**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.



**Rimbunan Sawit**

# RIMBUNAN SAWIT BERHAD (691393-U)

(Incorporated in Malaysia under the Companies Act, 1965)

## CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

**PART A**

**(I) PROPOSED ACQUISITIONS BY RIMBUNAN SAWIT BERHAD ("RSB") OF THE EQUITY INTERESTS IN NINE (9) PLANTATION COMPANIES AND ASSIGNMENT OF RIGHTS OF A PLANTATION ESTATE FROM THE RESPECTIVE VENDORS FOR AN AGGREGATE PURCHASE CONSIDERATION OF RM288,995,534 TO BE WHOLLY SATISFIED THROUGH THE ISSUANCE OF 28,331,400 NEW ORDINARY SHARES OF RM0.50 EACH IN RSB ("SHARES") AND 193,972,857 NEW IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES OF RM0.50 EACH IN RSB ("ICPS") AT AN ISSUE PRICE OF RM1.30 PER SHARE/ICPS ("PROPOSED ACQUISITIONS")**

**(II) PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF RSB TO FACILITATE THE ISSUANCE OF THE ICPS ("PROPOSED M&A AMENDMENTS")**

***Adviser***

**MIMB INVESTMENT BANK**
A MEMBER OF EON BANK GROUP

**MIMB INVESTMENT BANK BERHAD** (10209-W)
A Participating Organisation of Bursa Malaysia Securities Berhad

**PART B**

## INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS OF RSB IN RELATION TO THE PROPOSED ACQUISITIONS AND PROPOSED M&A AMENDMENTS

***Independent Adviser***

**PUBLIC INVESTMENT BANK BERHAD** (20027-W)
*(A Participating Organisation of Bursa Malaysia Securities Berhad)*
*(Wholly-Owned Subsidiary of Public Bank Berhad)*

**AND**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

The Notice of the Extraordinary General Meeting, to be held at the Conference Room, 3rd Floor, No. 85 & 86, Pusat Suria Permata, Jalan Upper Lanang 12A, 96000 Sibu, Sarawak on Friday, 20 August 2010 at 11.30 a.m, is set out in this Circular. Shareholders are advised to refer to the Notice of Extraordinary General Meeting and the Form of Proxy enclosed herein.

If you decide to appoint a proxy to attend and vote on your behalf at the Extraordinary General Meeting, the Form of Proxy must be lodged at the Registered Office of the Company at No. 85-86, Pusat Suria Permata, Jalan Upper Lanang 12A, 96000 Sibu, Sarawak not less than forty-eight (48) hours before the time appointed for the meeting. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so. The last day and time for lodging the Form of Proxy is on Wednesday, 18 August 2010 at 11.30 a.m.

This Circular is dated 27 July 2010

## DEFINITIONS

Except where the context otherwise requires, the following definitions and terms apply throughout this Circular:-

| | | |
|---|---|---|
| Act | : | Companies Act, 1965 |
| Acquirees | : | Jayamax, Novelpac, Lubuk Tiara, Splendid, Biawak, Ekang, Lundu, Selangau and Ulu Teru |
| Agreement | : | The Agreement dated 30 December 2009 entered into between RSB and Rejang Height for the assignment of rights relating to Simunjan |
| Biawak | : | PJP Pelita Biawak Plantation Sdn Bhd |
| Board | : | The Board of Directors of RSB |
| Bursa Securities | : | Bursa Malaysia Securities Berhad |
| CDS | : | Central Depository System |
| Circular | : | This circular dated 27 July 2010 to the shareholders of RSB |
| Consideration Shares | : | The 28,331,400 new RSB Shares to be issued pursuant to the Proposed Acquisitions |
| CPO | : | Crude palm oil |
| Dato' Sri Tiong | : | Dato' Sri Dr. Tiong Ik King |
| Dollah Chek | : | Dollah Chek @ Abdullah Chek Bin Sahamat |
| Datuk Tiong | : | Datuk Tiong Thai King |
| Deed | : | A deed of assignment dated 30 December 2009 entered into between Rejang Height and RSB |
| EGM | : | Extraordinary general meeting |
| Ekang | : | PJP Pelita Ekang-Banyok Plantation Sdn Bhd |
| EPS | : | Earnings per share |
| FFB | : | Fresh fruit brunches |
| FPE | : | Financial period ended |
| FYE | : | Financial year ended |
| Ha. | : | Hectare(s) |
| HB Miri | : | Henry Butcher Malaysia (Miri) Sdn Bhd, an independent registered firm of valuers appointed by RSB in relation to the Proposed Acquisitions |
| HB Sarawak | : | Henry Butcher Malaysia (Sarawak) Sdn Bhd, an independent registered firm of valuers appointed by RSB in relation to the Proposed Acquisitions |
| ICPS | : | The 193,972,857 new irredeemable convertible preference shares of RM0.50 each in RSB to be issued pursuant to the Proposed Acquisitions |
| Immature Area | : | Area with palm trees that are less than 30 months after field planting which are still in vegetative growth without any FFB production |
| Jayamax | : | Jayamax Plantation Sdn Bhd |
| JVA | : | Joint venture agreement |
| JVC | : | Joint venture company |
| Kendaie | : | Kendaie Oil Palm Plantation Sdn Bhd |
| Ladang Hijau | : | Ladang Hijau (Sarawak) Sdn Bhd |
| LAKMNS | : | Lembaga Amanah Kebajikan Masjid Negeri Sarawak |
| LCDA | : | Land Custody & Development Authority of Sarawak |

| | | |
|---|---|---|
| LAT | : | Loss after taxation |
| LBT | : | Loss before taxation |
| LPD | : | 30 June 2010, being the latest practicable date prior to the printing and despatch of this Circular |
| LPF | : | Licences for planted forests issued by the Director of Forests which permits (i) the licensee to establish, develop and maintain a planted forest on the land as specified therein and to harvest the same; and (ii) oil palm planting activities for a specified period |
| LPS | : | Loss per share |
| Lubuk Tiara | : | Lubuk Tiara Sdn Bhd |
| Lundu | : | PJP Pelita Lundu Plantation Sdn Bhd |
| M&A | : | Memorandum and Articles of Association of RSB |
| Main Market | : | The Main Market of Bursa Securities |
| Mature Area | : | Area with palm trees that are more than 30 months after field planting where FFB production has commenced |
| MIMB | : | MIMB Investment Bank Berhad |
| MMLR | : | Main Market Listing Requirements |
| MPOB | : | Malaysian Palm Oil Board |
| NA | : | Net assets |
| NBV | : | Net book value |
| NCR | : | Native Customary Rights |
| NCR Land | : | The lands held through JVAs between Pelita Holdings and the vendors of Ekang, Lundu, Selangau and Ulu Teru pursuant to a project initiated by the Ministry of Land Development, Sarawak. The concept of NCR land development is formulated on the premise that the vast tract of such land can be turned into a "Land Bank" with a new form of land ownership to enable it to be developed on a large scale commercial basis with the view to transform the rural sector from that of a traditional and subsistence economy into a strong, sustainable and modern economy. Pelita Holdings is nominated by LCDA to act as trustee for and on behalf of NCR landowners |
| NL | : | Net liabilities |
| Novelpac | : | Novelpac-Puncakdana Plantation Sdn Bhd |
| NTA | : | Net tangible assets |
| PAA | : | Pertumbuhan Abadi Asia Sdn Bhd |
| PAT | : | Profit after taxation |
| PBT | : | Profit before taxation |
| Pelita Holdings | : | Pelita Holdings Sdn Bhd |
| PIVB | : | Public Investment Bank Berhad |
| PJP | : | Pemandangan Jauh Plantation Sdn Bhd |
| Plantation Estates | : | The plantation estates of the Acquirees and Simunjan |
| Proposals | : | The Proposed Acquisitions and Proposed M&A Amendments collectively |

| | | |
|---|---|---|
| Proposed Acquisitions | : | Proposed acquisitions by RSB of the equity interests in nine (9) plantation companies and assignment of rights of a plantation estate from the respective Vendors for an aggregate purchase consideration of RM288,995,534 to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 193,972,857 ICPS at an issue price of RM1.30 per Share/ICPS |
| Proposed M&A Amendments | : | The Proposed amendments to the M&A of RSB as detailed in Sections 5 of Part A and Appendix VI of this Circular |
| Rejang Healthcare | : | Rejang Healthcare Corporation Sdn Bhd |
| Rejang Height | : | Rejang Height Sdn Bhd |
| RH Capital | : | R.H. Capital Sdn Bhd |
| RHS | : | Rimbunan Hijau (Sarawak) Sdn Bhd |
| RHSA | : | Rimbunan Hijau Southeast Asia Sdn Bhd |
| RSB or Company | : | Rimbunan Sawit Berhad |
| RSB Group or Group | : | RSB and its subsidiary companies |
| RSB Share(s) *or* Share(s) | : | Ordinary shares of RM0.50 each in RSB |
| SFS | : | The State Financial Secretary of Sarawak |
| Simunjan | : | The LPF originally held by Rejang Height under LPF No. LPF/0035 |
| Selangau | : | PJP Pelita Selangau Plantation Sdn Bhd |
| Splendid | : | Pelita-Splendid Plantation Sdn Bhd |
| SSA(s) | : | The nine (9) separate conditional share sale agreements dated 30 December 2009 entered into between RSB and the respective Vendors (other than Rejang Height) in relation to the Proposed Acquisitions (excluding the rights of Simunjan to be assigned to RSB) |
| Supplemental Agreement(s) | : | The ten (10) separate supplemental agreements dated 16 April 2010 entered into between RSB and the respective Vendors pursuant to the revision of the aggregate purchase consideration of the Proposed Acquisitions from RM286,104,837 to RM288,995,534 |
| Tan Sri Tiong | : | Tan Sri Datuk Sir Diong Hiew King @ Tiong Hew King |
| TCO | : | Tiong Chiong Ong |
| TKK | : | Tiong Kiong King |
| TSL | : | Teck Sing Lik Enterprise Sdn Bhd |
| TTSE | : | Tiong Toh Siong Enterprises Sdn Bhd |
| TTSH | : | Tiong Toh Siong Holdings Sdn Bhd |
| Ulu Teru | : | PJP Pelita Ulu Teru Plantation Sdn Bhd |
| USA | : | United States of America |
| Vendors | : | The vendors of the Acquirees and Simunjan namely, PJP, TTSH, TSL, Kendaie, Ladang Hijau and Rejang Height |
| WAMP | : | Weighted average market price of RSB Shares |
| YOP | : | Year of planting |

Words denoting the singular number only shall include the plural and also vice-versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice-versa. Reference to persons shall include corporations.

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**NOTICE OF EGM** — **ENCLOSED**

**FORM OF PROXY** — **ENCLOSED**


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# PART A

# LETTER TO THE SHAREHOLDERS OF RSB

**Rimbunan Sawit**

**RIMBUNAN SAWIT BERHAD** (691393-U)
(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**

No. 85-86, Pusat Suria Permata,
Jalan Upper Lanang 12A,
96000 Sibu, Sarawak

27 July 2010

**Board of Directors:**

Tan Sri Datuk Sir Diong Hiew King @ Tiong Hiew King *(Executive Chairman)*
Tiong Kiong King *(Non-Independent Non-Executive Vice Chairman)*
Tiong Chiong Ong *(Managing Director)*
Tiong Chiong Ie *(Non-Independent Non-Executive Director)*
Bong Wei Leong *(Independent Director)*
Tiong Ing Ming *(Independent Director)*

**To: The Shareholders of RSB**

Dear Sir/Madam,

**PROPOSED ACQUISITIONS AND PROPOSED M&A AMENDMENTS**

## 1. INTRODUCTION

On behalf of the Board, MIMB had on 30 December 2009 announced that the Company had entered into nine (9) separate SSAs and the Agreement in relation to the proposed acquisitions of the equity interests in the Acquirees and the assignment of rights relating to Simunjan from the respective Vendors for an aggregate purchase consideration of RM286,104,837 to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 191,749,239 ICPS at an issue price of RM1.30 per Share/ICPS.

On 16 April 2010, MIMB announced, on behalf of RSB, that the Company had entered into ten (10) Supplemental Agreements for the purpose of revising the total purchase consideration of the Proposed Acquisitions from RM286,104,837, to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 191,749,239 ICPS at an issue price of RM1.30 per Share/ICPS, to RM288,995,534, to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 193,972,857 ICPS at an issue price of RM1.30 per Share/ICPS, as a result of certain adjustments made to the market valuation for the Plantation Estates, as appraised by HB Miri and HB Sarawak.

On 23 July 2010, MIMB announced on behalf of RSB, that the Company and the respective Vendors agreed in writing to extend the deadline for the fulfillment of the conditions precedent to the SSAs by a further four (4) months to 30 October 2010.

In view of the interests of certain Directors and major shareholders of RSB as detailed in Section 10 of Part A of this Circular, the Proposed Acquisitions are deemed as related party transactions. Accordingly, pursuant to the requirements of Paragraph 10.08(2) of the MMLR, the Board had on 20 November 2008 appointed PIVB as the Independent Adviser to advise the non-interested shareholders of RSB in respect of the Proposals. The Independent Advice Letter for the Proposals is set out in Part B of this Circular.

**THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE PROPOSALS AND TO SEEK YOUR APPROVAL ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF THE EGM TOGETHER WITH THE FORM OF PROXY IS ENCLOSED IN THIS CIRCULAR.**

**SHAREHOLDERS OF RSB ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR AND THE INDEPENDENT ADVICE LETTER (IN RELATION TO THE PROPOSALS) BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS AT THE FORTHCOMING EGM.**

## 2. PROPOSED ACQUISITIONS

### 2.1 Details of the Proposed Acquisitions

The Proposed Acquisitions involve the following acquisitions by RSB:-

| Acquirees/ LPF | | No. of Shares to be Acquired | Interest to be Acquired | Vendors | Purchase Consideration (RM) | To be satisfied by issuance of Shares | ICPS |
|---|---|---|---|---|---|---|---|
| 1. | Jayamax | 3,000,000 | 60.0% | PJP | 24,226,522 | 12,264,221 | 6,371,565 |
| | | 1,000,000 | 20.0% | TTSH | 8,075,507 | 4,086,800 | 2,125,129 |
| | | 1,000,000 | 20.0% | TSL | 8,075,507 | 4,086,800 | 2,125,129 |
| | | 5,000,000 | 100.0% | | 40,377,536 | 20,437,821 | 10,621,823 |
| 2. | Novelpac | 1,062,500 | 85.0% | Kendaie | 10,261,653 | 7,893,579 | - |
| 3. | Lubuk Tiara | 5,200,000 | 65.0% | PJP | 30,105,354 | - | 23,157,965 |
| 4. | Splendid | 3,332,000 | 70.0% | PJP | 9,679,133 | - | 7,445,487 |
| 5. | Biawak | 2,808,098 | 70.0% | PJP | 53,960,282 | - | 41,507,909 |
| 6. | Ekang | 581,760 | 60.0% | PJP | 6,935,286 | - | 5,334,835 |
| 7. | Lundu | 3,628,800 | 60.0% | PJP | 81,165,511 | - | 62,435,008 |
| 8. | Selangau | 7,200,000 | 60.0% | Ladang Hijau | 12,743,022 | - | 9,802,325 |
| 9. | Ulu Teru | 5,184,000 | 60.0% | PJP | 21,982,236 | - | 16,909,412 |
| 10. | Simunjan | N/A | *100.0% | #Rejang Height | 21,785,521 | - | 16,758,093 |
| **Grand Total** | | | | | **288,995,534** | **28,331,400** | **193,972,857** |

*Notes:-*
* *In relation to the entire rights of Simunjan to be assigned.*
\# *Being the original licensee.*

The equity interests in the Acquirees shall be acquired by RSB free and clear from all encumbrances, (which include any form of legal equitable or security interest, including but not limited to any mortgage, charge (whether fixed or floating), pledge, lien (including without limitation any unpaid vendor's lien or similar lien), assignment of rights and receivables, debenture, right of first refusal, right of pre-emption, option, hypothecation, title retention or conditional sale agreement, lease, hire or hire purchase agreement, restriction to transfer, use or possession, easement, subordination to any right of any other person, and any other encumbrance or security interest whatsoever) and equities whatsoever together with all rights attached thereto and all dividends, rights and distribution declared, paid or made in respect thereof at the completion date.

The rights, title and interests of Rejang Height in and to Simunjan shall be assigned absolutely to RSB.

Details of the Acquirees and Simunjan are set out in Section 2.9 of Part A and Appendix I of this Circular.

Details of the Vendors are set out in Section 2.10 of Part A of this Circular.

2.2 **Basis of the Purchase Consideration**

The total purchase consideration of RM288,995,534 was arrived at between the Company and the Vendors on a "willing-buyer willing-seller" basis after taking into consideration:-

(i) the audited NTA/NL of the Acquirees as at 31 August 2009;

(ii) the surplus arising from the revaluation of the underlying plantation estates owned by the Acquirees based on their market values, as at the material date of valuation of 31 August 2009, appraised by HB Miri; and

(iii) the market value of Simunjan, as at the material date of valuation of 31 August 2009, appraised by HB Sarawak and the Identified Liabilities (as defined below) to be assumed by RSB (or its nominee company).

The total purchase consideration for the Acquirees and Simunjan is summarised below:-

| | (A) | (B) | (C) | (D) = A+B–C | (E) | (F) = D x E |
|---|---|---|---|---|---|---|
| **Acquirees/ LPF** | **Audited NTA/(NL) as at 31.8.09 RM** | *** Market Value RM** | **#NBV RM** | **Adjusted NTA as at 31.08.09 RM** | **Interest to be Acquired %** | **Purchase Consideration RM** |
| 1. Jayamax | (5,222,164) | 123,620,000 | 78,020,300 | 40,377,536 | 100.0 | 40,377,536 |
| 2. Novelpac | (2,586,786) | 59,620,000 | 44,960,681 | 12,072,533 | 85.0 | 10,261,653 |
| 3. Lubuk Tiara | 7,308,604 | 122,100,000 | 83,092,674 | 46,315,930 | 65.0 | 30,105,354 |
| 4. Splendid | 3,897,686 | 14,550,000 | 4,620,352 | 13,827,334 | 70.0 | 9,679,133 |
| 5. Biawak | 2,914,894 | 107,240,000 | 33,068,776 | 77,086,118 | 70.0 | 53,960,282 |
| 6. Ekang | 923,436 | 14,560,000 | 3,924,626 | 11,558,810 | 60.0 | 6,935,286 |
| 7. Lundu | 5,817,866 | 171,290,000 | 41,832,014 | 135,275,852 | 60.0 | 81,165,511 |
| 8. Selangau | (25,604,141) | 84,300,000 | 37,457,488 | 21,238,371 | 60.0 | 12,743,022 |
| 9. Ulu Teru | 8,512,651 | 62,040,000 | 33,915,590 | 36,637,061 | 60.0 | 21,982,236 |
| 10. Simunjan | N/A | 43,000,000 | **21,214,479 | 21,785,521 | ^100.0 | 21,785,521 |
| | **(4,037,954)** | **802,320,000** | **382,106,980** | **416,175,066** | | **288,995,534** |

*Notes:-*

* *The market value of the respective plantation estates as appraised by HB Miri and HB Sarawak based on the material date of valuation of 31 August 2009.*

*In addition, please also refer to the updated independent views of HB Miri and HB Sarawak on the market valuation of the Plantation Estates as given in Section 2.9.1 of Part A of this Circular and Appendix VI.*

\# *The NBV of the underlying plantation estates owned by the Acquirees based on the audited financial statements of the respective Acquirees as at 31 August 2009.*

^ *In relation to the entire rights of Simunjan to be assigned.*

** *Being the identified liabilities of Rejang Height (being the vendor of Simunjan), comprising bank borrowings (of RM16.0 million) and trade creditors (of RM5.2 million) based on the unaudited management accounts of Rejang Height as at 31 August 2009 ("Identified Liabilities"), to be assumed by RSB (or its nominee company) pursuant to the Proposed Acquisitions.*

2.3 **Mode of Payment**

The aggregate purchase consideration for the Proposed Acquisitions of RM288,995,534 shall be wholly satisfied via the issuance of 28,331,400 Consideration Shares and 193,972,857 ICPS in RSB. Neither cash payment nor initial deposit is payable by RSB to the Vendors.

## 2.4 Basis of Arriving at the Issue Price

The issue price for the Consideration Shares and ICPS to be issued pursuant to the Proposed Acquisitions was arrived at based on a 5-Day WAMP until 29 December 2009, being the last full trading day prior to the signing of SSAs and the Agreement, of RM1.30 per Share/ICPS.

The premiums/(discounts) represented by the issue price of the Consideration Shares and ICPS vis-à-vis the historical Shares prices and NA per Share of RSB is tabulated below:-

| | | | Premium/(Discount) | |
|---|---|---|---|---|
| | | **RM** | **RM** | **%** |
| (i) | Last traded market price of the Shares on 29 December 2009, being the last full trading day prior to the announcement of the Proposals | 1.30 | - | - |
| (ii) | Five (5)-day WAMP until 29 December 2009, being the last full trading day prior to the announcement of the Proposals | 1.30 | - | - |
| (iii) | Three (3)-month WAMP until 29 December 2009, being the last full trading day prior to the announcement of the Proposals | 1.34 | (0.04) | (2.99) |
| (iv) | Six (6)-month WAMP until 29 December 2009, being the last full trading day prior to the announcement of the Proposals | 1.37 | (0.07) | (5.11) |
| (v) | NA per Share based on the consolidated audited financial statements of RSB as at 31 August 2009 | 0.68 | 0.62 | 91.18 |

*(Source : Bloomberg)*

The monthly highest and lowest market prices of RSB Shares as traded on Bursa Securities for the past twelve (12) months are as follows:-

| | Highest | Lowest |
|---|---|---|
| | RM | RM |
| 2009 | | |
| July | 1.36 | 1.23 |
| August | 1.46 | 1.31 |
| September | 1.38 | 1.31 |
| October | 1.40 | 1.31 |
| November | 1.34 | 1.26 |
| December | 1.39 | 1.27 |
| 2010 | | |
| January | 1.50 | 1.36 |
| February | 1.48 | 1.19 |
| March | 1.57 | 1.45 |
| April | 1.55 | 1.47 |
| May | 1.52 | 1.34 |
| June | 1.49 | 1.36 |

Last transacted market price of RSB Shares immediately prior to the announcement of the Proposals on 30 December 2009 was RM1.38 per Share.

Last transacted market price of RSB Shares as at 23 July 2010, being the latest practicable date prior to the printing of this Circular, was RM1.45 per Share.

*(Source: Bloomberg)*

2.5 **Ranking of Consideration Shares and ICPS**

The Consideration Shares shall, upon allotment and issue, rank pari passu in all respects with the existing RSB Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the Consideration Shares.

The ICPS shall, upon allotment and issue, rank equally in all respects amongst all ICPS, and that:-

(a) they will not be entitled to any rights, allotments and/or other distributions (except for dividends) that may be declared by the Company; and

(b) the ICPS shall carry no right to vote at any general meeting of RSB except, amongst others, with regard to any proposal to wind-up RSB, during the winding-up of RSB and on any proposal that affects the rights and privileges of the ICPS holders. In any such case, the ICPS holders shall be entitled to vote together with the holders of ordinary shares and to one (1) vote for each ICPS held.

2.6 **Listing Status of the Consideration Shares and ICPS**

Bursa Securities had on 14 July 2010 approved the listing of and quotation for the Consideration Shares and the new Shares to be issued pursuant to the conversion of the ICPS on the Main Market of Bursa Securities.

The ICPS will not be listed on Bursa Securities.

2.7 **Additional Financial Commitments**

As the plantation estates of the Acquirees and Simunjan comprise both planted and unplanted areas, additional financial commitments, the quantum of which can not be ascertained at this juncture, are expected to be required from RSB for the continuing development and re-planting programme after the completion of the Proposed Acquisitions.

Apart from the above, no other financial commitment is required in putting the business operations of the Acquirees and Simunjan on-stream.

2.8 **Assumption of Liabilities**

Apart from the Identified Liabilities to be assumed by RSB or its nominee company pursuant to the assignment of the rights of Simunjan (the details of which are set out in Section 2.2 of Part A of this Circular) and corporate guarantees which may be required to be given by RSB in relation to the existing bank borrowings of the Acquirees after the Proposed Acquisitions, the Company will not assume any other liabilities, including contingent liabilities and guarantees arising from the Proposed Acquisitions. The existing trade liabilities of the Acquirees shall remain in the books of the respective companies and shall be settled in their ordinary course of business.

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## 2.9 Acquirees and Simunjan

### 2.9.1 Information on Acquirees and Simunjan

| Company | Jayamax | Novelpac | Lubuk Tiara | Splendid | Biawak |
|---|---|---|---|---|---|
| Date of Incorporation | 6.10.1994 | 2.3.1996 [1] | 19.12.1994 | 16.8.1996 [3] | 6.9.1995 [5] |
| Authorised Share Capital (RM/ No of shares) | RM5,000,000 / 5,000,000 | RM5,000,000 / 5,000,000 | RM10,000,000 / 10,000,000 | RM5,000,000 / 5,000,000 | RM10,000,000 / 10,000,000 |
| Issued and Paid up Share Capital (RM/ No of shares) | RM5,000,000 / 5,000,000 | RM1,250,000/ 1,250,000 | RM8,000,000 / 8,000,000 | RM4,760,000 / 4,760,000 | RM 4,011,568 / 4,011,568 |
| Directors | Datuk Tiong and TKK | Tan Sri Tiong and Datuk Tiong | Datuk Tiong, TKK, Tiong Chiong Ie and Mohamad Sabry Bin Othman | TCO, TKK, Reynolds Anak Petrus Langi, Dollah Chek and Nee Choong Sing | TCO, TKK, Datuk Haji Salleh Haji Sulaiman, Dollah Chek and Nee Choong Sing |
| Substantial Shareholders as at the LPD | PJP, TSL and TTSH | Kendaie and SFS | PJP, LAKMNS and Ling Lee Soon | PJP and LCDA [4] | PJP, Pelita Holdings and LAKMNS [6] |
| Estate under management | Jayamax Estate | Novelpac-Puncakdana Estate | Lubuk Tiara Estate | Tabib Estate | PJP Pelita Biawak Estate |
| Title area/ License area | 4,959.80 Ha. [16] | 4,625.00 Ha. [16] | 6,217.00 Ha. [2 & 16] | 1,176.00 Ha. [16] | 3,933.00 Ha. [16] |
| Location | Lot 4 and Lot 6, Block 9 Dulit Land District, Miri Division, Sarawak | Lots 11 & 12, Buloh Land District, Sibu Division, Sarawak | Lot 6, Dulit Land District and Lot 69, Sawai Land District, Miri Division, Sarawak | Lots 18 & 19, Block 6, Telang Usang Land District, Miri Division, Sarawak | Lots 5 & 7, Block 3, Stungkor Land District, Lots 66 & 67, Block 11, Gading Lundu Land District, Lot 40, Block 12, Gading Lundu Land District, Lot 247, Block 4, Stungkor Land District, Lot 385, Block 8, Stungkor Land District, Kuching Division, Sarawak |
| Title and Tenure | 60 years lease expiring on 8.4.2059 [15] | 60 years lease expiring on 27.5.2059 and 30.3.2060 [15] | 60 years lease expiring on 29.12.2059 [15] | 99 years lease expiring on 10.7.2087 [15] | 60 years lease expiring on 13.1.2062 [15] |
| Planted area | 3,904.23 Ha. | 1,311.51 Ha. | 3,576.00 Ha. | 359.46 Ha. | 2,428.8 Ha. |
| Age of oil palm | Between 1 to 9 years | Approximately 1 to 5 years | Approximately 1 to 7 years | Approximately 8 years | Approximately 4 to 13 years |
| Encumbrances | Charged to RHB Bank Berhad for RM30 million vide L.10020/1999 of 15.12.1999 (includes caveat) | Charged to Public Bank Berhad for RM44 million vide L.4653/2006 of 21.4.2006 (includes caveat) | Caveat by RH Capital with 1 other title vide L.113/2006 of 4.1.2006 | - | Caveat by Joy Chiam Ee Ling acting for and on behalf of RH Capital vide L.29184/2005 of 20.12.2005 |
| Market value as at 31.8.09 | RM123,620,000 | RM59,620,000 | RM122,100,000 | RM14,550,000 | RM107,240,000 |
| Market value as at 28.2.10 | RM138,970,000 | RM67,720,000 | RM138,650,000 | RM14,670,000 | RM107,830,000 |
| Audited NBV as at 31.8.09 | RM78,020,300 | RM44,960,681 | RM83,092,674 | RM4,620,352 | RM33,068,776 |

### 2.9.1 Information on Acquirees and Simunjan (Cont'd)

| Company | Ekang | Lundu | Selangau | Ulu Teru | Simunjan |
|---|---|---|---|---|---|
| **Date of Incorporation** | 20.12.2005 | 12.8.1998 [9] | 26.5.2000 [11] | 6.9.1995 [13] | N/A |
| **Authorised Share Capital (RM/ No of shares)** | RM1,000,000 / 1,000,000 | RM20,000,000 / 20,000,000 | RM25,000,000 / 25,000,000 | RM10,000,000 / 10,000,000 | N/A |
| **Issued and Paid up Share Capital (RM/ No of shares)** | RM969,600 / 969,600 | RM6,048,000 / 6,048,000 | RM12,000,000 / 12,000,000 | RM8,640,000 / 8,640,000 | N/A |
| **Directors** | TCO, TKK, Sebastian Anak Baya, Dollah Chek and Nee Choong Sing | TCO, TKK, Stephen Jussem Dundon, Dollah Chek and Wong Yiing Ngiik | TKK, TCO, Wong Yiing Ngiik, Gangga Anak Ugil and Dollah Chek | TKK, TCO, Sebastian Anak Baya, Dollah Chek and Nee Choong Sing | N/A |
| **Substantial Shareholders as at the LPD** | PJP and Pelita Holdings [7] | PJP and Pelita Holdings [10] | Ladang Hijau and Pelita Holdings [12] | PJP and Pelita Holdings [14] | Rejang Height, the original licence holder, shall assign the rights of Simunjan to RSB pursuant to the Agreement |
| **Estate under management** | PJP Pelita Ekang-Banyok Estate | Lundu Estate | PJP Pelita Selangau Estate | Ulu Teru Estate | Simunjan Estate |
| **Title area/ License area** | 3,367.00 Ha. [16] | 7,089.50 Ha. [16] | 5,000.00 Ha. [16] | 7,900.00 Ha. [16] | 15,580.00 Ha. |
| **Location** | NCR Land at Long Ekang and Long Banyok, Miri Division, Sarawak [8] | NCR Land at Lundu District, Kuching Division, Sarawak [8] | NCR Land at Selangau, Mukah, Sibu Division, Sarawak [8] | NCR Land located at Ulu Teru Land, Miri Division, Sarawak [8] | Samarahan and Sri Aman Divisions, Sarawak |
| **Title and Tenure** | JVA commencing on 11.8.2005 | JVA commencing on 30.7.1998 | JVA commencing on 25.4.2001 | JVA commencing on 30.9.2003 | 60 years licence period expiring on 21.3.2064 [17] |
| **Planted area** | 84.51 Ha. | 4,642.08 Ha. | 3,062.8 Ha. | 1,498.48 Ha. | 781.74 Ha. |
| **Age of oil palm** | Approximate 1 year | Approximately 4 to 14 years | Approximately 8 to 10 years | Approximately 1 to 3 years | Approximately 1 year |
| **Encumbrances** | - | - | - | - | - |
| **Market value as at 31.8.09** | RM14,560,000 | RM171,290,000 | RM84,300,000 | RM62,040,000 | RM43,000,000 |
| **Market value as at 28.2.10** | RM15,470,000 | RM167,920,000 | RM88,890,000 | RM68,940,000 | RM48,600,000 |
| **Audited NBV as at 31.8.09** | RM3,924,626 | RM41,832,014 | RM37,457,488 | RM33,915,590 | RM21,214,479 [18] |

*(Source: The respective audited accounts and valuation reports of the Acquirees and Simunjan)*

*Notes:-*

1. *Under the name of Novelpac Sdn Bhd and subsequently changed to Novelpac on 2 February 1999.*
2. *Including approximately 613 Ha. of Lot 6, Dulit Land District, Miri Division, Sarawak which was sold to the adjoining RH Bakong Estate. The said area has not been assigned with any value in the market valuation appraised by HB Miri.*
3. *Under the name of Azamadun Sdn Bhd and subsequently changed to Splendid on 3 May 2000.*
4. *Splendid is a JVC formed pursuant to a JVA dated 13 May 1999 between LCDA and Splendid Standard Sdn Bhd for the purpose of developing state land. Subsequently, Splendid Standard Sdn Bhd assigned the JVA to PJP through a deed of assignment dated 9 October 2000.*
5. *Under the name Pelita Cergas Sdn Bhd and subsequently changed to Biawak on 15 April 2005.*
6. *Biawak is a JVC formed pursuant to a JVA dated 8 August 2002 between Pelita Holdings, LAKMNS and PJP for the purpose of developing state land.*
7. *Ekang is a JVC formed pursuant to a JVA dated 11 August 2005 between Pelita Holdings (nominated by LCDA to act as trustee for and on behalf of NCR landowners) and PJP for the development of NCR Land.*
8. *To be developed under a NCR joint venture arrangement with the State of Sarawak.*
9. *Under the name of Raya Ceria Oil Palm Plantation Sdn Bhd and subsequently changed to Lundu on 19 April 2005.*
10. *Lundu is a JVC formed pursuant to a JVA dated 30 July 1998 between Pelita Holdings (nominated by the LCDA to act as trustee for and on behalf of NCR landowners) and Sri Idaria (M) Sdn Bhd for the development of NCR Land. Subsequently, Sri Idaria (M) Sdn Bhd assigned the JVA to PJP through a deed of assignment dated 21 December 1999.*
11. *Under the name of Ladang Metah Sdn Bhd and subsequently changed to Selangau on 12 July 2006.*
12. *Selangau is a JVC formed pursuant to a JVA dated 25 April 2001 between Pelita Holdings (nominated by LCDA to act as trustee for and on behalf of NCR landowners) and Ladang Hijau for the development of NCR Land.*
13. *Under the name of Pelita Tangkas Sdn Bhd and subsequently changed its name to Ulu Teru on 12 April 2005.*
14. *Ulu Teru is a JVC formed pursuant to a JVA dated 30 September 2003 between Pelita Holdings (nominated by LCDA to act as trustee for and on behalf of NCR landowners) and PJP for the development of NCR Land.*
15. *Provisional lease of State land.*
16. *These include an aggregate of approximately 6,906.2 Ha. of unsurrendered areas, which have not been assigned with any value in the market valuations appraised by HB Miri for the 9 plantation estates concerned.*
17. *Rejang Height has been granted with the LPF by the Director of Forests, Sarawak, for a period of sixty (60) years commencing from 22 March 2004 and ending on 21 March 2064, to establish and maintain a planted forest. Under the terms of the LPF, Rejang Height is permitted to undertake oil palm planting activities for a period of twenty-five (25) years ending on 21 March 2029.*
18. *In relation to the Identified Liabilities to be assumed by RSB (or its nominee company) pursuant to the Proposed Acquisitions.*

None of the Acquirees has any subsidiary or associated company.

All the Acquirees are principally involved in the cultivation of oil palm. All of the land usage of the estates under management by the Acquirees and Simunjan are for agricultural purposes and are categorised as mixed zone land / country land.

Further information on the Acquirees and Simunjan are provided in Appendix I of this Circular.

The market value assigned to each of the estates of the Acquirees and Simunjan are derived based on the discounted cash flow and comparative method of valuations, as appraised by HB Miri (save for Simunjan, which was appraised by HB Sarawak based on the cost and discounted cash flow method of valuation) on 31 August 2009. The valuation methodology employed by HB Miri and HB Sarawak are detailed in the Valuation Certificates included in Appendix V of this Circular.

In addition, HB Miri and HB Sarawak have also updated their independent views on the market valuation of the Plantation Estates ("**Updated Valuation**") and opined that the market values of the Plantation Estates totalling RM857.66 million as at 28 February 2010 are higher on a combined basis vis-à-vis the market values of the Plantation Estates appraised by them totalling RM802.32 million as at 31 August 2009, which were used as the basis in determining the purchase consideration for the Proposed Acquisitions. For clarity, the Updated Valuation is for the purpose of information only and it shall not affect the total purchase consideration for the Proposed Acquisitions.

Kindly refer to Appendix VI for the update valuation certificates dated 28 February 2010 from HB Miri and HB Sarawak detailing their respective updated independent views on the market valuation of the Plantation Estates.

## 2.9.2 Profile of the Oil Palm Plantation

| Acquirees/LPF Estate | Jayamax Jayamax Estate Ha. | Novelpac Novelpac-Puncakdana Estate Ha. | Lubuk Tiara Lubuk Tiara Estate Ha. | Splendid Tabib Estate Ha. | Biawak PJP Pelita Biawak Estate Ha. | Ekang PJP Pelita Ekang-Banyok Estate Ha. | Lundu Lundu Estate Ha. | Selangau PJP Pelita Selangau Estate Ha. | Ulu Teru Ulu Teru Estate Ha. | Simunjan Simunjan Estate Ha. | Total Ha. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Matured Area** | | | | | | | | | | | |
| YOP 1995 | - | - | - | - | - | - | 267.56 | - | - | - | 267.56 |
| YOP 1996 | - | - | - | - | 75.40 | - | 456.44 | - | - | - | 531.84 |
| YOP 1999 | - | - | - | - | 5.10 | - | 36.70 | 1,122.49 | - | - | 1,164.29 |
| YOP 2000 | 993.29 | - | - | - | 932.15 | - | 1,621.15 | 1,328.84 | - | - | 4,875.43 |
| YOP 2001 | 1,425.73 | - | - | 359.46 | 513.00 | - | 780.13 | 611.47 | - | - | 3,689.79 |
| YOP 2002 | 252.63 | - | 592.00 | - | 514.80 | - | 423.85 | - | - | - | 1,783.28 |
| YOP 2003 | - | - | 292.00 | - | 326.70 | - | 636.55 | - | - | - | 1,255.25 |
| YOP 2004 | - | 45.90 | 58.00 | - | 59.30 | - | 354.92 | - | - | - | 518.12 |
| YOP 2005 | - | - | 106.00 | - | 2.35 | - | 64.78 | - | - | - | 173.13 |
| YOP 2006 | - | - | 75.00 | - | - | - | - | - | 236.75 | - | 311.75 |
| YOP 2007 | - | - | 307.00 | - | - | - | - | - | - | - | 307.00 |
| YOP 2008 | - | - | 8.00 | - | - | - | - | - | - | - | 8.00 |
| **Subtotal** | 2,671.65 | 45.90 | 1,438.00 | 359.46 | 2,428.80 | - | 4,642.08 | 3,062.80 | 236.75 | - | 14,885.44 |
| **Immature Area** | | | | | | | | | | | |
| YOP 2007 | 416.40 | 268.02 | 730.96 | - | - | - | - | - | 470.23 | - | 1,885.61 |
| YOP 2008 | 337.88 | 354.56 | 1,021.67 | - | - | 43.22 | - | - | 571.93 | 248.00 | 2,577.26 |
| YOP 2009 | 659.90 | 643.03 | 412.90 | - | - | 94.69 | - | - | 229.68 | 985.49 | 3,025.69 |
| YOP 2010 | 7.55 | 57.93 | 504.47 | | | 52.67 | | | 16.12 | - | 638.74 |
| **Subtotal** | 1,421.73 | 1,323.54 | 2,670.00 | - | - | 190.58 | - | - | 1,287.96 | 1,233.49 | 8,127.30 |
| Total Planted Area | 4,093.38 | 1,369.44 | 4,108.00 | 359.46 | 2,428.80 | 190.58 | 4,642.08 | 3,062.80 | 1,524.71 | 1,233.49 | 23,012.74 |
| Area ready for planting | 585.95 | 375.92 | - | - | 30.00 | 29.59 | - | - | 939.26 | - | 1,960.72 |
| Under preparation | - | 1,413.01 | - | - | 437.54 | 1,594.89 | - | - | - | 5,466.51 | 8,911.95 |
| Unplantable area | [1] 259.62 | [1] 658.74 | [1] 1,059.00 | - | [1] 86.51 | - | [1] 39.00 | [1] 264.49 | [1] 463.12 | [2] 8,378.40 | 11,208.88 |
| Unsurrendered area [3] | - | - | - | - | - | 1,532.00 | 2,374.80 | 1,164.43 | 1,883.90 | - | 6,955.13 |
| Nursery | 20.85 | 31.81 | 30.00 | - | - | 12.00 | 33.62 | - | 25.00 | 44.00 | 197.28 |
| Vacant land | - | - | 135.00 | 716.66 | 931.78 | - | - | 508.28 | 3,064.01 | | 5,355.73 |
| Others | - | 776.08 | [4] 885.00 | [5] 99.88 | [6] 18.37 | 7.94 | - | - | - | [7] 457.60 | 2,244.87 |
| **Total** | **4,959.80** | **4,625.00** | **6,217.00** | **1,176.00** | **3,933.00** | **3,367.00** | **7,089.50** | **5,000.00** | **7,900.00** | **15,580.00** | **59,847.30** |

*(Source: the respective valuation reports of the Acquirees and Simunjan after incorporating the Updated Valuation.)*

*Notes:-*

1. *Includes unplantable areas such as rivers/streams, roads, drains, hilly site and housing sites.*
2. *Refers to the area which is classified as unplantable area, due to certain dispute against the development of an oil palm plantation. The affected areas have not been assigned with any value in the market valuation appraised by HB Sarawak for the plantation estates concerned.*
3. *Unsurrendered area refers to undeveloped areas which are pending negotiation between the management of RSB Group and the respective NCR landowners for possible joint venture development. Such affected areas have not been assigned with any value in the market valuation appraised by HB Miri for the plantation estates concerned.*
4. *Includes 613.00 Ha. of land disposed to an adjoining estate and 272.00 Ha. of buildings and roads.*
5. *Includes 24.88 Ha. of estate road,75.00 Ha. of land which is considered as area under shifting cultivation.*
6. *Area which are deemed for public use pursuant to Section 48 of the Sarawak Land Code.*
7. *Includes building site, road and reserve.*

## 2.9.3 FFB Production

| | FFB Production (metric tonne) | | | | | |
|---|---|---|---|---|---|---|
| **Calendar year** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| Jayamax | 3,980.30 | 10,173.26 | 18,345.34 | 24,136.09 | 22,200.50 | 27,204.77 |
| Novelpac * | - | - | - | - | - | 273.51 |
| Lubuk Tiara | - | - | - | 9,281.50 | 14,783.40 | 17,585.14 |
| Splendid | - | 1,924.13 | 3,568.81 | 3,622.54 | 4,282.03 | 4592.87 |
| Biawak | 6,468.90 | 12,339.06 | 24,302.59 | 28,509.07 | 36,905.74 | 37,021.16 |
| Ekang * | - | - | - | - | - | - |
| Lundu | 21,534.31 | 31,062.32 | 52,293.00 | 65,287.43 | 74,677.72 | 74,502.12 |
| Selangau | 11,358.00 | 17,450.00 | 25,123.00 | 25,816.00 | 23,684.00 | 23,461.00 |
| Ulu Teru * | - | - | - | - | - | 210.37 |
| Simunjan * | - | - | - | - | - | - |

*Note:-*

* *Simunjan and the estate managed by Ekang have yet to commence FFB production as these plantations are still at infancy stage. The estates managed by Novelpac and Ulu Teru have recently commenced FFB production.*

## 2.9.4 Original Cost of Investments by the Vendors

| Acquirees/ LPF | Vendor | No of Shares | Date of Investment | Cost of Investment by Vendors (RM) |
|---|---|---|---|---|
| 1. Jayamax | PJP | 3,000,000 | 30.01.1999 | 3,000,000 |
| | TSL | 1,000,000 | 15.10.2004 | 1,000,000 |
| | TTSH | 1,000,000 | 15.10.2004 | 1,000,000 |
| 2. Novelpac | Kendaie | 1,062,500 | 05.01.2006 | 15,000,000 |
| 3. Lubuk Tiara | PJP | 5,200,000 | 22.02.1999 | 5,693,500 |
| 4. Splendid | PJP | 3,332,000 | 04.08.2000 | 3,332,000 |
| 5. Biawak | PJP | 2,808,098 | 22.11.2002 | 2,808,098 |
| 6. Ekang | PJP | 581,760 | 10.06.2008 | 581,760 |
| 7. Lundu | PJP | 3,628,800 | 08.02.2000 | 3,628,800 |
| 8. Selangau | Ladang Hijau | 7,200,000 | 22.11.2002 | 7,200,000 |
| 9. Ulu Teru | PJP | 5,184,000 | 27.10.2004 | 5,184,000 |
| 10. Simunjan | Rejang Height | Not Applicable | 22.03.2004 | * 21,214,479 |

*Note:-*

* *In relation to the capital expenditure incurred up to 31 August 2009.*

2.10 **Background Information on Vendors**

2.10.1 **PJP**

PJP was incorporated in Malaysia on 20 August 1992 under the Act as a private limited company and the company is principally an investment holding company. PJP has an authorised share capital of RM25,000,000 divided into 25,000,000 ordinary shares of RM1.00 each, of which 22,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Presently, the Directors of PJP are Tan Sri Tiong and TKK.

The substantial shareholders of PJP and their shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial shareholders** | **No. of shares** | **%** | **No. of shares** | **%** |
| Biru Hijau Enterprise Sdn Bhd | 1,800,000 | 8.18 | - | - |
| Tan Sri Tiong | 2,000,000 | 9.09 | (a) 13,088,000 | 59.49 |
| TSL | 3,110,000 | 14.14 | (b) 9,978,000 | 45.35 |
| Dato' Sri Tiong | 2,000,000 | 9.09 | - | - |
| TTSH | 9,978,000 | 45.35 | - | - |
| TKK | - | - | (c) 1,800,000 | 8.18 |

*Notes:-*

(a) *Deemed interested by virtue of his interests in TTSH and TSL pursuant to Section 6A of the Act.*

(b) *Deemed interested by virtue of its interests in TTSH and TTSE pursuant to Section 6A of the Act.*

(c) *Deemed interested by virtue of his interest in Biru Hijau Enterprise Sdn Bhd pursuant to Section 6A of the Act.*

2.10.2 **TTSH**

TTSH was incorporated in Malaysia on 10 August 1983 under the Act as a private limited company. Its principal activities are renting of properties and investment holding. It has an authorised share capital of RM50,000,000 divided into 50,000,000 ordinary shares of RM1.00 each, of which 21,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Presently, the Directors of TTSH are Tan Sri Tiong, Datuk Tiong, Tiong Chiong Ie , Dato' Sri Tiong, Tiong Choon and TKK.

The substantial shareholders of TTSH and their shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial shareholders** | **No. of shares** | **%** | **No. of shares** | **%** |
| Priharta Development Sdn Bhd | 2,830,000 | 13.48 | - | - |
| Tan Sri Tiong | 2,143,000 | 10.20 | (a) 3,457,000 | 16.46 |
| TSL | 3,257,000 | 15.51 | - | - |
| Dato' Sri Tiong | 2,830,000 | 13.48 | - | - |
| TKK | 2,830,000 | 13.48 | - | - |
| Tiong Kiu King | 1,570,000 | 7.47 | - | - |
| Datuk Tiong | 2,830,000 | 13.48 | (c) 200,000 | 0.95 |
| Tiong Chiong Ie | - | - | (b) 2,830,000 | 13.48 |
| Tiong Jin Choo | - | - | (b) 2,830,000 | 13.48 |
| Tiong Chiong Siong | - | - | (b) 2,830,000 | 13.48 |

*Notes:-*

(a) *Deemed interested by virtue of his interests in TSL and Rejang Healthcare pursuant to Section 6A of the Act.*

(b) *Deemed interested by virtue of their interests in Priharta Development Sdn Bhd pursuant to Section 6A of the Act.*

(c) *Deemed interested by virtue of his interest in Rejang Healthcare pursuant to Section 6A of the Act.*

### 2.10.3 TSL

TSL is a private limited company incorporated in Malaysia under the Act on 2 May 1980. TSL is principally engaged in investment holdings and cultivation of oil palm. It has an authorised share capital of RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 4,000,000 ordinary shares of RM1.00 each have been issued and credited as fully paid-up.

Presently, the Directors of TSL are Tan Sri Tiong and TCO.

The substantial shareholder of TSL and his shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial Shareholder** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| Tan Sri Tiong | 3,360,000 | 84.00 | * 640,000 | 16.00 |

* *Deemed interested by virtue of his spouse and children's interests in TSL.*

### 2.10.4 Kendaie

Kendaie is a private limited company incorporated in Malaysia under the Act on 12 August 1998. Kendaie and its subsidiary and associated companies are principally involved in letting of equipment, investment in corporate securities, cultivation of oil palm and oil palm plantation. It has an authorised share capital of RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which 1,000,000 ordinary shares of RM1.00 each have been issued and credited as fully paid-up.

Presently, the Directors of Kendaie are Datuk Tiong and Wong Yiing Ngiik.

