5. RISK FACTORS

Before investing in our Shares, you should pay particular attention to the fact that we, and to a large extent our activities, are subject to the legal, regulatory and business environment in Malaysia. Our business is subject to a number of factors, many of which are outside our control. Prior to making an investment decision, you should carefully consider, along with the other matters in this Prospectus, the risks and investment considerations set out below. The risks and investment considerations set out below are not an exhaustive list of the challenges that we currently face or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on us or our Shares.

5.1 There has been no prior trading market for our Shares and a market for our Shares may not develop

There is currently no prior trading market for our Shares. There can be no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell their Shares or the prices at which holders would be able to sell their Shares. While the SC has approved the Initial Public Offering and given approval for our Listing, there can be no assurance that our Shares will be accepted for listing and quotation on the anticipated date. We will make an application to Bursa Securities for the quotation of our Shares on the Main Board of Bursa Securities. In the event that our Shares are not admitted to the Official List, we will endeavour to return the monies paid in respect of any application for Shares without interest. See Section 5.22 (Risk Factors - There may be a delay or failure in our Listing).

Our Shares could trade at prices that may be lower than the offer price depending on many factors, including prevailing economic, political and financial conditions in Malaysia, our operating results and the markets for similar securities. Neither we nor CIMB have any obligation to make a market for our Shares. There can be no assurance that we will be able to maintain our Listing.

5.2 We are subject to the risks inherent in the plantation industry

As our Group’s principal activities are mainly concentrated in the cultivation of oil palm and processing of FFB, marketing of CPO, PK and FFB and provision of management services, our Group is susceptible to certain business risks inherent in the oil palm industry as well as general business risks. These include but are not limited to:

(i) constraints and rising costs of labour supply and raw materials for the plantation and mill operations;
(ii) changes in the world demand for edible oils and fats;
(iii) effects of poor weather;
(iv) commodity price fluctuations;
(v) threat of substitute products; and
(vi) change in the regulatory, economic and business conditions.

Our Group seeks to limit these risks through effective risk management practices. However, there can be no assurance that unfavourable changes in the business environment will not adversely affect the attractiveness or desirability of our Group.
5. **RISK FACTORS (Continued)**

5.3 **The industry we are in is subject to its industry life cycle**

Oil palm tree produces crop throughout the year but there are seasonal variations. Production also varies with age, condition of the palms, type of soil and weather. Annual FFB yield normally experience a cyclical pattern, with higher yields at intervals of about five (5) years. An exceptionally high yielding year will be followed by gradually low yielding years when the trees produce lower output as a result of a biological reaction after a period of production stress.

Therefore, we cannot guarantee that the fluctuations in production due to seasonal variations as well as biological life cycle would not have any adverse impact on the performance of our Group.

5.4 **Our plantation yield is an important factor in our profitability**

The yield for oil palm plantations is generally dependent on the terrain, weather and soil as well as the overall management of the plantation.

Historically, our Group’s estates have been generating higher FFB yield compared to the average industry yield in Peninsular Malaysia as evidenced in the following:

<table>
<thead>
<tr>
<th></th>
<th>Average FFB Yield (MT/Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Our Group</td>
<td>21.05</td>
</tr>
<tr>
<td>Peninsular Malaysia*</td>
<td>19.17</td>
</tr>
</tbody>
</table>

* Source: www.mpob.gov.my

However, we cannot guarantee that we will continue to consistently produce higher yield than the industry’s average in the future.

5.5 **We are subject to the fluctuation in the demand and prices of edible oils and fats which are outside our control**

Producers of CPO face competition from other edible oil namely, soya bean and rapeseed. Hence, the price of CPO fluctuates in accordance to the supply of world edible oil and consumers’ demand. In 2005, CPO price in Peninsular Malaysia fluctuated, sliding to a minimum of RM1,305 per MT in February and subsequently rising to a maximum of RM1,455 per MT in October. For the year ended 31 December 2005, the average CPO price was RM1,394 per MT.

