPO and PK volume carried forward at year-end. CPO and PK comprised solely CPO and PK produced by our palm oil mill.

Comparison between FYE 2020 and FYE 2021

Our revenue improved by RM24.3 million or 8.6% to RM306.6 million for FYE 2021 (FYE 2020: RM282.3 million), primarily contributed by revenue growth from the sale of CPO, which contributed RM263.6 million or 85.9% of our total revenue for FYE 2021 (FYE 2020: RM225.6 million or 79.9%).

Plantation

Our revenue from the plantation segment grew by RM44.0 million or 17.6% to RM294.5 million for FYE 2021 (FYE 2020: RM250.5 million) comprising CPO sales which grew by RM38.0 million or 16.8% and PK sales which grew by RM6.0 million or 24.1%, both of which were mainly attributable to the increase in our average selling prices for CPO and PK.

Our average selling prices for CPO and PK grew by RM718 per MT or 32.2% to RM2,945 per MT for FYE 2021 (FYE 2020: RM2,227 per MT) and RM540 per MT or 47.3% to RM1,681 per MT for FYE 2021 (FYE 2020: RM1,141 per MT), respectively, which moved in tandem with the global prices of CPO and PK. The said increase in global prices primarily resulted from the following factors, which caused higher demand for CPO but a lower supply of CPO:

(i) global relaxation of movement control measures and increased refining activities, which spurred the demand for CPO;

(ii) a shortage of CPO supply caused by heavy rainfall from the La Nina phenomenon in early 2021 (average monthly rainfall: FYE 2021: 198mm; FYE 2020: 140mm), which disrupted oil palm harvesting activities as well as logistics on oil palm plantations, and thus led to our FFB yield per Ha decreasing by 8.9% to 26.7MT/Ha for FYE 2021 (FYE 2020: 29.3MT/Ha) and thus lower supply of CPO. The La Nina phenomenon started in September 2020 and continued through mid-May 2022 blown by strong winds westwards from South America to Indonesia across the Pacific Ocean; and

(iii) a lower supply of CPO caused by labour shortage exacerbated by the COVID-19 pandemic which disrupted CPO supply globally. For avoidance of doubt, our Group was not affected by the labour shortage exacerbated by the COVID-19 pandemic, mainly attributable to the establishment of a standard safety protocol in accordance with the guidelines and SOPs on COVID-19 prevention to protect our employees against potential COVID-19 infection as detailed in Section 7.8.

The above incremental effects on our revenue were partially offset by lower sales volume for CPO, which decreased by 11,800MT or 11.6% to 89,506MT for FYE 2021 (FYE 2020: 101,306MT), and lower sales volume for PK by 3,422MT or 15.7% to 18,378MT for FYE 2021 (FYE 2020: 21,800MT). Such decrease in volume was mainly attributable to our Group recording a lower OER and KER of 19.5% and 3.9% for FYE 2021, respectively (FYE 2020: 20.7% and 4.2%, respectively), due to higher moisture content in FFB harvested as a result of heavy rainfall from La Nina phenomenon in FYE 2021.

Trading

Revenue from the trading segment decreased by RM19.7 million or 61.9% to RM12.2 million for FYE 2021 (FYE 2020: RM31.9 million). The said decrease was due to cessation of trading of building materials business of our Group since 1 January 2021 for the preparation of our Listing.

Comparison between FYE 2021 and FYE 2022

Our revenue has continued to grow by RM9.2 million or 3.0% to RM315.8 million for FYE 2022 (FYE 2021: RM306.6 million), primarily contributed by the revenue from our plantation segment, which increased by RM21.3 million or 7.2% to RM315.8 million for FYE 2022 (FYE 2021: RM294.5 million).

Since the cessation of trading of building materials of our Group since 1 January 2021, our Group has been solely focusing on the cultivation of oil palms and production of CPO and PK in Indonesia, whereby our customers from this business segment are solely customers from Indonesia. Thus, in FYE 2022, our Group solely generated revenue from the plantation segment and Indonesia.

Plantation

Our plantation segment revenue grew further by RM21.3 million or 7.2% to RM315.8 million for FYE 2022 (FYE 2021: RM294.5 million), contributed by higher revenue from the sale of CPO and PK, which grew by RM12.0 million or 4.6% to RM275.6 million for FYE 2022 (FYE 2021: RM263.6 million) and RM9.3 million or 30.1% to RM40.2 million for FYE 2022 (FYE 2021: RM30.9 million) respectively, mainly attributable to the increase in our average selling prices for CPO and PK.

Our average selling prices for CPO and PK grew by RM902 per MT or 30.6% to RM3,847 per MT for FYE 2022 (FYE 2021: RM2,945 per MT), and RM946 per MT or 56.3% to RM2,627 per MT for FYE 2022 (FYE 2021: RM1,681 per MT) respectively, which moved in tandem with the global prices of CPO and PK. The said increase in global prices primarily resulted from higher demand for CPO but a lower supply of CPO due to further global relaxation of movement control measures and increasing refining activities, which subsequently caused the demand for CPO to increase. Additionally, this was coupled with a shortage of CPO supply caused by the La Nina phenomenon during FYE 2021 and FYE 2022, which started in September 2020 and continued through mid-May 2022 across the tropical Pacific and brought about extreme and prolonged heavy rainfall (average monthly rainfall: FYE 2022: 240mm; FYE 2021: 198mm), had disrupted oil palm harvesting activities as well as logistics on oil palm plantations, which led to lower FFB yield per Ha recorded by our Group for FYE 2021 and FYE 2022, decreased by 13.1% to 23.2MT/Ha for FYE 2022 (FYE 2021: 26.7MT/Ha). In addition, there was lower supply of CPO caused by the labour shortage exacerbated by the COVID-19 pandemic across major palm-producing countries that disrupted CPO supply globally.

Further, there was higher demand for CPO as a substitute, due to:

(i) sunflower oil supply disruption caused by the conflict between Russia and Ukraine which started in February 2022, subsequently drove demand for CPO as a substitute, leading to the rise in global CPO prices;

(ii) dry weather that hit South America which affected soybean production, resulting in limited soy oil supply, and hence drove demand for CPO as a substitute, leading to the rise in global CPO prices; and

(iii) increased biodiesel production in Europe as biodiesel is considered as environmentally friendly renewable energy and a sustainable alternative to fossil fuels. CPO is one of the primary raw materials for producing biodiesel, and hence drove demand for CPO and led to the rise in global CPO prices.

The improved revenue contributed by the higher selling prices of CPO and PK for FYE 2022 was partially offset by lower sales volume for CPO and PK, which decreased by 17,870MT or 20.0% to 71,636MT for FYE 2022 (FYE 2021: 89,506MT), and 3,073MT or 16.7% to 15,305MT for FYE 2022 (FYE 2021: 18,378MT) respectively. Such decrease was mainly attributable to our Group recording a lower OER of 18.5% for FYE 2022 (FYE 2021: 19.5%) due to the La Nina phenomenon in FYE 2022, which brought about extreme and prolonged heavy rainfall across palm-producing countries, which disrupted the FFB production and causing higher moisture content in FFB harvested. Hence, our Group has lower production of CPO and PK.

Trading

There was no revenue from the trading segment for FYE 2022 as our Group had ceased the building materials trading business effective from 1 January 2021 (FYE 2021: RM12.2 million).

(b) Cost of sales, GP and GP margin

Analysis of cost of sales by cost component

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Cultivation costs						
- Depreciation	23,986	13.1	23,656	14.2	24,264	13.0
- Labour-related costs	22,288	12.2	27,259	16.4	34,337	18.5
- Manuring	28,762	15.7	26,836	16.1	32,202	17.3
- Utilities	4,362	2.4	4,561	2.7	7,811	4.2
- Estate maintenance costs	7,358	4.0	8,084	4.9	13,458	7.2
- Security costs	2,700	1.5	2,849	1.7	3,371	1.8
- Others(1)	4,963	2.8	5,610	3.5	8,066	4.4
	94,419	**51.7**	**98,855**	**59.5**	**123,509**	**66.4**
Harvesting costs						
- Labour-related cost	16,248	8.9	15,769	9.5	17,544	9.5
- Transportation	12,821	7.0	13,896	8.4	18,235	9.8
- Others(2)	100	0.1	81	*	179	0.1
	29,169	**16.0**	**29,746**	**17.9**	**35,958**	**19.4**
Mill and production costs						
- Depreciation	3,931	2.2	4,093	2.5	4,522	2.4
- Labour-related cost	5,719	3.1	5,734	3.4	6,138	3.3
- Repair and maintenance	4,901	2.7	4,196	2.5	5,009	2.7
- Purchase of FFB	8,976	4.9	11,819	7.1	17,947	9.7
- Others(3)	3,179	1.7	3,593	2.2	5,247	2.8
	26,706	**14.6**	**29,435**	**17.7**	**38,863**	**20.9**

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Movements in CPO and PK inventories[(4)]						
Opening inventories	4,778	2.6	6,570	4.0	17,714	9.5
Closing inventories	(6,570)	(3.6)	(17,714)	(10.7)	(30,096)	(16.2)
	(1,792)	**(1.0)**	**(11,144)**	**(6.7)**	**(12,382)**	**(6.7)**
Costs for trading						
CPO and PK	3,548	1.9	7,969	4.8	-	-
Building materials	30,741	16.8	11,376	6.8	-	-
	34,289	**18.7**	**19,345**	**11.6**	**-**	**-**
	182,791	**100.0**	**166,237**	**100.0**	**185,948**	**100.0**

Notes:

* Representing less than 0.1%.

(1) Comprise mainly assessment, security expenses and sundry expenses.

(2) Comprise mainly harvesting tools.

(3) Comprise mainly fuel and lubricants costs.

(4) Comprise of inventory movements for CPO and PK. The inventories cost of CPO and PK includes direct labour, an appropriate share of production overheads and the fair value attributed to agricultural produce at year-end in accordance with MFRS 141.

(i) Cultivation costs

Our cultivation costs increased by RM4.5 million or 4.8% to RM98.9 million for FYE 2021 (FYE 2020: RM94.4 million), mainly attributable to the following:

(aa) increase in labour-related costs by RM5.0 million to RM27.3 million for FYE 2021 (FYE 2020: RM22.3 million) and increased estate maintenance costs by RM0.7 million to RM8.1 million for FYE 2021 (FYE 2020: RM7.4 million), both being mainly for additional road maintenance during the relatively wetter season since the beginning of the year 2021; and

(bb) other expenses increased by RM0.6 million to RM5.6 million for FYE 2021 (FYE 2020: RM5.0 million), mainly due to calibration costs incurred for 3 weighbridges, refurbishment of existing notice boards and installation of new notice boards in FYE 2021 for Environment, Social and Governance awareness among the workforce.

The abovementioned increases were partially offset by a decrease in manuring by RM2.0 million to RM26.8 million for FYE 2021 (FYE 2020: RM28.8 million), mainly due to the deferred application of fertilisers during the relatively wetter season.

Our cultivation costs increased by RM24.6 million or 24.9% to RM123.5 million for FYE 2022 (FYE 2021: RM98.9 million), mainly attributable to the following:

(aa) higher labour-related costs for FYE 2022, which rose by RM7.0 million to RM34.3 million for FYE 2022 (FYE 2021: RM27.3 million) and estate maintenance costs which increased by RM5.4 million to RM13.5 million for FYE 2022 (FYE 2021: RM8.1 million), mainly due to additional labour and materials required for road maintenance during the relatively wetter season. In addition, for the second half of FYE 2022, there was additional labour for fertiliser application and for drains maintenance, such as deepening and widening of drains for better discharge of water for post-monsoon effects;

(bb) increase in manuring costs of RM5.4 million to RM32.2 million for FYE 2022 (FYE 2021: RM26.8 million), mainly due to the increase in fertiliser price resulting from shortage of supply due to conflict between Russia and Ukraine. Additionally, more fertiliser was applied for the second half of FYE 2022 as compared to the first half of FYE 2022 as the heavy rainfall from the La Nina phenomenon in the first half of FYE 2022 made it less suitable to apply fertiliser which resulted in the postponement of fertilisers application to post-monsoon in the second half of FYE 2022;

(cc) increase in utilities by RM3.2 million to RM7.8 million for FYE 2022 (FYE 2021: RM4.6 million), mainly due to higher diesel costs resulting from the rise in diesel prices during FYE 2022 for diesel used for our generation sets and vehicles arising from the increase in global crude oil prices following an increase in global demand for crude oil due to fears in the market on any disruptions in the 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; and

(dd) increase in other cultivation costs such as pruning and sundry expenses by RM2.4 million to RM8.0 million for FYE 2022 (FYE 2021: RM5.6 million), mainly due to (i) additional pruning works resulting from the relatively wetter season; (ii) and higher ISPO certification costs mainly due to the acquisition of new machines by PT MKH and the new signup of the ISPO certification programme for PT SPS, which costs are mainly for document analysis and tests conducted by a competent third party to maintain and improve safety and environmental compliance standards, i.e. water and air quality tests, noise tests on power generators and other mill equipment, ISPO on material and equipment, and ISPO on handling and logistic expenditure by a third party on B3 waste (hazardous and toxic materials).

(ii) Harvesting costs

Our harvesting costs increased by RM0.5 million or 1.7% to RM29.7 million for FYE 2021 (FYE 2020: RM29.2 million), despite lower FFB produced for FYE 2021, mainly attributable to our transportation costs rose by RM1.1 million to RM13.9 million for FYE 2021 (FYE 2020: RM12.8 million), primarily in relation to the replacement of loading truck nets and higher handling costs to manage the evacuation of FFBs as the condition of the roads were affected by the relatively wetter season.

The abovementioned increases were partially offset by labour-related costs, which dropped by RM0.4 million to RM15.8 million for FYE 2021 (FYE 2020: RM16.2 million) as a result of the lower labour costs as we recruited fewer workers to collect loose fruits as we focused more on collecting FFB due to wet weather.

Our harvesting costs increased by RM6.3 million or 21.2% to RM36.0 million for FYE 2022 (FYE 2021: RM29.7 million), mainly attributable to the increase in transportation by RM4.3 million to RM18.2 million for FYE 2022 (FYE 2021: RM13.9 million) and the increase in labour-related costs by RM1.7 million to RM17.5 million for FYE 2022 (FYE 2021: RM15.8 million), primarily attributable to the higher handling costs to manage the evacuation of FFBs as the condition of the roads were affected by the relatively wetter season. In addition, higher transportation and labour-related costs were incurred in the second half of FYE 2022, resulting from the repair and maintenance costs for powered wheelbarrows and farm ATVs incurred in the second half of FYE 2022 as well as more trips due to higher FFB produced compared to the first half of FYE 2022.

