

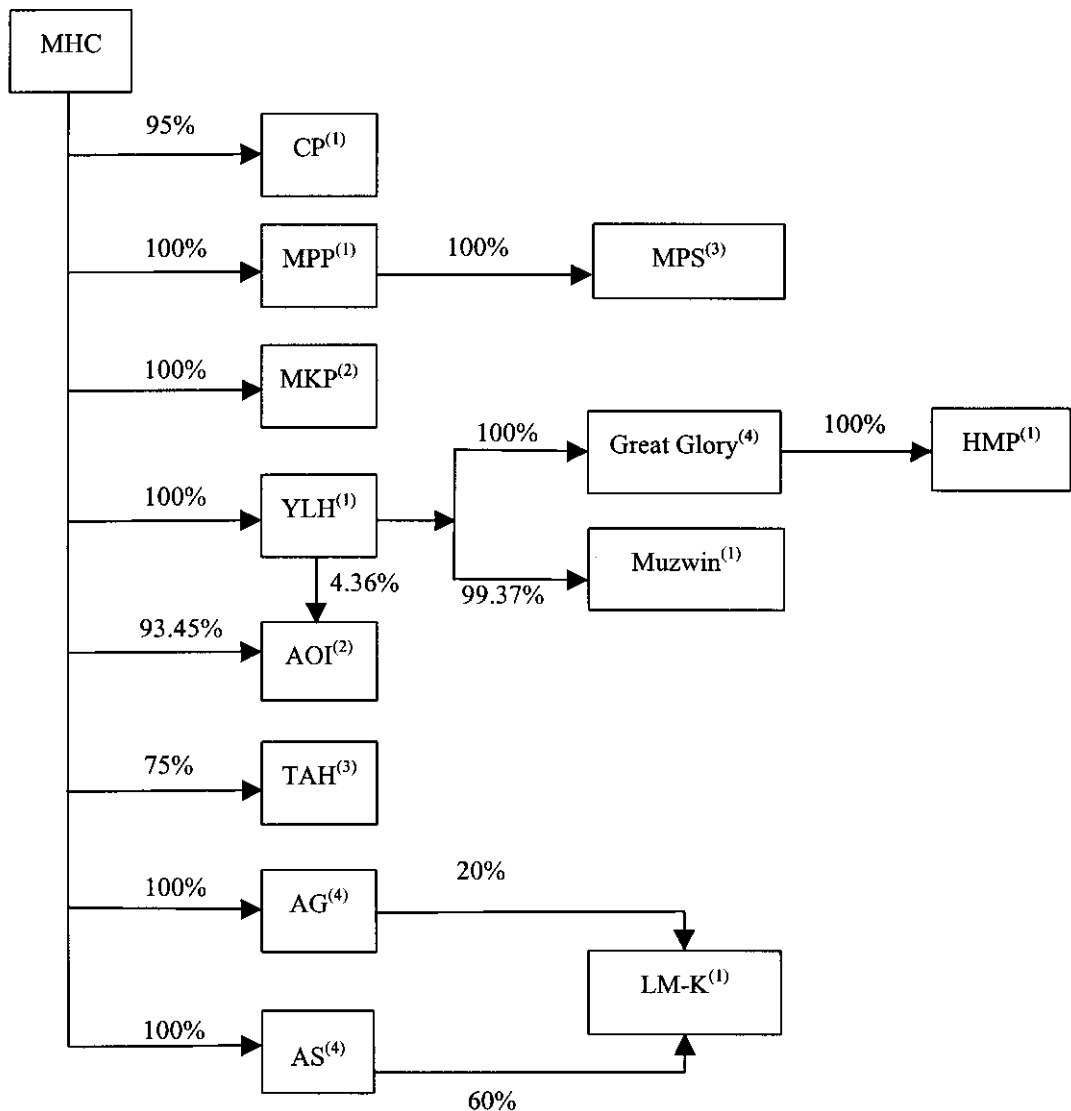
**I. PROSPECTUS SUMMARY**

The information set out below is only a summary of information about the MHC Group and is derived from the full text of this Prospectus. Investors should read and understand the Prospectus prior to deciding whether to invest in MHC.

**1. HISTORY AND BUSINESS**

MHC, which was founded by the late Dato' Seri Mah Pooi Soo, was incorporated in the Federation of Malaya on 31 December 1960 under the Companies Ordinance, 1940 - 1946 as a private limited company under the name of Mah Hock Cheong Company Limited. It assumed the name of Mah Hock Cheong Company Sdn. Berhad with effect from 15 April 1966 under the Companies Act, 1965. The Company subsequently assumed the name of MHC Plantations Sdn. Berhad on 9 July 1998 and in anticipation of the listing exercise was converted to a public company with the name of MHC Plantations Bhd. on 21 August 1998.

MHC's principal activities are that of rubber and oil palm cultivation, investment holding and the operation of a hotel, while the corporate structure and the principal activities of its subsidiaries are as follows:-



**Key:-**

(1) Subsidiaries involved in oil palm cultivation.

(2) Subsidiaries involved in oil palm cultivation and operation of a mill.

**I. PROSPECTUS SUMMARY (Cont'd)**

<sup>(3)</sup> *Dormant subsidiaries.*

<sup>(4)</sup> *Subsidiaries involved in investment holding.*

*(Full details can be found in Sections VII(1) and VII(6) commencing from page 30 and 44 respectively).*

**2. INVESTMENT CONSIDERATIONS**

Applicants for the Public and Special Issues should carefully consider the following investment considerations (which are not exhaustive) in addition to the other information contained elsewhere in this Prospectus, before applying to subscribe for the Issue Shares:-

- (i) Prior to the Public and Special Issues, there has been no public market for MHC Shares;
- (ii) The business of the MHC Group is subject to certain risks inherent in the palm oil industry which, amongst others, include changes in weather conditions, fluctuations in commodity prices, attacks from pests and diseases, availability of labour, increases in the costs of labour and fertilizers, competition from other palm oil producers, changes in general weather, economic, political, legislative and business conditions;
- (iii) Despite the mills of the Group being fully insured against fire and flood, the estates of the Group are not insured;
- (iv) The palm oil industry faces competition from other edible oils such as soybean oil and rapeseed oil;
- (v) The Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its Directors and senior management. The capability to attract and retain skilled personnel will also play a significant role in this regard;
- (vi) The Group has a relatively small customer base but in the palm oil industry, the demand for CPO from palm oil refiners generally exceeds the supply;
- (vii) DMPSR together with the other promoters of MHC as named herein and MKWH, as connected persons, will own, directly and indirectly, approximately 57.7% of the enlarged share capital of MHC. As such, DMPSR and its connected persons are likely to be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders;
- (viii) As with any other companies, the performance of the MHC Group is also subject to the overall economic, political, legislative, business and credit environment both domestically and internationally; and
- (ix) The profit forecast in this Prospectus is based on assumptions that are subject to uncertainties and contingencies. Therefore, there can be no assurance that the profit forecast contained herein will be realised and actual results may be materially different from those shown.

*(Full details can be found in Section IV commencing from page 15).*

**I. PROSPECTUS SUMMARY (Cont'd)****3. IMPORTANT TENTATIVE DATES**

The following events are intended to take place on the following tentative dates:-

<b>Event</b>	<b>Tentative date</b>
Opening of the Public and Special Issues	30 September 2000
Closing of the Public and Special Issues	16 October 2000
Balloting of MHC Shares	Mid-October 2000
Allotment of MHC Shares	Early November 2000
Listing	Mid-November 2000

(Full details can be found in Section V(3) commencing from page 19).