The substantial shareholders of Kendaie and their shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial Shareholders** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| TTSE | 310,000 | 31.00 | - | - |
| PAA | 400,000 | 40.00 | - | - |
| TSL | 290,000 | 29.00 | * 310,000 | 31.00 |
| Tan Sri Tiong | - | - | ** 1,000,000 | 100.00 |

* *Deemed interested by virtue of its interest in TTSE pursuant to Section 6A of the Act.*

** *Deemed interested by virtue of his interests in TSL, PAA and TTSE pursuant to Section 6A of the Act.*

### 2.10.5 Ladang Hijau

Ladang Hijau is a private limited company incorporated in Malaysia under the Act on 26 March 1985. Ladang Hijau is principally engaged in plantation. Ladang Hijau has an authorised share capital of RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which 4,300,000 ordinary shares of RM1.00 each have been issued and credited as fully paid-up.

Presently, the Directors of Ladang Hijau are Tan Sri Tiong and Datuk Tiong.

The substantial shareholders of Ladang Hijau and their shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial Shareholders** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| TTSH | 1,420,000 | 33.02 | - | - |
| Dato' Sri Tiong | 500,000 | 11.63 | - | - |
| Fatherland Enterprise Sdn Bhd | 500,000 | 11.63 | - | - |
| TKK | 500,000 | 11.63 | - | - |
| Tan Sri Tiong | 500,000 | 11.63 | * 1,800,000 | 41.86 |

* *Deemed interested by virtue of his interest in TTSH, Hoojin Holdings Sdn Bhd, and his children's interest in Ladang Hijau.*

2.10.6 **Rejang Height**

Rejang Height is a private limited company incorporated in Malaysia under the Act on 6 December 1994. Rejang Height is principally engaged in reforestation. Rejang Height has an authorised share capital of RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which 500,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Presently, the Directors of Rejang Height are Tan Sri Tiong and Wong Yiing Ngiik.

The substantial shareholders of Rejang Height and their shareholdings therein as at the LPD are as follows:-

| | <——Direct——> | | <——Indirect——> | |
|---|---|---|---|---|
| **Substantial Shareholders** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| TTSE | 400,000 | 80.00 | | |
| PAA | 75,000 | 15.00 | - | - |
| TSL | 20,000 | 4.00 | * 400,000 | 80.00 |
| Tan Sri Tiong | 5,000 | 1.00 | ** 495,000 | 99.00 |

* *Deemed interested by virtue of its interest in TTSE pursuant to Section 6A of the Act.*

** *Deemed interested by virtue of his interests in TSL, PAA and TTSE.*

## 3. SALIENT TERMS OF THE SSAS, AGREEMENT AND SUPPLEMENTAL AGREEMENTS

### 3.1 SSAs

The salient terms of the SSAs include inter-alia, the following:-

(i) **Payment Terms**

The purchase consideration shall be wholly satisfied by RSB to the Vendors of the respective Acquirees within thirty (30) days after the completion date by issuance of the Consideration Shares/ICPS to the Vendors, in their respective proportions, subject to the relevant shares of the Acquirees having been transferred to and registered in the name of RSB. The Consideration Shares/ICPS shall, if required, be credited into the respective CDS accounts of the respective Vendors at the sole cost and expense of the Vendors.

The listing of and quotation for the RSB Shares, if applicable, shall take place within thirty (30) days after the completion date or such other time frame as shall be in compliance with the then applicable laws.

(ii) **Conditions Precedent**

The sale and purchase of the Sale Shares shall be conditional upon the fulfillment of the following within six (6) months from the date of the SSAs (which had since been extended to 30 October 2010 with the mutual agreement of the parties concerned):-

(a) RSB obtaining the approval of Bursa Securities for the listing of and quotation for the new RSB Shares and new Shares to be issued arising from the conversion of the ICPS on the Main Market;

(b) RSB obtaining the approval of its shareholders in a general meeting for the Proposed Acquisitions and the issuance of the Consideration Shares/ICPS to the Vendors in the proportions as detail in Section 2.1 of this Circular in satisfaction of the purchase consideration;

(c) if applicable, the Vendors procuring the respective Acquirees to obtain the approval/consent from the various banks and financial institutions who have extended credit facilities to the Acquirees for the change in the shareholding and the structure and composition of the board of Directors of the Acquirees consequential to the Proposed Acquisitions;

(d) the conduct of a legal and financial due diligence by RSB on the Acquirees, their operations and affairs, the results of which are determined by RSB in its sole and absolute discretion to be satisfactory; and

(e) such other condition prccedent deemed necessary by RSB. If any of the said approvals shall be subject to or shall impose conditions relating to any adjustments to the purchase consideration and if accepted by the parties, the parties hereto agree that the purchase consideration and the Consideration Shares/ICPS shall be adjusted accordingly and the parties shall do all things necessary to effect such adjustments.

(iii) **Completion**

Notwithstanding the satisfaction of the consideration which the parties have agreed shall take place subsequent to the completion date, the completion shall take place on a business day falling within the period of 30 days after the date the last of the conditions precedent have been fulfilled or waived, as the case may be, or such other date as may be mutually agreed in writing by the parties, at the registered office of RSB or such other venue as may be mutually agreed upon by the parties in writing, whereupon the release and delivery of certain documents as set forth in Clause 5.1 of the SSAs shall take place.

For the avoidance of doubt, on and from the completion date and subject to the release and delivery of certain documents in accordance with the SSAs, RSB shall be the sole beneficial owner of the equity interests to be acquired under the Proposed Acquisitions with full and unequivocal rights to deal with the same in any manner it shall deem fit without the concurrence of or consent from the Vendors.

3.2 **Agreement**

The salient terms of the Agreement include inter-alia, the following:-

(i) **Agreement**

Subject to the consent of the Director of Forests of the Forest Department ("**Director**") and/or the Minister for Planning and Resource Management of the Planning and Resource Management Department ("**Minister**"):-

(a) Rejang Height has agreed to assign absolutely and RSB has agreed to accept the absolute assignment of all the rights, title and interests of Rejang Height in and to Simunjan ("**Licence Rights**"), for the consideration to be satisfied by RSB in favour of Rejang Height, upon the terms and subject to the conditions of the Agreement and the Deed.

(b) The consideration is derived on a "willing buyer willing seller" basis after taking into account the market value of Simunjan and the Licence Rights to be assigned under the Agreement which has been appraised by an independent registered valuer appointed by RSB and deducting from the said market value, the amount of liabilities which RSB thereby agreed to assume on behalf of Rejang Height. The liabilities to be assumed by RSB and the final details of the same including the amount, nature and type shall be subject to the legal and financial due diligence to be conductcd by RSB pursuant to Section 3.2(iii)(d) herein and RSB shall be entitled to determine the final amount of the liabilities agreed to be assumed and to effect an adjustment to the amount of the consideration and the ICPS accordingly, without prejudice to any adjustments to the consideration which may arise pursuant to Section 3.2(iii) below. Rejang Height agrees that the determination or computation of RSB of the liabilities to be assumed, the amount of consideration and the number of ICPS shall be binding on Rejang Height and shall be conclusive.

(b) If required and subject to compliance with all applicable laws, RSB shall be entitled to nominate any of its wholly-owned subsidiaries to enter into the Deed, in which event the Licence Rights vested in RSB pursuant to the Agreement shall vest in such nominee.

(ii) **Payment**

The consideration shall be wholly satisfied by RSB to Rejang Height within thirty (30) days after the completion date through the issuance of ICPS to Rejang Height subject to Clause 5.1 of the Agreement.

If RSB is not able to wholly satisfy the consideration within the thirty (30) day period referred to in Clause 4.1 of the Agreement, Rejang Height shall agree to an extension of time as may be reasonably requested by RSB and Rejang Height hereby agrees that non-satisfaction of the consideration by RSB within the aforesaid thirty (30) day period as aforesaid shall not be a ground upon which Rejang Height may terminate the Agreement.

(iii) **Conditions Precedent**

The acquisition of the Licence Rights shall be conditional upon the fulfillment of the following within six (6) months from the date of the Agreement (which had since been extended to 30 October 2010 with the mutual agreement of the parties concerned):-

(a) RSB obtaining the approval of Bursa Securities for the listing of and quotation for new Shares to be issued arising from the conversion of the ICPS on the Main Market;

(b) RSB obtaining the approval or approval in principle of the Director and/or the Minister to the terms and conditions of the Deed;

(c) RSB obtaining the approval of its shareholders in a general meeting for the acquisition of the Licence Rights by way of an absolute assignment of all the rights, title and interest of Rejang Height in and to the Licence Rights, the assumption of the liabilities referred to in Section 3.2(i)(b) and the issuance of the ICPS via the Agreement;

(d) the conduct of a legal and financial due diligence by RSB on Simunjan, the Licence Rights, the assets and liabilities attributable to the Licence and the Licence Rights and all matters deemed necessary by RSB pertaining to Simunjan and the Licence Rights, the results of which are determined by RSB in its sole and absolute discretion to be satisfactory; and

(e) such other approvals, consents or permissions from any regulatory authority or third party required by RSB, including without limitation, the written consent of EON Bank Berhad to the assumption of Rejang Height's liabilities to the said bank under the credit and trade facilities granted by the said bank.

If any of the said approvals shall be subject to or shall impose conditions relating to any adjustments to the purchase consideration and if accepted by the parties, the purchase consideration and the ICPS shall be adjusted accordingly and the parties shall do all things necessary to effect such adjustments.

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(iv) **Completion**

Notwithstanding the satisfaction of the consideration which the parties have agreed shall take place subsequent to the completion date, the completion shall take place on a business day falling within the period of 30 days after the date the last of the conditions precedent have been fulfilled or waived, as the case may be, or such other date as the parties hereto may mutually agree in writing, whereupon Rejang Height shall deliver the original licence and the original Deed to RSB with the endorsement by the Director and/or the Minister of RSB or its nominee (which shall be a wholly owned subsidiary of RSB), as the case may be, of the absolute assignment of the Licence Rights.

## 3.3 Supplemental Agreements

Pursuant to the Supplemental Agreements, the purchase consideration for the Proposed Acquisitions is revised in the following manner:-

| | Original | | | Revised | | |
|---|---|---|---|---|---|---|
| **Acquirees** | **Purchase Consideration (RM)** | **To be satisfied by issuance of Shares** | **ICPS** | **Purchase Consideration (RM)** | **To be satisfied by issuance of Shares** | **ICPS** |
| 1. Jayamax | 28,749,534 | 20,434,200 | 1,680,825 | 40,377,536 | 20,437,821 | 10,621,823 |
| 2. Novelpac | 11,110,803 | 7,897,200 | 649,571 | 10,261,653 | 7,893,579 | - |
| 3. Lubuk Tiara | 33,129,805 | - | 25,484,465 | 30,105,354 | - | 23,157,965 |
| 4. Splendid | 8,374,334 | - | 6,441,795 | 9,679,133 | - | 7,445,487 |
| 5. Biawak | 50,651,383 | - | 38,962,602 | 53,960,282 | - | 41,507,909 |
| 6. Ekang | 8,081,886 | - | 6,216,835 | 6,935,286 | - | 5,334,835 |
| 7. Lundu | 74,457,511 | - | 57,275,008 | 81,165,511 | - | 62,435,008 |
| 8. Selangau | 20,492,623 | - | 15,763,556 | 12,743,022 | - | 9,802,325 |
| 9. Ulu Teru | 28,271,437 | - | 21,747,259 | 21,982,236 | - | 16,909,412 |
| 10. Simunjan | 22,785,521 | - | 17,527,323 | 21,785,521 | - | 16,758,093 |
| | **286,104,837** | **28,331,400** | **191,749,239** | **288,995,534** | **28,331,400** | **193,972,857** |

Save for the aforesaid revisions, all other terms and conditions of the Proposed Acquisitions shall remain unchanged.

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## 4. SALIENT TERMS OF THE ICPS

The salient indicative terms of the ICPS are as follows:-

| | | |
|---|---|---|
| Issue size | : | 193,972,857 units of ICPS |
| Issue price | : | RM1.30 per ICPS |
| Nominal value in issue | : | RM96,986,428.50 |
| Par value | : | RM0.50 |
| Form and Denomination | : | The ICPS will be constituted in the Articles of Association of RSB and issued in registered form and in multiples of RM0.50 each |
| Voting Rights | : | The ICPS shall carry no right to vote at any general meeting of RSB except, amongst others, with regard to any proposal to wind-up RSB, during the winding-up of RSB and on any proposal that affects the rights and privileges of the ICPS holders. In any such case, the ICPS holders shall be entitled to vote together with the holders of ordinary shares and to one (1) vote for each ICPS held |
| Ranking | : | (i) The ICPS shall rank equally in all respects amongst all ICPS.<br>(ii) The ICPS will not be entitled to any rights, allotments and/or other distributions (except for dividends) that may be declared by the Company.<br>(iii) their rights as to voting shall be as limited to those described in "Voting Rights" above |
| Tenure | : | Ten (10) years from the date of issue |
| Maturity Date | : | The market day immediately before the tenth (10th) anniversary of the date of issue |
| Dividend Rate | : | The ICPS shall be entitled to any dividend declared or paid ranking pari passu with ordinary shares |
| Dividend Date | : | Dividends on the ICPS shall be payable on the date dividends are paid on the ordinary shares |
| Conversion Period | : | The ICPS shall be convertible into new RSB Shares at any time on any business day between Monday and Friday that is not a public holiday from the issue date up to and including the Maturity Date. All the ICPS which are yet to be converted after the Conversion Period shall mandatorily be converted into new RSB Shares at the Conversion Ratio |
| Conversion Ratio | : | One (1) ICPS shall be converted into one (1) new RSB share, or any other adjusted ratio consequent to an alteration to the share capital of the Company |
| Conversion Mode | : | The conversion shall be satisfied by surrendering the ICPS for cancellation |
| Conversion Rights | : | The ICPS holders will have the right to convert the ICPS at the Conversion Ratio into new RSB Shares at any time during the tenure of the ICPS |
| Redemption | : | Not redeemable for cash |
| Transferability | : | Fully transferable with the prior approvals of the relevant authorities, if any and if required |

| | | |
|---|---|---|
| Listing | : | The ICPS will not be listed on Bursa Securities. However, an application for approval-in-principle of Bursa Securities will be made for the listing of and quotation for the new RSB Shares to be issued arising from the conversion of the ICPS on the Main Market of Bursa Securities |
| Priority on liquidation | : | The right on a winding-up or other return of capital to repayment, in priority to any payment to the holders of ordinary shares but pari passu amongst the ICPS holders then in issue |
| Ranking of new RSB Shares arising from conversion | : | The new RSB Shares to be issued pursuant to the conversion of the ICPS shall, upon allotment and issue, rank equally in all respects with the existing RSB Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the date of allotment of such new RSB Shares |
| Governing Law | : | Laws of Malaysia |

## 5. PROPOSED M&A AMENDMENTS

In relation to the issue of ICPS pursuant to the Proposed Acquisitions, the Company proposed to append its M&A. Please refer to Appendix VI for further details of the Proposed M&A Amendments.

Proposed M&A Amendments is to facilitate the issuance of the ICPS pursuant to the Proposed Acquisitions.

## 6. RATIONALE FOR THE PROPOSALS

### 6.1 Proposed Acquisitions

The Proposed Acquisitions are consistent with RSB's plans to continue to expand its oil palm cultivation business by acquiring new plantation land bank in Malaysia, particularly in Sarawak.

After the Proposed Acquisitions, the total gross land bank owned by the RSB Group would increase from 31,645 Ha to approximately 91,500 Ha., of which approximately 39,560 Ha. or 43% of the enlarged land bank has been planted. With the expected improvement of oil palm production yield from the plantation cstates held by the Acquirees and Simunjan over the next fcw years, the RSB Group is expected to benefit from the improving revenue and profit contributions from the Acquirees and Simunjan.

More importantly, the Proposed Acquisitions would propel the enlarged RSB Group to become one of the major palm oil plantation companies listed in Malaysia. The creation of an enlarged RSB Group would be capable of extracting greater business and cost synergies, whilst boosting the profitability and assets base.

In addition, the Proposed Acquisitions would also remove the rcquirement to seek annual shareholders' approval for various existing related party transactions, thereby improving transparency of the related party transactions involving the RSB Group. In summary, the Proposcd Acquisitions represent a strategic investment by RSB and are expected to contribute positively to the earnings as well as the shareholders' value of the RSB Group in the medium to long term.

### 6.2 Proposed M&A Amendments

The Proposed M&A Amendments is to facilitate the issuance of ICPS pursuant to the Proposcd Acquisitions.

### 6.3 Justification for new issues of securities

The Board is of the opinion that the combination of ICPS and Shares is the optimal way to satisfy the purchase consideration for the Proposed Acquisitions, with a view to comply with the public shareholding spread requirement under Section 8.02 of the MMLR. Furthermore, the issuance of new securities as the mode of consideration would allow RSB to avoid any significant impact on the cash flow and gearing of the Company should the purchase consideration for the Proposed Acquisitions be settled in cash or bank borrowings.

The issuance of ICPS would also temporarily mitigate the dilutive effects on the EPS of the Company as compared to the settlement of the entire purchase consideration via the issuance of new RSB Shares.

## 7. INDUSTRY OUTLOOK, RISK FACTORS AND FUTURE PROSPECTS

### 7.1 Industry Outlook

The year 2009 was a challenging one for the Malaysian palm oil industry amid the lingering effects of a weak global economy and issues on sustainability and environment associated with oil palm cultivation. Nevertheless, the industry still remains resilient, recording a satisfactory performance with exports of oil palm products rising by 2.9%, although export earnings declined by 24.0% to reach RM 49.6 billion because of the relatively lower oil palm product prices traded in 2009.

Crude palm oil (CPO) production declined by 1.0% to 17.56 million tonnes. Production was affected by the biological stress from the bumper production of the previous year and the effects of heavy rainfall early this year in Sabah and Sarawak, which curbed the output of fresh fruit bunches (FFB). The national average FFB yield per hectare fell 4.9% to 19.2 tonnes. On a regional basis, Sabah was the worst affected with average FFB yields declining by 8.1%, followed by Sarawak 5.7% and Peninsular Malaysia 1.4%. However, good agricultural and milling practices saw improvements in the average oil extraction rate (OER) achieved, which rose to 20.49% as against 20.21% in 2008. All in all, the average oil yield per hectare declined by 3.7% to 3.93 tonnes on account of lower FFB yields.

Total exports of oil palm products, consisting of palm oil, palm kernel oil, palm kernel cake, oleochemicals, bio diesel and finished products increased by 2.9% or 0.64 million tonnes to 22.40 million tonnes in 2009 from 21.76 million tonnes recorded in 2008. However, total export earnings declined by 24.0% or RM15.62 billion to RM49.59 billion compared to the record RM65.22 billion achieved in 2008 because of lower export prices. Most of the oil palm products registered increases in exports, except for finished products.

CPO prices traded at RM2,241.50/tonne during the first half of the year, supported by positive sentiments related to higher crude oil prices and supply tightness of vegetable oils in the world market as well as the low domestic palm oil stocks. However, during the second-half of the year bearish sentiments prevailed in the market influenced by the sharp decline in crude oil price as well as that of other vegetable oils prices, coupled with high palm oil stocks and fears of a continued global recession. This resulted in the monthly average CPO price declining below the RM 2,200/tonne level since September, 2009. The average CPO price in 2009 decreased by 19.2% or RM533.00 to RM2,244.50 against RM2,777.50 in the previous year. Palm oil prices traded quite widely during the year, with the highest monthly average CPO price recorded in May at RM2,743.50 and the lowest attained in January at RM1,842.00.

CPO production is forecast to rise by 3.1% to 18.1 million tonnes in 2010 because of a recovery in FFB yields and an expansion in matured area. The outlook for palm oil prices continues to remain strong in view of the global oils and fats tightness, coupled with the increase in vegetable oils demand amid improving global economic situation.

*(Source: Overview of the Malaysian Oil Palm Industry 2009, MPOB)*

Malaysian palm oil production had decreased markedly by 24.2% from 5.1 million tonnes in the fourth quarter of 2009 to 3.87 million tonnes in the first quarter of 2010 due low production period which usually occurs during beginning months of a year. Consequently, production of palm kernel and palm kernel oil for the same period in Malaysia had also declined to 1.00 million tonnes or by 22% and to 0.48 million tonnes or by 21.2% respectively.

Quarterly export of Malaysian palm oil had slightly decreased by nearly 1% to 4.15 million tonnes. China maintained its position as the biggest export market totaled at 1.06 million tonnes or 27.3% of total palm oil exports, followed by Pakistan 0.51 million tonnes (13.3%), EU 0.48 million tonnes (12.4%), India 0.35 million tonnes (9.1%), USA 0.24 million tonnes (6.2%) and Japan 0.15 million tonnes (3.8%). Together these six countries accounted for 2.79 million tonnes or 67.3% of total Malaysian palm oil exports in the first quarter of 2010.

*(Source: Quarterly review on Oil and Fats 1st Quarter 2010, MPOB)*

7.2 **Risk Factors**

The Board does not foresee any material risks pursuant to the Proposed Acquisitions except for the inherent risk factors associated with the plantation industry, which can be summarized below, in which the RSB Group is already involved.

(a) ***Business Risks***

Pursuant to the Proposed Acquisitions, the RSB Group will continue to be subject to the risks inherent in the oil palm plantation industry. These include but not limited to the fluctuations in demand and commodity prices, weather conditions, pests and diseases, threat of substitutes for palm oil products, constraints of supply of labour and raw materials, rising costs of raw materials, potential native customary rights claims and changes in general economic, business and credit conditions. Although the Board and management of RSB would continuously take appropriate measures to limit such risks, no assurance can be given that any change to these factors will not have a material adverse effect on the business operations of the RSB Group.

(b) ***Fluctuations in CPO Prices***

The prices of palm oil products fluctuate over time based on the demand and supply in global edible oils and fats market. The prices are highly susceptible to external market forces and changes in global demand and supply of other edible oils, which would correspondingly affect the prices of palm oil products, and such factors are beyond the Group's control.

The movements in annual average CPO prices for the past 5 years and for the first six (6) months of 2010 are summarised below:-

| | **Annual Average Price (RM/tonne)** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2008** | **2009** | **Six (6) month ended 30 June 2010** |
| **CPO** (local delivered) | 1,394 | 1,510.5 | 2,530.5 | 2,777.5 | 2,244.5 | 2,544.5 |

*(Source: MPOB)*

As a core oil palm plantation company, any fluctuation in the prices of CPO and other palm oil products will accordingly affect the Company's profitability. Nonetheless, the Company seeks to mitigate any adverse effect caused by the fluctuations in CPO prices through adopting a more prudent management approach with the objectives of enhancing the cost efficiencies and optimisation of returns and focusing its efforts to improve the overall production efficiency and yield of their plantation estates.

(c) *Competition*

As palm oil is a commodity, direct competition amongst the local plantation owners is expected to be minimal as the local industry players usually only compete for land and labour. However, due to the scarcity of suitable plantation land and the occasional shortage of labour forces, particularly foreign workers, the local industry players may face challenges to counter rising production cost for palm oil.

As a mitigating factor, the Group continues to source for suitable land bank in Malaysia, particularly in Sarawak, to increase its plantation land bank for oil palm cultivation. On the risk of labour shortage, the Group aims to attract and retain its employees through, amongst others, the provision of attractive amenities for its workforce such as clinic, living quarters and sports facilities, etc. In addition, the Group has been and will continue to explore various options including engaging workers of different nationalities as well as local workers to improve production efficiency and reduce over dependency on foreign workers.

(d) *Threat of Substitutes*

Palm oil faces competition from other edible or vegetable oils such as soybean, sunflower seed, rapeseed and other such substitutes for palm oil. The Group constantly monitors the global demand patterns and trends for edible oils particularly palm oil which would assist them in making the appropriate decisions relating to its CPO production and sales. In addition, the Group works closely with the MPOB to leverage on its various marketing and promotion activities as well as its research and development efforts in expanding the palm oil market.

(e) *Weather Conditions*

The FFB yield and production from oil palm trees will be affected by abnormal and adverse weather conditions such as excessive rainfall (*La Nina*) and protracted drought season (*El Nino*). The Company has taken several preventive measures including monitoring fire outbreaks, road maintenance and setting up proper drainage systems to mitigate any possibilities caused by such adverse weather conditions.

(f) *Pests and Diseases*

Although oil palm trees in general are comparatively free of pests and diseases, there are occasional outbreaks caused by pests such as termites, bagworms and caterpillars. Currently, the Company has taken measures to control the population of pests in their estates by destroying potential breeding grounds of pests, exterminating pests by using pesticides and carrying out frequent inspections to ensure that the population remains significantly below a threatening level. The Company recognise that there are concerns that the use of pesticides may potentially pose as a health and environmental risk in the long term. While there is no evidence of any immediate impact arising from the use of pesticides, the Company has sought to limit the dependency on pesticides through the introduction of biological control as part of its pest management and corporate social responsibility. Furthermore, the Company would only use pesticides which are approved by the relevant authorities.

(g) *Labour Force*

The palm oil industry is a labour intensive industry. Oil palm plantations require extensive manpower in nurturing seedlings, tree plantings, fertilising, harvesting as well as other routine maintenance works to ensure optimal yield. The palm oil industry faces difficulty in recruiting local workers and therefore the Company has resorted to the employment of foreign plantation workers. Hence, the Group is required to comply with the policies imposed by the Government of Malaysia with regards to the employment of these foreign workers. Any future changes to such policies may adversely affect the ability of the Group to employ foreign workers.

(h) *Compulsory Land Acquisitions*

The state of Sarawak is empowered under the Sarawak Land Code to compulsorily acquire any land in Sarawak. In the event that the state of Sarawak compulsorily acquire any of the land held by the Group (including the plantation estates held by the Acquirees and Simunjan, the risk to the RSB may be mitigated by the compensation awarded by the state of Sarawak for such compulsory acquisition, which compensation is generally based on the market value of the property pursuant to the Sarawak Land Code.

(i) *Rights of Simunjan*

The plantation estate of Simunjan is subject to an LPF. After completion, breach of any terms of the LPF by the Company may result in the LPF being cancelled upon which all rights of the Company to the LPF will immediately cease and may further result in the Company being subject to fines and penalties imposed by the relevant authorities. Such cancellation, fines and penalties may adversely affect the financial performance of the Group. However, the Company will during the tenure of the LPF relating to Simunjan seek to comply with all the terms of the said LPF and would continuously take appropriate measures to mitigate such risks.

(j) *Acquirees which are formed as Joint Venture Companies*

Upon completion of the proposed acquisitions of Splendid, Biawak, Ekang, Lundu, Selangau and Ulu Teru, the Company will be bound by the terms and conditions of the various JVAs. The breach of any terms of any of the said JVAs may result in the termination of the affected JVAs and this may have an adverse effect on the operations and financial performance of the Group. However, the Company will during the tenure of the JVAs seek to comply with all the terms of the JVAs and would continuously take appropriate measures to mitigate such risks.

(k) *Title Conditions*

Some of the Plantation Estates are titled lands. Aecordingly, there are certain conditions imposed on such titles. Breach of any such conditions will entitle the land authorities to forfeit the affected land and impose fines and penalties whieh may adversely affect the financial performance of the Group. However, the Company seeks to mitigate this risk by taking steps to ensure compliance of all sueh conditions.

### 7.3 Future Prospects

After the Proposed Acquisitions, the total gross land bank owned by the RSB Group would be increased from 31,645 Ha to approximately 91,500 Ha., of which approximately 38,000 Ha. of the plantable areas are yet to be planted. Therefore, there is a great potential for future income arising from the development of such plantable land. Furthermore, coupled with the establishment of a continued new planting and replanting program, the Board believes that the profit contribution from the Acquirees and Simunjan will grow in line with higher FFB yield per Ha when the average age profiles of the oil palms near maturity. With this, the Board believes that the Proposed Acquisitions would put the RSB Group on a strong footing to becoming a major player in the oil palm cultivation business in Malaysia.

Based on the maturity profile of the Plantation Estates as detailed in Section 2.9.2 of Part A of this Circular, approximately 8,127 Ha. out of the 23,013 Ha. of the planted area are immature. Accordingly, the Board expects higher FFB yield from these immature areas within the next 1 to 5 years when the oil palm trees attain maturity.

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## 8. EFFECTS OF THE PROPOSALS

The Proposed M&A Amendments will not have any impact on the NA, NA per Share, gearing and earnings of the Group, and the share capital, dividend policy and substantial shareholders' shareholdings of the Company. The effects of the Proposed Acquisitions are as follows:-

### 8.1 Share Capital

The proforma effects of the Proposed Acquisitions on the issued and paid-up share capital of the Company are as follows:-

| | No. of RSB Shares | Nominal value of RSB Shares (RM) | No. of ICPS | Nominal value of ICPS (RM) | Total share capital (RM) |
|---|---|---|---|---|---|
| Existing issued and paid-up share capital as at the LPD | 128,266,800 | 64,133,400 | - | - | 64,133,400 |
| To be issued pursuant to the Proposed Acquisitions | 28,331,400 | 14,165,700 | 193,972,857 | 96,986,429 | 111,152,129 |
| Enlarged issued and paid-up share capital after the Proposed Acquisitions | 156,598,200 | 78,299,100 | 193,972,857 | 96,986,429 | 175,285,529 |
| Upon full conversion of ICPS | 193,972,857 | 96,986,429 | (193,972,857) | (96,986,429) | - |
| Enlarged issued and paid-up share capital after the full conversion of ICPS | 350,571,057 | 175,285,529 | - | - | 175,285,529 |

### 8.2 NA, NA per Share and Gearing

The proforma effects of the Proposed Acquisitions on the consolidated NA, NA per Share and gearing of RSB based on the consolidated audited financial statements of RSB and that of the Acquirees for the financial years/periods ended 31 August 2009 are as follows:-

| Group Level | Audited as at 31.08.09 *RM'000* | #Adjusted Audited as at 31.08.09 *RM'000* | After Proposed Acquisitions *RM'000* | After Full Conversion of ICPS *RM'000* |
|---|---|---|---|---|
| Share capital - ordinary | 64,133 | 64,133 | 78,299 | 175,286 |
| Share capital – ICPS | - | - | 96,987 | - |
| Share premium | 6,866 | 6,866 | 184,709 | 184,709 |
| Merger reserve/(deficit) | (44,630) | (77,446) | (296,228) | (296,228) |
| Retained profits | 61,448 | 60,700 | ^14,853 | ^14,853 |
| Shareholders' Funds/ NA# | 87,817 | 54,253 | 78,620 | 78,620 |
| | | | | |
| No. of RSB Shares ('000) | 128,267 | 128,267 | 156,598 | 350,571 |
| NA per RSB Share (RM) | 0.68 | 0.42 | 0.50 | 0.22 |
| | | | | |
| Total borrowings (RM'000) | 154,158 | 154,172 | 451,590 | 451,590 |
| Gearing * (times) | 1.8 | 2.8 | * 5.7 | * 5.7 |

*Notes:-*

\# *The adjusted NA of the RSB Group takes into account the effects of the recent acquisitions by RSB of 100% equity interest in Lumiera Enterprise Sdn Bhd and 85% equity interest in Woodijaya Sdn Bhd which were completed on 22 December 2009.*

^ *After taking into consideration estimated expenses incidental to the Proposals of RM2.0 million.*

* *The gearing of the proforma enlarged RSB Group appears high after the Proposed Acquisitions mainly due to the recognition of the additional deficit merger reserves amounting to RM218.78 million upon the consolidation of the Acquirees by RSB using the merger accounting method. Had the purchase method of accounting been adopted, the proforma NA of the enlarged RSB Group after the Proposed Acquisitions would have been higher and the proforma gearing of RSB would be lower at approximately 1.2 times.*

## 8.3 Earnings and EPS

The Proposed Acquisitions are expected to contribute positively to the earnings of the RSB Group for the financial period ending 31 December 2010 as the Acquirees and Simunjan, on an aggregate basis, have started generating net profits.

As the oil palm plantation matures over the next few years, the Acquirees will continue to contribute positively to the earnings of the enlarged RSB Group. Among the Acquirees, Novelpac, Ekang and Ulu Teru as well as Simunjan which are still at an infancy stage, represent the additional plantation land bank which would contribute to the long term growth of the enlarged RSB Group.

However, resulting from the issuance of new RSB Shares pursuant to the Proposed Acquisitions and the subsequent eonversion of ICPS into new RSB Shares, the EPS of the Company will be accordingly diluted.

For illustration purposes only, based on the audited financial statements of RSB Group for the FYE 31 August 2009 and the latest audited financial statements of the respective Acquirees, the proforma effects of the Proposed Acquisitions on the earnings and EPS of the RSB Group assuming that such proposals had been completed at the beginning of the said financial periods are as follows:-

| | | (I) | (II) |
|---|---|---|---|
| | | After Proposed Acquisitions | After (II) and assuming full conversion of ICPS |
| | RM'000 | RM'000 | RM'000 |
| Audited PAT of RSB Group for FYE 31.8.2009 | 13,631 | 13,631 | 13,631 |
| Aggregate audited PAT/(LAT) of the Aequirees* | - | (1,500) | (1,500) |
| | 13,631 | 12,131 | 12,131 |
| No. of ordinary shares in issue ('000) | 128,267 | 156,598 | 350,571 |
| EPS (sen) | 10.63 | 7.75 | 3.46 |

** Arrived at based on the aggregate audited PAT/LAT of the Acquirees as follows:-*

*(i) Jayamax, Lubuk Tiara, Tabib, Biawak, Ekang, Lundu and Ulu Teru for the FYE 31 July 2009;*

*(ii) Novelpac for FYE 31 March 2009; and*

*(iii) Selangau for FYE 30 April 2009.*

Please note that the above illustration is based on the historical performance of the Acquirees and does not take into consideration any future profit contribution of the Acquirees.

## 8.4 Dividends

The Proposals are not expected to affect the dividend policy of the Company as future dividend payable by the Company would be dependent on inter-alia, the future profitability and cash flow position of the RSB Group.

## 8.5 Substantial Shareholder's shareholding

The effects of the Proposed Acquisitions on the substantial shareholders' shareholdings of RSB based on the Register of Substantial Shareholders of RSB as at the LPD are as follows:-

| | Existing as at LPD | | | | After the Proposed Acquisitions | | | | Upon full conversion of ICPS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| | No of Shares | % | No of Shares | % | No of Shares | % | No of Shares | % | No of Shares | % | No of Shares | % |
| TTSH | 31,037,594 | 24.20 | - | - | 35,124,394 | 22.43 | [a] 12,264,221 | 7.83 | 35,249,523 | 10.63 | [a] 185,077,408 | 52.79 |
| RHSA | 15,073,100 | 11.75 | - | - | 15,073,100 | 9.63 | - | - | 15,073,100 | 4.30 | - | - |
| PAA | 10,903,600 | 8.50 | [b] 17,033,900 | 13.28 | 10,903,600 | 6.96 | [b] 24,927,479 | 15.92 | 10,903,600 | 3.11 | [b] 41,685,572 | 11.89 |
| TSL | 7,047,500 | 5.49 | [c] 47,410,994 | 36.96 | 11,134,300 | 7.11 | [c] 59,391,373 | 37.93 | 13,259,429 | 3.78 | [c] 78,274,595 | 22.33 |
| TTSE | 1,300,300 | 1.01 | [d] 15,073,100 | 11.75 | 1,300,300 | 0.83 | [d] 22,966,679 | 14.67 | 1,300,300 | 0.37 | [d] 39,724,772 | 11.33 |
| Tan Sri Tiong | 300,000 | 0.23 | [e] 69,366,794 | 54.08 | 300,000 | 0.19 | [e] 97,698,194 | 62.39 | 300,000 | 0.09 | [e] 291,519,732 | 83.16 |
| Rejang Height | - | - | - | - | - | - | - | - | 16,758,093 | 4.78 | - | - |
| PJP | - | - | - | - | 12,264,221 | 7.83 | | - | 175,275,083 | 50.00 | | - |
| Kendaie | - | - | - | - | 7,893,579 | 5.04 | - | - | 7,893,579 | 2.25 | - | - |

*Notes:-*

*(a)* *Deemed interested by virtue of its interests in PJP and Ladang Hijau pursuant to Section 6A of the Act.*

*(b)* *Deemed interested by virtue of its interests in RHSA, Rejang Height, Kendaie and RHS pursuant to Section 6A of the Act.*

*(c)* *Deemed interested by virtue of its interests in TTSH, RHSA, TTSE, Rejang Height and Kendaie pursuant to Section 6A of the Act.*

*(d)* *Deemed interested by virtue of its interests in RHSA, Rejang Height and Kendaie pursuant to Section 6A of the Act.*

*(e)* *Deemed interested by virtue of his interests in TTSH, TSL, TTSE, PAA, RHSA, RHS, Rejang Healthcare Sdn Bhd, Rejang Height, PJP and Kendaie pursuant to Section 6A of the Act, and his spouse's and children's interests in the Company.*

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## 9. APPROVALS REQUIRED

The Proposals are subject to the approvals being obtained from the following authorities/parties:-

(a) the shareholders of RSB at the forthcoming EGM to be convened for the Proposals;

(b) Bursa Securities for the listing of and quotation for the Consideration Shares and the new RSB Shares arising from the conversion of the ICPS on the Main Market of Bursa Securities, which was obtained on 14 July 2010;

(c) Sarawak State Authority and other minority shareholders/joint venture partners for their consents for the Proposed Acquisitions, which was obtained on 3 April 2009 and 16 September 2009 respectively; and

(d) any other relevant authorities/parties (if required).

All of the nine (9) SSAs and the Agreement pertaining to the Proposed Acquisitions are not inter-conditional upon one another, i.e. the Company may decide to proceed with the acquisition of any one or more of the Acquirees and/or Simunjan.

The ten (10) Supplemental Agreements are supplemental to each of the nine (9) SSAs and the Agreement respectively.

The Proposed M&A Amendments and the Proposed Acquisitions are inter-conditional.

## 10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

Save as disclosed below, none of the Directors and/or major shareholders of the Company or any persons connected with them is expected to have any interest, whether directly or indirectly in the Proposals:-

(a) Tan Sri Tiong is the Executive Chairman and a major shareholder of RSB. He is deemed to be interested in the Proposals by virtue of his substantial interests in the Acquirees and Simunjan;

(b) TTSH is a major shareholder of RSB. It is deemed interested in the Proposals by virtue of it being a Vendor and its substantial interests in the some of the Acquirees;

(c) TSL is a major shareholder of RSB. It is deemed interested in the Proposals by virtue of it being a Vendor and its substantial interests in the some of the Acquirees and Simunjan;

(d) TKK and Tiong Chiong Ie are Directors of RSB. They are deemed interested in the Proposals by virtue of their family relationship with Tan Sri Tiong and their substantial interests in some of the Acquirees;

(e) PAA and TTSE are major shareholders of RSB. PAA and TTSE are deemed interested in the Proposals by virtue of their substantial interests in some of the Acquirees and Simunjan; and

(f) TCO is a Director of RSB. He is deemed interested in the Proposals by virtue of his position and his family relationship with Tan Sri Tiong.

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The shareholdings of the aforementioned interested persons in RSB as at the LPD are as follows:-

| | Direct | | Indirect | |
|---|---|---|---|---|
| | No of Shares | % | No of Shares | % |
| Tan Sri Tiong | 300,000 | 0.23 | [a]69,366,794 | 54.08 |
| TTSH | 31,037,594 | 24.20 | - | - |
| TSL | 7,047,500 | 5.49 | [b]47,410,994 | 36.96 |
| PAA | 10,903,600 | 8.50 | [c]17,033,900 | 13.28 |
| TTSE | 1,300,300 | 1.01 | [d]15,073,100 | 11.75 |
| TKK | [e]1,813,600 | 1.41 | [f]2,027,300 | 1.58 |
| TCO | 737,900 | 0.58 | [g]26,000 | 0.02 |
| Tiong Chiong Ie | 200,000 | 0.16 | [h]484,000 | 0.38 |

*Notes:-*

*(a) Deemed interested by virtue of his interests in TTSH, TSL, TTSE, PAA, RHSA, RHS and Rejang Healthcare pursuant to Section 6A of the Act, and his spouse's and children's interests in the Company.*

*(b) Deemed interested by virtue of its interests in TTSH, TTSE and RHSA pursuant to Section 6A of the Act.*

*(c) Deemed interested by virtue of its interests in RHSA and RHS pursuant to Section 6A of the Act.*

*(d) Deemed interested by virtue of its interest in RHSA pursuant to Section 6A of the Act.*

*(e) Shares held through Mayban Nominees (Tempatan) Sdn Bhd.*

*(f) Deemed interested by virtue of his interest in Biru-Hijau Enterprise Sdn Bhd pursuant to Section 6A of the Act.*

*(g) Deemed interested by virtue of his spouse's interest in the Company.*

*(h) Deemed interested by virtue of his interest in Priharta Development Sdn Bhd pursuant to Section 6A of the Act.*

In view of the above, the Proposed Acquisitions are regarded as related party transactions pursuant to Paragraph 10.08(4) of MMLR.

Accordingly, Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie have abstained and will continue to abstain from voting and deliberating on the Proposals at all Board meetings of the Company. The abovementioned Directors and major shareholders will also abstain and will undertake to ensure that any persons connected with them will abstain from voting on the resolutions pertaining to the Proposals to be tabled at the forthcoming extraordinary general meeting, in respect of their direct and/or indirect shareholdings in RSB.

RSB had on 22 December 2009, completed the acquisitions of 100% equity interest in Lumiera Enterprise Sdn Bhd and 85% of equity interest in Woodijaya Sdn Bhd for an aggregate purchase consideration of RM58.59 million, as announced on 31 July 2009 ("**Acquisitions**"), whereby, Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie are deemed interested in the Acquisitions and are regarded as related party transactions pursuant to Paragraph 10.08(4) of MMLR.

Save for the Proposals, the Acquisitions and the recurrent related party transactions detailed in RSB's circular to shareholders dated 14 January 2009, the RSB Group has not transacted with Tan Sri Tiong, TTSH, TSL, PAA, TTSE, TKK, TCO and Tiong Chiong Ie during the preceding twelve (12) months prior to the date of this Circular.

## 11. DIRECTORS' STATEMENT

After taking into consideration all aspects of the Proposals, the Board (except for Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie, who are deemed interested in the Proposals) is of the opinion that the Proposals are fair and reasonable and in the best interest of the RSB Group.

## 12. INDEPENDENT ADVISER

In view of the interests of certain Directors and major shareholders of RSB as set out in Section 10 of Part A of this Circular, the Proposed Acquisitions are deemed as related party transactions. In accordance to 10.08(2) of the MMLR, the Board has appointed PIVB as the independent adviser to comment as to whether the Proposals are fair and reasonable, whether the Proposals are to the detriment of the non-interested shareholders of RSB and whether the non-interested shareholders of RSB should vote in favour of the resolutions pertaining to the Proposals at the forthcoming EGM.

The independent advice letter for the Proposals is set out in Part B of this Circular. Shareholders of RSB are advised to read and consider carefully the contents and recommendation as set out in the independent advice letter before voting on the resolutions pertaining to the Proposals at the forthcoming EGM.

## 13. AUDIT COMMITTEE'S STATEMENT

After taking into consideration all aspects of the Proposals, the audit committee of RSB, is of the opinion that the Proposals are fair and reasonable and on normal commercial terms. Furthermore the Proposals are in the best interest of the RSB and are not detrimental to the interest of the minority shareholders of RSB. The audit committee of RSB has sought preliminary independent advice from the Independent Adviser while forming its views relating to the Proposals.

## 14. DIRECTORS' RECOMMENDATION

The Board (save for Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie who are interested in the Proposals), having taken into consideration all aspects of the Proposed Acquisitions, is of the opinion that the terms of the Proposals are fair and reasonable to and are in the best interest of the Company. Accordingly, the Board (save for Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie) recommends that you vote in favour of the resolutions pertaining to the Proposals at the forthcoming EGM.

## 15. OUTSTANDING CORPORATE EXERCISES

The Board confirms that, as at the date of this Circular, there are no other proposals which have been announced by the Company but not yet completed, save and except for the Proposals, which are the subject matters of this Circular. The Proposals are not conditional upon any other corporate proposals.

## 16. ESTIMATED TIME FRAME FOR COMPLETION

The tentative timetable in relation to the Proposals is as follows:-

| Date | Events |
|---|---|
| Mid August 2010 | EGM to approve the Proposals |
| Mid September 2010 | - Listing of and quotation for the Consideration Shares<br>- Completion of the Proposals |

Subject to the approvals stated in Section 9, Part A of this Circular and barring unforeseen circumstances, the Board of RSB expects the Proposals to be completed by the third ($3^{rd}$) quarter of 2010.

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## 17. EGM

The EGM, notice of which is enclosed in this Circular, will be held at the Conference Room, 3rd Floor, No. 85 & 86, Pusat Suria Permata, Jalan Upper Lanang 12A, 96000 Sibu, Sarawak on Friday, 20 August 2010 at 11.30 a.m., for the purpose of considering, and if thought fit, passing the relevant resolutions to give effect to the Proposals.

If you are unable to attend and vote at the EGM in person, please complete the enclosed Form of Proxy in accordance with the instructions therein and return it to the Registered Office of the Company at No. 85-86, Pusat Suria Permata, Jalan Upper Lanang 12A, 96000 Sibu, Sarawak as soon as possible and in any event not less than forty eight (48) hours before the appointed time set for the EGM and any adjournment thereof. The lodging of the Form of Proxy does not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

## 18. FURTHER INFORMATION

Shareholders are advised to read both this Circular and the IAL issued by PIVB (as enclosed in Part B of this Circular) as well as the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board
**RIMBUNAN SAWIT BERHAD**

**BONG WEI LEONG**
**INDEPENDENT DIRECTOR**

## PART B

## INDEPENDENT ADVICE LETTER BY PIVB TO THE NON-INTERESTED SHAREHOLDERS OF RSB IN RELATION TO THE PROPOSALS

**PUBLIC INVESTMENT BANK**
大众投资银行

**Registered Office:**

27th Floor
Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur

27 July 2010

**To: The non-interested shareholders of Rimbunan Sawit Berhad**

Dear Sir/Madam,

**INDEPENDENT ADVICE LETTER ("IAL") TO THE NON-INTERESTED SHAREHOLDERS OF RSB IN RELATION TO THE PROPOSALS**

## 1. PREAMBLE

This IAL is prepared for inclusion in the circular to the shareholders of RSB dated 27 July 2010 ("Circular") in relation to the Proposals and should be read in conjunction with the same. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the "*Definitions*" section of the Circular, except where the context otherwise requires or where otherwise defined in this IAL.

## 2. INTRODUCTION

On behalf of the Board, MIMB had on 30 December 2009 announced that the Company had entered into nine (9) separate SSAs and the Agreement in relation to the proposed acquisitions of the equity interests in the Acquirees and the assignment of rights relating to Simunjan from the respective Vendors for an aggregate purchase consideration of RM286,104,837 to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 191,749,239 ICPS at an issue price of RM1.30 per Share/ICPS.

On 16 April 2010, MIMB had, on behalf of RSB, announced that the Company had entered into ten (10) Supplemental Agreements for the purpose of revising the total purchase consideration of the Proposed Acquisitions from RM286,104,837, to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 191,749,239 ICPS at an issue price of RM1.30 per Share/ICPS, to RM288,995,534 ("Purchase Considerations"), to be wholly satisfied through the issuance of 28,331,400 new RSB Shares and 193,972,857 ICPS at an issue price of RM1.30 per Share/ICPS, as a result of certain adjustments made to the market valuation for the Plantation Estates, as appraised by HB Miri and HB Sarawak.

On 23 July 2010, MIMB announced on behalf of RSB, that the Company and the respective Vendors agreed in writing to extend the deadline for the fulfillment of the conditions precedent to the SSAs by a further four (4) months to 30 October 2010.

Given the interests of certain directors/major shareholders of RSB in the Proposed Acquisitions and that the Proposed Acquisitions and the Proposed M&A Amendments are inter-conditional, the Proposals are deemed to be related party transactions pursuant to the MMLR. Accordingly, the Board had on 20 November 2008 appointed PIVB as the Independent Adviser to advise the non-interested shareholders of RSB in relation to the Proposals.

The purpose of this IAL is to provide the non-interested shareholders of RSB with an independent evaluation on the fairness and reasonableness of the Proposals in so far as the non-interested shareholders of RSB are concerned and whether the Proposals are to the detriment of the non-interested shareholders of RSB as well as to provide our recommendations in relation to the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM, subject to the scope and limitations of our role and evaluation as specified herein.

This IAL is solely for the use of the non-interested shareholders of RSB for the purpose of considering the Proposals and should not be used or relied upon by any other party.

PUBLIC INVESTMENT BANK BERHAD (20027-W)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Head Office : 25th Floor, Menara Public Bank, 146 Jalan Ampang, 50450 Kuala Lumpur
Peti Surat 10988, 50732 Kuala Lumpur. Telephone : 03 - 21669382 (15 lines) Facsimile : 03 - 21669362
(Wholly-owned subsidiary of Public Bank Berhad)

**NON-INTERESTED SHAREHOLDERS OF RSB ARE ADVISED TO READ AND UNDERSTAND BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES THEREIN AND TO CONSIDER CAREFULLY OUR RECOMMENDATIONS CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM.**

**IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, ACCOUNTANTS, SOLICITORS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

## 3. DETAILS OF THE PROPOSALS

The details of the Proposals, including the salient terms of the SSAs, Agreement and Supplemental Agreements, the salient terms of the ICPS and information on the Vendors, are set out in Sections 2, 3, 4 and 5 of Part A of this Circular. In addition, the non-interested shareholders should take note of the following information.

