3. PARTICULARS OF THE ISSUE

Application has been made to the KLSE for admission to the Official List of the Main Board of the KLSE and for dealing in and quotation for the entire issued and paid-up ordinary shares of the Company, including the Public Issue shares, which are the subject of this Prospectus, the approval of which is still pending.

These ordinary shares will be admitted to the Official List of 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 for quotation of all the issued shares of the Company. Monies paid in respect of any application accepted will be returned without interest if the said permission is not granted.

3.1 Opening and Closing Dates of the Applications

The Application Lists will open at 10.00 a.m. on 1 November 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 KLR in their absolute discretion may decide. Late applications will not be accepted.

3.2 Dates of Special Events

Opening Date	:	18 October 2000
Closing Date	:	1 November 2000
Tentative Balloting Date	:	6 November 2000
Tentative Allotment Date	:	15 November 2000
Tentative Listing Date	:	21 November 2000

On 13 September 2000, the SC approved the extension of time to 22 November 2000 for KLR to implement the Proposed Listing.

3.3 Purposes of the Issue

The purposes of the Issue are as follows:

(i) to grant KLR access to the capital market for funds to finance future expansion and growth;

(ii) to provide funds for part cash settlement of the Acquisitions and to meet the present and future working capital requirements of the KLR Group;

(iii) to provide an opportunity for the eligible employees, suppliers and the Malaysian investing public to participate in the continuing growth and profitability of the Company; and

(iv) to obtain listing of and quotation for KLR shares on the Main Board of the KLSE and also to comply with the listing requirement of the KLSE and SC with regard to the minimum shareholding spread.

3. PARTICULARS OF THE ISSUE *(Cont'd)*

3.4 Number And Class Of Securities To Be Issued

Issued and fully paid-up	**RM**
74,112,000 ordinary shares of RM1.00 each	74,112,000
To be issued as fully paid-up pursuant to the:-	
Restricted issue of 28,142,000 new ordinary shares of RM1.00 each	28,142,000
Public issue of 4,496,000 new ordinary shares of RM1.00 each	4,496,000
Enlarged issued and paid-up share capital	**106,750,000**
Issue Price Per Ordinary Share	**RM1.80**

There is only one class of shares in the Company, namely, ordinary shares of RM1.00 each, all of which rank pari passu with one another. The new shares to be issued pursuant to the Public Issue and Restricted 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 rights to all dividends and distributions that may be declared subsequent to the date of this Prospectus.

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

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held.

3.5 Details Of The Public Issue

The Issue shall be subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares will be allocated in the following manner:

(i) Eligible Employees And Suppliers

694,000 ordinary shares of RM1.00 each have been reserved for eligible employees and suppliers of the KLR Group.

(ii) Malaysian Public

A total of 3,802,000 Issue Shares of RM1.00 each will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

The ordinary shares under paragraph (i) above are not underwritten. However, in the event that any of the Issue Shares under paragraph (i) above are not taken up by the eligible employees and suppliers of KLR Group, such Issue Shares will be made available for application by members of the Malaysian investing public. All the Issue Shares under paragraph (ii) above have been fully underwritten together with any ordinary shares not subscribed for by eligible employees and suppliers of the KLR Group under paragraph (i) above.

3. PARTICULARS OF THE ISSUE *(Cont'd)*

3.6 Basis Of Arriving At The Issue Price

The issue price of RM1.80 per share was determined and agreed upon by the Company and Aseambankers, as Adviser and the Managing Underwriter, based on various factors after taking into account the following:-

(i) The Group's financial and operating history and conditions as outlined in Section 5 of this Prospectus;

(ii) The proforma forecast net PE multiple of 7.03 times based on the proforma forecast net EPS of 25.59 sen and the issue price of RM1.80 per share;

(iii) The future plans and prospects of the KLR Group as mentioned in Section 5.10 of this Prospectus; and

(iv) The proforma consolidated NTA per share of KLR as at 30 April 2000 of RM1.47.