**4. SHAREHOLDINGS OF PROMOTERS, MAJOR SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT OF MHC**

<b>Name</b>	<b>Designation(s)</b>	<b>-----After the Public and Special Issues-----</b>			
		<b>-----Direct-----</b>		<b>-----Indirect-----</b>	
		<b>No. of ordinary shares held</b>	<b>%</b>	<b>No. of ordinary shares held</b>	<b>%</b>
Datin Seri Ooi Ah Thin	Promoter Major Shareholder Director	1,172,511 <sup>(1)</sup>	1.85	28,216,670 <sup>(3)</sup>	44.62
Dato' Mah King Seng	Promoter Major Shareholder Director	7,003 <sup>(1)</sup>	(2)	28,216,670 <sup>(3)</sup>	44.62
Dato' Mah King Thian	Promoter Major Shareholder Director	7,003 <sup>(1)</sup>	(2)	28,216,670 <sup>(3)</sup>	44.62
DMPSR	Promoter Major Shareholder	28,216,670	44.62	-	-
Aznam bin Mansor	Major Shareholder Director	5,007,000 <sup>(4)</sup>	7.92	-	-
MKWH	Major Shareholder	8,265,511	13.07	-	-
MSH Sdn. Bhd. ("MSH")	Major Shareholder	-	-	8,265,511 <sup>(5)</sup>	13.07
Amsenbina Sdn. Bhd. ("ASB")	Major Shareholder	-	-	8,265,511 <sup>(5)</sup>	13.07
S. K. Mah Sdn. Bhd. ("SKM")	Major Shareholder	-	-	8,265,511 <sup>(5)</sup>	13.07
S. C. Mah Sdn. Bhd. ("SCM")	Major Shareholder	-	-	8,265,511 <sup>(5)</sup>	13.07
Mah Siew Keong	Major Shareholder	7,003 <sup>(1)</sup>	(2)	8,265,511 <sup>(6)</sup>	13.07
Mah Siew Chuan	Major Shareholder	-	-	8,265,511 <sup>(7)</sup>	13.07
Wong Leng Wah	Major Shareholder	-	-	8,265,511 <sup>(8)</sup>	13.07
Hooi Yoke Lin	Major Shareholder	-	-	8,265,511 <sup>(9)</sup>	13.07

## I. PROSPECTUS SUMMARY (Cont'd)

Name	Designation(s)	-----After the Public and Special Issues-----			
		-----Direct-----		-----Indirect-----	
		No. of ordinary shares held	%	No. of ordinary shares held	%
Hooi Yoke Lin ( <i>as trustee for Mah Li-Jeen</i> )	Major Shareholder	-	-	8,265,511 <sup>(9)</sup>	13.07
TLKH	Major Shareholder	2,192,250	3.47	-	-
Tan Sri Dato' Dr. Tan Lai Kim	Major Shareholder	7,000 <sup>(1)</sup>	<sup>(2)</sup>	2,192,250 <sup>(10)</sup>	3.47
Dato' Amin Shah bin Haji Omar Shah	Director	7,000 <sup>(1)</sup>	<sup>(2)</sup>	-	-
Mah Siew Hoe	Director	7,003 <sup>(1)</sup>	<sup>(2)</sup>	-	-
Azizah binti Kassim	Director	7,000 <sup>(1)</sup>	<sup>(2)</sup>	-	-
Koay Say Loke Andrew	Director	7,000 <sup>(1)</sup>	<sup>(2)</sup>	-	-
Ong Ee Hiong	General Manager	7,000 <sup>(11)</sup>	<sup>(2)</sup>	-	-
Looi Heng Chooi	Estate Manager	7,000 <sup>(11)</sup>	<sup>(2)</sup>	-	-
Keoy Liong Keah	Senior Assistant Estate Manager	7,000 <sup>(11)</sup>	<sup>(2)</sup>	-	-
Kuah Kok Meng	Estate Manager	-	-	-	-
Wong Soon Fatt	Group Accountant	7,000 <sup>(11)</sup>	<sup>(2)</sup>	-	-

**Notes:-**

- <sup>(1)</sup> Assuming full subscription for the MHC Shares offered to the Directors of the MHC Group under the Public Issue.
- <sup>(2)</sup> Negligible.
- <sup>(3)</sup> Deemed interest by virtue of his/her interest in DMPSR pursuant to section 6A of the Companies Act, 1965.
- <sup>(4)</sup> Assuming full subscription for the MHC Shares allocated by the MITI and the MHC Shares offered to the Directors of the MHC Group under the Public and Special Issues.
- <sup>(5)</sup> Deemed interest by virtue of its interest in MKWH pursuant to section 6A of the Companies Act, 1965.
- <sup>(6)</sup> Deemed interest by virtue of his interest in SKM pursuant to section 6A of the Companies Act, 1965.
- <sup>(7)</sup> Deemed interest by virtue of its interest in SCM pursuant to section 6A of the Companies Act, 1965.
- <sup>(8)</sup> Deemed interest by virtue of her interest in ASB pursuant to section 6A of the Companies Act, 1965.
- <sup>(9)</sup> Deemed interest by virtue of her interest in MSH pursuant to section 6A of the Companies Act, 1965.
- <sup>(10)</sup> Deemed interest by virtue of his interest in TLKH pursuant to section 6A of the Companies Act, 1965.
- <sup>(11)</sup> Assuming full subscription for the MHC Shares offered to the employees of the MHC Group under the Public Issue.

(Full details can be found in Section VII(10.1) and Section VII(10.2) commencing from page 62, Section VII(11) commencing from page 68 and Section XII(3)(ix) and (x) commencing from page 148 and 150 respectively).

## I. PROSPECTUS SUMMARY (Cont'd)

## 5. FINANCIAL HIGHLIGHTS

The table below sets out the summary of the proforma consolidated audited results of the MHC Group for the past five (5) financial years ended 31 December 1999 and five (5) months ended 31 May 2000 after such adjustments considered necessary based on the audited results of the companies comprising the MHC Group on the assumption that the current structure of the Group has been in existence throughout the years under review. The proforma consolidated results of the MHC Group have been extracted from and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section IX of this Prospectus.

	Year ended 31 December					5 months ended
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	31.05.2000 RM'000
Turnover	19,271	15,556 <sup>(1)</sup>	36,490 <sup>(2)</sup>	64,351 <sup>(3)</sup>	51,877 <sup>(4)</sup>	16,789 <sup>(5)</sup>
Gross profit	8,856	8,385	14,363	19,599	14,599	4,337
Other income	423	687	402	647	646	197
Operating expenses excluding depreciation and financial expenses	(1,292)	(991)	(1,706)	(2,998)	(2,710)	(1,136)
Profit before interest, depreciation and taxation	7,987	8,081	13,059	17,248	12,535	3,398
Depreciation	(991)	(928)	(1,333)	(1,595)	(1,802)	(741)
Interest expense	-	-	(38)	(22)	(1,280)	(599)
Interest income	424	402	287	118	2,842	1,258
Exceptional items	39,962 <sup>(6)</sup>	328 <sup>(7)</sup>	-	-	-	1,186 <sup>(8)</sup>
Profit before taxation	47,382	7,883 <sup>(9)</sup>	11,975 <sup>(10)</sup>	15,749 <sup>(10)</sup>	12,295 <sup>(11)</sup>	4,502 <sup>(12)</sup>
Taxation	(1,966)	(2,370)	(3,143)	(4,692)	(112)	(801)
Profit after taxation	45,416	5,513	8,832	11,057	12,183	3,701
Minority interests ("MI")	(35)	(210)	(84)	(87)	(67)	(11)
Profit attributable to shareholders of MHC	45,381	5,303	8,748	10,970	12,116	3,690
Extraordinary items ("EI") <sup>(13)</sup>	-	-	-	-	-	-
Profit after taxation, MI and EI	45,381	5,303	8,748	10,970	12,116	3,690
No. of ordinary shares assumed in issue <sup>(14)</sup> ('000)	40,840	40,840	40,840	40,840	40,840	40,840
Gross EPS <sup>(15)</sup> (RM)	1.16	0.19	0.29	0.39	0.30	0.26 <sup>(17)</sup>
Net EPS <sup>(16)</sup> (RM)	1.11	0.13	0.21	0.27	0.30	0.22 <sup>(17)</sup>

**Notes:-**

<sup>(1)</sup> Turnover decreased for the financial year ended 31 December 1996 due to the overall decrease in the average selling price of CPO and PK by 19% and 12% respectively and the volume of CPO and PK sold by 9% and 18% respectively.