Our Group constantly analyses and monitors the global demand patterns and trends for edible oil and fats particularly palm oil to make prompt and informed decisions regarding our CPO production and sales. Nevertheless, the prices of CPO and PK are still fundamentally dependent on the demand and supply in the global edible oil and fats market. We cannot guarantee that adverse movements in the demand and supply and prices of CPO and PK will not have an adverse effect in the performance of our Group.
5. RISK FACTORS (Continued)

5.6 We may face competition from substitute products and other competitors

As previously mentioned, other edible oil namely soya bean, rapeseed and sunflower oil are direct substitutes of CPO. Nevertheless, palm oil had experienced almost four (4) times growth over the last twenty two (22) years from 1983 to 2004, which was twice the growth rate of other seed oil due to its low production cost and high yield per Ha. Malaysia, being the largest palm oil producer, faces increasing competition from other palm oil producing countries, namely Indonesia and Papua New Guinea which have a lower industry cost structure in terms of labour and raw materials.

With the continued support from the Government including extensive research, development, marketing and promotion undertaken by Government bodies as well as other incentives given to the industry, Malaysian palm oil producers had in the past, expanded their market share in the world vegetable oil market. There is however, no guarantee that this trend will continue in the future.

Locally, our Group competes with other plantation companies in the procurement of suitable plantation land when carrying out expansion plans. With the high growth experienced by the industry within the last few years, cost of suitable plantation lands have increased.

Our Group also competes with other commercial millers for the supply of FFB in the same region. Nevertheless, our Group’s mills are strategically located and we are able to source FFB supplies from the surrounding small and medium size plantations which do not have their own mill. The current restrictive policies of Government authorities and MPOB of only approving new palm oil mill licences in line with the availability of FFB supply in the region have reduced the problems of excess capacity.

Details of the other millers within approximately 50 km radius from us are as follows:

### List of other palm oil mills in Kluang

<table>
<thead>
<tr>
<th>Mills</th>
<th>Distance Km</th>
<th>Capacity MT/Hr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sindora Palm Oil Mill</td>
<td>7</td>
<td>45</td>
</tr>
<tr>
<td>LKTP Ulu Belitong Palm Oil Mill</td>
<td>12</td>
<td>60</td>
</tr>
<tr>
<td>KOP Palm Oil Mill</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Bukit Benut Palm Oil Mill</td>
<td>32</td>
<td>20</td>
</tr>
<tr>
<td>Coronation Palm Oil Mill</td>
<td>35</td>
<td>90</td>
</tr>
<tr>
<td>Kahang Palm Oil Mill</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>Sibol Palm Oil Mill</td>
<td>44</td>
<td>30</td>
</tr>
</tbody>
</table>

### List of other palm oil mills in Keratong

<table>
<thead>
<tr>
<th>Mills</th>
<th>Distance Km</th>
<th>Capacity MT/Hr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosfarm Palm Oil Mill</td>
<td>8</td>
<td>60</td>
</tr>
<tr>
<td>Keratong 3 Palm Oil Mill</td>
<td>16</td>
<td>60</td>
</tr>
<tr>
<td>Sawira Palm Oil Mill</td>
<td>33</td>
<td>60</td>
</tr>
<tr>
<td>Dara Lam Soon Palm Oil Mill</td>
<td>35</td>
<td>60</td>
</tr>
<tr>
<td>Pukin Palm Oil Mill</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Keratong 9 Palm Oil Mill</td>
<td>6</td>
<td>60</td>
</tr>
</tbody>
</table>
5. RISK FACTORS (Continued)

List of other palm oil mills in Gemas

<table>
<thead>
<tr>
<th>Mills</th>
<th>Distance (Km)</th>
<th>Capacity (MT/HR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kok Foh Palm Oil Mill</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Jeram Padang Palm Oil Mill</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Kampung Tiong Palm Oil Mill</td>
<td>25</td>
<td>45</td>
</tr>
<tr>
<td>Gomali Palm Oil Mill</td>
<td>52</td>
<td>45</td>
</tr>
</tbody>
</table>

There is no guarantee however that the competition for the supply of FFB would not have any adverse impact on our Group’s financial performance.

5.7 We are dependent on our labour force

The plantation industry is labour intensive. Oil palm plantations require extensive manpower in the nurturing of seedlings, tree planting, manuring, harvesting as well as other routine maintenance work to ensure optimal yield. The oil palm industry has been facing difficulty in recruiting local labour force and therefore has resorted to the employment of illegal foreign plantation workers. The recent Government’s crackdown on the employment of illegal workers had exacerbated this problem for the industry in general. However, our Group has always strictly adhered to our policy of employing only legal workers and hence, we are not affected by this problem. Since our Group commenced its oil palm plantation business, labour supply has not been a major problem to our Group or had any significant impact on our operation and results.