### 3.1 Extension of time for field planting on certain estate land

We noted from the valuation reports dated 27 October 2009 prepared by HB Miri for the plantation estates of the Acquirees that the net plantable areas for certain estates have not been fully planted as at 31 August 2009 (being the material date of valuation), which is beyond the stipulated deadline in the Provisional Lease of State Land titles documents, the details of which are as follows:

| Estate/Land title | Date of issue of the lease | Condition on field planting | Status as at LPD |
|---|---|---|---|
| **Novelpac estate** | | | |
| - Provisional Lease Lot 11, Buloh Land District ("LD") | 28 May 1999 | Shall commence within three (3) years from the issue of the lease, i.e. 28 May 1999, and sball complete at least 50% of the planting of the net plantable area at the end of the seventh ($7^{th}$) year. The whole of the net plantable area shall be fully planted by the end of the tenth ($10^{th}$) year of the issue of the lease of Novelpac estate | Approximately 1,711.77 Ha. or 55.6% of the net plantable area has yet to be planted with oil palm.<br><br>An application dated 11 February 2010 was made to the relevant land office for an extension of the planting deadline for 3 years until 10 February 2013. |
| - Provisional Lease Lot 12, Buloh LD | 31 March 2000 | Shall commence within two (2) years from the issue of the lease, i.e. 31 March 2000. The whole net plantable area shall be fully planted by the end of the fifth ($5^{th}$) year from the date of the issue of the lease of Novelpac estate | |

| Estate/Land title | Date of issue of the lease | Condition on field planting | Status |
|---|---|---|---|
| **Lubuk Tiara**<br><br>- Provisional Lease Lot 69, Sawai LD<br><br>- Provisional Lease Lot 6, Dulit LD | 30 December 1999 | Shall commence within three (3) years from the issue of the lease, i.e. 30 December 1999, and shall complete at least 50% of the planting of the net plantable area at the end of the seventh ($7^{th}$) year. The whole of the net plantable area shall be fully planted by the end of the tenth ($10^{th}$) year of the issue of the lease of Lubuk Tiara estate | Approximately 165.0 Ha. or 3.9% of the net plantable area has yet to be planted with oil palm.<br><br>An application dated 11 February 2010 was made to the relevant land office for an extension of the planting deadline for 3 years until 10 February 2013. |
| **PJP Pelita Biawak**<br><br>- Provisional Lease Lot 5 and Lot 7, Block 3, Stungkor LD<br><br>- Provisional Lease Lot 40, Block 12, Gading Lundu LD<br><br>- Provisional Lease Lot 66 and 67, Block 11, Gading Lundu LD<br><br>- Provisional Lease Lot 247, Block 4 and Lot 385, Block 8, Stungkor LD | 14 January 2002 | Shall commence within two (2) years from the issue of the lease, i.e. 14 January 2002. The whole plantable area shall be fully planted by the end of the fifth ($5^{th}$) year from the date of the issue of the leases of PJP Pelita Biawak estate | Approximately 1,411.69 Ha. or 36.8% of the net plantable area has yet to be planted with oil palm.<br><br>An application dated 11 February 2010 was made to the relevant land office for an extension of the planting deadline for 3 years until 10 February 2013. |

## 4. SCOPE AND LIMITATIONS TO THE EVALUATION OF THE PROPOSALS

PIVB was not involved in the formulation or any negotiations or discussions pertaining to the terms and conditions of the Proposals. Accordingly, our evaluation of the Proposals are based on the following sources of information and documents:

(i) information contained in Part A of the Circular and the appendices thereto;

(ii) valuation reports dated 27 October 2009 and 24 November 2009 prepared by HB Miri and HB Sarawak (collectively referred to as "Valuers"), respectively for the Plantation Estates ("Valuation Reports");

(iii) Valuers' letters in relation to their updated independent views on the market valuation of the Plantation Estates as at 28 February 2010 ("Updated Valuation Letters");

(iv) other relevant information, documents, confirmations and representation provided by the management and representatives of RSB or obtained in or derived from discussions with the management of RSB;

(v) SSAs, Agreement and Supplemental Agreements; and

(vi) other publicly available information which we deemed relevant.

We have relied on the Company, and its Directors and management to take due care to ensure that all information, documents and representations provided to us by the Company to facilitate our evaluation are accurate, valid and complete in all material respects. Accordingly, we have not independently verified such information, whether written or verbal, and shall not assume responsibility for its reasonableness, reliability, accuracy and/or completeness of such information. We express no opinion on any such information and have not undertaken any independent investigation into the business and affairs of RSB and all relevant parties involved in the Proposals.

We have obtained responsibility statements from the Board that all relevant material facts and information essential to our evaluation have been disclosed to us and they have seen this IAL and they, individually and collectively, accept full responsibility for the accuracy of such information contained herein and confirmed that after making all reasonable enquiries and to the best of their knowledge and belief, there is no omission of any fact that would make any information supplied to us incomplete, misleading and/or inaccurate.

As the Independent Adviser, we have evaluated the Proposals and in rendering our advice, we have considered those factors which we believe are of general importance to the assessment of the implications of the Proposals and would be of relevance and general concern to the non-interested shareholders of RSB.

Our evaluation and recommendations expressed herein are confined to the Proposals. Our scope as the Independent Adviser does not extend to expressing any opinion on the commercial merits of the Proposals as this remains the sole responsibility of the Board.

**PIVB's views and recommendations in this IAL are to the non-interested shareholders at large and not to any non-interested shareholder individually. Hence, in carrying out our evaluation, we have not given any consideration to the specific objectives, financial situation and particular needs of any individual non-interested shareholder or any specific group of non-interested shareholders.**

We recommend that any individual non-interested shareholder or group of non-interested shareholders who is in doubt as to the action to be taken or require advice in relation to the Proposals in the context of their individual objectives, financial situation or particular needs, to consult their respective stockbrokers, bankers, solicitors, accountants or other professional advisers. We shall not be liable for any damage or loss of any kind sustained or suffered by an individual non-interested shareholder or any group of non-interested shareholders in reliance on the opinion stated herein for any purpose whatsoever that is particular to such individual non-interested shareholder or group of non-interested shareholders.

## 5. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

The details of the Directors and/or major shareholders and/or any persons connected to them who are expected to have an interest, whether direct or indirectly in the Proposals are set out in Section 10 of Part A of the Circular.

Accordingly, the Interested Directors, namely Tan Sri Tiong, TKK, TCO and Tiong Chiong Ie have abstained and will continue to abstain from voting and deliberating on the Proposals at all Board meetings. The Interested Directors and interested major shareholders, namely, Tan Sri Tiong, TKK, TCO, Tiong Chiong Ie, TTSH, TSL, PAA and TTSE will abstain and will undertake to ensure that any persons connected to them will abstain from voting on the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM, in respect of their direct and/or indirect shareholdings in RSB.

## 6. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, we have taken into consideration the following in arriving at our opinion:

| | | |
|---|---|---|
| (a) | Rationale for the Proposals | Section 7 |
| (b) | Reasonableness of the Purchase Considerations | Section 8 |
| (c) | Evaluation of the issue price for the Consideration Shares and ICPS | Section 9 |
| (d) | Salient terms of the ICPS | Section 10 |
| (e) | Effects of the Proposals | Section 11 |
| (f) | Overview and prospects of the Malaysian economy and the palm oil industry in Malaysia | Section 12 |
| (g) | Prospects of the enlarged RSB Group | Section 13 |
| (h) | Risk factors associated with the Proposed Acquisitions | Section 14 |
| (i) | Other considerations | Section 15 |

The views expressed by PIVB in this IAL are, amongst others, based on the current economic, market and other conditions prevailing as at the latest practicable date. In this respect, the non-interested shareholders should take further note of any announcements made subsequent to the date of this IAL which are relevant to their consideration of the Proposals before making a decision to vote for or against the Proposals at the forthcoming EGM.

## 7. RATIONALE FOR THE PROPOSALS

### 7.1 Rationale for the Proposed Acquisitions

The rationale for the Proposed Acquisitions as set out in Section 6.1 of Part A of the Circular are as follows:

*"The Proposed Acquisitions are consistent with RSB's plans to continue to expand its oil palm cultivation business by acquiring new plantation land bank in Malaysia, particularly in Sarawak.*

*After the Proposed Acquisitions, the total gross land bank owned by the RSB Group would increase from 31,645 Ha to approximately 91,500 Ha., of which approximately 39,560 Ha. or 43% of the enlarged land bank has been planted. With the expected improvement of oil palm production yield from the plantation estates held by the Acquirees and Simunjan over the next few years, the RSB Group is expected to benefit from the improving revenue and profit contributions from the Acquirees and Simunjan.*

*More importantly, the Proposed Acquisitions would propel the enlarged RSB Group to become one of the major palm oil plantation companies listed in Malaysia. The creation of an enlarged RSB Group would be capable of extracting greater business and cost synergies, whilst boosting the profitability and assets base.*

*In addition, the Proposed Acquisitions would also remove the requirement to seek annual shareholders' approval for various existing related party transactions, thereby improving transparency of the related party transactions involving the RSB Group. In summary, the Proposed Acquisitions represent a strategic investment by RSB and are expected to contribute positively to the earnings as well as the shareholders' value of the RSB Group in the medium to long term."*

The following is our evaluation of the rationale which is premised on the main points in the rationale above.

(i) **Expansion of the RSB Group's oil palm cultivation business by acquiring new plantation land bank in Malaysia, particularly in Sarawak**

The Proposed Acquisitions will enable the RSB Group to expand its oil palm cultivation business, particularly in Miri, Sibu, Kuching, Samarahan and Sri Aman Divisions of Sarawak where these plantation estates are located, which would be beneficial to the RSB Group as the RSB Group's existing oil palm plantations and palm oil mills are all located in Miri and Sibu, Sarawak.

The total gross land bank owned by the RSB Group would increase by approximately 59,800 Ha. or approximately 189% after the completion of the Proposed Acquisitions.

(ii) **With the expected improvement of oil palm production yield from the plantation estates held by the Acquirees and Simunjan over the next few years, the RSB Group is expected to benefit from the improving revenue and profit contributions from the Acquirees and Simunjan**

As at 28 February 2010, approximately 23,012.74 Ha. or 38% of the total gross land bank of the Acquiree Companies and the Simunjan estate has been planted. The details of the plantation hectarage and age profile of the oil palm trees as at 28 February 2010 of the plantation estates of the Acquirees and Simunjan as extracted from the Updated Valuation Letters are as follows:

| | Matured Area | | Immatured Area | | Total planted area | |
|---|---|---|---|---|---|---|
| **Estates** | **Ha.** | **%** | **Ha.** | **%** | **Ha.** | **%** |
| Jayamax | 2,671.65 | 65.27 | 1,421.73 | 34.73 | 4,093.38 | 100.00 |
| Novelpac-Puncakdana | 45.90 | 3.35 | 1,323.54 | 96.65 | 1,369.44 | 100.00 |
| Lubuk Tiara | 1,438.00 | 35.00 | 2,670.00 | 65.00 | 4,108.00 | 100.00 |
| Tabib | 359.46 | 100.00 | - | - | 359.46 | 100.00 |
| PJP Pelita Biawak | 2,428.80 | 100.00 | - | - | 2,428.80 | 100.00 |
| PJP Pelita Ekang-Banyok | - | - | 190.58 | 100.00 | 190.58 | 100.00 |
| Lundu | 4,642.08 | 100.00 | - | - | 4,642.08 | 100.00 |
| PJP Pelita Selangau | 3,062.80 | 100.00 | - | - | 3,062.80 | 100.00 |
| Ulu Teru | 236.75 | 15.53 | 1,287.96 | 84.47 | 1,524.71 | 100.00 |
| Simunjan | - | - | 1,233.49 | 100.00 | 1,233.49 | 100.00 |
| **Total** | **14,885.44** | **64.68** | **8,127.30** | **35.32** | **23,012.74** | **100.00** |

*(Source: Updated Valuation Letters)*

Based on the above table, approximately 65% of the oil palm trees planted are matured oil palm trees aged above thirty (30) months. This augurs well for the Group as generally, oil palm tree will start bearing fruits after thirty (30) months of planting and will continue to be productive for the next twenty (20) to thirty (30) years. Further, there will be an expected increase in FFB yield in the future particularly when the relatively young oil palm trees, which accounted for approximately 8,127 Ha. or 35% of the existing planted areas of the estates of the Acquirees and Simunjan mature.

Following the completion of the Proposed Acquisitions, RSB will need to fund the development costs for the remaining vacant plantable areas into oil palm plantations. Nevertheless, the Proposed Acquisitions are expected to lead to further economies of scale in the RSB Group's plantation businesses by leveraging on the common infrastructures of the enlarged RSB Group to create greater operating synergies and cost savings arising from pooling of assets and more efficient allocation of resources. In addition, the RSB Group may be able to benefit from operational synergies arising from the sharing of expertise and the resultant adoption of best agricultural practices in relation to the management of plantation estates between the Acquirees, Simunjan and RSB.

Premised on the above, the Proposed Acquisitions are expected to strengthen the RSB Group's involvement in the oil palm plantations businesses where the enlarged RSB Group is expected to benefit from amongst others, extracting cost synergies, best practice yields and quality across all plantation estates.

**(iii) The Proposed Acquisitions would also remove the requirement to seek annual shareholders' approval for various existing related party transactions, thereby improving transparency of the related party transactions involving the RSB Group**

We noted from the circular to shareholders of RSB dated 19 January 2010 to seek the approval from the shareholders of RSB for the proposed renewal of and new shareholder mandate for recurrent related party transactions ("RRPT"), the RSB Group was expected to enter into the following transactions with Jayamax, Lubuk Tiara, Splendid and Ulu Teru:

| Name of companies | Nature of transactions | Estimated value from 10 February 2010 to the next annual general meeting (RM) |
|---|---|---|
| Jayamax | • Purchase of FFB<br>• Sales of seedlings | 20,000,000<br>150,000 |
| Lubuk Tiara | • Purchase of FFB<br>• Sales of seedlings | 12,500,000<br>150,000 |
| Splendid | • Purchase of FFB<br>• Plant and machinery rental | 3,400,000<br>120,000 |
| Ulu Teru | • Purchase of FFB<br>• Sales of empty bunches ash | 320,000<br>100,000 |
| **Total** | | **36,740,000** |

Based on the above and following the completion of the Proposed Acquisitions, approximately RM36.74 million representing 18.5% of the total estimated value of the RRPT will no longer be applicable. However, there may be further RRPT between the related parties with the enlarged RSB Group as currently, most of the FFB from the estates owned by the Acquirees are sent to the palm oil mills owned by the related parties. Nevertheless, the Board has in place an internal control system to ensure that transactions with mandated related parties are undertaken on normal commercial terms not prejudicial to the interests of the minority shareholders. In addition, the interested directors are required to abstain from deliberating and voting at relevant Board meetings in relation to the said RRPTs. Further, RSB is required to seek a mandate from the shareholders in accordance with Paragraph 10.09 of the MMLR.

Premised to the above, we are of the view that the rationale for the Proposed Acquisitions are fair and reasonable, and are in the long-term interest of the enlarged RSB Group. The Proposed Acquisitions will enable the RSB Group to expand its palm oil cultivation business which is expected to contribute positively to the earnings and shareholders' value of the enlarged RSB Group in the medium to long term once the synergistic benefits and economies of scale are realised by the enlarged RSB Group.

### 7.2 Rationale for the Proposed M&A Amendments

The rationale for the Proposed M&A Amendments is set out in Section 6.2 of Part A of the Circular. The Proposed M&A Amendments and the Proposed Acquisitions are inter-conditional upon each other. Hence, we are of the view that the rationale for the Proposed M&A Amendments is fair and reasonable as the Proposed M&A Amendments are necessary to facilitate the issuance of ICPS pursuant to the Proposed Acquisitions.

## 8. REASONABLENESS OF THE PURCHASE CONSIDERATIONS

The basis of determining the Purchase Considerations for the Proposed Acquisitions are set out in Section 2.2 of Part A of the Circular. In evaluating the reasonableness of the Purchase Considerations, we have considered the following factors which are elaborated in the following sections:

(i) the adjusted audited NTAs of the Acquirees as at 31 August 2009 and the adjusted value of the Simunjan estate; and

(ii) the market value of the estates owned by the Acquirees and the Simunjan estate.

### 8.1 The adjusted audited NTAs of the Acquirees and adjusted value of the Simunjan estate

The respective computation of the adjusted NTAs of the Acquirees based on the audited NTA/NL of the Acquirees as at 31 August 2009 and the surplus arising from the revaluation of the underlying plantation estates of the Acquirees and the adjusted value of the Simunjan estate are set out below:

| Acquirees | (A) Audited NTA/(NL) as at 31.08.2009 (RM'000) | (B) * Market value (RM'000) | (C) # NBV (RM'000) | (D)=A+B-C Adjusted NTA as at 31.08.2009 (RM'000) | (E) Interest to be acquired (%) | (F)=DxE Purchase Consideration (RM'000) |
|---|---|---|---|---|---|---|
| Jayamax | (5,222) | 123,620 | 78,020 | 40,378 | 100.00 | 40,378 |
| Novelpac | (2,587) | 59,620 | 44,961 | 12,072 | 85.00 | 10,262 |
| Lubuk Tiara | 7,309 | 122,100 | 83,093 | 46,316 | 65.00 | 30,105 |
| Splendid | 3,897 | 14,550 | 4,620 | 13,827 | 70.00 | 9,679 |
| Biawak | 2,915 | 107,240 | 33,069 | 77,086 | 70.00 | 53,960 |
| Ekang | 923 | 14,560 | 3,924 | 11,559 | 60.00 | 6,935 |
| Lundu | 5,818 | 171,290 | 41,832 | 135,276 | 60.00 | 81,166 |
| Selangau | (25,604) | 84,300 | 37,458 | 21,238 | 60.00 | 12,743 |
| Ulu Teru | 8,513 | 62,040 | 33,916 | 36,637 | 60.00 | 21,982 |
| Simunjan | N/A | 43,000 | ** 21,214 | 21,786 | ^ 100.00 | 21,786 |
| **Total** | **(4,038)** | **802,320** | **382,107** | **416,175** | | **288,996** |

*Notes:*

* *The market values of the respective plantation estates as appraised by the Valuers (as defined herein) based on material date of valuation of 31 August 2009.*

*In addition, please also refer to the updated independent views of HB Miri and HB Sarawak on the market valuation of the Plantation Estates as given in Section 2.9.1 of Part A of this Circular and Appendix VI.*

\# *The NBV of the underlying plantation estates owned by the Acquirees based on the audited financial statements of the respective Acquirees as at 31 August 2009.*

^ *In relation to the entire rights of Simunjan to be assigned.*

** *Being the identified liabilities of Rejang Height (being the vendor of Simunjan), comprising bank borrowings (of RM16.0 million) and trade creditors (of RM5.2 million) based on the unaudited management accounts of Rejang Height as at 31 August 2009 ("Identified Liabilities"), to be assumed by RSB (or its nominee company) pursuant to the Proposed Acquisitions.*

From the above table, we note that the Purchase Considerations for the acquisitions of the equity interests in the Acquirees are approximately equivalent to the share of the adjusted NTAs of the respective Acquirees to be acquired which have taken into account the market values of the Plantation Estates assessed by the Valuers as at 31 August 2009. As for Simunjan, the purchase consideration is based on the valuation of Simunjan estate (under LPF) after deducting the Identified Liabilities of Rejang Height to be assumed by RSB (or its nominee company) as mentioned above.

Therefore, premised on the above, we are of the opinion that the Purchase Considerations are fair and reasonable to the RSB Group.

**8.2 The market value of the estates owned by the Acquirees and the Simunjan estate**

We note from the Valuation Reports that the Valuers have appraised the values of the plantation estates of the Acquirees and Simunjan using the following methods:

(i) Comparison Method

Comparison method is the market approach of comparing the subject property with similar properties that were either transacted recently or listed for sale within the same location or other comparable localities. In comparing properties, due consideration is given to factors such as location, size, building differences, amenities, time element and other relevant factors to arrive at the market value.

(ii) Discounted Cash Flow ("DCF") Method

The DCF method approach is an income based method of valuation. The market value to be derived arises from the benefits of the sales of the oil palm planted thereon. These interest and rights involve the rights to sell the FFB harvested from the plantations.

(iii) Cost Method

Cost method is to estimate the cost of land and infrastructure thereon. It is applied to estimate the present market value of the immature oil palms planting and lands being prepared for the oil palm cultivation on the premise that it could be reasonable to assume that a prospective purchaser would be prepared to pay for an asset and what it would cost him to develop a similar asset.

From the above basis, the Valuers have assessed the market values of the plantation estates of the Acquirees as follows:

| Location | Plantation estates | Market value based on Comparable Method (RM'000) | Market value adopted by the Valuers[1] (RM'000) |
|---|---|---|---|
| Lots 4 and 6, Block 9 Dulit LD, Miri Division, Sarawak | Jayamax | 114,400 | 123,620 |
| Lots 11 & 12, Buloh LD, Sibu Division, Sarawak | Novelpac-Puncakdana | 63,220 | 59,620 |
| Lot 6, Dulit LD and Lot 69, Sawai LD, Miri Division, Sarawak | Lubuk Tiara | 129,270 | 122,100 |
| Lots 18 & 19, Block 6, Telang Usang LD, Miri Division, Sarawak | Tabib | 14,510 | 14,550 |
| Lots 5 & 7, Block 3, Lot 247, Block 4, and Lot 385, Block 8, Stungkor LD, Lots 66 & 67, Block 11, and Lot 40, Block 12, Gading Lundu LD, Kuching Division, Sarawak | PJP Pelita Biawak | 103,680 | 107,240 |
| NCR land at Long Ekang and Long Banyok, Miri Division, Sarawak | PJP Pelita Ekang-Banyok | 18,060 | 14,560 |
| NCR land located at Biawak LD, Kuching Division, Sarawak | Lundu | 160,540 | 171,290 |
| NCR land at Ulu Selangau Land, Sibu Division, Sarawak | PJP Pelita Selangau | 97,240 | 84,300 |
| NCR land located at Ulu Teru NCR Land, Miri Division, Sarawak | Ulu Teru | 73,190 | 62,040 |

*Note:*

*(1)* *DCF Method is used for planted areas of the estates whilst for unimproved land value (i.e. land in an unimproved state/under secondary jungle) is assessed by Comparison Method. Hence, portion of clearing cost and the whole of the infrastructure cost will be added to unimproved land to derive at the basic land value (i.e. value of planted land at the end of the economic life of the oil palms).*

*The DCF Method is an income based method of valuation which involves the following:*

*(i)* *the assessment of the cash inflow from the annual gross sale income of the FFB. As the FFB are sold on an ex-mill basis, this can be derived directly with no further deductions made for other logistical costs of sales;*

*(ii)* *the cash outflow, i.e. the total production costs to derive at the above sales (including general charges, maintenance and manuring costs, harvesting & collecting costs, etc) are deducted to arrive at the net cash flow (net income); and*

*(iii) the net cash flow (income) is discounted at an appropriate rate of return to reflect the investor/entrepreneur's rate of return taking into consideration the risks involved to earn the income (profit), opportunity costs of his capital and other factors.*

*Nevertheless, the DCF Method of valuation is subject to, amongst others, reliability of management's cash flow projections, reasonableness of the discount rate applied, FFB prices, economic, market and other conditions, and other assumptions used by the Valuers which are set out in Appendix V of this Circular.*

*(Source: Valuation Reports – Material date of valuation is 31 August 2009)*

We also noted from the Valuation Reports that the Valuers have determined the market value per Ha. of the plantation estates of the Acquirees based on the Comparison Method of valuation as follows:

| **Plantation estates** | **Areas[1] (Ha.)** | **Market value adopted by the Valuers (RM per Ha.)[2]** | **Adjusted values of comparable transactions[3] (RM per Ha.)** |
|---|---|---|---|
| Jayamax | 4,959.65 | 24,925 | 23,067 |
| Novelpac- Puncakdana | 4,111.14 | 14,502 | 15,378 |
| Lubuk Tiara | 5,604.00 | 21,788 | 23,067 |
| Tabib | 1,101.00 | 13,215 | 13,179 |
| PJP Pelita Biawak | 3,933.00 | 27,267 | 26,362 |
| PJP Pelita Ekang- Banyok | 1,827.06 | 7,969 | 9,885 |
| Lundu | 4,714.70 | 36,331 | 34,051 |
| PJP Pelita Selangau | 3,835.57 | 21,978 | 25,352 |
| Ulu Teru | 5,552.98 | 11,172 | 13,180 |

*Notes:*

1 *Being net land area used by the Valuers in deriving at the market values using the Comparison Method.*

2 *Computed based on the market values adopted by the Valuers divided by the land areas used in the Comparison Method.*

3 *The details of the transactions in which the Valuers have compared against in deriving at the market values of the plantation estates are disclosed in the respective valuation certificates in Appendix V of this Circular.*

*(Source: Valuation Reports – Material date of valuation is 31 August 2009)*

Based on the above table, we noted that the market value per Ha. of each of the plantation estates owned by the Acquirees that were adopted by the Valuers (save for the Jayamax, Tabib, PJP Pelita Biawak and Lundu estates) are lower than that of the market values derived using the Comparison Method. As for Jayamax, Tabib, PJP Pelita Biawak and Lundu estates, the market values adopted by the Valuers are not materially higher (less than 10%) to that of the market values using the Comparison Method. Nevertheless, we noted that Comparison Method should be used as a guide only mainly due to the difficulties in finding a perfect comparable sale and various adjustments are required to be made to arrive at the market value using the Comparison Method.

As for the Simunjan estate, HB Sarawak had used both Cost Method and DCF Method in assessing the market value of Simunjan estate of RM43.0 million and RM44.5 million, respectively. However, in arriving at the final value of the Simunjan estate, HB Sarawak had adopted Cost Method in view that the oil palm plantation has not been fully planted and the planting progress is uncertain for projection.

In addition to the above, the non-interested shareholders of RSB should note that the Valuers have updated their independent views on the market valuation of the Plantation Estates as at 28 February 2010 as set out in Appendix VI of this Circular ("Updated Valuation"). The Updated Valuation is for the purpose of information only and shall not affect the Purchase Considerations for the Proposed Acquisitions. Hence, assuming the purchase considerations for the Proposed Acquisitions are derived in the same manner as the above using the Updated Valuation instead of the valuations as at 31 August 2009, the aggregate purchase considerations for the Proposed Acquisitions would have been higher. The following is a summary of the Updated Valuations as compared to the valuations as at 31 August 2009:

| Plantation estates | Market value adopted by the Valuers as at 31 August 2009 (RM'000) | Updated market value adopted by the Valuers as at 28 February 2010* (RM'000) |
|---|---|---|
| Jayamax | 123,620 | 138,970 |
| Novelpac- Puncakdana | 59,620 | 67,720 |
| Lubuk Tiara | 122,100 | 138,650 |
| Tabib | 14,550 | 14,670 |
| PJP Pelita Biawak | 107,240 | 107,830 |
| PJP Pelita Ekang- Banyok | 14,560 | 15,470 |
| Lundu | 171,290 | 167,920 |
| PJP Pelita Selangau | 84,300 | 88,890 |
| Ulu Teru | 62,040 | 68,940 |
| Simunjan | 43,000 | 48,600 |
| Total | 802,320 | 857,660 |

*Note:*

* *The Updated Valuation of all the Plantation Estates of the Acquiree Companies and Simunjan are higher than the market value as at 31 August 2009 save for Lundu where the Updated Valuation is approximately 2% lower than the market value as at 31 August 2009.*

Premised on the above, the Purchase Considerations for the Proposed Acquisitions are considered fair and reasonable.

## 9. EVALUATION OF THE ISSUE PRICE FOR THE CONSIDERATION SHARES AND ICPS

The basis of arriving at the issue price of the Consideration Shares and ICPS to be issued pursuant to the Proposed Acquisitions is as set out in Section 2.4 of Part A of the Circular. The issue price for both the Consideration Shares and ICPS to be issued pursuant to the Proposed Acquisitions was arrived at based on the five (5)-days WAMP of RSB Shares up to 29 December 2009, being the last full trading day prior to the signing of the SSAs and the Agreement of RM1.30.

In assessing the reasonableness of the issue price of RM1.30 for both the Consideration Shares and ICPS, we have compared it against the following:

| Period | Market price (RM) | Issue price (RM) | Premium / (discount) to the prevailing market price (RM) | (%) |
|---|---|---|---|---|
| Five (5)-day WAMP of RSB Shares up to 29 December 2009, being the last full trading day prior to the signing of the SSAs | 1.30 | 1.30 | - | - |
| One (1)-month WAMP of RSB Shares up to 29 December 2009, being the last full trading day prior to the signing of the SSAs | 1.32 | 1.30 | (0.02) | (1.52) |
| Three (3)-month WAMP of RSB Shares up to 29 December 2009, being the last full trading day prior to the signing of the SSAs | 1.34 | 1.30 | (0.04) | (2.99) |
| Last transacted market price on 29 December 2009, being the last full trading day prior to the signing of the SSAs | 1.30 | 1.30 | - | - |
| Five (5)-day WAMP of RSB Shares up to 23 July 2010, being the latest practicable date prior to the printing of this Circular | 1.46 | 1.30 | (0.16) | (10.96) |
| Last transacted market price on 23 July 2010, being the latest practicable date prior to the printing of this Circular | 1.45 | 1.30 | (0.15) | (10.34) |

*(Source: Bloomberg)*

Premised on the above, we are of the opinion that the issue price of RM1.30 for both the Consideration Shares and ICPS is fair and reasonable.

## 10. SALIENT TERMS OF THE ICPS

The detailed salient terms of the ICPS are set out in Section 4 of Part A of this Circular which we have taken note and summarised below some of the salient features of the ICPS:

- The issue price of the ICPS represents a premium of RM0.80 to its par value of RM0.50, which is also the par value of the RSB Shares.

- The ICPS shall be entitled to any dividend declared or paid ranking pari passu with the RSB Shares. Dividends on the ICPS shall bc payable on the date dividends are paid on the ordinary sharcs.

- The ICPS are convertible to new RSB Shares at any time on any business day from the issue date up to and including the Maturity Date, namely ten (10) years from the date of issue ("Conversion Period"). Thereafter, all ICPS which are yet to be converted after the Conversion Period shall mandatorily be converted into new RSB Shares at the Conversion Ratio.

- One (1) ICPS shall be converted into one (1) new RSB Share, or any adjusted ratio consequent to an alteration to the share capital of RSB ("Conversion Ratio").

- The ICPS are not redeemable for cash.

- The new RSB Shares to be issued pursuant to the conversion of the ICPS shall, upon allotment and issue, rank equally in all respects with the existing RSB Shares except that they will not be entitled to any dividends, rights, allotment and/or other distributions, the entitlement date of which is before the date of allotment of the new RSB Shares.

- The ICPS will not be listed on Bursa Securities.

Based on our understanding, the salient features of the ICPS are typical features for preference shares save for certain features such as rights to dividend and payment of dividend which is similar to that of the ordinary shares. As such, the satisfaction of a substantial part of the Purchase Considerations through the issuance of ICPS will, to a certain extent (depending on the timing of the conversion of the ICPS), minimise the immediate dilution on the EPS of RSB. Further, as the ICPS will not be listed on Bursa Securities, there may not be an active or ready market for the ICPS.

## 11. EFFECTS OF THE PROPOSALS

The Proposed M&A Amendments will not have any effect on the NA, NA per Share, gearing and earnings of the RSB Group, and the share capital, dividend policy and substantial shareholders' shareholdings of the Company. The effects of the Proposed Acquisitions are as follows:

### 11.1 Share capital

The proforma effects of the Proposed Acquisitions on the issued and paid-up share capital of the Company are as follows:

| | No. of RSB Shares | Nominal value of RSB Shares (RM) | No. of ICPS | Nominal value of ICPS (RM) | Total share capital (RM) |
|---|---|---|---|---|---|
| Existing issued and paid-up share capital as at LPD | 128,266,800 | 64,133,400 | - | - | 64,133,400 |
| To be issued pursuant to the Proposed Acquisitions | 28,331,400 | 14,165,700 | 193,972,857 | 96,986,429 | 111,152,129 |
| Enlarged issued and paid-up share capital after the Proposed Acquisitions | 156,598,200 | 78,299,100 | 193,972,857 | 96,986,429 | 175,285,529 |
| Upon full conversion of ICPS | 193,972,857 | 96,986,429 | (193,972,857) | (96,986,429) | - |
| **Enlarged issued and paid-up share capital after the full conversion of ICPS** | **350,571,057** | **175,285,529** | - | - | **175,285,529** |

### 11.2 Substantial shareholders' shareholdings

The effect of the Proposed Acquisitions on the substantial shareholders' shareholdings of RSB based on the Register of Substantial Shareholders of RSB as at the LPD are as follows:

| | Existing as at LPD | | | | (I) After the Proposed Acquisitions | | | | (II) After (I) and assuming full conversion of ICPS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| Substantial shareholders | No. of Shares held | % | No. of Shares held | % | No. of Shares held | % | No. of Shares held | % | No. of Shares held | % | No. of Shares held | % |
| TTSH | 31,037,594 | 24.20 | - | - | 35,124,394 | 22.43 | [a] 12,264,221 | 7.83 | 35,249,523 | 10.63 | [a] 185,077,408 | 52.79 |
| RHSA | 15,073,100 | 11.75 | - | - | 15,073,100 | 9.63 | - | - | 15,073,100 | 4.30 | - | - |
| PAA | 10,903,600 | 8.50 | [b] 17,033,900 | 13.28 | 10,903,600 | 6.96 | [b] 24,927,479 | 15.92 | 10,903,600 | 3.11 | [b] 41,685,572 | 11.89 |
| TSL | 7,047,500 | 5.49 | [c] 47,410,994 | 36.96 | 11,134,300 | 7.11 | [c] 59,391,373 | 37.93 | 13,259,429 | 3.78 | [c] 78,274,595 | 22.33 |
| TTSE | 1,300,300 | 1.01 | [d] 15,073,100 | 11.75 | 1,300,300 | 0.83 | [d] 22,966,679 | 14.67 | 1,300,300 | 0.37 | [d] 39,724,772 | 11.33 |
| Tan Sri Tiong | 300,000 | 0.23 | [e] 69,366,794 | 54.08 | 300,000 | 0.19 | [e] 97,698,194 | 62.39 | 300,000 | 0.09 | [e] 291,519,732 | 83.16 |
| Rejang Height | - | - | - | - | - | - | - | - | 16,758,093 | 4.78 | - | - |
| PJP | - | - | - | - | 12,264,221 | 7.83 | - | - | 175,275,083 | 50.00 | - | - |
| Kendaie | - | - | - | - | 7,893,579 | 5.04 | - | - | 7,893,579 | 2.25 | - | - |

*Notes:*

*(a)* *Deemed interested by virtue of its interest in PJP and Ladang Hijau pursuant to Section 6A of the Act.*

*(b)* *Deemed interested by virtue of its interest in RHSA, Rejang Height, Kendaie and RHS pursuant to Section 6A of the Act.*

*(c)* *Deemed interested by virtue of its interest in TTSH, RHSA, TTSE, Rejang Height and Kendaie pursuant to Section 6A of the Act.*

*(d)* *Deemed interested by virtue of its interest in RHSA, Rejang Height and Kendaie pursuant to Section 6A of the Act.*

*(e)* *Deemed interested by virtue of its interest in TTSH, TSL, TTSE, PAA, RHSA, RHS, Rejang Healthcare, Rejang Height, PJP and Kendaie pursuant to Section 6A of the Act, and his spouse's and children's interests in the Company.*

Based on the table above, we note that after the Conversion Period and upon mandatory conversion of all the ICPS into RSB Shares, PJP will hold approximately 50.00% of the enlarged issued and paid-up share capital of RSB. Hence, PJP may be required to undertake a general offer for the remaining RSB Shares that do not owned by PJP and persons acting in concert with it when PJP holds more than 33% of the issued and paid-up share capital of RSB as it trigger Part II of the Malaysian Code on Take-Over and Merger, 1998 ("Code"). In such event, PJP may seek an exemption from the Securities Commission under Practice Note 2.9.1 of the Code from having to undertake such obligation under the Code.

Paragraph 8.02 of the MMLR provides that a listed issuer must ensure that at least 25% of its total listed shares (excluding treasury shares) are in the hands of public shareholders. Bursa Securities may accept a percentage lower than 25% of the total number of listed shares (excluding treasury shares) if it is satisfied that such lower percentage is sufficient for a liquid market in such shares. Based on the above table, upon conversion of all the ICPS, Tan Sri Tiong will hold (directly and indirectly) approximately 83.25% of the enlarged issued and paid-up share capital of RSB. We understand that it is the intention of Tan Sri Tiong to maintain the listing status of RSB. Hence, he/RSB would undertake the necessary steps to ensure the public shareholdings spread requirement as per the MMLR is met.

### 11.3 NA, NA per Share and gearing

The proforma effects of the Proposed Acquisitions on the consolidated NA, NA per Share and gearing of RSB based on the consolidated audited financial statements of RSB and that of the Acquirees for the financial years/periods ended 31 August 2009 are as follows:

| Group level | Audited as at 31.08.09 (RM'000) | (I) # Adjusted audited as at 31.08.09 (RM'000) | (II) After (I) and the Proposed Acquisitions (RM'000) | (III) After (II) and assuming full conversion of ICPS (RM'000) |
|---|---|---|---|---|
| Share capital – ordinary | 64,133 | 64,133 | 78,299 | 175,286 |
| Share capital – ICPS | - | - | 96,987 | - |
| Share premium | 6,866 | 6,866 | 184,709 | 184,709 |
| Retained earnings | 61,448 | 60,700 | ^ 14,853 | ^ 14,853 |
| Merger reserve/ (deficit) | (44,630) | (77,446) | (296,228) | (296,228) |
| **Shareholders funds/ NA** | **87,817** | **54,253** | **78,620** | **78,620** |
| No. of RSB Shares | 128,267 | 128,267 | 156,598 | 350,571 |
| NA per Share (RM) | 0.68 | 0.42 | 0.50 | 0.22 |
| Total borrowings (RM'000) | 154,158 | 154,172 | 451,590 | 451,590 |
| Gearing (times) | 1.8 | 2.8 | 5.7 | 5.7 |

*Notes:*

\# *The adjusted NA of the RSB Group takes into account the effects of the recent acquisitions by RSB of 100% equity interest in Lumiera Enterprise Sdn Bhd and 85% equity interest in Woodijaya Sdn Bhd which were completed on 22 December 2009 ("Completed Acquisitions").*

^ *After taking into consideration estimated expenses incidental to the Proposals of RM2.0 million.*

Based on the above table, we noted that the proforma gearing of the enlarged RSB Group will increase from 2.8 times as at FYE 31 August 2009 (adjusted for the Completed Acquisitions) to 5.7 times after the Proposed Acquisitions and upon full conversion of ICPS into RSB Shares. This is mainly due to recognition of the deficit in merger reserves amounting to approximately RM218.78 million upon consolidation of the Acquirees by RSB using the merger accounting method.

Nevertheless, the gearing of the RSB Group may further increase in the future in view of the additional financial commitments required for future plantation development relatcd expenditure on the plantation estates of the Acquirees and Simunjan, the quantum of which can not be ascertained at this juncture.

We also noted that the proforma NA per share of the enlarged RSB Group will decrease from RM0.42 as at FYE 31 August 2009 (adjusted for the Completed Acquisitions) to RM0.22 after the Proposed Acquisitions and upon full conversion of ICPS into RSB Shares. This is mainly due to increase in the issued and paid-up share capital and the recognition of the deficit in mergcr reserves as mentioned above. However, as the Acquirees and Simunjan are expected to contribute positively to the future earnings of the RSB Group, the NA per share of the RSB Group is expected to improve in the medium to long term when the plantation estates of the Acquirees and Simunjan are developed into oil palm plantation estates and reach maturity.

## 11.4 Earnings and EPS

The Proposed Acquisitions are expectcd to contribute positively to the future earnings of the RSB Group when the areas within the plantation estates of the Acquirees and Simunjan are developed into oil palm plantation estates and reach maturity.

However, rcsulting from the issuance of additional new RSB Shares pursuant to the Proposed Acquisitions and thc subsequent conversion of ICPS into new RSB Shares, there may be dilutive effects on the EPS of the RSB Group.

For illustration purposes only, based on the audited financial statements of RSB Group for the FYE 31 August 2009 and the latest audited financial statements of the respective Acquirees, the proforma effects of the Proposed Acquisitions on the earnings and EPS of the RSB Group assuming that such proposals had been completed at the beginning of the said financial periods are as follows:

| | | (I) | (II) |
|---|---|---|---|
| | | After Proposed Acquisitions | After (II) and assuming full conversion of ICPS |
| | RM'000 | RM'000 | RM'000 |
| Audited PAT of RSB Group for the FYE 31 August 2009 | 13,631 | 13,631 | 13,631 |
| Aggregate audited PAT/(LAT) of the Acquirees* | - | (1,500) | (1,500) |
| | 13,631 | 12,131 | 12,131 |
| No. of ordinary shares in issue ('000) | 128,267 | 156,598 | 350,571 |
| EPS (sen) | 10.63 | 7.75 | 3.46 |

*Note:*

* *Arrived at based on the aggregate audited PAT/LAT of the Acquirees as follows:*

*(i) Jayamax, Lubuk Tiara, Tabib, Biawak, Ekang, Lundu and Ulu Teru for the FYE 31 July 2009;*
*(ii) Novelpac for the FYE 31 March 2009; and*
*(iii) Selangau for the FYE 30 April 2009.*

Please note that the above illustration is based on the historical performance of the Acquirees and does not take into consideration any future profit contribution of the Acquirees.

### 11.5 Dividends

The Proposed Acquisitions are not expected to affect the dividend policy of the Company as future dividend payable by the Company would be dependent on inter-alia, the future profitability and cash flow position of the RSB Group.

## 12. OVERVIEW AND PROSPECTS OF THE MALAYSIAN ECONOMY AND THE PALM OIL INDUSTRY IN MALAYSIA

### 12.1 Overview and prospects of the Malaysian economy

The Malaysian economy contracted by 1.7% in 2009, a year when the global economy experienced its deepest downturn in modern history. The domestic economy experienced the full impact of the global recession in the first quarter, declining by 6.2%, marking the first year-on-year contraction in real Gross Domestic Product ("GDP") since the third quarter of 2001. The collapse in global demand and world trade led to double-digit declines in Malaysia's exports and industrial production. Given the high degree of openness of the economy, the deterioration in external demand affected employment, income and overall business and consumer sentiment, causing private consumption and private investment activities to decline in the first quarter of the year. Growth during the quarter was also affected by large drawdowns of inventory, particularly in the manufacturing and commodity sectors.

However, the accelerated implementation of fiscal stimulus measures, the aggressive easing of monetary policy and the comprehensive measures introduced to ensure continued access to financing contributed to stabilisation in the domestic economy in the second quarter and subsequent recovery in the second half of the year. In addition to higher public spending, the policy measures also helped to revive private sector sentiment, which, together with improving labour market conditions, led to an expansion in private consumption in the second half of the year. Signs also emerged to indicate that private investment activity had begun to stabilise towards the end of the year. Moreover, external demand provided further impetus to growth as the global economy, particularly the regional economies, gradually recovered. As a result, the Malaysian economy resumed its growth momentum in the fourth quarter, growing by 4.5%, with strengthened domestic and external demand contributing to growth.

The Malaysian economy is projected to grow by 4.5% to 5.5% in 2010, underpinned by strengthening domestic demand and an improving external environment. While the public sector will remain supportive, growth is expected to be driven by greater private sector activity and robust external demand from the regional countries. The underlying strong macroeconomic fundamentals, the healthy private sector financial position and the strong financial system will provide support to a private sector-led recovery. A supportive monetary environment, including continued access to competitive financing will remain in place to foster recovery in the private sector activity.

The projected growth of the Malaysian economy of between 4.5% and 5.5% in 2010 is based on the expectation of a gradual and uneven global economic recovery. It is recognised that the global economy is still facing several downside risks. These risks, mainly in the advanced economies, include the effect on recovery once fiscal spending begins to diminish, the still weak and fragile financial system, the continued de-leveraging process amongst the private sector and the fiscal stress in some large advanced economies pose considerable uncertainties to the outlook for the global economy. Under these circumstances, domestic demand will be a key factor in driving growth in 2010. In this environment, policies will remain supportive of growth, in particular to ensure that private sector activity strengthens further and that the recovery is firmly established.

In addition to ensuring the timely implementation of projects, the Government has announced several measures to revive private investment, including the liberalisation of the economy, the privatisation of Government owned corporations, the provision of incentives to high growth sectors and further improvements in the Government's delivery system. On the monetary front, monetary policy will remain accommodative while attention will continue to focus on ensuring that the private sector, in particular the small and medium enterprises, have access to financing. At the same time, there will be heightened vigilance to ensure that financial imbalances do not develop in the economy, which would threaten macroeconomic stability and the sustainability of the economic recovery. The strong economic and financial fundamentals of the Malaysian economy place the domestic economy in a better position for a stronger recovery as the global conditions improve further.

*(Source: Bank Negara Malaysia Annual Report 2009 dated 24 March 2010)*

Premised on the above, we are of the view that the Malaysian economy is expected to improve in 2010, supported by stronger domestic demand coupled with the government stimulus measures and policies as well as the recovery in the global economy.

## 12.2 Overview and prospects of the palm oil industry in Malaysia

The agriculture, forestry and fishing (agriculture) sector grew at a slower pace of 0.4% in 2009 due to lower production of industrial crops. However, higher output of key food-related industries such as fisheries and livestock provided support to the sector. The production of CPO declined by 1% to 17.6 million tonnes in 2009, due to the biological yield down-cycle, unfavourable weather conditions and replanting activity. Consequently, average national FFB yield per hectare declined by 4.9% to 19.2 tonnes. Yields in Sabah and Sarawak, which accounted for 42% of total production, registered sharp drops of 8.1% and 5.7% respectively, due mainly to the heavy rainfall in East Malaysia in early 2009. Despite weaker production, palm oil stocks were higher by 12.2% at 2.24 million tonnes at the end of 2009, due to weaker global demand. As a result, the average CPO price fell by 19.2% to RM2,245 per tonne in 2009 (2008: RM2,778 per tonne).

The agriculture sector is expected to register a higher growth of 3.1% as demand from major export markets for industrial crops, especially palm oil and rubber, improves with better economic prospects in 2010. In terms of production, higher palm oil output is expected during the year following the recovery in yield of FFB and an increase in planted area ready for production.

*(Source: Bank Negara Malaysia Annual Report 2009 dated 24 March 2010)*

The agricultural sector is anticipated to rebound 2.5% (2009: -2.3%) following the recovery in the commodity sub-sector. Production of CPO is envisaged to grow 4.9% to 17.8 million tonnes (2009: -4.1%; 17.0 million tonnes) on account of expanded matured areas to 3,980,000 Ha. (2009: 3,800,000 Ha.). With oil palm trees recovering from biological tree-stress, FFB yields is poised to increase to 20.9 tonnes per Ha. (2009: 20.1 tonnes per Ha.).

*(Source: Economic Report 2009/2010, Ministry of Finance, Malaysia dated 23 October 2009)*

Premised on the above, we are of the opinion that the outlook and the prospects of the palm oil industry in Malaysia in the medium to long term are expected to be positive.

## 13. PROSPECTS OF THE ENLARGED RSB GROUP

Set out below are the future prospects of the RSB Group as set out in Section 7.3 of Part A of the Circular:

*"After the Proposed Acquisitions, the total gross land bank owned by the RSB Group would be increased from 31,645 Ha to approximately 91,500 Ha., of which approximately 38,000 Ha. of the plantable areas are yet to be planted. Therefore, there is a great potential for future income arising from the development of such plantable land. Furthermore, coupled with the establishment of a continued new planting and replanting program, the Board believes that the profit contribution from the Acquirees and Simunjan will grow in line with higher FFB yield per Ha when the average age profiles of the oil palms near maturity. With this, the Board believes that the Proposed Acquisitions would put the RSB Group on a strong footing to becoming a major player in the oil palm cultivation business in Malaysia.*

*Based on the maturity profile of the Plantation Estates as detailed in Section 2.9.2 of Part A of this Circular, approximately 8,127 Ha. out of the 23,013 Ha. of the planted area are immature. Accordingly, the Board expects higher FFB yield from these immature areas within the next 1 to 5 years when the oil palm trees attain maturity."*

Premised from the above, we are of the opinion that the prospects of the enlarged RSB Group will be further enhanced in the medium to long term especially when the RSB Group successfully develops the estates of the Acquirees and Simunjan into oil palm plantation estates and reach maturity. The additional land bank from the Proposed Acquisitions will complement the RSB Group's existing oil palm plantations and ensure continuous increase in the FFB production in the medium to long term.