3.7 Proposed Utilisation of Proceeds

The total gross proceeds of RM72,367,400 arising from Rights Issue, Restricted Issue and Public Issue and after deducting the related expenses shall be accrued entirely to KLR and utilised as follows :-

		Note	RM
1.	Repayment of existing KLR's loan from SKL	(a)	13,619,000
2.	Part cash settlement for the Proposed Acquisition of KLC	(b)	18,955,656
3.	Part cash settlement for the Proposed Acquisition of KLPO	(b)	19,288,135
4.	Part cash settlement for the Proposed Acquisition of OMSB	(b)	4,774,740
5.	Working Capital Requirement for the new listed KLR Group	(c)	13,729,869
6.	Estimated expenses for the listing of KLR on the Main Board of the KLSE	(d)	2,000,000
Total			**72,367,400**

Notes:-

(a) The KLR Group has utilised RM13.619 million of the proceeds from the Rights Issue, Restricted Issue and Public Issue to repay the existing interest free advances from SKL, its parent company, for the acquisitions of plantation land and fixed assets. The repayment of such advances, which was made via the issuance of 13,619,000 new ordinary shares of RM1.00 pursuant to the Rights Issue, was completed on 19 July 2000.

The repayment of such advances, which is interest free, has not contributed any interest savings to the KLR Group.

(b) Details of the abovementioned payments are set out in Section 5.5.4 of this Prospectus.

3. PARTICULARS OF THE ISSUE *(Cont'd)*

(c) The working capital will be utilised for the development of plantation land acquired in Sabah. Details of the working capital requirements are as follows:-

	RM
Estimated plantation development expenditure for the financial years 2000 and 2001	22,100,000
Less: Proposed utilisation of proceeds	13,729,869
Balance to be financed from KLR's cash reserves and bank balances	8,370,131

The abovementioned plantation development expenditure will be incurred for land in Sabah held under CL 135328782, CL 135345069 and CL 095317123. The actual amount of the expenditure incurred from February 1999 to April 2000 was RM11.2 million and was financed by advances from SKL. KLR will continue to receive advances from SKL for the expenditure up to the date of listing. Such advances, the amount of which can only be determined after the finalisation of the accounts of KLR for the financial year 2001 in May 2001, shall be repaid from proceeds arising from the Restricted Issue and Public Issue and, if necessary, internally generated funds.

On 13 September 2000, the SC approved the extension of time to 30 May 2001 for KLR to fully utilise the proceeds arising from the Restricted Issue and Public Issue for the working capital purposes as mentioned above. Nevertheless, the Board of Directors of KLR is allowed to determine the actual period for the utilisation of proceeds subject to the conditions as mentioned in Section 7 of this Prospectus.

(d) Details of estimated listing expenses are set out in Section 3.10 below.

All expenses and fees incidental to the listing of and the quotation for the entire enlarged issued and paid-up share capital of KLR on the Main Board of the KLSE including underwriting commission and brokerage for the Issue Shares estimated at RM2,000,000 will be borne by KLR.

Based on the Public Issue of 4,496,000 new ordinary shares to be raised of RM1.00 each at an issue price of RM1.80 per ordinary share, the minimum subscription to be raised from the Public Issue is RM8,092,800.

3.8 Underwriting Commission And Brokerage

The Managing Underwriter and other Underwriters mentioned earlier in this Prospectus have entered into an underwriting agreement on 9 August 2000 for the underwriting of up to 3,802,000 Issue Shares to be made available to the Malaysian public. Any ordinary shares not subscribed for by eligible employees and suppliers of the Group under paragraph 3.5(i) above shall be underwritten by the Managing Underwriter. Underwriting commission relating to the Issue Shares to be underwritten is payable by the Company at the rate of 1.5% of the issue price of RM1.80 per ordinary share. Particulars of the underwriters are set out in Section 1 above.