In order to attract and retain our workers and employees, our Group provides attractive incentive, benefits, welfare schemes and facilities such as clinic, living quarters, schools and sports amenities for staff members and their families. Our management team and staff are regularly sent for seminars and training to upgrade their knowledge and skills.

In order to improve production efficiency and reduce over-dependence on foreign workers, our Group is moving towards mechanisation in many of our plantation practices such as the application of fertiliser and evacuation of FFB. It is envisaged that with mechanisation, our Group will be able to minimise our labour force. Nevertheless, no guarantee can be given that any changes in immigration and labour policies by the Government in respect of foreign workers will not affect the operations of our Group.

5.8 Pests and diseases may affect our operations

Oil palm industry is not free from pests and diseases as occasional outbreaks of leaf eating insects such as bagworms and nettle caterpillars are common. During the younger stages of its life, oil palms are susceptible to attacks by pests such as rats, porcupines, wild boars and monkeys as well as rhinoceros beetles.

Our Group takes adequate measures to control the population of pests in its plantation estates by destroying potential breeding grounds of the pests, exterminating the pests by using pesticides and carrying out frequent inspections to ensure that the population of the pests remains below threatening levels. Future damage to oil palms are expected to be minimal as older oil palms are less prone to attacks. Pests such as rats can cause damage to FFB in the mature areas. However, this is mitigated with the use of poison bait.

Despite these measures, no guarantee can be given that large-scale attacks by pests will not occur in the future and thus adversely affecting the performance of our Group.
5. **RISK FACTORS (Continued)**

5.9 **Bad weather conditions may affect our operations**

Weather has strong effects on FFB production. Effects of severe drought periods will usually result in low crops production after nine (9) months while very wet weather may adversely affect harvesting and evacuation of FFB at the plantations. Weather in Malaysia for the last decade has been affected by open burning within and outside of the country, deforestation due to urban development and agricultural cultivation and weather phenomenon such as El Nino and La Nina.

As we are unable to predict the weather pattern, our management needs to be meticulous and far sighted in planning. The wet weather may adversely affect our harvesting and evacuation of FFB as plantations become inaccessible due to poor road conditions while dry weather may result in low yield.

Although there is no way to regulate rainfall pattern, our management is taking practical steps to mitigate the effect of excessive rainfall or drought. For example, EFB mulching is done and laid out in the field to act as a sponge that would trap water and keep grounds moist to minimise the effect of drought. For example, treated effluent from our oil mill in Kluang is piped to Ladang Gunung Sumalayang estate to fertilise the soil as effluent contains beneficial nutrients and to ensure the field have sufficient moisture content. We had also constructed silt pits in dry area in order to trap water to minimise the effects of dryness to the palms.

Notwithstanding that our management is continuously studying and devising ways to ensure consistent and abundant yield of FFB, there is no guarantee that adverse weather pattern will not have a severe impact on the production of FFB.

5.10 **We are subject to risks associated with breakout of fire, energy crisis and other emergency risks**

As in any other business enterprise, the breakout of fire, energy crisis and other emergency risks could adversely affect our business operations and financial performance of our Group. For instance, a fire breakout may damage or destroy our Group’s oil mill, buildings, plant and machinery while a prolonged breakdown in power supply may disrupt our business operations and progress. To mitigate the risk of fire, our Group places emphasis on proper fire safety procedures being implemented and practised at our premises as well as ensuring that our physical assets (excluding the planted oil palm) have adequate insurance coverage as discussed under Section 5.14 (Risk Factors - Our insurance coverage may not be sufficient to cover possible losses of profits due to interruption to our operations).

5.11 **We are dependent on our key personnel**

Our Group believes that our continued success will depend to a significant extent upon the abilities and continued efforts of our Directors and senior management. The loss of any key member in our Group could affect our Group’s ability to compete effectively in the business and industries that our Group is involved in. Our Group’s future success will also depend upon our ability to attract and retain skill personnel and as such, our Group has made efforts to train our staff so as to groom the younger members of our senior management to gradually resume the responsibilities of their predecessors. This is done to ensure a smooth transition in the management team should changes occur and to maintain our Group’s continued ability to compete in the oil palm industry.
5. **RISK FACTORS (Continued)**

5.12 We are reliant upon particular suppliers

**Seeds Suppliers**

The selection of oil palm germinated seeds are crucial in our planting phase as poor quality germinated seeds will affect the future yield, growth rate, survival rate and sustainability of the trees. Our Group uses the industry standard of germinated seeds. Three (3) months lead time is required for any seed procurement from our suppliers, hence the planning of planting activities are vital.