## 14. RISK FACTORS ASSOCIATED WITH THE PROPOSED ACQUISITIONS

The non-interested shareholders of RSB are advised to consider carefully the risk factors as set out in Section 7.2 of Part A of the Circular before voting on the resolutions pertaining to the Proposals at the forthcoming EGM of RSB. In addition, the non-interested shareholders of RSB should also carefully consider the following risks (which may not be exhaustive):

### (i) Post acquisition integration risk

Upon the completion of the Proposed Acquisitions, in order for the RSB Group to realise synergies, it must be able to pool resources and integrate its operations with all the Acquirees and the Simunjan estate. Such integration may take some time and may involve cost cutting and improvement in operating efficiencies. Synergies may only be realised gradually due to the integration costs.

Although it is envisaged that the Proposed Acquisitions would result in the enlarged RSB Group experiencing synergistic benefits and economies of scale upon the completion of the integration of Acquirees and the Simunjan estate into the RSB Group, the continued growth and success of the enlarged RSB Group will depend on the speed and ease of integration.

### (ii) Potential conflict of management

At present, the RSB Group, the Acquirees and the Simunjan estate have different management teams. Upon the completion of the Proposed Acquisitions, the management control of the Acquirees and the Simunjan estate will pass to the RSB Group. Such change may create a period of transition to the organisation in the short term which may affect the operations of the enlarged RSB Group. Although the Proposed Acquisitions are expected to draw on the expertise of the different management teams, there can be no assurance that a potential conflict of management would not arise. As such, the ease of transfer of management control and the policies to be implemented by the new management may have an impact on the continued growth and the success of the enlarged RSB Group.

**(iii) Delay in development**

The timely development on the oil palm plantation lands will be dependent on external factors that may be beyond the control of the RSB Group, such as obtaining timely approvals from the relevant regulatory authorities, the availability of viable financial facilities, the available supply of labour and the timely and satisfactory performance of contractors/ sub-contractors appointed for the developments of the oil palm plantation lands. Further, there are certain conditions imposed relating to the completion of planting on the land within the stipulated timeframe as stated in some of the land titles of the Acquirees.

The Directors and/or management of the RSB Group will monitor the development of the oil palm plantation lands closely to minimise any delay in completion of the said development. Nevertheless, there can be no assurance that the above factors will not lead to delays in the completion of the development of the oil palm plantation lands or extension of time will be granted by the relevant authorities to comply with the conditions imposed. The delays in the said development may have a direct impact on the RSB Group's profitability whilst a breach or default in the observance of any or all conditions specified in the title document to the land may render the land liable for forfeiture which will adversely affect the Group's operations and profitability.

**(iv) Oil palm industry is subject to industry life cycle**

Oil palm trees produce crops throughout the year but there are seasonal variations. Production also varies with age, condition of the oil palm trees, type of soils and weather. Annual FFB yield normally experience a cyclical pattern, with higher yields at intervals about five (5) years when the trees produce lower output as a result of a biological reaction after a period of production stress. No assurance can be given that the fluctuations in production due to seasonal variations as well as biological life cycle will not have any adverse impact on the performance of the RSB Group.

**(v) Conflicts with local communities**

The establishment of palm oil plantations will have an impact on local communities, which may include reallocation of land and resources, and movement of people and settlements. Conflicts or disputes may arise between local communities and RSB in particular relating to land-rights issues. Hence, RSB may incurred incidental costs or be obliged to pay compensation in resolving conflicts or disputes with the local communities.

Although the Company may limit these risks by, complying with the relevant applicable laws and regulations, there is no guarantee that these conflicts, if arisen, would not have a material adverse effect on RSB Group's business whilst any legal proceedings relating to such disputes may have an adverse effect on the RSB Group' s reputation.

We wish to reiterate that although measures may be taken by the RSB Group to attempt to limit the risks associated with the Proposed Acquisitions, no assurance can be given that one or a combination of these risk factors as stated in Part A of the Circular and this IAL will not occur and adversely affect the enlarged RSB Group's operations.

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## 15. OTHER CONSIDERATIONS

### 15.1 JVA with Pelita Holdings

We noted that LCDA/Pelita Holdings and PJP or its assignors had entered into JVA for the purpose of developing the land of two (2) estates, namely Tabib estate (owned by Splendid) and PJP Pelita Biawak (owned by Biawak) estate into an oil palm plantation complete with ancillary facilities and services where in the case of PJP Pelita Biawak, it will include the construction of a palm oil mill ("Project"). Under the JVA, LCDA/Pelita Holdings will provide the land for the Project while PJP or its assignor is required to provide assistance and source funds for the said plantation project and that Pelita Holdings or its nominees in the JVC shall not be required to give any letter of comfort or guarantee for any financing secured.

We were given to understand that the Chairman of LCDA had agreed in principal for the transfer of PJP's entire equity in Biawak and Splendid to RSB. Hence, pursuant to the completion of the Proposed Acquisitions, RSB will essentially be bound by the terms of the existing JVAs which may either be effected through another legally binding agreement to be entered into with Pelita Holdings or through the assignment of rights by PJP (or its assignors) to RSB. We wish to highlight below some of the salient terms of the existing JVAs that were entered into between PJP or its assignors with Pelita Holdings and/or Lembaga Amanah Kebajikan Masjid Negeri Sarawak ("LAKMNS") for the Tabib and PJP Pelita Biawak estates:

(i) **Transfer of shares**

- **Biawak**

(a) The joint venture parties ("JV Parties") shall not sell, transfer, mortgage, pledge, assign or in any way dispose or encumber the beneficial ownership of the shares held by them in the JVC without the consent in writing previously obtained from the other of them provided that the relevant Article of the JVA shall not apply to the transfer of shares in the JVC pursuant to any of the following circumstances:

- any transfer of shares by such a shareholder to its related corporation as defined in Section 6 of the Act;
- any transfer of shares by such a shareholder pursuant to Article 8.3 of the JVA in which event the provisions of that Article of the JVA shall apply.

(b) If pursuant to Article 8.3 of the JVA, a transfer of shares in the JVC is proposed to be made to a person who is not a JV Party, the transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA.

(c) Subject to (b) above, the JV Parties shall be at liberty to assign or transfer its right or interest and shares under the JVA to any of its wholly owned subsidiary company provided that the JV Parties shall give prior notice of its intention to the other shareholder as to which subsidiary company the interest and shares shall be transferred to and the other shareholder consent to such assignment or transfer in writing.

- **Splendid**

(a) The JV Parties shall not sell, transfer, mortgage, pledge, assign or in any way dispose or encumber the beneficial ownership of the shares held by them in the JVC without the consent in writing previously obtained from the other of them provided that the relevant Article of the JVA shall not apply to the transfer of shares in the JVC pursuant to any of the following circumstances:

- any transfer of shares by such a shareholder to its related corporation as defined in Section 6 of the Act;

- any transfer of shares by such a shareholder pursuant to Article 8.2 of the JVA in which event the provisions of that Article of the JVA shall apply.

(b) If pursuant to Article 8.2 of the JVA, a transfer of shares in the JVC is proposed to be made to a person who is not a JV Party, the transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA.

(c) Subject to (b) above, LCDA is at liberty to assign or transfer its right or interest and shares under the JVA to any of its wholly owned subsidiary company.

**(ii) Compulsory purchase of shares**

- **Biawak**

(a) If the JVA is lawfully terminated as against either one of the JV Parties pursuant to the provisions of Article 13.2 of the JVA, or if either of such parties shall desire to sell its shares in the JVC and gives notice of its intention to the other of them, such JV Party ("the Transferor") shall be deemed to have granted an option ("the Option"), to the other of them ("the Offeree"), operative from the date of termination or the notice aforesaid, as the case may be, to purchase the Transferor's shares ("the Transferor Shares") at a price to be agreeable between the JV Parties. In the event that the parties cannot come to an agreement on the price of the Transferor Shares, the parties shall procure the Auditors of the JVC to determine and certify the fair value of the Transferor Shares. In so doing, the auditors shall be considered to be acting as experts and not as arbitrators and accordingly the Arbitration Act, 1952 shall not apply.

(b) The Offeree shall have a period of thirty (30) days ("the Option Period") from the date the price for the Transferor Shares is agreed or the date of the auditor's certificate of fair value, as the case may be, to exercise the Option to purchase all but not part only of the Transferor Shares.

(c) If the Offeree shall exercise the Option to purchase, it shall serve written notice thereof on the Transferor and the Transferor Shares shall be transferred and paid for not later than (30) days after the expiration of the Option Period.

(d) If the Offeree should fail to exercise the Option within the Option Period, the Transferor may at any time within six (6) weeks after the expiry of the Option Period sell the Transferor Shares to any person provided that the Transferor shall on the sale thercof secure that the proposed transferee agrees to be bound by the terms of the JVA and procures that the transferee enters into a legally binding agreement with Pelita Holdings, LAKMNS or PJP, as the case may be. If the Transferor Shares cannot be sold as provided within the six (6) weeks then the Transferor Shares can be offered to any one within a reasonable time.

- **Splendid**

(a) If the JVA is lawfully terminated as against either one of the JV Parties pursuant to the provisions of Article 13.2 of the JVA, or if either of such parties shall desire to sell its shares in the JVC and gives notice of its intention to the other of them, the Transferor shall be deemed to have granted an Option to the Offeree, operative from the date of termination or the notice aforesaid, as the case may be, to purchase the Transferor Shares at a price to be agreeable between the JV Parties. In the event that the parties cannot come to an agreement on the price of the Transferor Shares, the parties shall procure the Auditors of the JVC to determine and certify the fair value of the Transferor Shares. In so doing, the auditors shall be considered to be acting as experts and not as arbitrators and accordingly the Arbitration Act, 1952 shall not apply.

(b) The Offeree sball have an Option Period from the date the price for the Transfcror Shares is agreed or the date of the auditor's certificate of fair value, as the case may be, to exercise the Option to purchase all but not part only of the Transferor Shares.

(c) If the Offeree shall exercise the Option to purchase, it shall serve written notice thereof on the Transferor and the Transferor Shares shall be transferred and paid for not later than (30) days after the expiration of the Option Period.

(d) If the Offeree should fail to exercise the Option within the Option Period, the Transferor may at any time within six (6) weeks after the expiry of the Option Period sell the Transferor Shares to any person provided that the Transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the transferee enters into a legally binding agreement with LCDA and Splendid or, as the case may be. If the Transferor Shares cannot be sold as provided within the six (6) weeks then the Transferor Shares can be offered to any one within a reasonable time.

**(iii) Dividend policy**

- **Biawak and Splendid**

The distribution of the dividend of the JVC shall be at the sole discretion of the JVC's Board of Directors.

Further, we noted that under the JVA in respect Biawak, the JV Parties are required to allot additional 2,005,785 ordinary shares of RM1.00 each in Biawak upon completion of planting with oil palm of 3,933 Ha. or the maximum plantable area of the Project or unless otherwise agreed by the parties the JVC in the following manner:

| Name of shareholders | No. of shares | % | RM |
|---|---|---|---|
| PJP | 1,404,049 | 70 | 1,404,049 |
| Pelita Holdings | 300,868 | 15 | 300,868 |
| LAKMNS | 300,868 | 15 | 300,868 |
| | **2,005,785** | **100** | **2,005,785** |

We are of the view that the above mentioned terms of the JVA are fair and reasonable as all joint venture shareholders are entitled to the pre-emption rights and dividend as well as their respective proportionate obligations to subscribe for the new shares to be allotted.

### 15.2 JVA (NCR concept)

We noted that Pelita Holdings (as trustee for the NCR owners) and PJP/Ladang Hijau or its assignors had entered into JVA for the purpose of developing the land of four (4) estates, namely Ekang, Lundu, Selangau and Ulu Teru estates into an oil palm plantation complete with ancillary facilities and services where in the case of Ekang, it will include the construction of a palm oil mill ("Plantation Project"). Under the JVA, Pelita Holdings will procure for the alienation of the land while PJP is mainly required to provide assistance to the JVC including the sourcing of funds for the Plantation Project and that Pelita Holdings or its nominees in the JVC shall not be required to give any letter of comfort or guarantee for any financing secured.

We were given to understand that the Chairman of LCDA had agreed in principal for the transfer of PJP/Ladang Hijau's entire equity in Ekang, Lundu, Selangau and Ulu Teru to RSB. Hence, pursuant to the completion of the Proposed Acquisitions, RSB will essentially be bound by the terms of the existing JVAs which may either be effected through another legally binding agreement to be entered into with Pelita Holdings or through the assignment of rights by PJP/Ladang Hijau or its assignors to RSB. We wish to highlight below some of the salient terms of the existing JVAs that were entered into between PJP/Ladang Hijau or its assignors with Pelita Holdings for the Ekang, Lundu, Selangau and Ulu Teru estates:

**(i) Transfer of shares**

- **Ekang**

  Neither JV Party shall, without the prior written consent of the other party, sell, transfer or otherwise dispose of its shares in the JVC or any part thereof without first offering to sell the same to the other party or its respective nominees in proportion to their respective shareholdings in the JVC provided that:

  (a) no such consent of the other JV Parties shall be required in case the said shares are to be transferred, sold or otherwise disposed of to a subsidiary of the other party concerned after consultation with the other party; and

  (b) any transfer or sale referred to paragraph (a) above shall be effected only on the condition that the purchaser or the transferee agrees to abide by and observe all the terms and conditions of the JVA and such purchaser or transferee enters into an agreement incorporating the terms and conditions and covenants in the JVA.

- **Lundu, Selangau and Ulu Teru**

  (a) Neither JV Party shall sell, transfer, mortgage, pledge, assign or in any way dispose or encumber the beneficial ownership of the shares held by them in the JVC without the consent in writing previously obtained from the other of them provided that the relevant Article of the JVA shall not apply to the transfer of shares in the JVC under any of the following circumstances:

  - any transfer of shares by such a shareholder to its related corporation as defined in Section 6 of the Act;

  - any transfer of shares by such a shareholder pursuant to the relevant Article of the JVA pertaining to the exercise of an option to purchase shares deemed to be granted in the event of a lawful termination of the JVA or if either JV Party desires to sell its shares in the JVC, in which event the provisions of that Article of the JVA shall apply.

  (b) If pursuant to the Article of the JVA a transfer of shares in the JVC is proposed to be made to a person who is not a JV Party, the transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA.

  (c) It is agreed that the PJP/Ladang Hijau or its assignors shall be allowed to transfer all its shares and/or assign its rights under the JVA to its subsidiary or associated company in accordance with the relevant proviso in the Memorandum and Articles of Association of the JVC.

**(ii) Purchase of shares**

- **Ekang**

(a) If the JVA is lawfully terminated as against the party not being Pelita Holdings pursuant to the provisions of the JVA hereof, or if either of such parties not being Pelita Holdings shall desire to sell its shares in the JVC and gives notice of its intention to the other of them, such party ("the Transferor") shall be deemed to have granted an option ("the Option") to the other of them ("the Offeree"), operative from the date of termination or the notice aforesaid, as the case may be, ("the Relevant Date"), to purchase the Transferor's shares ("the Transferor Shares") at a price to be agreed between the parties hereto. In the event that the parties cannot come to an agreement on the price of the Transferor Shares, the parties shall procure the auditors of the JVC to commission an independent valuation of the joint venture plantation in order to determine and certify the fair value of the Transferor Shares. In so doing, the auditors shall be considered to be acting as experts and not as arbitrators and accordingly the Arbitration Act, 1952 shall not apply. The Auditors shall without limitation, in their determination of the fair value of the shares consider possible losses of the JVC arising whether directly or indirectly from the actions or omissions of any relevant party. "Fair Value" in this clause shall mean the value of the Transferor Shares of the JVC as a going concern.

(b) The Offeree shall have a period of thirty (30) days ("the Option Period") from the date the price for the Transferor Shares is agreed or the date of the auditor's certificate of fair value, as the case may be, to exercise the Option to purchase all but not part only of the Transferor Shares.

(c) If the Offeree shall exercise the Option to purchase, it shall serve written notice thereof on the Transferor and the Shares shall be transferred and paid for not later than (30) days after the expiration of the Option Period.

(d) If the Offeree should fail to exercise the Option within the Option Period, the Transferor may at any time within six (6) weeks after the expiration of the Option Period sell the Transferor Shares to any person at terms and conditions no less favourable to the Transferor than those which and Offeree has failed to accept provided that the Transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA and procures that the transferee enters into a legally binding agreement with PJP or Pelita Holdings, as the case may be. If the Transferor Shares cannot be sold as provided within the six (6) weeks then the Transferor Shares can be offered to any one within a reasonable time upon terms deemed suitable by the Transferor provided that the Transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA and procure that such transferee enter into a legally binding agreement with PJP or Pelita Holdings, as the case maybe.

- **Lundu, Selangau and Ulu Teru**

(a) If the JVA is lawfully terminated as against either PJP/Ladang Hijau or its assignors or Pelita Holdings pursuant to the provisions of the relevant Article of the JVA, or if either of such parties shall desire to sell its shares in the JVC and gives notice of its intention to the other of them, the Transferor shall be deemed to have granted the Option to the Offeree, operative from the Relevant Date, to purchase the Transferor Shares at a price to be agreed between the parties hereto. In the event that the parties cannot come to an agreement on the price of the Transferor Shares, the parties shall procure the auditors of the JVC to commission an independent valuation of the joint venture plantation in order to determine and certify the fair value of the Transferor Shares. In so doing, the auditors shall be considered to be acting as experts and not as arbitrators and accordingly the Arbitration Act, 1952 shall not apply. The Auditors shall without limitation, in their determination of the fair value of the shares consider possible losses of the JVC arising whether directly or indirectly from the actions or omissions of any relevant party. "Fair Value" in this clause shall mean the value of the Transferor Shares of the JVC as a going concern.

(b) The Offeree shall have an Option Period from the date the price for the Transferor Shares is agreed or the date of the auditor's certificate of fair value, as the case may be, to exercise the Option to purchase all but not part only of the Transferor Shares.

(c) If the Offeree shall exercise the Option to purchase, it shall serve written notice thereof on the Transferor and the Transferor Shares shall be transferred and paid for not later than (30) days after the expiration of the Option Period.

(d) If the Offeree should fail to exercise the Option within the Option Period, the Transferor may at any time within six (6) weeks after the expiration of the Option Period sell the Transferor Shares to any person at terms and conditions no less favourable to the Transferor than those which and Offeree has failed to accept provided that the Transferor shall on the sale thereof secure that the proposed transferee agrees to be bound by the terms of the JVA and procures that the transferee enters into a legally binding agreement with the PJP/Ladang Hijau or its assignors or Pelita Holdings, as the case may be. If the Transferor Shares cannot be sold as provided within the six (6) weeks then the Transferor Shares can be offered to any one within a reasonable time.

**(iii) Dividend policy**

- **Ekang**

  Unless the parties otherwise agree in writing, sixty five percent (65%) of the profits earned by the JVC shall be distributed (subject to the availability of sufficient fund including funds for future expansion, loan repayments and capital investment requirements and of the credits under Section 108 of the Income Tax Act 1967 and any deductions required by applicable laws) to the shareholders in proportion to their shareholdings.

  The first distribution of profits earned by JVC shall be distributed to the JV Parties from the eighth ($8^{th}$) year of development of the Plantation Project or such other period as the JV Parties may mutually agree upon.

- **Lundu, Selangau and Ulu Teru**

  Unless the parties otherwise agree in writing, sixty five percent (65%) of the profits earned by the JVC shall be distributed (subject to the availability of sufficient fund including funds for future expansion, loan repayments and capital investment requirements and of the credits under Section 108 of the Income Tax Act 1967 and any deductions required by applicable laws) to the shareholders in proportion to their shareholdings.

Further, we noted that the JV Parties are required to allot additional ordinary shares of RM1.00 each in accordance with the respective JVAs upon completion of planting with oil palm on certain areas or the maximum plantable area of the land or unless otherwise agreed by the parties the JVC in the following manner:

**(i) Ekang**

| Name of shareholders | No. of shares | % | RM |
|---|---|---|---|
| PJP | 2,327,040 | 60 | 2,327,040 |
| Pelita Holdings | 387,840 | 10 | 387,840 |
| NCR Owners (held in trust by Pelita Holdings) | 1,163,520 | 30 | 1,163,520 |
| | **3,878,400** | **100** | **3,878,400** |

**(ii) Lundu**

| Name of shareholders | No. of shares | % | RM |
|---|---|---|---|
| PJP | 2,419,200 | 60 | 2,419,200 |
| Pelita Holdings | 403,200 | 10 | 403,200 |
| NCR Owners (held in trust by Pelita Holdings) | 1,209,600 | 30 | 1,209,600 |
| | **4,032,000** | **100** | **4,032,000** |

**(iii) Ulu Teru**

| Name of shareholders | No. of shares | % | RM |
|---|---|---|---|
| PJP | 3,456,000 | 60 | 3,456,000 |
| Pelita Holdings | 576,000 | 10 | 576,000 |
| NCR Owners (held in trust by Pelita Holdings) | 1,728,000 | 30 | 1,728,000 |
| | **5,760,000** | **100** | **5,760,000** |

We are of the view that the above mentioned terms of the JVA are fair and reasonable as all joint venture shareholders are entitled to the pre-emption rights and dividend as well as their respective proportionate obligations to subscribe for the new shares to be allotted.

## 16. CONCLUSION AND RECOMMENDATION

Non-interested shareholders of RSB should take into account all the merits and demerits of the Proposals based on all relevant and pertinent factors including those which are set out in the Circular, IAL and other publicly available information.

**We wish to highlight that certain statements in this IAL are based on historical statistics which may not be reflective of the future results, and others are forward-looking in nature, which may or may not be achieved. Whether such statements ultimately prove to be accurate depends on a variety of factors which may affect the business and operations of the RSB Group and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievement of the RSB Group or the palm oil industry, to be materially different from any future results, plans, performances and achievements, expressed or implied, by prospective statements.**

In arriving at our conclusion and recommendation, we have considered the following factors, which the non-interested shareholders should consider in evaluating the Proposals:

| | |
|---|---|
| **Rationale for the Proposals** | The Proposed Acquisitions will enable the RSB Group to expand its palm oil cultivation business which is expected to contribute positively to the earnings and shareholders' value of the enlarged RSB Group in the medium to long term once the synergistic benefits and economies of scale are realised by the enlarged RSB Group.<br><br>The Proposed M&A Amendments are necessary to facilitate the issuance of ICPS pursuant to the Proposed Acquisitions. |
| **Reasonableness of the Purchase Considerations** | The Purchase Considerations for the acquisitions of the respective equity interests in the Acquirees are approximately equivalent to the share of the adjusted NTAs of the respective Acquirees to be acquired which have taken into account the market values of the Plantation Estates assessed by the Valuers as at 31 August 2009. As for Simunjan, the purchase consideration is based on the valuation of the Simunjan estate (under LPF) after deducting the identified liabilities of Rejang Height to be assumed by RSB (or its nominee company).<br><br>Premised on the above, the Purchase Considerations for the Proposed Acquisitions are fair and reasonable. |
| **Evaluation of the issue price for the Consideration Shares and ICPS** | The issue price of RM1.30 for both the Consideration Shares and ICPS is fair and reasonable having taking into consideration the historical market prices of RSB Shares up to 23 July 2010, being the latest practicable date prior to the printing of this Circular. |
| **Salient terms of the ICPS** | The salient features of the ICPS are typical features for preference shares save for certain features such as rights to dividend and payment of dividend which is similar to that of the ordinary shares. As such, the satisfaction of a substantial part of the Purchase Considerations through the issuance of ICPS will, to a certain extent (depending on the timing of the conversion of the ICPS), minimise the immediate dilution on the EPS of RSB. |

| | |
|---|---|
| **Effects of the Proposals** | The Proposed Acquisitions are expected to contribute positively to the future earnings of the RSB Group. However, there may be dilutive effects on the non-interested shareholders' shareholdings, EPS and NA per share of the RSB Group resulting from the issuance of additional new RSB Shares pursuant to the Proposed Acquisitions and the subsequent conversion of ICPS into new RSB Shares.<br><br>Notwithstanding the above, as the Acquirees and the Simunjan estate are expected to contribute positively to the future earnings of the RSB Group, the NA per share of the RSB Group is expected to improve in the medium to long term when the areas within the plantation estates of the Acquirees and the Simunjan are developed into oil palm plantation estates and reach maturity.<br><br>The Proposed M&A Amendments will not have any effect on the NA, NA per Share, gearing and earnings of the RSB Group, and the share capital, dividend policy and substantial shareholders' shareholdings of the Company. |
| **Overview and prospects of the Malaysian economy and the palm oil industry in Malaysia** | The Malaysian economy is expected to improve in 2010, supported by stronger domestic demand coupled with the government stimulus measures and policies as well as the recovery in the global economy.<br><br>The outlook and the prospects of the palm oil industry in Malaysia in the medium to long term are expected to be positive. |
| **Prospects of the enlarged RSB Group** | The prospects of the enlarged RSB Group will be further enhanced in the medium to long term especially when the RSB Group successfully develops the estates of the Acquirees and Simunjan into oil palm plantation estates and reach maturity. The additional land bank from the Proposed Acquisitions will complement the RSB Group's existing oil palm plantations and ensure continuous increase in the FFB production in the medium to long term. |
| **Risk factors associated with the Proposed Acquisitions** | Although measures may be taken by the RSB Group to attempt to limit the risks associated with the Proposed Acquisitions, no assurance can be given that one or a combination of these risk factors as stated in Part A of the Circular and this IAL will not occur and adversely affect the enlarged RSB Group's operations. |
| **Other considerations** | We are of the view that the salient terms of the JVAs are fair and reasonable. |

Given the factors above, the decision to be made will depend on the individual risk appetite and specific requirements of the non-interested shareholders. While we recognise the fact that various non-interested shareholders may have differing risk profiles and investment outlooks, we advise them to also carefully consider other factors such as the future plans and prospects of the RSB Group after the completion of the Proposals and any other relevant considerations including those set out in this IAL.

**Premised on the foregoing and our evaluation of the Proposals, we are of the opinion that the Proposals are fair and reasonable and should not be detrimental to the interest of the non-interested shareholders of RSB.**

**Accordingly, we recommend that the non-interested shareholders of RSB *VOTE IN FAVOUR* of the resolutions pertaining to the Proposals at the forthcoming EGM of RSB.**

Yours truly
for and on behalf of
PUBLIC INVESTMENT BANK BERHAD

| | |
|---|---|
| Teoh Cheng Soon<br>Chief Executive Officer | Phang Siew Loong<br>Head<br>Corporate Finance & Advisory |

# APPENDICES

## BACKGROUND INFORMATION ON JAYAMAX

### 1. HISTORY AND BUSINESS

Jayamax was incorporated in Malaysia on 6 October 1994 under the Act as a private limited company. The principal activity of Jayamax is that of cultivation of oil palm.

Jayamax owns Jayamax Estate, comprising two parcels of provisional lease of state lands located at Lots 4 and 6 Block 9 Dulit Land District in Miri Division, Sarawak, for oil palm plantation purposes with a total land area of 4,959.80 Ha. and a lease period of 60 years expiring on 8 April 2059. Jayamax Estate is situated at Sungai Bok, Tinjar, Baram and it is about 100 km (aerial distance) by road to the South-East of Miri town, Sarawak.

Details of the maturity profile of the palm oil trees and the FFB production of Jayamax Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Jayamax Estate as appraised by HB Miri as at 31 August 2009 is RM123,620,000. HB Miri had subsequently updated the market value of Jayamax Estate to RM138,970,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Jayamax is as follows:-

| | No. of Ordinary Shares | Par Value | Total |
|---|---|---|---|
| | | RM | RM |
| Authorised | 5,000,000 | 1.00 | 5,000,000 |
| Issued and fully paid-up | 5,000,000 | 1.00 | 5,000,000 |

Details of the changes in the issued and paid-up share capital of Jayamax since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value | Consideration | Cumulative Issued and Paid-up Share Capital |
|---|---|---|---|---|
| | | RM | | RM |
| 06.10.1994 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 08.10.1994 | 49,998 | 1.00 | Cash | 50,000 |
| 07.01.1995 | 950,000 | 1.00 | Cash | 1,000,000 |
| 10.02.1995 | 2,000,000 | 1.00 | Cash | 3,000,000 |
| 15.10.2004 | 2,000,000 | 1.00 | Cash | 5,000,000 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Jayamax as at the LPD are as follows:-

| Name | Country of Incorporation | <-----Number of Jayamax Shares Held ---> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| PJP | Malaysia | 3,000,000 | 60.0 | - | - |
| TSL | Malaysia | 1,000,000 | 20.0 | - | - |
| TTSH | Malaysia | 1,000,000 | 20.0 | - | - |

**BACKGROUND INFORMATION ON JAYAMAX *(Cont'd)***

## 4. DIRECTORS

The particulars of the Directors of Jayamax (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| | | <------- Number of Jayamax Shares Held -------> | | | |
|---|---|---|---|---|---|
| **Name** | **Designation** | **Direct** | **%** | **Indirect** | **%** |
| Datuk Tiong | Director | - | - | *4,000,000 | 80.0 |
| TKK | Director | - | - | *4,000,000 | 80.0 |

* *Deemed interested by virtue of his interest in PJP and TTSH pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Jayamax does not have any subsidiary or associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July | | | Audited FPE 01.08.2009 to 31.08.2009 |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue | 7,661 | 12,724 | 8,948 | 985 |
| PBT / (LBT) | 900 | 2,942 | (1,233) | 63 |
| PAT / (LAT) | 900 | 2,942 | (1,233) | 63 |
| Gross EPS / (LPS) (sen) | 18.0 | 58.8 | (24.7) | *15.1 |
| Net EPS / (LPS) (sen) | 18.0 | 58.8 | (24.7) | *15.1 |
| Paid-up share capital | 5,000 | 5,000 | 5,000 | 5,000 |
| Shareholders' funds | (6,969) | (4,027) | (5,260) | (5,197) |
| NA/ (NL) | (6,969) | (4,027) | (5,260) | (5,197) |
| NA/ (NL) per Share (RM) | (1.4) | (0.8) | (1.1) | (1.0) |
| Current ratio (times) | 0.5 | 0.1 | 0.1 | 0.1 |
| Total borrowings | 57,351 | 57,622 | 60,978 | 60,860 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Jayamax throughout the periods under review.

Kindly refer to Section 2.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Jayamax.

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## BACKGROUND INFORMATION ON NOVELPAC

### 1. HISTORY AND BUSINESS

Novelpac was incorporated in Malaysia on 2 March 1996 under the Act as a private limited company under the name of Novelpac Sdn Bhd before it assumed its present name on 2 February 1999. The principal activity of Novelpac is that of cultivation of oil palm.

Novelpac owns Novelpac-Puncakdana Estate, comprising two parcels of provisional lease of state lands located at Lots 11 and 12 Buloh Land District, Mukah, Sibu Division, Sarawak, for oil palm plantation purposes with a total land area of 4,625.00 Ha. and a lease period of 60 years expiring on 27 May 2059 and 30 March 2060 respectively.

Novelpac-Puncakdana Estate is situated at Sungai Basai, Mukah and Sungai Basai/Sungai Lemai Bakong Balingan, Balingan, within an area known as Selangau, Sibu Division. In direct aerial distance, it is about 58.0 km to the North-East of Sibu Township, 50.0 km to the South-East of Mukah Township, 5.0 km to the North-East of Selangau Bazaar and also 55.0 km to the South-West of Tatau Township.

Details of the maturity profile of the palm oil trees and the FFB production of Novelpac-Puncakdana Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Novelpac-Puncakdana Estate as appraised by HB Miri as at 31 August 2009 is RM59,620,000. HB Miri had subsequently updated the market value of Novelpac-Puncakdana Estate to RM67,720,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Novelpac is as follows:-

| | No. of Ordinary Shares | Par Value<br>RM | Total<br>RM |
|---|---|---|---|
| Authorised | 5,000,000 | 1.00 | 5,000,000 |
| Issued and fully paid-up | 1,250,000 | 1.00 | 1,250,000 |

Details of the changes in the issued and paid-up share capital of Novelpac since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value<br>RM | Consideration | Cumulative Issued and Paid-up Share Capital<br>RM |
|---|---|---|---|---|
| 02.03.1996 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 02.02.1998 | 1 | 1.00 | Cash | 3 |
| 21.12.1998 | 249,997 | 1.00 | Cash | 250,000 |
| 10.02.2000 | 500,000 | 1.00 | Cash | 750,000 |
| 18.12.2000 | 250,000 | 1.00 | Cash | 1,000,000 |
| 09.04.2001 | 250,000 | 1.00 | Cash | 1,250,000 |

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BACKGROUND INFORMATION ON NOVELPAC *(Cont'd)*

## 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Novelpac as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Novelpac Shares Held --> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| Kendaie | Malaysia | 1,062,500 | 85.00 | - | - |
| SFS | Malaysia | 187,500 | 15.00 | - | - |

## 4. DIRECTORS

The particulars of the directors of Novelpac (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| Name | Designation | <------- Number of Novelpac Shares Held -------> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| Tan Sri Tiong | Director | - | - | *1,062,500 | 85.00 |
| Datuk Tiong | Director | - | - | - | - |

* *Deemed interested by virtue of their interests in Kendaie, pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Novelpac does not have any subsidiary or associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 March 2007 | 2008 | 2009 | Audited FPE 01.04.2009 to 31.08.2009 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | - | 17 | 53 | 34 |
| PBT / (LBT) | (330) | (292) | (352) | (137) |
| PAT / (LAT) | (330) | (292) | (352) | (137) |
| Gross EPS / (LPS) (sen) | (26.4) | (23.4) | (28.2) | * (26.3) |
| Net EPS / (LPS) (sen) | (26.4) | (23.4) | (28.2) | * (26.3) |
| Paid-up share capital | 1,250 | 1,250 | 1,250 | 1,250 |
| Shareholders' funds | (1,806) | (2,098) | (2,450) | (2,587) |
| NA/ (NL) | (1,806) | (2,098) | (2,450) | (2,587) |
| NA/ (NL) per Share (RM) | (1.4) | (1.7) | (2.0) | (2.1) |
| Current ratio (times) | 0.1 | 0.2 | 0.2 | 0.1 |
| Total borrowings | 9,532 | 13,515 | 20,508 | 28,180 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) The financial statements of Novelpac for the FYE 31 March 2007 were qualified on the appropriateness of going concern assumption used on the preparation of financial statements. The financial statements for the FYE 31 March 2008 and 2009 and the FPE 31 August 2009 were reported on without any qualification.

Kindly refer to Section 3.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Novelpac.

## BACKGROUND INFORMATION ON LUBUK TIARA

### 1. HISTORY AND BUSINESS

Lubuk Tiara was incorporated in Malaysia on 19 December 1994 under the Act as a private limited company. The principal activity of Lubuk Tiara is that of cultivation of oil palm.

Lubuk Tiara owns Lubuk Tiara Estate, comprising two parcels of provisional lease of state lands located at Lot 6 Dulit Land District and Lot 69 Sawai Land District, Miri Division, Sarwak, for oil palm plantation purposes with a total land area of 6,217.00 Ha. and a lease period of 60 years expiring on 29 December 2059.

Lubuk Tiara Plantation Estate is situated at Sungai Bok, Tinjar, Baram and it is about 100 km (aerial distance) by road to the South-east of Miri Town, Sarawak.

Details of the maturity profile of the palm oil trees and the FFB production of Lubuk Tiara Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Lubuk Tiara Estate as appraised by HB Miri as at 31 August 2009 is RM122,100,000. HB Miri had subsequently updated the market value of Lubuk Tiara Estate to RM138,650,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Lubuk Tiara is as follows:-

| | No. of Ordinary Shares | Par Value | Total |
|---|---|---|---|
| | | RM | RM |
| Authorised | 10,000,000 | 1.00 | 10,000,000 |
| Issued and fully paid-up | 8,000,000 | 1.00 | 8,000,000 |

Details of the changes in the issued and paid-up share capital of Lubuk Tiara since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value | Consideration | Cumulative Issued and Paid-up Share Capital |
|---|---|---|---|---|
| | | RM | | RM |
| 19.12.1994 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 12.04.1995 | 9,998 | 1.00 | Cash | 10,000 |
| 04.08.2000 | 1,990,000 | 1.00 | Cash | 2,000,000 |
| 31.03.2001 | 3,000,000 | 1.00 | Cash | 5,000,000 |
| 31.12.2001 | 3,000,000 | 1.00 | Cash | 8,000,000 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Lubuk Tiara as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Lubuk Tiara Shares Held --> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| PJP | Malaysia | 5,200,000 | 65.00 | - | - |
| LAKMNS | Malaysia | 2,400,000 | 30.00 | - | - |
| Ling Lee Soon | Malaysia | 400,000 | 5.00 | - | - |

**BACKGROUND INFORMATION ON LUBUK TIARA *(Cont'd)***

## 4. DIRECTORS

The particulars of the directors of Lubuk Tiara (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| | | <---- Number of Lubuk Tiara Shares Held ----> | | | |
|---|---|---|---|---|---|
| **Name** | **Designation** | **Direct** | **%** | **Indirect** | **%** |
| Datuk Tiong | Director | - | - | - | - |
| TKK | Director | - | - | * 5,200,000 | 65.00 |
| Tiong Chiong Ie | Director | - | - | - | - |
| Mohamad Sabry bin Othman | Director | - | - | - | - |

** Deemed interested by virtue of his interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Lubuk Tiara does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July | | | Audited FPE |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **01.08.2009 to 31.08.2009** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue | 4,888 | 5,726 | 5,504 | 655 |
| PBT / (LBT) | (988) | 492 | (368) | 146 |
| PAT / (LAT) | (988) | 492 | (368) | 146 |
| Gross EPS / (LPS) | (12.4) | 6.2 | (4.6) | * 21.9 |
| Net EPS / (LPS) | (12.4) | 6.2 | (4.6) | * 21.9 |
| Paid-up share capital | 8,000 | 8,000 | 8,000 | 8,000 |
| Shareholders' funds | 7,067 | 7,559 | 7,191 | 7,337 |
| NA | 7,067 | 7,559 | 7,191 | 7,337 |
| NA per Share (RM) | 0.9 | 0.9 | 0.9 | 0.9 |
| Current ratio (times) | 0.2 | 0.1 | 0.1 | 0.1 |
| Total borrowings | 37,911 | 37,790 | 37,516 | 37,485 |
| Gearing ratio (times) | 5.4 | 5.0 | 5.2 | 5.1 |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Lubuk Tiara throughout the periods under review.

Kindly refer to Section 4.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Lubuk Tiara.

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## BACKGROUND INFORMATION ON SPLENDID

### 1. HISTORY AND BUSINESS

Splendid was incorporated in Malaysia on 16 August 1996 under the Act as a private limited company under the name of Azamadun Sdn Bhd before it assumed its present name on 3 May 2000. The principal activity of Splendid is that of cultivation of oil palm.

Splendid owns Tabib Estate, comprising two parcels of provisional lease of state lands located at Lots 18 and 19 Block 6 Telang Usang Land District, Miri Division, Sarawak, for oil palm plantation purposes with a total land area of 1,176.00 Ha. and a lease period of 99 years expiring on 10 July 2087.

Tabib Estate is situated at Sungai Paong, Long Lama, Baram, Miri, Sarawak. The estate is about 8 km (aerial measure) to the North-East of Long Lama Bazaar and is about 144 km by road to the South-East of Miri City Centre, Sarawak.

Details of the maturity profile of the palm oil trees and the FFB production of Tabib Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Tabib Estate as appraised by HB Miri as at 31 August 2009 is RM14,550,000. HB Miri had subsequently updated the market value of Tabib Estate to RM14,670,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Splendid is as follows:-

| | No. of Ordinary Shares | Par Value<br>RM | Total<br>RM |
|---|---|---|---|
| Authorised | 5,000,000 | 1.00 | 5,000,000 |
| Issued and fully paid-up | 4,760,000 | 1.00 | 4,760,000 |

Details of the changes in the issued and paid-up share capital of Splendid since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value<br>RM | Consideration | Cumulative Issued and Paid-up Share Capital<br>RM |
|---|---|---|---|---|
| 16.08.1996 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 04.08.2000 | 98 | 1.00 | Cash | 100 |
| 08.07.2003 | 1,633,263 | 1.00 | Cash | 1,633,363 |
| 08.07.2003 | 699,970 | 1.00 | Other than cash | 2,333,333 |
| 19.04.2006 | 1,698,667 | 1.00 | Cash | 4,032,000 |
| 19.04.2006 | 728,000 | 1.00 | Other than cash | 4,760,000 |

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BACKGROUND INFORMATION ON SPLENDID *(Cont'd)*

## 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Splendid as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Splendid Shares Held --> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| PJP | Malaysia | 3,332,000 | 70.0 | - | - |
| LCDA | Malaysia | 1,428,000 | 30.0 | - | - |

## 4. DIRECTORS

The partieulars of the directors of Splendid (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| Name | Designation | <------- Number of Splendid Shares Held -------> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| TCO | Director | - | - | - | - |
| TKK | Dirctor | - | - | * 3,332,000 | 70.0 |
| Reynolds Anak Petrus Langi | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |
| Nee Choong Sing | Director | - | - | - | - |

* *Deemed interested by virtue of their interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Splendid does not have any subsidiary and associated companies.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July 2007 | 2008 | 2009 | Audited FPE 01.08.2009 to 31.08.2009 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 1,264 | 2,324 | 1,662 | 182 |
| PBT / (LBT) | (32) | 684 | 31 | 17 |
| PAT / (LAT) | (32) | 684 | 31 | 17 |
| Gross EPS / (LPS) (sen) | (0.7) | 14.4 | 0.7 | * 4.3 |
| Net EPS / (LPS) (sen) | (0.7) | 14.4 | 0.7 | * 4.3 |
| Paid-up share capital | 4,760 | 4,760 | 4,760 | 4,760 |
| Shareholders' funds | 3,165 | 3,849 | 3,880 | 3,897 |
| NA | 3,165 | 3,849 | 3,880 | 3,897 |
| NA per Share (RM) | 0.7 | 0.8 | 0.8 | 0.8 |
| Current ratio (times) | 0.1 | 0.4 | 0.4 | 0.4 |
| Total borrowings | 36 | 5 | - | - |
| Gearing ratio (times) | ^ | ^ | - | - |

* Annualised ^ Negligible

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Splendid throughout the periods under review.

Kindly refer to Section 5.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Splendid.

## BACKGROUND INFORMATION ON BIAWAK

### 1. HISTORY AND BUSINESS

Biawak was incorporated in Malaysia on 6 September 1995 under the Act as a private limited company under the name of Pelita Cergas Sdn Bhd before it assumed its present name on 15 April 2005. The principal activity of Biawak is that of cultivation of oil palm.

Biawak owns PJP Pelita Biawak Estate, comprising seven parcels of provisional lease of state lands located at Lots 5 and 7 of Block 3 Stungkor Land District, Lot 40 Block 12 Gading Lundu Land District, Lots 66 and 67 of Block 11 Gading Lundu Land District, Lot 247 Block 4 Stungkor Land District and Lot 385 Block 8 Stungkor Land District, Lundu, Kuching Division, Sarawak, for oil palm plantation purposes with a total land area of 3,933.00 Ha. and a lease period of 60 years expiring on 13 January 2062.

PJP Pelita Biawak Estate is situated at Sungai Kendai/Batang Kayan, Lundu within Lundu District, in Kuching Division, Sarawak. The approximate location of the estate is about 12 km to the South-South-West of Lundu Bazaar, in between the existing Bau-Lundu trunk road and the Malaysia-Indonesia international border. Also, the estate is about 45 km to the North-West of Bau Town and about 22 km to the South-East of Sematan Bazaar. Lundu Bazaar is about 91 km by road to the West of Kuching City Centre, whilst the subject land is about 75 to 80 km by road to North-West of Kuching City Centre.

Details of the maturity profile of the palm oil trees and the FFB production of PJP Pelita Biawak Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of PJP Pelita Biawak Estate as appraised by HB Miri as at 31 August 2009 is RM107,240,000. HB Miri had subsequently updated the market value of PJP Pelita Biawak Estate to RM107,830,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Biawak is as follows:-

| | No. of Ordinary Shares | Par Value RM | Total RM |
|---|---|---|---|
| Authorised | 10,000,000 | 1.00 | 10,000,000 |
| Issued and fully paid-up | 4,011,568 | 1.00 | 4,011,568 |

Details of the changes in the issued and paid-up share capital of Biawak since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value RM | Consideration | Cumulative Issued and Paid-up Share Capital RM |
|---|---|---|---|---|
| 11.12.1995 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 26.05.2000 | 98 | 1.00 | Other than cash | 100 |
| 22.11.2002 | 2,808,098 | 1.00 | Cash | 2,808,198 |
| 22.11.2002 | 1,203,370 | 1.00 | Other than cash | 4,011,568 |

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BACKGROUND INFORMATION ON BIAWAK *(Cont'd)*

## 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Biawak as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Biawak Shares Held --> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| PJP | Malaysia | 2,808,098 | 70.00 | - | - |
| Pelita Holdings | Malaysia | 601,735 | 15.00 | - | - |
| LAKMNS | Malaysia | 601,735 | 15.00 | - | - |

## 4. DIRECTORS

The particulars of the directors of Biawak (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| Name | Designation | <----- Number of Biawak Shares Held ----> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| TCO | Director | - | - | - | - |
| TKK | Director | - | - | * 2,808,098 | 70.00 |
| Datu Haji Salleh Haji Sulaiman | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |
| Nee Choong Sing | Director | - | - | - | - |

* *Deemed interested by virtue of his interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Biawak does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July 2007 | 2008 | 2009 | Audited FPE 01.08.2009 to 31.08.2009 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 8,567 | 18,937 | 12,543 | 1,323 |
| PBT / (LBT) | (267) | 5,466 | 440 | 206 |
| PAT / (LAT) | (267) | 5,655 | 186 | 135 |
| Gross EPS / (LPS) (sen) | (6.7) | 136.2 | 11.0 | * 61.6 |
| Net EPS / (LPS) (sen) | (6.7) | 141.0 | 4.6 | * 40.4 |
| Paid-up share capital | 4,012 | 4,012 | 4,012 | 4,012 |
| Shareholders' funds | (3,060) | 2,595 | 2,781 | 2,916 |
| NA/ (NL) | (3,060) | 2,595 | 2,781 | 2,916 |
| NA/ (NL) per Share (RM) | (0.8) | 0.6 | 0.7 | 0.7 |
| Current ratio (times) | 0.8 | 0.8 | 0.8 | 0.9 |
| Total borrowings | 36,015 | 36,000 | 36,470 | 36,470 |
| Gearing ratio (times) | N/A | 13.9 | 13.1 | 12.5 |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Biawak throughout the periods under review.

Kindly refer to Section 6.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Biawak.

## BACKGROUND INFORMATION ON EKANG

### 1. HISTORY AND BUSINESS

Ekang was incorporated in Malaysia on 20 December 2005 under the Act as a private limited company. The principal activity of Ekang is that of cultivation of oil palm.

PJP Pelita Ekang-Banyok Estate is situated in the region between Loagan Pa and Uma Akeh, along Batang Baram, Long Lama sub-district, Miri Division, Sarawak. PJP Pelita Ekang-Banyok Estate is developed under JVA on about 3,367 Ha. of NCR Land along Batang Baram and is proposed to be developed into an oil palm plantation over three phases.

Details of the maturity profile of the palm oil trees and the FFB production of PJP Pelita Ekang-Banyok Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of PJP Pelita Ekang-Banyok Estate as appraised by HB Miri as at 31 August 2009 is RM14,560,000. HB Miri had subsequently updated the market value of PJP Pelita Ekang-Banyok Estate to RM15,470,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Ekang is as follows:-

| | No. of Ordinary Shares | Par Value | Total |
|---|---|---|---|
| | | RM | RM |
| Authorised | 1,000,000 | 1.00 | 1,000,000 |
| Issued and fully paid-up | 969,600 | 1.00 | 969,600 |

Details of the changes in the issued and paid-up share capital of Ekang since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value | Consideration | Cumulative Issued and Paid-up Share Capital |
|---|---|---|---|---|
| | | RM | | RM |
| 20.12.2005 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 25.07.2008 | 678,718 | 1.00 | Cash | 678,720 |
| 25.07.2008 | 290,880 | 1.00 | Other than cash | 969,600 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Ekang as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Ekang Shares Held --> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| PJP | Malaysia | 581,760 | 60.00 | - | - |
| Pelita Holdings | Malaysia | 387,840 | 40.00 | - | - |

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BACKGROUND INFORMATION ON EKANG *(Cont'd)*

## 4. DIRECTORS

The particulars of the directors of Ekang (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| Name | Designation | <------ Number of Ekang Shares Held -------> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| TCO | Director | - | - | - | - |
| TKK | Director | - | - | * 581,760 | 60.00 |
| Sebastian Anak Baya | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |
| Nee Choong Sing | Director | - | - | - | - |

* *Deemed interested by virtue of his interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Ekang does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July | | | Audited FPE |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 01.08.2009 to 31.08.2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | - | - | - | - |
| PBT / (LBT) | (2) | (15) | (16) | (1) |
| PAT / (LAT) | (2) | (32) | 1 | (1) |
| Gross EPS / (LPS) (sen) | (100,000) | (79.0) | (1.7) | * (1.2) |
| Net EPS / (LPS) (sen) | (100,000) | (168.4) | 0.1 | * (1.2) |
| Paid-up share capital | # | 970 | 970 | 970 |
| Shareholders' funds | (11) | 927 | 928 | 927 |
| NA/ (NL) | (11) | 927 | 928 | 927 |
| NA/ (NL) per Share (RM) | (5,499.0) | 1.0 | 1.0 | 1.0 |
| Current ratio (times) | 0.6 | 0.6 | 0.4 | 0.4 |
| Total borrowings | - | - | - | - |
| Gearing ratio (times) | N/A | - | - | - |

* Annualised

# RM2.00

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Ekang throughout the periods under review.

