

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

5.6.16 TCSB

(i) *History And Business*

TCSB was incorporated in Malaysia on 5 March 1999 as a private limited company under the Companies Act, 1965. The company has not commenced its operations since its incorporation and is a wholly-owned subsidiary of KLR. The intended principal activity of the company is oil palm cultivation.

(ii) *Share Capital*

The authorised capital of TCSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The present issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each. There has been no change in the issued and paid-up share capital of TCSB since its incorporation.

(iii) *Subsidiary And Associated Companies*

As at the date of this Prospectus, TCSB has no subsidiary or associated company.

(iv) *Directors and substantial shareholder*

The Directors of TCSB and their respective shareholdings are set out below :-

	Direct No. of shares held	%	Indirect No. of shares held	%
Gooi Seong Lim	-	-	2 *	100.0
Gooi Seong Heen	-	-	2 *	100.0

Note:

* *Deemed interested by virtue of their interest in KLR.*

The substantial shareholder of TCSB and its shareholding is set out below:-

	Direct No. of shares held	%	Indirect No. of shares held	%
KLR	2	100.0	-	-

(v) *Employees*

As at 10 October 2000, TCSB had no employees.

5.6.17 WPSB

(i) *History And Business*

WPSB was incorporated in Malaysia on 5 April 2000 as a private limited company under the Companies Act, 1965. WPSB was incorporated as a joint venture vehicle to apply for a piece of land in Pahang with the intention to develop it into an oil palm plantation. The intended principal activity of the company is oil palm cultivation. The company has not commenced any operations since the date of its incorporation and is an eighty percent (80%)-owned subsidiary of KLR.

5. INFORMATION ON THE KLR GROUP (Cont'd)

(ii) *Share Capital*

The authorised capital of WPSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The present issued and paid-up share capital is RM5 comprising 5 ordinary shares of RM1.00 each. There has been no change in the issued and paid-up share capital of WPSB since its incorporation.

(iii) *Subsidiary And Associated Companies*

As at the date of this Prospectus, WPSB has no subsidiary or associated company.

(iv) *Directors and substantial shareholders*

The Directors of WPSB and their respective shareholdings are set out below :-

	Direct No. of shares held	%	Indirect No. of shares held	%
Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar	1	20.0	-	-
Tengku Nurun Hayati @ Ku Nurul Hayati Binti Tengku Bahadur @ Ku Bahadur (f)	-	-	-	-
Gooi Seong Lim	-	-	4 *	80.0
Gooi Seong Heen	-	-	4 *	80.0
Gooi Seong Chneh	-	-	4 *	80.0
Gooi Seong Gum	-	-	4 *	80.0

Note:

* Deemed interested by virtue of their interest in KLR.

The substantial shareholders of WPSB and their respective shareholdings are set out below:-

	Direct No. of shares held	%	Indirect No. of shares held	%
KLR	4	80.0	-	-
YAM Tunku Naquiyuddin Ibni Tuanku Ja'afar	1	20.0	-	-

(v) *Employees*

As at 10 October 2000, WPSB had no employees.

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

5.7 INDUSTRY OVERVIEW

5.7.1 Overview Of The Malaysian Economy

The Malaysian economy has recovered in 1999 from the severe regional financial crisis which had resulted in a 7.5% contraction of the economy in 1998. Real Gross Domestic Product ("GDP") which had contracted by 10.9% and 10.3% in the 3rd and 4th quarters of 1998, registered a significantly lower contraction of only 1.3% in the 1st quarter of 1999 and a positive growth of 4.1% in the 2nd quarter of 1999.

The economic recovery has been underpinned by the implementation of the National Economic Recovery Plan by the National Economic Action Council, the imposition of selective exchange controls, the easing of monetary policies, the continuous implementation of approved public sector projects, the strengthening and restructuring of financial and banking sectors, the improvements in the East Asia economic condition as well as the continued economic growth in the United States of America. The turnaround in the economy has also been helped by the higher contribution from the agricultural and manufacturing sectors, increase in exports and positive balance of payments.

In view of the above, Malaysia's economic recovery is expected to continue in year 2000. This will be made possible by the implementation of various policies by the Government to strengthen the nation's external reserves position, financial and banking systems and the corporate sector. In the meanwhile, the international economy, as projected by the International Monetary Fund, is expected to expand at a faster rate of 3.5% in year 2000 (1999: 3.0%) due to the stronger recovery in East Asia Region as well as sustainable economic growth in Europe and Japan.

Consequently, barring any major downside risks that could dampen the favourable world and Malaysian economic outlook, Malaysia is projected to register a real GDP of 5.0% in year 2000.

(Economic Report 1999 / 2000)

5.7.2 Overview Of The Oil Palm Industry In Malaysia

The oil palm industry is a major sector of the economy. Oil palm is the most important agricultural crop in Malaysia. It has grown very rapidly from only a minor crop 40 years ago to overtake rubber as the most widely grown crop in the late 1980s. The popularity of the crop has been mainly due to its high oil yields, lower labour requirement than rubber, suitability for plantation-style management and the rapidly expanding world demand leading to higher profitability than the traditional plantation crops. Its principal product of palm oil has also many technical, nutritional and economic advantages over other competing oils and fats for food products while palm kernel oil is in great demand in the rapidly expanding oleochemical sector.

In 1999, oil palm was planted in 3.31 million hectares or about 58% of the total cultivated land. The value of export proceeds from palm oil, which comprised of CPO, PKO, PKE, oleochemicals and other related products, totalled RM17,691 million. The Malaysian production of palm oil in 1999 was 10.55 million tonnes (of which about 83% was exported), while its production of palm kernel oil reached 1.34 million tonnes (most of which was exported as palm kernel oil or in the form of oleochemicals) *(Source: PORLA Homepage)*. According to OIL WORLD analyses, Malaysia's palm oil production made up about 52% of total world production of 20.5 million tonnes. Its exports were estimated to be about 65% of world's exports of palm oil *(Source: OIL WORLD)*.