Brokerage relating to the Issue Shares is payable by the Company at the rate of 1% of the issue price of RM1.80 per ordinary share in respect of successful applications which bear the stamp of Aseambankers Malaysia Berhad, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

3.9 Force Majeure Clause in the Underwriting Agreement

The majority underwriters acting through the Managing Underwriter may at any time be entitled to terminate their respective obligations under the Underwriting Agreement dated 9 August 2000 by a majority decision with a notice in writing to KLR on the occurence of all or any of the following matters on or before the Closing Date if the success of the Public Issue is, in the opinion of the majority underwriters, seriously jeopardised by:-

(i) Any Government requisition or other occurence of any nature whatsoever which in the opinion of the majority underwriters seriously affects or will seriously affect the business of KLR or its subsidiaries; or

(ii) Any change in national or international monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the majority underwriters prejudice materially the success of the Public Issue and their distribution or sale; or

(iii) Any breach of the representations, warranties and undertakings referred to in Clause 2 of the Underwriting Agreement or withholding of information of a material nature from the Managing Underwriter and the underwriters.

On delivery of such a notice by the Managing Underwriter and confirmation of such a notice by telex, telegraph or cable, the Underwriting Agreement shall be terminated and the underwriters, the Managing Underwriter and KLR shall confer with a view to deferring the Public Issue or amending its terms or the terms of the Underwriting Agreement and entering into a new underwriting agreement accordingly, but neither KLR, the Managing Underwriter nor the underwriters shall be under any obligation to make a fresh agreement. In the event of any such termination or deferment under the situation envisaged in paragraphs (i) and (ii) above, KLR shall bear all the costs and expenses incurred under the Underwriting Agreement.

Majority underwriters shall mean at least two (2) or more underwriters comprising the Managing Underwriter and/or the underwriters collectively holding not less than fifty percent (50%) of the underwritten shares.

3.10 Estimated Listing Expenses

The estimated listing expenses for the proposed listing of and quotation for the enlarged share capital of 106,750,000 ordinary shares of RM1.00 each in KLR on the Main Board of KLSE are as follows:

	To be borne by KLR RM
The KLSE's Listing Fee	50,000
Lodging of Prospectus with ROC	300
Securities Commission processing fee	103,375
Issuing house fee and other disbursements	100,000
Advertisement of prospectus	150,000
Printing of application forms, share certificates and prospectus	250,000
Professional advisory fees	650,000
Underwriting commission @ 1.5%	121,392
Brokerage fees @ 1%	80,928
	1,505,995
Contingencies *	494,005
Total Estimated Listing Expenses	**2,000,000**

* *Any unutilised amount shall be for working capital purposes of the Company.*

4. RISK FACTORS

In addition to considering carefully all the relevant information contained elsewhere in this Prospectus, applicants for the Issue Shares should rely on their own examination of the KLR Group and the terms of this Public Issue, including but not limited to the following investment considerations before making an application:

(a) Marketability Of KLR Shares

Prior to this Public Issue, there has been no public market for KLR's shares and there can be no assurance regarding the future development of the market for the shares. The issue price of RM1.80 per ordinary share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and standing, the future prospects of the Group and the industry in which the Group is involved, the net tangible assets of the Group and the prevailing market condition at the time of application to the SC for the listing of KLR's shares.

There is no assurance that the issue price will correspond to the price at which KLR's shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for KLR's shares will develop and continue upon or subsequent to its listing.

(b) Business Risks

As the Group's principal activities are mainly concentrated in the cultivation and milling of oil palm, the Group is susceptible to certain business risks inherent in the oil palm industry. These include but not limited to constraints and rising costs of labour supply and raw materials for its plantation and mill operations, changes in the world demand for oils and fats, effects of poor weather, commodity price fluctuations, threat of substitute products and changes in economic and business conditions.

Acknowledging the fact that the Group is operating in an ever changing business environment, the Group always keeps abreast with the latest developments in the industry and have taken several steps to minimise these business risks which include the following:-

- The Group has built an experienced and dedicated management team for the plantations and mills, and where necessary, has engaged reputable agronomic, engineering and management consultants and advisers for its plantation and milling operations.

- The Group practises consistently high standards of plantation management and milling practices. To ensure that all the areas cultivated are profitable, all oil palm trees older than 25 years will be replanted. However, the Group will not have major replanting costs for the next 15 years as 80% of the Group's current plantings are immature.

- The Group has taken steps to secure the supply of germinated seeds from different reputable suppliers. These will be raised in its own nurseries to ensure a continuous supply of high quality seedlings for its plantings.

- The Group is actively sourcing for suitable land in Sabah, Pahang and Johor for its oil palm cultivation to improve economies of scale.