## I. PROSPECTUS SUMMARY (Cont'd)

- (2) *Turnover increased for the financial year ended 31 December 1997 due to the overall increase in the average selling price of CPO by 17% and the amount of palm oil sold by 50%, which is attributable to the acquisition of the Kemayan Estate in April 1997 for a total consideration of approximately RM37 million.*
- (3) *Turnover increased for the financial year ended 31 December 1998 as a result of the increase in the average selling prices (denominated in RM) for palm oil by 60% resulting from the appreciation in the United States Dollars ("USD").*
- (4) *Turnover decreased for the financial year ended 31 December 1999 due to the decrease in the average CPO prices by 38%.*
- (5) *Turnover for the five (5) months ended 31 May 2000 decreased on an annualised basis due to the decrease in the average CPO prices by 20% and the annual cyclical production of FFB which is generally lower for the first half of the year in comparison to the second half of the year.*
- (6) *Exceptional items relate to the gain on disposal of land by MHC for a disposal consideration of approximately RM46 million.*
- (7) *Exceptional items relate to the gain on disposal of land by MHC for a disposal consideration of approximately RM366,000.*
- (8) *Exceptional items relate to the recovery of real property gains tax in respect of the gain on disposal of shares in a real property company.*
- (9) *Profit before taxation (before exceptional items) increased for the financial year ended 31 December 1996 despite the decrease in turnover due to the downward revision in depreciation rates by approximately 10% and a reduction in fertilising activities carried out.*
- (10) *Profit before taxation increased for the two (2) financial years ended 31 December 1998, in line with the increase in turnover.*
- (11) *Profit before taxation decreased for the financial year ended 31 December 1999 in line with the decrease in turnover.*
- (12) *Profit before taxation for the five (5) months ended 31 May 2000 decreased on an annualised basis in line with the decrease in turnover.*
- (13) *There were no extraordinary items for the periods under review.*
- (14) *EPS of the proforma MHC Group is calculated based on 40,840,086 ordinary shares of RM1.00 each, assuming that the restructuring scheme as detailed in Section VII(2) hereof excluding the Public and Special Issues has been in effect throughout the periods under review.*
- (15) *Calculated based on profit before taxation over the number of ordinary shares assumed in issue.*
- (16) *Calculated based on profit after taxation and minority interests over the number of ordinary shares assumed in issue.*
- (17) *Annualised, save and except for exceptional items.*

The accounts of MHC and its subsidiaries were not subject to any audit qualification for the periods under review with the exception of the accounts of LM-K, which were qualified on a going concern basis for the financial year ended 31 May 1998. As at 31 May 1998, LM-K had accumulated losses and net current liabilities of RM169,959 and RM8,498,396 respectively. In the opinion of the auditors, if continuous financial support from the shareholders, creditors and bankers of LM-K's holding company (then Kemayan Corporation Berhad) is not forthcoming the going concern basis of preparing the accounts of LM-K may be inappropriate.

LM-K became a subsidiary of MHC during the financial year ended 31 May 1999 and since then, the aforementioned going concern issue is no longer relevant.

**I. PROSPECTUS SUMMARY (Cont'd)****6. PROFORMA CONSOLIDATED BALANCE SHEETS OF MHC GROUP AS AT 31 MAY 2000**

The proforma consolidated balance sheets set out below are provided solely for illustrative purposes only to show the effects on the audited consolidated balance sheet of MHC as at 31 May 2000 had the Disposals, CP Subscription, Bonus Issue, Acquisitions and Public and Special Issues been effected on that date:-

	Prior to the Public and Special Issues <sup>(1)</sup> RM'000	After the Public and Special Issues RM'000	After utilisation of proceeds from the Public and Special Issues RM'000
FIXED ASSETS	95,462	95,462	105,032
OTHER INVESTMENTS	3,417	3,417	3,417
GOODWILL ON CONSOLIDATION	17,036	17,036	17,036
CURRENT ASSETS	4,818	36,175	9,318
CURRENT LIABILITIES	(13,153)	(14,224)	(10,521)
DEFERRED EXPENDITURE	929	-	-
	<u>108,509</u>	<u>137,866</u>	<u>124,281</u>
Financed by:-			
SHARE CAPITAL	40,840	63,238	63,238
SHARE PREMIUM	2,069	9,028 <sup>(2)</sup>	9,028 <sup>(2)</sup>
CAPITAL RESERVES	13,762	13,762	13,762
RESERVE ON CONSOLIDATION	4,870	4,870	4,870
RETAINED PROFIT	<u>29,856</u>	<u>29,856</u>	<u>29,856</u>
SHAREHOLDERS' FUNDS	91,397	120,754	120,754
MINORITY INTERESTS	2,398	2,398	2,398
TERM LOAN	13,585	13,585	-
DEFERRED TAXATION	<u>1,129</u>	<u>1,129</u>	<u>1,129</u>
	<u>108,509</u>	<u>137,866</u>	<u>124,281</u>
NTA (RM'000)	73,432	103,718	103,718
No. of shares	40,840	63,238	63,238
NTA per share (RM)	1.80	1.64	1.64

**Notes:-**

<sup>(1)</sup> Based on the audited consolidated balance sheet of MHC Group as at 31 May 2000 and assuming that the Disposals, CP Subscription, Bonus Issue and Acquisitions had been completed on that date.

<sup>(2)</sup> After deducting the estimated listing expenses of approximately RM2,000,000.

(Full details can be found in Section VIII(5) commencing on page 80).

## I. PROSPECTUS SUMMARY (Cont'd)

## 7. PRINCIPAL STATISTICS RELATING TO THE PUBLIC AND SPECIAL ISSUES

## (i) Share Capital

	RM
<i>Authorised</i>	
100,000,000 ordinary shares of RM1.00 each	<u>100,000,000</u>
<i>Issued and fully paid-up</i>	
40,840,086 ordinary shares of RM1.00 each	40,840,086
<i>To be issued pursuant to the Public and Special Issues</i>	
22,398,000 ordinary shares of RM1.00 each	22,398,000
	<u>63,238,086</u>

There is only one (1) class of shares in the Company, namely ordinary shares of RM1.00 each. The Issue Shares, upon allotment and issue, will rank *pari passu* in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and will be entitled to all rights, dividends and distributions the entitlement date of which is subsequent to the date of allotment of the said Issue Shares.

*(Full details can be found in Section V(1) commencing from page 19).*

## (ii) Issue price

Issue price for each Issue Share RM1.40

*(Full details can be found in Section V(5) commencing from page 20).*

## (iii) Consolidated Profit Forecast

Year ending 31 December	Forecast 2000
Consolidated profit after taxation and MI (RM'000)	9,683
Gross EPS (sen)	
- Based on the weighted average number of shares in issue of 44,573,086 MHC Shares assuming completion of the Public and Special Issues by 1 November 2000	28.14
- Based on the enlarged share capital of 63,238,086 MHC Shares	19.83
Gross PE Multiple <i>(based on the issue price of RM1.40 per share)</i> (times)	
- Based on the weighted average number of shares in issue of 44,573,086 MHC Shares assuming completion of the Public and Special Issues by 1 November 2000	4.98
- Based on the enlarged share capital of 63,238,086 MHC Shares	7.06
Net EPS (sen)	
- Based on the weighted average number of shares in issue of 44,573,086 MHC Shares assuming completion of the Public and Special Issues by 1 November 2000	21.72
- Based on the enlarged share capital of 63,238,086 MHC Shares	15.31



**I. PROSPECTUS SUMMARY (Cont'd)**

<b>Year ending 31 December</b>	<b>Forecast 2000</b>
Net PE Multiple <i>(based on the issue price of RM1.40 per share)</i> (times)	
- Based on the weighted average number of shares in issue of 44,573,086 MHC Shares assuming completion of the Public and Special Issues by 1 November 2000	6.45
- Based on the enlarged share capital of 63,238,086 MHC Shares	9.14
<i>(Full details can be found in Section VIII(2) commencing from page 76).</i>	

**(iv) Dividend Forecast**

<b>Year ending 31 December</b>	<b>Forecast 2000</b>
Gross dividend per ordinary share	5.00 sen
Gross dividend yield <i>(based on the issue price of RM1.40 per share)</i>	3.57%
Net dividend per ordinary share (sen)	3.60 sen
Net dividend yield <i>(based on the issue price of RM1.40 per share)</i>	2.57%
Net dividend cover	4.25 times
<i>(Full details can be found in Section VIII(4) commencing from page 79).</i>	

**8. UTILISATION OF PROCEEDS OF THE PUBLIC AND SPECIAL ISSUES**

The gross proceeds of RM31,357,200 from the Public and Special Issues are intended to be utilised as follows:-

	<b>RM'000</b>
Repayment of loan and accrued interest	20,000
Cultivation of plantation land in Sabah	3,280
Upgrade the capacity of MKP mill	5,530
Mechanisation of field operations	620
Upgrade of roads in estates	140
Listing expenses	1,787
	31,357

*(Full details can be found in Section V(7) commencing from page 21).*

**I. PROSPECTUS SUMMARY (Cont'd)**

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**9. MATERIAL LITIGATION, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

**(i) Material Litigation**

As at the date of this Prospectus, neither MHC nor its subsidiaries are engaged in any litigation, either as plaintiff or defendant, which has a material effect on the financial position of MHC or its subsidiaries and the Directors of MHC do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially affect the financial position or business of MHC or its subsidiaries.

*(Full details can be found in Section XII(8) commencing from page 152)*

**(ii) Contingent Liabilities and Capital Commitments**

As at 15 September 2000 the Board is of the opinion that the Group has no contingent liabilities that upon materialisation would have a substantial impact on the profit or net assets of the Group.

In addition, as at 15 September 2000 the Board is of the opinion that the Group has no capital commitments that would have a substantial impact on the profit or net assets of the Group.