Malaysia is by far the biggest exporter worldwide and in calendar year 1999, according to OIL WORLD Annual 2000, accounted for 29.2 % of world exports of the 17 most important oils and fats - well ahead of Argentina (14.7%), Indonesia (12.4%), the USA (9.5%) and Brazil (4.7%). Total Malaysian exports were 9.3% of the world's total consumption of oils and fats of 108 million tonnes *(Source: OIL WORLD)*.

5. INFORMATION ON THE KLR GROUP (Cont'd)

Malaysia has also invested considerably in downstream activities for palm oil and added value for palm oil was projected at RM5,369 million in 1999. (Source: *Economic Report 1999/2000*)

From its very rapid growth in the 1970s, 1980s and early 1990s, area expansion slowed in the late 1990s due to labour and land constraints. Recent expansions in oil palm areas have mainly been in Sabah and Sarawak. Sabah, Johor and Pahang are currently the largest oil palm growing states with about 30%, 18% and 16% of the national hectares respectively. Recent distribution of national palm oil production was about 60% in Peninsula Malaysia, 30% in Sabah and 10% in Sarawak. (Source : *Economic Report 1999/2000, PORLA Homepage*)

As shown in the table below, total planted areas for oil palm have been on an increasing trend for the past nineteen (19) years. The total production of CPO in 1998 declined to 8.3 million tonnes from 9.1 million tonnes in 1997, a decrease of 8.3%. The decline in production was mainly due to prolonged severe dry spell caused by the El-Nino phenomenon which hit Malaysia in the second half of 1997 and 1998. In 1999, the production of CPO increased markedly to 10.55 million tonnes due to higher matured acreage in Sabah and Sarawak and higher yield of FFB nationwide.

Statistics of Malaysia Oil Palm Industry

Year	CPO Production (‘000 tonnes)	PKO Production (‘000 tonnes)	Total Planted Area (‘000 hectares)	Mature Area (‘000 hectares)
1980	2,574	222	1,023	777
1985	4,134	512	1,482	1,201
1990	6,095	827	2,029	1,746
1995	7,811	1,037	2,540	2,243
1996	8,386	1,107	2,692	2,353
1997	9,069	1,165	2,893	2,455
1998	8,320	1,111	3,078	2,597
1999	10,554	1,339	3,313	2,857

(Source: *Department of Statistics, PORLA Homepage*)

National average annual yields per hectare appeared to have plateaued at about 19.2 tonnes FFB producing 3.72 tonnes palm oil and 1.03 tonnes palm kernels from 1980-1997 (Source: *PORLA statistics*). The production constraints of land and labour will likely continue to prevail and future production increases will come mainly from improved management and technology as well as replanting of existing old areas of palms with better planting materials.

The plantation industry in Malaysia, of which oil palm is the largest component, employs about half a million workers who are paid about RM 4 billion per year. It has been estimated that wage-related costs account for about 40 to 50% of the production cost in the palm oil industry. Availability of labour and their costs are therefore very important factors in the industry.

Export

Palm oil was the largest commodity export earners in 1998 and 1999, contributing 32% of the total commodity export earnings in 1999 (1998: 39%) (Source: *Bank Negara Report 1999*).

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

The growth of the Malaysian palm oil industry for the past 5 years from 1995 to 1999 can be measured based on the annual export volume and value as follows:

Table 2 : Annual Export of Malaysian Oil Palm Products

	Unit	1995	1996	1997	1998	1999
Processed & Crude Palm Oil	('000 tonnes)	6,512	7,112	7,490	7,425	8,792
Processed & Crude Palm Kernel Oil	('000 tonnes)	391	465	397	463	515
Palm Kernel Cake	('000 tonnes)	910	994	1,088	1,217	1,206
Oleochemicals	('000 tonnes)	521	536	553	631	664
Others	('000 tonnes)	99	186	80	165	112
Export Volumes	('000 tonnes)	8,433	9,293	9,608	9,901	11,289
Export Values	(RM Million)	12,368	11,665	12,894	21,348	17,691

Source : PORLA Homepage

In 1998, total export revenue of CPO, PKO and other related products rose by 60% to RM21.3 billion from RM12.89 billion in 1997. The depreciation of the Ringgit Malaysia against the US dollar pushed upward the export price of palm oil in terms of Ringgit Malaysia during this period. The marked increase was also due to greater world demand for palm oil, particularly from India (+80.5%) and the European Union (+2%) (*Source: PORLA Homepage, Bank Negara Malaysia Annual Report 1999*).

In 1999, export revenues from palm oil declined to RM17.69 billion mainly due to the decrease in the average export prices of processed and crude palm oil. Despite the downward trend in prices, export volumes increased to 11.29 million tonnes (*Source : PORLA Homepage*).

The top four (4) largest importers of Malaysian palm oil in 1999 were India (2.38 million tonnes or 27.1% of total palm oil import), European Union (1.06 million tonnes or 12.1%), Pakistan (1.03 million tonnes or 11.7%) and China (0.79 million tonnes or 9.0%) (*Source : PORLA Homepage*).

5.7.3 Industry Life-Cycle

In Malaysia, the palm oil industry has grown and developed tremendously in the past 30 years to be the world leader. It may now be considered a mature industry and future growth domestically will probably be less rapid due mainly to constraints of suitable land.