- The Group has started to venture into profitable downstream businesses by using by-products from the plantation and milling divisions such as recycling of empty bunches for use as fuel for power generation and for organic fertilizer.

- The Group has taken steps to hedge against fluctuation in crude palm oil ("CPO") and palm kernel oil ("PKO") prices by entering into annual contracts with some long-term customers at Malaysian Palm Oil Board's ("MPOB") (formerly Palm Oil Registration and Licensing Authority ("PORLA")) monthly average price for CPO and PKO plus a small premium.

(c) Investment Activities Risk

A small percentage of the excess cash of the Group from its profitable operations is invested in securities listed on the KLSE and in new business ventures. As at 10 October 2000, being the last practicable date prior to the printing of this Prospectus, the market value of KLR's investment in listed securities was RM5.4 million.

The value of investments in quoted securities is subject to the fluctuations of the market. The Directors of KLR take a prudent approach in making investments in quoted shares. The Directors of KLR has, via its letter dated 10 October 2000, provided an undertaking that the Company shall not venture into any business that is in conflict with or not related to its current business.

(d) Working Capital, Capital Commitment and Indebtedness

(i) Working Capital

The Directors of KLR are of the opinion that, after taking into account the cashflow projection, banking facilities available and gross proceeds from the Rights Issue, Restricted Issue and Public Issue, the KLR Group will have adequate working capital for its current requirements.

(ii) Borrowings

As at 10 October 2000, being the latest practicable date prior to the printing of this Prospectus, the total bank facilities of the Group amounted to RM40.5 million, out of which RM3.5 million has been utilised.

Save as disclosed above, the KLR Group does not have any other borrowings and indebtedness in the form of borrowings, including bank overdraft and liabilities under acceptances, hire purchase or commitments on guarantees.

Covenants on borrowings

Three (3) of KLR's subsidiaries, namely KLPO, KLPOM and DOSB, have facilities with some of the Principal Bankers for their business operations. The common covenants found in these facility agreements are, inter alia, that the respective companies shall not, without prior consent in writing from the respective banks :-

(i) incur, assume, guarantee or permit to exist any indebtedness, except short-term debt incurred in the ordinary course of business;
(ii) make or permit to exist loans or make advances to others or make investments in other companies or enterprises or guarantee any person, enterprise or company, other than normal trade credit or trade guarantees or temporary loans to staff, customers, contractors or suppliers in the ordinary course of business;
(iii) reduce the paid up share capital;
(iv) alter the present ownership structure of the respective companies;

(v) where land is given as a security, sell, transfer, assign, lease, charge, raise money or otherwise howsoever deal with the land or make the same subject to any burden charge encumbrance liability or lien or make any application for the alteration of the category of land use; or lease let or grant any licence or otherwise howsoever part with the possession or make or accept the surrender of any lease whatsoever;

(vi) create or permit to exist any security interest over any of its assets, business or undertaking except liens arising by operation of law and in the normal course of business which in the bank's opinion is not material; and

(vii) dispose or lease all or a substantial part of its assets or undertaking except in the ordinary course of business, on ordinary commercial terms and on arm's length basis.

The above three (3) subsidiaries of KLR have no intention in the foreseeable future to seek any refinancing of present facilities or new facilities, to reduce their share capital or alter their present ownership structure or dispose or lease a substantial part of their assets other than in the ordinary course of business. Accordingly, the risks relating to financial performance in respect of covenants in present banking facilities agreements which would restrict the Group's operating and financial flexibilities would be minimal.

(iii) Contingent Liabilities

As at 10 October 2000, being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus, the Group does not have any material contingent liabilities.

Save as disclosed above, the KLR Group does not have any loan capital (including term loans) or convertible debt securities outstanding or created but unissued or any mortgages or charges outstanding.

(e) New Venture

The KLR Group has carried out research and development ("R&D") to produce fertilizers from waste produced from the processing of FFB. This new venture will mitigate the environmental problems that may arise from palm oil milling and will also turn such waste into marketable products such as decanter fertilizers and bio-fertilizers. KLR has already sold decanter fertilizers and bio-fertilizers commercially on a small scale. The contribution from these new ventures to the profit of the Group for the financial year ending 31 January 2001 is expected to be minimal. Nevertheless, in view of the small set-up costs, the expected high profit margin from these new ventures will enhance the profitability of the milling operations in the medium to long term.

