
5. RISK FACTORS

Notwithstanding the prospects of the Group as outlined in Section 7 of this Prospectus and other information contained elsewhere in this Prospectus, consideration should also be given to the following factors (which may not be exhaustive) which may have an impact on the future performance of the Mudajaya Group:

5.1 Risks Relating to the Mudajaya Shares and the IPO Shares**(a) No Prior Market for Mudajaya Shares**

Prior to the Listing, there has been no public market for Mudajaya Shares. There can be no assurance that an active market for Mudajaya Shares will develop upon the Listing or, if developed, that such market will be sustained. The issue/offer price of RM1.28 for the IPO Shares has been determined after taking into consideration a number of factors, including but not limited to those set out in Section 4.7 of this Prospectus. There can be no assurance that the issue/offer price of the IPO Shares will correspond to the price at which the Mudajaya Shares will be traded on the Main Board of MSEC upon or subsequent to the Listing.

(b) Failure/Delay in the Listing

The Listing exercise is also exposed to the risk that it may fail or be delayed should any of the following events occur:

- (i) The Bumiputera investors approved by the MITI fail to take up the respective Offer Shares allocated to them;
- (ii) The identified investors fail to take up the Offer Shares placed to them;
- (iii) The Underwriter exercises its rights pursuant to the Underwriting Agreement to discharge itself from the obligations thereunder; or
- (iv) The Company is unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up capital of the Company being held by a minimum number of 1,000 public shareholders holding not less than 100 Mudajaya Shares each upon completion of the IPO and at the point of Listing.

Although the Directors of Mudajaya and the Offerors will endeavour to ensure compliance by Mudajaya of the Listing Requirements, including, inter-alia, the public spread requirement imposed by MSEC for the successful Listing, no assurance can be given that the abovementioned factors will not cause a delay in or abortion of the Listing. In the event the Listing is aborted, all monies paid in respect of all applications will be returned in full to the applicants without interest.

(c) Termination of the Underwriting Agreement

The Underwriting Agreement allows the Underwriter to terminate the Underwriting Agreement if the Underwriter is of the reasonable opinion that the success of the IPO is likely to be materially and adversely affected by certain events, details of which are set out in Section 4.11 of this Prospectus.

No assurance can be given that the Underwriter will not terminate the Underwriting Agreement if in the reasonable opinion of the Underwriter any of such events occur. If as a result of the termination the IPO cannot be completed, all monies paid in respect of all applications will be returned in full to the applicants without interest.

5. RISK FACTORS (cont'd)

(d) Subscription of Shares Reserved for Eligible Directors and Employees

Only 1,000,000 of the 6,800,000 new Mudajaya Shares reserved for the eligible Directors and employees of Mudajaya Group are underwritten. Since the entire Public Issue must be fully subscribed, if the remaining 5,800,000 Mudajaya Shares are not fully subscribed, either by way of subscription by the eligible Directors and employees only, or together with the over-subscription by the Malaysian public, the Public Issue cannot be completed and the Listing will not proceed.

No assurance can be given that the said 5,800,000 Mudajaya Shares will be fully subscribed. In the event the Public Issue cannot be completed, all monies paid in respect of all applications will be returned in full without any interest.

(e) Delay between Settlement and Trading of Mudajaya Shares

After the Mudajaya Shares have been allotted to investors' CDS accounts with the MCD, there may be a delay in the recovery of monies paid in respect of these shares from the Company in the event that the Listing does not occur. It is expected that there will be a gap of approximately eight (8) Market Days between the close of application for the IPO Shares and trading of Mudajaya Shares. In order for the Company to return monies to investors in respect of the IPO Shares following their allocation, Mudajaya may need to implement a reduction of its share capital, which would require a special resolution of Mudajaya and the approval of courts in Malaysia. There can be no assurance that investors' monies in respect of the IPO Shares can be recovered within a short period of time if the Mudajaya Shares are not admitted on the Main Board of MASEB.

(f) Sale or Possible Sale of a Substantial Number of Mudajaya Shares could Adversely Affect Price

Following the IPO, 97,398,000 ordinary shares, or approximately 71.62% of the enlarged share capital of the Company, will be held by the Company's Substantial Shareholders namely, DSM, UF and Tiararibu. The Mudajaya Shares sold in this IPO will be tradeable on the Main Board of MASEB without restriction following the Listing.

If any shareholder sells or is perceived as intending to sell a substantial amount of Mudajaya Shares, the market price for the Mudajaya Shares may be adversely affected.

However, as detailed in Section 10.4 of this Prospectus, a total of 61,200,000 Mudajaya Shares held by DSM, UF and Tiararibu will be subject to a moratorium for one (1) year from the date of Listing.