*(Full details can be found in Section VIII(1) commencing from page 75)*

## II. CORPORATE DIRECTORY

### DIRECTORS

Name	Address	Occupation	Nationality
Dato' Amin Shah bin Haji Omar Shah <sup>(1)</sup>	4, Lorong Kiri 5 Kampung Datuk Keramat 54000 Kuala Lumpur	Chairman	Malaysian
Datin Seri Ooi Ah Thin	1070, Jalan Sekolah 36000 Teluk Intan Perak Darul Ridzuan	Executive Director	Malaysian
Dato' Mah King Seng	1070, Jalan Sekolah 36000 Teluk Intan Perak Darul Ridzuan	Executive Director	Malaysian
Dato' Mah King Thian	1070, Jalan Sekolah 36000 Teluk Intan Perak Darul Ridzuan	Executive Director	Malaysian
Mah Siew Hoe	2133, Jalan Maharaja Lela 36000 Teluk Intan Perak Darul Ridzuan	Director	Malaysian
Aznam bin Mansor	3, Jalan Puncak Setiawangsa 1 (1/55D) Taman Setiawangsa 54200 Kuala Lumpur	Advocate and Solicitor	Malaysian
Azizah binti Kassim <sup>(1)</sup>	5, Lorong 14/47B 46100 Petaling Jaya Selangor Darul Ehsan	Director	Malaysian
Koay Say Loke Andrew <sup>(1)</sup>	69, Lorong Selamat 10400 Pulau Pinang	Director	Malaysian

*Note:-*

<sup>(1)</sup> *Independent director.*

### AUDIT COMMITTEE

Name	Designation	Directorship
Koay Say Loke Andrew	Chairman of the Committee	Independent and Non-Executive
Dato' Mah King Thian	Member of the Committee	Non-Independent and Executive
Azizah binti Kassim	Member of the Committee	Independent and Non-Executive

**COMPANY SECRETARIES** : Hooi Choy Khuan (LS 04870)  
Cheng Ghee Cheng (LS 04598)  
Signet & Co. Sdn. Bhd.  
21 & 23, Jalan Hussein  
(Ground Floor)  
30250 Ipoh  
Perak Darul Ridzuan

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**II. CORPORATE DIRECTORY (Cont'd)**


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<b>REGISTERED OFFICE</b>	:	21 & 23, Jalan Hussein (Ground Floor) 30250 Ipoh Perak Darul Ridzuan Tel No: (605) 241 5633 Email: <a href="mailto:mhcplant@tm.net.my">mhcplant@tm.net.my</a>
<b>PRINCIPAL BANKERS</b>	:	Malayan Banking Berhad 43-45, Medan Mahkota Jalan Ah Cheong 36000 Teluk Intan Perak Darul Ridzuan  RHB Bank Berhad 31 & 33, Jalan Intan 2 Bandar Baru Teluk Intan 36000 Teluk Intan Perak Darul Ridzuan  Bumiputra-Commerce Bank Berhad <i>(formerly known as Bank of Commerce (M) Berhad)</i> 1 & 2, Medan Sri Intan 36000 Teluk Intan Perak Darul Ridzuan
<b>AUDITORS &amp; REPORTING ACCOUNTANTS</b>	:	Messrs. Ernst & Young 21 & 23, Jalan Hussein (1 <sup>st</sup> Floor) 30250 Ipoh Perak Darul Ridzuan
<b>SOLICITORS FOR THE COMPANY</b>	:	Messrs. Lee Hishammuddin Level 16, Menara Phileo 189, Jalan Tun Razak 50400 Kuala Lumpur
<b>SOLICITORS FOR THE DUE DILIGENCE EXERCISE</b>	:	Messrs. Teh & Lee Unit 23-3 (Block SB12) The Boulevard Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur
<b>REGISTRAR</b>	:	Signet Share Registration Services Sdn. Bhd. 21 & 23, Jalan Hussein (Ground Floor) 30250 Ipoh Perak Darul Ridzuan
<b>VALUERS</b>	:	Azmi & Co. Sdn. Bhd Lot B9-2, Jalan Ampang Utama 2/2 One Ampang Avenue 68000 Ampang Selangor Darul Ehsan
<b>ISSUING HOUSE</b>	:	Malaysian Issuing House Sdn. Bhd. 27 <sup>th</sup> Floor, Menara Multi-Purpose Capital Square 8 Jalan Munshi Abdullah 50100 Kuala Lumpur

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**II. CORPORATE DIRECTORY (Cont'd)**

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**ADVISER AND MANAGING UNDERWRITER** : Commerce International Merchant Bankers Berhad  
8th Floor, Bangunan CIMB  
Jalan Semantan  
Damansara Heights  
50490 Kuala Lumpur

**UNDERWRITERS** : Commerce International Merchant Bankers Berhad  
8th Floor, Bangunan CIMB  
Jalan Semantan  
Damansara Heights  
50490 Kuala Lumpur

CIMB Securities Sdn. Bhd.  
9<sup>th</sup> Floor, Commerce Square  
Jalan Semantan  
Damansara Heights  
50490 Kuala Lumpur

**LISTING SOUGHT** : Main Board of the Kuala Lumpur Stock Exchange

### III. INTRODUCTION

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This Prospectus is dated 30 September 2000.

A copy of this Prospectus has been registered by the SC and lodged with the Registrar of Companies, Malaysia who take no responsibility for its contents.

Approval has been obtained from the SC in respect of the flotation of MHC on the Main Board of the KLSE on 9 May 2000. The approval of the SC shall not be taken to indicate that the SC recommends the Public and Special Issues and/or the flotation of MHC on the KLSE. Investors should rely on their own evaluation to assess the merits and risks of any investments in the Company.

An application will be made to the KLSE within three (3) market days from the date of this Prospectus for admission to the Official List and for dealing in and quotation for the entire issued and fully paid-up ordinary shares of RM1.00 each in MHC, including the Issue Shares which are the subject of this Prospectus, on the Main Board of the KLSE. These ordinary shares will be admitted to the Main Board of the KLSE and official quotation will commence after receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted to deal in and quotation for the entire issued and paid-up share capital of the Company within six (6) weeks from the date of this Prospectus or such longer period as may be specified by the SC, provided that the Company is notified by or on behalf of KLSE within the six (6) weeks or such longer period as may be specified by the SC. Monies paid in respect of any application accepted will be returned if the said permission is not granted.

In the case of an application by way of Application Form, an applicant should state his CDS account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS account, he should state in the Application Form his preferred ADA Code. Where an applicant already has a CDS account, he should not complete the preferred ADA Code. In the case of an application by way of Electronic Share Application, only an applicant who has a CDS account can make an Electronic Share Application and the applicant shall furnish his CDS account number to the Participating Financial Institution by way of keying in his CDS account number if the instructions on the ATM screen at which he enters his Electronic Share Application requires him to do so.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public and Special Issues and if given or made, such information or representation must not be relied upon as having been authorised by MHC. Neither the delivery of this Prospectus nor any issue of security made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of MHC or the Group since the date hereof.

The distribution of this Prospectus and the sale of any part of the Issue Shares are subject to Malaysian laws and the Company takes no responsibility for the distribution of this Prospectus and the offer of any part of the Issue Shares outside Malaysia, which may be restricted by law in certain other jurisdictions. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

This Prospectus does not constitute and may not be used for the purpose of an offer to sell or an invitation of an offer to subscribe for any Issue Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

**If you are in any doubt concerning this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or any other professional adviser.**

#### IV. INVESTMENT CONSIDERATIONS

Applicants for the Issue Shares should carefully consider the following investment considerations (which are not exhaustive) in addition to the other information contained elsewhere in this Prospectus, before applying for the Issue Shares:-

(i) **No prior market for MHC Shares**

As there has been no prior public market for MHC Shares, there can be no assurance that an active market may develop upon the listing of MHC on the Main Board of the KLSE or, if developed, that such market may be sustained. The issue price of RM1.40 per share for the Issue Shares has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and condition, its prospects and the prospects for the industry in which the Group operates, the management of the Group, the market prices for shares of companies engaged in businesses similar to that of the Group and the prevailing market conditions at the time when the issue price was determined. There can be no assurance that the issue price will correspond to the price at which MHC Shares will be traded on the Main Board of the KLSE upon or subsequent to its listing.