KLR has also embarked on a project to produce distilled water from the steam generated from the power generation process. This is still under R&D and upon approval from the Ministry of Health, commercial production will commence.

(f) Dependence on Major Suppliers and Customers

Seeds Suppliers (for the Plantation Division): -

In order to avoid over-reliance on one source, oil palm germinated seeds are purchased from four different reputable companies, namely Bakasawit (Golden Hope), Applied Agricultural Research (Boustead and Kuala Lumpur Kepong), Pamol (Unilever) and Chemara (Guthrie). These four suppliers are renowned for producing high yielding planting materials. For its new plantings, the Group will purchase germinated seeds from the said companies based on 50:30:15:5 composition respectively.

Currently, OHSB and DOSB have set up their own nurseries to grow seedlings from these germinated seeds for at least nine months before transplanting them into the field. Strict culling of poorly grown and abnormal seedlings is practised to ensure all the Group's plantations are planted with high yielding palms.

FFB Suppliers (for the Mill Division): -

The mill division purchases FFB from nearby smallholders and plantations as well as dealers. The mill maintains a strict control over the quality of FFB received to ensure a high extraction rate. As the mill division has built up a long term relationship with FFB suppliers for the past 19 years, sourcing for FFB should not pose any serious problem.

Based on the above, it can be seen that the mill division is not overly reliant on one single party to obtain its FFB supplies. Besides, the KLR Group is also trying to be self-dependent by expanding its oil palm plantation acreage.

FFB Customers (for the Plantation Division): -

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. Details of the major FFB customers of the Group are set out in Section 5.8 of the Prospectus.

CPO Customers (for the Mill Division): -

As a commodity product, CPO produced by the Group's mill division can be sold to any refinery in the 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 Sdn Bhd and one of the largest refineries in the Pasir Gudang area. The lengths of relationship between the KLR Group and Pasir Gudang Edible Oil Sdn Bhd and other major customers of its CPO are set out in Section 5.8 of this Prospectus.

(g) Dependence on Key Personnel

The Company believes that its continued success will depend significantly upon the abilities and continued efforts of its existing Directors and senior management. The loss of any key member in the Company could affect the Company's continued ability to compete. However, the Company has made efforts to train its staff and enjoys the support of long term management staff. The Company's future success and competitiveness will also depend upon its ability to attract and retain skilled personnel.

The roles and functions of the Executive Directors of KLR are as follows:-

Gooi Seong Lim, the Group Managing Director, is involved in all aspects of the management of KLR Group, particularly in identifying projects or areas for expansion, formulating company policies and organisation, liaising with Government Authorities in obtaining necessary approvals for existing and new projects, and attending to public relations to enhance corporate image.

Gooi Seong Heen, the Group Executive Director and the Managing Director of KLPO group, is involved in all aspects of management of KLR Group, focusing mainly on the management and marketing of the Group's palm oil business, evaluating the feasibility of the Group's new projects and expansion plans, managing the Group's financial resources and overseeing the Group's internal audit and control.

Loo Geok Eng, Gooi Seong Chneh, Gooi Seong Gum and Gooi Seow Mee, the Executive Directors of the KLR Group, are involved in all aspects of management of KLR Group, focusing mainly in overseeing the management of the Group's plantation operations to ensure maximum productivity and efficiency, evaluating and approving the development and operating budgets of the Group's plantation operations, participating in the evaluation and decision making process in finalising the Group's investments in new projects and expansion plans.

(h) System Disruption

The Group did not experience any disruption in business having significant effect on its operations for the twelve (12) months prior to the date of this Prospectus. Regular periods of poor weather or long holidays are taken into account in management planning and their disruptive effects are minimised as much as possible.

(i) Insurance coverage on assets

For milling operations, the bulk of the assets that are susceptible to damage are at the palm oil mill. All these assets, inter-alia, building, staff and labour quarters, plant and machinery, electrical installations and the stock in trade, are sufficiently insured under fire and other perils policy. In addition, the mill is also insured for consequential losses in gross profit, salaries and wages, public liability, loss of profit due to machinery breakdown, etc.