More than 85% of palm oil is currently used for food products. The low population and domestic consumption in Malaysia means that the industry continues to be dependent on world consumption rates. The world demand for oils and fats is expected to increase sharply over the next two decades (*Source: Mielke, Int. Planters Conf. 2000*) as the world population is on an increasing trend and consumption per capita in populous developing countries, especially in China and India, increases due to higher income. The per capita consumption of India and China, two countries which account for 37% of world population currently, has risen rapidly from 8.0kg and 8.9 kg in 1994 to 11.1 kg and 12.7 kg respectively in 1999, as compared to average world per capita consumption of 18.1 kg (*Source: OIL WORLD Annual 2000*).

The world consumption of palm oil had increased from 4.4 million tonnes in 1980 to 19.3 million tonnes in 1999, an increase of fourfold (*Source: OIL WORLD Annual 2000*). Despite the low growth of oil consumption in the developed countries owing to the change in diet for health reasons, the overall demand for oils and fats over the next ten (10) years is expected to continue growing.

5. INFORMATION ON THE KLR GROUP (Cont'd)

About 10% of palm oil is produced into non-food products such as soaps and detergents. The Government and industry are now actively promoting its use in the large oleochemicals sector where its environment-friendly products are advantageous and where there are large potential as feedstocks for pharmaceuticals, personal care products, detergents, textiles, surface coatings, polymers and plastics. In addition, MPOB is researching the use of palm oil as bio-fuel and conversion of biomass from the trunks, fronds and empty fruit bunches into useful products such as furniture, medium density fibreboard and pulp and paper.

Palm oil occupies an important (and increasingly more so) position in the global output of oils and fats and is expected to be the main beneficiary of increased demand (*Source: Mielke, Int. Planters Conf. 2000*).

The growth in oils and fats consumption has direct and positive impact on the world palm oil market. In fact, the palm oil industry has been growing by leaps and bounds for the past nineteen (19) years from 1980 to 1999. This is clearly shown in the following table :-

World Demands for 17 Oils and Fats

Year	Palm Oil		Soyabean Oil		Other Oils & Fats		Total Consumption	
	('000 tonnes)	(%)	('000 tonnes)	(%)	('000 tonnes)	(%)	('000 tonnes)	(%)
1980	4,425	7.8	12,768	22.5	39,585	69.7	56,778	100.0
1985	6,601	9.8	13,839	20.6	46,829	69.6	67,269	100.0
1990	11,069	13.7	16,130	20.0	53,328	66.3	80,527	100.0
1995	14,710	15.9	19,436	21.0	58,292	63.1	92,438	100.0
1996	16,028	16.6	20,442	21.2	60,135	62.2	96,605	100.0
1997	17,619	17.5	21,523	21.4	61,512	61.1	100,654	100.0
1998	17,553	17.0	23,721	23.0	61,840	60.0	103,114	100.0
1999	19,276	17.9	24,589	22.8	64,121	59.3	107,986	100.0

Sources: OIL WORLD Annual 2000 and the long-range OIL WORLD study 2020 (which provides statistics from 1976-1999 and projections until 2020)

As can be seen from the above table, among the oils and fats industry, palm oil experienced the greatest growth as the world consumption of palm oil increased by more than four times from 4.42 million tonnes to 19.28 million tonnes during that period due to its techno-economic advantages. In terms of market share, palm oil accounted for 17.9% of world consumption of oils and fats in 1999 and is ranked number two after soyabean oil. But within the next 20 years, palm oil production will have to rise faster than other oils and fats and approach 46 million tonnes to satisfy world demand (*Source: Mielke, OFIC 2000*).

5.7.4 Sensitivity to Economic Downturn

As can be seen from the recent economic downturn that was experienced by the nation from mid 1997 to 1998, oil palm was the saviour to the country's economy at the time the country was threatened by economic and financial crisis. As shown in Table 2 above, the contribution of palm oil and its related products jumped by 60% from RM12.89 billion in 1997 to RM21.35 billion in 1998. In 1999, when palm oil prices declined sharply due to higher production and stock levels, export of palm oil recorded higher volumes due to the competitive prices of palm oil compared to those in 1998.

5. INFORMATION ON THE KLR GROUP (Cont'd)

As mentioned in Section 5.7.3 above, Malaysian palm oil industry has been and continues to be dependent on world consumption rates. The industry stands to benefit from China's forthcoming entry into the World Trade Organisation, mainly due to the potential increase in import quota for palm oil.

Therefore, it is seen that the oil palm industry which mainly produces basic food products is resilient to economic downturns. The investments in R&D currently into other uses for palm oil and its biomass could enhance the resilience of the industry further.

5.7.5 Government Legislation, Policies and Incentives

Due to its important contribution to the national economy, the Malaysian government has taken steps to ensure that the palm oil supply is sufficient to support the palm oil based industry. In general, some of the measures are technical assistance for smallholders, establishment of new markets for palm oil products and improved infrastructure for the industry. Extensive research is also undertaken by government bodies such as Palm Oil Research Institute of Malaysia ("PORIM") to ensure the competitiveness of the industry, the palm oil produced in Malaysia is of the highest quality and new uses and applications are found. The Government also promotes R&D in the industry by allowing double deduction for expenditure on approved research projects.

In 1999, the Malaysian Palm Oil Promotion Council ("MPOPC") held promotional activities in various countries to improve market opportunities and trade. In this regard, MPOPC has participated in 20 international exhibitions during the year. In 1999, the Advanced Oleochemical Technology Centre (under the MPOB) was also established to spearhead research into the production and utilisation of palm-based oleochemicals for more value-added downstream activities (*Source: Bank Negara Malaysia Annual Report 1999*).