(g) Company's Share Price may be Volatile

The price of Mudajaya Shares may fluctuate as a result of variations in its operating results. If the trading volume of the Company's ordinary shares is low, the price fluctuations may be exacerbated, particularly as no stabilising transactions can or will be undertaken in respect of the Company's shares in connection with this IPO or thereafter. The price of the Mudajaya Shares is also prone to news regarding the gain or loss of significant customers, cost overruns, changes in key personnel, and changes in securities analysts' estimates of its financial results or recommendations.

5. RISK FACTORS *(cont'd)*

(h) Company may not be Able to Realise Dividends from its Subsidiaries

The Company conducts all of its operations through its subsidiaries. Accordingly, an important source of the Company's income, and consequently an important factor in the Company's ability to pay dividends on the Mudajaya Shares, is dividends and other distributions received from its subsidiaries. As the Company is a shareholder of its subsidiaries, its claims as such will generally rank junior to all other creditors and claimants against its subsidiaries. In the event of a subsidiary's liquidation, there may not be sufficient assets for the Company to recoup its investment.

Details of the Company's dividend policy is set out in Section 11.7 of this Prospectus.

(i) Investors in this IPO will Suffer Immediate Dilution

The IPO price per Mudajaya Share is higher than the proforma NTA per share before the Public Issue. Investors subscribing for Mudajaya Shares in this IPO will therefore incur immediate dilution in terms of their share of the NTA vis-a-vis the investment. The issuance of further ordinary shares at prices lower than the existing proforma NTA per share would result in further dilution to the investors who has become the existing shareholders of Mudajaya.

The issue price of the IPO Shares is RM1.28 while the proforma Group NTA per share before the Public Issue is RM0.77.

(j) Change in Dominant Shareholder of the Business

Mudajaya is a company incorporated on 6 February 2003 for the purpose of implementing the listing of MJC, through which all the Group's business operate either directly or through subsidiaries and associated companies of MJC. MJC became a subsidiary of Mulpha in 1993. In February 2003, MJC ceased to be a subsidiary of Mulpha with the sale by Mulpha of 50.0% and 30.0% equity interest in MJC to DSM and UF respectively.

DSM, the single largest shareholder of Mudajaya after the IPO with a 33.95% equity interest, is a company controlled by Ng Ying Loong, the Managing Director of the Company. Ng Ying Loong joined MJC in 1977, left MJC in 1988, rejoined MJC in 1991 and has been the Managing Director of MJC since 1991.

Upon Listing, Mulpha's equity interest in Mudajaya, through its subsidiary Tiararibu, is 17.29%.

No assurance can be given that the above change in the dominant shareholder of the business of the Mudajaya Group will not have any material adverse impact on the Group's future performance.

5. RISK FACTORS (cont'd)

5.2 Risks Relating to the Group**(a) Business Risks**

The Mudajaya Group is subject to certain risks inherent in the construction and property development sectors. These include the risks of labour and construction material shortages, increases in the cost of labour and construction materials, entry of new players, fluctuations in property prices, changes in interest rate, changes in business conditions, changes in the general economic and political conditions and Government policies. In addition, the Group is also subject to specific risks in the property development industry such as depleting land bank. Although the Group seeks to limit these risks through, inter alia, having contractual agreements for projects undertaken, by maintaining a large pool of suppliers and clients with whom they have long term relationships, through careful planning, close project supervision, prudent business strategies such as developing quality and affordable homes, shop lots and offices and increasing its land bank in strategic locations, and sourcing and producing some of the construction materials required for its operations from the companies within the Mudajaya Group, no assurance can be given that any change to these factors will not have a material adverse effect on the profitability of the Mudajaya Group.

(b) Political and Economic Factors

Given the nature of the industries in which the Mudajaya Group competes, the Group's operations are closely linked to the performance of the Malaysian economy. Any adverse developments in the political and economic environment and uncertainties in Malaysia can materially and adversely affect the financial and business prospects of the Group. These include the risks of war, global economic downturn and unfavourable changes in the Government's policy such as changes in methods of taxation or introduction of new regulations.

Although the Group operates in an industry which is cyclical in nature, it has been able to remain profitable even during the recent economic slowdown. This is substantially due to the Group's prudent policy of ensuring that the credit risk of its clients is low by engaging mainly in projects with its regular or repeat clients. Furthermore, the Group adopts a prudent borrowing policy, thus allowing it to escape the burden of high financing costs experienced by many companies during the economic downturn.

(c) Customer Concentration

For the ten (10)-month period ended 31 October 2003, the top ten (10) customers of the Mudajaya Group account for approximately 72.3% of its total turnover. This is inherent to some extent to the industry whereby work carried out is limited to a small number of projects over a particular period of time. However, there can be no assurance that the Mudajaya Group will be able to continue sourcing work from its existing customer base or maintain or expand its customer base in the future. Nevertheless, it is pertinent to note that the Mudajaya Group has been able to chart continued growth as evidenced by its past performance.