For plantation operations, all assets are sufficiently insured, except for planted crops which are not insured as the risks associated with such assets are low.

(j) Rapid Development and Expansion of Business

KLR Group has expanded rapidly over the past three years through acquisitions of new land and transfer of plantation operations from SKL and KLPSB. The plantation operations of SKL and KLPSB have recorded a steady growth over a period of thirty-two (32) years. Expansion of the plantation operations within the KLR Group before the restructuring and listing exercise has been financed through internally-generated funds and/or interest-free loans from its parent company, SKL. In consequence, the level of gearing for the past five (5) financial years/period has been minimal. The Directors intend to continue a prudent approach in its expansion plans. KLPO, a wholly-owned subsidiary of KLR, has over a period of nineteen (19) years, emerged as one of the largest millers in the country. The Group has, as mentioned in Section 4(c) above, ventured into some downstream activities of converting waste into marketable by-products, but such activities will not involve the Group in heavy financial exposure.

(k) Competition

External Competition – Other producing countries and other oil crops

Palm oil products face increasing competition and threat from other major oil seed products like soyabean oil, rapeseed oil and sunflower oil. Nevertheless, palm oil had experienced almost four times growth over the 18 years from 1980 to 1998, which was twice the growth rate compared to other seed oils due to its low production cost and high yield per hectare. Malaysia, being the largest palm oil producer, faces competition from other palm oil producing countries, like Indonesia and other South East Asian countries. Nonetheless, with the continued support from the Government including extensive research and marketing promotion undertaken by Government bodies and various R&D and other incentives given to the industry, Malaysian palm oil producers have been able to expand their market share in the world vegetable oil market to date.

Internal Competition – Plantation and Milling operations

As palm oil is a commodity, there is minimal competition amongst the local plantation owners and smallholders in selling their FFB to the mills. However, local oil palm plantation companies compete for land and labour. Higher prices for good land and lack of labour have increased the production cost per tonne of palm oil.

The Group has acquired a substantial plantation land bank of approximately 28,000 acres with a large proportion of immature and unplanted areas. Details of the ages of palm trees are set out in Table 2 of Section 5.3.2 of this Prospectus. The current age profile will enable the Group to achieve an exponential increase in total FFB production in the next few years as the matured acreage increases and higher yields are obtained from the older palms. Mechanisation on suitable terrain of the Group's plantations is one of the methods to resolve labour shortage and improve efficiencies for manuring, pest and disease control, harvesting and collection. Improved site specific agronomic practices will be introduced to raise production and efficiencies of the plantations.

KLPOM competes with other commercial millers for the supply of FFB crops in the same region. Nevertheless, KLPOM's mill is strategically located and has enjoyed a strong stream of FFB supply from the surrounding small and medium size estates which do not have their own mill. The 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 of excess capacity.

Details of the other millers within 60 km radius from KLPOM's mill in Kota Tinggi, Johor are set out in Section 5.7.6 of this Prospectus.

(l) Political, Economic and Environmental Considerations

Political developments and uncertain economic conditions, if any, in Malaysia and other countries where palm oil is currently being exported to, could affect the financial prospects of the Company. Other political and economic uncertainties include changes in labour laws and availability of foreign labour, interest rates, foreign exchange rate, methods of taxation, tariff and duties.

The oil palm industry life-cycle is discussed in Section 5.7.3 of this Prospectus. Considerable progress to make the oil palm industry environment-friendly has been achieved and now oil palm may generally be considered an environment-friendly crop. The Group believes that environment-friendly practices are good business and management practices.

(m) Ownership And Control Of The Group

Upon completion of the Public Issue, SKL, which is the existing substantial shareholder of KLR, will hold approximately 60.55% of the enlarged issued and paid-up share capital of KLR. Loo Geok Eng, Gooi Seong Lim, Gooi Seong Heen, Gooi Seong Chneh, Gooi Seong Gum and Gooi Seow Mee ("the Gooi family") are the substantial shareholders of SKL and the Executive Directors of KLR. Hence, SKL and the Gooi family as the substantial shareholders of KLR will be able to effectively control the Company and will have sufficient voting control to effect certain corporate transactions.