(iii) Mill and production costs

Our mill and production costs increased by RM2.7 million or 10.1% to RM29.4 million for FYE 2021 (FYE 2020: RM26.7 million), mainly attributable to the increase in FFB purchase costs of RM2.8 million to RM11.8 million for FYE 2021 (FYE 2020: RM9.0 million). The average FFB purchase costs grew by RM150 per MT to RM586 per MT for FYE 2021 (FYE 2020: RM436 per MT), which increased in tandem with the global prices for CPO as the determination of the FFB price under the provisions contained in the Regulation of the Minister of Agriculture regarding the Guidelines for Determining the Purchase Price for FFB for Plantation Production issued by the Plantation Office of East Kalimantan Province will fluctuate in line with the prevailing CPO prices, hence, the FFB price consistently correlates with the CPO price.

Our mill and production costs increased by RM9.5 million or 32.3% to RM38.9 million for FYE 2022 (FYE 2021: RM29.4 million), mainly attributable to higher FFB purchase costs for FYE 2022, which increased by RM6.1 million to RM17.9 million for FYE 2022 (FYE 2021: RM11.8 million). The average FFB purchase costs grew by RM222 per MT to RM808 per MT for FYE 2022 (FYE 2021: RM586 per MT), which increased in tandem with global prices for CPO as the basis in determining the FFB does refer to the CPO price, hence, the FFB price consistently correlates with the CPO price. In addition, other mill and production costs rose by RM1.6 million to RM5.2 million for FYE 2022 (FYE 2021: RM3.6 million), mainly comprising fuel and lubricant costs by RM1.3 million or 92.9% to RM2.7 million for FYE 2022 (FYE 2021: RM1.4 million), primarily attributable to the rise in fuel prices resulting from the conflict between Russia and Ukraine, which led to the shortage of fuel supply.

(iv) Costs for trading

Costs for trading are the cost of goods sold for CPO and PK trading and building materials trading.

CPO and PK

Our purchase costs for CPO and PK increased by RM4.5 million to RM8.0 million for FYE 2021 (FYE 2020: RM3.5 million), mainly attributable to the rise in the total purchase volume of CPO from the external party by 1,206MT to 2,709MT for FYE 2021 (FYE 2020: 1,503MT) mainly due to the CPO purchase prices with better discounts offered by the external party were feasible for purchase to yield a better margin. The offered CPO prices rose from RM2,043 per MT for FYE 2020 to RM2,769 per MT for FYE 2021, which moved in tandem with the global prices of CPO.

There were no CPO and PK purchased during FYE 2022 (FYE 2021: RM8.0 million), mainly attributable to less discounts offered by the external party, which were not feasible for purchase to yield a better margin. In addition, we did not purchase CPO from neighbouring palm oil mills for mixing with our CPO in the FYE 2022 due to the relatively high FFA content (at an average of approximately 6.5%) in the CPO offered for sale to our Group by our neighbouring palm oil mills.

Building materials

Our cost for trading decreased by RM19.3 million or 62.9% to RM11.4 million for FYE 2021 (FYE 2020: RM30.7 million), and thereafter contributed no revenue for FYE 2022, following the cessation of our building materials trading business since 1 January 2021 onwards.

Analysis of cost of sales by business segment

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Plantation	152,050	83.2	154,861	93.2	185,948	100.0
Trading	30,741	16.8	11,376	6.8	-	-
	182,791	**100.0**	**166,237**	**100.0**	**185,948**	**100.0**

Analysis of GP and GP margin by business segment

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%
Plantation	98,404	39.3	139,597	47.4	129,869	41.1
Trading	1,129	3.5	777	6.4	-	-
	99,533	**35.3**	**140,374**	**45.8**	**129,869**	**41.1**

Comparison between FYE 2020 and FYE 2021

Our Group's cost of sales decreased by RM16.6 million or 9.1% to RM166.2 million for FYE 2021 (FYE 2020: RM182.8 million), mainly attributable to the trading of building materials costs which decreased by RM19.3 million or 62.9% to RM11.4 million for FYE 2021 (FYE 2020: RM30.7 million), which is in tandem with the decrease in revenue from the trading segment following the cessation of our building materials trading business since 1 January 2021 onwards.

The above decrease was offset by increased costs of sales for the plantation segment by RM2.8 million or 1.8% to RM154.9 million for FYE 2021 (FYE 2020: RM152.1 million), due to the following:

(i) cultivation costs which increased by RM4.5 million or 4.8% to RM98.9 million for FYE 2021 (FYE 2020: RM94.4 million);

(ii) mill and production costs which increased by RM2.7 million or 10.1% to RM29.4 million for FYE 2021 (FYE 2020: RM26.7 million); and

(iii) purchase costs for CPO and PK which increased by RM4.5 million to RM8.0 million for FYE 2021 (FYE 2020: RM3.5 million),

all of which are explained in earlier sections above for each cost component.

Additionally, higher closing inventories for CPO and PK for FYE 2021, which increased by RM11.1 million to RM17.7 million for FYE 2021 (FYE 2020: RM6.6 million) mainly due to the higher fair value of CPO and closing inventory which increased by 2,808MT also contributed to the lower cost of sales for FYE 2021.

Our Group recorded an increase in GP by RM40.9 million or 41.1% to RM140.4 million for FYE 2021 (FYE 2020: RM99.5 million), and our GP margin improved to 45.8% for FYE 2021 (FYE 2020: 35.3%), mainly attributable to the increased GP and improved GP margin from our plantation segment.

Our GP for the plantation segment increased by RM41.2 million or 41.9% to RM139.6 million for FYE 2021 (FYE 2020: RM98.4 million), which was in tandem with its revenue growth. Our GP margin for the plantation segment improved to 47.4% for FYE 2021 (FYE 2020: 39.3%), mainly attributable to our revenue from the plantation segment grew by 17.6% for FYE 2021, primarily resulting from the increase in our average selling prices of CPO and PK by 32.2% and 47.3% respectively for FYE 2021, which rose in tandem with the global prices of CPO and PK due to higher demand for CPO and PK but a lower supply of CPO and PK, as explained in Section 12.2.2(a) above. In addition, our cost of sales for the plantation segment increased by 1.8% in FYE 2021, which grew at a rate lower than our revenue growth rate of 17.6%, primarily due to our relatively fixed in-nature depreciation and labour-related costs rising at a rate lower than our revenue growth rate.

Our GP for the trading segment decreased by RM0.3 million or 27.3% to RM0.8 million for FYE 2021 (FYE 2020: RM1.1 million) as a result of the cessation of our building materials trading business effective from 1 January 2021 onwards. Despite the decrease in GP, our GP margin for the trading segment increased to 6.4% for FYE 2021 (FYE 2020: 3.5%), mainly attributable to higher sales of building materials, such as ready mixed concrete, tiles and doors, which yielded a better GP margin as compared with other products.

Comparison between FYE 2021 and FYE 2022

Our Group's cost of sales increased by RM19.7 million or 11.9% to RM185.9 million for FYE 2022 (FYE 2021: RM166.2 million), mainly attributable to the costs of sales for the plantation segment increased by RM31.0 million or 20.0% to RM185.9 million for FYE 2022 (FYE 2021: RM154.9 million), due to the following:

(i) the cultivation costs increased by RM24.6 million or 24.9% to RM123.5 million for FYE 2022 (FYE 2021: RM98.9 million);

(ii) the harvesting costs increased by RM6.3 million or 21.2% to RM36.0 million for FYE 2022 (FYE 2021: RM29.7 million); and

(iii) the mill and production cost increased by RM9.5 million or 32.3% to RM38.9 million for FYE 2022 (FYE 2021: RM29.4 million);

all of which are explained in earlier sections above for each cost component.

The above increases were partially offset as no CPO and PK were purchased during FYE 2022 (FYE 2021: RM8.0 million), mainly attributable to the shortage of CPO supply and CPO prices being not feasible for purchase.

There were no trading of building materials costs for FYE 2022 as we ceased the building materials trading business since 1 January 2021.

Our Group recorded a decrease in GP by RM10.5 million or 7.5% to RM129.9 million for FYE 2022 (FYE 2021: RM140.4 million), while our GP margin decreased to 41.1% for FYE 2022 (FYE 2021: 45.8%), mainly attributable to the plantation segment. Our GP for the plantation segment decreased by RM9.7 million or 6.9% to RM129.9 million for FYE 2022 (FYE 2021: RM139.6 million), and its GP margin decreased to 41.1% for FYE 2022 (FYE 2021: 47.4%), mainly due to the increase in our cost of sales from our plantation segment increased by 20.1%, which grew at a rate higher than our revenue growth rate for the plantation segment of 7.2%, primarily due to higher cultivation costs, harvesting costs and mill and production costs incurred during FYE 2022, mainly due to the reasons as explained above.

Our Group recorded lower GP for the second half of FYE 2022, which decreased by RM54.4 million to RM37.7 million as compared to the first half of FYE 2022 of RM92.1 million, primarily due to the following:

(i) lower revenue recorded in the second half of FYE 2022, which decreased by RM21.5 million to RM147.2 million (first half of FYE 2022: RM168.7 million), resulted mainly from our average selling prices of CPO and PK declined by RM570 per MT or 13.8% to RM3,563 per MT for the second half of FYE 2022 (first half of FYE 2022: RM4,133 per MT) and RM468 per MT or 16.3% to RM2,404 per MT between second half of FYE 2022 (i.e. 1 April 2022 to 30 September 2022) (first half of FYE 2022: RM2,872 per MT), respectively, which moved in tandem with the global prices of CPO and PK. The decline in global 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;

(ii) higher cultivation costs incurred for the second half of FYE 2022, which increased by RM15.1 million to RM69.3 million (first half of FYE 2022: RM54.2 million), mainly due to additional labour for fertiliser application and for drains maintenance, such as deepening and widening of drains for better discharge of water for post-monsoon effects in the second half of FYE 2022. Additionally, higher manuring costs as more fertiliser was applied for the second half of FYE 2022 as compared to the first half of FYE 2022 due to the heavy rainfall from the La Nina phenomenon in the first half of FYE 2022 made it less suitable to apply fertiliser which resulted in the postponement of fertilisers application to post-monsoon in the second half of FYE 2022;

(iii) higher harvesting costs incurred for the second half of FYE 2022, which increased by RM6.7 million to RM21.3 million (first half of FYE 2022: RM14.6 million), mainly due to higher transportation and labour-related costs which were incurred in the second half of FYE 2022, resulting from the repair and maintenance costs for powered wheelbarrows and farm ATVs incurred in the second half of FYE 2022 as well as more trips due to higher FFB produced compared to the first half of FYE 2022; and

(iv) the movements in CPO and PK inventories for the first half of FYE 2022 amounted to RM11.1 million was higher as compared to the second half of FYE 2022 of RM1.3 million, mainly attributable to the higher closing inventories volume for CPO and PK and higher fair value of CPO and PK as at 31 March 2022 as compared to 30 September 2021.

Thus, our Group's GP margin decreased from 54.6% for the first half of FYE 2022 to 25.6% for the second half of FYE 2022.

(c) **Other income**

	Audited					
	FYE 2020		**FYE 2021**		**FYE 2022**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Realised gain on foreign exchange	-	-	3,079	17.0	-	-
Unrealised gain on foreign exchange	-	-	7,785	43.1	4,491	69.2
Sales of sludge oil(1)	1,742	18.6	3,374	18.7	367	5.7
Sales of FFB(2)	5,959	63.7	646	3.6	-	-
Sales of PK shell	248	2.7	109	0.6	-	-
Gain on fair value of biological assets(3)	-	-	1,637	9.1	-	-
Interest income on fixed deposits	543	5.8	676	3.7	655	10.1
Management fee(4)	232	2.5	270	1.5	340	5.2
Miscellaneous(5)	631	6.7	506	2.7	637	9.8
	9,355	**100.0**	**18,082**	**100.0**	**6,490**	**100.0**

Notes:

(1) We sell sludge oil to external customers and the proceeds was contributed to the community of the Plasma Farmers in our estates as part of our CSR under the Plasma Programme.

(2) Our Group sells FFB during the major maintenance works of our palm oil mill during FYE 2020 and FYE 2021. No sales of FFB for FYE 2022 as our major maintenance works carried out during FYE 2022 did not involve the shutdown of our production facilities. Thus, our Group did not sell any FFB to other mills during the maintenance period in FYE 2022. Routine maintenance is carried out daily at different stations or sub-points based on Preventive Maintenance Program which is consistent with the wear and tear by industry practice and OEM recommendation, such that the production line is not affected by the routine maintenance. Major maintenance is carried out based on our observations while carrying out the Preventive Maintenance Program on the machinery, whereby part of the production lines is affected, therefore excess FFB will be sold as the capacity of the processing of FFB is affected.

(3) Fair value of biological assets is determined based on the present value of expected net cash flows from the produce growing on bearer plants. The expected net cash flow are estimated using expected output method and the estimated market price of the produce growing on bearer plants. Any gains arising from changes in the fair value of biological assets less cost of sales are recognised in other income.

(4) Management fee is received from the Plasma Farmers for the services we rendered to them, such as planting consultation and management services. The management fee is charged based on 5.0% of the total operational costs of Sawit Sendowan Plantation Cooperative, Sedulang Jaya.

(5) Comprises mainly insurance claims for property all risk, motor vehicle and automobile liability, fidelity guarantee, business interruptions due to flood and staff medical and sales of scrap such as spoiled machines at recycle value.