(d) Suppliers' and Subcontractors' Contracts

Suppliers' and subcontractors' contracts are entered into between the main contractor and its suppliers and subcontractors on a project-to-project basis. Despite the absence of long term contracts, the Directors of Mudajaya believe that with proper planning and the relationship with its suppliers and subcontractors, the risk to the Group of not being able to procure the supplies or services for its projects is minimal. In addition, the Group also seeks to limit this risk by establishing a large pool of suppliers and a large sub-contractor base. Nevertheless, there is no assurance that the Group will be able to procure supplies or services from its suppliers or sub-contractors respectively in a timely manner for its projects in the future.

5. RISK FACTORS (cont'd)

(e) Delay in Completion of Projects

The Group has continuously endeavoured to complete projects awarded within the contracted time schedule. Construction and property development projects are, however, dependent on many external factors including, amongst others, obtaining the relevant regulatory approvals, changes in government legislation, shortages in the availability of construction materials, availability of financing at viable credit terms, the satisfactory performance of the various sub-contractors, availability of manpower and weather conditions. Although the Group seeks to limit these risks where possible by careful planning, close project supervision and by strictly complying with its quality control policies and procedures in its quality management system, no assurance can be given that these external factors will not delay the completion of projects. Payment of liquidated damages for late completion is normally stipulated in construction contracts and sale and purchase agreements with property buyers. Any delay in the completion of a project and claims for liquidated damages for late completion may therefore significantly and adversely affect the Group's cash flow and profitability.

(f) Cost of Construction Materials

For the ten (10)-month period ended 31 October 2003, the Mudajaya Group's cost of construction materials was approximately RM31.83 million, representing approximately 15.69% of the Group's total cost of sales. The Group does not foresee any difficulties in the procurement of construction materials at a competitive price in view that it sources its supplies from a large base of suppliers. However, there can be no assurance that any change to the cost of construction materials will not have any material adverse impact on the Group's financial performance.

(g) Competition from Existing Competitors and New Entrants

The Mudajaya Group operates in a competitive market with a large number of players which include various listed and non-listed companies. The barriers of entry into the construction and property development sectors are also relatively low. Intense competition may result in highly competitive pricing in order to secure a project, which may consequently affect the financial performance of the Group.

However, the Group's main focus is to undertake larger-size projects which require substantial working capital, financial resources, strong knowledge and technical skills as well as project management expertise wherein competition is, to certain degree, less intense due to the required attributes to compete and succeed in this segment. In addition, the status of MJC, a principal subsidiary of Mudajaya, as a Class "A" contractor with Pusat Khidmat Kontraktor, Ministry of Entrepreneurial Development and a Class G7 Contractor with the CIDB has also enabled MJC to tender for government and private sector projects of any size and amount which indirectly improves the competitiveness of the Group.

With its strong financial base and experienced and knowledgeable personnel, the Directors of Mudajaya believe that the Group has the necessary attributes to further excel in the construction and property development sectors. However, no assurance can be given that the Group will be able to compete effectively with current and new entrants into the construction and property development sectors in the future.

5. RISK FACTORS (cont'd)

(h) Regulatory Framework

The Group's operations are subject to regulations by several governmental ministries and agencies such as Ministry of Entrepreneurial Development, Ministry of Housing and Local Government, Pusat Khidmat Kontraktor and CIDB. Apart from the Malaysian Construction Industry Development Board Act, 1994, the Housing Developers (Control and Licensing) Act, 1966 and the regulations made under such legislation, the Group is also subject to other legislation such as the Occupational Safety and Health Act, 1994 and the Environmental Quality Act, 1974. The Group has always worked to ensure that it complies with the rules and regulations of the legal and regulatory framework in which the Group operates.

However, no assurance can be given that any change to the present legal and regulatory framework in which the Group operates or the introduction of new regulations will not have a material impact on the Group's business and financial performance.

(i) Operations in India

The Group is currently involved in three (3) construction projects in India. The Group expects to intensify its efforts to secure more projects in India. The operations in India are, however, subject to certain risks which include but are not limited to the general conditions of the Indian economy, its political environment, changes in legal and tax legislation in India affecting the industry in which the Mudajaya Group operates, fluctuations in exchange rates and fluctuations in costs of construction. The Mudajaya Group intends to limit the operational risks in the overseas market by undertaking joint venture projects where the financial risks associated with the projects are borne solely by the joint-venture partner. Nevertheless, there can be no assurance that any change to the above factors will not have a material impact on the operations of the Mudajaya Group in India, which may consequently affect the financial performance of the Group.