(n) Regulatory Compliance, Government Legislation, Policies and Incentives

Regulatory Compliance and Government Legislation

In addition to the Government legislations as mentioned in Section 5.3.5 of this Prospectus, KLR is also subject to the following regulatory requirements:-

1. **CL 135328782, District of Sook, Keningau**

At present, Desa Cattle (S) Sdn Bhd is the registered owner of the land measuring 6,850 acres. The land was acquired by OHSB from Desa Cattle (S) Sdn Bhd pursuant to a Sale and Purchase Agreement dated 1st May 1998 and Supplemental Agreement dated 26th May 1998.

This piece of land is subject to, inter-alia, the following title conditions :-

(i) the land shall be used only for the purpose of cultivation of oil palm; and
(ii) transfer and sub-lease of the land title is prohibited until such time as the said land is fully developed in accordance with the terms and conditions stated in the title.

At present, condition (i) above is complied with. As regards condition (ii), a Certificate of Planting has been issued by the Lands and Survey Department, Sabah, confirming that seventy-five percent (75%) of the land has been developed. Pending full development, the land title cannot be transferred into the name of OHSB. However, the Company expects that the land will be fully developed by the end of the year 2000, and upon that event, will take such steps and incur such costs as may be necessary to procure the registration of the relevant transfer in favour of OHSB.

2. **CL 135345069, District of Sook, Keningau**

At present, Desa Cattle (S) Sdn Bhd is the registered owner of the land measuring approximately 12,881 acres in total . A portion of the land representing 10,781 acres was acquired by DOSB and 100 acres by DKLPO, both from Desa Cattle (S) Sdn Bhd pursuant to a Sale and Purchase Agreement dated 1st May 1998 and Supplemental Agreement dated 26th May 1998.

This piece of land is subject to, inter alia, the following title conditions :-

(i) the land shall be used only for the purpose of cattle farming;
(ii) not less than forty-nine percent (49%) of the undivided share of the land and interest therein shall be transferred to natives; and
(iii) transfer and sub-lease of the land title is prohibited until such time the said land is fully developed in accordance with the terms and conditions set out in the land title.

At present, conditions (i) and (ii) are complied with.

As regards condition (i) above, the relevant authorities have approved the subdivision and conversion of land use from 'cattle farming" to "cattle farming with short term crops for 1,984 acres, cultivation of oil palm for 10,834 acres and erection of palm oil mill for 30 acres" subject to payment of the requisite premium. The remaining 33 acres, shared between KLR Group and Desa Cattle (S) Sdn Bhd, are reserved for roads and drains.

As regards condition (ii) above, the relevant authorities have confirmed that pending subdivision, the registered owner may apply for a reduction of forty-nine percent (49%) native equity participation to thirty percent (30%) native equity participation in respect of the entire title and that the relevant "offer amendment" may be issued with premium payable.

Modifications of the conditions (i) and (ii) have not been effected nor endorsed on the land title as yet. However, the Company shall incur the premium payable for this purpose.

As regards condition (iii), the Lands and Survey Department confirmed on 13th June 2000 that transfer of the "undivided shares" in respect of the above 10,781 acres and 100 acres to DOSB and DKLPO respectively is permissible before full development and/or prior to fulfilment of the conditions pertaining to development upon payment of the relevant premium.

The Company decided to procure the registration of the said "undivided shares" prior to the issuance of separate titles in respect of the above portions of the lands as the process for the issuance of separate titles is expected to take more than one (1) year to complete. Accordingly, to ensure that the legal interest of DOSB and DKLPO are protected in the interim, the Company will take such steps and incur such costs as may be necessary to procure the said registration of the "undivided shares".

Subsequent to the transfer of the undivided shares, the Company shall procure that DOSB and DKLPO continue with their efforts to secure the issuance of separate documents of title in their favour.

Upon issuance of the separate documents of title, the Company shall take such steps and incur such costs, as may be necessary, including modification/waiver of the said conditions (i) and (ii) above and payment of additional premium arising out of or in connection with obtaining the relevant approvals on a timely basis to ensure that conditions pertaining to native equity participation are not breached at any time.