Comparison between FYE 2020 and FYE 2021

Our other income increased by RM8.7 million or 92.6% to RM18.1 million for FYE 2021 (FYE 2020: RM9.4 million), mainly attributable to the following:

(i) there was unrealised gain on foreign exchange of RM7.8 million for FYE 2021 (FYE 2020: RM Nil) in relation to our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR resulting from the strengthening of IDR against USD and RM at the end of FYE 2021 compared to FYE 2020 (as at 30 September 2021: USD1: IDR14,307 and RM1: IDR3,419; as at 30 September 2020: USD1: IDR14,918 and RM1: IDR3,590);

(ii) there was realised gain on foreign exchange of RM3.1 million for FYE 2021 (FYE 2020: RM Nil) in relation to repayments of our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR, resulting from the overall strengthening of IDR against USD and RM during the FYE 2021 compared to FYE 2020 (FYE 2021: USD1: IDR14,296 and RM1: IDR3,505; FYE 2020: USD1: IDR14,982 and RM1: IDR3,624);

(iii) there was a gain on changes in fair value of biological assets of RM1.6 million for FYE 2021 (FYE 2020: RM Nil). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. The said gain on changes in fair value of biological assets of RM1.6 million was mainly due to the higher estimated FFB price being used in the measurement of biological assets at the end of FYE 2021 as compared to FYE 2020, in which the increase in estimated FFB price was in tandem with the rise in the global prices of CPO; and

(iv) income from sales of sludge oil increased by RM1.7 million to RM3.4 million for FYE 2021 (FYE 2020: RM1.7 million), mainly due to a higher selling price of RM2,109 per MT for 1,600MT for FYE 2021, as compared to RM968 per MT for 1,800MT for FYE 2020, as the selling price for sludge oil was correlated to the CPO prices, which increase in tandem with the rise in global prices of CPO.

The abovementioned increases were partially offset by lower sales of FFB which decreased by RM5.4 million to RM0.6 million for FYE 2021 (FYE 2020: RM6.0 million), mainly attributable to a shorter maintenance period carried out during FYE 2021, which disrupted our CPO production, i.e. 3 days major maintenance work for FYE 2021 as compared to 6 weeks scheduled major maintenance works undertook during FYE 2020. During maintenance, less FFB is processed, which results in excess FFB, which we will sell. Thus, less maintenance resulted in less excess FFB sold during FYE 2021. During the 6 weeks scheduled major maintenance period, the mill was still running albeit at a lower capacity, which resulted in more excess FFB sold to other mills during FYE 2020.

Comparison between FYE 2021 and FYE 2022

Our other income decreased by RM11.6 million or 64.1% to RM6.5 million for FYE 2022 (FYE 2021: RM18.1 million), mainly attributable to the following:

(i) we recorded lower unrealised gain on foreign exchange, which decreased by RM3.3 million to RM4.5 million for FYE 2022 (FYE 2021: RM7.8 million). Such a decrease was primarily due to the unrealised gain on foreign exchange for FYE 2021 in relation to our USD-denominated borrowings of RM68.8 million as of 30 September 2021 which were fully settled during FYE 2022. The unrealised gain on foreign exchange for FYE 2022 were mainly in relation to loans from Metro Kajang (Oversea) and MKH Plantation of RM110.3 million as of 30 September 2022 as a result of the strengthening of IDR against RM at the end of FYE 2022 as compared to FYE 2021;

(ii) our Group recorded a realised loss on foreign exchange which was recognised under other expenses for FYE 2022 (FYE 2021: realised gain on foreign exchange of RM3.1 million), in relation to the repayments of our USD-denominated borrowings against IDR, resulting from the weakening of IDR against USD during the FYE 2022 as compared to FYE 2021 (FYE 2022: USD1: IDR14,479, FYE 2021: USD1: IDR14,296);

(iii) the decrease in income from the sale of sludge oil of RM3.0 million to RM0.4 million for FYE 2022 (FYE 2021: RM3.4 million), which declined in tandem with lower CPO produced for FYE 2022 mainly due to continuing effects of the La Nina phenomenon up to mid-May 2022, which brought about extreme and prolonged heavy rainfall across palm-producing countries, which disrupted the FFB production and causing higher moisture content in FFB harvested and a lower OER of 18.5% recorded for FYE 2022; and

(iv) our Group recorded a loss on fair value of biological assets which was recognised under other expenses for FYE 2022 (FYE 2021: gain on fair value of biological assets of RM1.6 million). The said loss on changes in fair value of biological assets was mainly due to the lower FFB price at the end of FYE 2022 compared to FYE 2021, which decreased in tandem with the global prices of CPO.

12. FINANCIAL INFORMATION *(Cont'd)*

(d) Administrative expenses

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Staff costs[(1)]	10,444	30.7	10,275	27.6	11,660	29.7
Management fee[(2)]	8,753	25.7	8,525	22.9	6,372	16.2
CSR[(3)]	2,015	5.9	3,394	9.1	567	1.4
Depreciation	1,178	3.5	2,277	6.1	1,579	4.0
Medical expenses	298	0.9	2,071	5.6	1,098	2.8
Employment benefit obligations[(4)]	3,711	10.9	2,064	5.6	3,163	8.1
Travelling and transportation	1,697	5.0	1,971	5.3	2,252	5.8
Professional fees[(5)]	1,201	3.5	2,135	5.7	4,995	12.7
Accommodation	1,014	3.0	941	2.5	1,421	3.6
Entertainment expenses[(6)]	706	2.1	730	2.0	1,889	4.8
Security service fee	545	1.6	337	0.9	769	2.0
Directors' fees and remuneration	325	0.9	496	1.3	376	1.0
Repair and maintenance	400	1.2	253	0.7	277	0.7
Miscellaneous[(7)]	1,755	5.1	1,706	4.7	2,825	7.2
	34,042	**100.0**	**37,175**	**100.0**	**39,243**	**100.0**

Notes:

(1) Comprises salaries, bonuses, allowances, statutory social contributions and employees' provident fund contributions.

(2) Comprises management fees paid to MKH Resources, a subsidiary of MKH, for providing us with corporate, managerial, financial administration and other related services. The management fees are charged on a 6.0% margin of all chargeable expenses allocated using a hybrid method. The hybrid method is computed based on revenue, GP and the NBV of assets of the respective subsidiaries of MKH Group to allow all active companies within MKH Group fairly share the common expenses incurred per our transfer pricing policy.

(3) CSR expenses are expenses for activities for the community of the Plasma Farmers, such as welfare home visitations, charity donation drives and festive celebrations.

(4) Our subsidiaries, PT MKH and PT SPS, operate unfunded defined benefit schemes for employees, as required under the Labour Law of the Republic of Indonesia. The defined benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

(5) Comprises mainly fees paid to auditors, lawyers and tax consultants.

(6) Comprise mainly recurring entertainment expenses for consultants, officers and visitors who visit the estate, surveying potential land and activities for Plasma, such as transportation and food provided during meetings with Plasma.

(7) Comprise mainly utilities, printing, insurance, bank charges and expenses relating to short-term leases.

Comparison between FYE 2020 and FYE 2021

Our administrative expenses increased by RM3.2 million or 9.4% to RM37.2 million for FYE 2021 (FYE 2020: RM34.0 million), mainly attributable to the following:

(i) medical expenses increased by RM1.8 million or 600.0% to RM2.1 million for FYE 2021 (FYE 2020: RM0.3 million), mainly due to the increase in COVID-19 tests for our staff and visitors to our estate to ensure all visitors or contractors to perform COVID-19 test before entering our estate. In addition, we also incurred other COVID-19 related costs such as sanitisation expenses and quarantine costs during FYE 2021;

(ii) the increase in CSR expenses by RM1.4 million or 70.0% to RM3.4 million for FYE 2021 (FYE 2020: RM2.0 million) was due to increase in our corporate social activities for the community of the Plasma Farmers, such as welfare home visitations, charity donation drives and festive celebrations; and

(iii) depreciation increased by RM1.1 million or 91.7% to RM2.3 million for FYE 2021 (FYE 2020: RM1.2 million), mainly due to higher depreciation for building and plant and machinery resulting from the new plant and machinery acquired and the completion of additional staff quarters during FYE 2021.

The abovementioned increases were partially offset by a decrease in the employment benefits obligations expenses by RM1.6 million or 43.2% to RM2.1 million for FYE 2021 (FYE 2020: RM3.7 million), mainly attributable to a change in assumption used based on historical data, i.e. higher turnover rate in the actuarial report as the management of PT MKH and PT STS are of the view that the current assumptions are more reasonable to reflect the staff retirement as advised by the independent actuary. The employment benefit obligation expenses were determined based on actuarial valuations prepared by an independent actuary using the projected unit credit method.

Comparison between FYE 2021 and FYE 2022

Our administrative expenses increased by RM2.0 million or 5.4% to RM39.2 million for FYE 2022 (FYE 2021: RM37.2 million), mainly attributable to the following:

(i) higher staff costs for FYE 2022, which increased by RM1.4 million or 13.6% to RM11.7 million (FYE 2021: RM10.3 million), mainly in relation to the full year impact of remuneration for our key senior management who were transferred from MKH Resources effective from 1 April 2021;

(ii) higher employment benefit obligations for FYE 2022, which increased by RM1.1 million or 52.4% to RM3.2 million for FYE 2022 (FYE 2021: RM2.1 million), mainly due to our increased average group age for our Indonesia employees which resulted in higher statutory provision for employment benefits;

(iii) higher professional fees for FYE 2022, which increased by RM2.9 million or 138.1% to RM5.0 million for FYE 2022 (FYE 2021: RM2.1 million), mainly due to professional fees and related expenses incurred for our IPO of RM2.5 million;

(iv) higher entertainment expenses for FYE 2022, which increased by RM1.2 million or 171.4% to RM1.9 million for FYE 2022 (FYE 2021: RM0.7 million), following the relaxation of the movement controls, there were more activities for surveying potential plantation land for our Group and activities for Plasma Farmers such as transportation and food provided during meetings with the Plasma Farmers on recurring basis, fund raising for fire at Plasma (fire due to human negligence) in FYE 2022 and sponsor for materials, labours and vehicle and machinery running costs for Plasma's road maintenance due to the wetter season in FYE 2022; and

(v) higher miscellaneous expenses for FYE 2022, which increased by RM1.1 million or 64.7% to RM2.8 million for FYE 2022 (FYE 2021: RM1.7 million), mainly due to increased diesel prices for generating electricity. The average diesel prices increased from RM2.61 per litre for FYE 2021 to RM4.18 per litre for FYE 2022.

The abovementioned increases were partially offset by the decrease in management fees of RM2.1 million or 24.7% to RM6.4 million for FYE 2022 (FYE 2021: RM8.5 million). Such decrease was mainly attributable to lower management fees allocated to our Group for FYE 2022 in line with the transfer of key senior management from MKH Resources effective from 1 April 2021. Correspondingly, we recorded higher staff costs for FYE 2022. There is also a decrease in CSR expenses by RM2.8 million or 82.4% to RM0.6 million for FYE 2022 (FYE 2021: RM3.4 million) due to fewer corporate social activities during FYE 2022.

(e) Sales and marketing expenses

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Transportation costs	8,778	74.0	6,223	67.2	5,753	53.0
Jetty costs[(1)]	1,884	15.9	2,050	22.1	2,696	24.9
Jetty depreciation	787	6.6	740	8.0	701	6.5
Trading segment costs[(2)]	291	2.5	65	0.7	-	-
Quality claims of CPO and PK[(3)]	131	1.0	185	2.0	1,694	15.6
	11,871	**100.0**	**9,263**	**100.0**	**10,844**	**100.0**

Notes:

(1) Mainly comprises staff costs for jetty operations, security charges, fuel and lubricants and jetty maintenance costs.

(2) Comprises marketing staff costs for the trading segment.

(3) Comprises customers' claims on our CPO and PK sales with FFA content above 5.0%.

Comparison between FYE 2020 and FYE 2021

Our sales and marketing expenses decreased by RM2.6 million or 21.8% to RM9.3 million for FYE 2021 (FYE 2020: RM11.9 million), mainly attributable to a decrease in transportation costs of RM2.6 million or 29.5% to RM6.2 million for FYE 2021 (FYE 2020: RM8.8 million), mainly due to fewer trips as a result of the decline in the sales volume for PK to a customer with a cost, insurance and freight arrangement decreased by 7,950MT or 71.0% in FYE 2021.

Comparison between FYE 2021 and FYE 2022

Our sales and marketing expenses increased by RM1.5 million or 16.1% to RM10.8 million for FYE 2022 (FYE 2021: RM9.3 million), mainly attributable to an increase in CPO and PK quality claims of RM1.5 million to RM1.7 million for FYE 2022 (FYE 2021: RM0.2 million) resulting from higher FFA due to the relatively wetter season caused by La Nina phenomenon, despite having quality control procedures in FFB harvesting and transportation processes to minimise processing of overripe fruits that may increase the FFA content in CPO. The higher FFA was primarily attributable to the imposition of a domestic market obligation on the refinery plant operators which does not allow to export cooking oil from Indonesia in April and May 2022 which in turn resulted in our customers delaying their collections of the CPO.

(f) Other expenses

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Value-added tax[1]	2,094	9.2	1,051	49.5	1,388	20.0
Amortisation of prepaid lease payments	723	3.2	727	34.3	557	8.0
Property, plant and equipment written off[2]	306	1.3	234	11.0	580	8.4
Inventories written off[3]	4	-	1	-	1	*
Realised loss on foreign exchange	3,366	14.8	-	-	642	9.2
Unrealised loss on foreign exchange	13,879	61.0	-	-	-	-
Loss on changes in fair value of biological assets	913	4.0	-	-	577	8.3
Bad debts written off[4]	251	1.1	94	4.4	-	-
Miscellaneous	6	*	15	0.8	12	0.2
Impairment loss on investment in former subsidiary	1,222	5.4	-	-	3,191	45.9
	22,764	**100.0**	**2,122**	**100.0**	**6,948**	**100.0**

Notes:

* Representing less than 0.1%.

(1) Value-added tax expenses comprise the excess value-added input tax paid on purchases from our suppliers, after netting off with the value-added output tax for sales to our customers, more than 3 months were charged to combined statement of comprehensive income.

(2) Property, plant and equipment written off comprise mainly buildings, motor vehicles, plant and machinery and furniture, fittings and office equipment written off due to damage.

(3) Inventories written off comprise damaged spare parts.

(4) Bad debts written off for FYE 2020 and FYE 2021 comprise staff advances of RM0.1 million for each financial year in relation to estate workers who left our Group without clearing the staff advances and a non-refundable deposit of RM0.2 million for the construction of a road which did not materialise after 3 years.