In order to avoid over-reliance on one supplier and ensure consistent and ready supplies of seeds to the plantations, our Group procures seeds from several different reputable companies which include Kumpulan Guthrie Berhad, Golden Hope Plantations Berhad, United Plantations Berhad, IOI Corporation Berhad and Federal Land Development Authority (“FELDA”).

**Fertiliser Suppliers**

Fertiliser cost is a significant component of the plantation industry. For our Group, annual fertiliser cost amounts to approximately one-third of our plantation revenue expenditure. In order to secure consistent and reasonable pricing of fertilisers, procurement of fertilisers are carried out through annual and semi-annual tenders. Tender agreements are then drawn up, stipulating the delivery time of fertiliser throughout the agreement period at a fixed price hence hedging our Group against the fluctuation of fertiliser cost. The tender process also ensures that the fertilisers are procured at competitive prices. Through the tendering process, we are able to secure fertiliser at competitive prices.

**FFB Suppliers**

The capacity utilisation of our palm oil mills is dependent on the sufficient and consistent supplies of FFB. There are currently approximately six (6) mills in Keratong, seven (7) mills in Kluang and four (4) mills in Gemas, competing with our mills for the supplies of FFB. As our Group’s current FFB production is insufficient to cater to our mills, arrangements are made with FFB dealers namely Nilai Megah Sdn Bhd and Maju Jaya Prasarana Sdn Bhd to collect crops from groups of small plantation holders and supply these crops to our mills.

5.13 We are reliant on particular customers

**FFB Customers**

Approximately 90% of our Group’s FFB is processed in our mills with the remaining FFB sold to external parties due to the distance of our estates from our mills. Of the external sales, the bulk of FFB are sold to our Group’s associated mill, KISPA and dealers with short to medium term contracts. FFB selling price is based on several parameters which include the mill’s OER and KER, its processing cost and MPOB’s average CPO and PK prices.

If our Group is unable to sell our FFB to external parties for any reasons, we would transport these FFB to our nearest mills but at a higher cost which would result in lower profit margins.
5. RISK FACTORS (Continued)

CPO and PK Customers

Currently, there are approximately thirty six (36) refineries in Peninsular Malaysia. Our Group sells its CPO to established refineries such as Pacific Inter-Link Sdn Bhd, Mewaholeo Industries Sdn Bhd, PGEO Edible Oils Sdn Bhd and Pan Century Edible Oils Sdn Bhd. These refineries have long-term relationship with our Group. Presently, the CPO input requirements for refineries exceeds the available supply of CPO thus the existing refineries in Malaysia still have excess capacity to process additional CPO as the average refining utilisation rate for palm oil refineries in 2005 was 87.72%.

(Source: www.mpoh.gov.my)

5.14 Our insurance coverage may not be sufficient to cover possible losses of profits due to interruptions to our operations

Presently, our Group’s mills, buildings, plant and machineries are adequately insured against risks such as fire, lightning, breakdowns (for selective machineries) and other perils. However, our Group has not insured our trees as management is of the opinion that insuring the trees is not economical given the risks to trees are minimal.

Although our Group has taken the necessary measures to ensure that our assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of all assets of our Group, including but not limited to the plantation estates or any consequential costs arising therefrom.

5.15 A significant interruption in our operations could reduce our production

There have been no interruptions outside the ordinary course of business which had a significant effect on our operations during the past twelve (12) months. Any significant interruptions to our operations as a result of breakdown in our mills, union strikes or natural disasters could materially and adversely affect our business, financial condition and results of operations.

5.16 We are dependent on political, economic and government regulations which are outside our control

Political developments and uncertain economic conditions, if any, in Malaysia and other countries where palm oil products are currently being exported to, could affect the financial prospects of our Group. Examples of these political and economic uncertainties include but not limited to changes in labour laws and availability of foreign labour, interest rates, foreign exchange rates, methods of taxation, tariffs and duties. The occurrence of any unforeseen events, such as the outbreak of war, diseases and natural disasters may disrupt the demand and supply of CPO thus affecting the prices of CPO. The bilateral relationships between the major trading partners of Malaysia in relation to CPO, such as India, PRC and Pakistan also plays an important factor in demand as these countries represent the biggest buyer of Malaysia’s palm oil products.
5. RISK FACTORS (Continued)

5.17 We are subject to environmental laws as well as environmental risks

The environmental aspect of a palm oil mill is regulated by the Department of Environment which monitors waste discharge such as effluent discharge. Depending on the locality, each mill is required to ensure that effluent discharges are below a pre-determined Bio-Oxygen Demand levels. Repeated violation will result in severe fines, jail sentences for employees and even the suspension of the mill operating licences.

