1.1 FINANCIAL INFORMATION OF NEXTGREEN GROUP

	Audited			Unaudited	
	FYE 30 June 2017	**FYE 30 June 2018**	**18-month FPE 31 December 2019(1)**	**3-month FPE 30 June 2019**	**3-month FPE 30 June 2020**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	25,200	29,849	40,245	9,981	602
Cost of sales	(25,958)	(28,105)	(37,067)	(9,543)	(2,317)
Gross (loss) ("GL") / Gross profit ("GP")	**(758)**	**1,744**	**3,178**	**438**	**(1,715)**
Other income	1,398	1,558	3,165	258	2,430
Reversal / (allowance for) of expected credit loss of receivables - net	-	2,770	(4,257)	-	-
Other operating expenses	(12,846)	(8,104)	(45,872)	(3,649)	(1,679)
(Loss) / profit from operations	**(12,206)**	**(2,032)**	**(43,786)**	**(2,953)**	**(964)**
Net finance costs	(364)	(335)	(466)	(70)	(314)
Share in profit of associate, net of tax	-	352	-	-	-
(Loss) before taxation ("LBT") / Profit before taxation ("PBT")	(12,570)	(2,015)	(44,252)	(3,023)	(1,278)
Tax income / (expense)	2,510	244	(1,324)	-	-
(Loss) after taxation ("LAT") / Profit after taxation ("PAT")	**(10,060)**	**(1,771)**	**(45,576)**	**(3,023)**	**(1,278)**
(LAT) / PAT attributable to owners of the Company	**(10,060)**	**(1,771)**	**(45,576)**	**(3,023)**	**(1,278)**
(GL) / GP margin (%)	(3.01)	5.84	7.90	4.39	(284.88)
(LAT) / PAT margin (%)	(39.92)	(5.93)	(113.25)	(30.29)	(212.29)
Weighted average no. of Shares in issue ('000)	420,269	433,655	459,513	479,667	526,667
Basic (LPS) / EPS (sen)	(2.39)	(0.41)	(9.92)	(0.63)	(0.24)

Notes:-

(1) As a result of the change in the Company's financial year end from 30 June to 31 December, the audited financial statements of the Company were prepared for a period of 18 months from 1 July 2018 to 31 December 2019.

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Financial commentary

(a) 3-month FPE 30 June 2020 compared to 3-month FPE 30 June 2019

The Group's revenue for the 3-month FPE 30 June 2020 decreased by approximately 93.97% to RM0.60 million as compared to the previous corresponding period. This was mainly due to lower contribution of the Group's printing and publishing business resulting from the economic slowdown during the MCO implemented by the Malaysia Government due to the COVID-19 pandemic.

Local and overseas sales activities were halted during the MCO period with local sales activities only resuming after 4th May 2020 (when the Malaysia Government announced the transition from MCO to Conditional Movement Control Order). The overseas sales activities of the Group have yet to recommence due to the uncertainties revolving the global economic condition as a result of the COVID-19 pandemic.

In line with the lower revenue, the Group recorded a GL of RM1.72 million (GL margin of 284.88%) as compared to a GP of RM0.44 million (GP margin of 4.39%) in the previous corresponding period due to fixed overheads remained higher than the revenue for the printing and publishing business.

The Group recorded a LAT of approximately RM1.28 million as compared to a LAT of RM3.02 million in the previous corresponding period. This was mainly due to the increase in other income. The Group recognised other income amounting to RM2.24 million from the forfeiture of deposits received from the purchaser in relation to the disposal of BHS Palau Incorporated ("**BHS Palau**").

(b) 18-month FPE 31 December 2019 compared to FYE 30 June 2018

The Group's revenue for 18-month FPE 31 December 2019 increased by 34.83% to RM40.25 million as compared to the previous financial year (the annualised revenue for 18-month FPE 31 December 2019 was RM26.83 million, representing a decrease of 10.12%). The decrease was mainly due to lower contribution from the property development and management business due to lower sale of land from the GTP.

The Group recorded a GP of RM3.18 million (GP margin of 7.90%) in 18-month FPE 31 December 2019 (the annualised GP for the 18-month FPE 31 December 2019 was RM2.12 million) as compared to a GP of RM1.74 million (GP margin of 5.84%) in the previous year. The increase in GP margin was mainly due to lower factory overhead costs for the printing and publishing business.

The Group recorded a higher LAT of RM45.58 million for 18-month FPE 31 December 2019 (the annualised LAT was RM30.39 million) as compared to RM1.77 million in the previous financial year. The increase in LAT was mainly due to:-

(a) net allowance for expected credit loss of trade receivables amounting to RM4.26 million;

(b) increase in other operating expenses, specifically the impairment of property, plant and equipment under construction (pulp and paper mill) of RM29.89 million. The management has reassessed the carrying value the property, plant and equipment and an appropriate impairment has been provided for accordingly; and

(c) increase in pre-operating expenses for the GTP Phase 1A amounting to RM3.00 million.