(ii) **Business risks**

The business of the MHC Group is subject to certain risks inherent in the palm oil sector which include amongst others, the following:-

(a) **Changes in weather conditions**

The FFB yield from oil palm trees is dependent upon non-controllable factors such as rainfall and drought. Both excessive rainfall and extended periods of dry weather will lead to a decrease in the overall yield of FFB from the estates of the Group. Excessive rainfall will generally lead to poor pollination of palms and decrease the effectiveness of fertilizers while drought induces palm trees to produce more male inflorescence resulting in the formation of less fruit bunches. The decrease in FFB yield will result in an increase in FFB purchased from external parties, thus decreasing the profit margin of the Group.

As an illustration, all other things remaining constant, the following decreases in the FFB yield that was used in arriving at the forecast consolidated profit after tax and minority interest of MHC for the financial year ending 31 December 2000 as presented in Section VIII(2) of this Prospectus of approximately RM9.68 million will result in the following decreases in the aforesaid forecast profit after tax:-

% decrease in annual FFB yield	Profit margin calculated using profit after tax and minority interest %	Profit after tax and minority interest RM'000	% change from forecast profit after tax and minority interest
5%	21.0	8,990	(7.2)%
10%	19.7	8,295	(14.3)%

Although the Company takes preventive measures such as proper water management and irrigation via the building of water gates and the proper maintenance of drains, no assurance can be given that any fluctuation in weather conditions would not have any adverse effects to the performance of the Group.

(b) **Fluctuations in commodity prices**

The turnover of the MHC Group is highly dependent upon the CPO prices prevailing in the industry at any particular time. CPO prices are in turn dependent upon the supply and demand of CPO and can be volatile.

#### IV. INVESTMENT CONSIDERATIONS (Cont'd)

For the past one (1) year to August 2000, the weighted average monthly CPO prices in Malaysia which was announced by PORLA have fluctuated within the range of RM984.00 per MT to RM1,317.50 per MT.

(Source: PORLA)

Fluctuations in CPO prices may be mitigated by the Group by entering into forward and futures contracts. However, as at the date of this Prospectus, the Group has yet to embark on a continuous and consistent policy to hedge against future fluctuations in palm oil prices. Nevertheless, the Group would continue to evaluate the need to enter into any forward contracts to sell CPO should there be favourable opportunities.

A decrease in the CPO prices will decrease the profitability of the Group. As an illustration, all other things remaining constant, the following decreases in the CPO price that was used in arriving at the forecast consolidated profit after tax and minority interest of MHC for the financial year ending 31 December 2000 as presented in Section VIII(2) of this Prospectus of approximately RM9.68 million will result in the following decreases in the aforesaid forecast profit after tax:-

<b>% decrease in average CPO price</b>	<b>Profit after tax and minority interest RM'000</b>	<b>% change from forecast profit after tax and minority interest</b>
5%	8,911	(8.0)%
10%	8,138	(16.0)%

As at 15 September 2000 the CPO is trading in the region of RM900 per MT.

(c) Pests and diseases

Although oil palm trees in general are comparatively free of pests and diseases, there are occasional outbreaks of leaf eating insects such as bagworms and nettle caterpillars, as with all crops which are grown on large scale. During the younger stages of its life, the palms are also susceptible to attack by rhinoceros beetles. Palms grown on peat soil are also susceptible to attack by termites.

In 1994 and 1995, two (2) estates of the Group, namely the Kuala Bikam Estate and the Yew Lee Estate were attacked by bagworms, resulting in an average decline in the FFB yield of the said estates in 1994, 1995 and 1996, by approximately 18.7% each year when compared to the FFB yields of the two (2) estates prior to the attack. Subsequently the population of bagworms in the said estates were brought under control and the oil palm trees recovered from the attack by end-1997.

Currently, the Group takes active measures to control the population of pests in its estates by destroying potential breeding grounds of the pests, exterminating the pests by using pesticides and carrying out frequent inspections to ensure that the population of the pests remains below a threatening level. Despite these measures, no assurances can be given by the Group that large-scale attacks by the pests will not occur in the future.

However, in the event that the FFB yields were severely disrupted due to attacks by pests and diseases, the Directors believe the MHC could still source FFB from external parties for any shortage of FFB for its milling operations. This would however decrease the profit margin of the Group but the operations of the Group would not be severely disrupted. An illustration of the effects of the decreases in the FFB yield on the profitability of the Group is as disclosed in Section IV(ii)(a) above.



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**IV. INVESTMENT CONSIDERATIONS (Cont'd)**

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**(d) Availability of labour**

The plantation sector is relatively labour intensive. The availability of adequate labour supply is essential to the continued success of the Group. Although to date, the Group has yet to face any severe labour shortage, the Group foresees that unless appropriated measures are undertaken, the shortage of labour would affect the success of the Group. As such, the Group has attempted to mitigate the shortage of manpower by improving the mechanisation of its processes and the hiring of foreign labours. However, no assurance can be given that the estates of the Group will not face labour shortage in the future. In addition, an increase in direct labour costs will also have an impact on the earnings of the Group.

**(e) Competition from other palm oil producers**

Competition exists in almost all industries and there is no exception in respect of the palm oil industry. However, with almost 30 years of experience in the palm oil industry, the MHC Group has developed long-standing good relationships with both its suppliers and customers to ensure that the supply of FFB to the mills of the Group will not be adversely affected and the sale of CPO by the Group will remain relatively stable.

**(iii) Assets not covered by insurance**

The estates of the Group are not insured against fire or flood and the occurrence of such events will definitely affect the FFB yield of the Group in addition to causing the destruction of the oil palm trees (depending on the extent of the fire or flood).

The Group, however, has taken precautionary steps against flood by constructing bunds at strategic locations. In addition, the Group has also prepared itself in reacting to fire in the estates by having fire fighting equipment at convenient locations and implementing fire drills.

However, in the event that the FFB yields were severely disrupted due to fire or flood, the Directors of MHC believe that MHC could still source FFB from external parties for any short fall of FFB for its milling operations. This however, would result in the decrease of the gross profit margin of the Group.

All the mills of the Group are adequately insured against fire and flood.

**(iv) Substitute products**

Apart from competing with other palm oil producers, the MHC Group also faces competition from producers of other edible oils such as soybean, sunflower seed and rape seed oils as these edible oils are direct substitutes of palm oil. Therefore no assurance can be given that palm oil will not be substituted by other edible oils.

However, in view of the expected continued increase in world population, the overall demand for edible oil is also expected to increase.

*(Source: Review of the Oil Palm Plantation Sector dated 9 March 2000 by Dynaquest Sdn. Bhd.)*

In addition, the Directors of MHC expect that palm oil would remain competitive in the edible oils industry in view of its pricing in relation to other oils such as soybean oil and the higher yield of palm oil per hectare in relation to other edible oils.

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**IV. INVESTMENT CONSIDERATIONS (Cont'd)**

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**(v) Dependence on key personnel**

The Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its Directors and senior management. The loss of any of the Group's Executive Directors or key members of the senior management may affect the Group's performance. However, efforts are being made to groom the younger members of the senior management to gradually assume more responsibilities through continuous on-the-job training and participation in public courses and seminars. This is to ensure that there would be a continuation of key management personnel in the future. The Group's future success will also depend upon its ability to attract and retain skilled personnel.

**(vi) Dependence on key customers**

As disclosed in the table in page 41, MHC has a relatively small customer base. For the financial year ended 31 December 1999, approximately 68.3% of the turnover of the Group is derived from the sale of CPO to Federal Flour Mills Bhd. and its subsidiary, Pasir Gudang Edible Oils Sdn. Bhd..

However, the Directors of MHC do not believe that this will pose significant problem for the Group because in general, the demand from palm oil refiners exceeds the available supply of CPO. As such the Company does not consider a need to incur excessive expenditure to market its products. Despite this, no assurances can be given by the Group that the loss of its key customers, though rather unlikely in view of the length of its relationship with its customers, will not adversely affect the performance of the Group in the future.

**(vii) Control by substantial shareholders**

Following the Public and Special Issues, DMPSR, the other promoters of MHC as named herein and MKWH, as connected persons, will own, directly and indirectly, approximately 57.7% of the enlarged issued and paid-up share capital of MHC. As a result, it is likely that DMPSR and connected persons will be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders.

**(viii) Changes in general economic, political, legislative, business and credit conditions**

As with any other companies, the performance of the MHC Group is also subject to the overall economic, political, legislative, business and credit environment both domestically and internationally. For instance an increase in interest rate will increase the burden of the Group with respect to interest payments of the loans depending on the total outstanding loans at that point in time.

As such, there can be no assurance that the performance of the Group would remain favourable in the event of changes in the general economic, political, legislative, business and credit conditions of the country or the countries that are the main importers of palm oil.