Kindly refer to Section 7.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Ekang.

## BACKGROUND INFORMATION ON LUNDU

### 1. HISTORY AND BUSINESS

Lundu was incorporated in Malaysia on 12 August 1998 under the Act as a private limited company under the name of Raya Ceria Oil Palm Plantation Sdn Bhd before it assumed its present name on 19 April 2005. The principal activity of Lundu is that of cultivation of oil palm.

Lundu Estate is situated at Sungai Kendai/Batang Kayan, Lundu, within Lundu District, Kuching Division, Sarawak, with a total land area of 7,089.50 Ha. and is developed under JVA into an oil palm plantation.

Details of the maturity profile of the palm oil trees and the FFB production of Lundu Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Lundu Estate as appraised by HB Miri as at 31 August 2009 is RM171,290,000. HB Miri had subsequently updated the market value of Lundu Estate to RM167,920,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Lundu is as follows:-

| | No. of Ordinary Shares | Par Value RM | Total RM |
|---|---|---|---|
| Authorised | 20,000,000 | 1.00 | 20,000,000 |
| Issued and fully paid-up | 6,048,000 | 1.00 | 6,048,000 |

Details of the changes in the issued and paid-up share capital of Lundu since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value RM | Consideration | Cumulative Issued and Paid-up Share Capital RM |
|---|---|---|---|---|
| 12.08.1998 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 18.02.2000 | 4,233,598 | 1.00 | Cash | 4,233,600 |
| 18.02.2000 | 1,814,400 | 1.00 | Other than cash | 6,048,000 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Lundu as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Lundu Shares Held --> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| PJP | Malaysia | 3,628,800 | 60.00 | - | - |
| Pelita Holdings | Malaysia | 2,419,200 | 40.00 | - | - |

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**BACKGROUND INFORMATION ON LUNDU *(Cont'd)***

## 4. DIRECTORS

The particulars of the directors of Lundu (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| Name | Designation | <------- Number of Lundu Shares Held -------> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| TCO | Director | - | - | - | - |
| TKK | Director | - | - | * 3,628,800 | 60.00 |
| Stephen Jussem Dundon | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |
| Wong Yiing Ngiik | Director | - | - | - | - |

* *Deemed interested by virtue of his interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Lundu does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July | | | Audited FPE |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 01.08.2009 to 31.08.2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 18,509 | 38,630 | 25,036 | 2,584 |
| PBT | 2,559 | 13,516 | 5,332 | 694 |
| PAT | 2,014 | 14,061 | 5,332 | 694 |
| Gross EPS (sen) | 42.3 | 223.5 | 88.2 | * 137.7 |
| Net EPS (sen) | 33.3 | 232.5 | 88.2 | * 137.7 |
| Paid-up share capital | 6,048 | 6,048 | 6,048 | 6,048 |
| Shareholders' funds | (14,225) | (164) | 5,168 | 5,862 |
| NA/ (NL) | (14,225) | (164) | 5,168 | 5,862 |
| NA / (NL) per Share (RM) | (2.4) | (0.0) | 0.9 | 1.0 |
| Current ratio (times) | 0.3 | 1.6 | 2.4 | 2.0 |
| Total borrowings | 47,740 | 49,104 | 51,300 | 51,300 |
| Gearing ratio (times) | N/A | N/A | 9.9 | 8.8 |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Lundu throughout the periods under review.

Kindly refer to Section 8.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Lundu.

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## BACKGROUND INFORMATION ON SELANGAU

### 1. HISTORY AND BUSINESS

Selangau was incorporated in Malaysia on 26 May 2000 under the Act as a private limited company under the name of Ladang Metah Sdn Bhd before it assumed its present name on 12 July 2006. The principal activity of Selangau is that of cultivation of oil palm.

PJP Pelita Selangau Estate is situated at about 3.6 km to the East of Selangau Town and covers the Northern portion of lower Sungai Selangau area, Selangau, Mukah, Sibu Division, Sarawak, which cover an area of about 5,000.00 Ha. and is developed under JVA into an oil palm plantation.

Details of the maturity profile of the palm oil trees and the FFB production of PJP Pelita Selangau Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of PJP Pelita Selangau Estate as appraised by HB Miri as at 31 August 2009 is RM84,300,000. HB Miri had subsequently updated the market value of PJP Pelita Selangau Estate to RM88,890,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share eapital of Selangau is as follows:-

| | No. of Ordinary Shares | Par Value | Total |
|---|---|---|---|
| | | RM | RM |
| Authorised | 25,000,000 | 1.00 | 25,000,000 |
| Issued and fully paid-up | 12,000,000 | 1.00 | 12,000,000 |

Details of the changes in the issued and paid-up share capital of Selangau since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value | Consideration | Cumulative Issued and Paid-up Share Capital |
|---|---|---|---|---|
| | | RM | | RM |
| 26.05.2000 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 22.11.2002 | 3,359,998 | 1.00 | Cash | 3,360,000 |
| 22.11.2002 | 1,440,000 | 1.00 | Other than cash | 4,800,000 |
| 17.09.2003 | 5,040,000 | 1.00 | Cash | 9,840,000 |
| 17.09.2003 | 2,160,000 | 1.00 | Other than cash | 12,000,000 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Selangau as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Selangau Shares Held --> | | | |
|---|---|---|---|---|---|
| | | Direct | % | Indirect | % |
| Ladang Hijau | Malaysia | 7,200,000 | 60.00 | - | - |
| Pelita Holdings | Malaysia | 4,800,000 | 40.00 | - | - |

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BACKGROUND INFORMATION ON SELANGAU *(Cont'd)*

## 4. DIRECTORS

The particulars of the Directors of Selangau (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| | | <------ Number of Selangau Shares Held ------> | | | |
|---|---|---|---|---|---|
| **Name** | **Designation** | **Direct** | **%** | **Indirect** | **%** |
| TKK | Director | - | - | * 7,200,000 | 60.00 |
| TCO | Director | - | - | - | - |
| Wong Yiing Ngiik | Director | - | - | - | - |
| Gangga Anak Ugil | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |

* *Deemed interested by virtue of his interest in Ladang Hijau pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Selangau does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 30 April | | | Audited FPE |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 01.05.2009 to 31.08.2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 6,640 | 13,898 | 9,846 | 3,716 |
| PBT / (LBT) | (6,427) | (1,019) | (5,097) | 480 |
| PAT / (LAT) | (6,427) | (1,019) | (5,097) | 480 |
| Gross EPS / (LPS) (sen) | (53.6) | (8.5) | (42.5) | * 12.0 |
| Net EPS / (LPS) (sen) | (53.6) | (8.5) | (42.5) | * 12.0 |
| Paid-up share capital | 12,000 | 12,000 | 12,000 | 12,000 |
| Shareholders' funds | (19,968) | (20,987) | (26,084) | (25,604) |
| NA/ (NL) | (19,968) | (20,987) | (26,084) | (25,604) |
| NA / (NL) per Share (RM) | (1.7) | (1.8) | (2.2) | (2.1) |
| Current ratio (times) | 0.5 | 1.0 | 0.9 | 1.2 |
| Total borrowings | 57,392 | 61,892 | 64,041 | 64,008 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |

* Annualised

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Selangau throughout the periods under review.

Kindly refer to Section 9.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Selangau.

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## BACKGROUND INFORMATION ON ULU TERU

### 1. HISTORY AND BUSINESS

Ulu Teru was incorporated in Malaysia on 6 September 1995 under the Act as a private limited company under the name of Pelita Tangkas Sdn Bhd before it assumed its present name on 12 April 2005. The principal activity of Ulu Teru is that of cultivation of oil palm.

Ulu Teru Estate is situated to the South of the Beluru-Long Lama road along Ulu Sungai Teru in Baram District, Miri Division, Sarawak. Ulu Teru Estate is developed under JVA on about 7,900 Ha. of NCR Land into oil palm plantation.

Details of the maturity profile of the palm oil trees and the FFB production of Ulu Teru Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Ulu Teru Estate as appraised by HB Miri as at 31 August 2009 is RM62,040,000. HB Miri had subsequently updated the market value of Ulu Teru Estate to RM68,940,000 as at 28 February 2010.

### 2. SHARE CAPITAL

As at the LPD, the share capital of Ulu Teru is as follows:-

| | No. of Ordinary Shares | Par Value | Total |
|---|---|---|---|
| | | RM | RM |
| Authorised | 10,000,000 | 1.00 | 10,000,000 |
| Issued and fully paid-up | 8,640,000 | 1.00 | 8,640,000 |

Details of the changes in the issued and paid-up share capital of Ulu Teru since incorporation are as follows:-

| Date of Allotment | No. of Shares Allotted | Par Value | Consideration | Cumulative Issued and Paid-up Share Capital |
|---|---|---|---|---|
| | | RM | | RM |
| 06.09.1995 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 27.10.2004 | 2,015,998 | 1.00 | Cash | 2,016,000 |
| 27.10.2004 | 864,000 | 1.00 | Other than cash | 2,880,000 |
| 25.07.2008 | 4,032,000 | 1.00 | Cash | 6,912,000 |
| 25.07.2008 | 1,728,000 | 1.00 | Other than cash | 8,640,000 |

### 3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of Ulu Teru as at the LPD are as follows:-

| Name | Nationality/Country of Incorporation | <-- Number of Ulu Teru Shares Held --> Direct | % | Indirect | % |
|---|---|---|---|---|---|
| PJP | Malaysia | 5,184,000 | 60.00 | - | - |
| Pelita Holdings | Malaysia | 3,456,000 | 40.00 | - | - |

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**BACKGROUND INFORMATION ON ULU TERU *(Cont'd)***

## 4. DIRECTORS

The particulars of the directors of Ulu Teru (all of whom are Malaysians) and their respective shareholdings as at the LPD are as follows:-

| | | <------ Number of Ulu Teru Shares Held ------> | | | |
|---|---|---|---|---|---|
| **Name** | **Designation** | **Direct** | **%** | **Indirect** | **%** |
| TKK | Director | - | - | * 5,184,000 | 60.00 |
| TCO | Director | - | - | - | - |
| Sebastian Anak Baya | Director | - | - | - | - |
| Dollah Chek | Director | - | - | - | - |
| Nee Choong Sing | Director | - | - | - | - |

* *Deemed interested by virtue of his interest in PJP pursuant to Section 6A of the Act.*

## 5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Ulu Teru does not have any subsidiary nor associated company.

## 6. FINANCIAL INFORMATION

| | Audited FYE 31 July | | | Audited FPE |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 01.08.2009 to 31.08.2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | - | - | - | 12 |
| PBT / (LBT) | 1 | 6 | - | (106) |
| PAT / (LAT) | 1 | 6 | - | (106) |
| Gross EPS / (LPS) (sen) | ^ | 0.2 | - | * (14.7) |
| Net EPS / (LPS) (sen) | ^ | 0.2 | - | * (14.7) |
| Paid-up share capital | 2,880 | 8,640 | 8,640 | 8,640 |
| Shareholders' funds | 2,853 | 8,619 | 8,619 | 8,513 |
| NA | 2,853 | 8,619 | 8,619 | 8,513 |
| NA per Share (RM) | 1.0 | 1.0 | 1.0 | 1.0 |
| Current ratio (times) | 0.2 | 0.1 | 0.1 | 0.1 |
| Total borrowings | 3,069 | 3,000 | 3,130 | 3,130 |
| Gearing ratio (times) | 1.1 | 0.4 | 0.4 | 0.4 |

* Annualised

^ Insignificant

(i) There were no extraordinary nor exceptional items throughout the periods under review.

(ii) There were no audit qualifications reported in the audited financial statements of Ulu Teru throughout the periods under review.

Kindly refer to Section 10.5 (b) of the Accountants' Report in Appendix II on the commentary on past financial performances of Ulu Teru.

## BACKGROUND INFORMATION ON SIMUNJAN

Simunjan refers to the oil palm plantation estate with an gross area of 15,580 ha. known as the Simunjan Estate under licence for planted forest no LPF/0035, located at the Samarahan and Sri Aman Division in Sarawak.

The Simunjan estate is situated about 12 km to the southeast of Simunjan Town. It is sandwiched between the latitudes $1^0$ 14.0' North and $1^0$26.5'E. The block of the project is located in Samarahan Division but the north-eastern corner is within Sri Aman Division. The Simunjan Estate is easily accessible by road, namely Simunjan Road which is the main road linking Simunjan Town to Pan Borneo Highway which runs through Simunjan Estate.

Licences for planted forests (or LPFs) are licences issued by the State of Sarawak which grants the licence holder the rights to establish, develop and maintain planted forests in accordance with an approved tree planting plan and to harvest the same in accordance with an approved harvesting plan, for a specified period. In the case of Simunjan, the LPF grants the licence holder the said rights in respect of the Simunjan estate for a period of 60 years starting from 22 March 2004. The approved tree planting plan includes the planting of oil palm at the specified area for a maximum period of 25 years (approximately 19 years remaining) after which that specified area shall be planted with other approved trees.

Details of the maturity profile of the palm oil trees and the FFB production of Simunjan Estate are set out in Sections 2.9.2 and 2.9.3 of Part A of this Circular respectively.

The market value of Simunjan Estate as appraised by HB Sarawak as at 31 August 2009 is RM43,000,000. HB Sarawak had subsequently updated the market value of Simunjan Estate to RM48,600,000 as at 28 February 2010.

Rejang Height, is the original licence holder of Simunjan.

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ACCOUNTANTS' REPORT ON ACQUIREES

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Chartered Accountants

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22 July 2010

The Board of Directors
Rimbunan Sawit Berhad
No. 85 & 86, Pusat Suria Permata
Jalan Upper Lanang 12A
96000 Sibu, Sarawak

Dear Sirs,

## 1.0 INTRODUCTION

This report has been prepared by Hii & Lee, an approved company auditors, for inclusion in the circular to shareholders of Rimbunan Sawit Berhad (Company No.: 691393-U) (hereinafter referred to as "RSB") to be dated 27 July 2010 in connection with the following Proposals:-

(a) the proposed acquisitions of equity interests in the following companies and the commercial rights of the licence for planted forests held by Rejang Height Sdn Bhd ("Simunjan") for an aggregate purchase consideration of RM288,995,534 to be wholly satisfied by the issuance of 28,331,400 new ordinary shares of RM0.50 each and 193,972,857 new irredeemable convertible preference shares ("ICPSs") of RM0.50 each in RSB at an issue price of RM1.30 per ordinary share/ICPS:-

(i) proposed acquisition of 5,000,000 ordinary shares of RM1.00 each in Jayamax Plantation Sdn Bhd ("Jayamax"), representing 100% of its issued and paid-up share capital from Pemandangan Jauh Plantation Sdn Bhd ("PJP"), Teck Sing Lik Enterprise Sdn Bhd and Tiong Toh Siong Holdings Sdn Bhd, for a purchase consideration of RM40,377,536 to be satisfied by the issuance of 20,437,821 new ordinary shares of RM0.50 each and 10,621,823 new ICPSs of RM0.50 each in RSB;

(ii) proposed acquisition of 1,062,500 ordinary shares of RM1.00 each in Novelpac-Puncakdana Plantation Sdn Bhd ("Novelpac"), representing 85% of its issued and paid-up share capital from Kendaie Oil Palm Plantation Sdn Bhd ("Kendaie"), for a purchase consideration of RM10,261,653 to be satisfied by the issuance of 7,893,579 new ordinary shares of RM0.50 each in RSB;

(iii) proposed acquisition of 5,200,000 ordinary shares of RM1.00 each in Lubuk Tiara Sdn Bhd ("Lubuk Tiara"), representing 65% of its issued and paid-up share capital from PJP, for a purchase consideration of RM30,105,354 to be satisfied by the issuance of 23,157,965 new ICPSs of RM0.50 each in RSB;

(iv) proposed acquisition of 3,332,000 ordinary shares of RM1.00 each in Pelita-Splendid Plantation Sdn Bhd ("Splendid"), representing 70% of its issued and paid-up share capital from PJP, for a purchase consideration of RM9,679,133 to be satisfied by the issuance of 7,445,487 new ICPSs of RM0.50 each in RSB;

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**1.0 INTRODUCTION (CONT'D)**

(v) proposed acquisition of 2,808,098 ordinary shares of RM1.00 each in PJP Pelita Biawak Plantation Sdn Bhd ("Biawak"), representing 70% of its issued and paid-up share capital from PJP, for a purchase consideration of RM53,960,282 to be satisfied by the issuance of 41,507,909 new ICPSs of RM0.50 each in RSB;

(vi) proposed acquisition of 581,760 ordinary shares of RM1.00 each in PJP Pelita Ekang-Banyok Plantation Sdn Bhd ("Ekang"), representing 60% of its issued and paid-up share capital from PJP, for a purchase consideration of RM6,935,286 to be satisfied by the issuance of 5,334,835 new ICPSs of RM0.50 each in RSB;

(vii) proposed acquisition of 3,628,800 ordinary shares of RM1.00 each in PJP Pelita Lundu Plantation Sdn Bhd ("Lundu"), representing 60% of its issued and paid-up share capital from PJP, for a purchase consideration of RM81,165,511 to be satisfied by the issuance of 62,435,008 new ICPSs of RM0.50 each in RSB;

(viii) proposed acquisition of 7,200,000 ordinary shares of RM1.00 each in PJP Pelita Selangau Plantation Sdn Bhd ("Selangau"), representing 60% of its issued and paid-up share capital from Ladang Hijau (Sarawak) Sdn Bhd ("Ladang Hijau"), for a purchase consideration of RM12,743,022 to be satisfied by the issuance of 9,802,325 new ICPSs of RM0.50 each in RSB;

(ix) proposed acquisition of 5,184,000 ordinary shares of RM1.00 each in PJP Pelita Ulu Teru Plantation Sdn Bhd ("Ulu Teru"), representing 60% of its issued and paid-up share capital from PJP, for a purchase consideration of RM21,982,236 to be satisfied by the issuance of 16,909,412 new ICPSs of RM0.50 each in RSB; and

(x) proposed acquisition of the commercial rights of Simunjan from Rejang Height Sdn Bhd for a purchase consideration of RM21,785,521 to be satisfied by the issuance of 16,758,093 new ICPSs of RM0.50 each in RSB; and

(b) the proposed amendments to the Memorandum and Articles of Association of RSB to facilitate the issuance of ICPSs.

## 2.0 JAYAMAX

### 2.1 General Information

Jayamax was incorporated in Malaysia under the Companies Act, 1965 on 6 October 1994 as a private limited liability company under its present name.

The principal activity of Jayamax is cultivation of oil palm.

As at the date of this report, the authorised share capital of Jayamax is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Jayamax is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each.

Details of the changes in Jayamax's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 06-10-1994 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 08-10-1994 | 49,998 | 1.00 | Cash | 50,000 |
| 07-01-1995 | 950,000 | 1.00 | Cash | 1,000,000 |
| 10-02-1995 | 2,000,000 | 1.00 | Cash | 3,000,000 |
| 15-10-2004 | 2,000,000 | 1.00 | Cash | 5,000,000 |

### 2.2 Financial Statements and Auditors

The auditors of Jayamax for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Hii & Lee |
| 1 August 2007 to 31 July 2008 | Hii & Lee |
| 1 August 2008 to 31 July 2009 | Hii & Lee |
| 1 August 2009 to 31 August 2009 | Hii & Lee |

The financial statements were reported on without any qualification. As at 31 August 2009, shareholders' funds of Jayamax were in deficit by RM5,197,000.

### 2.3 Dividends

No dividend has been paid or declared by Jayamax during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 5,000 | 5,000 | 5,000 | 5,000 |
| Shareholders' funds (RM'000) | (5,197) | (5,260) | (4,027) | (6,969) |
| Net liabilities (RM'000) | (5,197) | (5,260) | (4,027) | (6,969) |
| Net liabilities per share (RM) | (1.0) | (1.1) | (0.8) | (1.4) |
| Turnover (RM'000) | 985 | 8,948 | 12,724 | 7,661 |
| Gross profit (RM'000) | 305 | 604 | 5,924 | 3,002 |
| Profit/(loss) before tax (RM'000) | 63 | (1,233) | 2,942 | 900 |
| Profit/(loss) after tax (RM'000) | 63 | (1,233) | 2,942 | 900 |
| Earnings/(loss) per share (sen) | | | | |
| - Gross | 15.1 * | (24.7) | 58.8 | 18.0 |
| - Net | 15.1 * | (24.7) | 58.8 | 18.0 |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | 31.0 | 6.8 | 46.6 | 39.2 |
| Pre-tax profit/(loss) margin (%) | 6.4 | (13.8) | 23.1 | 11.8 |
| Current ratio (times) | 0.1 | 0.1 | 0.1 | 0.5 |
| Total borrowings (RM'000) | 60,860 | 60,978 | 57,622 | 57,351 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |
| Interest expense (RM'000) | 87 | 1,175 | 1,299 | 1,438 |
| Interest expense capitalised (RM'000) | 69 | 1,167 | 1,299 | 1,437 |
| Interest coverage ratio (times) | 1.4 | 0.5 | 2.1 | 1.3 |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | N/A | N/A | N/A | N/A |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.5 Income Statements

The income statements of Jayamax for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009[(1)] | 2009[(1)] | 2008[(1)] | 2007[(1)] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 985 | 8,948 | 12,724 | 7,661 |
| Cost of sales | (680) | (8,344) | (6,800) | (4,659) |
| Gross profit | 305 | 604 | 5,924 | 3,002 |
| Other income | 10 | 715 | 171 | 28 |
| Selling expenses | (78) | (916) | (1,329) | (459) |
| Administrative and other expenses | (87) | (461) | (525) | (233) |
| Finance costs | (87) | (1,175) | (1,299) | (1,438) |
| Profit/(loss) before tax | 63 | (1,233) | 2,942 | 900 |
| Income tax expense | - | - | - | - |
| Profit/(loss) after tax | 63 | (1,233) | 2,942 | 900 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.5 Income Statements (Cont'd)

*Note:-*

(1) For the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009, selling expenses and finance costs of Jayamax were included in cost of sales. For the purposes of this report, adjustments were made to exclude selling expenses and finance costs from cost of sales.

Details of the above adjustments are set out as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost of sales** | | | | |
| Cost of sales, audited | 758 | 9,260 | 9,428 | 6,556 |
| Adjustments | (78) | (916) | (2,628) | (1,897) |
| Cost of sales, restated | 680 | 8,344 | 6,800 | 4,659 |
| **Gross profit/(loss)** | | | | |
| Gross profit/(loss), audited | 227 | (312) | 3,296 | 1,105 |
| Adjustments | 78 | 916 | 2,628 | 1,897 |
| Gross profit, restated | 305 | 604 | 5,924 | 3,002 |
| **Selling expenses** | | | | |
| Selling expenses, audited | - | - | - | - |
| Adjustments | 78 | 916 | 1,329 | 459 |
| Selling expenses, restated | 78 | 916 | 1,329 | 459 |
| **Finance costs** | | | | |
| Finance costs, audited | 87 | 1,175 | - | - |
| Adjustments | - | - | 1,299 | 1,438 |
| Finance costs, restated | 87 | 1,175 | 1,299 | 1,438 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.5 Income Statements (Cont'd)

#### (a) Segmental Analysis of Turnover and Profits

Segmental analysis is not applicable as Jayamax operates solely in Malaysia and its predominant activity is cultivation of oil palm.

#### (b) Commentary on Past Performanee

Jayamax commenced its business operations in oil palm plantation in 2000. As at 31 August 2009, Jayamax's oil palm plantations located in Miri cover 4,960 hectares, with approximately 3,904 hectares planted. Out of the total planted area, Jayamax has approximately 2,672 hectares of mature oil palm trees, with an average yield of 9.9Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years/period under review, Jayamax generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Jayamax incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Jayamax's cost of sales.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 31 July 2007 ("FY2007")*

*Turnover*

Jayamax's turnover increased by 133.3% or RM4.4 million to RM7.7 million in FY2007 from RM3.3 million in FY2006. The increase was due to the higher average FFB selling price coupled with the increase in sales volume for FFB.

Driven by bullish demand in the world edible oil market, average selling price of FFB increased by 53.4% from RM232/Mt in FY2006 to RM356/Mt in FY2007.

Sales volume for FFB increased by 51.4% from 14,211Mt in FY2006 to 21,511Mt in FY2007, mainly due to the improved average FFB yield from 5.9Mt/hectare in FY2006 to 8.9Mt/hectare in FY2007.

*Cost of sales*

Despite the increase in turnover, Jayamax's cost of sales decreased from RM8.1 million in FY2006 to RM4.7 million in FY2007. The lower cost of sales of 42.0% or RM3.4 million for the financial year was mainly due to the followings:-

(i) an overall decrease in estate maintenance costs by 35.5% from RM3.1 million in FY2006 to RM2.0 million in FY2007 as a result of improved efficiency and productivity;

(ii) a decrease in manuring costs by 50.0% from RM2.0 million in FY2006 to RM1.0 million in FY2007 as a result of less manuring application; and

(iii) the lower amortisation charge of RM106,000 in FY2007 as compared to RM1.0 million for the previous financial year, due to the revision of amortisation policy from 20 years in FY2006 to 25 years in FY2007, where the over-amortised amortisation charge prior to FY2007 was treated as an one-off adjustment during the financial year.

*Gross profit and gross margin*

Jayamax's gross profit was RM3.0 million in FY2007, an improvement of RM7.8 million from a gross loss of RM4.8 million in FY2006. Similarly, Jayamax achieved an improved gross margin for the financial year, from a gross loss margin of 145.1% in FY2006 to a gross profit margin of 39.2% in FY2007. The improvement in gross profit and gross margin was mainly due to the increase in turnover coupled with the decrease in cost of sales as set out above.

*Pre-tax and after-tax results*

Jayamax achieved a pre-tax and after-tax profit of RM900,000 in FY2007 as compared to a pre-tax and after-tax loss of RM6.6 million in FY2006. The improvement of RM7.5 million was in tandem with the increase in gross profit.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**2.0 JAYAMAX (CONT'D)**

**2.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2008 ("FY2008")***

*Turnover*

In FY2008, Jayamax's turnover was RM12.7 million as compared to RM7.7 million in FY2007. The increase in turnover of 64.9% or RM5.5 million was due to the higher average FFB selling price and the increase in sales volume for FFB.

Driven by the uptrend in the palm oil industry, average selling price of FFB further increased by 62.4% from RM356/Mt in FY2007 to RM578/Mt in FY2008.

Sales volume for FFB increased by 2.4% from 21,511Mt in FY2007 to 22,021Mt in FY2008, mainly due to the improved average FFB yield from 8.9Mt/hectare in FY2007 to 9.1Mt/hectare in FY2008.

*Cost of sales*

Jayamax recorded an increase in cost of sales of 44.7% or RM2.1 million from RM4.7 million in FY2007 to RM6.8 million in FY2008. The increase in cost of sales was mainly attributable to the followings:-

(i) an overall increase in harvesting, maintenance, transportation and staff costs by 21.4% from RM2.8 million in FY2007 to RM3.4 million in FY2008, in line with the increase in FFB production;

(ii) an increase in manuring costs by 30.0% to RM1.3 million in FY2008 from RM1.0 million in FY2007 as a result of the increased fertiliser prices; and

(iii) the higher amortisation charge of RM817,000 in FY2007 as compared to RM106,000 for the previous financial year.

*Gross profit and gross margin*

Jayamax's gross profit increased by 96.7% or RM2.9 million from RM3.0 million in FY2007 to RM5.9 million in FY2008. Similarly, Jayamax recorded a gross profit margin of 46.6% in FY2008 as compared to 39.2% in FY2007. The increase in gross profit and gross margin for the financial year was mainly due to the increase in turnover as set out above.

*Pre-tax and after-tax results*

Jayamax's pre-tax and after-tax profit increased by 222.2% or RM2.0 million from RM900,000 in FY2007 to RM2.9 million in FY2008. The increase was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increased selling expenses.

The increase in selling expenses of 160.0% from RM459,000 in FY2007 to RM1.3 million in FY2008 was due to the increase in transportation costs from RM362,000 in FY2007 to RM672,000 in FY2008 as a result of the rising fuel prices, as well as the increase in cess/windfall profit levy from RM97,000 in FY2007 to RM657,000 in FY2008, in line with the increased market prices of crude palm oil.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**2.0 JAYAMAX (CONT'D)**

**2.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2009 ("FY2009")*

*Turnover*

Jayamax's turnover declined by 29.9% or RM3.8 million from RM12.7 million in FY2008 to RM8.9 million in FY2009, due to the decrease in average selling price of FFB, which was partially offset by the increase in sales volume for FFB.

Average selling price of FFB fell by 35.8% from RM578/Mt in FY2008 to RM371/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

Sales volume for FFB increased by 9.4% from 22,021Mt in FY2008 to 24,097Mt in FY2009, due to the improved average FFB yield from 9.1Mt/hectare in FY2008 to 9.9Mt/hectare in FY2009.

*Cost of sales*

Despite the lower turnover recorded in FY2009, cost of sales of Jayamax for FY2009 increased by 22.1% or RM1.5 million from RM6.8 million in FY2008 to RM8.3 million in FY2009. The higher cost of sales was mainly due to the followings:-

(i) an overall increase in harvesting and maintenance costs by 28.6% from RM2.1 million in FY2008 to RM2.7 million in FY2009, in line with the increase in FFB production;

(ii) an increase in manuring costs by 15.4% from RM1.3 million in FY2008 to RM1.5 million in FY2009, mainly due to the increased fertiliser prices;

(iii) an increase in transportation costs by 32.2% from RM692,000 in FY2008 to RM919,000 in FY2009 following the rising of fuel prices; and

(iv) an increase in depreciation charge of 46.4% from RM474,000 in FY2008 to RM694,000 in FY2009 following acquisitions of plant and machinery for FY2009.

*Gross profit and gross margin*

Jayamax's gross profit recorded a decrease of 89.8% or RM5.3 million from RM5.9 million in FY2008 to RM604,000 in FY2009. Jayamax recorded a gross profit margin of 6.8% in FY2009, a decline of 39.8 percentage points as compared to 46.6% in FY2008. The decline in gross profit as well as gross margin was in line with the decrease in turnover and the increase in cost of sales as set out above.

*Pre-tax and after-tax results*

Jayamax recorded a pre-tax and after-tax loss of RM1.2 million in FY2009 as compared to a pre-tax and after-tax profit of RM2.9 million in FY2008. The decrease of 4.1 million was in tandem with the decrease in gross profit. This was, however, partially offset by the decrease in selling expenses by 30.8%, which was mainly due to the decrease in cess/windfall profit levy. The decrease in cess/windfall profit levy was due to the tumbled prices for crude palm oil in FY2009, as well as the increase in the threshold from RM2,000/Mt to RM3,000/Mt for the computation of windfall profit levy, effective 10 March 2009.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**2.0 JAYAMAX (CONT'D)**

**2.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Period Ended 31 August 2009 ("FP2009")***

*Turnover*

For FP2009, Jayamax recorded turnover of RM985,000, with a total sales volume of 2,228Mt at an average FFB selling price of RM442/Mt.

*Cost of sales*

Jayamax's cost of sales was RM680,000 for FP2009.

*Gross profit and gross margin*

For FP2009, Jayamax's gross profit and gross profit margin were RM305,000 and 31.0% respectively.

*Pre-tax and after-tax results*

Jayamax's pre-tax and after-tax profit for FP2009 was RM63,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets

The balance sheets of Jayamax as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <---------- As at 31 July ----------> | | |
|---|---|---|---|---|
| | 2009 | 2009(1) | 2008(1) | 2007(1) |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| ASSETS | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17,634 | 17,648 | 15,100 | 14,661 |
| Prepaid lease rentals | 2,702 | 2,706 | 2,760 | 2,814 |
| Biological assets | 57,710 | 57,338 | 47,254 | 41,556 |
| | 78,046 | 77,692 | 65,114 | 59,031 |
| **Current assets** | | | | |
| Inventories | 1,535 | 1,005 | 1,163 | 412 |
| Other receivables | 380 | 400 | 1,272 | 15,059 |
| Amount due from holding company | - | 1,256 | - | - |
| Cash and bank balances | 2 | 2 | - | 1 |
| | 1,917 | 2,663 | 2,435 | 15,472 |
| TOTAL ASSETS | 79,963 | 80,355 | 67,549 | 74,503 |
| EQUITY AND LIABILITIES | | | | |
| **Equity** | | | | |
| Share capital | 5,000 | 5,000 | 5,000 | 5,000 |
| Accumulated losses | (10,197) | (10,260) | (9,027) | (11,969) |
| **Total equity** | (5,197) | (5,260) | (4,027) | (6,969) |
| **Non-current liabilities** | | | | |
| Borrowings | 55,794 | 55,808 | 53,408 | 51,702 |
| **Current liabilities** | | | | |
| Trade and other payables | 22,455 | 24,637 | 8,954 | 11,102 |
| Amount due to holding company | 1,845 | - | 5,000 | 13,019 |
| Borrowings – bank overdrafts | 4,899 | 5,009 | 3,909 | 5,010 |
| – other borrowings | 167 | 161 | 305 | 639 |
| | 29,366 | 29,807 | 18,168 | 29,770 |
| **Total liabilities** | 85,160 | 85,615 | 71,576 | 81,472 |
| TOTAL EQUITY AND LIABILITIES | 79,963 | 80,355 | 67,549 | 74,503 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**2.0 JAYAMAX (CONT'D)**

**2.6 Balance Sheets (Cont'd)**

*Note:-*

(1) The financial statements of Jayamax for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Jayamax are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure includes oil palm planting expenditure and plantation infrastructure development expenditure. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | < --------- As at 31 July --------- > | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 9,427 | 9,925 | 9,223 |
| Adjustments – FRS 101 | 10,927 | 7,935 | 8,252 |
| – FRS 117 | (2,706) | (2,760) | (2,814) |
| Property, plant and equipment, restated | 17,648 | 15,100 | 14,661 |
| **Plantation development expenditure** | | | |
| Plantation development expenditure, audited | 68,265 | 55,189 | 49,808 |
| Adjustments – FRS 101 | (68,265) | (55,189) | (49,808) |
| Plantation development expenditure, restated | - | - | - |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 2,706 | 2,760 | 2,814 |
| Prepaid lease rentals, restated | 2,706 | 2,760 | 2,814 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 57,338 | 47,254 | 41,556 |
| Biological assets, restated | 57,338 | 47,254 | 41,556 |

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Jayamax's biological assets is tabulated as follows:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 57,710 | 57,338 | 47,254 | 41,556 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | 3 | 4,111 | 273 | 2 |
| Field upkeep/maintenance costs | 24 | 574 | 785 | 586 |
| Manuring and weeding | 128 | 1,995 | 1,799 | 978 |
| Finance costs | 69 | 1,167 | 1,299 | 1,437 |
| Labour costs | 59 | 574 | 530 | 698 |
| Other direct administrative costs | 149 | 2,390 | 1,512 | 866 |
| | 432 | 10,811 | 6,198 | 4,567 |
| Amortisation of biological assets | 60 | 727 | 500 | 106 |

*Maturity profile*

The details of Jayamax's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | 1,232 | - | 2,672 | 3,904 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

#### (a) Biological Assets (Cont'd)

*Amortisation of biological assets*

The increase in amortisation of biological assets over the financial years/period under review was due to the increase in mature plantation hectarage over those financial years/period.

#### (b) Inventories

Information on Jayamax's inventories is tabulated as follows:-

| | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 1,311 | 823 | 942 | 204 |
| Nursery inventories | 224 | 182 | 221 | 208 |
| | 1,535 | 1,005 | 1,163 | 412 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Jayamax sold all FFB produced during the financial years/period under review and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

#### (c) Other Receivables

Information on Jayamax's other receivables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Other receivables** | | | | | |
| - Related parties | (i) | 54 | 119 | 106 | 14,975 |
| - Sundry reeeivables | | 192 | 135 | 1,052 | 2 |
| - Deposits | (ii) | 8 | 8 | 4 | 1 |
| - Prepayments | (iii) | 126 | 138 | 110 | 81 |
| | | 380 | 400 | 1,272 | 15,059 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

**(e) Other Receivables (Cont'd)**

(i) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(ii) These consist mainly of rental and utility deposits.

(iii) These consist mainly of prepaid insurance and levy.

**(d) Trade and Other Payables**

Information on Jayamax's trade and other payables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 13,514 | 588 | 576 | 528 |
| - Third parties | | 598 | 13,449 | 5,810 | 2,200 |
| | | 14,112 | 14,037 | 6,386 | 2,728 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 6,848 | 9,429 | 1,464 | 7,745 |
| - Sundry payables | (iii) | 1,192 | 905 | 855 | 379 |
| - Accruals | (iv) | 303 | 266 | 249 | 250 |
| | | 8,343 | 10,600 | 2,568 | 8,374 |
| **Total** | | 22,455 | 24,637 | 8,954 | 11,102 |
| Trade payables turnover period (months) | | 20.7 | 14.7 | 8.0 | 9.0 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

**(d) Trade and Other Payables (Cont'd)**

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | < --- Within credit period --- > | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 8,134 | 5,656 | 37 | 112 | 173 | 14,112 |
| % of total trade payables | 57.6 | 40.1 | 0.3 | 0.8 | 1.2 | 100.0 |

The normal trade credit term granted by suppliers to Jayamax is 90 days. There is no specific credit term granted by related parties to Jayamax. As at 31 August 2009, 2.0% of trade payables exceeded the credit period. The amount was mainly the retention sum payable to contractors.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) The balance includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Jayamax.

(iv) These consist mainly of accrued operating expenses such as salaries and wages.

**(e) Amount Due to/from Holding Company**

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing to/by the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

#### (f) Borrowings

Information on Jayamax's borrowings is tabulated as follows:-

| | | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | 154 | 168 | 158 | 202 |
| Unsecured loan | (ii) | 55,640 | 55,640 | 53,250 | 51,500 |
| | | 55,794 | 55,808 | 53,408 | 51,702 |
| **Short-term borrowings** | | | | | |
| Bank overdrafts, unsecured | (iii) | 4,899 | 5,009 | 3,909 | 5,010 |
| Hire purchase liabilities | (i) | 167 | 161 | 305 | 639 |
| | | 5,066 | 5,170 | 4,214 | 5,649 |
| **Total** | | 60,860 | 60,978 | 57,622 | 57,351 |

(i) These are used for the acquisitions of motor vehicles, plant and machinery.

(ii) The unsecured loan is granted to Jayamax by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

(iii) The major terms and conditions of banking facilities granted to Jayamax as at 31 August 2009 are as follows:-

| | RHB Bank Berhad | |
|---|---|---|
| **Facilities** | • Overdraft | • Bankers' Guarantee |
| **Limit** | • RM5,000,000 | • RM1,000,000 |
| **Purposes** | • For working capital | • As security deposit against payment of royalties favouring Forestry Department, and security deposit for Labour Department, Immigration Department and other authorities |
| **Interest rate/ Commission** | • 1.50% p.a. + BLR | • 1.20% p.a. |
| **Securities** | • A 1st legal charge over the provisional lease of state land held under Lots 4 and 6, Block 9, Dulit Land District<br>• A debenture incorporating a fixed and floating charge over all the assets, properties and undertakings (both moveable and immovable, present and future) of Jayamax<br>• A corporate guarantee from PJP | |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 2.0 JAYAMAX (CONT'D)

### 2.6 Balance Sheets (Cont'd)

#### (g) Taxation

The tax agent for Jayamax for the financial years/period under review was Hii & Lee (Tax Services) Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM13,123,000<br>• Capital/agriculture allowances – RM61,496,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC

### 3.1 General Information

Novelpac was incorporated in Malaysia under the Companies Act, 1965 on 2 March 1996 as a private limited liability company under the name of Novelpac Sdn Bhd before it assumed its present name on 2 February 1999.

The principal activity of Novelpac is cultivation of oil palm.

As at the date of this report, the authorised share capital of Novelpac is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Novelpac is RM1,250,000 comprising 1,250,000 ordinary shares of RM1.00 each.

Details of the ehanges in Novelpac's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 02-03-1996 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 02-02-1998 | 1 | 1.00 | Cash | 3 |
| 21-12-1998 | 249,997 | 1.00 | Cash | 250,000 |
| 10-02-2000 | 500,000 | 1.00 | Cash | 750,000 |
| 18-12-2000 | 250,000 | 1.00 | Cash | 1,000,000 |
| 09-04-2001 | 250,000 | 1.00 | Cash | 1,250,000 |

### 3.2 Financial Statements and Auditors

The auditors of Novelpac for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 April 2006 to 31 March 2007 | Ling Ming Leh & Company |
| 1 April 2007 to 31 March 2008 | Ling Ming Leh & Company |
| 1 April 2008 to 31 March 2009 | Ling Ming Leh & Company |
| 1 April 2009 to 31 August 2009 | Ling Ming Leh & Company |

The financial statements for the financial year ended 31 March 2007 were qualified on the appropriateness of going concern assumption used in the preparation of financial statements. The financial statements for the financial years ended 31 March 2008 and 2009, and the period ended 31 August 2009 were reported on without any qualification. As at 31 August 2009, shareholders' funds of Novelpac were in deficit by RM2,587,000.

### 3.3 Dividends

No dividend has been paid or declared by Novelpac during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 March | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 1,250 | 1,250 | 1,250 | 1,250 |
| Shareholders' funds (RM'000) | (2,587) | (2,450) | (2,098) | (1,806) |
| Net liabilities (RM'000) | (2,587) | (2,450) | (2,098) | (1,806) |
| Net liabilities per share (RM) | (2.1) | (2.0) | (1.7) | (1.4) |
| Turnover (RM'000) | 34 | 53 | 17 | - |
| Gross loss (RM'000) | (20) | (107) | (116) | - |
| Loss before tax (RM'000) | (137) | (352) | (292) | (330) |
| Loss after tax (RM'000) | (137) | (352) | (292) | (330) |
| Loss per share (sen) | | | | |
| - Gross | (26.3)* | (28.2) | (23.4) | (26.4) |
| - Net | (26.3)* | (28.2) | (23.4) | (26.4) |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | (58.8) | (201.9) | (682.4) | N/A |
| Pre-tax loss margin (%) | (402.9) | (664.2) | (1,717.7) | N/A |
| Current ratio (times) | 0.1 | 0.2 | 0.2 | 0.1 |
| Total borrowings (RM'000) | 28,180 | 20,508 | 13,515 | 9,532 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |
| Interest expense (RM'000) | 7 | 11 | 18 | 206 |
| Interest expense capitalised (RM'000) | 457 | 772 | 552 | - |
| Interest coverage ratio (times) | 0.7 | 0.6 | 0.5 | (0.6) |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | N/A | N/A | N/A | N/A |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.5 Incomc Statements

The income statements of Novelpac for the financial years ended 31 March 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 March | | |
|---|---|---|---|---|
| | 2009[1] | 2009[1] | 2008[1] | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 34 | 53 | 17 | - |
| Cost of sales | (54) | (160) | (133) | - |
| Gross loss | (20) | (107) | (116) | - |
| Other income | 10 | 4 | 5 | 11 |
| Selling expenses | - | (1) | (1) | - |
| Administrative and other expenses | (120) | (237) | (162) | (135) |
| Finance costs | (7) | (11) | (18) | (206) |
| Loss before tax | (137) | (352) | (292) | (330) |
| Income tax expense | - | - | - | - |
| Loss after tax | (137) | (352) | (292) | (330) |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.5 Income Statements (Cont'd)

*Note:-*

(1) For the financial years ended 31 March 2008 and 2009, and the period ended 31 August 2009, selling expenses of Novelpac were included in cost of sales. For the purposes of this report, adjustments were made to exclude selling expenses from cost of sales.

Details of the above adjustments are set out as follows:-

| | Period Ended 31 August | Financial Year Ended 31 March | |
|---|---|---|---|
| | 2009 | 2009 | 2008 |
| | RM'000 | RM'000 | RM'000 |
| **Cost of sales** | | | |
| Cost of sales, audited | 54 | 161 | 134 |
| Adjustments | - | (1) | (1) |
| Cost of sales, restated | 54 | 160 | 133 |
| **Gross loss** | | | |
| Gross loss, audited | (20) | (108) | (117) |
| Adjustments | - | 1 | 1 |
| Gross loss, restated | (20) | (107) | (116) |
| **Selling expenses** | | | |
| Selling expenses, audited | - | - | - |
| Adjustments | - | 1 | 1 |
| Selling expenses, restated | - | 1 | 1 |

**(a) Segmental Analysis of Turnover and Profits**

Segmental analysis is not applicable as Novelpac operates solely in Malaysia and its predominant activity is cultivation of oil palm.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance

Novelpac commenced its business operations in oil palm plantation in 2006. As at 31 August 2009, Novelpac's oil palm plantations located in Mukah cover 4,625 hectares, with approximately 1,312 hectares planted. Out of the total planted area, Novelpac has approximately 46 hectares of mature oil palm trees, with an average yield of 4.7Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years ended 31 March 2008 and 2009, and the period ended 31 August 2009, Novelpac generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Novelpac incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Novelpac's cost of sales.

*Financial Year Ended 31 March 2007 ("FY2007")*

No field had attained maturity as at 31 March 2007; hence no turnover was generated for FY2007.

Administrative and other expenses for FY2007 consisted mainly of depreciation of property, plant and equipment, which accounted for 68.9% of the total administrative and other expenses.

*Financial Year Ended 31 March 2008 ("FY2008")*

Novelpac recorded maiden turnover of RM17,000 in FY2008, with a total sales volume of 33Mt at an average FFB selling price of RM511Mt/hectare.

For FY2008, Novelpac recorded cost of sales of RM133,000.

Novelpac's gross loss and gross loss margin for FY2008 were RM116,000 and 682.4% respectively.

For FY2008, Novelpac's pre-tax and after-tax loss was RM292,000.

**3.0 NOVELPAC (CONT'D)**

**3.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 March 2009 ("FY2009")*

*Turnover*

Novelpac's turnover increased by 211.8% or RM36,000 to RM53,000 in FY2009 from RM17,000 in FY2008, the year that scout harvesting began. The higher turnover recorded in FY2009 was due to the increase in sales volume for FFB, which was partially offset by the decrease in average selling price of FFB.

Sales volume for FFB increased by 339.4% from 33Mt in FY2008 to 145Mt in FY2009, which was due to the increased hectarage of mature fields by from 42 hectares in FY2008 to 46 hectares in FY2009, as well as the improved average FFB yield from 0.8Mt/hectare in FY2008 to 3.2Mt/hectare in FY2009.

Average selling price of FFB fell by 28.2% from RM511/Mt in FY2008 to RM367/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

*Cost of sales*

Cost of sales of Novelpac increased by 20.1% or RM27,000 from RM134,000 in FY2008 to RM161,000 million in FY2009. The higher cost of sales was mainly due to the followings:-

(i) a 436.4% increase in maintenance and harvesting costs from RM21,000 in FY2008 to RM118,000 in FY2009, in line with the increase in FFB production; and

(ii) the higher amortisation charge of RM12,000 in FY2009 as compared to RM3,000 in FY2008 following more fields attaining maturity

The increase in cost of sales was, however, partially offset by the lower depreciation charge by 92.6% from RM94,000 in FY2008 to RM7,000 in FY2009, mainly because part of the land lease rentals in FY2009 was capitalised as cost of biological assets.

*Gross profit and gross margin*

Novelpac's gross loss recorded an improvement of 7.7% or RM9,000 from RM117,000 in FY2008 to RM108,000 in FY2009. Novelpac recorded a gross loss margin of 201.8% in FY2009 as compared to 691.8% in FY2008. The improvement in gross loss as well as gross loss margin was in line with the increase in turnover as set out above.

*Pre-tax and after-tax results*

Novelpac recorded a pre-tax and after-tax loss of RM352,000 in FY2009 as compared to RM292,000 in FY2008. The increase of 20.5% or RM60,000 was mainly due to the higher administrative and other expenses incurred for the financial year. The increase in administrative and other expenses was principally a result of the increase in staff costs by 43.8% from RM130,000 in FY2008 to RM187,000 in FY2009.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**3.0 NOVELPAC (CONT'D)**

**3.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Period Ended 31August 2009 ("FP2009")*

*Turnover*

For FP2009, Novelpac recorded turnover of RM34,000, with a total sales volume of 91Mt at an average FFB selling price of RM379/Mt.

*Cost of sales*

Novelpac's cost of sales was RM54,000 for FP2009.