Comparison between FYE 2020 and FYE 2021

Our other expenses decreased by RM20.7 million or 90.8% to RM2.1 million for FYE 2021 (FYE 2020: RM22.8 million), mainly attributable to the following:

(i) our Group recorded an unrealised gain on foreign exchange recognised under other income for FYE 2021 (FYE 2020: unrealised loss on foreign exchange of RM13.9 million), mainly in relation to our USD-denominated borrowings and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation against IDR. The IDR strengthened against USD and RM (as at 30 September 2021: USD1: IDR14,307 and RM1: IDR3,419; as at 30 September 2020: USD1: IDR14,918 and RM1: IDR3,590);

(ii) our Group recorded a realised gain on foreign exchange recognised under other income for FYE 2021 (FYE 2020: realised loss on foreign exchange of RM3.4 million), mainly in relation to repayments of our USD-denominated borrowings and RM-denominated loan from Metro Kajang (Oversea) against IDR. The IDR strengthened against USD and RM (FYE 2021: USD1: IDR14,296 and RM1: IDR3,505; FYE 2020: USD1: IDR14,982 and RM1: IDR3,624);

(iii) the value-added tax expenses decreased by RM1.0 million to RM1.1 million for FYE 2021 (FYE 2020: RM2.1 million), mainly due to fewer value-added tax expenses expensed out during FYE 2021. Our Group has adopted a strategy to reduce the sales made to our customers from the tax-free zone. Thus, more value-added output taxes were available to offset the value-added input taxes for purchases from our suppliers during FYE 2021; and

(iv) there was no impairment loss on investment in a former subsidiary for FYE 2021 (FYE 2020: RM1.2 million). The investment in a former subsidiary, PT NMJ of RM1.2 million had been fully impaired in FYE 2020 due to its deficit in shareholders' funds, which were a result of recorded losses, with net liabilities position and there being no business plan to turn around its financial performance and financial position. PT NMJ was subsequently disposed to Metro Kajang (Oversea) on 9 January 2023.

Comparison between FYE 2021 and FYE 2022

Our other expenses increased by RM4.8 million or 228.6% to RM6.9 million for FYE 2022 (FYE 2021: RM2.1 million), mainly attributable to the following:

(i) there were impairment loss on investment in a former subsidiary of RM3.2 million for FYE 2022 (FYE 2021: RM Nil), mainly due to further impairment on investment in a former subsidiary, PT NMJ, resulting from the additional capital injection of RM3.2 million during FYE 2022 to repay the advances from MKHOP. PT NMJ was subsequently disposed to Metro Kajang (Oversea) on 9 January 2023;

(ii) our Group recorded a realised loss on foreign exchange of RM0.6 million for FYE 2022 (FYE 2021: realised gain on foreign exchange of RM3.1 million), mainly in relation to the repayments of our USD-denominated borrowings against IDR. The IDR has weakened against USD (FYE 2022: USD1: IDR14,479; FYE 2021: USD1: IDR14,296); and

(iii) our Group recorded a loss on fair value of biological assets of RM0.6 million for FYE 2022 (FYE 2021: gain on fair value of biological assets of RM1.6 million). The fair value measurement of biological assets is valued using the present value of net cash flow expected to be generated from sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell. Loss on changes in fair value of biological assets was mainly due to the lower FFB price at the end of FYE 2022 compared to FYE 2021, which moved in tandem with global prices of CPO.

(g) Finance costs

	Audited					
	FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%
Term loans[(1)]	4,785	37.9	2,230	28.3	568	9.7
Revolving credit[(1)]	2,416	19.2	971	12.4	675	11.6
Amount due to a related company[(2)]	5,404	42.9	4,668	59.3	4,597	78.7
	12,605	**100.0**	**7,869**	**100.0**	**5,840**	**100.0**

Notes:

(1) We utilise term loans and revolving credit to fund our plantation development and palm oil mill upgrading and working capital of our operations.

(2) We utilise the loan from Metro Kajang (Oversea) for our working capital to fund our plantation development and palm oil mill upgrading.

Comparison between FYE 2020 and FYE 2021

Our finance costs decreased by RM4.7 million or 37.3% to RM7.9 million for FYE 2021 (FYE 2020: RM12.6 million), mainly attributable to the net repayments of term loans, revolving credits and loan from Metro Kajang (Oversea) by RM44.2 million, RM21.5 million and RM1.9 million, respectively. In addition, the lower term loan interests for FYE 2021 compared to FYE 2020 was mainly due to full settlement of PT SPS's term loan in September 2021.

Comparison between FYE 2021 and FYE 2022

Our finance costs decreased by RM2.1 million or 26.6% to RM5.8 million for FYE 2022 (FYE 2021: RM7.9 million), mainly attributable to the net repayments of term loans and revolving credits by RM34.3 million and RM32.8 million, respectively during FYE 2022.

(h) PBT and PBT margin

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
PBT (RM'000)	27,606	102,027	73,484
PBT margin (%)	9.8	33.3	23.3
PAT (RM'000)	18,690	77,452	60,138
PAT margin (%)	6.6	25.3	19.0

Comparison between FYE 2020 and FYE 2021

We recorded an increase in PBT of RM74.4 million or 269.6% for FYE 2021. Our PBT margin improved from 9.8% in FYE 2020 to 33.3% in FYE 2021. The improvement was mainly attributable to higher GP and GP margin for FYE 2021 as explained in Section 12.2.2(b), and a gain on foreign exchange of RM10.9 million in FYE 2021 compared to a loss on foreign exchange of RM17.2 million in FYE 2020.

Correspondingly, we recorded an increase in PAT of RM58.8 million or 314.4% for FYE 2021 and our PAT margin improved from 6.6% in FYE 2020 to 25.3% in FYE 2021. The improvement was mainly attributable to higher PBT and PBT margin for FYE 2021, as explained above and higher tax expenses, as explained in Section 12.2.2(i) below.

Comparison between FYE 2021 and FYE 2022

We recorded a decrease in PBT of RM28.5 million or 28.0% for FYE 2022. Our PBT margin decreased from 33.3% in FYE 2021 to 23.3% in FYE 2022. Such decline was mainly attributable to the following:

(i) lower GP and GP margin recorded for FYE 2022, as explained in Section 12.2.2(b);

(ii) the decrease in net gain on foreign exchange of RM7.0 million in FYE 2022;

(iii) an impairment loss on investment in a former subsidiary, PT NMJ, of RM3.2 million;

(iv) the increase in professional fees of RM2.9 million, primarily due to professional fees and the related expenses incurred for our IPO of RM2.5 million; and

(v) our Group recorded a loss on fair value of biological assets of RM0.6 million for FYE 2022.

Our PAT decreased by RM17.3 million or 22.4% for FYE 2022 and our PAT margin decreased from 25.3% in FYE 2021 to 19.03% in FYE 2022. Such decline was mainly attributable to lower PBT and PBT margin for FYE 2021, as explained above and lower tax expenses, as explained in Section 12.2.2(i) below.

We recorded lower PAT for the second half of FYE 2022, which decreased by RM52.7 million to RM3.7 million as compared to the first half of FYE 2022 of RM56.4 million, and our PAT margin decreased from 33.4% in the first half of FYE 2022 declined to 2.5% in the second half of FYE 2022, primarily due to the following:

(i) lower GP and GP margin recorded for the second half of FYE 2022, as explained in Section 12.2.2(b);

(ii) our Group recorded a loss on fair value of biological assets of RM4.6 million in the second half of FYE 2022 (first half of FYE 2022: gain on fair value of biological assets of RM4.1 million).The said loss on changes in fair value of biological assets of RM4.6 million was mainly due to the lower estimated FFB prices being used in the measurement of biological assets at the end of FYE 2022 as compared to the first half of FYE 2022. The decrease in the estimated FFB prices were in tandem with the decline in the global prices of CPO;

(iii) the increase in net gain on foreign exchange by RM3.6 million to RM3.8 million for the second half of FYE 2022 (first half of FYE 2022: RM0.2 million). The net gain on foreign exchange for the second half of FYE 2022 was mainly in relation to loans from Metro Kajang (Oversea) and MKH Plantation of RM110.3 million as of 30 September 2022 as a result of the strengthening of IDR against RM at the end of FYE 2022 as compared to FYE 2021;

(iv) an impairment loss on investment in a former subsidiary, PT NMJ, of RM3.2 million was made in the second half of FYE 2022;

(v) professional fees and the related expenses incurred for our IPO of RM2.5 million incurred in the second half of FYE 2022;

(vi) management fees increased by RM2.8 million to RM4.6 million in the second half of FYE 2022 (first half of FYE 2022: RM1.8 million), mainly due to the management fees for the second quarter of FYE 2022 being recognised upon finalisation of the billable amount in April 2022; and

(vii) lower tax expenses for the second half of FYE 2022 due to lower PBT recorded for the said period.

(i) Tax expense

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
Tax expense (RM'000)	8,916	24,575	13,346
Statutory tax rate (%)			
- Malaysia	24.0	24.0	24.0
- Indonesia[(1)]	25.0	22.0	22.0
Effective tax rate (%)[(1)]	32.3	24.1	18.2

Notes:

[(1)] The statutory tax rate of 25.0% for FYE 2020 and 22.0% for FYE 2021 and FYE 2022 represents the Indonesian national statutory tax rate for companies incorporated in Indonesia.

(2) Our effective tax rate is computed based on our total tax expense over our PBT. As the respective companies within our Group are subjected to the statutory tax rate of the respective jurisdictions, the effective tax rate of our Group will be affected by the statutory tax rates of the respective jurisdictions.

We are subject to income tax at the applicable statutory tax rates in Malaysia and Indonesia, where we have foreign subsidiaries. We assume responsibility for withholding tax on payments to our service providers who are not residents in the relevant country where the services are rendered. We remit such withheld tax to the relevant tax authorities.

Comparison between FYE 2020 and FYE 2021

Our tax expenses increased by RM15.7 million or 176.4% to RM24.6 million for FYE 2021 (FYE 2020: RM8.9 million), mainly attributable to higher PBT recorded for FYE 2021. Our effective tax rate of 24.1% for FYE 2021 was consistent with statutory tax rate of 24.0%.

We recorded higher effective tax rate of 32.3% for FYE 2020, mainly due to non-deductible expenses of RM13.0 million, being largely in relation to an impairment loss on investment in a former subsidiary, CSR expenses and unrealised loss on foreign exchange and restriction on interest being tax deductible, based on prevailing regulations, for PT SPS.

Comparison between FYE 2021 and FYE 2022

Our tax expenses decreased by RM11.3 million or 45.9% to RM13.3 million for FYE 2022 (FYE 2021: RM24.6 million), mainly attributable to lower PBT recorded for FYE 2022.

Our effective tax rate of 18.2% for FYE 2022 was lower than the statutory tax rate, mainly attributable to the following:

(i) the realisation of the deferred tax asset of RM4.2 million from unused tax losses of PT SPS, which were not recognised in prior financial years as it was uncertain that PT SPS would realise a higher taxable profit for which PT SPS can utilise against its unused tax losses; and

(ii) our Indonesian subsidiaries were subject to a lower statutory tax rate of 22.0%.

The abovementioned were partially offset by the following:

(i) there were non-deductible expenses of RM8.8 million, which mainly comprises CSR expenses, an impairment loss on investment in a former subsidiary, professional fees for our IPO, and disallowed staff welfare; and

(ii) there was an underprovision of deferred tax in prior financial years of RM3.8 million arising from the property, plant and equipment.

Other tax related information

On 4 January 2021, our subsidiary, namely PT MKH received a Notice of Tax Overpaid Assessment from the Indonesia's Director General of Tax ("**DGT**") amounting to IDR29,816 million (equivalent to RM8.7 million) for the year of assessment 2019.

On 1 April 2021, PT MKH filed an objection letter in reply to the above Notice of Tax Overpaid Assessment, as our management are of the opinion that, PT MKH should have a tax refund amounting to IDR35,281 million (equivalent to RM10.3 million). DGT has restricted the claim on the management fee incurred by PT MKH amounted to IDR21,855 million (equivalent to RM6.4 million) where the excess tax payment of IDR5,464 million (equivalent to RM1.6 million) shall not be refunded. Such restriction from DGT arose as DGT is of the view that no economic benefits have actually been provided pursuant to the management services that are in accordance with the needs of PT MKH.

	RM'000
Tax refund based on Notice of Tax Ovepaid Assessment from the DGT for year of assessment 2019	8,677
Tax refund based on our management's computation	10,267
Shortfall of tax refund	**(1)(1,590)**

Note:

(1) The shortfall of tax refund of RM1.6 million was derived based on the management fee incurred by PT MKH for FYE 2019 amounted to IDR21,855 million (equivalent to RM6.4 million) and the statutory tax rate for year of assessment 2019 of 25.0%, of which our management is of the opinion that PT MKH's total tax refund should be RM10.3 million instead of RM8.7 million.

On 24 December 2021, the objection letter has been rejected by the tax appeal office in Balikpapan, Indonesia.

On 18 March 2022, PT MKH filed an appeal to the tax court in Jakarta, Indonesia. On 24 August 2022, PT MKH received a notice of tax hearing from Jakarta's tax court to attend the said appeal on 7 September 2022. The Jakarta's tax court had requested PT MKH to provide additional analysis and a summary report for the tax assessment during the tax hearings on 7 September 2022, 5 October 2022, 9 November 2022, 7 December 2022, 25 January 2023, 22 February 2023, 29 March 2023 and 17 May 2023. As at 11 June 2023, the Jakarta's tax court has yet to make a conclusion on our appeal to the aforementioned.

In the event that PT MKH is unable to defend the tax appeal, the pro forma impact to our Group's financial performance for FYE 2022 is as follows:

Management fee	Statutory tax rate for year of assessment 2019	Potential tax expenses
RM'000	**(%)**	**RM'000**
6,360	25.0	[(1)]1,590
As a % of PAT for FYE 2022		2.6%
As a % of NA as at 30 September 2022		0.6%

Note:

(1) The potential tax expenses of RM1.6 million will be charged to profit or loss for the financial year under review in the event that PT MKH is unable to defend the tax appeal. However, there is no probability of cash outflow by PT MKH pursuant to the tax appeal as there was an overpayment of RM1.6 million in tax expenses by PT MKH which were recognised as tax assets in the financial statements of PT MKH. Hence, with the overpaid taxes, our Group is not potentially liable in anyway whatsoever, to make any further tax payments to DGT.