**(ix) Profit forecast**

This Prospectus contains a profit forecast of the MHC Group that is based on assumptions that are subject to uncertainties and contingencies. Due to the subjective judgements and inherent uncertainties of profit forecasts and because events and circumstances frequently do not occur as expected, there can be no assurance that the profit forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the assumptions and uncertainties underlying the profit forecast that are contained herein.

Although the Group seeks to limit these business risks, no assurance can be given that any changes to these factors will not have a material adverse effect on the Group's businesses. Save as disclosed above and apart from normal commercial risk, the Group is not aware of any specific factor or event to which it is vulnerable.

## V. DETAILS OF THE PUBLIC AND SPECIAL ISSUES

### 1. SHARE CAPITAL

	RM
<i>Authorised</i>	
100,000,000 ordinary shares of RM1.00 each	<u>100,000,000</u>
<i>Issued and fully paid-up</i>	
40,840,086 ordinary shares of RM1.00 each	40,840,086
<i>To be issued pursuant to the Public and Special Issues</i>	
22,398,000 new ordinary shares of RM1.00 each	<u>22,398,000</u>
	<u>63,238,086</u>

The issue price of RM1.40 for each Issue Share is payable in full on application.

There is currently only one class of shares in the Company, namely ordinary shares of RM1.00 each. The Issue Shares, upon allotment and issue, will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and will be entitled to all rights, dividends and distributions the entitlement date of which is subsequent to the date of allotment of the said Issue Shares.

At any general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney and, on a show of hands, every person present who is a shareholder or a representative or proxy or attorney of a shareholder shall have one (1) vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held in MHC. A proxy may but need not be a member of the Company.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company in accordance with the Articles of Association of the Company.

### 2. OPENING AND CLOSING OF APPLICATION LISTS

The application lists for the Issue Shares will open at 10.00 a.m. on 16 October 2000 and will remain open until 8.00 p.m. on the same day or for such further period or periods as the Directors of MHC and the Underwriters may mutually decide.

### 3. IMPORTANT TENTATIVE DATES

The following events are intended to take place on the following tentative dates:-

Event	Tentative date
(i) Opening of the Public and Special Issues	30 September 2000
(ii) Closing of the Public and Special Issues	16 October 2000
(iii) Balloting of MHC Shares	Mid-October 2000
(iv) Allotment of MHC Shares	Early November 2000
(v) Listing	Mid-November 2000

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**V. DETAILS OF THE PUBLIC ISSUE AND SPECIAL ISSUES (Cont'd)**

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**4. PARTICULARS OF THE PUBLIC AND SPECIAL ISSUES**

The Public and Special Issues are subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares will be allocated and allotted in the following manner:-

**(i) Bumiputera investors approved by the MITI**

17,975,000 new MHC Shares have been reserved for Bumiputera investors approved by the MITI.

**(ii) Eligible Employees**

532,000 new MHC Shares have been reserved for the Directors and eligible employees of the MHC Group.

**(iii) Malaysian Public**

3,891,000 new MHC Shares will be made available for application by Malaysian citizens, companies, co-operatives and institutions of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives and institutions.

The new MHC Shares under paragraph (i) above will not be underwritten.

The new MHC Shares made available to the Directors and eligible employees of the MHC Group and the Malaysian public as stipulated in paragraphs (ii) and (iii) above respectively have been fully underwritten. Any MHC Shares not subscribed for under paragraph (ii) will subsequently be offered to the Malaysian Public.

**5. BASIS OF ARRIVING AT THE ISSUE SHARE PRICE**

The Issue Share price of RM1.40 per Issue Share is based on market driven pricing and has been arrived at after taking into account, inter-alia, the following factors:-

- (i) The forecast net PE Multiple of approximately 6.45 times based on the forecast net EPS of 21.72 sen and the weighted average number of shares in issue of 44,573,086 MHC Shares;
- (ii) The forecast net dividend yield of approximately 2.57%;
- (iii) The proforma NTA of the MHC Group prior to the Public and Special Issues of RM1.80 per share; and
- (iv) The prospects of the MHC Group as outlined in Section VI(3) of this Prospectus.

Based on the above, the Directors of MHC and CIMB, as the Adviser and Managing Underwriter, have determined and agreed on the issue price of RM1.40 per MHC Share.

However, shareholders should also note that the market price of MHC Shares upon listing on the KLSE are subject to the vagaries of market forces and other uncertainties which may affect the price of MHC Shares.

## V. DETAILS OF THE PUBLIC ISSUE AND SPECIAL ISSUES (Cont'd)

### 6. PURPOSES OF THE PUBLIC AND SPECIAL ISSUES

The purposes of the Public and Special Issues are as follows:-

- (i) To increase the Bumiputera equity participation in MHC in line with the objectives of the National Development Policy and to comply with the equity conditions imposed by the FIC on AOI and MKP which required at least 30% of the shares of the two (2) companies be held by Bumiputera investors;
- (ii) To provide an opportunity for the Malaysian public and eligible Directors and employees of the Group to participate in the future growth of the MHC Group by way of equity participation;
- (iii) To enable MHC to gain access to the capital markets in order to tap external sources of borrowings and equity funds for the future expansion and continued growth of the Group;
- (iv) To raise proceeds for the items as stated in Section V(7) below; and
- (v) To obtain a listing of and quotation for the entire issued and paid-up share capital of MHC on the Main Board of the KLSE.

### 7. PROCEEDS OF THE PUBLIC AND SPECIAL ISSUES

The Public and Special Issues are expected to raise gross proceeds of RM31,357,200. MHC shall bear the expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of MHC on the Main Board of the KLSE, of which is estimated to be approximately RM2,000,000. There is no minimum amount to be raised under the Public and Special Issues.

The gross proceeds of RM31,357,200 to be raised from the Public and Special Issues are expected to be utilised in the following manner:-

	RM'000
Repayment of loans and accrued interest <sup>(1)</sup>	20,000
Cultivation of plantation land in Sabah <sup>(2)</sup>	3,280
Upgrading of MKP mill capacity <sup>(3)</sup>	5,530
Mechanisation of field operations <sup>(4)</sup>	620
Upgrading of roads in estates <sup>(5)</sup>	140
Listing expenses <sup>(6)</sup>	1,787
	31,357

**Notes:-**

<sup>(1)</sup> *The loans were made by RHB Bank Berhad to MKP for the working capital needs of MKP and for the acquisition of the Kemayan Estate. As at 15 September 2000, a total of approximately RM19.4 million of the principal of the loan remains outstanding. Assuming an interest rate of 8.05% per annum, the full repayment of the said loan is expected to result in savings in interest expenses of approximately RM130,000 a month for the MHC Group. The MHC Group expects to repay the amount of loan outstanding upon the receipt of the listing proceeds.*

<sup>(2)</sup> *LM-K holds an 8/10 undivided share in a plot of 5,000-acre land in the District of Beaufort, Sabah.*

*As at 15 September 2000, 1,120 acres of the land has been planted with oil palm trees and MHC intends to utilise the RM3.28 million over the next two (2) years to develop and cultivate the said piece of land.*

*This is expected to increase the turnover of the Group in the future when the newly planted oil palm trees begin to bear fruits and the Group commences the sale of FFB to external parties.*

## V. DETAILS OF THE PUBLIC ISSUE AND SPECIAL ISSUES (Cont'd)

- (3) *The amount allocated for this capital expenditure is intended to be utilised as follows:-*
- (a) *Construction and upgrading of plant stations including, among others, boiler, power, sterilizer and press stations; and*
- (b) *Improvement of the water supply, depericarper and wiring and switch gear facilities.*

*The Group expects to complete the upgrading of the MKP mill by the year 2001. The upgraded MKP mill capacity is expected to be doubled from 20MT of FFB processed per hour to 40MT of FFB processed per hour.*

- (4) *The Group is currently implementing a mechanisation programme to increase the usage of machinery in its estate operations. As such, RM620,000 of the proceeds from the listing will be utilised to purchase the following equipment:-*

<i>Equipment</i>	<i>Function</i>
<i>Tractors</i>	<i>Transporting of fertiliser spreaders and pesticide sprayers</i>
<i>FFB Collection Grabber</i>	<i>Infield collection of FFB</i>
<i>FFB Loading Crane</i>	<i>Loading of FFB onto tractors and trailers</i>
<i>Scissors Jack Trailer</i>	<i>Infield collection of FFB</i>
<i>Spraying unit</i>	<i>Spraying of pesticides</i>
<i>FFB Nets</i>	<i>Crane loading of FFB</i>

*The Directors of MHC believe that the above acquisitions (which are expected to be completed by the year 2001) will not have a material effect on the profit or net assets of the Group.*

- (5) *Approximately RM140,000 of the proceeds will be utilised to upgrade the roads in the estates and the harvesting paths in preparation for the coming on-stream of the mechanised operations. The upgrading of the said roads using listing proceeds is expected to be completed in the year 2001.*
- (6) *Estimated expenses incidental to the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of the KLSE include professional fees, advertising, issuing and printing costs amounting to approximately RM2,000,000, of which RM1,787,000 will be paid from the listing proceeds. These expenses will be paid as and when they are incurred.*

## 8. UNDERWRITING

Brokerage relating to the Public and Special Issues is payable by the Company at the rate of one per centum (1%) of the issue price of RM1.40 per Issue Share in respect of successful applications which bear the stamps of either CIMB, a member company of the KLSE, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIH.