*Gross profit and gross margin*

For FP2009, Novelpac's gross loss and gross loss margin were RM20,000 and 58.8% respectively.

*Pre-tax and after-tax results*

Novelpac's pre-tax and after-tax loss for FP2009 was RM137,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets

The balance sheets of Novelpac as at 31 March 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <-------- As at 31 March --------> | | |
|---|---|---|---|---|
| | 2009 | 2009[(1)] | 2008[(1)] | 2007[(1)] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17,824 | 16,807 | 8,959 | 8,811 |
| Prepaid lease rentals | 4,652 | 4,691 | 4,783 | 4,876 |
| Biological assets | 22,485 | 19,200 | 12,436 | 8,045 |
| | 44,961 | 40,698 | 26,178 | 21,732 |
| **Current assets** | | | | |
| Inventories | 1,353 | 2,362 | 2,138 | 1,549 |
| Trade and other receivables | 2,145 | 1,957 | 1,006 | 752 |
| Cash and bank balances | - | 1 | 1 | 2 |
| | 3,498 | 4,320 | 3,145 | 2,303 |
| **TOTAL ASSETS** | 48,459 | 45,018 | 29,323 | 24,035 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 1,250 | 1,250 | 1,250 | 1,250 |
| Accumulated losses | (3,837) | (3,700) | (3,348) | (3,056) |
| **Total equity** | (2,587) | (2,450) | (2,098) | (1,806) |
| **Non-current liabilities** | | | | |
| Borrowings | 26,200 | 19,000 | 11,769 | 7,562 |
| **Current liabilities** | | | | |
| Trade and other payables | 13,447 | 15,997 | 5,443 | 3,893 |
| Amount due to holding company | 9,419 | 10,963 | 12,463 | 12,416 |
| Borrowings – bank overdrafts | 1,968 | 1,439 | 1,553 | 1,789 |
| – other borrowings | 12 | 69 | 193 | 181 |
| | 24,846 | 28,468 | 19,652 | 18,279 |
| **Total liabilities** | 51,046 | 47,468 | 31,421 | 25,841 |
| **TOTAL EQUITY AND LIABILITIES** | 48,459 | 45,018 | 29,323 | 24,035 |

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**3.0 NOVELPAC (CONT'D)**

**3.6 Balance Sheets (Cont'd)**

*Note:-*

(1) The financial statements of Novelpac for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Novelpac are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure includes oil palm planting expenditure and plantation infrastructure development expenditure. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | < ------ As at 31 March ------ > | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 6,916 | 6,816 | 6,764 |
| Adjustments – FRS 101 | 14,582 | 6,926 | 6,923 |
| – FRS 117 | (4,691) | (4,783) | (4,876) |
| Property, plant and equipment, restated | 16,807 | 8,959 | 8,811 |
| **Plantation development expenditure** | | | |
| Plantation development expenditure, audited | 33,782 | 19,362 | 14,968 |
| Adjustments – FRS 101 | (33,782) | (19,362) | (14,968) |
| Plantation development expenditure, restated | - | - | - |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 4,691 | 4,783 | 4,876 |
| Prepaid lease rentals, restated | 4,691 | 4,783 | 4,876 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 19,200 | 12,436 | 8,045 |
| Biological assets, restated | 19,200 | 12,436 | 8,045 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Novelpac's biological assets is tabulated as follows:-

| | As at 31 August | < ------- As at 31 March ------- > | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 22,485 | 19,200 | 12,436 | 8,045 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 March 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 March | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | 1,434 | 3,613 | 1,780 | 2,986 |
| Field upkeep/maintenance costs | 18 | 15 | 582 | 2,771 |
| Manuring and weeding | 466 | 573 | 231 | 216 |
| Seedlings and nursery costs | - | - | 129 | 136 |
| Finance costs | 457 | 772 | 552 | - |
| Labour costs | 319 | 698 | 446 | 306 |
| Other direct administrative costs | 594 | 1,101 | 674 | 1,257 |
| | 3,288 | 6,772 | 4,394 | 7,672 |
| Amortisation of biological assets | 3 | 8 | 3 | - |

*Maturity profile*

The details of Novelpac's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | 1,266 | 46 | - | 1,312 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

#### (a) Biological Assets (Cont'd)

*Amortisation of biological assets*

The increase in amortisation of biological assets over the financial years/period under review was due to the increase in mature plantation hectarage over those financial years/period.

#### (b) Inventories

Information on Novelpac's inventories is tabulated as follows:-

| | As at 31 August | < ------- As at 31 March ------ > | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 912 | 1,000 | 323 | 170 |
| Nursery inventories | 441 | 1,362 | 1,815 | 1,379 |
| | 1,353 | 2,362 | 2,138 | 1,549 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Novelpac sold all FFB produced during the financial years ended 31 March 2008 and 2009, and the period ended 31 August 2009 and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

**ACCOUNTANTS' REPORT ON ACQUIREES** ***(Cont'd)***

**3.0 NOVELPAC (CONT'D)**

**3.6 Balance Sheets (Cont'd)**

**(c) Trade and Other Receivables**

Information on Novelpac's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <------- As at 31 March -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 9 | - | - | - |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 9 | - | - | - |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 2,071 | 1,922 | 983 | 666 |
| - Sundry receivables | | 55 | 19 | 5 | 72 |
| - Deposits | (iii) | 1 | 1 | - | - |
| - Prepayments | (iv) | 9 | 15 | 18 | 14 |
| | | 2,136 | 1,957 | 1,006 | 752 |
| **Total** | | 2,145 | 1,957 | 1,006 | 752 |
| % of trade receivables to turnover | | 11.0 | - | - | N/A |
| Trade receivables turnover period (months) | | 1.3 | - | - | N/A |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables (Cont'd)

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | <-------- Exceeding credit period --------> | | | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 9 | - | - | - | - | 9 |
| % of total trade receivables | 100.0 | - | - | - | - | 100.0 |

The normal trade credit term extended to customers by Novelpac is 30 days. As at 31 August 2009, none of the trade receivables exceeded the credit period.

As at the date of this report, all the outstanding balance has been collected.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of rental and utility deposits.

(iv) These consist mainly of prepaid insurance and levy.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables

Information on Novelpac's trade and other payables is tabulated as follows:-

| | | As at 31 August | <------- As at 31 March -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 4,873 | 8,027 | 184 | 43 |
| - Third parties | | 477 | 1,207 | 1,591 | 1,668 |
| | | 5,350 | 9,234 | 1,775 | 1,711 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 7,843 | 6,539 | 3,564 | 2,069 |
| - Sundry payables | | 22 | 95 | 23 | 9 |
| - Deposits | (iii) | 75 | 5 | 5 | 5 |
| - Accruals | (iv) | 141 | 108 | 60 | 83 |
| - Amount due to directors | (v) | 16 | 16 | 16 | 16 |
| | | 8,097 | 6,763 | 3,668 | 2,182 |
| Total | | 13,447 | 15,997 | 5,443 | 3,893 |
| Trade payables turnover period (months) | | 673.1 | 412.8 | 157.3 | * |

* *Computation of trade payables turnover period is not applicable as the trade payables relate to plantation development expenditure which is capitalised as biological assets.*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables (Cont'd)

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | < --- Within credit period --- > | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 581 | 119 | 11 | 31 | 4,608 | 5,350 |
| % of total trade payables | 10.9 | 2.2 | 0.2 | 0.6 | 86.1 | 100.0 |

The normal trade credit term granted by suppliers to Novelpac is 90 days. There is no specific credit term granted by related parties to Novelpac. As at 31 August 2009, 86.7% of trade payables exceeded the credit period. The amount was mainly due to related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of security deposits payable to contractors.

(iv) These consist mainly of accrued operating expenses such as salaries and wages.

(v) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

#### (e) Amount Due to Holding Company

The holding company is Kendaie, a company incorporated and domiciled in Malaysia.

The amount owing to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

**(f) Borrowings**

Information on Novelpac's borrowings is tabulated as follows:-

| | | As at 31 August | <------ As at 31 March ------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | - | - | 69 | 262 |
| Revolving credit, secured | (ii) | 26,200 | 19,000 | 11,700 | 7,300 |
| | | 26,200 | 19,000 | 11,769 | 7,562 |
| **Short-term borrowings** | | | | | |
| Bank overdrafts, secured | (ii) | 1,968 | 1,439 | 1,553 | 1,789 |
| Hire purchase liabilities | (i) | 12 | 69 | 193 | 181 |
| | | 1,980 | 1,508 | 1,746 | 1,970 |
| **Total** | | 28,180 | 20,508 | 13,515 | 9,532 |

(i) These are used for the acquisitions of motor vehicles, plant and machinery.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 3.0 NOVELPAC (CONT'D)

### 3.6 Balance Sheets (Cont'd)

**(f) Borrowings (Cont'd)**

(ii) The major terms and conditions of banking facilities granted to Novelpac as at 31 August 2009 are as follows:-

**Public Bank Berhad**

| | |
|---|---|
| **Facilities** | • Revolving Credit ("RC") / Overdraft ("OD") / Letter of Credit ("LC") / Bankers' Acceptance ("BA") / Trust Receipt ("TR") / Bank Guarantee ("BG") |
| **Limit** | • RM44,000,000<br>(OD sub-limit RM2,000,000)<br>(LC/BA/TR/BG sub-limit RM5,000,000) |
| **Purposes** | • RC - To part finance the cost of developing oil palm plantation<br>• OD - For working capital<br>• LC/BA/TR - For trade financing<br>• BG - For issuance of tender, performance and financial guarantees |
| **Interest rate/ commission** | • RC - Pre-planting : 1.25% p.a. + cost of funds<br>- Post-planting : 1.00% p.a. + cost of funds<br>• OD - 1.50% p.a. + BLR<br>• LC - 0.10% per month<br>• BA - 1.50% p.a.<br>• TR - 1.50% p.a. + BLR<br>• BG - 1.00% p.a. |
| **Securities** | • A 1st party charge over the provisional lease of state land held under Lots 11 and 12, Buloh Land District, Mukah Division, Sarawak<br>• A joint and several guarantee by Tan Sri Datuk Diong Hiew King @ Tiong Hiew King and Datuk Tiong Thai King<br>• A corporate guarantee from Kendaie |

**3.0 NOVELPAC (CONT'D)**

**3.6 Balance Sheets (Cont'd)**

**(g) Taxation**

The tax agent for Novelpac for the financial years/period under review was Ling Ming Leh & Company.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 March 2009 | • Tax losses – RM6,110,000<br>• Capital/agriculture allowances – RM16,464,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

## 4.0 LUBUK TIARA

### 4.1 General Information

Lubuk Tiara was incorporated in Malaysia under the Companies Act, 1965 on 19 December 1994 as a private limited liability company under its present name.

The principal activity of Lubuk Tiara is cultivation of oil palm.

As at the date of this report, the authorised share capital of Lubuk Tiara is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Lubuk Tiara is RM8,000,000 comprising 8,000,000 ordinary shares of RM1.00 each.

Details of the changes in Lubuk Tiara's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 19-12-1994 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 12-04-1995 | 9,998 | 1.00 | Cash | 10,000 |
| 04-08-2000 | 1,990,000 | 1.00 | Cash | 2,000,000 |
| 31-03-2001 | 3,000,000 | 1.00 | Cash | 5,000,000 |
| 31-12-2001 | 3,000,000 | 1.00 | Cash | 8,000,000 |

### 4.2 Financial Statements and Auditors

The auditors of Lubuk Tiara for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Ernst & Young |
| 1 August 2007 to 31 July 2008 | Ernst & Young |
| 1 August 2008 to 31 July 2009 | Ernst & Young |
| 1 August 2009 to 31 August 2009 | Ernst & Young |

The financial statements were reported on without any qualification.

### 4.3 Dividends

No dividend has been paid or declared by Lubuk Tiara during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 8,000 | 8,000 | 8,000 | 8,000 |
| Shareholders' funds (RM'000) | 7,337 | 7,191 | 7,559 | 7,067 |
| Net assets (RM'000) | 7,337 | 7,191 | 7,559 | 7,067 |
| Net assets per share (RM) | 0.9 | 0.9 | 0.9 | 0.9 |
| Turnover (RM'000) | 655 | 5,504 | 5,726 | 4,888 |
| Gross profit/(loss) (RM'000) | 266 | 931 | 1,944 | (187) |
| Profit/(loss) before tax (RM'000) | 146 | (368) | 492 | (988) |
| Profit/(loss) after tax (RM'000) | 146 | (368) | 492 | (988) |
| Earnings/(loss) per share (sen) | | | | |
| - Gross | 21.9 * | (4.6) | 6.2 | (12.4) |
| - Net | 21.9 * | (4.6) | 6.2 | (12.4) |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | 40.6 | 16.9 | 34.0 | (3.8) |
| Pre-tax profit/(loss) margin (%) | 22.3 | (6.7) | 8.6 | (20.2) |
| Current ratio (times) | 0.1 | 0.1 | 0.1 | 0.2 |
| Total borrowings (RM'000) | 37,485 | 37,516 | 37,790 | 37,911 |
| Gearing ratio (times) | 5.1 | 5.2 | 5.0 | 5.4 |
| Interest expense (RM'000) | 51 | 725 | 613 | 503 |
| Interest expense capitalised (RM'000) | 136 | 1,537 | 1,708 | 1,815 |
| Interest coverage ratio (times) | 1.8 | 0.8 | 1.2 | 0.6 |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | 2.0 | (5.1) | 6.5 | (14.0) |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.5 Income Statements

The income statements of Lubuk Tiara for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009[(1)] | 2009[(1)] | 2008[(1)] | 2007[(1)] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 655 | 5,504 | 5,726 | 4,888 |
| Cost of sales | (389) | (4,573) | (3,782) | (5,075) |
| Gross profit/(loss) | 266 | 931 | 1,944 | (187) |
| Other income | 24 | 122 | 78 | 62 |
| Selling expenses | (31) | (292) | (515) | (91) |
| Administrative and other expenses | (62) | (404) | (402) | (269) |
| Finance costs | (51) | (725) | (613) | (503) |
| Profit/(loss) before tax | 146 | (368) | 492 | (988) |
| Income tax expense | - | - | - | - |
| Profit/(loss) after tax | 146 | (368) | 492 | (988) |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.5 Income Statements (Cont'd)**

*Note:-*

(1) For the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009, selling expenses of Lubuk Tiara were included in cost of sales. For the purposes of this report, adjustments were made to exclude selling expenses from cost of sales.

Details of the above adjustments are set out as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost of sales** | | | | |
| Cost of sales, audited | 420 | 4,865 | 4,297 | 5,166 |
| Adjustments | (31) | (292) | (515) | (91) |
| Cost of sales, restated | 389 | 4,573 | 3,782 | 5,075 |
| **Gross profit/(loss)** | | | | |
| Gross profit/(loss), audited | 235 | 639 | 1,429 | (278) |
| Adjustments | 31 | 292 | 515 | 91 |
| Gross profit/(loss), restated | 266 | 931 | 1,944 | (187) |
| **Selling expenses** | | | | |
| Selling expenses, audited | - | - | - | - |
| Adjustments | 31 | 292 | 515 | 91 |
| Selling expenses, restated | 31 | 292 | 515 | 91 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

4.0 LUBUK TIARA (CONT'D)

4.5 Income Statements (Cont'd)

(a) Segmental Analysis of Turnover and Profits

*Analysis of Turnover by Product/Service*

| Product/Service | Period Ended 31 August | | < ---- Financial Year Ended 31 July ---- > | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2009 | | 2009 | | 2008 | | 2007 |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Fresh fruit bunches | 655 | 100.0 | 5,504 | 100.0 | 5,705 | 99.6 | 1,571 | 32.1 |
| Logs* | - | - | - | - | 21 | 0.4 | 3,317 | 67.9 |
| | 655 | 100.0 | 5,504 | 100.0 | 5,726 | 100.0 | 4,888 | 100.0 |

*Analysis of Gross Profit/(Loss) by Product/Service*

| Product/Service | Period Ended 31 August | | < ---- Financial Year Ended 31 July ---- > | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2009 | | 2009 | | 2008 | | 2007 |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Fresh fruit bunches | 266 | 100.0 | 931 | 100.0 | 1,943 | 99.9 | (289) | (154.5) |
| Logs* | - | - | - | - | 1 | 0.1 | 102 | 54.5 |
| | 266 | 100.0 | 931 | 100.0 | 1,944 | 100.0 | (187) | 100.0 |

* *Log sales are only incidental to Lubuk Tiara's oil palm plantation development activities.*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance

Lubuk Tiara commenced its business operations in oil palm plantation in 2002. As at 31 August 2009, Lubuk Tiara's oil palm plantations located in Miri cover 6,217 hectares, with approximately 3,576 hectares planted. Out of the total planted area, Lubuk Tiara has approximately 1,123 hectares of mature oil palm trees, with an average yield of 16.0Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years/period under review, Lubuk Tiara generated its turnover principally from the sale of FFB. Log sales for the financial years ended 31 July 2007 and 2008 were only incidental to its oil palm plantation development activities.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Lubuk Tiara incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Lubuk Tiara's cost of sales.

*Financial Year Ended 31 July 2007 ("FY2007")*

*Turnover*

In FY2007, Lubuk Tiara recorded an increase in turnover to RM4.9 million from RM1.5 million in FY2006, representing an increase of 226.7% or RM3.4 million. The higher turnover achieved by Lubuk Tiara was due to the followings:-

(i) an increase in log sales by 153.8% from RM1.3 million in FY2006 to RM3.3 million in FY2007, resulting from the increased sales volume from 6,811m$^3$ in FY2006 to 18,452m$^3$ in FY2007; and

(ii) an increase in FFB sales by 433.3% from RM261,000 in FY2006 to RM1.6 million in FY2007, mainly due to the increased sales volume from 1,204Mt in FY2006 to 4,770Mt in FY2007. The increase in sales volume for FFB was primarily a result of the increased hectarage of mature fields from 529 hectares in FY2006 to 704 hectares in FY2007, as well as the improved average FFB yield from 2.3Mt/hectare in FY2006 to 6.8Mt/hectare in FY2007. In addition, the better price for FFB for the financial year (i.e. an average FFB price of RM329/Mt in FY2007 as compared to RM217/Mt in FY2006) also contributed to the higher turnover from FFB trading.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2007 ("FY2007") (Cont'd)***

*Cost of sales*

Lubuk Tiara's cost of sales increased from RM2.2 million in FY2006 to RM5.1 million in FY2007. The higher cost of sales of 131.8% or RM2.9 million for the financial year was mainly due to the followings:-

(i) an increase in payment to contractors from log trading by 166.7% from RM1.2 million in FY2006 to RM3.2 million in FY2007, in line with the increase in log sales;

(ii) an overall increase in estate maintenance costs by 48.3% from RM588,000 in FY2006 to RM872,000 in FY2007, due to the higher level of FFB production; and

(iii) the higher depreciation and amortisation charges of RM441,000 in FY2007 as compared to RM187,000 for the previous financial year, due to the increased hectarage of mature oil palm trees and the acquisitions of plant and machinery in FY2007.

*Gross profit and gross margin*

Lubuk Tiara recorded a gross loss of RM187,000 in FY2007, an improvement of 74.8% or RM556,000 from RM743,000 in FY2006. Similarly, Lubuk Tiara achieved an improved gross margin for the financial year, from a gross loss margin of 51.1% in FY2006 to 3.8% in FY2007. The improvement in gross loss and gross margin was mainly due to the increase in turnover as set out above.

*Pre-tax and after-tax results*

In consonance with the improved gross loss, Lubuk Tiara achieved an improvement in pre-tax and after-tax loss to RM1.0 million in FY2007. This was compared to pre-tax and after tax losses of RM1.3 million and RM1.4 million respectively in FY2006.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

4.0 LUBUK TIARA (CONT'D)

4.5 **Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2008 ("FY2008")*

*Turnover*

In FY2008, Lubuk Tiara's turnover was RM5.7 million as compared to RM4.9 million in FY2007, representing an increase of 16.3% or RM0.8 million. The increase was mainly due to the increase in FFB sales, which was partially offset by the decrease in log sales.

FFB sales increased by 256.3% from RM1.6 million in FY2006 to RM5.7 million in FY2007, mainly due to the followings:-

(i) a 68.7% increase in average FFB selling price from RM329/Mt in FY2007 to RM555/Mt in FY2008 as a result of the uptrend in palm oil industry; and

(ii) a 115.5% increase in sales volume for FFB from 4,770Mt in FY2007 to 10,278Mt in FY2008, mainly due to the increased hectarage of mature fields from 704 hectares in FY2007 to 912 hectares in FY2008 coupled with the improved average FFB yield from 6.8Mt/hectare in FY2007 to 11.3Mt/hectare in FY2008.

Log sales, however, decreased by 100.0% from RM3.3 million in FY2007 to RM21,000 in FY2008, mainly due to the decreased sales volume for logs from 18,452m$^3$ in FY2007 to 166m$^3$ in FY2008.

*Cost of sales*

Despite the increase in turnover, Lubuk Tiara's cost of sales decreased by 34.2% or RM1.3 million from RM5.1 million in FY2007 to RM3.8 million in FY2008. The decrease in cost of sales was mainly due to the decrease in payment to contractors from log trading by 100.0% from RM3.2 million in FY2007 to RM20,000 in FY2008, in consonance with the decreased log sales. This was, however, offset by the followings:-

(i) an increase in harvesting and maintenance costs by 122.2% from RM872,000 in FY2007 to RM2.0 million in FY2008, in line with the increase in FFB production; and

(ii) the higher depreciation and amortisation charges of RM804,000 in FY2008 as compared to RM441,000 for the previous financial year, due to the increased hectarage of mature oil palm trees and the acquisitions of plant and machinery in FY2008.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2008 ("FY2008") (Cont'd)*

*Gross profit and gross margin*

Lubuk Tiara recorded a gross profit of RM1.9 million in FY2008, an improvement of RM2.1 million from a gross loss of RM187,000 in FY2007. Similarly, Lubuk Tiara achieved an improved gross margin for the financial year, from a gross loss margin of 3.8% in FY2007 to a gross profit margin of 34.0% in FY2008. The improvement in gross profit and gross margin was mainly due to the increase in turnover and the decrease in cost of sales as set out above.

*Pre-tax and after-tax results*

Lubuk Tiara's pre-tax results improved by RM1.5 million from a pre-tax and after-tax loss of RM1.0 million in FY2007 to a pre-tax and after-tax profit of RM492,000 in FY2008. The improvement was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increase in selling expenses.

The increase in selling expenses of 465.9% from RM91,000 in FY2007 to RM515,000 in FY2008 was due to the followings:-

(i) a 214.3% increase in transportation costs from RM63,000 in FY2007 to RM198,000 in FY2008 as a result of the rising fuel prices; and

(ii) a 1,032.1% increase in cess/windfall profit levy from RM28,000 in FY2007 to RM317,000 in FY2008, in line with the increased market prices of crude palm oil.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**4.0 LUBUK TIARA (CONT'D)**

**4.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2009 ("FY2009")***

*Turnover*

Lubuk Tiara's turnover declined by 3.5% or RM0.2 million from RM5.7 million in FY2008 to RM5.5 million in FY2009, due mainly to the decrease in average selling price of FFB, which was partially offset by the increase in sales volume for FFB.

Average selling price of FFB fell by 35.0% from RM555/Mt in FY2008 to RM361/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

Sales volume for FFB increased by 48.6% from 10,278Mt in FY2008 to 15,268Mt in FY2009, which was due to the followings:-

(i) an increased hectarage of mature fields from 912 hectares in FY2008 to 1,123 hectares in FY2009; and

(ii) an improved average FFB yield from 11.3Mt/hectare in FY2008 to 13.6Mt/hectare in FY2009.

*Cost of sales*

Despite the lower turnover recorded in FY2009, cost of sales of Lubuk Tiara for FY2009 increased by 21.1% or RM0.8 million from RM3.8 million in FY2008 to RM4.6 million in FY2009. The higher cost of sales was mainly due to the followings:-

(i) an overall increase in harvesting and maintenance costs by 15.0% from RM2.0 million in FY2008 to RM2.3 million in FY2009, in line with the increase in FFB production; and

(ii) the increase in amortisation charge by 70.3% from RM316,000 in FY2008 to RM538,000 in FY2009 following more fields attaining maturity.

*Gross profit and gross margin*

Lubuk Tiara's gross profit recorded a decrease of 52.6% or RM1.0 from RM1.9 million in FY2008 to RM931,000 in FY2009. Lubuk Tiara recorded a gross profit margin of 16.9% in FY2009, a decline of 17.1 percentage points as compared to 34.0% in FY2008. The decline in gross profit as well as gross profit margin was in line with the decrease in turnover and the increase in cost of sales as set out above.

*Pre-tax and after-tax results*

Lubuk Tiara recorded a pre-tax and after-tax loss of RM368,000 in FY2009 as compared to a pre-tax and after-tax profit of RM492,000 in FY2008. The decrease in pre-tax and after-tax results of RM860,000 was in tandem with the decrease in gross profit following the decline in FFB selling price coupled with the higher cost of sales.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Period Ended 31 August 2009 ("FP2009")***

*Turnover*

For FP2009, Lubuk Tiara recorded turnover of RM655,000, with a total sales volume of 1,497Mt at an average FFB selling price of RM438/Mt.

*Cost of sales*

Lubuk Tiara's cost of sales was RM389,000 for FP2009.

*Gross profit and gross margin*

For FP2009, Lubuk Tiara's gross profit and gross profit margin were RM266,000 and 40.6% respectively.

*Pre-tax and after-tax results*

Lubuk Tiara's pre-tax and after-tax profit for FP2009 was RM146,000.

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets

The balance sheets of Lubuk Tiara as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007[1] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 8,757 | 8,888 | 8,814 | 6,802 |
| Prepaid lease rentals | 4,652 | 4,660 | 4,751 | 4,843 |
| Biological assets | 69,711 | 68,601 | 54,544 | 45,192 |
| | 83,120 | 82,149 | 68,109 | 56,837 |
| **Current assets** | | | | |
| Inventories | 1,759 | 1,891 | 2,837 | 1,471 |
| Trade and other receivables | 2,122 | 2,307 | 2,150 | 2,283 |
| Cash and bank balances | 13 | 9 | 1 | 8 |
| | 3,894 | 4,207 | 4,988 | 3,762 |
| **TOTAL ASSETS** | 87,014 | 86,356 | 73,097 | 60,599 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 8,000 | 8,000 | 8,000 | 8,000 |
| Accumulated losses | (663) | (809) | (441) | (933) |
| **Total equity** | 7,337 | 7,191 | 7,559 | 7,067 |
| **Non-current liabilities** | | | | |
| Borrowings | 25,851 | 25,869 | 27,164 | 37,221 |
| **Current liabilities** | | | | |
| Trade and other payables | 24,040 | 17,416 | 14,983 | 6,761 |
| Amount due to holding company | 18,152 | 24,233 | 12,765 | 8,860 |
| Borrowings | 11,634 | 11,647 | 10,626 | 690 |
| | 53,826 | 53,296 | 38,374 | 16,311 |
| **Total liabilities** | 79,677 | 79,165 | 65,538 | 53,532 |
| **TOTAL EQUITY AND LIABILITIES** | 87,014 | 86,356 | 73,097 | 60,599 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.6 Balance Sheets (Cont'd)**

*Note:-*

(1) The financial statements of Lubuk Tiara for the financial year ended 31 July 2007 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Lubuk Tiara are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure includes oil palm planting expenditure and plantation infrastructure development expenditure. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | As at 31 July 2007 RM'000 |
|---|---|
| **Property, plant and equipment** | |
| Property, plant and equipment, audited | 11,645 |
| Adjustments – FRS 117 | (4,843) |
| Property, plant and equipment, restated | 6,802 |
| **Plantation development expenditure** | |
| Plantation development expenditure, audited | 45,192 |
| Adjustments – FRS 101 | (45,192) |
| Plantation development expenditure, restated | - |
| **Prepaid lease rentals** | |
| Prepaid lease rentals, audited | - |
| Adjustments – FRS 117 | 4,843 |
| Prepaid lease rentals, restated | 4,843 |
| **Biologieal assets** | |
| Biological assets, audited | - |
| Adjustments – FRS 101 | 45,192 |
| Biological assets, restated | 45,192 |

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Lubuk Tiara's biological assets is tabulated as follows:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 69,711 | 68,601 | 54,544 | 45,192 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | 334 | 4,728 | 1,689 | 212 |
| Field upkeep/maintenance costs | 114 | 987 | 1,260 | 873 |
| Manuring and weeding | 274 | 2,571 | 2,872 | 1,660 |
| Seedlings and nursery eosts | - | 1,426 | 132 | 353 |
| Finance costs | 136 | 1,537 | 1,708 | 1,815 |
| Labour costs | 103 | 825 | 904 | 843 |
| Other direct administrative costs | 200 | 2,520 | 1,103 | 1,657 |
| | 1,161 | 14,594 | 9,668 | 7,413 |
| Amortisation of biological assets | 51 | 537 | 316 | 260 |

*Maturity profile*

The details of Lubuk Tiara's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | 2,453 | 541 | 582 | 3,576 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets (Cont'd)

#### (a) Biological Assets (Cont'd)

*Amortisation of biological assets*

The increase in amortisation of biological assets over the financial years/period under review was due to the increase in mature plantation hectarage over those financial years/period.

#### (b) Inventories

Information on Lubuk Tiara's inventories is tabulated as follows:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 1,519 | 1,663 | 1,383 | 178 |
| Nursery inventories | 240 | 228 | 1,454 | 1,293 |
| | 1,759 | 1,891 | 2,837 | 1,471 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Lubuk Tiara sold all FFB produced during the financial years/period under review and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables

Information on Lubuk Tiara's trade and other receivables is tabulated as follows:-

| | | As at 31 August | < -------- As at 31 July -------- > | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 107 | 272 | 274 | 431 |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 107 | 272 | 274 | 431 |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 1,918 | 1,888 | 1,753 | 1,689 |
| - Sundry receivables | | 1 | 37 | 20 | 28 |
| - Deposits | (iii) | 6 | 6 | 6 | 3 |
| - Prepayments | (iv) | 90 | 104 | 97 | 132 |
| | | 2,015 | 2,035 | 1,876 | 1,852 |
| **Total** | | 2,122 | 2,307 | 2,150 | 2,283 |
| % of trade receivables to turnover | | 2.4 | 5.0 | 6.1 | 5.7 |
| Trade receivables turnover period (months) | | 0.3 | 0.6 | 0.7 | 0.7 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**4.0 LUBUK TIARA (CONT'D)**

**4.6 Balance Sheets (Cont'd)**

**(c) Trade and Other Receivables (Cont'd)**

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | < ——— Exceeding credit period | | | ——— > | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 107 | - | - | - | - | 107 |
| % of total trade receivables | 100.0 | - | - | - | - | 100.0 |

The normal trade credit term extended to customers by Lubuk Tiara is 30 days. As at 31 August 2009, none of the trade receivables exceeded the credit period.

As at the date of this report, all the outstanding balance has been collected.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also ineludes the retention amount receivable from R.H. Capital Sdn Bhd, a special purpose vehicle set up for the issuance of Islamic securities under the Ijarah arrangements.

(iii) These consist mainly of rental and utility deposits.

(iv) These consist mainly of prepaid insurance and levy.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

## 4.6 Balance Sheets (Cont'd)

### (d) Trade and Other Payables

Information on Lubuk Tiara's trade and other payables is tabulated as follows:-

| | | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 21,300 | 14,786 | 13,197 | 5,215 |
| - Third parties | | 459 | 517 | 306 | 543 |
| | | 21,759 | 15,303 | 13,503 | 5,758 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 1,792 | 1,418 | 968 | 404 |
| - Sundry payables | (iii) | 209 | 418 | 181 | 388 |
| - Accruals | (iv) | 280 | 277 | 331 | 211 |
| | | 2,281 | 2,113 | 1,480 | 1,003 |
| **Total** | | 24,040 | 17,416 | 14,983 | 6,761 |
| Trade payables turnover period (months) | | 47.6 | 37.8 | 30.6 | 10.6 |

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 6,960 | 1,498 | 771 | 621 | 11,909 | 21,759 |
| % of total trade payables | 32.0 | 6.9 | 3.5 | 2.9 | 54.7 | 100.0 |

The normal trade credit term granted by suppliers to Lubuk Tiara is 90 days. There is no specific credit term granted by related parties to Lubuk Tiara. As at 31 August 2009, 57.6% of trade payables exceeded the credit period. The amount was mainly due to related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables (Cont'd)

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also includes Ijarah payments payable to R.H. Capital Sdn Bhd under the Ijarah arrangements.

(iii) The balance includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Lubuk Tiara.

(iv) These consist mainly of accrued operating expenses such as salaries and wages.

#### (e) Amount Due to Holding Company

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

#### (f) Borrowings

Information on Lubuk Tiara's borrowings is tabulated as follows:-

| | | As at 31 August | <-------- As at 31 July | | -------- > |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | 231 | 249 | 364 | 421 |
| Islamic securities, secured | (ii) | | | | |
| - Sukuk Ijarah | | 21,450 | 21,450 | 22,800 | 22,800 |
| - Sukuk Ijarah MTN | | - | - | - | 10,000 |
| Unsecured loan | (iii) | 4,170 | 4,170 | 4,000 | 4,000 |
| | | 25,851 | 25,869 | 27,164 | 37,221 |
| **Short-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | 284 | 297 | 626 | 690 |
| Islamic securities, secured | (ii) | | | | |
| - Sukuk Ijarah | | 1,350 | 1,350 | - | - |
| - Sukuk Ijarah MTN | | 10,000 | 10,000 | 10,000 | - |
| | | 11,634 | 11,647 | 10,626 | 690 |
| **Total** | | 37,485 | 37,516 | 37,790 | 37,911 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 4.0 LUBUK TIARA (CONT'D)

### 4.6 Balance Sheets (Cont'd)

#### (f) Borrowings (Cont'd)

(i) These are used for the acquisitions of motor vehicles, plant and machinery.

(ii) Details of the Ijarah arrangements as at 31 August 2009 are set out below:-

| Descriptions | Class | Rating | Maturity date | Effective interest rate | Amount outstanding |
|---|---|---|---|---|---|
| | | | | % p.a. | RM'000 |
| Sukuk Ijarah | Class A | AAA | 23 December 2014 | 6.70 | 5,350 |
| | Class A | AAA | 23 December 2013 | 6.40 | 5,350 |
| | Class B | AA2 | 23 December 2012 | 6.60 | 1,350 |
| | Class B | AA2 | 23 December 2011 | 6.40 | 2,700 |
| | Class C | A2 | 23 December 2011 | 7.90 | 2,700 |
| | Class C | A2 | 23 December 2010 | 7.70 | 4,000 |
| | Class D | A3 | 23 Deeember 2009 | 7.80 | 1,350 |
| | | | | | 22,800 |
| Sukuk Ijarah MTN | MTN | AA1s(s) | 23 December 2009 | 4.65 | 10,000 |
| | | | | | 32,800 |

The Sukuk issue was structured under the Islamic principle of Ijarah or sale and leaseback and was issued *via* a special purpose vehicle, R.H. Capital Sdn Bhd. The Sukuk issue is secured by the plantation lands (including buildings erected thereon) of Lubuk Tiara. The beneficial ownership of these assets are held on trust by R.H. Capital Sdn Bhd for the benefits of the Islamic securities investors and are redeemable at a nominal value of RM1 on maturity.

(iii) The unsecured loan is granted to Lubuk Tiara by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**4.0 LUBUK TIARA (CONT'D)**

**4.6 Balance Sheets (Cont'd)**

**(g) Taxation**

The tax agent for Lubuk Tiara for the financial years/period under review was Ernst & Young Tax Consultants Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM41,653,000<br>• Capital/agriculture allowances – RM26,595,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID

### 5.1 General Information

Splendid was incorporated in Malaysia under the Companies Act, 1965 on 16 August 1996 as a private limited liability company under the name of Azamadun Sdn Bhd before it assumed its present name on 3 May 2000.

The principal activity of Splendid is cultivation of oil palm.

As at the date of this report, the authorised share capital of Splendid is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Splendid is RM4,760,000 comprising 4,760,000 ordinary shares of RM1.00 each.

Details of the changes in Splendid's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 16-08-1996 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 04-08-2000 | 98 | 1.00 | Cash | 100 |
| 08-07-2003 | 1,633,263 | 1.00 | Cash | 1,633,363 |
| 08-07-2003 | 699,970 | 1.00 | Other than cash | 2,333,333 |
| 19-04-2006 | 1,698,667 | 1.00 | Cash | 4,032,000 |
| 19-04-2006 | 728,000 | 1.00 | Other than cash | 4,760,000 |

### 5.2 Financial Statements and Auditors

The auditors of Splendid for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Philip Tong & Co. |
| 1 August 2007 to 31 July 2008 | Philip Tong & Co. |
| 1 August 2008 to 31 July 2009 | Philip Tong & Co. |
| 1 August 2009 to 31 August 2009 | Philip Tong & Co. |

The financial statements were reported on without any qualification.

### 5.3 Dividends

No dividend has been paid or declared by Splendid during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 4,760 | 4,760 | 4,760 | 4,760 |
| Shareholders' funds (RM'000) | 3,897 | 3,880 | 3,849 | 3,165 |
| Net assets (RM'000) | 3,897 | 3,880 | 3,849 | 3,165 |
| Net assets per share (RM) | 0.8 | 0.8 | 0.8 | 0.7 |
| Turnover (RM'000) | 182 | 1,662 | 2,324 | 1,264 |
| Gross profit (RM'000) | 88 | 476 | 1,229 | 252 |
| Profit/(loss) before tax (RM'000) | 17 | 31 | 684 | (32) |
| Profit/(loss) after tax (RM'000) | 17 | 31 | 684 | (32) |
| Earnings/(loss) per share (sen) | | | | |
| - Gross | 4.3 * | 0.7 | 14.4 | (0.7) |
| - Net | 4.3 * | 0.7 | 14.4 | (0.7) |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | 48.4 | 28.6 | 52.9 | 19.9 |
| Pre-tax profit/(loss) margin (%) | 9.3 | 1.9 | 29.4 | (2.5) |
| Current ratio (times) | 0.4 | 0.4 | 0.4 | 0.1 |
| Total borrowings (RM'000) | - | - | 5 | 36 |
| Gearing ratio (times) | - | - | - | 0.0 |
| Interest expense (RM'000) | - | - | 1 | 3 |
| Interest expense capitalised (RM'000) | - | - | - | - |
| Interest coverage ratio (times) | N/A | N/A | 685.0 | (9.7) |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | 0.4 | 0.8 | 17.8 | (1.0) |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.5 Income Statements

The income statements of Splendid for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 182 | 1,662 | 2,324 | 1,264 |
| Cost of sales | (94) | (1,186) | (1,095) | (1,012) |
| Gross profit | 88 | 476 | 1,229 | 252 |
| Other income | - | 102 | 1 | 1 |
| Selling expenses | (26) | (323) | (306) | (128) |
| Administrative and other expenses | (45) | (224) | (239) | (154) |
| Finance costs | - | - | (1) | (3) |
| Profit/(loss) before tax | 17 | 31 | 684 | (32) |
| Income tax expense | - | - | - | - |
| Profit/(loss) after tax | 17 | 31 | 684 | (32) |

#### (a) Segmental Analysis of Turnover and Profits

Segmental analysis is not applicable as Splendid operates solely in Malaysia and its predominant activity is cultivation of oil palm.

#### (b) Commentary on Past Performance

Splendid commenced its business operations in oil palm plantation in 2001. As at 31 August 2009, Splendid's oil palm plantations located in Miri cover 1,176 hectares, with approximately 359 hectares planted. Out of the total planted area, Splendid has approximately 359 hectares of mature oil palm trees, with an average yield of 13.6Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years/period under review, Splendid generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Splendid incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Splendid's cost of sales.

## 5.0 SPLENDID (CONT'D)

### 5.5 Income Statements (Cont'd)

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2007 ("FY2007")***

*Turnover*

Splendid's turnover increased by 116.7% or RM0.7 million to RM1.3 million in FY2007 from RM617,000 in FY2006. The increase was due to the higher average FFB selling price coupled with the increase in sales volume for FFB.

Driven by bullish demand in the world edible oil market, average selling price of FFB increased by 52.6% from RM230/Mt in FY2006 to RM351/Mt in FY2007.

Sales volume for FFB increased by 34.3% from 2,682Mt in FY2006 to 3,603Mt in FY2007, mainly due to the improved average FFB yield from 7.3Mt/hectare in FY2006 to 9.8Mt/hectare in FY2007.

*Cost of sales*

Despite the increase in turnover, Splendid's cost of sales decreased from RM1.6 million in FY2006 to RM1.0 million in FY2007. The lower cost of sales of 37.5% or RM0.6 million for the financial year was mainly due to the followings:-

(i) a decrease in manuring costs by 47.9% from RM317,000 in FY2006 to RM165,000 in FY2007; and

(ii) a decrease in road and bridges maintenance by 94.7% from RM318,000 in FY2006 to RM17,000 in FY2007.

The decrease in the above costs was mainly due to the improved efficiency and productivity.

*Gross profit and gross margin*

Splendid's gross profit was RM253,000 in FY2007, an improvement of RM1.3 million from a gross loss of RM1.0 million in FY2006. Similarly, Splendid achieved an improved gross margin for the financial year, from a gross loss margin of 161.9% in FY2006 to a gross profit margin of 19.9% in FY2007. The improvement in gross profit and gross margin was mainly due to the increase in turnover and the decrease in cost of sales as set out above.

*Pre-tax and after-tax results*

Splendid achieved a pre-tax and after-tax loss of RM32,000 in FY2007 (FY2006: RM1.2 million). The improvement of 100.0% or RM1.2 million was in tandem with the increase in gross profit.

**5.0 SPLENDID (CONT'D)**

**5.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2008 ("FY2008")*

*Turnover*

In FY2008, Splendid's turnover was RM2.3 million as compared to RM1.3 million in FY2007. The increase in turnover of 76.9% or RM1.0 million was due to the higher average FFB selling price and the increase in sales volume for FFB.

The significant growth in the world edible oil market, in line with the apparent consumption need for both food and fuel whilst set against a backdrop of supply constraints arising from droughts, drove palm product prices to an unprecedented high in FY2008. As a result, average selling price of FFB further increased by 64.7% from RM351/Mt in FY2007 to RM578/Mt in FY2008.

Sales volume for FFB increased by 11.6% from 3,603Mt in FY2007 to 4,022Mt in FY2008, mainly due to the improved average FFB yield from 9.8Mt/hectare in FY2007 to 11.0Mt/hectare in FY2008.

*Cost of sales*

Splendid recorded a slight increase in cost of sales of 10.0% or RM0.1 million from RM1.0 million in FY2007 to RM1.1 million in FY2008. The increase in cost of sales was mainly due to the increase in harvesting and maintenance costs by 30.2% from RM494,000 in FY2007 to RM643,000 in FY2008, in line with the increased productivity. This was, however, offset by the decrease in amortisation charge from RM184,000 in FY2007 to RM144,000 in FY2008, due to the revision of amortisation policy from 20 years in FY2007 to 25 years in FY2008.

*Gross profit and gross margin*

Splendid's gross profit increased by 300.0% or RM0.9 million from RM252,000 in FY2007 to RM1.2 million in FY2008 as Splendid's cost of sales increased by 10.0% for the financial year despite the increase in turnover of 76.9%.

Splendid recorded a gross profit margin of 52.9% in FY2008 as compared to 19.9% in FY2007. The increase of 33.0 percentage points for the financial year was mainly due to the increase in average selling price of FFB.

*Pre-tax and after-tax results*

Splendid's pre-tax and after-tax results improved by RM716,000 from a pre-tax and after-tax loss of RM32,000 in FY2007 to a pre-tax and after-tax profit of RM684,000 in FY2008. The improvement was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increase in selling expenses.

The increase in selling expenses of 139.1% from RM128,000 in FY2007 to RM306,000 in FY2008 was mainly due to the increase in cess/windfall profit levy by 611.8% from RM17,000 in FY2007 to RM121,000 in FY2008, in line with the increased market prices of crude palm oil.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**5.0 SPLENDID (CONT'D)**

**5.5 Incomc Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2009 ("FY2009")*

*Turnover*

Splendid's turnover declined by 26.1% or RM0.6 million from RM2.3 million in FY2008 to RM1.7 million in FY2009, due to the decrease in average selling price of FFB, which was partially offset by the increase in sales volume for FFB.

Average selling price of FFB fell by 35.3% from RM578/Mt in FY2008 to RM374/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

Sales volume for FFB increased by 10.4% from 4,022Mt in FY2008 to 4,442Mt in FY2009, due to the improved average FFB yield from 11.0Mt/hectare in FY2008 to 12.1Mt/hectare in FY2009.

*Cost of sales*

Despite the lower turnover recorded in FY2009, cost of sales of Splendid for FY2009 increased by 9.1% or RM0.1 million from RM1.1 million in FY2008 to RM1.2 million in FY2009. The higher cost of sales was mainly due to the increase in plantation administrative expenses by 422.6% from RM31,000 in FY2008 to RM162,000 in FY2009, in line with the increased level of business activity of Splendid.

*Gross profit and gross margin*

Splendid's gross profit recorded a decrease of 58.3% or RM0.7 million from RM1.2 million in FY2008 to RM476,000 in FY2009. Splendid recorded a gross profit margin of 28.6% in FY2009, a decline of 24.3 percentage points as compared to 52.9% in FY2008. The decline in gross profit as well as gross margin was in line with the decrease in turnover and the increase in cost of sales as set out above.

*Pre-tax and after-tax results*

Pre-tax and after-tax profit of Splendid dropped from RM684,000 in FY2008 to RM31,000 in FY2009, representing a decrease of 95.5% or RM653,000. The decline in pre-tax and after-tax profit was in tandem with the decrease in gross profit following the decline in FFB selling price coupled with the higher cost of sales.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.5 Income Statements (Cont'd)

**(b) Commentary on Past Performance (Cont'd)**

*Period Ended 31August 2009 ("FP2009")*

*Turnover*

For FP2009, Splendid recorded turnover of RM182,000, with a total sales volume of 416Mt at an average FFB selling price of RM438/Mt.

*Cost of sales*

Splendid's cost of sales was RM94,000 for FP2009.

*Gross profit and gross margin*

For FP2009, Splendid's gross profit and gross profit margin were RM88,000 and 48.4% respectively.

*Pre-tax and after-tax results*

Splendid's pre-tax and after-tax profit for FP2009 was RM17,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets

The balance sheets of Splendid as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <------ As at 31 July ------> | | |
|---|---|---|---|---|
| | 2009 | 2009[1] | 2008[1] | 2007[1] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 1,706 | 1,716 | 1,700 | 1,700 |
| Prepaid lease rentals | 1,385 | 1,387 | 1,405 | 1,423 |
| Biological assets | 1,529 | 1,535 | 1,609 | 1,642 |
| | 4,620 | 4,638 | 4,714 | 4,765 |
| **Current assets** | | | | |
| Inventories | - | - | 153 | - |
| Trade and other receivables | 389 | 479 | 323 | 201 |
| | 389 | 479 | 476 | 201 |
| **TOTAL ASSETS** | 5,009 | 5,117 | 5,190 | 4,966 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 4,760 | 4,760 | 4,760 | 4,760 |
| Accumulated losses | (863) | (880) | (911) | (1,595) |
| **Total equity** | 3,897 | 3,880 | 3,849 | 3,165 |
| **Non-current liabilities** | | | | |
| Borrowings | - | - | - | 3 |
| **Current liabilities** | | | | |
| Trade and other payables | 266 | 391 | 265 | 155 |
| Amount due to holding company | 846 | 846 | 1,071 | 1,610 |
| Borrowings | - | - | 5 | 33 |
| | 1,112 | 1,237 | 1,341 | 1,798 |
| **Total liabilities** | 1,112 | 1,237 | 1,341 | 1,801 |
| **TOTAL EQUITY AND LIABILITIES** | 5,009 | 5,117 | 5,190 | 4,966 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets (Cont'd)

*Note:-*

(1) The financial statements of Splendid for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Splendid are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure comprising oil palm planting expenditure and plantation infrastructure development expenditure is classified under property, plant and equipment. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is continued to be included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | <--------- As at 31 July ---------> | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 4,638 | 4,714 | 4,765 |
| Adjustments – FRS 101 | (1,535) | (1,609) | (1,642) |
| – FRS 117 | (1,387) | (1,405) | (1,423) |
| Property, plant and equipment, restated | 1,716 | 1,700 | 1,700 |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 1,387 | 1,405 | 1,423 |
| Prepaid lease rentals, restated | 1,387 | 1,405 | 1,423 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 1,535 | 1,609 | 1,642 |
| Biological assets, restated | 1,535 | 1,609 | 1,642 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Splendid's biological assets is tabulated as follows:-

| | As at 31 August | <------ As at 31 July -------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 1,529 | 1,535 | 1,609 | 1,642 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

Amortisation of biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amortisation of biological assets | 6 | 74 | 33 | 93 |

*Maturity profile*

The details of Splendid's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | - | - | 359 | 359 |

*Amortisation of biological assets*

The decrease in amortisation of biological assets for the financial year ended 31 July 2008 ("FY2008") was due to the revision of amortisation policy from 20 years to 25 years, where the over-amortised amortisation charge prior to FY2008 was treated as an one-off adjustment in FY2008.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets (Cont'd)

#### (b) Inventories

Information on Splendid's inventories is tabulated as follows:-

| | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | - | - | 153 | - |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Splendid sold all FFB produced during the financial years/period under review and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables

Information on Splendid's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 108 | 68 | 26 | 134 |
| - Third parties | | 15 | 36 | 214 | 62 |
| | | 123 | 104 | 240 | 196 |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 123 | 104 | 240 | 196 |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 266 | 375 | 83 | 1 |
| - Prepayments | (iii) | - | - | - | 4 |
| | | 266 | 375 | 83 | 5 |
| **Total** | | 389 | 479 | 323 | 201 |
| % of trade receivables to turnover | | 5.2 | 10.3 | 9.4 | 21.0 |
| Trade receivables turnover period (months) | | 0.6 | 1.2 | 1.1 | 2.5 |

**ACCOUNTANTS' REPORT ON ACQUIREES** ***(Cont'd)***

**5.0 SPLENDID (CONT'D)**

**5.6 Balance Sheets (Cont'd)**

**(c) Trade and Other Receivables (Cont'd)**

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | <--------- Exceeding credit period ---------> | | | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 123 | - | - | - | - | 123 |
| % of total trade receivables | 100.0 | - | - | - | - | 100.0 |

The normal trade credit term extended to customers by Splendid is 30 days. As at 31 August 2009, none of the trade receivables exceeded the credit period.