Based on consultation with the local tax experts, our Board is of the opinion that PT MKH has a valid defence against DGT's assessment on the grounds that PT MKH does not have any experts who have skills and experience in the field of oil palm plantation and mill operations at that point in time, and therefore it was deemed necessary for PT MKH to outsource the management services function to MKH Resources Sdn Bhd. These are the grounds for PT MKH's appeal to the tax court in Jakarta, Indonesia. Hence, PT MKH has not made any adjustment in respect of the tax assessment in the financial statements of PT MKH. The potential tax expenses of RM1.6 million was not recognised as contingent liabilities as there is no probability of cash outflow by PT MKH pursuant to the tax appeal as there was an excess of tax payment of RM1.6 million for the year of assessment 2019, of which the excess tax payment is a refundable tax payment subject to the outcome of the tax appeal, as explained in Note (1) above. For avoidance of doubt, the relevant key management personnel with expertise have now been appointed in our Group. Accordingly, PT MKH has not made any adjustments in respect of the tax assessment in the combined financial statements of our Group and PT MKH.

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12.2.3 Review of financial position

(a) Assets

	Audited		
	As at 30 September		
	2020	2021	2022
	RM'000	RM'000	RM'000
Non-current assets			
Property, plant and equipment	325,380	320,711	317,111
Prepaid lease payment	20,878	20,342	19,933
Goodwill on consolidation	4,901	5,147	5,340
Investment in former subsidiaries	*	*	50
Receivables, deposits and prepayments[(1)]	1,999	2,187	1,391
Total non-current assets	353,158	348,387	343,825
Current assets			
Inventories	30,062	44,975	67,714
Biological assets	4,233	6,177	5,917
Receivables, deposits and prepayment	36,173	22,898	15,395
Current tax assets	6,353	-	3,910
Cash and bank balances	36,250	57,465	42,014
Total current assets	113,071	131,515	134,950
Total assets	**466,229**	**479,902**	**478,775**

Note:

* Representing less than RM1,000.

(1) The breakdown of receivables, deposits and prepayments classified as non-current assets are as follows:

	Audited		
	As at 30 September		
	2020	2021	2022
	RM'000	RM'000	RM'000
Other receivable[(a)]	1,035	1,087	12
Prepayment[(b)]	964	1,100	1,379
	1,999	**2,187**	**1,391**

(a) Other receivable represents amounts due from the Plasma Farmers from Indonesia arising from the development costs of the plantations for small landholders. In accordance with the Indonesian Government policy, our subsidiaries, PT MKH and PT SPS, assume the responsibilities for developing plantations for Plasma Farmers in addition to their own plantation. The said subsidiaries are also required to provide training and supervise the Plasma Farmers and purchase the FFB from the Plasma Farmers at the prices determined by the Indonesian Government. The amounts are unsecured, interest-free, have no fixed term in repayment and are to be settled not within one year. The amounts owing will be repaid progressively via offset partially against the purchase of FFB from the Plasma Farmers.

(b) Comprise prepayment for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme. It will be charged to profit or loss when plantation estates allocate the seedlings to the fields.

Comparison between 30 September 2020 and 30 September 2021

Our total assets increased by RM13.7 million or 2.9% to RM479.9 million as at 30 September 2021 (as at 30 September 2020: RM466.2 million).

Our non-current assets decreased by RM4.7 million, mainly attributable to our property, plant and equipment decreased by RM4.7 million. Such a decrease was a result of (i) depreciation charges of RM30.3 million; (ii) upward effect from changes in the exchange rate of RM15.8 million; and (iii) the purchase of property, plant and equipment of RM10.1 million which primarily comprises plant and machinery of RM3.5 million and construction of plantation infrastructure and immature plantation area of RM5.9 million during FYE 2021.

The increase in current assets of RM18.4 million was mainly attributable to the net effects of the following:

(i) increase in cash and bank balances of RM21.2 million, mainly due to improved internally generated funds from our business operations;

(ii) the increase in inventories of RM14.9 million, mainly due to accumulation of plantation consumables such as spare parts to avoid a shortage resulting from the interruption of the global supply chain due to the COVID-19 pandemic and for stockpiling for immediate repair as the delivery of spare parts might take more than 6 months, and increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT of which 2,500MT of CPO was subsequently contracted and delivered in October, which supposed to be contracted in September 2021;

(iii) the increase in biological assets of RM1.9 million, mainly due to the rise in its fair value, which is measured using the present value of net cash flows expected to be generated from the sales of FFB, adjusted for estimated oil content of unharvested FFB, less harvesting, transport and other costs to sell;

(iv) the decrease in receivables, deposits and prepayment of RM13.3 million, mainly due to the net effects of the following:

    (aa) the decrease in trade receivables of RM14.9 million, mainly contributed by no outstanding trade receivables from the trading segment following the cessation of our building materials trading business effective from 1 January 2021;

(bb) the decrease in other receivables of RM4.0 million, mainly contributed by the value-added input taxes available to offset against future value-added output taxes declined by RM1.4 million, resulting from lower CPO sold to customers from the free tax zone. In addition, advances to the Plasma Farmers to develop plantations for the Plasma Farmers decreased by RM2.8 million;

(cc) deposits increased by RM4.3 million, mainly contributed by the deposit of RM2.7 million paid to secure the supply of fertiliser, and a deposit of RM1.2 million paid to secure the purchase of plant and machinery for the usage of our estate and spare parts to avoid shortage of supplies resulting from interruption of COVID-19 pandemic;

(dd) prepayments increased by RM1.1 million, mainly contributed by the expenses incurred for our IPO of RM1.2 million, which were still on-going as of 30 September 2021; and

(v) the decrease in current tax assets of RM6.4 million, mainly due to the lower tax estimation for the year of assessment 2021.

Comparison between 30 September 2021 and 30 September 2022

Our total assets decreased by RM1.1 million or 0.2% to RM478.8 million as at 30 September 2022 (as at 30 September 2021: RM479.9 million).

Our non-current assets decreased by RM4.6 million, mainly attributable to the following:

(i) the decrease in property, plant and equipment of RM3.6 million, primarily due to (i) depreciation charges of RM30.4 million; (ii) upward effect from changes in the exchange rate of RM11.3 million; and (iii) the purchase of property, plant and equipment of RM16.1 million, which comprised mainly plant and machinery of RM8.7 million, construction of plantation infrastructure and immature plantation area of RM3.9 million, furniture, fittings and office equipment of RM1.9 million and motor vehicles of RM1.6 million; and

(ii) the lower receivables, deposits and prepayments of RM0.8 million, mainly attributable to the net effect of the following:

(aa) decrease in the amount due from the Plasma Farmers to develop plantations for the Plasma Farmers of RM1.1 million, mainly due to the reclassification of the amount due for payment within 1 year from non-current assets to current assets following the commencement of the harvesting period of the Plasma Farmers' plantations; and

(bb) increase in prepayment of RM0.3 million for seedlings cultivation in the nursery located in the plantation estates for about 9 to 12 months before they are ready to be transplanted to our plantation estates or sold to small local planters under the Plasma Programme.

The increase in current assets of RM3.4 million, mainly attributable to the net effect of the following:

(i) inventories increased by RM22.7 million, mainly due to the increase in fertiliser by RM8.1 million primarily resulting from (a) the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser; (b) fertiliser costs increased by RM501 per MT from RM1,420 per MT for FYE 2021 to RM1,920 per MT for FYE 2022, resulting from the shortage of supply due to the conflict between Russia and Ukraine; and (c) the increase in CPO and PK inventories by RM12.4 million was primarily due to higher volume for CPO and PK of 3,192MT and 940MT respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022; and

(ii) the current tax assets increased by RM3.9 million, mainly due to the higher tax estimation for year of assessment 2022.

The above increases were partially offset by the following decreases:

(i) The decrease in cash and bank balances of RM15.5 million was mainly due to (a) the net repayments of term loans of RM34.2 million, revolving credits of RM32.8 million and the related interests of RM5.8 million during FYE 2022; and (b) the tax payments of RM39.5 million for (b)(i) the final tax assessment for FYE 2021 of RM18.2 million upon finalisation during FYE 2022; and (b)(ii) estimated tax instalments of RM21.3 million paid for FYE 2022. Such payments were offset by the internally generated funds from our business operations;

(ii) the decrease in receivables, deposits and prepayment of RM7.5 million, mainly due to the following:

  (aa) the decrease in trade receivables of RM2.2 million was primarily attributable to lower sales from the plantation segment in the last quarter of FYE 2022;

  (bb) the decrease in the amount owing from a former subsidiary, PT NMJ, of RM2.8 million was attributable to repayment during FYE 2022; and

  (cc) deposits decreased by RM2.7 million, mainly attributable to less deposits paid to secure fertiliser supply.

12. FINANCIAL INFORMATION *(Cont'd)*

(b) Liabilities

	Audited		
	As at 30 September		
	2020	2021	2022
	RM'000	RM'000	RM'000
Non-current liabilities			
Provisions	16,655	15,211	15,706
Payables and accruals	62,457	59,517	31,327
Loan and borrowings	54,451	22,269	2,317
Deferred tax liabilities	7,235	9,726	5,802
Total non-current liabilities	140,798	106,723	55,152
Current liabilities			
Payables and accruals	123,777	98,936	142,664
Loan and borrowings	76,769	46,499	-
Current tax liabilities	109	16,372	10
Total current liabilities	200,655	161,807	142,674
Total liabilities	**341,453**	**268,530**	**197,826**

Comparison between 30 September 2020 and 30 September 2021

Our total liabilities decreased by RM73.0 million or 21.4% to RM268.5 million as at 30 September 2021 (as at 30 September 2020: RM341.5 million), mainly attributable to the decrease in loans and borrowings of RM62.5 million due to the repayment of term loans of RM58.6 million and revolving credits of RM21.5 million, after netting the drawdown of term loans of RM14.4 million for our Group's working capital purposes.

The above decrease was also contributed by lower payables and accruals of RM27.8 million, mainly attributable to the net effects of the following:

(i) net repayments to related companies of RM20.0 million;

(ii) decrease in trade payables of RM12.6 million and the amount due to MKH Building Materials Sdn Bhd, a related company (trade-in nature) of RM1.4 million, both were mainly due to lower outstanding balances arising from the purchase of building materials for our trading business as our Group had ceased the building materials trading business effective from 1 January 2021;

(iii) increase in accruals of RM4.4 million, mainly due to the increase in accrued salaries by RM1.0 million, and the accrued CSR payable to Plasma Farmers; and

(iv) other payables increased by RM2.0 million, mainly due to the higher amounts owing to spare parts suppliers for the powered wheelbarrow and farm ATV in which the goods were received but pending receiving invoices.

The abovementioned decreases were partially offset by the increase in current tax liabilities of RM16.3 million, mainly due to the higher tax expenses resulting from higher profits recorded for FYE 2021.

Comparison between 30 September 2021 and 30 September 2022

Our total liabilities decreased by RM70.7 million or 26.3% to RM197.8 million as at 30 September 2022 (as at 30 September 2021: RM268.5 million), mainly attributable to the decrease in loans and borrowings of RM66.5 million due to the repayment of term loans of RM36.5 million and revolving credits of RM32.8 million, after netting the drawdown of term loans of RM2.3 million for working capital purposes.

In addition, such a decrease was also contributed by the current tax liabilities decreased by RM16.4 million, mainly attributable to final tax assessment for FYE 2021 of RM18.2 million being paid upon finalisation during FYE 2022, amounting to RM18.2 million.

The abovementioned decreases were partially offset by the increase in payables and accruals of RM15.5 million, mainly attributable to the net effects of the following:

(i) net repayments to Metro Kajang (Oversea) of RM3.4 million;

(ii) increase in trade payables of RM3.9 million due to higher amounts owing to fertiliser suppliers for the plantation consumables accumulated in September 2022 to avoid the supply shortage of fertiliser resulting from the conflict between Russia and Ukraine;

(iii) the increase in downpayment from our CPO and PK customers of RM11.4 million was mainly in relation to a 90.0% downpayment by a customer for 3,000MT CPO that subsequently collected by the customer on 5 October 2022; and

(iv) increase in other payables of RM4.2 million due to (a) overpayment from a CPO customer of RM3.1 million, which was subsequently refunded to the said customer on 25 October 2022; and (b) higher amount owing to suppliers for diesel and petrol received before 30 September 2022.

12.2.4 Review of cash flows

The table below sets out the summary of our historical audited combined statements of cash flows for FYE 2020 to 2022.

Our cash and cash equivalents are primarily held in IDR and some in USD and RM. Where cash is held in foreign currencies, there may be an exchange rate fluctuation effect on the cash held.

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Net cash from operating activities	77,243	98,384	65,643
Net cash used in investing activities	(9,195)	(10,312)	(16,553)
Net cash used in financing activities	(58,937)	(65,268)	(55,676)
Net increase/(decrease) in cash and cash equivalents	9,111	22,804	(6,586)
Cash and cash equivalents at the beginning of the financial year	18,487	23,586	47,205
Effect of exchange rate changes on the balance of cash held in foreign currencies	(4,012)	815	1,395
Cash and cash equivalents at the end of the financial year	**23,586**	**47,205**	**42,014**
Cash and cash equivalents at the end of the financial year comprise:			
Cash and bank balances	36,250	57,465	42,014
Less: Deposits and bank balances pledged with financial institutions for credit facilities	(12,665)	(10,260)	-
	23,586	**47,205**	**42,014**

FYE 2020

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM77.2 million. We collected RM277.1 million, mainly attributable from the following:

(a) collections of RM262.6 million from our customers;

(b) fixed deposit interests of RM0.5 million;

(c) refund of income tax of RM5.2 million from Indonesia's Directorate General of Taxes; and

(d) other income of RM8.8 million mainly from selling sludge oil and FFB.

The above collections were partially offset by cash payments of RM199.9 million in respect of the following:

(a) payments of RM105.3 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM55.5 million and RM19.7 million respectively;

(c) interests paid for term loans of RM5.0 million, revolving credits of RM2.4 million and amount due to Metro Kajang (Oversea) of RM5.4 million;

(d) payment of income tax of RM5.9 million paid to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to retired employees of RM0.7 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM9.2 million from investing activities, mainly attributable to the cash payments for the construction of plantation infrastructure, which comprised mainly staff quarters; and immature plantation area, which comprised the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured, all of which amounts to RM4.7 million, the purchase of plant and machinery of RM4.2 million which are mainly for the estate cultivation and mill production and the purchase of furniture fittings and office equipment of RM0.3 million.

Net cash for financing activities

Our Group recorded a net cash outflow of RM58.9 million from financing activities, mainly attributable to:

(a) drawdowns of term loans of RM28.4 million and revolving credits of RM6.3 million, bearing lower interest rates to refinance our existing term loans and revolving credits and for working capital purposes;

(b) additional deposits and bank balances pledged as securities for term loans of RM0.3 million;

(c) repayments of term loans of RM82.3 million and revolving credits of RM13.4 million; and

(d) Loan received from Metro Kajang (Oversea) of RM2.4 million for the purchase of powered wheelbarrow and farm ATV.