The Underwriters have agreed to underwrite the 4,423,000 MHC Shares which are made available for the application by the Malaysian public, Directors and eligible employees of the MHC Group. Underwriting commission relating to the said MHC Shares is payable by the Company at the rate of two per centum (2%) of the issue price of RM1.40 per share.

**V. DETAILS OF THE PUBLIC ISSUE AND SPECIAL ISSUES (Cont'd)**

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However, in accordance with the underwriting agreement entered into between the Company and the Underwriters on 28 September 2000 ("Underwriting Agreement") any of the Underwriters may at any time be entitled to terminate their respective obligations under the Underwriting Agreement with a notice in writing delivered to the Company on the occurrence of all or any of the following on or before the closing date of the Public Issue if the success of the Public Issue is, in the opinion of the Underwriters, seriously jeopardised by the following events:-

- (a) Any government requisition or other occurrence of any nature whatsoever which in the opinion of the Underwriters seriously affects the business of the Group;
- (b) Any change in national or international monetary, financial (including stockmarket conditions and interest rates) political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the Underwriters prejudice materially the success of the Public Issue and their distribution or sale (whether in the primary market or in respect of dealings on the secondary market);
- (c) Any breach of the warranties and undertakings given by the Company to the Underwriters as stated in the Underwriting Agreement or the Company's withholding of information of a material nature from the Underwriters; or
- (d) The average KLSE Main Board composite index for five (5) consecutive market days falls below 600 points before the closing date of the Public Issue.

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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS**

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**1. OVERVIEW OF THE MALAYSIAN ECONOMY**

The Malaysian economy has recovered in 1999 from the severe deflationary impact of the regional financial crisis which had resulted in a 7.5% contraction of the economy in 1998.

In the 2000 Budget Speech presented by the Minister of Finance of Malaysia at the Dewan Rakyat on 25 February 2000, the real GDP of Malaysia registered an estimated growth of 5.4% in 1999.

The economic recovery is underpinned by the policies initiated by the National Economic Action Council in line with its National Economic Recovery Plan as well as other favourable domestic and external developments. Government initiatives such as the imposition of selective exchange controls, the pegging of the ringgit, the adoption of an expansionary budget, the easing of monetary policies and the introduction of reforms in the banking system together with the strong pick up in external demand have spurred output increases especially in the manufacturing sector.

The rapid pace of economic growth was supported by stronger economic fundamentals. For 1999, trade surplus amounted to RM72.3 billion, which is the largest surplus ever recorded. Consequently, as at 24 April 2000, external reserves stood at USD33.8 billion, sufficient to finance 6.4 months of retained imports.

With the recovery expected to gain further momentum for the year 2000, the prospects of economic growth for 2000 are increasingly promising. World output is expected to grow at a faster rate of 4.0% (1999: 3.0%). The economies of Malaysia's trading partners in East Asia are expected to continue on their respective paths of recovery, while the economy of the United States of America is expected to remain strong.

In light of these developments, as well as the Government policies and measures to further strengthen the economic recovery, barring any major downside risks that could derail the favourable world economic outlook, the GDP is expected to expand at 5.8% for the year 2000 with the current account of the balance of payments expected to continue to record a surplus.

*(Sources: Economic Report 1999/2000, Ministry of Finance and The 2000 Budget Speech by the Minister of Finance, Malaysia at the Dewan Rakyat on 25 February 2000.)*

**2. OVERVIEW OF THE PALM OIL INDUSTRY****(i) General overview**

The palm oil industry in Malaysia has witnessed a prolific growth in recent years. From being almost non-existent in the 1950s, it has now emerged as the crop with the highest land use, occupying some 3.34 million hectares or about 58% of the total cultivated land in 1999.

*(Source: Review of the Oil Palm Plantation Sector dated 9 March 2000 by Dynaquest Sdn. Bhd.)*



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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**


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The performance of the palm oil industry for the past five (5) years can be summarised as follows:-

	1995	1996	1997	1998	1999 <sup>(1)</sup>
<b>Area ('000 hectares)</b>					
Planted	2,540	2,692	2,819	3,078	3,216
Mature	2,243	2,353	2,455	2,597	2,780
<b>Production ('000 MT)</b>					
CPO	7,811	8,386	9,069	8,320	10,533
<b>Yield (MT/mature hectare)</b>					
CPO	3.48	3.56	3.69	3.20	3.79

*Note:-*

<sup>(1)</sup> Preliminary data.

*(Source: Bank Negara Annual Reports 1996-1999)*

As evident from the above table, over the past five (5) years, the total area planted with palm oil has been increasing steadily and along with that, FFB yields and CPO production had also posted yearly increases other than in 1998 where palm oil output was affected by tree stress as well as the drought effect caused by El Nino.

The increases in the FFB yields and CPO production over the years were mainly attributable to the introduction of better yielding and better quality fruits as well as better extraction methods as the results of the continuous efforts of the palm oil industry to increase productivity through research in agronomic practices, farm mechanisation and biotechnology. Currently, considerable attention is being given to research in tissue culture and breeding to develop high yielding oil palm progenies.

In the palm oil processing industry, FFB are first processed to CPO and CPKO, which are subsequently refined to oleochemicals, which are in the broad sense chemicals derived from vegetable, marine, animal and mineral oils or converted to finished products such as soap, shortening, vanaspat and margarine.

*(Source: Review of the Oil Palm Plantation Sector dated 9 March 2000 by Dynaquest Sdn. Bhd.)*

As at the end of 1999, there was a total of 334 palm oil mills in operation with a total capacity of 61.6 million MT per annum. Another 49 mills are in the planning and construction stages. When ready for operation, the total capacity will be increased by approximately 6.9 million MT per annum.

*(Source: PORLA)*

**(ii) Performance in 1999**

Production of CPO in 1999 surged to 10.5 million MT, which was an increase of 26.9% compared to the 8.3 million MT of CPO produced in 1998. The production increase is mainly attributable to favourable weather conditions that ensured more effective pollination of oil palms and formation of palm fruits. Consequently, oil palm fruit yield per hectare increased from 15.98 MT in 1998 to 19.26 MT in 1999. Moreover, total mature area increased by 7.0% to 2.8 million hectares as at the end of 1999.

*(Source: Overview of the Malaysian Palm Oil Industry 1999 by PORLA)*

Malaysia was the largest palm oil producer and exporter in the world in 1999, accounting for more than half (53%) of total world production.

*(Source: Bank Negara Annual Report 1999)*

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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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In 1999, the country exported 8.8 million MT of palm oil, which represents approximately 18.4% increase in comparison to 7.4 million MT in 1998. This increase can be attributable to both the aforementioned overall increase in the production of palm oil and lower and hence, more competitive prices of palm oil in comparison to 1998.

However, as a result of lower palm oil prices, total earnings from the export of oil palm products declined by 17.1 % from 1998 to RM17.7 billion in 1999.

The overall decrease in the prices of palm oil was mainly due to the surge in production of palm oil, which increased faster than the palm oil exports. The decline in the prices of palm oil was also consistent with the lower prices of other vegetable oils in the world market, brought on by excess supply and slower increase in export demand. The average price of CPO in the domestic market fell significantly in 1999 by 39.0% or RM928.00 from RM2,377.50 in the previous year.

*(Source: Overview of the Malaysian Palm Oil Industry 1999 by PORLA)*

**(iii) Demand**

The long term growth of global demand/consumption of oils and fats, as reflected in the production levels of palm oil, in the past 20 years has been remarkably stable at around 3.3-3.9%. The growth in consumption is mainly due to two (2) factors, namely the general increase in world population, which averaged at approximately 1.3% or approximately 78 million people per year, and the increase in per capita consumption of oils and fats at the approximate average rate of 2.2%.