Our Group has always conformed to the environmental regulatory requirement and carried out consistent monitoring of our environmental practices to ensure that we conform and exceed industry standards. Although no absolute guarantee is given, our Group is confident based on our current environmental practices, that we will continue to conform to the requirements of the applicable laws.

5.18 We may be influenced by our substantial shareholder

Subsequent to the IPO, LTH will directly own approximately 60% of our Company’s issued and paid-up capital. As a result, LTH is likely to be able to influence the outcome of certain matters requiring the vote of our shareholders, unless LTH is required to abstain from voting by law and/or by the relevant authorities.

An audit committee comprising independent directors which is required to be formed under the Bursa Securities Listing Requirements will, inter-alia, monitor any transaction between our Group and our Directors/substantial shareholders and/or persons connected with them to ensure that these transactions are entered into at commercial terms and on an arm’s length basis.

5.19 We are subject to foreign exchange risk

We are principally involve in the cultivation of oil palm, processing of FFB, marketing of CPO, PK and FFB and provision of management services. As the selling price of CPO and PK are derived from the global commodity market and quoted in USD, exchange rates fluctuations poses a risk to our earnings. On 1 September 1998, currency control was imposed via the pegging of the RM to USD at the fixed exchange rate of USD1.00 to RM3.80 by Bank Negara Malaysia (“BNM”) as one of the counter measures to the Asian Financial Crisis in 1997. On 21 July 2005, this currency control was lifted as BNM announced that the RM will be allowed to operate in a managed float with its value being determined by economic fundamentals, vis-à-vis, monitored against a basket of currencies to ensure the exchange rate remains close to its fair value. However, there can be no assurance if any currency control will recur or fluctuations in significant future exchange rate will not adversely affect the financial results of our Group.
5. **RISK FACTORS (Continued)**

5.20 **Our actual results may vary significantly from the profit forecast in this Prospectus**

It should be noted that our profit forecast in this Prospectus is based on various assumptions with respect to the levels and timing of revenues, cost, interest rates, foreign exchange rates and various other matters of an operational or financial nature. These assumptions are listed in Section 13.11 and our Directors believe that these assumptions are reasonable. These assumptions are nevertheless subject to uncertainties and contingencies and in most cases, beyond our control. Some of these assumptions with respect to future business decisions and strategies are subject to change. As a result, our actual results may differ from such forecast and such differences may be material and may affect the market price of our Shares and any dividend that may be contemplated as described in Section 13.8. Under no circumstances should the inclusion of the profit forecast in this Prospectus be regarded as a representation, warranty or prediction with respect to its accuracy or the accuracy of the underlying assumptions, or that we had or will achieve or are likely to achieve any particular result.

You should note carefully the bases and assumptions to the profit forecast as well as the comments made by our Reporting Accountants in their letter on the consolidated profit forecast as set out in Section 13.11 of this Prospectus.

5.21 **Our forward-looking statements may not be accurate**

Certain statements in this Prospectus are based on historical data which may not be reflective of the future results, and any forward-looking statements in nature are subject to uncertainties and contingencies. All forward-looking statements are based on forecast and assumptions made by us and although believed to be reasonable, are subject to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include but not limited to general economic and business conditions, competition and the impact of new laws and regulations affecting our Group. In light of these and other uncertainties, the inclusion of any forward-looking statements in this Prospectus should not be regarded as a representation by us or our adviser that the plans and objectives of our Group will be achieved.

5.22 **There may be a delay or failure in our Listing**

The listing exercise is exposed to the risk that it may fail or be delayed should, amongst others, the following events occur:

(a) *Force majeure* events or events/circumstances which are beyond our and the underwriters’ control before the listing of our Company;

(b) Our Company and/or our Underwriters failing to honour our respective obligations under the underwriting agreement;

(c) Our Company is unable to meet the public spread requirements of Bursa Securities which states that at least 25% of the total number of shares of our Company for which listing is sought must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each, upon completion of the OFS and at the point of listing; and

(d) Any or all the identified investors fail for whatever reason to subscribe for their respective portions of our Offer Shares to be placed out to them.