On 1 May 2000, the MPOB was established pursuant to the introduction of the Malaysian Palm Oil Board Act 1998 (Act 582). MPOB is the premier government palm oil body in the country and took over the roles of PORLA and PORIM. With the establishment of MPOB, both PORLA and PORIM ceased to exist as these two bodies are now merged into the MPOB. MPOB is expected to provide more effective leadership and better direction of the industry in Malaysia by streamlining the activities of PORLA and PORIM.

MPOB's primary roles are to promote and develop the oil palm industry as well as to develop national objectives, policies and priorities for the orderly development of the industry. In achieving these objectives, MPOB is responsible for the implementation of policies and developmental programmes, carrying out research and development, technical promotion, training and disseminating of information (*Source: Ministry of Primary Industries Malaysia*).

The Government has also included oil palm, rubber, cocoa and timber in the Second Industrial Master Plan (IMP2) (1996–2010), which reflects the significance of these commodities in complementing and supporting the overall industrial development of the country. Similarly, under the Third National Agricultural Policy (NAP3) (1998-2010), oil palm, rubber, cocoa and timber have been identified as the major contributors to the agricultural value-added activities. Henceforth, these commodities will be further developed and sustained to support the development of the resource-based industries of the country.

5. INFORMATION ON THE KLR GROUP (Cont'd)

5.7.6 Industry Players And Competition

Malaysia's oil palm sector is facing competition in the world oils and fats industry. The competition mainly comes from:

External Competition And Industry Players in Terms of the World Market:-

(a) Other producing countries.

Over the last five (5) years, Indonesia's palm oil production increased by an average of 10.7% per annum despite the disruption caused by the political and economic turmoil in 1997/1998. Owing to its abundance of suitable land and labour, the lower production costs and relatively high yield potential per hectare, Indonesia is expected to remain the growth leader in the next fifteen (15) years. The list of major oil palm producers and their respective contributions over the past five (5) years is as follows:-

World Major Producers Of Palm Oil (In '000 Tonnes)

Year	Malaysia	Indonesia	Nigeria	Others	World
1995	7,811	4,220	660	2,519	15,210
1996	8,386	4,540	670	2,686	16,282
1997	9,057	5,380	680	2,774	17,891
1998	8,315	5,006	690	2,695	16,706
1999	10,554	6,250	720	2,952	20,476

(Source: Oil World Annual 2000)

However, Malaysia will continue to be the largest producer of palm oil globally in 1999/2000 and will probably remain as the world's largest palm oil producer for the next decade.

(b) Other oil crops.

Competition comes from soyabean oil, rapeseed oil and sunflower oil. However, their production costs per tonne are much higher than that of palm oil. This gives palm oil a competitive edge in term of pricing. However, research advances including genetic modification ("GM") technologies will reduce the production cost of other oil seeds in time to come.

Under favourable climatic conditions, as in Malaysia, the oil palm gives the highest yield of all the oil bearing plants and lower costs of production. Other countries tend to subsidise their oil seed crops. Although palm oil production is heavily taxed in Malaysia, the industry remains competitive.

Palm oil has a number of superior technical and health attributes over other vegetable oils especially in high temperature industrial frying as well as the manufacture of solid fats products and in its unique rich contents of tocotrienol type of Vitamin E and beta carotene.

The techno-economic advantages of palm oil therefore give it an important competitive edge over other competing oils and fats currently.

5. INFORMATION ON THE KLR GROUP (Cont'd)

Internal Competition And Industry Players in Terms of the Local Market :-

(a) Plantation

In 1999, smallholders, who are engaged in small-scale planting of less than 100 acres, contributed approximately 15.6% or 0.5 million hectares of the total oil palm plantation area of 3.2 million hectares. In terms of ownership, private estates accounted for the largest share of 58.2% of the total oil palm cultivated area or 1.9 million hectares. Organised smallholder schemes under the Federal Land Development Authority, Federal Land Consolidated and Rehabilitation Authority and the Rubber Industry Small holders Development Authority as a group accounted for 26.2% or 0.8 million hectares.

(Source: Bank Negara Malaysia Annual Report, 1999)

As palm oil is a commodity, there is minimal competition amongst the local plantation owners and smallholders in selling their FFB to the mills at the prevailing prices. However, local industry players basically compete for land and labour. As more and more oil palm estates are being developed, good land is getting scarce. This has resulted in higher land prices as well as the development of land with marginally suitable soil. Availability of labour is another concern of the local palm oil industry. Local workers' dislike of plantation jobs, government restrictions on the import of foreign workers as well as high turnover of workers, whether being pinched by other plantation owners or running away to join other industries for better pay, have contributed to a higher labour cost. All these factors have caused an increase in the production cost per tonne of palm oil.

The capital requirements for smallholders are relatively low compared to the large plantations. However, there is no real economy of scale for these smallholders and efficiency of running a small plantation is not maximized. On the other hand, a plantation company such as KLR will be in a better position to compete as it enjoys economy of scale in management and financial resources, fertilizer sourcing, land purchase and development, labour recruitment and retention, mechanization and technical back-up to increase yields and minimize the impact of higher production cost.

Some of the major oil palm plantation industry players in Malaysia are as follows:-

	Name	Plantation Area (Hectares)	Source
i.	Kuala Lumpur Kepong Berhad	101,467	1999 Annual Report
ii.	Golden Hope Berhad	94,763	1999 Annual Report
iii.	IOI Corporation Berhad	88,374	1999 Annual Report
iv.	Sime Darby Berhad	78,981	1999 Annual Report
v.	Boustead Holdings Berhad	76,942	1999 Annual Report

(b) Milling

Based on Directory of Palm Oil Processing Sector issued by MPOB in May 2000, there are 335 palm oil mills (commercial and plantation mills) throughout Malaysia.