3. CL 095317123 District of Kinabatangan, Sabah

DKLPSB is the registered owner of 4,000/4,996 undivided share in the land. The remaining undivided share is registered in the name of Korporasi Pembangunan Desa.

Steps are being taken by the Company for subdivision/partitioning of the land, and the Company shall incur such costs as may be necessary in this respect. The registration of separate title document in favour of DKLPSB can only be made after obtaining the approval for the subdivision/partitioning of the land from the Assistant Collector of Land Revenue, Sabah, the approval of which has been obtained. A licensed surveyor will be appointed to apply to the Lands and Surveys Department, Sabah for the Registered Survey Plan to carry out the title survey before the registration of separate title document in favour of DKLPSB can be made.

In the meantime, as confirmed by the solicitors of the Group in Sabah, DKLPSB has a legal interest in the 4000/4996 undivided share.

Government Policies and Incentives

Due to the important contribution of the industry to the national economy, the Malaysian government has taken steps to ensure competitiveness of the industry by providing technical assistance for smallholders, establishment of new markets for palm oil products and improved infrastructure for the industry. Details of the Government incentives and promotional activities are set out in Section 5.7.5 of this Prospectus.

(o) **Seasonality**

Oil palm produces crop throughout the year but there is seasonal variation. Seasonal production varies with age and condition of the palms and local environmental conditions of soil and weather. The production of FFB from the estates and palm oil from the mill is normally low during the first quarter of each year. The production will rise in the second quarter, peak in the third quarter and slowly decline in the fourth quarter. In addition, annual oil palm FFB yield also experiences a cyclical pattern, with high yields at intervals of about 4 years. After an exceptionally high yielding year, a markedly lower yielding year, when the trees produce lower output as a result of biological reaction after a period of stress, may result. Weather has strong effects on oil palm production as well. Severe drought periods will usually result in low crops about nine (9) months and twenty-two (22) months later while very wet weather may adversely affect harvesting and crop recovery at the plantations as well as milling efficiencies at the mills.

During low cropping periods, the estates as well as the mills will catch up with their maintenance programs. The estates will concentrate on weeding, pruning, manuring and road upkeep while the mills will perform its scheduled repairs to plant and machinery. The annual mill inspection by the Department of Safety and Human Resources will normally be carried out during this time.

(p) **Dependence on particular products, markets and geographical locations**

The main products of KLR Group are FFB, CPO and PKO. The CPO and PKO products from the milling operations are sold mainly to local refineries, which are within 50 kilometres radius from the mill in Kota Tinggi, Johor. FFB from the estates in Sabah are sold to local millers, which are within 30 kilometres radius from the estates. KLR has built-up long term relationships with these refineries and millers as set out in Section 5.8 of this Prospectus. Therefore, there has been a stable market for the Group's CPO, PKO and FFB.

As part of its expansion plan, the Group bought 17,851 acres of land in Sabah for oil palm cultivation in 1998. KLR is expanding in Sabah as the land cost is cheaper and there are less problems of labour supply. To complement its plantation operations in Sabah, KLR proposes to set up a new palm oil mill in the district of Keningau, Sabah. The construction of the new mill will commence in 2003 and is expected to be completed in 2004.

(q) **Forecasts**

This Prospectus contains certain forecasts for KLR Group that are based on assumptions, which the Directors deem to be reasonable, but which nevertheless are subject to uncertainties and contingencies, such as variations in the prices and productions of CPO, PKO and FFB. Due to the subjective judgements and inherent uncertainties of these forecasts and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecasts 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 descriptions of the assumptions and uncertainties underlying the forecasts and the impact of the variation in prices and productions of CPO, PKO and FFB that are contained in Sections 10.5 and 10.8 of this Prospectus respectively.

(r) **Disclosure Regarding Forward-Looking Statements**

This Prospectus contains forward-looking statements, i.e. those other than statements of historical facts. Although the Group believes that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such expectations will prove to be correct. Any differences in the expectations of the Group from its actual performance may result in the Group's financial and business performances and plans to be materially different from those anticipated.