As at the date of this report, all the outstanding balance has been collected.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist of prepaid insurance.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**5.0 SPLENDID (CONT'D)**

**5.6 Balance Sheets (Cont'd)**

**(d) Trade and Other Payables**

Information on Splendid's trade and other payables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 116 | 60 | 71 | 9 |
| - Third parties | | - | 75 | 58 | 119 |
| | | 116 | 135 | 129 | 128 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 93 | 209 | 13 | 4 |
| - Sundry payables | | 5 | 4 | 64 | - |
| - Accruals | (iii) | 52 | 43 | 59 | 23 |
| | | 150 | 256 | 136 | 27 |
| **Total** | | 266 | 391 | 265 | 155 |
| Trade payables turnover period (months) | | 1.3 | 1.3 | 1.4 | 0.8 |

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 58 | 58 | - | - | - | 116 |
| % of total trade payables | 50.0 | 50.0 | - | - | - | 100.0 |

The normal trade credit term granted by suppliers to Splendid is 90 days. There is no specific credit term granted by related parties to Splendid. As at 31 August 2009, none of the trade payables exceeded the credit period.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

## 5.0 SPLENDID (CONT'D)

### 5.6 Balance Sheets (Cont'd)

**(d) Trade and Other Payables (Cont'd)**

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of accrued operating expenses such as salaries and wages.

**(e) Amount Due to Holding Company**

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

**(f) Borrowings**

Information on Splendid's borrowings is tabulated as follows:-

| | | As at 31 August | < -------- As at 31 July -------- > | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | - | - | - | 3 |
| **Short-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | - | - | 5 | 33 |
| **Total** | | - | - | 5 | 36 |

(i) These were used for the acquisitions of motor vehicles, plant and machinery.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**5.0 SPLENDID (CONT'D)**

**5.6 Balance Sheets (Cont'd)**

**(g) Taxation**

The tax agent for Splendid for the financial years/period under review was Tomax Tax Services Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM1,768,000<br>• Capital/agriculture allowances – RM2,236,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK

### 6.1 General Information

Biawak was incorporated in Malaysia under the Companies Act, 1965 on 6 September 1995 as a private limited liability company under the name of Pelita Cergas Sdn Bhd before it assumed its present name on 15 April 2005.

The principal activity of Biawak is cultivation of oil palm.

As at the date of this report, the authorised share capital of Biawak is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Biawak is RM4,011,568 comprising 4,011,568 ordinary shares of RM1.00 each.

Details of the changes in Biawak's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 11-12-1995 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 26-05-2000 | 98 | 1.00 | Other than cash | 100 |
| 22-11-2002 | 2,808,098 | 1.00 | Cash | 2,808,198 |
| 22-11-2002 | 1,203,370 | 1.00 | Other than cash | 4,011,568 |

### 6.2 Financial Statements and Auditors

The auditors of Biawak for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Philip Tong & Co. |
| 1 August 2007 to 31 July 2008 | Philip Tong & Co. |
| 1 August 2008 to 31 July 2009 | Philip Tong & Co. |
| 1 August 2009 to 31 August 2009 | Philip Tong & Co. |

The financial statements were reported on without any qualification.

### 6.3 Dividends

No dividend has been paid or declared by Biawak during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 4,012 | 4,012 | 4,012 | 4,012 |
| Shareholders' funds (RM'000) | 2,916 | 2,781 | 2,595 | (3,060) |
| Net assets/(liabilities) (RM'000) | 2,916 | 2,781 | 2,595 | (3,060) |
| Net assets/(liabilities) per share (RM) | 0.7 | 0.7 | 0.6 | (0.8) |
| Turnover (RM'000) | 1,323 | 12,543 | 18,937 | 8,567 |
| Gross profit (RM'000) | 520 | 3,651 | 8,835 | 1,741 |
| Profit/(loss) before tax (RM'000) | 206 | 440 | 5,466 | (267) |
| Profit/(loss) after tax (RM'000) | 135 | 186 | 5,655 | (267) |
| Earnings/(loss) per share (sen) | | | | |
| - Gross | 61.6 * | 11.0 | 136.2 | (6.7) |
| - Net | 40.4 * | 4.6 | 141.0 | (6.7) |
| Effective tax rate (%) | 34.5 | 57.7 | (3.5) | - |
| Gross margin (%) | 39.3 | 29.1 | 46.7 | 20.3 |
| Pre-tax profit/(loss) margin (%) | 15.6 | 3.5 | 28.9 | (3.1) |
| Current ratio (times) | 0.9 | 0.8 | 0.8 | 0.8 |
| Total borrowings (RM'000) | 36,470 | 36,470 | 36,000 | 36,015 |
| Gearing ratio (times) | 12.5 | 13.1 | 13.9 | N/A |
| Interest expense (RM'000) | 165 | 2,042 | 1,670 | 1,378 |
| Interest expense capitalised (RM'000) | - | - | 439 | 715 |
| Interest coverage ratio (times) | 2.3 | 1.2 | 3.6 | 0.9 |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | 4.6 | 6.7 | 217.9 | N/A |

* *Annualised*

## 6.0 BIAWAK (CONT'D)

### 6.5 Income Statements

The income statements of Biawak for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 1,323 | 12,543 | 18,937 | 8,567 |
| Cost of sales | (803) | (8,892) | (10,102) | (6,826) |
| Gross profit | 520 | 3,651 | 8,835 | 1,741 |
| Other income | - | 222 | 481 | 374 |
| Selling expenses | (75) | (948) | (1,707) | (645) |
| Administrative and other expenses | (74) | (443) | (473) | (359) |
| Finance costs | (165) | (2,042) | (1,670) | (1,378) |
| Profit/(loss) before tax | 206 | 440 | 5,466 | (267) |
| Income tax expense | (71) | (254) | 189 | - |
| Profit/(loss) after tax | 135 | 186 | 5,655 | (267) |

(a) **Segmental Analysis of Turnover and Profits**

Segmental analysis is not applicable as Biawak operates solely in Malaysia and its predominant activity is cultivation of oil palm.

(b) **Commentary on Past Performance**

Biawak commenced its business operations in oil palm plantation in 2000. As at 31 August 2009, Biawak's oil palm plantations located in Kuching cover 3,933 hectares, with approximately 2,429 hectares planted. Out of the total planted area, Biawak has approximately 2,429 hectares of mature oil palm trees, with an average yield of 13.2Mt of fresh fruit bunches ("FFB") per hectare for the period ended 31 August 2009.

For the financial years/period under review, Biawak generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Biawak incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Biawak's cost of sales.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**6.0 BIAWAK (CONT'D)**

**6.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2007 ("FY2007")***

*Turnover*

Biawak's turnover increased by 126.3% or RM4.8 million to RM8.6 million in FY2007 from RM3.8 million in FY2006. The increase was due to the higher average FFB selling price coupled with the increase in sales volume for FFB.

Driven by bullish demand in the world edible oil market, average selling price of FFB increased by 48.9% from RM229/Mt in FY2006 to RM341/Mt in FY2007.

Sales volume for FFB increased by 50.0% from 16,735Mt in FY2006 to 25,109Mt in FY2007, mainly due to the increased hectarage of mature fields from 1,739 hectares in FY2006 to 2,066 hectares in FY2007. The improved average FFB yield from 9.6Mt/hectare in FY2006 to 12.2Mt/hectare in FY2007 also contributed to the higher sales volume for FFB.

*Cost of sales*

Biawak's cost of sales increased from RM3.8 million in FY2006 to RM6.8 million in FY2007. The higher cost of sales of 78.9% or RM3.0 million for the financial year was mainly due to the followings:-

(i) an overall increase in estate maintenance costs by 84.6% from RM2.6 million in FY2006 to RM4.8 million in FY2007, primarily as a result of the increased fertiliser usage arising from more mature oil palm trees, as well as the increased harvesting costs due to the higher level of FFB production;

(ii) an increase in transportation costs by 222.4% from RM165,000 in FY2006 to RM532,000 in FY2007, in line with the increase in FFB production; and

(iii) the higher amortisation charge of RM1.0 million in FY2007 as compared to RM830,000 for the previous financial year, due to the increased hectarage of mature oil palm trees.

*Gross profit and gross margin*

Biawak's gross profit was RM1.7 million in FY2007, an improvement of RM1.7 million from a gross loss of RM10,000 in FY2006. Similarly, Biawak achieved an improved gross margin for the financial year, from a gross loss margin of 0.3% in FY2006 to a gross profit margin of 20.3% in FY2007. The improvement in gross profit and gross margin was mainly due to the increase in turnover as set out above.

*Pre-tax and after-tax results*

Biawak achieved a pre-tax and after-tax loss of RM267,000 in FY2007 (FY2006: RM1.9 million). The improvement of 84.2% or RM1.6 million was in tandem with the increase in gross profit.

## 6.0 BIAWAK (CONT'D)

### 6.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 31 July 2008 ("FY2008")*

*Turnover*

In FY2008, Biawak's turnover was RM18.9 million as compared to RM8.6 million in FY2007. The increase in turnover of 119.8% or RM10.3 million was due to the higher average FFB selling price and the increase in sales volume for FFB.

The significant growth in the world edible oil market, in line with the apparent consumption need for both food and fuel whilst set against a backdrop of supply constraints arising from droughts, drove palm product prices to an unprecedented high in FY2008. As a result, average selling price of FFB further increased by 70.7% from RM341/Mt in FY2007 to RM582/Mt in FY2008.

Sales volume for FFB increased by 29.5% from 25,109Mt in FY2007 to 32,520Mt in FY2008, mainly due to the increased hectarage of mature fields from 2,066 hectares in FY2007 to 2,452 hectares in FY2008 coupled with the improved average FFB yield from 12.2Mt/hectare in FY2007 to 13.3Mt/hectare in FY2008.

*Cost of sales*

Biawak recorded an increase in cost of sales of 48.5% or RM3.3 million from RM6.8 million in FY2007 to RM10.1 million in FY2008. The increase in cost of sales was mainly attributable to the followings:-

(i) an increase in manuring costs by 126.7% to RM3.4 million in FY2008 from RM1.5 million in FY2007 as a result of the increased fertiliser prices; and

(ii) an overall increase in harvesting, maintenance and transportation costs by 36.0% from RM2.5 million in FY2007 to RM3.4 million in FY2008, in line with the increase in FFB production.

*Gross profit and gross margin*

Biawak's gross profit increased by 417.6% or RM7.1 million from RM1.7 million in FY2007 to RM8.8 million in FY2008 as Biawak's cost of sales increased by 48.5% for the financial year despite the increase in turnover of 119.8%.

Biawak recorded a gross profit margin of 46.7% in FY2008 as compared to 20.3% in FY2007. The increase of 26.4 percentage points for the financial year was mainly due to the increase in average selling price of FFB.

## 6.0 BIAWAK (CONT'D)

### 6.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 31 July 2008 ("FY2008") (Cont'd)*

*Pre-tax and after-tax results*

Biawak's pre-tax results improved by RM5.7 million from a pre-tax loss of RM267,000 in FY2006 to a pre-tax profit of RM5.5 million in FY2008. The improvement was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increased selling expenses and finance costs.

The increase in selling expenses of 183.3% from RM645,000 in FY2007 to RM1.7 million in FY2008 was due to the followings:-

(i) a 34.3% increase in transportation costs from RM543,000 in FY2007 to RM729,000 in FY2008 as a result of the rising fuel prices; and

(ii) a 858.8% increase in cess/windfall profit levy from RM102,000 in FY2007 to RM978,000 in FY2008, in line with the increased market prices of crude palm oil.

Finance costs increased by 21.4% from RM1.4 million in FY2007 to RM1.7 million in FY2008, which was in line with the increased utilisation of banking facilities.

Income tax expense for FY2008 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

As a result of the foregoing, after-tax results of Biawak improved from an after-tax loss of RM267,000 in FY2007 to an after-tax profit of RM5.7 million in FY2008, representing an improvement of RM5.9 million.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**6.0 BIAWAK (CONT'D)**

**6.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2009 ("FY2009")*

*Turnover*

Biawak's turnover declined by 33.9% or RM6.4 million from RM18.9 million in FY2008 to RM12.5 million in FY2009, due to the decrease in average selling price of FFB, which was partially offset by the increase in sales volume for FFB.

Average selling price of FFB fell by 37.8% from RM582/Mt in FY2008 to RM362/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for palm products as a result of oversupply in the global market.

Sales volume for FFB increased by 6.6% from 32,520Mt in FY2008 to 34,680Mt in FY2009, due to the increased hectarage of mature fields from 2,452 hectares in FY2008 to 2,873 hectares in FY2009. This was, however, partially offset by the deteriorated average FFB yield from 13.3Mt/hectare in FY2008 to 12.1Mt/hectare in FY2009.

*Cost of sales*

Cost of sales of Biawak decreased by 11.9% or RM1.2 from RM10.1 million in FY2008 to RM8.9 million in FY2009. The lower cost of sales was mainly due to the decrease in manuring costs by 67.6% from RM3.4 million in FY2008 to RM1.1 million in FY2009, primarily as a result of the slowdown in the whole manuring program on the back of bearish market outlook for palm products. This was, however, partially offset by the increase in amortisation charge by 30.0% from RM1.0 million in FY2008 to RM1.3 million in FY2009, following more fields attaining maturity.

*Gross profit and gross margin*

Biawak's gross profit recorded a decrease of 58.0% or RM5.1 million from RM8.8 million in FY2008 to RM3.7 million in FY2009. Biawak recorded a gross profit margin of 29.1% in FY2009, a decline of 17.6 percentage points as compared to 46.7% in FY2008. The decline in gross profit as well as gross margin was in line with the decrease in turnover as set out above.

*Pre-tax and after-tax results*

Pre-tax profit of Biawak dropped from RM5.5 million in FY2008 to RM440,000 in FY2009, representing a decrease of 92.7% or RM5.0 million. The decline in pre-tax profit was in tandem with the decrease in gross profit following the decline in FFB selling price.

Biawak recorded an effective tax rate of 57.7% in FY2009. Income tax expense for FY2009 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

As a result of the foregoing, Biawak's after-tax profit for FY2009 was RM186,000, representing a drop of 96.5% or RM5.5 million from RM5.7 million in FY2008.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Period Ended 31 August 2009 ("FP2009")*

*Turnover*

For FP2009, Biawak recorded turnover of RM1.3 million, with a total sales volume of 3,168Mt at an average FFB selling price of RM418/Mt.

*Cost of sales*

Biawak's cost of sales was RM803,000 for FP2009.

*Gross profit and gross margin*

For FP2009, Biawak's gross profit and gross profit margin were RM520,000 and 39.3% respectively.

*Pre-tax and after-tax results*

Biawak's pre-tax and after-tax profits for FP2009 were RM206,000 and RM135,000 respectively.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

**6.0 BIAWAK (CONT'D)**

**6.6 Balance Sheets**

The balance sheets of Biawak as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|
| | 2009 | 2009[1] | 2008[1] | 2007[1] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 10,013 | 10,068 | 9,994 | 10,410 |
| Prepaid lease rentals | 4,579 | 4,586 | 4,675 | 4,763 |
| Biological assets | 18,477 | 18,544 | 18,983 | 18,414 |
| Deferred tax assets | - | - | 189 | - |
| | 33,069 | 33,198 | 33,841 | 33,587 |
| **Current assets** | | | | |
| Trade and other receivables | 3,479 | 2,982 | 2,607 | 2,647 |
| Amount due from holding company | 5,831 | 5,754 | 4,309 | - |
| Cash and bank balances | 11 | 5 | 4 | - |
| | 9,321 | 8,741 | 6,920 | 2,647 |
| **TOTAL ASSETS** | 42,390 | 41,939 | 40,761 | 36,234 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 4,012 | 4,012 | 4,012 | 4,012 |
| Accumulated losses | (1,096) | (1,231) | (1,417) | (7,072) |
| **Total equity** | 2,916 | 2,781 | 2,595 | (3,060) |
| **Non-current liabilities** | | | | |
| Borrowings | 28,370 | 28,370 | 29,000 | 36,000 |
| Deferred tax liabilities | 136 | 65 | - | - |
| | 28,506 | 28,435 | 29,000 | 36,000 |
| **Current liabilities** | | | | |
| Trade and other payables | 2,868 | 2,623 | 2,166 | 1,719 |
| Amount due to holding company | - | - | - | 1,560 |
| Borrowings – bank overdrafts | - | - | - | 15 |
| – other borrowings | 8,100 | 8,100 | 7,000 | - |
| | 10,968 | 10,723 | 9,166 | 3,294 |
| **Total liabilities** | 39,474 | 39,158 | 38,166 | 39,294 |
| **TOTAL EQUITY AND LIABILITIES** | 42,390 | 41,939 | 40,761 | 36,234 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

*Note:-*

(1) The financial statements of Biawak for the financial years ended 31 July 2007 to 2009 were prepared in accordance with Private Entity Reporting Standards ("PERSs"), the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, Financial Reporting Standards ("FRSs"), the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Biawak are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure comprising oil palm planting expenditure and plantation infrastructure development expenditure is classified under property, plant and equipment. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is continued to be included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on aequiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | <--------- As at 31 July ---------> | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 33,198 | 33,652 | 33,587 |
| Adjustments – FRS 101 | (18,544) | (18,983) | (18,414) |
| – FRS 117 | (4,586) | (4,675) | (4,763) |
| Property, plant and equipment, restated | 10,068 | 9,994 | 10,410 |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 4,586 | 4,675 | 4,763 |
| Prepaid lease rentals, restated | 4,586 | 4,675 | 4,763 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 18,544 | 18,983 | 18,414 |
| Biological assets, restated | 18,544 | 18,983 | 18,414 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Biawak's biological assets is tabulated as follows:-

| | As at 31 August | < --------- As at 31 July --------- > | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 18,477 | 18,544 | 18,983 | 18,414 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direet administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Field upkeep/maintenance costs | - | - | 16 | 38 |
| Manuring and weeding | - | - | 8 | 331 |
| Finance costs | - | - | 439 | 715 |
| Labour costs | - | - | 170 | 468 |
| Other direct administrative costs | - | - | 313 | 275 |
| | - | - | 946 | 1,827 |
| Amortisation of biological assets | 67 | 439 | 377 | 373 |

*Maturity profile*

The details of Biawak's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | - | 388 | 2,041 | 2,429 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (a) Biological Assets (Cont'd)

*Amortisation of biological assets*

The increase in amortisation of biological assets over the financial years/period under review was due to the increase in mature plantation hectarage over those financial years/period.

#### (b) Trade and Other Receivables

Information on Biawak's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 1,345 | 864 | 467 | 1,193 |
| - Third parties | | - | - | 158 | - |
| | | 1,345 | 864 | 625 | 1,193 |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 1,345 | 864 | 625 | 1,193 |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 1,495 | 1,495 | 1,445 | 1,409 |
| - Sundry receivables | | 24 | 26 | 9 | 19 |
| - Prepayments | (iii) | 615 | 597 | 528 | 26 |
| | | 2,134 | 2,118 | 1,982 | 1,454 |
| **Total** | | 3,479 | 2,982 | 2,607 | 2,647 |
| % of trade receivables to turnover | | 7.0 | 5.9 | 4.8 | 9.9 |
| Trade receivables turnover period (months) | | 0.8 | 0.7 | 0.6 | 1.2 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (b) Trade and Other Receivables (Cont'd)

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | < Exceeding credit period | | | > | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 1,321 | 24 | - | - | - | 1,345 |
| % of total trade receivables | 98.2 | 1.8 | - | - | - | 100.0 |

The normal trade credit term extended to customers by Biawak is 30 days. As at 31 August 2009, 1.8% of trade receivables exceeded the credit period.

As at the date of this report, all the outstanding balance has been collected.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also includes the retention amount receivable from R.H. Capital Sdn Bhd, a special purpose vehicle set up for the issuance of Islamic securities under the Ijarah arrangements.

(iii) These consist mainly of prepaid insurance and levy.

#### (c) Amount Due from/to Holding Company

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing by/to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables

Information on Biawak's trade and other payables is tabulated as follows:-

| | | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 3 | 4 | 8 | 4 |
| - Third parties | | 924 | 870 | 272 | 113 |
| | | 927 | 874 | 280 | 117 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 807 | 782 | 609 | 191 |
| - Sundry payables | (iii) | 210 | 47 | 319 | 542 |
| - Accruals | (iv) | 256 | 252 | 303 | 250 |
| - Land premium payable | | 602 | 602 | 602 | 602 |
| - Amount due to directors | (v) | 66 | 66 | 53 | 17 |
| | | 1,941 | 1,749 | 1,886 | 1,602 |
| **Total** | | 2,868 | 2,623 | 2,166 | 1,719 |
| Trade payables turnover period (months) | | 1.1 | 0.8 | 0.2 | 0.2 |

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 154 | 165 | 127 | 207 | 274 | 927 |
| % of total trade payables | 16.6 | 17.8 | 13.7 | 22.3 | 29.6 | 100.0 |

The normal trade credit term granted by suppliers to Biawak is 90 days. There is no specific credit term granted by related parties to Biawak. As at 31 August 2009, 51.9% of trade payables exceeded the credit period. The amount was mainly the retention sum payable to contractors.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables (Cont'd)

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also includes Ijarah payments payable to R.H. Capital Sdn Bhd under the Ijarah arrangements.

(iii) The balance includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Biawak.

(iv) These consist mainly of accrued operating expenses such as salaries and wages.

(v) These represent mainly the directors' fees payable to them.

#### (e) Borrowings

Information on Biawak's borrowings is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Islamic securities, secured | (i) | | | | |
| - Sukuk Ijarah | | 17,300 | 17,300 | 18,400 | 18,400 |
| - Sukuk Ijarah MTN | | - | - | - | 7,000 |
| Unsecured loan | (ii) | 11,070 | 11,070 | 10,600 | 10,600 |
| | | 28,370 | 28,370 | 29,000 | 36,000 |
| **Short-term borrowings** | | | | | |
| Bank overdrafts, unsecured | (iii) | - | - | - | 15 |
| Islamic securities, secured | (i) | | | | |
| - Sukuk Ijarah | | 1,100 | 1,100 | - | - |
| - Sukuk Ijarah MTN | | 7,000 | 7,000 | 7,000 | - |
| | | 8,100 | 8,100 | 7,000 | 15 |
| **Total** | | 36,470 | 36,470 | 36,000 | 36,015 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

**(e) Borrowings (Cont'd)**

(i) Details of the Ijarah arrangements as at 31 August 2009 are set out below:-

| Descriptions | Class | Rating | Maturity date | Effective interest rate | Amount outstanding |
|---|---|---|---|---|---|
| | | | | % p.a. | RM'000 |
| Sukuk Ijarah | Class A | AAA | 23 December 2014 | 6.70 | 4,300 |
| | Class A | AAA | 23 December 2013 | 6.40 | 4,300 |
| | Class B | AA2 | 23 December 2012 | 6.60 | 1,100 |
| | Class B | AA2 | 23 December 2011 | 6.40 | 2,150 |
| | Class C | A2 | 23 December 2011 | 7.90 | 2,150 |
| | Class C | A2 | 23 December 2010 | 7.70 | 3,300 |
| | Class D | A3 | 23 December 2009 | 7.80 | 1,100 |
| | | | | | 18,400 |
| Sukuk Ijarah MTN | MTN | AA1s(s) | 23 December 2009 | 4.65 | 7,000 |
| | | | | | 25,400 |

The Sukuk issue was structured under the Islamic principle of Ijarah or sale and leaseback and was issued *via* a special purpose vehicle, R.H. Capital Sdn Bhd. The Sukuk issue is secured by the plantation lands (including buildings erected thereon) of Biawak. The beneficial ownership of these assets are held on trust by R.H. Capital Sdn Bhd for the benefits of the Islamic securities investors and are redeemable at a nominal value of RM1 on maturity.

(ii) The unsecured loan is granted to Biawak by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

(iii) The bank overdrafts arose as a result of Biawak's current account with the bank being overdrawn due to the issuance of cheques prior to the financial year end which were only presented for payment subsequent to that date.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 6.0 BIAWAK (CONT'D)

### 6.6 Balance Sheets (Cont'd)

#### (f) Taxation

The tax agent for Biawak for the financial years/period under review was Tomax Tax Services Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the Inland Revenue Board ("IRB") | The submission of tax returns is up to Year of Assessment ("Y/A") 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM18,017,000<br>• Capital/agriculture allowances – RM8,539,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG

### 7.1 General Information

Ekang was incorporated in Malaysia under the Companies Act, 1965 on 20 December 2005 as a private limited liability company under its present name.

The principal activity of Ekang is cultivation of oil palm.

As at the date of this report, the authorised share capital of Ekang is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Ekang is RM969,600 comprising 969,600 ordinary shares of RM1.00 each.

Details of the changes in Ekang's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 20-12-2005 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 25-07-2008 | 678,718 | 1.00 | Cash | 678,720 |
| 25-07-2008 | 290,880 | 1.00 | Other than cash | 969,600 |

### 7.2 Financial Statements and Auditors

The auditors of Ekang for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Hii & Lee |
| 1 August 2007 to 31 July 2008 | Hii & Lee |
| 1 August 2008 to 31 July 2009 | Hii & Lee |
| 1 August 2009 to 31 August 2009 | Hii & Lee |

The financial statements were reported on without any qualification.

### 7.3 Dividends

No dividend has been paid or declared by Ekang during the financial years/period under review.

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

## 7.0 EKANG (CONT'D)

### 7.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 970 | 970 | 970 | * |
| Shareholders' funds (RM'000) | 927 | 928 | 927 | (11) |
| Net assets/(liabilities) (RM'000) | 927 | 928 | 927 | (11) |
| Net assets/(liabilities) per share (RM) | 1.0 | 1.0 | 1.0 | (5,499.0) |
| Turnover (RM'000) | - | - | - | - |
| Gross profit (RM'000) | - | - | - | - |
| Loss before tax (RM'000) | (1) | (16) | (15) | (2) |
| (Loss)/profit after tax (RM'000) | (1) | 1 | (32) | (2) |
| (Loss)/earnings per share (sen) | | | | |
| - Gross | (1.2)# | (1.7) | (79.0) | (100,000.0) |
| - Net | (1.2)# | 0.1 | (168.4) | (100,000.0) |
| Effective tax rate (%) | - | 106.3 | (113.3) | - |
| Gross margin (%) | N/A | N/A | N/A | N/A |
| Pre-tax loss margin (%) | N/A | N/A | N/A | N/A |
| Current ratio (times) | 0.4 | 0.4 | 0.6 | 0.6 |
| Total borrowings (RM'000) | - | - | - | - |
| Gearing ratio (times) | - | - | - | N/A |
| Interest expense (RM'000) | - | - | - | - |
| Interest expense capitalised (RM'000) | - | - | - | - |
| Interest coverage ratio (times) | N/A | N/A | N/A | N/A |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | (0.1) | 0.1 | (3.5) | N/A |

* *Represents RM2*
\# *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

### 7.5 Income Statements

The income statements of Ekang for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | - | - | - | - |
| Cost of sales | - | - | - | - |
| Gross profit | - | - | - | - |
| Administrative and other expenses | (1) | (16) | (15) | (2) |
| Loss before tax | (1) | (16) | (15) | (2) |
| Income tax expense | - | 17 | (17) | - |
| (Loss)/profit after tax | (1) | 1 | (32) | (2) |

#### (a) Segmental Analysis of Turnover and Profits

Segmental analysis is not applicable as Ekang operates solely in Malaysia and its predominant activity is cultivation of oil palm.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

### 7.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance

Ekang commenced field planting in January 2009, and no field has attained maturity; hence no turnover was generated for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009. As at 31 August 2009, Ekang's oil palm plantations located in Miri cover 3,367 hectares, with approximately 85 hectares planted, none of which have attained maturity.

*Financial Year Ended 31 July 2007 ("FY2007")*

Administrative and other expenses for FY2007 consisted mainly of audit and professional fees, which accounted for 50.0% of the total administrative and other expenses.

*Financial Year Ended 31 July 2008 ("FY2008")*

Administrative and other expenses for FY2008 consisted mainly of audit and professional fees, and directors' fees, which accounted for 46.7% and 40.0% of the total administrative and other expenses respectively.

Income tax expense for FY2008 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

Accordingly, after-tax loss of Ekang in FY2008 was RM32,000.

*Financial Year Ended 31 July 2009 ("FY2009")*

Ekang's pre-tax loss of RM16,000 in FY2009 remained fairly consistent when compared to RM15,000 in FY2008. Administrative and other expenses for FY2009 consisted mainly of directors' fees, which accounted for 62.5% of the total administrative and other expenses.

Income tax expense for FY2009 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

As a result of the reversal of deferred tax in FY2009, Ekang achieved a pre-tax profit of RM1,000 in FY2009 as compared to a pre-tax loss of RM32,000 in FY2008.

*Period Ended 31 August 2009 ("FP2009")*

Ekang's pre-tax and after-tax loss for FP2009 was RM1,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

### 7.6 Balance Sheets

The balance sheets of Ekang as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August 2009 RM'000 | <------ As at 31 July 2009[(1)] RM'000 | 2008[(1)] RM'000 | 2007[(1)] ------> RM'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 291 | 294 | 225 | 116 |
| Prepaid lease rentals | 1,188 | 1,190 | 925 | - |
| Biological assets | 2,449 | 2,375 | 931 | 504 |
| | 3,928 | 3,859 | 2,081 | 620 |
| **Current assets** | | | | |
| Inventories | 1,495 | 1,473 | 921 | 992 |
| Other receivables | 98 | 100 | 874 | 57 |
| Cash and bank balances | 3 | 2 | 5 | 2 |
| | 1,596 | 1,575 | 1,800 | 1,051 |
| **TOTAL ASSETS** | 5,524 | 5,434 | 3,881 | 1,671 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 970 | 970 | 970 | * |
| Accumulated losses | (43) | (42) | (43) | (11) |
| **Total equity** | 927 | 928 | 927 | (11) |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | - | - | 17 | - |
| **Current liabilities** | | | | |
| Trade and other payables | 4,291 | 3,213 | 2,045 | 821 |
| Amount due to holding company | 306 | 1,293 | 892 | 861 |
| | 4,597 | 4,506 | 2,937 | 1,682 |
| **Total liabilities** | 4,597 | 4,506 | 2,954 | 1,682 |
| **TOTAL EQUITY AND LIABILITIES** | 5,524 | 5,434 | 3,881 | 1,671 |

* *Represents RM2*

**ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)***

## 7.0 EKANG (CONT'D)

### 7.6 Balance Sheets (Cont'd)

*Note:-*

(1) The financial statements of Ekang for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Ekang are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure includes oil palm planting expenditure and plantation infrastructure development expenditure. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | < --------- As at 31 July -------- > | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 1,484 | 1,150 | 116 |
| Adjustments – FRS 117 | (1,190) | (925) | - |
| Property, plant and equipment, restated | 294 | 225 | 116 |
| **Plantation development expenditure** | | | |
| Plantation development expenditure, audited | 2,375 | 931 | 504 |
| Adjustments – FRS 101 | (2,375) | (931) | (504) |
| Plantation development expenditure, restated | - | - | - |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 1,190 | 925 | - |
| Prepaid lease rentals, restated | 1,190 | 925 | - |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 2,375 | 931 | 504 |
| Biological assets, restated | 2,375 | 931 | 504 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**7.0 EKANG (CONT'D)**

**7.6 Balance Sheets (Cont'd)**

**(a) Biological Assets**

Information on Ekang's biological assets is tabulated as follows:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 2,449 | 2,375 | 931 | 504 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | 3 | 618 | 16 | - |
| Field upkeep/maintenance costs | 10 | 125 | 110 | 58 |
| Manuring and weeding | 3 | 46 | - | - |
| Seedlings and nursery costs | 4 | 68 | - | - |
| Labour costs | 25 | 206 | 118 | 82 |
| Other direct administrative costs | 29 | 381 | 183 | 283 |
| | 74 | 1,444 | 427 | 423 |
| Amortisation of biological assets | - | - | - | - |

*Maturity profile*

The details of Ekang's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | 85 | - | - | 85 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

7.0 EKANG (CONT'D)

7.6 Balanee Sheets (Cont'd)

(a) Biologieal Assets (Cont'd)

*Amortisation of biological assets*

As at 31 August 2009, none of Ekang's oil palm trees have attained maturity; hence biological assets of Ekang are not amortised.

(b) Inventories

Information on Ekang's inventories is tabulated as follows:-

| | As at 31 August | <------- As at 31 July -------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 759 | 727 | 631 | 989 |
| Nursery inventories | 736 | 746 | 290 | 3 |
| | 1,495 | 1,473 | 921 | 992 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

### 7.6 Balance Sheets (Cont'd)

#### (c) Other Reeeivables

Information on Ekang's other receivables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Other receivables** | | | | | |
| - Related parties | (i) | 32 | 31 | 815 | 6 |
| - Sundry receivables | | 15 | 18 | 5 | 51 |
| - Deposits | (ii) | 51 | 51 | 51 | - |
| - Prepayments | (iii) | - | - | 3 | - |
| | | 98 | 100 | 874 | 57 |

(i) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(ii) The deposits were paid for the purchase of germinated oil palm seeds.

(iii) These consist mainly of prepaid insurance and levy.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

7.0 EKANG (CONT'D)

7.6 Balance Sheets (Cont'd)

(d) Trade and Other Payables

Information on Ekang's trade and other payables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 4,055 | 2,955 | 1,803 | 675 |
| - Third parties | | - | 1 | 1 | - |
| | | 4,055 | 2,956 | 1,804 | 675 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 175 | 177 | 180 | 112 |
| - Sundry payables | | 33 | 51 | 37 | 20 |
| - Accruals | (iii) | 28 | 29 | 24 | 14 |
| | | 236 | 257 | 241 | 146 |
| **Total** | | 4,291 | 3,213 | 2,045 | 821 |
| Trade payables turnover period (months) | | * | * | * | * |

* *Computation of trade payables turnover period is not applicable as the trade payables relate to plantation development expenditure which is capitalised as biological assets.*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

### 7.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables (Cont'd)

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | < — Within credit period — > | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 1,100 | 120 | 84 | 152 | 2,599 | 4,055 |
| % of total trade payables | 27.1 | 3.0 | 2.1 | 3.7 | 64.1 | 100.0 |

The normal trade credit term granted by suppliers to Ekang is 90 days. There is no specific credit term granted by related parties to Ekang. As at 31 August 2009, 67.8% of trade payables exceeded the credit period. The amount was due from related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of accrued operating expenses such as salaries and wages.

#### (e) Amount Due to Holding Company

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 7.0 EKANG (CONT'D)

## 7.6 Balance Sheets (Cont'd)

### (f) Taxation

The tax agent for Ekang for the financial years/period under review was Hii & Lee (Tax Services) Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM1,158,000<br>• Capital/agriculture allowances – RM1,030,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

## 8.0 LUNDU

### 8.1 General Information

Lundu was incorporated in Malaysia under the Companies Act, 1965 on 12 August 1998 as a private limited liability company under the name of Raya Ceria Oil Palm Plantation Sdn Bhd before it assumed its present name on 19 April 2005.

The principal activity of Lundu is cultivation of oil palm.

As at the date of this report, the authorised share capital of Lundu is RM20,000,000 comprising 20,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Lundu is RM6,048,000 comprising 6,048,000 ordinary shares of RM1.00 each.

Details of the changes in Lundu's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 12-08-1998 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 18-02-2000 | 4,233,598 | 1.00 | Cash | 4,233,600 |
| 18-02-2000 | 1,814,400 | 1.00 | Other than cash | 6,048,000 |

### 8.2 Financial Statements and Auditors

The auditors of Lundu for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Hii & Lee |
| 1 August 2007 to 31 July 2008 | Hii & Lee |
| 1 August 2008 to 31 July 2009 | Hii & Lee |
| 1 August 2009 to 31 August 2009 | Hii & Lee |

The financial statements were reported on without any qualification.

### 8.3 Dividends

No dividend has been paid or declared by Lundu during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 6,048 | 6,048 | 6,048 | 6,048 |
| Shareholders' funds (RM'000) | 5,862 | 5,168 | (164) | (14,225) |
| Net assets/(liabilities) (RM'000) | 5,862 | 5,168 | (164) | (14,225) |
| Net assets/(liabilities) per share (RM) | 1.0 | 0.9 | (0.0) | (2.4) |
| Turnover (RM'000) | 2,584 | 25,036 | 38,630 | 18,509 |
| Gross profit (RM'000) | 1,018 | 9,330 | 18,734 | 5,284 |
| Profit before tax (RM'000) | 694 | 5,332 | 13,516 | 2,559 |
| Profit after tax (RM'000) | 694 | 5,332 | 14,061 | 2,014 |
| Earnings per share (sen) | | | | |
| - Gross | 137.7 * | 88.2 | 223.5 | 42.3 |
| - Net | 137.7 * | 88.2 | 232.5 | 33.3 |
| Effeetive tax rate (%) | - | - | (4.0) | 21.3 |
| Gross margin (%) | 39.4 | 37.3 | 48.5 | 28.6 |
| Pre-tax profit margin (%) | 26.9 | 21.3 | 35.0 | 13.8 |
| Current ratio (times) | 2.0 | 2.4 | 1.6 | 0.3 |
| Total borrowings (RM'000) | 51,300 | 51,300 | 49,104 | 47,740 |
| Gearing ratio (times) | 8.8 | 9.9 | N/A | N/A |
| Interest expense (RM'000) | 131 | 1,971 | 2,077 | 1,753 |
| Interest expense capitalised (RM'000) | - | 12 | 87 | 311 |
| Interest coverage ratio (times) | 6.3 | 3.7 | 7.3 | 2.2 |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | 11.8 | 103.2 | N/A | N/A |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.5 Income Statements

The income statements of Lundu for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009[(1)] | 2009[(1)] | 2008[(1)] | 2007[(1)] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 2,584 | 25,036 | 38,630 | 18,509 |
| Cost of sales | (1,566) | (15,706) | (19,896) | (13,225) |
| Gross profit | 1,018 | 9,330 | 18,734 | 5,284 |
| Other income | 66 | 612 | 954 | 926 |
| Selling expenses | (148) | (1,897) | (3,432) | (1,420) |
| Administrative and other expenses | (111) | (742) | (663) | (478) |
| Finance costs | (131) | (1,971) | (2,077) | (1,753) |
| Profit before tax | 694 | 5,332 | 13,516 | 2,559 |
| Income tax expense | - | - | 545 | (545) |
| Profit after tax | 694 | 5,332 | 14,061 | 2,014 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.5 Income Statements (Cont'd)

*Note:-*

(1) For the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009, selling expenses of Lundu were included in cost of sales. For the purposes of this report, adjustments were made to exclude selling expenses from cost of sales.

Details of the above adjustments are set out as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost of sales** | | | | |
| Cost of sales, audited | 1,714 | 17,603 | 23,328 | 14,645 |
| Adjustments | (148) | (1,897) | (3,432) | (1,420) |
| Cost of sales, restated | 1,566 | 15,706 | 19,896 | 13,225 |
| **Gross profit** | | | | |
| Gross profit, audited | 870 | 7,433 | 15,302 | 3,864 |
| Adjustments | 148 | 1,897 | 3,432 | 1,420 |
| Gross profit, restated | 1,018 | 9,330 | 18,734 | 5,284 |
| **Selling expenses** | | | | |
| Selling expenses, audited | - | - | - | - |
| Adjustments | 148 | 1,897 | 3,432 | 1,420 |
| Selling expenses, restated | 148 | 1,897 | 3,432 | 1,420 |

**(a) Segmental Analysis of Turnover and Profits**

Segmental analysis is not applicable as Lundu operates solely in Malaysia and its predominant activity is cultivation of oil palm.

## 8.0 LUNDU (CONT'D)

### 8.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance

Lundu commenced its business operations in oil palm plantation in 1995. As at 31 August 2009, Lundu's oil palm plantations located in Kuching cover 7,090 hectares, with approximately 4,642 hectares planted. Out of the total planted area, Lundu has approximately 4,642 hectares of mature oil palm trees, with an average yield of 17.4Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years/period under review, Lundu generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Lundu incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Lundu's cost of sales.

***Financial Year Ended 31 July 2007 ("FY2007")***

*Turnover*

Lundu's turnover increased by 92.7% or RM8.9 million to RM18.5 million in FY2007 from RM9.6 million in FY2006. The increase was due to the higher average FFB selling price coupled with the increase in sales volume for FFB.

Driven by bullish demand in the world edible oil market, average selling price of FFB increased by 42.2% from RM244/Mt in FY2006 to RM347/Mt in FY2007.

Sales volume for FFB increased by 36.5% from 39,087Mt in FY2006 to 53,373Mt in FY2007, mainly due to the increased hectarage of mature fields from 3,211 hectares in FY2006 to 3,982 hectares in FY2007. The improved average FFB yield from 12.2Mt/hectare in FY2006 to 13.4Mt/hectare in FY2007 also contributed to the higher sales volume for FFB.

*Cost of sales*

Despite the increase in turnover, Lundu's cost of sales decreased from RM15.2 million in FY2006 to RM13.2 million in FY2007. The lower cost of sales of 13.2% or RM2.0 million for the financial year was mainly due to the followings:-

(i) a decrease in manuring costs by 25.5% from RM4.7 million in FY2006 to RM3.5 million in FY2007 as a result of less manuring application; and

(ii) a decrease in estate staff costs by 54.5% from RM2.2 million in FY2006 to RM1.0 million in FY2007, mainly due to the lower head count as a result of improved efficiency and productivity.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2007 ("FY2007") (Cont'd)*

*Gross profit and gross margin*

Lundu's gross profit was RM5.3 million in FY2007, an improvement of RM11.0 million from a gross loss of RM5.7 million in FY2006. Similarly, Lundu achieved an improved gross margin for the financial year, from a gross loss margin of 59.2% in FY2006 to a gross profit margin of 28.5% in FY2007. The improvement in gross profit and gross margin was mainly due to the increase in turnover and the decrease in cost of sales as set out above.

*Pre-tax and after-tax results*

Lundu achieved a pre-tax profit of RM2.6 million in FY2007, which was compared to a pre-tax loss of RM8.2 million in FY2006. The improvement of RM10.8 million was in tandem with the increase in gross profit.

Lundu recorded an effective tax rate of 21.3% in FY2007. Income tax expense for FY2007 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

As a result of the foregoing, Lundu's after-tax profit for FY2007 was RM2.0 million, representing an improvement of RM10.2 million from an after-tax loss of RM8.2 million in FY2006.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 31 July 2008 ("FY2008")***

*Turnover*

In FY2008, Lundu's turnover was RM38.6 million as compared to RM18.5 million in FY2007. The increase in turnover of 108.6% or RM20.1 million was due to the higher average FFB selling price and the increase in sales volume for FFB.

Average selling price of FFB increased by 69.5% from RM347/Mt in FY2007 to RM588/Mt in FY2008, attributed to the strong performance in the palm oil industry.

Sales volume for FFB increased by 23.1% from 53,373Mt in FY2007 to 65,676Mt in FY2008, mainly due to the increased hectarage of mature fields from 3,982 hectares in FY2007 to 4,176 hectares in FY2008 coupled with the improved average FFB yield from 13.4Mt/hectare in FY2007 to 15.7Mt/hectare in FY2008.

*Cost of sales*

Lundu recorded an increase in cost of sales of 50.8% or RM6.7 million from RM13.2 million in FY2007 to RM19.9 million in FY2008. The increase in cost of sales was mainly attributable to the followings:-

(i) an increase in manuring costs by 57.1% to RM5.5 million in FY2008 from RM3.5 million in FY2007 as a result of the increased fertiliser prices;

(ii) an overall increase in harvesting and maintenance costs by 35.8% from RM5.3 million in FY2007 to RM7.2 million in FY2008, in line with the increase in FFB production; and

(iii) the higher amortisation charge of RM2.2 million in FY2007 as compared to RM1.2 million for the previous financial year, due to the increased hectarage of mature oil palm trees.

*Gross profit and gross margin*

Lundu's gross profit increased by 252.8% or RM13.4 million from RM5.3 million in FY2007 to RM18.7 million in FY2008 as Lundu's cost of sales increased by 50.8% for the financial year despite the increase in turnover of 108.6%.

Lundu recorded a gross profit margin of 48.5% in FY2008 as compared to 28.6% in FY2007. The increase of 19.9 percentage points for the financial year was mainly due to the increase in average selling price of FFB.

## 8.0 LUNDU (CONT'D)

### 8.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 31 July 2008 ("FY2008") (Cont'd)*

*Pre-tax and after-tax results*

Lundu's pre-tax profit increased by 419.2% or RM10.9 million from RM2.6 million in FY2007 to RM13.5 million in FY2008. The increase was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increased selling expenses and finance costs.

The increase in selling expenses of 142.9% from RM1.4 million in FY2007 to RM3.4 million in FY2008 was due to the followings:-

(i) a 25.0% increase in transportation costs from RM1.2 million in FY2007 to RM1.5 million in FY2008 as a result of the rising fuel prices; and

(ii) a 900.0% increase in cess/windfall profit levy from RM225,000 in FY2007 to RM2.0 million in FY2008, in line with the increased market prices of crude palm oil.

Finance costs increased by 16.7% from RM1.8 million in FY2007 to RM2.1 million in FY2008, principally a result of the non-capitalisation of finance costs to biological assets following more oil palm trees attaining maturity.

Income tax expense for FY2008 was deferred tax, which related to the origination and reversal of temporary differences arising from property, plant and equipment, unused tax losses and unabsorbed capital/agriculture allowances.

As a result of the foregoing, after-tax profit of Lundu increased from RM2.0 million in FY2007 to RM14.1 million in FY2008, representing an increase of 605.0% RM12.1 million.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.5 Income Statements (Cont'd)

**(b) Commentary on Past Performance (Cont'd)**

*Financial Year Ended 31 July 2009 ("FY2009")*

*Turnover*

Lundu's turnover declined by 35.2% or RM13.6 million from RM38.6 million in FY2008 to RM25.0 million in FY2009, due to the decrease in average selling price of FFB, which was partially offset by the increase in sales volume for FFB.

Average selling price of FFB fell by 37.9% from RM588/Mt in FY2008 to RM365/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

Sales volume for FFB increased by 4.6% from 65,676Mt in FY2008 to 68,684Mt in FY2009, which was due to the increased hectarage of mature fields from 4,176 hectares in FY2008 to 4,642 hectares in FY2009, as well as the improved average FFB yield from 15.7Mt/hectare in FY2008 to 16.2Mt/hectare in FY2009.

*Cost of sales*

Cost of sales of Lundu decreased by 21.1% or RM4.2 million from RM19.9 million in FY2008 to RM15.7 million in FY2009. The lower cost of sales was mainly due to the overall decrease in maintenance and harvesting costs by 28.1% from RM12.8 million in FY2008 to RM9.2 million in FY2009. The decrease in maintenance and harvesting costs was mainly due to the slowdown in the whole manuring program, on the back of bearish market outlook for oil palm products.

*Gross profit and gross margin*

Lundu's gross profit recorded a decrease of 50.3% or RM9.4 million from RM18.7 million in FY2008 to RM9.3 million in FY2009. Lundu recorded a gross profit margin of 37.3% in FY2009, a decline of 11.2 percentage points as compared to 48.5% in FY2008. The decline in gross profit as well as gross margin was in line with the decrease in turnover as set out above.

*Pre-tax and after-tax results*

Pre-tax profit of Lundu dropped from RM13.5 million in FY2008 to RM5.3 million in FY2009, representing a decrease of 60.7% or RM8.2 million. The decline in pre-tax profit was in tandem with the decrease in gross profit following the decline in FFB selling price, which was partially offset by the decrease in selling expenses.