5. INFORMATION ON THE KLR GROUP (Cont'd)

Plantation mills do not compete significantly for external FFB supplies because these mills are normally designed to cope with their own plantation FFB crops. Among the commercial mills, there is competition for the supply of FFB crops in the same region. High transport cost of FFB will render far away mills uncompetitive. Fortunately current restrictive policies of the State Authority and MPOB of only approving new palm oil mill licences in line with the availability of oil palm FFB supply in the region have reduced the problems on processing margin arising from the competition for FFB supplies among the commercial millers. Some of the millers within the 60 km radius from KLPOM's mill in Kota Tinggi are :-

	<u>Millers</u>	<u>Location</u>	<u>Type of mills</u>
i.	Kilang Sawit Risda Sungai Ambat	Mersing, Johor	Commercial
ii.	Malim Sawit Oil Palm Mill	Layang-Layang, Kulai, Johor	Commercial
iii.	Masai Oil Palm Mill	Masai, Johor	Plantation/ Commercial
iv.	Tai Tak Oil Palm Mill	Kota Tinggi, Johor	Plantation/ Commercial

(Source: KLR Management and Directory of Palm Oil Processing Sector Issued by MPOB)

KLPOM's mill is strategically located near major sources of FFB supply, palm oil refineries and ports. Owing to its good reputation, large milling capacity, financial strength and competitive pricing, KLPOM has enjoyed a strong stream of FFB supply from the surrounding small and medium size estates which do not have their own mill. Being the largest commercial mill in Malaysia, KLPOM enjoys economy of scale which is reflected in lower processing cost and good profit margin.

5.7.7 Summary Of Outlook And Prospects Of The Industry

During the past forty (40) years, world palm oil output increased tremendously. In 1958, world production was only 1.3 million tonnes and Malaysia's contribution was only about 71,500 tonnes or 5.5%. Since then, production has increased steeply, to 3.2 million tonnes in 1976 and to 20.5 million tonnes in 1999, with Malaysia contributing 10.6 million tonnes or approximately 52% of the world's total production of palm oil (Source: various OIL WORLD publications).

The share of palm oil of the total world consumption of oils and fats in 1999 was estimated at 17.9%. The world demand for oils and fats is expected to continue its steady upward climb owing to population growth, higher income and increased per capita consumption of oils and fats. Per capita consumption growth rate can be expected to increase further especially in India and China where the average per capita consumption is still low at 11.1 kg and 12.7 kg in 1999 compared to the world average of 18.1 kg. Within the next 25 years, the world population will increase by about 2 billion.

It has been projected by OIL WORLD (Source: Long Range Study OIL WORLD 2020) that oil palm will be the best crop to meet additional world demand and that it will be necessary to expand oil palm planting by an average of 280,000 hectares per year to satisfy this demand within the next 20 years, which comes on top of the replanting necessities (that will be growing considerably in the years ahead). In the long run therefore, demand prospects for palm oil are also excellent.

5. INFORMATION ON THE KLR GROUP (Cont'd)

Nevertheless, the palm oil market and prices are presently under pressure amid a record 22% world increase in production in 1999 causing high carryover stocks into 2000 and prospects of high soyabean production. The strength of the local CPO prices in 1998 was supported by the strengthening of the US dollar against Ringgit Malaysia, the decline in the world palm oil production in 1998 due to lower yields, the low vegetable oil stocks and the Indonesian government's ban on the export of CPO. Since early 1999, the price of palm oil has weakened. The average price in 1998 was RM2,391 per tonne but in 1999 the average price dropped to RM1,462 per tonne.

Towards the end of 1999, CPO prices weakened due to large stocks and the possibility of higher import taxes by India and Pakistan and in year 2000, the average CPO price is expected to be markedly lower than in 1999. Nevertheless, from the techno-economic strengths of palm oil and its products, consumption growth prospects in China and India and the establishment of the World Trade Organisation as well, the medium to long term prospects for palm oil prices and profitability for the industry should be good. However, the price outlook is much brighter for 2001 and 2002, when palm oil prices are likely to recover pronouncedly (*Source: Mielke, OFIC 2000*).

The oil palm plantation industry is now a mature industry. Its future growth in Malaysia will be constrained by lack of suitable land and shortage of workers. However, it has an excellent versatile important basic food and potentially important industrial product in palm oil. It also has made major investments in infrastructure, R&D, technical, marketing and other essential support services which will improve and strengthen the competitiveness of the Industry in the years ahead. The recent formation of the MPOB and the newly set-up Malaysian Palm Oil Association (MPOA) to serve the interests of the plantations show the determination of the industry to continue to succeed in future.

5.8 MAJOR CUSTOMERS

FFB produced by the KLR Group's plantation division are sold to local millers and the Group is not over-dependent on any single palm oil mill. The list of major customers of the Group's FFB is as follows:-

Sales of FFB (in tonnes) by KLR Group for the Past 5 Years

FFB Customers	Year ended 31 December 1995 *	13 months ended 31 January 1997 *	Year ended 31 January			Total
			1998	1999	2000	
Berkat Setia Sdn Bhd	5,830	5,917	4,758	1,433	-	17,938
Desa Talisai Palm Oil Mill Sdn Bhd	8,760	14,600	21,116	12,104	3,043	59,623
Ladang Mills Sdn Bhd	-	-	-	7,579	39,935	46,514
Atlantica Sdn Bhd	-	-	-	-	1,499	1,499
TOTAL	14,590	20,517	25,874	21,116	44,477	125,574

* FFB sales from the SKL and KLPSB estates which were transferred to KLR in October 1997.