(c) FYE 30 June 2018 compared to FYE 30 June 2017

The Group's revenue for FYE 30 June 2018 increased by 18.45% to RM29.85 million as compared to the previous financial year. This was mainly due to the higher contribution from printing services, specifically the increase in print orders from overseas.

The Group recorded a GP of RM1.74 million (GP margin of 5.84%) as compared to a GL of RM0.76 million (GL margin of -3.01%) in the previous financial year. The GP in FYE 30 June 2018 is in line with the increase in revenue while overheads for the printing business did not increase significantly.

The Group recorded a lower LAT of RM1.77 million as compared to a LAT of RM10.06 million in the previous financial year. This is mainly due to:-

(a) GP of RM1.74 million in FYE 30 June 2018 as compared to a GL of RM0.76 million in the previous financial year;

(b) a reversal of allowance for doubtful debts amounting to RM3.00 million; and

(c) profit from the disposal of an associate which was completed on 17 April 2018 amounting to RM0.75 million. Further, the said associate contributed a share in profit of RM0.35 million in the same financial year prior to disposal;

(d) FYE 30 June 2017 compared to FYE 30 June 2016

The Group's revenue for FYE 30 June 2017 decreased by 11.17% to RM25.20 million as compared to the previous financial year. This was mainly due to the lower contribution from printing services in FYE 30 June 2017 from overseas as compared to the previous financial year.

The Group recorded a GL of RM0.76 million (GL margin of -3.01%) as compared to a GP of RM3.01 million (GP margin of 10.60%) in the previous financial year. The GL in FYE 30 June 2017 was in line with the decrease in revenue while overheads for the printing business increased marginally.

The Group recorded a higher LAT of RM10.06 million in FYE 30 June 2017 as compared to a LAT of RM3.15 million in the previous financial year. This is mainly due to:-

(a) the GL of RM0.76 million in FYE 30 June 2017 as compared to the GP of GP of RM3.01 million in the previous financial year; and

(b) increase in other operating expenses, mainly from allowance of doubtful debts amounting to RM4.10 million.

1.2 STEPS UNDERTAKEN OR TO BE UNDERTAKEN TO IMPROVE THE FINANCIAL CONDITION OF THE GROUP

Historically, the Group is principally involved in printing of books and magazines, publishing of books and the utilisation and sub-licensing of paper pulp making technology and manufacturing of renewable paper pulp products. However, the Group is cognisant that the printing sector has been very competitive in recent years and will continue to be competitive due to the rise of digitalisation.

As such, the Group has undertaken several initiatives to improve its financial condition. This entailed, amongst others, the diversification of the Group's business to include the construction, development and management of the GTP and other construction and property development activities, as set out below:-

(a) On 21 October 2016, the Board announced that Pejabat Setiausaha Kerajaan Pahang (Pahang State Government) had granted Ultimate Ivory Sdn Bhd, a wholly-owned subsidiary of Nextgreen the land approval for the purpose of construction and development of the entire GTP. The total purchase consideration payable by Ultimate Ivory to Pejabat Setiausaha Kerajaan Pahang (Pahang State Government) is RM9.25 million.

The Company expects that its involvement in the GTP and other construction and property development activities will result in the diversion of more than 25% of the NA of the Group, and the net profits to be generated is expected to contribute to more than 25% of the net profits of the Group.

As such, the Company had sought approval from its shareholders for the diversification of the existing core businesses of the Group to include the construction, development and management of the GTP and other construction and property development activities. Shareholders' approval was obtained via an EGM held on 20 December 2016.

(b) On 26 May 2017, BHS Palau (a wholly-owned subsidiary of Nextgreen) entered into a joint venture agreement with the National Government of the Republic of Palau, Ngiwal State Government and Ngiwal State Public Land Authority, for the development and sale of the residential and commercial units on the lands within the Republic of Palau.

Under this JV Agreement, BHS Palau would be appointed as developer to perform residential and/or commercial developments with related civil works on a land measuring a total area of approximately 505 acres situated at Ngiwal State.

(c) On 8 November 2018, Nextgreen entered into a memorandum of understanding ("**MOU**") with Nomura Holdings Inc ("**Nomura**") and IHI Corporation ("**IHI**") to explore collaboration and investment for the development of pulp and paper mills with production capacity of 100,000 metric tons of box liner paper and 120,000 metric tons of corrugated paper using the PRC RBMP Technology in Phase 2A and Phase 2B of the GTP.

GTP was conceptualised and put forward to revolutionise the printing and publishing industry by providing a new source of eco-friendly and sustainable pulp and paper. The MOU allows the parties involved to evaluate potential collaboration involving Nextgreen's technology of converting palm oil waste into pulp and paper, IHI's proficiency in renewable energy and Nomura's financial expertise.