Selling expenses decreased by 44.1% from RM3.4 million in FY2008 to RM1.9 million in FY2009, which was mainly due to the decrease in cess/windfall profit levy. The decrease in cess/windfall profit levy was due to the tumbled prices for crude palm oil in FY2009, as well as the increase in the threshold from RM2,000/Mt to RM3,000/Mt for the computation of windfall profit levy, effective 10 March 2009.

Lundu's after-tax profit for FY2009 was RM5.3 million, representing a drop of 62.4% or RM8.8 million from RM14.1 million in FY2008.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Period Ended 31 August 2009 ("FP2009")***

*Turnover*

For FP2009, Lundu recorded turnover of RM2.6 million, with a total sales volume of 6,120Mt at an average FFB selling price of RM422/Mt.

*Cost of sales*

Lundu's cost of sales was RM1.6 million for FP2009.

*Gross profit and gross margin*

For FP2009, Lundu's gross profit and gross profit margin were RM1.0 million and 39.4% respectively.

*Pre-tax and after-tax results*

Lundu's pre-tax and after-tax profit for FP2009 was RM694,000.

## 8.0 LUNDU (CONT'D)

### 8.6 Balance Sheets

The balance sheets of Lundu as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <---------- As at 31 July ----------> | | |
|---|---|---|---|---|
| | 2009 | 2009(1) | 2008(1) | 2007(1) |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 14,673 | 14,786 | 12,708 | 12,698 |
| Prepaid lease rentals | 1,509 | 1,512 | 1,542 | 1,572 |
| Biological assets | 25,694 | 25,803 | 27,123 | 28,576 |
| | 41,876 | 42,101 | 41,373 | 42,846 |
| **Current assets** | | | | |
| Inventories | 1,166 | 966 | 1,548 | 1,129 |
| Trade and other receivables | 3,512 | 4,635 | 1,839 | 2,482 |
| Amount due from holding company | 25,448 | 18,871 | 16,402 | - |
| Cash and bank balances | 21 | 81 | 9 | 7 |
| | 30,147 | 24,553 | 19,798 | 3,618 |
| **TOTAL ASSETS** | 72,023 | 66,654 | 61,171 | 46,464 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 6,048 | 6,048 | 6,048 | 6,048 |
| Accumulated losses | (186) | (880) | (6,212) | (20,273) |
| **Total equity** | 5,862 | 5,168 | (164) | (14,225) |
| **Non-current liabilities** | | | | |
| Borrowings | 51,300 | 51,300 | 49,104 | 47,455 |
| Deferred tax liabilities | - | - | - | 545 |
| | 51,300 | 51,300 | 49,104 | 48,000 |
| **Current liabilities** | | | | |
| Trade and other payables | 14,861 | 10,186 | 12,231 | 9,986 |
| Amount due to holding company | - | - | - | 2,418 |
| Borrowings – bank overdrafts | - | - | - | 211 |
| – other borrowings | - | - | - | 74 |
| | 14,861 | 10,186 | 12,231 | 12,689 |
| **Total liabilities** | 66,161 | 61,486 | 61,335 | 60,689 |
| **TOTAL EQUITY AND LIABILITIES** | 72,023 | 66,654 | 61,171 | 46,464 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.6 Balance Sheets (Cont'd)

*Note:-*

(1) The financial statements of Lundu for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Lundu are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure includes oil palm planting expenditure and plantation infrastructure development expenditure. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | <--------- As at 31 July ---------> | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 8,669 | 8,177 | 7,797 |
| Adjustments – FRS 101 | 7,629 | 6,073 | 6,473 |
| – FRS 117 | (1,512) | (1,542) | (1,572) |
| Property, plant and equipment, restated | 14,786 | 12,708 | 12,698 |
| **Plantation development expenditure** | | | |
| Plantation development expenditure, audited | 33,432 | 33,196 | 35,049 |
| Adjustments – FRS 101 | (33,432) | (33,196) | (35,049) |
| Plantation development expenditure, restated | - | - | - |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 1,512 | 1,542 | 1,572 |
| Prepaid lease rentals, restated | 1,512 | 1,542 | 1,572 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 25,803 | 27,123 | 28,576 |
| Biological assets, restated | 25,803 | 27,123 | 28,576 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.6 Balance Sheets (Cont'd)

#### (a) Biological Assets

Information on Lundu's biological assets is tabulated as follows:-

| | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 25,694 | 25,803 | 27,123 | 28,576 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | - | - | - | - |
| Field upkeep/maintenance costs | - | 64 | 50 | 266 |
| Manuring and weeding | - | 130 | 8 | 899 |
| Finance costs | - | 12 | 87 | 311 |
| Labour costs | - | 5 | 50 | 184 |
| Other direct administrative costs | - | 62 | 193 | 189 |
| | - | 273 | 388 | 1,849 |
| Amortisation of biologieal assets | 109 | 1,593 | 1,841 | 1,191 |

*Maturity profile*

The details of Lundu's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | - | 1,056 | 3,586 | 4,642 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.6 Balance Sheets (Cont'd)**

**(a) Biological Assets (Cont'd)**

*Amortisation of biological assets*

The increase in amortisation of biological assets for the financial year ended 31 July 2008 was due to the increase in mature plantation hectarage in the financial year.

**(b) Inventories**

Information on Lundu's inventories is tabulated as follows:-

| | As at 31 August | <--------- As at 31 July | ---------> | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 1,078 | 878 | 1,351 | 802 |
| Nursery inventories | 88 | 88 | 197 | 327 |
| | 1,166 | 966 | 1,548 | 1,129 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Lundu sold all FFB produced during the financial years/period under review and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 8.0 LUNDU (CONT'D)

### 8.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables

Information on Lundu's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <--------- As at 31 July ---------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 2,633 | 1,807 | 963 | 2,301 |
| - Third parties | | - | - | 311 | - |
| | | 2,633 | 1,807 | 1,274 | 2,301 |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 2,633 | 1,807 | 1,274 | 2,301 |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 410 | 2,348 | 1 | 46 |
| - Sundry receivables | | 354 | 363 | 463 | 31 |
| - Deposits | (iii) | 10 | 10 | 9 | 7 |
| - Prepayments | (iv) | 105 | 107 | 92 | 97 |
| | | 879 | 2,828 | 565 | 181 |
| **Total** | | 3,512 | 4,635 | 1,839 | 2,482 |
| % of trade receivables to turnover | | 7.2 | 6.2 | 4.6 | 9.4 |
| Trade receivables turnover period (months) | | 0.9 | 0.7 | 0.6 | 1.1 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.6 Balance Sheets (Cont'd)**

**(c) Trade and Other Receivables (Cont'd)**

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | <--------- Exceeding credit period ---------> | | | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 2,586 | 47 | - | - | - | 2,633 |
| % of total trade receivables | 98.2 | 1.8 | - | - | - | 100.0 |

The normal trade credit term extended to customers by Lundu is 30 days. As at 31 August 2009, 1.8% of trade receivables exceeded the credit period.

As at the date of this report, 98.2% of the outstanding balance has been collected. Nothing has come to our attention that the remaining outstanding receivables are irrecoverable as at the date of this report.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of rental and utility deposits.

(iv) These consist mainly of prepaid insurance and levy.

**(d) Amount Due from/to Holding Company**

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing by/to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.6 Balance Sheets (Cont'd)**

**(e) Trade and Other Payables**

Information on Lundu's trade and other payables is tabulated as follows:-

| | | As at 31 August | <------- As at 31 July -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 7,963 | 3,781 | 9,258 | 8,029 |
| - Third parties | | 692 | 723 | 934 | 507 |
| | | 8,655 | 4,504 | 10,192 | 8,536 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 4,434 | 4,253 | 1,254 | 518 |
| - Sundry payables | | 1,444 | 1,109 | 123 | 419 |
| - Accruals | (iii) | 262 | 254 | 608 | 495 |
| - Amount due to directors | (iv) | 66 | 66 | 54 | 18 |
| | | 6,206 | 5,682 | 2,039 | 1,450 |
| **Total** | | 14,861 | 10,186 | 12,231 | 9,986 |
| Trade payables turnover period (months) | | 4.2 | 5.6 | 5.6 | 7.6 |

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 4,542 | 529 | 320 | 382 | 2,882 | 8,655 |
| % of total trade payables | 52.5 | 6.1 | 3.7 | 4.4 | 33.3 | 100.0 |

The normal trade credit term granted by suppliers to Lundu is 90 days. There is no specific credit term granted by related parties to Lundu. As at 31 August 2009, 37.7% of trade payables exceeded the credit period. The amount was mainly due to related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

**8.0 LUNDU (CONT'D)**

**8.6 Balance Sheets (Cont'd)**

**(e) Trade and Other Payables (Cont'd)**

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Lundu.

(iii) These consist mainly of accrued operating expenses such as salaries and wages.

(iv) These represent mainly the directors' fees payable to them.

**(f) Borrowings**

Information on Lundu's borrowings is tabulated as follows:-

| | | As at 31 August | <------- As at 31 July -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Unsecured loan | (i) | 51,300 | 51,300 | 49,104 | 47,455 |
| **Short-term borrowings** | | | | | |
| Bank overdrafts, unsecured | (ii) | - | - | - | 211 |
| Hire purchase liabilities | (iii) | - | - | - | 74 |
| | | - | - | - | 285 |
| **Total** | | 51,300 | 51,300 | 49,104 | 47,740 |

(i) The unsecured loan is granted to Lundu by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

(ii) The bank overdrafts arose as a result of Lundu's current account with the bank being overdrawn due to the issuance of cheques prior to the financial year end which were only presented for payment subsequent to that date.

(iii) These were used for the acquisitions of motor vehicles, plant and machinery.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**8.0 LUNDU (CONT'D)**

**8.6 Balance Sheets (Cont'd)**

**(g) Taxation**

The tax agent for Lundu for the financial years/period under review was Hii & Lee (Tax Services) Sdn Bhd.

| | Issues | Commentary |
|---|---|---|
| ▪ | Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ | Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ | Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ | Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ | Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM23,097,000<br>• Capital/agriculture allowances – RM12,967,000 |
| ▪ | Particulars of special allowance being claimed | NIL |
| ▪ | Particulars of other material information relating to taxation | NIL |

## 9.0 SELANGAU

### 9.1 General Information

Selangau was incorporated in Malaysia under the Companies Act, 1965 on 26 May 2000 as a private limited liability company under the name of Ladang Metah Sdn Bhd before it assumed its present name on 12 July 2006.

The principal activity of Selangau is cultivation of oil palm.

As at the date of this report, the authorised share capital of Selangau is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Selangau is RM12,000,000 comprising 12,000,000 ordinary shares of RM1.00 each.

Details of the changes in Selangau's issued and paid-up share eapital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 26-05-2000 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 22-11-2002 | 3,359,998 | 1.00 | Cash | 3,360,000 |
| 22-11-2002 | 1,440,000 | 1.00 | Other than cash | 4,800,000 |
| 17-09-2003 | 5,040,000 | 1.00 | Cash | 9,840,000 |
| 17-09-2003 | 2,160,000 | 1.00 | Other than cash | 12,000,000 |

### 9.2 Financial Statements and Auditors

The auditors of Selangau for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 May 2006 to 31 April 2007 | Philip Tong & Co. |
| 1 May 2007 to 31 April 2008 | Philip Tong & Co. |
| 1 May 2008 to 31 April 2009 | Philip Tong & Co. |
| 1 May 2009 to 31 August 2009 | Philip Tong & Co. |

The financial statements were reported on without any qualification. As at 31 August 2009, shareholders' funds of Selangau were in deficit by RM25,604,000.

### 9.3 Dividends

No dividend has been paid or declared by Selangau during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.4 Tabulation of Performance Indicators

| | Period Ended 31 August | Financial Year Ended 30 April | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 12,000 | 12,000 | 12,000 | 12,000 |
| Shareholders' funds (RM'000) | (25,604) | (26,084) | (20,987) | (19,968) |
| Net liabilities (RM'000) | (25,604) | (26,084) | (20,987) | (19,968) |
| Net liabilities per share (RM) | (2.1) | (2.2) | (1.8) | (1.7) |
| Turnover (RM'000) | 3,716 | 9,846 | 13,898 | 6,640 |
| Gross profit/(loss) (RM'000) | 1,300 | (1,608) | 2,987 | (3,257) |
| Profit/(loss) before tax (RM'000) | 480 | (5,097) | (1,019) | (6,427) |
| Profit/(loss) after tax (RM'000) | 480 | (5,097) | (1,019) | (6,427) |
| Earnings/(loss) per share (sen) | | | | |
| - Gross | 12.0* | (42.5) | (8.5) | (53.6) |
| - Net | 12.0* | (42.5) | (8.5) | (53.6) |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | 35.0 | (16.3) | 21.5 | (49.1) |
| Pre-tax profit/(loss) margin (%) | 12.9 | (51.8) | (7.3) | (96.8) |
| Current ratio (times) | 1.2 | 0.9 | 1.0 | 0.5 |
| Total borrowings (RM'000) | 64,008 | 64,041 | 61,892 | 57,392 |
| Gearing ratio (times) | N/A | N/A | N/A | N/A |
| Interest expense (RM'000) | 648 | 2,708 | 2,690 | 2,571 |
| Interest expense capitalised (RM'000) | - | - | - | - |
| Interest coverage ratio (times) | 1.7 | (0.9) | 0.6 | (1.5) |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | N/A | N/A | N/A | N/A |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.5 Income Statements

The income statements of Selangau for the financial years ended 30 April 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 30 April | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008[(1)] | 2007[(1)] |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 3,716 | 9,846 | 13,898 | 6,640 |
| Cost of sales | (2,416) | (11,454) | (10,911) | (9,897) |
| Gross profit/(loss) | 1,300 | (1,608) | 2,987 | (3,257) |
| Other income | 69 | 26 | 39 | - |
| Selling expenses | (83) | (432) | (911) | (180) |
| Administrative and other expenses | (158) | (375) | (444) | (419) |
| Finance costs | (648) | (2,708) | (2,690) | (2,571) |
| Profit/(loss) before tax | 480 | (5,097) | (1,019) | (6,427) |
| Income tax expense | - | - | - | - |
| Profit/(loss) after tax | 480 | (5,097) | (1,019) | (6,427) |

## 9.0 SELANGAU (CONT'D)

### 9.5 Income Statements (Cont'd)

*Note:-*

(1) For the financial years ended 31 March 2007 and 2008, selling expenses of Selangau were included in cost of sales. For the purposes of this report, adjustments were made to exclude selling expenses from cost of sales.

Details of the above adjustments are set out as follows:-

| | Financial Year Ended 30 April | |
|---|---|---|
| | 2008 | 2007 |
| | RM'000 | RM'000 |
| **Cost of sales** | | |
| Cost of sales, audited | 11,822 | 10,077 |
| Adjustments | (911) | (180) |
| Cost of sales, restated | 10,911 | 9,897 |
| **Gross profit/(loss)** | | |
| Gross profit/(loss), audited | 2,076 | (3,437) |
| Adjustments | 911 | 180 |
| Gross profit/(loss), restated | 2,987 | (3,257) |
| **Selling expenses** | | |
| Selling expenses, audited | - | - |
| Adjustments | 911 | 180 |
| Selling expenses, restated | 911 | 180 |

**(a) Segmental Analysis of Turnover and Profits**

Segmental analysis is not applicable as Selangau operates solely in Malaysia and its predominant activity is cultivation of oil palm.

**(b) Commentary on Past Performance**

Selangau commenced its business operations in oil palm plantation in 1999. As at 31 August 2009, Selangau's oil palm plantations located in Sibu cover 5,000 hectares, with approximately 3,063 hectares planted. Out of the total planted area, Selangau has approximately 3,063 hectares of mature oil palm trees, with an average yield of 8.0Mt of FFB per hectare for the period ended 31 August 2009.

For the financial years/period under review, Selangau generated its turnover from the sale of FFB.

Cost of sales consists of expenses directly attributable to the production of FFB at plantations. The major expenses that Selangau incurs at the plantations are maintenance costs, which consist primarily of labour, fertiliser and fuel costs. Depreciation and amortisation charges for the plantations are also a significant part of Selangau's cost of sales.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 30 April 2007 ("FY2007")*

*Turnover*

Selangau's turnover increased by 29.4% or RM1.5 million to RM6.6 million in FY2007 from RM5.1 million in FY2006. The increase was due to the higher average FFB selling price coupled with the increase in sales volume for FFB.

Driven by bullish demand in the world edible oil market, average selling price of FFB increased by 17.6% from RM239/Mt in FY2006 to RM281/Mt in FY2007.

Sales volume for FFB increased by 10.5% from 21,403Mt in FY2006 to 23,649Mt in FY2007, mainly due to the improved average FFB yield from 7.7Mt/hectare in FY2006 to 7.9Mt/hectare in FY2007.

*Cost of sales*

Despite the increase in turnover, Selangau's cost of sales decreased from RM10.6 million in FY2006 to RM9.9 million in FY2007. The lower cost of sales of 6.6% or RM0.7 million for the financial year was mainly due to the decrease in harvesting and maintenance costs by 16.1% from RM5.6 million in FY2006 to RM4.7 million in FY2007, as a result of the improved efficiency and productivity.

*Gross profit and gross margin*

Selangau's gross loss was RM3.3 million in FY2007, a decrease of 40.0% or RM2.2 million from RM5.5 million in FY2006. Similarly, Selangau achieved an improved gross margin for the financial year, from a gross loss margin of 107.7% in FY2006 to 49.1% in FY2007. The improvement in gross profit and gross margin was mainly due to the increase in turnover and the decrease in cost of sales as set out above.

*Pre-tax and after-tax results*

Selangau achieved a pre-tax and after-tax loss of RM6.4 million in FY2007 (FY2006: RM8.3 million). The decrease of 22.9% or RM1.9 million was in tandem with the decrease in gross loss.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**9.0 SELANGAU (CONT'D)**

**9.5 Income Statements (Cont'd)**

**(b) Commentary on Past Performance (Cont'd)**

***Financial Year Ended 30 April 2008 ("FY2008")***

*Turnover*

In FY2008, Selangau's turnover was RM13.9 million as compared to RM6.6 million in FY2007. The increase in turnover of 110.6% or RM7.3 million was due to the higher average FFB selling price and the increase in sales volume for FFB.

The significant growth in the world edible oil market, in line with the apparent consumption need for both food and fuel whilst set against a backdrop of supply constraints arising from droughts, drove palm product prices to an unpreeedented high in FY2008. As a result, average selling price of FFB further increased by 89.3% from RM281/Mt in FY2007 to RM532/Mt in FY2008.

Sales volume for FFB increased by 10.4% from 23,649Mt in FY2007 to 26,102Mt in FY2008, mainly due to the improved average FFB yield from 7.9Mt/hectare in FY2007 to 8.7Mt/hectare in FY2008.

*Cost of sales*

Selangau recorded an increase in cost of sales of 10.1% or RM1.0 million from RM9.9 million in FY2007 to RM10.9 million in FY2008. The increase in cost of sales was mainly due to the increase in manuring costs by 57.1% from RM2.1 million in FY2007 to RM3.3 million in FY2008 following the increase in fertiliser costs.

*Gross profit and gross margin*

Selangau's gross profit increased by RM6.3 million from a gross loss of RM3.3 million in FY2007 to a gross profit of RM3.0 million in FY2008 as Selangau's cost of sales increased by 10.1% for the financial year despite the increase in turnover of 110.6%.

Selangau recorded a gross profit margin of 21.5% in FY2008 as compared to a gross loss margin of 49.1% in FY2007. The improvement for the financial year was mainly due to the increase in average selling price of FFB.

*Pre-tax and after-tax results*

Selangau's pre-tax and after-tax loss decreased by 84.4% or RM5.4 million from RM6.4 million in FY2007 to RM1.0 million in FY2008. The decrease was mainly due to the higher gross profit recorded for the financial year, being partially offset by the increase in selling expenses.

The increase in selling expenses of 406.1% from RM180,000 in FY2007 to RM911,000 in FY2008 was mainly due to the payment of palm oil cess of RM702,000 which was introduced by the Federal Government in June 2007 as a result of the implementation of Cooking Oil Stabilisation Scheme (COSS).

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Financial Year Ended 30 April 2009 ("FY2009")*

*Turnover*

Selangau's turnover declined by 29.5% or RM4.1 from RM13.9 million in FY2008 to RM9.8 million in FY2009, due to the decrease in average selling price and sales volume for FFB.

Average selling price of FFB fell by 21.2% from RM532/Mt in FY2008 to RM419/Mt in FY2009. The weakening of average FFB selling price was attributable to the lower global market prices for oil palm products as a result of oversupply in the global market.

Sales volume for FFB decreased by 9.9% from 26,102Mt in FY2008 to 23,508Mt in FY2009, due to the decrease in average FFB yield from 8.7Mt/hectare in FY2008 to 7.7Mt/hectare in FY2009 despite the increase in mature fields by 57 hectares from 3,006 hectares in FY2008 to 3,063 hectares in FY2009.

*Cost of sales*

Despite the lower turnover recorded in FY2009, cost of sales of Selangau for FY2009 increased by 5.5% or RM0.6 million from RM10.9 million in FY2008 to RM11.5 million in FY2009. The higher cost of sales was mainly due to the followings:-

(i) an overall increase in harvesting and maintenance costs by 4.3% from RM4.6 million in FY2008 to RM4.8 million in FY2009, mainly due to the increased fertiliser prices;

(ii) an increase in freight, transport and handling charges by 17.5% from RM790,000 in FY2008 to RM928,000 in FY2009 following the rising of fuel prices; and

(iii) the higher depreciation charge of RM835,000 in FY2009 as compared to RM752,000 in FY2008 following acquisition of plant and machinery for the financial year.

*Gross profit and gross margin*

Selangau recorded a gross loss of RM1.6 million in FY2009 as compared to a gross profit of RM3.0 million in FY2008, representing a decline of RM4.6 million. Similarly, Selangau recorded a gross loss margin of 16.3% in FY2009 as compared to a gross profit margin of 21.5% in FY2008. The decline in gross profit as well as gross margin was in line with the decrease in turnover and the increase in cost of sales as set out above.

*Pre-tax and after-tax results*

Selangau recorded a pre-tax and after-tax loss of RM5.1 million in FY2009 as compared to RM1.0 million in FY2008. The increase of RM4.1 million was in tandem with the decrease in gross profit following the decline in FFB selling price coupled with the higher cost of sales.

## 9.0 SELANGAU (CONT'D)

### 9.5 Income Statements (Cont'd)

#### (b) Commentary on Past Performance (Cont'd)

*Period Ended 31 August 2009 ("FP2009")*

*Turnover*

For FP2009, Selangau recorded turnover of RM3.7 million, with a total sales volume of 8,206Mt at an average FFB selling price of RM453/Mt.

*Cost of sales*

Selangau's cost of sales was RM2.4 million for FP2009.

*Gross profit and gross margin*

For FP2009, Selangau's gross profit and gross profit margin were RM1.3 million and 35.0% respectively.

*Pre-tax and after-tax results*

Selangau's pre-tax and after-tax profit for FP2009 was RM480,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.6 Balance Sheets

The balance sheets of Selangau as at 30 April 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August 2009 | <------- As at 30 April 2009[(1)] | 2008[(1)] | 2007[(1)] -------> |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 20,016 | 20,528 | 21,895 | 23,596 |
| Prepaid lease rentals | 3,160 | 3,180 | 3,240 | 3,300 |
| Biological assets | 14,281 | 14,533 | 15,288 | 16,043 |
| | 37,457 | 38,241 | 40,423 | 42,939 |
| **Current assets** | | | | |
| Inventories | 684 | 1,137 | 557 | 270 |
| Trade and other receivables | 2,042 | 1,843 | 8,233 | 4,710 |
| Amount due from holding company | 3,988 | 2,803 | - | - |
| Cash and bank balances | 23 | 38 | 28 | 67 |
| | 6,737 | 5,821 | 8,818 | 5,047 |
| **TOTAL ASSETS** | 44,194 | 44,062 | 49,241 | 47,986 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 12,000 | 12,000 | 12,000 | 12,000 |
| Accumulated losses | (37,604) | (38,084) | (32,987) | (31,968) |
| **Total equity** | (25,604) | (26,084) | (20,987) | (19,968) |
| **Non-current liabilities** | | | | |
| Borrowings | 63,966 | 63,978 | 61,761 | 57,243 |
| **Current liabilities** | | | | |
| Trade and other payables | 5,790 | 6,105 | 2,708 | 5,472 |
| Amount due to holding company | - | - | 5,628 | 5,090 |
| Borrowings | 42 | 63 | 131 | 149 |
| | 5,832 | 6,168 | 8,467 | 10,711 |
| **Total liabilities** | 69,798 | 70,146 | 70,228 | 67,954 |
| **TOTAL EQUITY AND LIABILITIES** | 44,194 | 44,062 | 49,241 | 47,986 |

## 9.0 SELANGAU (CONT'D)

### 9.6 Balance Sheets (Cont'd)

*Note:-*

(1) The financial statements of Selangau for the financial years ended 30 April 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Selangau are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure comprising oil palm planting expenditure and plantation infrastructure development expenditure is classified under property, plant and equipment. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is continued to be included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | <------- As at 30 April -------> | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 38,241 | 40,423 | 42,939 |
| Adjustments – FRS 101 | (14,533) | (15,288) | (16,043) |
| – FRS 117 | (3,180) | (3,240) | (3,300) |
| Property, plant and equipment, restated | 20,528 | 21,895 | 23,596 |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 3,180 | 3,240 | 3,300 |
| Prepaid lease rentals, restated | 3,180 | 3,240 | 3,300 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 14,533 | 15,288 | 16,043 |
| Biological assets, restated | 14,533 | 15,288 | 16,043 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**9.0 SELANGAU (CONT'D)**

**9.6 Balance Sheets (Cont'd)**

**(a) Biological Assets**

Information on Selangau's biological assets is tabulated as follows:-

| | As at 31 August | <------- As at 30 April -------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 14,281 | 14,533 | 15,288 | 16,043 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

Amortisation of biological assets for the financial years ended 30 April 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 30 April | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Amortisation of biological assets | 252 | 755 | 755 | 755 |

*Maturity profile*

The details of Selangau's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | - | - | 3,063 | 3,063 |

*Amortisation of biological assets*

Amortisation of biological assets remained consistent for the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.6 Balance Sheets (Cont'd)

#### (b) Inventories

Information on Selangau's inventories is tabulated as follows:-

| | As at 31 August | <------- As at 30 April -------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 684 | 1,137 | 557 | 270 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Selangau sold all FFB produced during the financial years/period under review and did not hold any FFB as at period ends. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables

Information on Selangau's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <------- As at 30 April -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 809 | 829 | 949 | 540 |
| - Third parties | | - | - | - | 26 |
| | | 809 | 829 | 949 | 566 |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 809 | 829 | 949 | 566 |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 1,143 | 127 | 6,350 | 3,351 |
| - Sundry receivables | | 53 | 776 | 833 | 730 |
| - Deposits | (iii) | 4 | 4 | 4 | 4 |
| - Prepayments | (iv) | 33 | 107 | 97 | 59 |
| | | 1,233 | 1,014 | 7,284 | 4,144 |
| **Total** | | 2,042 | 1,843 | 8,233 | 4,710 |
| % of trade receivables to turnover | | 7.3 | 9.0 | 5.4 | 7.8 |
| Trade receivables turnover period (months) | | 0.9 | 1.1 | 0.7 | 0.9 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**9.0 SELANGAU (CONT'D)**

**9.6 Balance Sheets (Cont'd)**

**(e) Trade and Other Receivables (Cont'd)**

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | <--------- Exceeding credit period ---------> | | | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 805 | 4 | - | - | - | 809 |
| % of total trade receivables | 99.5 | 0.5 | - | - | - | 100.0 |

The normal trade credit term extended to customers by Selangau is 30 days. As at 31 August 2009, 0.5% of trade receivables exceeded the credit period.

As at the date of this report, 99.5% of the outstanding balance has been collected. Nothing has come to our attention that the remaining outstanding receivables are irrecoverable as at the date of this report.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of rental and utility deposits.

(iv) These consist mainly of prepaid insurance and levy.

**(d) Amount Due from/to Holding Company**

The holding company is Ladang Hijau, a company incorporated and domiciled in Malaysia.

The amount owing by/to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

9.0 SELANGAU (CONT'D)

9.6 Balance Sheets (Cont'd)

(e) **Trade and Other Payables**

Information on Selangau's trade and other payables is tabulated as follows:-

| | | As at 31 August | <—— As at 30 April ——> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 4,874 | 5,157 | 1,476 | 1,677 |
| - Third parties | | 55 | 128 | 312 | 244 |
| | | 4,929 | 5,285 | 1,788 | 1,921 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 646 | 590 | 320 | 1,054 |
| - Sundry payables | | 43 | 30 | 287 | 2,326 |
| - Accruals | (iii) | 172 | 200 | 313 | 171 |
| | | 861 | 820 | 920 | 3,551 |
| **Total** | | 5,790 | 6,105 | 2,708 | 5,472 |
| Trade payables turnover period (months) | | 8.5 | 3.7 | 2.0 | 2.0 |

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 455 | 195 | 31 | 72 | 4,176 | 4,929 |
| % of total trade payables | 9.2 | 4.0 | 0.6 | 1.5 | 84.7 | 100.0 |

The normal trade credit term granted by suppliers to Selangau is 90 days. There is no specific credit term granted by related parties to Selangau. As at 31 August 2009, 86.2% of trade payables exceeded the credit period. The amount was mainly due to related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 9.0 SELANGAU (CONT'D)

### 9.6 Balance Sheets (Cont'd)

**(e) Trade and Other Payables (Cont'd)**

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand. The balance also includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Selangau.

(iii) These consist mainly of accrued operating expenses such as salaries and wages.

**(f) Borrowings**

Information on Selangau's borrowings is tabulated as follows:-

| | | As at 31 August | < ------- As at 30 April | ------- > | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | 36 | 48 | 111 | 243 |
| Unsecured loan | (ii) | 63,930 | 63,930 | 61,650 | 57,000 |
| | | 63,966 | 63,978 | 61,761 | 57,243 |
| **Short-term borrowings** | | | | | |
| Hire purchase liabilities | (i) | 42 | 63 | 131 | 149 |
| **Total** | | 64,008 | 64,041 | 61,892 | 57,392 |

(i) These are used for the acquisitions of motor vehicles, plant and machinery.

(ii) The unsecured loan is granted to Selangau by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

## 9.0 SELANGAU (CONT'D)

## 9.6 Balance Sheets (Cont'd)

### (g) Taxation

The tax agent for Selangau for the financial years/period under review was Tomax Tax Services Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 30 April 2009 | • Tax losses – RM38,500,000<br>• Capital/agriculture allowances – RM30,350,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU

### 10.1 General Information

Ulu Teru was incorporated in Malaysia under the Companies Act, 1965 on 6 September 1995 as a private limited liability company under the name of Pelita Tangkas Sdn Bhd before it assumed its present name on 12 April 2005.

The principal activity of Ulu Teru is cultivation of oil palm.

As at the date of this report, the authorised share capital of Ulu Teru is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital of Ulu Teru is RM8,640,000 comprising 8,640,000 ordinary shares of RM1.00 each.

Details of the changes in Ulu Teru's issued and paid-up share capital since the date of its incorporation are as follows:-

| Date of allotment | No. of shares allotted | Par value RM | Consideration | Cumulative issued and paid-up capital RM |
|---|---|---|---|---|
| 06-09-1995 | 2 | 1.00 | Cash (Subscribers' shares) | 2 |
| 27-10-2004 | 2,015,998 | 1.00 | Cash | 2,016,000 |
| 27-10-2004 | 864,000 | 1.00 | Other than cash | 2,880,000 |
| 25-07-2008 | 4,032,000 | 1.00 | Cash | 6,912,000 |
| 25-07-2008 | 1,728,000 | 1.00 | Other than cash | 8,640,000 |

### 10.2 Financial Statements and Auditors

The auditors of Ulu Teru for the financial years/period under review were as follows:-

| Financial years/period | Auditors |
|---|---|
| 1 August 2006 to 31 July 2007 | Philip Tong & Co. |
| 1 August 2007 to 31 July 2008 | Philip Tong & Co. |
| 1 August 2008 to 31 July 2009 | Philip Tong & Co. |
| 1 August 2009 to 31 August 2009 | Philip Tong & Co. |

The financial statements were reported on without any qualification.

### 10.3 Dividends

No dividend has been paid or declared by Ulu Teru during the financial years/period under review.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.4 Tabulation of Performanee Indicators

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| Paid-up capital (RM'000) | 8,640 | 8,640 | 8,640 | 2,880 |
| Shareholders' funds (RM'000) | 8,513 | 8,619 | 8,619 | 2,853 |
| Net assets (RM'000) | 8,513 | 8,619 | 8,619 | 2,853 |
| Net assets per share (RM) | 1.0 | 1.0 | 1.0 | 1.0 |
| Turnover (RM'000) | 12 | - | - | - |
| Gross loss (RM'000) | (103) | - | - | - |
| (Loss)/profit before tax (RM'000) | (106) | - | 6 | 1 |
| (Loss)/profit after tax (RM'000) | (106) | - | 6 | 1 |
| (Loss)/earnings per share (sen) | | | | |
| - Gross | (14.7)* | - | 0.2 | 0.0 |
| - Net | (14.7)* | - | 0.2 | 0.0 |
| Effective tax rate (%) | - | - | - | - |
| Gross margin (%) | (858.3) | N/A | N/A | N/A |
| Pre-tax (loss)/profit margin (%) | (883.3) | N/A | N/A | N/A |
| Current ratio (times) | 0.1 | 0.1 | 0.1 | 0.2 |
| Total borrowings (RM'000) | 3,130 | 3,130 | 3,000 | 3,069 |
| Gearing ratio (times) | 0.4 | 0.4 | 0.4 | 1.1 |
| Interest expense (RM'000) | 2 | - | - | - |
| Interest expense capitalised (RM'000) | 6 | 121 | 137 | 143 |
| Interest coverage ratio (times) | (12.3) | 1.0 | 1.0 | 1.0 |
| Gross dividend rate (%) | - | - | - | - |
| After-tax return on shareholders' funds (%) | (1.3) | - | 0.1 | 0.0 |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.5 Ineome Statements

The income statements of Ulu Teru for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are summarised below:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 12 | - | - | - |
| Cost of sales | (115) | - | - | - |
| Gross loss | (103) | - | - | - |
| Other income | 5 | 21 | 23 | 6 |
| Selling expenses | (1) | - | - | - |
| Administrative and other expenses | (5) | (21) | (17) | (5) |
| Finance costs | (2) | - | - | - |
| (Loss)/profit before tax | (106) | - | 6 | 1 |
| Income tax expense | - | - | - | - |
| (Loss)/profit after tax | (106) | - | 6 | 1 |

**(a) Segmental Analysis of Turnover and Profits**

Segmental analysis is not applicable as Ulu Teru operates solely in Malaysia and its predominant activity is cultivation of oil palm.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.5 Income Statements (Cont'd)

**(b) Commentary on Past Performance**

Ulu Teru commenced field planting in August 2006, and no field had attained maturity as at 31 July 2009; hence no turnover was generated for the financial years ended 31 July 2007 to 2009. As at 31 August 2009, Ulu Teru's oil palm plantations located in Miri cover 7,900 hectares, with approximately 1,498 hectares planted. Out of the total planted area, Ulu Teru has approximately 248 hectares of mature oil palm trees, with an average yield of 0.9Mt of FFB per hectare for the period ended 31 August 2009.

*Financial Year Ended 31 July 2007 ("FY2007")*

Administrative and other expenses for FY2007 consisted mainly of audit and professional fees, which accounted for 60.0% of the total administrative and other expenses.

*Financial Year Ended 31 July 2008 ("FY2008")*

Administrative and other expenses for FY2007 consisted mainly of directors' fees, which accounted for 58.8% of the total administrative and other expenses.

*Financial Year Ended 31 July 2009 ("FY2009")*

Administrative and other expenses for FY2008 consisted mainly of directors' fees, which accounted for 47.6% of the total administrative and other expenses. Administrative and other expenses increased by 23.5% from RM17,000 in FY2008 to RM21,000 in FY2009, mainly due to the increase in professional fees following the undertaking of few corporate exercises.

As a result of the foregoing, Ulu Teru recorded a pre-tax and after-tax loss in FY2009 as compared to a pre-tax and after tax profit of RM6,000 in FY2008.

*Period Ended 31 August 2009 ("FP2009")*

Ulu Teru recorded maiden turnover of RM12,000 in FP2009, with a total sales volume of 37Mt at an average FFB selling price of RM308Mt/hectare.

For FP2009, Ulu Teru recorded cost of sales of RM115,000.

Ulu Teru's gross loss and gross loss margin for FP2009 were RM103,000 and 898.3% respectively.

For FP2009, Ulu Teru's pre-tax and after-tax loss was RM106,000.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets

The balance sheets of Ulu Teru as at 31 July 2007 to 2009 and 31 August 2009 are summarised below:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009(1) | 2008(1) | 2007(1) |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 10,217 | 10,828 | 7,661 | 5,887 |
| Prepaid lease rentals | 4,209 | 4,216 | 4,294 | 1,440 |
| Biological assets | 19,489 | 18,691 | 12,643 | 6,012 |
| | 33,915 | 33,735 | 24,598 | 13,339 |
| **Current assets** | | | | |
| Inventories | 1,272 | 1,274 | 1,693 | 1,752 |
| Trade and other receivables | 312 | 298 | 294 | 623 |
| Cash and bank balances | 9 | 4 | 7 | 1 |
| | 1,593 | 1,576 | 1,994 | 2,376 |
| TOTAL ASSETS | 35,508 | 35,311 | 26,592 | 15,715 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 8,640 | 8,640 | 8,640 | 2,880 |
| Accumulated losses | (127) | (21) | (21) | (27) |
| **Total equity** | 8,513 | 8,619 | 8,619 | 2,853 |
| **Non-current liabilities** | | | | |
| Borrowings | 3,130 | 3,130 | 3,000 | 3,000 |
| **Current liabilities** | | | | |
| Trade and other payables | 15,216 | 13,516 | 9,138 | 2,696 |
| Amount due to holding company | 8,649 | 10,046 | 5,835 | 7,097 |
| Borrowings | - | - | - | 69 |
| | 23,865 | 23,562 | 14,973 | 9,862 |
| **Total liabilities** | 26,995 | 26,692 | 17,973 | 12,862 |
| TOTAL EQUITY AND LIABILITIES | 35,508 | 35,311 | 26,592 | 15,715 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

**10.0 ULU TERU (CONT'D)**

**10.6 Balance Sheets (Cont'd)**

*Note:-*

(1) The financial statements of Ulu Teru for the financial years ended 31 July 2007 to 2009 were prepared in accordance with PERSs, the MASB Approved Accounting Standards for Private Entities in Malaysia. For the purposes of this report, FRSs, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities are used. The effects of adopting FRSs on the financial statements of Ulu Teru are discussed below:-

(a) FRS 101: *Presentation of Financial Statements*

Under PERSs, plantation development expenditure comprising oil palm planting expenditure and plantation infrastructure development expenditure is classified under property, plant and equipment. With the adoption of FRS 101, oil palm planting expenditure is disclosed as a separate line item on the balance sheets as biological assets; and plantation infrastructure development expenditure is continued to be included in property, plant and equipment.

(b) FRS 117: *Leases*

Under PERSs, leasehold land held for own use is classified as property, plant and equipment and is stated at cost less accumulated amortisation and impairment losses. With the adoption of FRS 117, leasehold land held for own use is treated as an operating lease, where the upfront payments made on acquiring a leasehold land represent prepaid lease rentals and are amortised on a straight line basis over the remaining lease term.

Details of the above adjustments are set out as follows:-

| | <-------- As at 31 July --------> | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Property, plant and equipment** | | | |
| Property, plant and equipment, audited | 33,735 | 24,598 | 13,339 |
| Adjustments – FRS 101 | (18,691) | (12,643) | (6,012) |
| – FRS 117 | (4,216) | (4,294) | (1,440) |
| Property, plant and equipment, restated | 10,828 | 7,661 | 5,887 |
| **Prepaid lease rentals** | | | |
| Prepaid lease rentals, audited | - | - | - |
| Adjustments – FRS 117 | 4,216 | 4,294 | 1,440 |
| Prepaid lease rentals, restated | 4,216 | 4,294 | 1,440 |
| **Biological assets** | | | |
| Biological assets, audited | - | - | - |
| Adjustments – FRS 101 | 18,691 | 12,643 | 6,012 |
| Biological assets, restated | 18,691 | 12,643 | 6,012 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

**(a) Biological Assets**

Information on Ulu Teru's biological assets is tabulated as follows:-

| | As at 31 August | <------ As at 31 July ------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Biological assets | 19,489 | 18,691 | 12,643 | 6,012 |

Biological assets comprises mainly of expenditure incurred on land clearing, planting, upkeep of immature oil palm, direct administrative expenses and finance costs, and are amortised, upon maturity, on a straight-line basis over 25 years.

The costs incurred on biological assets for the financial years ended 31 July 2007 to 2009 and the period ended 31 August 2009 are as follows:-

| | Period Ended 31 August | Financial Year Ended 31 July | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Land development | 2 | 1,816 | 796 | 545 |
| Field upkeep/maintenance costs | 629 | 660 | 1,595 | 341 |
| Manuring and weeding | 61 | 1,184 | 1,214 | 442 |
| Finance costs | 6 | 121 | 137 | 143 |
| Labour costs | 48 | 754 | 861 | 398 |
| Other direct administrative costs | 71 | 1,513 | 2,028 | 979 |
| | 817 | 6,048 | 6,631 | 2,848 |
| Amortisation of biological assets | 19 | - | - | - |

*Maturity profile*

The details of Ulu Teru's plantation hectarage and maturity of crops as at 31 August 2009 are as follows:-

| | Immature (less than 3 years) | Young mature (3 to less than 7 years) | Prime mature (7 to less than 15 years) | Total |
|---|---|---|---|---|
| | Ha | Ha | Ha | Ha |
| Biological assets | 1,250 | 248 | - | 1,498 |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (a) Biological Assets (Cont'd)

*Amortisation of biological assets*

As at 31 July 2009, none of Ulu Teru's oil palm trees have attained maturity; hence biological assets of Ulu Teru were not amortised for the financial years ended 2007 to 2009. As at 31 August 2009, 495 hectares of oil palm trees have attained maturity; hence amortisation of biological assets was RM19,000 for the period ended 31 August 2009.

#### (b) Inventories

Information on Ulu Teru's inventories is tabulated as follows:-

| | As at 31 August | <-------- As at 31 July --------> | | |
|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sundry stores and consumables | 643 | 670 | 497 | 481 |
| Nursery inventories | 629 | 604 | 1,196 | 1,271 |
| | 1,272 | 1,274 | 1,693 | 1,752 |
| % of inventories to cost of goods sold | * | * | * | * |
| Inventories turnover period (months) | * | * | * | * |

* *Ulu Teru sold all FFB produced during the period ended 31 August 2009 and did not hold any FFB as at period end. Computation of percentage of inventories to cost of goods sold and inventories turnover period is not applicable to non-trading inventories.*

For the financial years/period under review, there is no data available for comparison against the industry norms and competitors.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables

Information on Ulu Teru's trade and other receivables is tabulated as follows:-

| | | As at 31 August | <------- As at 31 July -------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade receivables** | (i) | | | | |
| - Related parties | | 10 | - | - | - |
| Less: Provision for doubtful debts | | - | - | - | - |
| | | 10 | - | - | - |
| **Other receivables** | | | | | |
| - Related parties | (ii) | 218 | 213 | 75 | - |
| - Sundry receivables | | 75 | 77 | 205 | 183 |
| - Prepayments | (iii) | 9 | 8 | 14 | 440 |
| | | 302 | 298 | 294 | 623 |
| **Total** | | 312 | 298 | 294 | 623 |
| % of trade receivables to turnover | | 6.9 * | N/A | N/A | N/A |
| Trade receivables turnover period (months) | | 0.8 | N/A | N/A | N/A |

* *Annualised*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (c) Trade and Other Receivables (Cont'd)

(i) The ageing analysis of trade receivables as at 31 August 2009 is as follows:-

| | Within credit period | <------- Exceeding credit period -------> | | | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivables | 10 | - | - | - | - | 10 |
| % of total trade receivables | 100.0 | - | - | - | - | 100.0 |

The normal trade credit term extended to customers by Ulu Teru is 30 days. As at 31 August 2009, none of the trade receivables exceeded the credit period.

As at the date of this report, all the outstanding balance has been collected.

For the financial years/period under review, there is no data available for comparison against the industry norms or competitors.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) These consist mainly of prepaid insurance and levy.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (d) Trade and Other Payables

Information on Ulu Teru's trade and other payables is tabulated as follows:-

| | | As at 31 August | < -------- As at 31 July | -------- > | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Trade payables** | (i) | | | | |
| - Related parties | | 14,223 | 12,948 | 8,508 | 2,341 |
| - Third parties | | 84 | 106 | 258 | 25 |
| | | 14,307 | 13,054 | 8,766 | 2,366 |
| **Other payables** | | | | | |
| - Related parties | (ii) | 654 | 131 | 148 | 61 |
| - Sundry payables | (iii) | 121 | 208 | 104 | 194 |
| - Accruals | (iv) | 134 | 123 | 120 | 75 |
| | | 909 | 462 | 372 | 330 |
| **Total** | | 15,216 | 13,516 | 9,138 | 2,696 |
| Trade payables turnover period (months) | | 119.0 | * | * | * |

* *Computation of trade payables turnover period is not applicable as the trade payables relate to plantation development expenditure which is capitalised as biological assets.*

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

**(d) Trade and Other Payables (Cont'd)**

(i) The ageing analysis of trade payables as at 31 August 2009 is as follows:-

| | <--- Within credit period ---> | | | Exceeding credit period | | |
|---|---|---|---|---|---|---|
| | 0 – 30 days | 31 – 60 days | 61 – 90 days | 91 – 120 days | > 120 days | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade payables | 1,349 | 605 | 416 | 396 | 11,541 | 14,307 |
| % of total trade payables | 9.4 | 4.2 | 2.9 | 2.8 | 80.7 | 100.0 |

The normal trade credit term granted by suppliers to Ulu Teru is 90 days. There is no specific credit term granted by related parties to Ulu Teru. As at 31 August 2009, 83.5% of trade payables exceeded the credit period. The amount was mainly due to related parties.

For the financial years/period under review, there is no legal or other action taken by trade creditors to recover the amount due to them.

(ii) These consist mainly of payment of expenses on behalf and advances which are unsecured, interest-free and repayable on demand.

(iii) The balance includes interest payable to R.H. Mortgage & Loan Sdn Bhd on unsecured loan granted to Ulu Teru.

(iv) These consist mainly of accrued operating expenses such as salaries and wages.

**(e) Amount Due to Holding Company**

The holding company is PJP, a company incorporated and domiciled in Malaysia.

The amount owing to the holding company represents advances and payments made on behalf which are unsecured, interest-free and repayable on demand.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (f) Borrowings

Information on Ulu Teru's borrowings is tabulated as follows:-

| | | As at 31 August | <------ As at 31 July ------> | | |
|---|---|---|---|---|---|
| | | 2009 | 2009 | 2008 | 2007 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| **Long-term borrowings** | | | | | |
| Unsecured loan | (i) | 3,130 | 3,130 | 3,000 | 3,000 |
| **Short-term borrowings** | | | | | |
| Hire purchase liabilities | (ii) | - | - | - | 69 |
| **Total** | | 3,130 | 3,130 | 3,000 | 3,069 |

(i) The unsecured loan is granted to Ulu Teru by R.H. Mortgage & Loan Sdn Bhd. For the period ended 31 August 2009, the loan carries interest at rate of 3.00% per annum and has no fixed terms of repayment.

(ii) These were used for the acquisitions of motor vehicles, plant and machinery.

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 10.0 ULU TERU (CONT'D)

### 10.6 Balance Sheets (Cont'd)

#### (g) Taxation

The tax agent for Ulu Teru for the financial years/period under review was Tomax Tax Services Sdn Bhd.

| Issues | Commentary |
|---|---|
| ▪ Adequacy for provision for taxation | No tax provision for years of assessment under review |
| ▪ Stage reached with the IRB | The submission of tax returns is up to Y/A 2009 |
| ▪ Particulars of important matters in dispute and/or investigation carried out by the IRB | NIL |
| ▪ Particulars of tax penalty imposed or additional tax amount assessed by the IRB, and status of settlement of such penalty or additional tax amount | NIL |
| ▪ Particulars of tax losses and allowances available for carryforward and tax reliefs as at 31 July 2009 | • Tax losses – RM10,056,000<br>• Capital/agriculture allowances – RM15,305,000 |
| ▪ Particulars of special allowance being claimed | NIL |
| ▪ Particulars of other material information relating to taxation | NIL |

ACCOUNTANTS' REPORT ON ACQUIREES *(Cont'd)*

## 11.0 SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial period ended 31 August 2009 and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the acquiree companies.

## 12.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 August 2009.

Yours faithfully,

HII & LEE
AF 0123
Chartered Accountants

LAU KIING YIING
1326/09/10(J)
Partner