5. INFORMATION ON THE KLR GROUP (Cont'd)

As a commodity product, CPO produced by the Group's mill division can be sold to any refinery in Pasir Gudang area. However, the Group presently sells almost 71% of its CPO to Pasir Gudang Edible Oil Sdn Bhd, a subsidiary of Federal Flour Mill Bhd, being one of the largest refineries in the Pasir Gudang area. The KLR Group has built up a long-term relationship with Pasir Gudang Edible Oil Sdn Bhd over the past twenty (20) years and the company has emerged as the single largest CPO customer to the Group.

Nevertheless, the Group's mill division has also established a long term relationship with other refineries over the past twenty (20) years. The major CPO and PKO customers of the Group and the lengths of relationship are set out below:-

Major CPO Customers (in tonnes)

CPO Customers	Total CPO purchased for the year ended 31 January 2000		Length of relationship
	Tonnes	%	
Keck Seng (M) Bhd	5,215	6.50	1982
Pacific Edible Oil Industries Sdn Bhd	11,381	14.19	1982
Pasir Gudang Edible Oil Sdn Bhd	56,899	70.93	1982
Soctek (M) Sdn Bhd	3,607	4.50	1982

Major PKO Customers (in tonnes)

PKO Customers	Total PKO purchased for the year ended 31 January 2000		Length of relationship
	Tonnes	%	
Akzo & Pacific Oleochemical Sdn Bhd	6,388	48.36	1990
Keck Seng (M) Bhd	2,005	15.18	1982
Vegetable Oil Industries Sdn Bhd	2,610	19.76	1985

5.9 MAJOR SUPPLIERS

The Group's mill division is not dependent on any single supplier for its FFB (i.e. none of the existing suppliers supply more than 10% of the Group's FFB for its milling operations). The Group has established long term relationships with most of its major suppliers over the past twenty (20) years.

The list of major FFB suppliers and the lengths of relationship are as follows:-

Major FFB Suppliers (in tonnes)

FFB Suppliers	Total FFB purchased for the year ended 31 January 2000		Length of relationship
	Tonnes	%	
Pertubuhan Peladang Negeri Johor	39,524	8.99	1985
Lee Plantations Pte Ltd	30,228	6.88	1982
Lee Seng Trading Co.	36,524	8.31	1982
Shoon Hong Rubber Co. Sdn Bhd	34,639	7.88	1992

5. INFORMATION ON THE KLR GROUP (Cont'd)

5.10 FUTURE PLANS, STRATEGIES AND PROSPECTS OF THE COMPANY**5.10.1 Viability***(a) Product Diversity and Quality*

The main products of KLR Group are FFB, CPO and PKO. Demand for palm oil products in the world market is high because palm oil has a wide spectrum of usage. The utilization of palm oil could be broadly classified into food and non-food (industrial) uses. For the food industry, which utilises 85% of palm oil, it is commonly used as a cooking media (frying) or ingredient in food. It is also used to manufacture margarine, compound fats, confectionery, biscuits, cream and ice cream. In the non-food applications, palm oil is used to make soap, detergents, cosmetics, pharmaceuticals, household and industrial products.

The world demand for palm oil is on an increasing trend in tandem with the increase in the world population and higher per capita consumption in many developing countries especially in China and India.

As consumers become more health conscious, the preference for vegetable oils is expected to dominate their choice. This move has caused the consumption of the four main types of animal fats to decline sharply over the years. Being a vegetable oil and due to its competitiveness in price, high quality as well as versatility, palm oil stands a very good chance to capture a higher world market share. The competitive price is mainly due to lower cost of production resulting from economy of scale in large-scale cultivation, high yield and oil content of palm fruits.

Based on the foregoing, palm oil forms part of the basic living necessities (e.g. as foods) rather than the luxury items.

KLR produces by-products of value such as PKE and bio-fertilizers. Demand for PKE as animal feed is mainly from Europe. The Group sells all of its PKE production to a local exporter at market price.

Bio-fertilizer manufactured from palm oil waste is a new product that has large market potential. The Group is currently jointly developing various value-added products from the oil palm empty bunch and decanter solid with the technical and marketing support from the joint venture partners of KLESB.

(b) Elasticity of Demand

Palm oil is superior to other oils and fats in the manufacturing of instant noodle and other food products. It is highly stable against oxidation damage during frying. Therefore, demand is not price elastic in the food manufacturing industries.

However, for home consumption, it is in direct competition with other vegetable oils and therefore highly price sensitive especially because its main market is in the poorer developing countries.

The demand for palm oil is on an increasing trend as the world population is increasing and consumption per capita is increasing in developing countries. With more new findings on the usage of palm oil and its generally lower production cost as compared to other oil seed products such as soyabean oil, it has a very good competitive edge against other oil products.

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

Besides, palm oil is also advantageous in terms of its healthiness for human consumption. It is endowed with a good mixture of anti-oxidants and has a balanced mixture of different classes of fatty acids which makes it a safe, stable and versatile oil with many positive health and nutritional benefits. *(Source : MPOB, Planter, May 2000)*

Palm oil is expected to meet the world's growing demand for fats and oils and is set to become the leading oil in 2012 *(Source : Mielke, International Planters Conference, May 2000)*.

Therefore, from the above, it is clear that the palm oil industry is a growing and viable industry not only to the nation, but also in the world market. Palm oil is a commodity, thus the elasticity of demand for the palm oil industry and the Group is the same.