As at the LPD, the aforementioned parties are still in the midst of carrying out the feasibility study on the development of a 30-megawatt biomass power plant, alkaline recovery plant and wastewater treatment plant for the GTP as well as the projects in Negeri Sembilan and Sarawak.

(d) On 11 November 2019, Nextgreen Pulp & Paper Sdn Bhd (a wholly-owned subsidiary of Nextgreen) ("**NGPP**") signed a memorandum of agreement ("**MOA**") with Universiti Putra Malaysia ("**UPM**") to allow for a technology licensing from UPM. The licensing agreement started in August 2019 and has a duration of 30 months. The agreement involves a licensing fee of RM0.55 million to be paid by NGPP to UPM. The technology is for the production of nanocellulose from oil palm biomass, which has been developed by a group of UPM researchers.

Nanocellulose is produced from paper pulp which is produced from the pulp making process. As a producer of pulp from oil palm biomass, NGPP will be working with UPM in producing paper packaging products, whereby nanocellulose will be incorporated in the packaging product to improve its mechanical (such as higher strength and stiffness) and water barrier properties. Through this project, both parties aim to create a green, environmental-friendly and biodegradable food packaging product.

The research and development project has commenced and is currently at the preparation stage for trial batches of EFB pulp fibre and nanocellulose. The moulded food packaging facility has been purchased and will be installed by end of 2020.

(e) On 28 February 2020, Nextgreen entered into a joint venture agreement with Crown Package to form a joint venture company for the purpose of selling packaging materials, as well as manufacturing and selling pulp moulding made from empty fruit bunch to Japan. Crown Package is a company incorporated in Japan and is principally involved in manufacturing of corrugated board package. This joint venture enables Nextgreen to expand its pulp and paper business to overseas market.

Following the above, Nextgreen Crowning Package Pulp Molding Sdn Bhd was formed on 2 March 2020 to carry out the aforementioned business. As at the LPD, the company is in the midst of selecting and procuring equipment and liaising with the relevant authorities on licensing matters.

The Group will continue to seek other potential business partners who are involved in or intend to pursue green technology and/or in any relevant industry to engage in projects within the GTP.

1.3 IMPACT OF THE PROPOSED PRIVATE PLACEMENT AND VALUE CREATION TO THE GROUP AND ITS SHAREHOLDERS

The Proposed Private Placement will enable the Group to raise funds without incurring additional interest expense, thereby minimising cash flows commitment and preserving the Group's cash flows.

Notwithstanding the above, the consolidated EPS of the Group is expected to be diluted as a result of the increased number of Shares arising from the Proposed Private Placement. The effects of the Proposed Private Placement on the share capital, NA and gearing, earnings and EPS, substantial shareholders' shareholdings of the Group are set out in Section 6.2 of the Announcement.

With the injection of new funds, the Company will be able to finance the proposed utilisation set out in Section 4 of the Announcement, without drawing upon its existing cash and bank balances, which is required for the Group's existing operations and funding needs.

Further, the proceeds from the Proposed Private Placement will enable the Group to further develop the GTP, via the construction and purchase of machineries for the Fertiliser Plant, construction of the GTP front office, reclamation work for Biomass Power Plant as well as for working capital. This is expected to contribute positively to the financial performance of the Group, when these projects begin to generate revenue and create value to Shareholders.

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1.4 ADEQUACY OF THE PROPOSED PRIVATE PLACEMENT IN ADDRESSING THE COMPANY'S FINANCIAL CONCERN

The losses recorded in the previous financial years / periods had weakened the financial position of the Group and depleted its cash and bank balances available for its operations. After due consideration and deliberation, the Company had concluded to proceed with the Proposed Private Placement as a measure to resolve its funding requirements for the GTP.

As set out above, the proceeds from the Proposed Private Placement will be used towards further development of the GTP and is expected to contribute positively to the financial performance of the Group.

In addition, the Proposed Private Placement will allow the Group to raise the requisite funds expeditiously for the development of the GTP without having to incur interest expenses, or service principal repayment as compared to conventional bank borrowings. This is expected to improve the cash flow position of the Group. For illustration purposes, the Proposed Private Placement will enable the Group to achieve the following potential interest savings (in contrast to debt financing):-

	Minimum Scenario	Maximum Scenario
Funds raised (RM'000)	46,383	51,022
% interest per annum	10.0[(1)]	10.0[(1)]
Interest savings per annum (RM'000)	4,638	5,102

Note:-
(1) Based on the average effective interest rate of term loans of the Group.

As the GTP is envisaged to be developed over 5 years and that the Group is constantly looking for potential business partners to embark on green technology projects within the GTP, the development plan for the remaining phases within the GTP is subject to change. Taking this into consideration, the Board is of the view that the Proposed Private Placement is the most appropriate avenue at this juncture to fund the development of the GTP. However, the Group will continue to explore other suitable funding proposals for its long-term funding requirements.

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