FYE 2021

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM98.4 million. We collected RM335.5 million, mainly attributable from the following:

(a) collections of RM321.2 million from our customers;

(b) fixed deposit interests of RM0.7 million;

(c) refund of income tax of RM8.7 million from Indonesia's Directorate General of Taxes, resulting from tax overpaid in FYE 2019 due to higher tax estimation for the year of assessment 2019; and

(d) other income of RM4.9 million, mainly from the selling sludge oil and FFB.

The above collections were partially offset by cash payments of RM237.1 million in respect of the following:

(a) payments of RM135.6 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM59.9 million and RM22.9 million respectively;

(c) interests paid for term loans of RM2.2 million, revolving credits of RM1.0 million and amount due to Metro Kajang (Oversea) of RM4.7 million;

(d) payments of income tax of RM9.3 million paid to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to the retired employees of RM1.5 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM10.3 million from investing activities, mainly attributable to the cash payment for the construction of plantation infrastructure, which comprised primarily staff quarters and immature plantation area of RM5.8 million, which included the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured and the purchase of plant and machinery of RM3.5 million, furniture, fittings and office equipment of RM0.5 million and motor vehicles and plantation infrastructure of RM0.2 million. In addition, there was an advance to a former subsidiary, PT NMJ, of RM0.3 million for its administrative expenses, such as staff costs and professional fees.

Net cash for financing activities

Our Group recorded a net cash outflow of RM65.3 million from financing activities, mainly attributable to the following:

(a) drawdowns of term loans of RM14.4 million for working capital purposes;

(b) deposits and bank balances released as securities for term loans of RM2.4 million;

(c) repayments of term loans of RM58.6 million and revolving credits of RM21.5 million; and

(d) repayment of loan from Metro Kajang (Oversea) of RM1.9 million.

FYE 2022

Net cash for operating activities

Our Group recorded a net cash inflow from operating activities of RM65.6 million. We collected RM331.4 million mainly from the following:

(a) collection of RM329.4 million from our customers;

(b) fixed deposit interests of RM0.7 million; and

(c) other income of RM1.3 million mainly from the selling of sludge oil, scrap and management fees received from the Plasma Farmers for the services we rendered to them, such as planting consultation and management services.

The above collections were partially offset by cash payments of RM265.8 million in respect of the following:

(a) payments of RM124.3 million to our suppliers;

(b) payments for staff and labour-related costs and other operating expenses of RM70.5 million and RM23.7 million respectively;

(c) interests paid for term loans of RM0.5 million, revolving credits of RM0.7 million and amount due to Metro Kajang (Oversea) of RM4.6 million;

(d) payments of income tax of RM39.5 million to Indonesia's Directorate General of Taxes; and

(e) retirement benefit obligation paid to the retired employees of RM2.0 million.

Net cash for investing activities

Our Group recorded a net cash outflow of RM16.6 million from investing activities, mainly attributable to the cash payment for the construction of plantation infrastructure, which comprised primarily staff quarters and immature plantation area of RM3.9 million, which comprised the costs of developing and maintaining the new planting area and will be subsequently reclassified to bearer plants once it is matured, the purchase of plant and machinery of RM8.7 million, furniture, fittings and office equipment of RM1.9 million and motor vehicles of RM1.6 million. In addition, there were subscriptions of shares in former subsidiaries, i.e. PT NMJ of RM3.2 million to regularise its deficit shareholder's funds position and Restu Mesra of RM0.1 million for the acquisition of the non-controlling interests, and repayment from a former subsidiary, PT NMJ, of RM2.8 million to PT MKH for advances to PT NMJ to finance its operating expenses.

Net cash for financing activities

Our Group recorded a net cash outflow of RM55.7 million from financing activities, mainly attributable to:

(a) deposits and bank balances released as securities for term loans of RM10.2 million;

(b) drawdowns of term loans of RM2.3 million for working capital purposes;

(c) repayments of term loans of RM36.5 million and revolving credits of RM32.8 million; and

(d) Loan received from Metro Kajang (Oversea) of RM1.1 million for our working capital purposes, such as professional fees and related expenses incurred for our IPO and cost incurred for office renovation of MKHOP.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

We finance our operations with cash generated from operations, credit extended by trade payables and/or financial institutions and existing cash and bank balances. Our facilities from financial institutions comprise term loans and revolving credits.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and interest rates on borrowings. We carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

Our Board confirms that we have sufficient funds for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

(a) Our cash and cash equivalent of RM47.3 million as at LPD;

(b) Our expected future cash flows from operations;

(c) Our total banking facilities as at LPD of RM78.5 million, of which RM2.2 million have been utilised; and

(d) Our pro forma gearing level of [●] times, computed based on our pro forma combined statements of financial position as at 30 September 2022 after the Acquisition of PT MKH, Acquisition of PT SPS, Capitalisation, Public Issue and utilisation of proceeds.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. This measure has proven to be effective while maintaining a cordial relationship with our customers.

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12.4 BORROWINGS

All of our borrowings are interest-bearing and denominated in USD. Our total outstanding borrowings as at 30 September 2022 stood at USD0.5 million (equivalent to RM2.3 million), details of which are set out below:

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 30 September 2022
				%	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
N/A	N/A	N/A	N/A	N/A	-
					-
Interest bearing long-term borrowings, payable after 1 year:					
Unsecured term loan	To finance and/or reimburse the purchase of machineries for plantation estate and equipment for palm oil mill, capital expenditure and for general working capital requirement.	Supported by corporate guarantee of the corporate shareholder, MKH.	5 years	5.2%	2,317
					2,317
Total borrowings					**2,317**
Gearing (times)					
After Pre-IPO Reorganisation but before Public Issue and utilisation of proceeds[(1)]					[•]
After Public Issue and utilisation of proceeds[(2)]					[•]

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Notes:

(1) Computed based on our pro forma total equity of RM[•] million in the pro forma combined statements of financial position after the Pre-IPO Reorganisation but before Public Issue and utilisation of proceeds.

(2) Computed based on our pro forma total equity of RM[•] million in the pro forma combined statements of financial position after Public Issue and utilisation of proceeds.

As at LPD, we do not have any borrowings which are non-interest bearing.

We have not defaulted on payments of principal sums and/or interests in respect of any of our borrowings throughout FYE 2020 to 2022 and up to LPD.

As at LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan, which can materially affect our financial position and results or business operations or the investments by holders of our securities. During FYE 2020 to 2022, we did not experience any clawback or reduction in the facilities limit granted to us by our lenders.

12.5 LOANS AND AMOUNTS OWING FROM/TO RELATED COMPANIES

All of our loans from related companies are unsecured and denominated in RM. Our total outstanding loans and amounts owing from/to related companies as at 30 September 2022 stood at RM124.2 million, details of which are set out below:

	Purpose	Term	Effective interest rate	As at 30 September 2022
			%	RM'000
Short-term loans and other amounts owing, payable within 1 year:				
Loan from Metro Kajang (Oversea)	Plantation development, construction of new mill and mill upgrading	Unsecured and repayable by 19 quarterly instalments commencing from June 2020	7.0	(3)28,030
Amount owing to/by related company(ies)	Interest payable, management fee and working capital	Unsecured, interest free and repayable on demand	N/A	(1)56,479
Loan from Metro Kajang (Oversea)	Working capital	Unsecured and repayable on demand	5.0	(2)8,408
				92,917
Long-term loan, payable after 1 year:				
Loan from Metro Kajang (Oversea)	Plantation development, construction of new mill and mill upgrading	Unsecured and repayable by 19 quarterly instalments commencing from June 2020	7.0	(3)31,327
Total loans from related companies				**124,244**

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) Comprising amounts owing to related companies (including interest-free loan and other repayables) as well as an amount owing by a related company totalling RM56.5 million, as follows:

		RM'000
Amount owing to MKH Plantation		
MKH Plantation	Loan made by MKH Plantation to PT SPS	55,487
	Foreign exchange translation	(148)
		55,339
Amount owing to other related companies		
MKH Resources	Management fee charged by MKH Resources to MKHOP	5,456
Metro Kajang (Oversea)	Interest payable	(2)106
Laju Jaya	Reimbursable electricity expenses	3
Pelangi Seri Alam Development Sdn Bhd	Reimbursable expenses on Human Resources Development Fund subscription	1
		60,905
Amount owing from a related company		
Metro Kajang (Oversea)	Reimbursable value added tax	(3)(5,141)
	Accrual of interest payable	(3)715
		56,479

For reference, the amount of RM55.5 million (excluding foreign exchange translation for reporting purposes) owing to MKH Plantation is novated to our Company pursuant to the PT SPS Debt Novation and capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(b) for details of the Capitalisation with respect to this amount.

(2) Outstanding balance excluding interest payable of RM0.1 million. For reference, the entire amount of RM8.5 million including interest payable is capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(c) for details of the Capitalisation with respect to this amount.

(3) For reference, these amounts owing from and to Metro Kajang (Oversea) totalling RM55.0 millon (excluding foreign exchange translation for reporting purposes) were novated to our Company pursuant to the PT MKH Debt Novation and capitalised pursuant to the Capitalisation. Please refer to Section 6.2.4(a) for details of the Capitalisation with respect to this amount.

All loans from related parties (save for the interest-free loan by MKH Plantation) were transacted on an arm's length basis. The provision of such loans will not recur after our Listing. Additionally, all amounts owing to related parties not already capitalised pursuant to the Capitalisation as mentioned above arose from the ordinary course of business, and have been duly repaid as at LPD.

12.6 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at LPD, save as disclosed in Section 12.4 above, we do not have nor utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers and external sources of funds comprising borrowings. The principal usages of these bank borrowings are for working capital, plantation development, mill upgrading and for purchase of machineries for plantation estate and equipment for palm oil mill.

All borrowings bear variable interest rates based on the bank's cost of fund rate plus a rate, which varies depending on the different types of bank facilities.

12.7 MATERIAL CAPITAL COMMITMENTS

As at LPD, our Group has committed to RM[●] million capital expenditure comprising the purchase of buildings (including the construction of staff quarters, boiler house and PK crushing facility) and plant and machineries for our business operations, which will be financed by our internally generated funds and/or proceeds from the Public Issue.

The material capital commitments as at LPD are as follows:

	As at LPD
	RM'000
Approved but not contracted for:	
- Buildings[(1)]	[●]
- Plants and machinery[(1)]	[●]
	[●]
Approved and contracted for:	
- Buildings[(2)]	[●]
- Plants and machinery[(3)]	[●]
	[●]
	[●]

Notes:

(1) To be funded through internally generated funds.

(2) RM[●] million to be funded through internally generated funds and the balance of RM[●] million to be funded by the proceeds from the Public Issue allocated for setup of PK crushing facility.

(3) RM[●] million to be funded through internally generated funds and the balance to be funded by the proceeds from the Public Issue allocated for the setup of PK crushing facility of RM[●] million and capital expenditures for existing plantation lands of RM[●] million.

Save as disclosed above, we do not have any other material capital commitments as at LPD.

12.8 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant. There is no proceeding pending or threatened or any fact likely to give rise to any proceeding, which might materially or adversely affect our position or business as at LPD.

As at LPD, there are no material contingent liabilities incurred by our Group, which upon becoming enforceable, may have a material effect on our business, financial results or position.

12.9 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYE 2020 to 2022 are as follows:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
Trade receivables turnover (days)(1)	15	14	3
Trade payables turnover (days)(2)	39	31	19
Inventory turnover (days)(3)	52	82	111
Current ratio (times)(4)	0.6	0.8	0.9
Gearing ratio (times)(5)	1.6	0.6	0.2

Notes:

(1) Computed based on the average trade receivables and net of allowances for impairment loss as at financial year-end over revenue for the respective financial years, multiplied by 365 days for each financial year.

(2) Computed based on the average trade payables as at financial year-end over cost of sales for the respective financial years, multiplied by 365 days for each financial year.

(3) Computed based on the average inventory as at financial year-end over cost of sales for the respective financial years, multiplied by 365 days for each financial year.

(4) Computed based on current assets over current liabilities as at the end of each financial year.

(5) Computed based on total interest-bearing borrowings over total equity as at the end of each financial year.

12.9.1 Trade receivables turnover

Our average trade receivables turnover period for FYE 2020 to 2022 is stated as below:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Opening trade receivables	4,619	18,916	4,061
Closing trade receivables	18,916	4,061	1,871
Average trade receivables	11,768	11,489	2,966
Revenue	282,324	306,611	315,817
Trade receivables turnover period (days)	15	14	3

Our trade receivables comprise amounts receivable for the plantation and trading segments. The Group's normal credit term to its customers for the trading of CPO and PK is 30 days, whereas for the trading of building materials is 30 to 60 days. For the Group's plantation customers, the customer will pay 90.0% of the purchase value as a deposit before loading. The balance of 10.0% will be collected within 1 month after delivery.

Our Group established policies on credit control involving comprehensive credit evaluations, setting up appropriate credit limits, ensuring the sales are made to customers with good credit history and regular review of customers' outstanding balances and payment trends. Our Group considers the risk of material loss in the event of non-performance by the customers to be unlikely.

As our Group did not hold any collateral, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position. A significant portion of trade receivables represents regular customers of our Group. Our Group uses ageing analysis to monitor the credit quality of the trade receivables.

Our Group has not recognised an allowance for impairment loss because there has not been a significant change in credit quality, and the amounts are still considered recoverable. Our Group applies the simplified approach to measure the impairment of trade receivables, contract assets and lease receivables at lifetime expected credit loss. The expected credit losses on trade receivables are estimated by reference to the past default experience of the debtor and an analysis of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Our trade receivables turnover periods for FYE 2020, 2021 and 2022 were 15 days, 14 days and 3 days, respectively, and are within our trade terms period. Therefore, our Group is not subject to a significant concentration of credit risk.

Our trade receivables turnover period for FYE 2021 of 14 days has remained consistent with FYE 2020 of 15 days. The opening trade receivables in FYE 2021 comprised mainly trade receivables from the trading segment, during which we ceased business effective on 1 January 2021.

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Our trade receivables turnover period decreased from 14 days for FYE 2021 to 3 days for FYE 2022 as we had fully collected all trade receivables from the trading segment. The lower turnover period for FYE 2022 reflects our policy of collecting 90% of our CPO and PK sales prior to delivery.