The long term demand for oils and fats can be expected to continue its steady upward trend as world population is expected to continue to grow. In addition, income per capita is also expected to increase, leading to a greater consumption of oils and fats. Thirdly, the average world per capita consumption of oils and fats is expected to increase further, mainly due to increased demand for oils and fats in the Asian region in view of the currently still low consumption of oils and fats in the region, particularly in India and China. In addition, the current average per capital consumption of oils and fats for the world, which is about 17kg per person per annum, is still below the level of between 20kg and 25kg recommended by the World Health Organisation.

*(Sources: Review of the Oil Palm Plantation Sector dated 9 March 2000 by Dynaquest Sdn. Bhd. and New Straits Times dated 17 July 2000)*

Despite the expected increase in the long-term demand for edible oils and in view of the high substitutability of one type of edible oil with the other, the specific demand for palm oil would be dependent upon Malaysia's efforts in promoting palm oil to the global market to increase its consumption of palm oil particularly in countries such as India and China.

In the past, the American Soya Association has been vigorously campaigning in an effort to reduce the market share enjoyed by palm oil in key palm oil importing nations such as India.

*(Source: The Edge dated 7 June 1999)*

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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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Recently, uncertainties have sparked over the export of palm oil to India which is the biggest market for Malaysian palm oil, accounting for 26.90% of Malaysia's palm oil export in 1999. In order to prevent an import surge and a domestic supply glut of edible oils in India, the Indian government has increased the import duties rather substantially on both crude and refined edible oils. Import duties on crude edible oils increased from 15% to 25% while import duties on refined edible oils increased from 27% to 45%.

In addition Indian imports of refined edible oils has also decreased in favour of other raw oils such as soybean, rapeseed and sunflower in line with the Indian government's efforts to develop its domestic vegetable oils crushing industry. Concern lingers that in light of these developments, edible oils exporters such as Malaysia will have to decrease prices of refined palm oil in order to compete.

**(iv) Supply**

Within the past 20 years, contribution of the combination of palm oil and palm kernel oil to the total world supply of edible oils has risen from about 8.5% to 20.8%. This is mainly due to two (2) factors namely the availability of virgin land for planting in Malaysia and Indonesia and the lower rate of growth by other edible oils.

Palm oil production and export of Malaysia for the period between January and June 2000 were at 4.7 million MT and 4.0 million MT respectively, which were slightly higher than that of the same period in 1999. Traditionally, output of palm oil accelerates in the second half of the year. As such, for the second half of the year 2000 another 6.3 million MT of palm oil is expected to flood the edible oil market. Malaysia is believed to possess a month's stockpile of palm oil.

However, long-term growth of palm oil production in Malaysia will be at a lower pace, at about six per centum (6%) per annum, in comparison to the average of 6.8% per annum for the past decade. This slower rate of growth is attributable to the slowdown in the conversion of the land used for the cultivation of rubber trees in Malaysia to cultivation of oil palms, the decrease in the amount of land suitable for oil palm cultivation in East Malaysia owing to lack of accessibility and the slowdown in new planting of oil palm in view of the need to replant existing oil palms.

Overall, world supply of edible oils has increased faster than the global demand, resulting in a worldwide oversupply of edible oils which threatens to push CPO prices to lower levels.

The supply of world edible oils is expected to continue to grow because of the expected increase in palm oil production from Indonesia due to the abundance of suitable land and labour, low production costs and relatively high yields per hectare. In addition, production of soybean oil and rapeseed oil will continue to increase due to the demand for soybean meal and superior yields respectively. As such, the world oversupply of edible oils is expected to continue.

*(Source: The Star dated 17 July 2000)*

In general, the movement of CPO prices is expected to be in tandem with those of other edible oils. However, the specific performance of palm oil would largely depend on its performance against other edible oils, including, inter alia, soybean oil or rapeseed oil.

**(v) Role of the Government**

Agricultural development programmes implemented by the Government continued to support agricultural modernisation to bring about improvement in productivity particularly through commercialisation and large scale agriculture.

*(Source: Mid-term Review of the Seventh Malaysia Plan 1996-2000)*

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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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The National Agricultural Policy (1992-2010) ("NAP") was launched to accelerate the transformation of the agricultural sector into one that is highly modernised, commercialised and sustained, whose growth and development momentum will be market driven and human resource led. The overriding objective of the NAP is the maximisation of income through optimal utilisation of resources. Its specific aims include the achievement of a balanced development between the agriculture and manufacturing sectors, enhancement of a balanced development between the agriculture and manufacturing sectors, enhancement of the integration of the sector with the rest of the economy and in particular, the manufacturing sector and the achievement of a higher level and greater depth of food industry development.

*(Source: Mid-term Review of the Seventh Malaysia Plan 1996-2000)*

The Government is aware of the importance of the palm oil industry and as such has stepped up its efforts to promote and market palm oil in a bid to maintain the commodity's performance.

The Malaysian Palm Oil Promotion Council ("MPOPC") is the promotion arm of local palm oil industry. MPOPC's corporate mission is to make Malaysian palm oil the world's leading vegetable oil.

The council has so far established offices in New Delhi, Fiji, Lahore, Dhaka, Egypt, Sao Paolo, Vienna and Durban. It also focuses on the emerging markets such as Central Asia, Eastern Europe and Africa. In the Asian region, it is enhancing its position in Myanmar and Vietnam.

During 1999, MPOPC held promotion activities in various countries to improve market opportunities and trade. In this regard, MPOPC participated in 20 international exhibitions during the year.

*(Source: Bank Negara Annual Report 1999)*

Malaysia's research and development in regards to the palm oil industry is currently done by MPOB, a newly formed entity resulting from the merger of PORIM and PORLA. In the past, findings by PORIM included findings in relation to yield improvement, expansion of mechanisation and increasing utilisation of materials towards zero waste level in order to improve the industry's competitiveness in the world's oils and fats markets.

*(Source: Mid-term Review of the Seventh Malaysia Plan 1996-2000)*

Meanwhile, MPOB intensified its research and development on new uses of palm oil in both the edible and non-edible products categories. In addition, MPOB continued to undertake research on developing new high-yielding clones and better agronomic practices, including mechanisation of field operations, to increase productivity of the industry. The MPOB is also in the process of upgrading its biotechnology unit into an Advanced Oil Palm Biotechnology Centre to enhance its research and development activities in producing better planting materials.

In line with this, the MPOB plans to establish two (2) new units, namely the Agro Products Unit and Integrated Food Production Unit. The Agro Products Unit will focus on exploiting the economic potential of oil palm biomass, while the Integrated Food Production Unit will determine ways of mixing crops in oil palm plantations.

During the year, the Advanced Oleochemical Technology Centre ("AOTC") was established to spearhead research in the production and utilisation of palm-based oleochemicals for more value added downstream activities.

*(Source: Bank Negara Annual Report 1999)*

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**VI. INDUSTRY OVERVIEW AND FUTURE PROSPECTS (Cont'd)**

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**3. FUTURE PROSPECTS OF THE GROUP**

The Directors of MHC believe that there are still numerous opportunities in the palm oil industry, particularly in view of the expected growth in world population in the years to come. In addition, researches are being carried out by the newly formed MPOB to discover new uses of palm oil in the food and non-food products, particularly in the cosmetics and lubrication industries. Recently, the government is also considering using tax and legislative measures to encourage the use of palm oil as fuel for motor vehicles.

*(Sources: Economic Report 1999/2000, remarks by Dato' Seri Dr. Lim Keng Yaik on 16 July 2000 and The Star dated 14 March 2000)*

The expansion strategies of the Company in the years to come would mainly consist of expansion of the estates and the milling capacity of the Company. In this respect, as stated in Section V(7), the Company intends to utilise a portion of the proceeds from the Public and Special Issues to upgrade the capacity of the MKP mill. In addition, the Company is also constantly looking to acquire additional new lands for the cultivation of oil palms. The Company has in 1999 increased its total acreage by acquiring a 4,000-acre plot of land in Sabah and intends to fully cultivate the land by 2001.

In addition, the Company is also focused on improving its existing operations by replanting the trees in its estates. The Company expects to replant approximately seven per centum (7%) of its estates every year up till 2003. This will subsequently be reduced to five per centum (5%) a year in order to ensure a steady supply of FFB in the future.

In view of the rising labour costs and labour shortage in the palm oil industry, the Group has also increased the usage of machinery in its estates, particularly in the planting, manuring, weeding, harvesting and collecting processes. The Group has embarked on a mechanisation programme for the past few years to reduce the dependency on manual labour and increase work efficiency. The Group aims to mechanise a substantial portion of its operations in areas where mechanisation is physically and technologically possible by 2003. More machinery such as sprayers, harvestors, tractors and cranes are expected to be used.

The Directors of the Company believe that with the opportunities available in the palm oil industry coupled with the expansion strategies of the Group, the prospects of the Group are likely to remain favourable.