(c) Competitive Advantage

The competitive advantages of KLR Group are as follows:

(i) Large proportion of immature plantations

The KLR Group has a total plantation land of approximately 28,000 acres, out of which only approximately 5,700 acres or 20% are matured in 2000. The large proportion of immature area will enable the Group to achieve an exponential increase in total FFB production in the next few years from the increased mature acreage and higher yields with age of the palms. This will improve the earning capacity of the Group from the plantation division significantly in the next few years.

(ii) Capability to diversify

KLR's holding company, SKL has been in the plantation and palm oil mill business for more than 20 years. By liaising with MPOB and other researchers, the Group will be able to combine the latest technology developed with its experience and knowledge in plantation and palm oil mill industries to identify commercially viable products for vertical diversification by setting up related facilities to manufacture/market these products. Some research projects by MPOB, which include particleboard, biodegradable plastics and diesel or lubricants for machinery might be commercially viable in the future. This development is positive in view of the impending depletion of timber supply and world petroleum reserves.

The Group's minimal borrowings and strong income stream from the existing plantation and mill operations will be an additional strength for the above diversification.

(iii) Less Price Sensitive

At present, profitability of KLR Group is less sensitive to changes in palm oil prices owing to the much higher profit contributions from the milling operations compared to the plantation operations. This position will remain for the next three (3) years until year 2003 when the earnings from the plantation operations will increase substantially due to the maturity of new plantations.

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

- (iv) Capability to increase yield and setting up new palm oil mills for a more integrated operation

For future planting on the Keningau landbank, KLR Group intends to use the latest planting technology (such as mechanization, mulching and fertilization) and latest proven planting materials in order to improve the FFB quality and yields and reduce the planting and operating costs. Mechanization on suitable terrain is one of the methods to resolve labour shortage and improve efficiencies for manuring, pest and disease control, harvesting and collection.

KLR Group plans to set up a new palm oil mill in Keningau, Sabah in year 2004 in order to establish a more integrated plantation operation and allow better utilisation and recycling of waste and residuals from the mill. This will also enable the Group to reduce FFB transportation and fertilization costs.

- (v) Strategic Location of Kota Tinggi Mill

The Kota Tinggi mill is strategically located 40 km from Pasir Gudang Port and surrounded by oil palm estates. Due to good reputation, financial strength and competitive pricing, the mill has enjoyed a strong stream of FFB supply from the surrounding small and medium size estates which do not have their own mill. This has allowed the mill to operate near 90% capacity for most of the year.

- (vi) Strategic Locations of Sabah Plantations

All KLR's Sabah plantations are located near big towns and are easily accessible by roads, enabling despatch of FFB and supplies such as fertilizers at low transportation cost.

- (vii) Management Experience

KLR's directors and management have extensive experience in the management of plantation and milling operations. They also receive good advice from consultants and planting advisors. The company already has in place a good management team, which will ensure maximum return with proper agricultural and industrial practices.

KLR has many highly experienced, dedicated and loyal employees in its existing subsidiaries. Some of the employees have been with the respective subsidiaries for over 10 years, with a few since the start of operation. Their support of management is one of the reasons for the success of the company today.

5. INFORMATION ON THE KLR GROUP (Cont'd)

5.10.2 Vulnerability

(a) Long Term Contract

The Group has managed to reduce its market risks and vulnerability by entering into long term contracts as follows:-

Major FFB Customers

KLR supplies FFB to Atlantica Sdn Bhd upon the terms set out in a letter dated 19 August 1999, where, inter alia, the amount payable is in accordance with a stipulated formula based on monthly average prices of CPO and PK published by MPOB. KLR also supplies FFB to Ladang Mills Sdn Bhd upon the terms and conditions set out in an Agreement dated 19 September 2000. Again, the amount payable is in accordance with a stipulated formula based on MPOB monthly average prices of CPO and PK.

These customers purchased approximately 92% of the FFB from Sabah plantations (in the financial year 2000).

For other major customers of FFB such as Desa Talisai Palm Oil Mill Sdn. Bhd., no formal contract has been entered into. However, the course of dealings between the parties are such that payment will be made by end of the month for all FFB delivered in that month at a fixed price set by the respective customers for all supplies of FFB. The Group endeavours to retain its customers by providing good quality crop.

Major FFB Suppliers

KLPO has entered into an agreement dated 1 June 2000 to purchase FFB from one of its major suppliers, Pertubuhan Peladang Negeri Johor for a duration of 12 months. Prices are fixed in accordance with a stipulated formula based on, inter alia, MPOB's monthly Peninsula Malaysia average delivered CPO price and MPOB's monthly average ex-mill PK price.

Currently, apart from the above, no long term contract has been entered into with FFB suppliers. Normally, such agreements are not entered into unless required by suppliers which are normally big plantations. The Group prefers to retain its suppliers by paying competitive prices for FFB delivered.

For major suppliers where no formal contract has been entered into, the course of dealings between the parties are such that payment will be made by end of the month for all FFB delivered in that month at a fixed price set by the Group for all supplies of FFB.

Major CPO Customers

The major customers are Pasir Gudang Edible Oil Sdn Bhd (purchasing an average of approximately 78% annually for the past 5 years) and Pacific Edible Oil Industries Sdn Bhd (purchasing an average of approximately 4% annually for the past 5 years).

5. INFORMATION ON THE KLR GROUP *(Cont'd)*

All transactions pertaining to major customers of CPO are governed by a prescribed form/contract known as Domestic Contract for Malaysian Crude Unbleached Palm Oil In Bulk issued jointly by The Palm Oil Refiners Association of Malaysia (PORAM) and The Malaysian Oil Palm Growers' Council (MOPGC) which sets out the standard terms such as the quality of CPO, sampling, delivery/collection of CPO, insurance and arbitration. Various other terms including quantity, delivery/collection period, method and terms of payment are decided by the parties themselves. Prices are also fixed according to the monthly average price of CPO published by MPOB plus an agreed premium.