The ageing analysis of our trade receivables as at 30 September 2022 is as follows:

	Trade receivables as at 30 September 2022 (Audited)		Collection from 1 October 2022 to LPD	Balance trade receivables as at LPD
	RM'000	Percentage of trade receivables	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Neither past due nor impaired	1,801	96.3	1,801	-
Past due but not impaired:				
- less than 30 days	70	3.7	70	-
- 31 to 60 days	-	-	-	-
- over 60 days	-	-	-	-
	70	3.7	70	-
	1,871	**100.0**	**1,871**	**-**

As at LPD, our trade receivables as at 30 September 2022 have been fully collected.

Notwithstanding the COVID-19 pandemic, during FYE 2022, our customers generally paid within the credit period granted. Our Group has not encountered any major disputes with our trade receivables.

There were no impairment losses on trade receivables for FYE 2020 to 2022.

12.9.2 Trade payables turnover

Our average trade payables turnover period for FYE 2020 to 2022 is as follows:

	Audited		
	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000
Opening trade payables	18,619	20,477	7,874
Closing trade payables	20,477	7,874	11,730
Average trade payables	19,548	14,176	9,802
Cost of sales	182,791	166,237	185,948
Trade payables turnover period (days)	39	31	19

Trade payables comprise amounts outstanding for trade purchases. The credit terms granted to our Group for trade purchases ranged from 30 to 90 days for the plantation segment and 14 to 90 days for the trading segment. To maintain a good relationship with our suppliers, we will pay them within the respective credit periods.

Our trade payables turnover periods for FYE 2020, 2021 and 2022 were 39 days, 31 days and 19 days, respectively, which were within the normal credit terms granted by our suppliers.

Our trade payables turnover period decreased from 39 days for FYE 2020 to 31 days for FYE 2021, mainly attributable to less outstanding balances for our trading segment following the cessation of the business in this trading segment effective on 1 January 2021.

Our trade payables turnover period decreased from 31 days for FYE 2021 to 19 days for FYE 2022 as there were no trading purchases in FYE 2022 as our Group has ceased the building materials trading business effective from 1 January 2021.

The ageing analysis of our trade payables as at 30 September 2022 is as follows:

	Trade payables as at 30 September 2022		Settlement from 1 October 2022 to LPD	Balance trade payables as at LPD
	RM'000	Percentage of trade payables	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	I = (a)-(b)
Within credit period	11,730	100.0	11,730	-
Exceeding credit period:				
- 1 to 30 days	-	-	-	-
- 31 to 60 days	-	-	-	-
- More than 60 days	-	-	-	-
	-	-	-	-
	11,730	**100.0**	**11,730**	**-**

As at LPD, we have fully settled the outstanding trade payables as at 30 September 2022.

As at LPD, we do not have any material disputes in respect of our trade payables and no material legal proceedings to demand for payment have been initiated by our suppliers against us.

12.9.3 Inventory turnover

Our inventories comprise fertiliser, plantation consumables as well as CPO and PK. Plantation consumables consist of chemicals, spare parts and lubricants. Inventory cost of CPO and PK includes direct labour, an appropriate share of production overheads and the fair value attributable to agriculture produce at year end in accordance to MFRS 141. Our average inventory turnover period for FYE 2020 to 2022 is set out below:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Opening inventories			
- CPO and PK	4,778	6,570	17,714
- Fertiliser and plantation consumables	17,344	23,492	27,261
	22,122	30,062	44,975
Closing inventories			
- CPO and PK	6,570	17,714	30,096
- Fertiliser and plantation consumables	23,492	27,261	37,618
	30,062	44,975	67,714
Average inventories			
- CPO and PK	5,674	12,142	23,905
- Fertiliser and plantation consumables	20,418	23,377	32,440
	26,092	37,519	56,345
Cost of sales	182,791	166,237	185,948
Inventory turnover period (days)			
- CPO and PK	11	27	47
- Fertiliser and plantation consumables	41	56	64
- Overall	52	82	111

Our inventories consist fertiliser, plantation consumables as well as CPO and PK that we purchased from our suppliers. We constantly endeavour to maintain a sufficient inventory level to avoid instances of stock unavailability at our stores. Our inventory turnover periods for FYE 2020, 2021 and 2022 were 52 days, 82 days and 111 days, respectively.

Our inventory turnover period increased from 52 days for FYE 2020 to 82 days for FYE 2021, mainly attributable to the following:

(a) our Group maintains a higher inventory level for plantation consumables such as spare parts to avoid the shortage of plantation consumables resulting from the interruption of the global supply chain primarily due to the COVID-19 pandemic for stockpiling for immediate repair as the delivery of spare parts might take more than 6 months; and

(b) increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT as CPO sales slowed towards the end of FYE 2021 due to the delay in receiving a sale contract for 2,500MT of CPO from a customer, which resulted in the accumulation of CPO stock. The said sale contract for the 2,500MT of CPO was received in October 2023 and the delivery took place in the even month.

Our inventory turnover period increased from 82 days for FYE 2021 to 111 days for FYE 2022, mainly attributable to the following:

(a) increase in fertiliser inventory level by RM8.1 million resulting from the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser;

(b) fertiliser costs increased by RM501 per MT from RM1,420 per MT for FYE 2021 to RM1,920 per MT for FYE 2022, resulting from the shortage of supply due to the conflict between Russia and Ukraine and sanctions implemented by the United States against Russia; and

(c) the increase in CPO and PK inventories by RM12.4 million was primarily due to higher volume for CPO and PK of 3,192MT and 940MT, respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and the 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022.

We review our inventories on a product-by-product and ageing basis during the periodic stock count and we make allowance for damaged, obsolete and slow-moving inventories, when necessary. Management estimates the net realisable value for such inventory items based primarily on the current market conditions.

During FYE 2020 to 2022, our Group had written down inventories as below:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Inventories written off[(1)]	4	1	1

Note:

(1) Comprise plantation consumables written-off due to damaged spare parts that were no longer in good condition.

We are of the opinion that there are no material slow-moving and/or obsolete inventories as at LPD.

12.9.4 Current ratio

Our current ratio throughout FYE 2020 to 2022 is as follows:

	Audited		
	As at 30 September		
	2020	2021	2022
	RM'000	RM'000	RM'000
Current assets	113,071	131,515	134,950
Current liabilities	200,655	161,807	142,674
Net current liabilities	(87,584)	(30,292)	(7,724)
Current ratio (times)	0.6	0.8	0.9

Our current ratio ranges from 0.6 times to 0.9 times for FYE 2020 to 2022.

Our current ratio increased from 0.6 times as at 30 September 2020 to 0.8 times as at 30 September 2021, mainly attributable to the following:

(a) increase in cash and bank balances of RM21.2 million, mainly due to improved internally generated funds from our business operations;

(b) the increase in inventories of RM14.9 million, mainly due to the accumulation of plantation consumables such as spare parts to avoid a shortage resulting from the interruption of the global supply chain due to the COVID-19 pandemic, and increased CPO inventories resulting from higher fair value of CPO and closing inventory which increased by 2,808MT;

(c) decrease in loans and borrowings of RM30.3 million, mainly due to scheduled repayments of term loans and revolving credits;

(d) net repayments to Metro Kajang (Oversea) of RM17.1 million for advances mainly to finance our plantation's working capital purposes, such as our plantation development costs, costs for construction of a new mill and upgrading of our existing mill; and

(e) decrease in trade payables of RM12.6 million and the amount due to MKH Building Materials Sdn Bhd, a related company (trade-in nature) of RM1.4 million, both were mainly in relation to building materials for our trading business, as our Group had ceased the building materials trading business effective from 1 January 2021 and there were no such purchases thereafter.

The above increase contributed to the improvement in our current ratio as at 30 September 2021, and were partially offset by the following:

(a) the decrease in trade receivables of RM14.9 million, mainly due to no outstanding trade receivables from the trading segment following the cessation of our building materials trading business effective from 1 January 2021; and

(b) the increase in current tax liabilities of RM16.3 million, mainly due to the higher tax expenses resulting from higher profits recorded for FYE 2021.

Our current ratio continuously improved from 0.8 times as at 30 September 2021 to 0.9 times as at 30 September 2022, mainly attributable to the following:

(a) increase in inventories of RM22.7 million, mainly due to the increase in fertiliser by RM8.1 million primarily resulting from (i) the higher inventory levels for urea and rock phosphate, which were received in September 2022 to avoid the supply shortage of fertiliser; (ii) fertiliser costs increased by RM501 per MT, resulting from the conflict between Russia and Ukraine; and (iii) the increase in CPO and PK inventories by RM12.4 million primarily due to higher volume for CPO and PK of 3,192MT and 940MT respectively as at 30 September 2022, of which 3,000MT of CPO with 90.0% downpayment duly paid was only collected by the customer on 5 October 2022 and 1,200MT of PK which were contracted in the last quarter of FYE 2022 was only collected by the customer in November 2022 as the customer's PK crushing plant was under major maintenance in the last quarter of 2022;

(b) decrease in loans and borrowings of RM46.5 million, mainly due to scheduled repayments of term loans and early settlement of revolving credits; and

(c) the current tax liabilities decreased by RM16.3 million, mainly due to the final tax assessment for FYE 2021 of RM18.2 million being paid upon finalisation during FYE 2022.

The above increases contributed to the improvement in the current ratio as at 30 September 2022 were partially offset by the following:

(a) the decrease in cash and bank balances of RM15.5 million was mainly due to the following outflows of cash:

  (i) the net repayments of term loans of RM34.2 million and revolving credits of RM32.8 million and the related interests of RM5.8 million during FYE 2022; and

  (ii) tax payments of RM39.5 million comprising:

    (aa) the final tax assessment for FYE 2021 of RM18.2 million upon finalisation during FYE 2022; and

    (bb) estimated tax instalments of RM21.3 million paid for FYE 2022.

  Such payments were offset by the internally generated funds from our business operations;

(b) increase in loans from Metro Kajang (Oversea) of RM24.8 million, mainly due to reclassification of amounts due within 1 year from non-current liabilities to current liabilities;

(c) increase in trade payables of RM3.9 million due to higher amounts owing to fertiliser supplier for the plantation consumables accumulated in September 2022 to avoid the supply shortage of fertiliser resulting from the conflict between Russia and Ukraine; and

(d) increase in downpayment from our CPO and PK customers of RM11.4 million, mainly in relation to a 90.0% downpayment by a customer for 3,000MT CPO that subsequently collected by the customer on 5 October 2022.

12.9.5 Gearing ratio

Our gearing ratio throughout FYE 2020 to 2022 is as follows:

	Audited		
	As at 30 September		
	2020	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**
Borrowings	131,220	68,768	2,317
Interest bearing loan from Metro Kajang (Oversea)	68,672	66,904	67,765
Total	**199,892**	**135,672**	**70,082**
Total equity	124,776	211,372	280,949
Gearing ratio (times)[(1)]	1.6	0.6	0.2

Note:

[(1)] Computed based on total interest-bearing borrowings and loan from Metro Kajang (Oversea) over total equity as at the end of each financial year.

Our gearing ratio ranges from 0.2 times to 1.6 times for FYE 2020 to 2022.

As at 30 September 2021, our gearing ratio decreased to 0.6 times (as at 30 September 2020: 1.6 times), mainly attributable to the decrease in loans and borrowings of RM62.5 million as a result of the repayment of term loans of RM58.6 million and revolving credits of RM21.5 million, and netting the drawdown of term loans of RM14.4 million for working capital purpose. Additionally, our improved financial performance and position for FYE 2021 also contributed to the lower gearing ratio as at 30 September 2021.

Our gearing ratio decreased to 0.2 times as at 30 September 2022 (as at 30 September 2021: 0.6 times), mainly attributable to the decrease in loans and borrowings of RM66.5 million as a result of the repayment of term loans of RM36.5 million and revolving credits of RM32.8, and netting the drawdown of term loans of RM2.3 million for working capital purposes. In addition, our improved financial performance and position for FYE 2022 also contributed to the lower gearing ratio as at 30 September 2022.

12.10 SIGNIFICANT FACTORS AFFECTING OUR BUSINESS

Section 9 details the risk factors relating to our business and the industry in which we operate. Some of these risk factors have an impact on our revenue and financial performance. The main factors which affect revenues and profits include but are not limited to the following:

(a) 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 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.

Our Group achieved average FFB yields of 29.3MT per Ha, 26.7MT per Ha and 23.2MT per Ha in FYE 2020, FYE 2021 and FYE 2022, respectively. There can be no assurance that we will continue to achieve high FFB yields if we fail continuously to adopt or improve our plantation practices.

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.

(b) Our financial performance is subject to our ability to continuously deliver CPO and PK based on our customers' requirements

The ability to deliver CPO and PK based on the customers' requirements, i.e. 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. The FFA content in CPO produced by our Group is generally lower than 5.0%, at averages of 3.4%, 4.0%, and 4.6% for FYE 2020, FYE 2021 and FYE 2022, respectively.

Our customer can claim for a reduction in sales price based on a pre-agreed range, if we deliver CPO with FFA content above 5.0%. 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.

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.

(c) 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, 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. 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.

(d) 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.

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. For FYE 2020, FYE 2021, FYE 2022 and up to the LPD, we did not encounter any material increase in the cost of these purchases which substantially increase our cost of sales and lead to an adverse impact on our financial performance.

(e) Exposure 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, which accounted for 1.7%, 1.2% and 1.6% to our total purchases for FYE 2020 to 2022 respectively.

Additionally, our Group has USD-denominated outstanding borrowings of approximately RM2.3 million as at 30 September 2022, and RM-denominated advances 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 advances 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 advances 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 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.

For FYE 2020 to 2022, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Realised (loss)/gain on foreign exchange	(3,366)	3,079	(642)
Unrealised (loss)/gain on foreign exchange	(13,879)	7,785	4,491
Net (loss)/gain	**(17,245)**	**10,864**	**3,849**

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'.

(f) Exposure 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 the 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.

(g) Exposure to various inherent risks in the plantation 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 plantation industry. These include, but are not limited, to:

(i) adverse weather conditions;

(ii) outbreak of diseases or crop pests; and

(iii) fires.

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.

(h) 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 (in IDR and RM) 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)	9,148.02	6,657.44	5,013.61	3,131.43
2021 (January to December)	13,641.24	9,170.35	10,075.49	5,691.30
2022 (January to December)	15,490.11	8,467.09	12,605.44	4,420,39

	CPO price (RM/MT)		**PK price (RM/MT)**	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	2,625.48	2,010.55	1,438.91	945.69
2021 (January to December)	4,010.52	2,641.06	2,962.19	1,639.09
2022 (January to December)	4,600.56	2,548.59	3,743.82	1,330.54

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.