Major PKO Customers

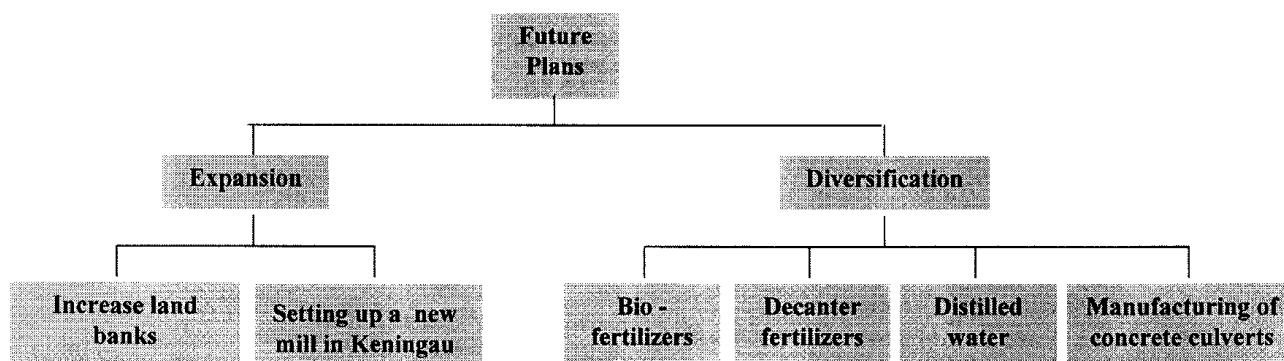
The major customer is Akzo & Pacific Oleochemical Sdn Bhd (purchasing an average of approximately 31% for the past 5 years).

All transactions pertaining to major customers of PKO are governed by a prescribed form/contract known as Domestic Contract for Malaysian Palm Kernel Oil issued by the Malaysian Edible Oil Manufacturers' Association which sets out the standard terms such as the quality, sampling, collection/delivery, insurance and arbitration. Various other terms including quantity, delivery/collection period, method and terms of payment are decided by the parties themselves. Prices are also fixed according to the monthly average price of PKO published by MPOB plus an agreed premium.

(b) *Capability to Diversify*

The Group intends to diversify its businesses, i.e. from plantation and milling to manufacturing other related by-products. This will include the full usage of the effluent sludge solids for the production of decanter fertilizer and wastes from the plantation and mill operations, such as harnessing of empty bunches for power generation, production of bio-fertilizer and distilled water. Therefore, with the willingness to venture into synergistic diversification in the otherwise traditional oil palm businesses, the Group has great potential for expanding its businesses and operations.

5.10.3 Future Plans and Strategies



5. INFORMATION ON THE KLR GROUP (Cont'd)

Being one of the established major players in the palm oil industry, KLR is confident of the future prospects for the palm oil industry. It has set a series of expansion plans to transform the Group into a palm oil conglomerate. Some of the future expansion plans are:

- (a) To expand its land bank for oil palm cultivation in Johor, Pahang and Sabah.

KLR is expanding in Sabah as the land cost is cheaper and there are less problems of labour supply. KLR will also be actively sourcing for land near Kota Tinggi, Johor for oil palm cultivation to supplement the FFB supply to its Kota Tinggi palm oil mill.

- (b) To start its milling business in Sook, Keningau.

An agreement has been signed with Desa Cattle (S) Sdn Bhd to build and operate a 60 tonnes of FFB per hour palm oil mill by 2004 through a joint venture company, DKLPO. The proposed palm oil mill will be designed to process FFB production from OHSB and DOSB, as well as from the neighborhood. Construction of the mill will commence in year 2003 and is expected to be completed in 2004. The timing to start the mill operations in 2004 is to ensure that there will be sufficient internal FFB supplies when the balance of the 80% of the oil palm trees mature in stages. The capital commitment involved in setting up the mill is in the region of RM25 million, out of which fifty percent (50%) of the financing will come from internally generated funds and the rest from bank borrowing. Phase 1 capacity of the plant will be 60 tonnes per hour. Currently, the management is not aware of any CPO mill in the vicinity of Sook, Keningau. FFB produced by smallholders have to be sent to the nearest mill in Beaufort. This mill is unable to cater for the supply of FFB from the Keningau area. The establishment of DKLPO's mill will help to solve this problem faced by many smallholders and will spur large-scale development of oil palm cultivation in the Keningau district.

- (c) To expand its downstream businesses, such as recycling empty bunches for use as fuel for power generation and for organic fertilizer and to diversify into non-palm related activity if the market is conducive, such as distilled water for the consumer market.

The cost of setting up these downstream businesses is low, as the raw materials are by-products from the mill's CPO extraction process. Hence, the profit margins from these operations are expected to be high. The Group has started to venture into the following downstream activities:-

- (i) harnessing the empty bunches for power generation (presently this is for internal consumption only);
- (ii) bio-fertilizer from the waste of the fruit bunches after the oil has been extracted from the FFB (presently it is still under R&D for internal use. However, the Group intends to commercialise the bio-fertilizer after the R&D is completed);
- (iii) decanter solid fertilizer from the waste from the milling division. This fertilizer is presently sold to outsiders and it is making profits for the Group;
- (iv) distilled water from the steam generated from the power generation process. This is still under R&D and waiting for the approval from the Ministry of Health for public consumption. The Group intends to commercialise the distilled water production, upon receiving the approval from the relevant authorities, in the future.