12.11 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Save for policies in relation to COVID-19, there were no government, economic, fiscal or monetary policies or factors which had materially affected our operations during FYE 2020 to 2022. There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward.

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9.2.6.

12.12 IMPACT OF INFLATION

During FYE 2020 to 2022, our financial performance was not materially affected by inflation. However, there is no assurance that our financial performance will not be adversely affected by inflation moving forward. Any significant increase in our costs of sales in the future may adversely affect our operations and performance if we are unable to pass on the higher costs to our customers through an increase in selling prices.

12.13 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR OPERATIONS

(a) Impact of foreign exchange rates

Our Group is an oil palm plantation group principally involved in the cultivation of oil palm and the production and sale of CPO and PK in Indonesia. Our sales are all made to local customers in Indonesia. All our sales to local customers in Indonesia are denominated in IDR.

Further, for FYE 2020 to 2022, we also purchased spare parts from overseas suppliers to support our plantation business, which were denominated in RM and/or USD.

Our proportions of sales and purchases transactions denominated in local and foreign currencies are as follows:

	FYE 2020		FYE 2021		FYE 2022	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Sales denominated in:						
(i) IDR	250,454	88.7	294,458	96.0	315,817	100.0
(ii) RM	31,870	11.3	12,153	4.0	-	-
	282,324	**100.0**	**306,611**	**100.0**	**315,817**	**100.0**
Purchases denominated in:						
(i) IDR	55,718	63.4	65,258	84.2	83,929	98.4
(ii) RM	32,181	36.6	12,266	15.8	952	1.1
(iii) USD	32	*	-	-	424	0.5
	87,931	**100.0**	**77,524**	**100.0**	**85,305**	**100.0**

Note:

* Representing less than 0.1%.

As our current 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 the financial statements. As such, our financial statements 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'.

However, our Group has USD-denominated outstanding borrowings of RM2.3 million as at 30 September 2022 and RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation of RM110.3 million as at 30 September 2022. Our Group utilises IDR to repay such foreign denominated borrowings and loans. Our Group also holds cash and bank balances denominated in USD and IDR for our Group's working capital purposes.

Our cash and bank balances, outstanding borrowings and loans denominated in the respective currencies are as follows:

	As at 30 September					
	2020		**2021**		**2022**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Cash and bank balances denominated in:						
(i) IDR	19,164	52.9	36,654	63.8	32,358	77.0
(ii) USD	15,458	42.6	19,433	33.8	4,919	11.7
(iii) RM	1,628	4.5	1,378	2.4	4,737	11.3
	36,250	**100.0**	**57,465**	**100.0**	**42,014**	**100.0**
Borrowings denominated in:						
USD	131,220	100.0	68,768	100.0	2,317	100.0
Loans from Metro Kajang (Oversea) and MKH Plantation denominated in:						
RM(1)	127,940	100.0	121,026	100.0	110,270	100.0

Note:

(1) Our Group utilises IDR to repay the RM-denominated loans from Metro Kajang (Oversea) and MKH Plantation.

For FYE 2020 to 2022, our gains and losses from foreign exchange fluctuations are as follows:

	FYE 2020	**FYE 2021**	**FYE 2022**
	RM'000	**RM'000**	**RM'000**
Realised (loss)/gain on foreign exchange	(3,366)	3,079	(642)
Unrealised (loss)/gain on foreign exchange	(13,879)	7,785	4,491
Net (loss)/gain	**(17,245)**	**10,864**	**3,849**

We currently do not have a formal policy with respect to our foreign exchange transactions. Exposure on foreign exchange is monitored on an ongoing basis.

Our Group is exposed to currency translation risk arising from its net investments in our Indonesia operations. Our Group's investment in Indonesia is not hedged as currency positions in IDR are considered to be long term in nature.

As at LPD, our Group does not hedge our exposure to fluctuation in foreign currency exchange rates. As at LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for our loans and borrowings in USD and loans from Metro Kajang (Oversea) and MKH Plantation in RM.

(b) Impact of interest rates

Interest coverage ratio measures the number of times a company can make its interest payments with its EBIT. Our interest coverage ratio for FYE 2020 to 2022 is as follows:

	Audited		
	FYE 2020	**FYE 2021**	**FYE 2022**
Interest coverage ratio (times)[1]	3.1	13.9	13.5

Note:

[1] Computed based on EBIT over finance costs for FYE 2020 to 2022.

Our interest coverage ratios range from 3.1 times to 13.9 times during FYE 2020 to 2022, indicating that our Group has been able to generate sufficient profits from operations to meet our interest serving obligations.

Our financial results for FYE 2020 to 2022 were not materially affected by fluctuations in interest rates. However, any major increase in interest rates would raise the cost of our borrowings and our finance costs, which may have an adverse effect on the performance of our Group.

(c) Impact of commodity prices

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 years 2020, 2021 and 2022 are as follows:

	CPO price (IDR/kg)		PK price (IDR/kg)	
Year	**High**	**Low**	**High**	**Low**
2020 (January to December)	9,148.02	6,657.44	5,013.61	3,131.43
2021 (January to December)	13,641.24	9,170.35	10,075.49	5,691.30
2022 (January to December)	15,490.11	8,467,09	12,605.44	4,420.39

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

(i) 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);

(ii) 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;

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

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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

(viii) 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. 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.

12.14 SIGNIFICANT CHANGES

There are no significant changes which may have a material effect on the financial position and results of our Group subsequent to FYE 2022 and up to LPD.

12.15 ORDER BOOK

Our Group is primarily involved in the cultivation of oil palm and harvesting of its FFB, and the production and sale of CPO and PK. Due to the nature of our business, we do not maintain an order book.

Our CPO and PK are primarily sold to customers who have entered into sale and purchase agreements with our Group. As at LPD, we have entered into sale and purchase agreements with agreement terms of approximately 1 year, with 2 of our major customers (i.e. PT Kutai Refinery Nusantara for sales of CPO and PK; and PT Binasawit Abadipratama for sale of PK), whereby the agreements are subject to yearly renewal. Based on the sale and purchase agreements, our Group is obliged to sell a pre-agreed volume of CPO or PK to the respective customers, whereby the selling prices of the CPO and PK to PT Kutai Refinery Nusantara are determined based on the auction price published by PT Perkebunan Nusantara for CPO and PT Astra Agro Lestari Tbk for PK on spot trading day, while the selling price of PK to PT Binasawit Abadipratama is based on the average of PT Astra Agro Lestari Tbk's PK daily price in the preceding month. As at LPD, based on the existing sale and purchase agreements entered with our customers, there are CPO and PK volumes totalling 58,000MT and 5,690 MT respectively that have yet to be delivered to our customers, in which 38,000MT of CPO and 5,690MT of PK will be fulfilled in FYE 2023, balance 20,000MT of CPO will be fulfilled in FYE 2024.

On top of the CPO and PK produced to fulfill the sale obligations under the sale and purchase agreements, we also produce additional CPO and PK for sales. These CPO and PK can be sold to customers for whom we entered into sale and purchase agreements as a top-up to their pre-agreed amount, whereby the selling prices are determined based on spot price used by PT Perkebunan Nusantara for CPO and PT Astra Agro Lestari Tbk for PK. Further, the additional CPO and PK produced can also be sold to other customers through e-bidding tendering process, whereby the sales are exercised at auction price from tenders and the delivery is typically carried out within 30 days from the confirmation of tenders. There were no outstanding tender as at LPD.

12.16 DIRECTORS' STATEMENT ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) our revenue will remain sustainable with an upward growth trend, in line with the anticipated growth in the oil palm industry as set out in the IMR Report in Section 8;

(b) our liquidity will improve further subsequent to our Public Issue given the additional funds to be raised for our Group to carry out our business strategies as stated in Section 7.15; and

(c) our capital resources will strengthen, taking into account the amount to be raised from the Public Issue as well as internally generated funds. We may consider debt or equity funding for our capital expansion should the need arise.

In addition to the above, our Board confirms that there are no circumstances which would result in a significant decline in our revenue and GP margin or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

12.17 TREND INFORMATION

Based on our tracked record for FYE 2020 to 2022, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

(a) revenue contribution from plantation segment has been the main revenue contributor for our business. We expect this segment to continue contributing significantly to our revenue in future;

(b) for FYE 2020 to 2022, the main component of our cost of sales are cultivation costs which contributed 51.7%, 59.5% and 66.4% of our total cost of sales for FYE 2020 to 2022, respectively. Moving forward, we expect this trend will continue; and

(c) we achieved a GP margin of 35.3%, 45.8% and 41.1% for FYE 2020 to 2022 respectively. Our GP margin in the future would depend on, amongst others, our continued ability to manage our cost efficiently and subject to prevailing market prices for CPO and PK.

As at LPD, after all reasonable enquires, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations, save as disclosed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13;

(b) material commitments for capital expenditure disclosed in Section 12.7;

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discusses in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13; and

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 7.8, 12.2, 12.10, 12.11, 12.12 and 12.13.

Based on the above, our Board is optimistic about the future prospects of our Group given our competitive strengths as set out in Section 7.14, the outlook of the oil palm industry in Indonesia as set out in the IMR Report in Section 8 and our commitment to implement the business strategies and future plans as set out in Section 7.15.

12.18 DIVIDEND POLICY

Our Group presently does not have any formal dividend policy and the declaration of dividends and other distribution are subject to the discretion of our Board. It is our Board's policy to recommend dividends to allow our shareholders to participate in the profits of our Group. However, our ability to pay dividends or make other distributions to our shareholders in the future years is subject to various factors such as having profits and excess funds, which are not required to be retained to fund our business.

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our subsidiaries, present and future. Upon completion of our IPO, save as disclosed in Section 16.4, there are no legal, financial or economic restrictions on the ability of our subsidiaries to transfer/receive funds to/from our Company, subject to the availability of distributable reserves and compliance with financial covenants, in the form of cash dividends, loans or advances, prior written notification has been given to lender, confirming that (i) all covenants including but not limited to financial covenants, representations and warranties have been complied with by PT MKH pertaining to the Foreign Currency Term Financing Facility-i 3 (FC Term-i 3) extended by OCBC Al-Amin Bank Berhad to PT MKH; and (ii) no event of default has occurred or is continuing or would occur. Moving forward, the payment of dividends by our subsidiaries is dependent upon various factors, including but not limited to, their distributable profits, financial performance, and cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of Directors deem relevant. Save for certain restrictive covenants from our credit facilities, which our subsidiaries are subject to, there is no other dividend restriction imposed on our subsidiaries as at LPD.

The dividends paid by our Indonesia subsidiaries may be taxed in Indonesia for withholding tax at a rate not exceeding 10.0% of the gross amount of the dividends. According to the prevailing Double Tax Agreement between Indonesia and Malaysia, dividend payments paid to our Company will be subject to a withholding tax. PT MKH and PT SPS have an obligation to withhold the tax of dividends distribution and pay to the tax authority. For avoidance of doubt, the dividend income received by our Company are exempted from corporate income tax in Malaysia up to 31 December 2026 based on the following qualifying conditions:

(a) the foreign source dividend income has been subjected to tax in the country of origin i.e. Indonesia;

(b) the highest corporate tax rate in the country of origin i.e. Indonesia is at least 15.0%; and

(c) our Group has complied with the economic substance requirements where (i) adequate number of employees are employed with necessary qualifications to carry out our operations in Malaysia; and (ii) adequate amount of operating expenditure has been incurred for carrying out our operations in Malaysia.

Our Board will consider the following factors when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(a) the level of cash and level of indebtedness;

(b) required and expected interest expense, cash flows, profits, return on equity and retained earnings;

(c) our expected results of operations and future level of operations;

(d) our projected levels of capital expenditure and other investment plans; and

(e) the prior consent from our lenders, if any.

The payment and amount of any dividends or distributions to our shareholders will be at the discretion of our Board, and will depend on factors stated above. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

Subject to the Act, our Company, in a general meeting, may from time to time approve dividend or other distribution. However, no dividend or distribution shall be declared in excess of the amount recommended by our Board. Further, under the Act, our Company may not declare or pay dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(a) our Company is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than its liabilities.

For FYE 2020 to 2022 and up to LPD, no dividends were declared and paid to shareholders of our Company and our subsidiaries.

As at LPD, there is no outstanding dividends declared and unpaid. Subsequent to LPD, no dividend was declared, made or paid by our Group. Our Group does not intend to declare any dividend prior to our Listing.

No influence should or can be made from any of the above statements as to our actual future profitability or our ability to pay dividends in the future.

12.19 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 January 2023 and after adjusting for the effects of the Acquisition of PT MKH and Acquisition of PT SPS, the Capitalisation and Public Issue, including the utilisation of proceeds.

	Unaudited	I	II	III	IV
	(1)As at 31 January 2023	After Acquisition of PT MKH and Acquisition of PT SPS	After I and Capitalisation	After II and Public Issue	After III and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000	RM'000
Capitalisation					
Share capital	110,468	191,848	[•]	[•]	[•]
Total capitalisation	**110,468**	**191,848**	**[•]**	**[•]**	**[•]**
Indebtedness(2)					
Current					
Loans and borrowings	2,185	2,185	2,185	2,185	2,185
Interest bearing loans from Metro Kajang (Oversea)	43,579	43,579	[•]	[•]	[•]
Non-current					
Loans and borrowings	241	241	241	241	241
Interest bearing loans from Metro Kajang (Oversea)	24,457	24,457	[•]	[•]	[•]
Total indebtedness	**70,462**	**70,462**	**[•]**	**[•]**	**[•]**
Total capitalisation and indebtedness	**180,930**	**262,310**	**[•]**	**[•]**	**[•]**
Gearing ratio (times)(3)	**0.6**	**0.4**	**[•]**	**[•]**	**[•]**

12. FINANCIAL INFORMATION *(Cont'd)*

Notes:

(1) After adjusting for the disposal of 100.0% and 99.9% equity interests in Restu Mesra and PT NMJ, respectively.

(2) All of our indebtedness are secured and/or guaranteed except for a term loan which is unsecured but guaranteed and all interest bearing loans from Metro Kajang (Oversea) which are unsecured and not guaranteed.

(3) Calculated based on total indebtedness divided by total capitalisation.

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