(j) Defects Liability

Construction contracts commonly stipulate a defects liability period for work done, which ranges from 12 to 24 months from the date of official hand over of the completed projects, depending on the nature of the contract. This makes the contractor liable for the work carried out and for any repair, reconstruction or rectification of any faults or defects which may surface or be identified during the defects liability period. The Directors of Mudajaya believe that with the experience and expertise of the Group, and by working closely with its customers to ensure the works specifications are met, the defects of its works shall be reduced to a minimal level. However, there is no assurance that any repair, reconstruction or rectification works during the defects liability period will not have a material impact on the Group's financial performance.

(k) Adequacy of Insurance Coverage on the Group's Assets

As at 31 October 2003, the net book value of the fixed assets of the Group was approximately RM14.42 million, for which insurance coverage based on the replacement cost of the assets amounting to approximately RM18.36 million has been taken up by the Group. Although the Group reviews the insurance policies on a regular basis to ensure that there is adequate insurance coverage for its assets based on their replacement cost value, there can be no assurance that the insurance coverage would be adequate for the replacement cost of the assets of the Group or any consequential loss arising therefrom.

5. RISK FACTORS (cont'd)

(l) Covenants on Borrowings

The Mudajaya Group has various credit facilities to finance its operations and business activities. As at the LPD, Mudajaya has bridging loan, revolving credit, term loan and hire purchase balances outstanding totalling approximately RM9.10 million. The agreements for credit facilities and the securities in relation thereto contain inter-alia, covenants that may limit the Mudajaya Group's future operating and financing flexibility. Certain plans may be restricted or require the consent of the relevant financial institutions. A breach of any covenant may result in the termination and/or enforcement of securities granted for the relevant credit facility. The Directors of Mudajaya are aware of such covenants and shall take all necessary precautions to prevent any breach of its agreements with financial institutions.

(m) Control by Substantial Shareholders

Upon Listing, DSM, UF and Tiararibu will respectively hold 46,174,000, 27,704,400 and 23,519,600 Mudajaya Shares representing 33.95%, 20.37% and 17.29% of the Company's enlarged issued and paid-up share capital. Although DSM, UF and Tiararibu are not related to each other, they are the existing three (3) largest shareholders of the Company, and individually has significant influence on the outcome of matters requiring the vote of the Company's shareholders, unless they are required to abstain from voting by law and/or the relevant authorities.

(n) Dependence on Key Personnel

The Mudajaya Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Directors and key management. Any material changes in the Group's Directors or members of its key management may adversely affect the Group's performance. However, every effort is presently being made to groom the younger members of the key management to slowly take over from the senior members to ensure a smooth transition in the management team should changes occur and to allow the Mudajaya Group to continue to compete in the future.

(o) Other General Risks

The Group is also subject to other general risks associated with the business of the Group which may affect the operations and financial performance of the Group, such as the breakout of fire, energy crisis, flood, theft, accident and others.

In order to minimise disruption to the operations of the Group, the Directors have in place certain risk-management plans and pre-emptive measures as follows:

- the construction site of the project is always patrolled by the security guards employed by the Company to prevent any theft of its construction plants and machinery.
- the Group carries out regular service and maintenance of its construction plants and machinery to ensure that the machines are in good condition and minimise the frequency of machinery breakdown.
- safety manuals and policies to be compulsorily adhered to by its construction workers to minimise the occurrence of accidents.
- the manufacturing plants are equipped with fire fighting equipment such as fire extinguishers and hose reels in the manufacturing plants.

5. RISK FACTORS *(cont'd)*

In addition, the respective companies in the Group have also obtained insurance policies from various insurance agencies such as fire insurance, machinery and equipment insurance, workers' insurance and public liability insurance to mitigate any losses which may arise.

5.3 Risks Relating to Future Information

(a) Profit Estimate and Forecast

The profit estimate and forecast of the Mudajaya Group as set out in this Prospectus are based on assumptions which the Directors of Mudajaya believe to be reasonable. However, these assumptions are subject to uncertainties and contingencies. Because of the inherent uncertainties underlying the profit estimate and forecast and because events and circumstances may not occur as expected, there can be no assurance that the profit estimate and forecast contained herein will be realised and actual results may be materially different from those stated herein. Investors are deemed to have read and understood the assumptions and uncertainties underlying the profit estimate and forecast contained herein.

(b) Forward-looking Statements

This Prospectus contains forward-looking statements, which are other than statements of historical fact. Certain statements in this Prospectus are based on historical data which may not be reflective of future results while others are forward-looking in nature which are subject to uncertainties and contingencies. Although the Directors of Mudajaya believe that the expectations reflected in such future statements are reasonable as at the LPD, there can be no assurance that such expectations will prove to be correct or continue to hold in the future. Any differences in the expectation of the Group from its actual performance may result in the Group's financial and business performance and plans being materially different from those stated in this Prospectus.

6. INDUSTRY OVERVIEW AND OUTLOOK

6.1 Overview and Outlook of the Malaysian Economy

While events in the first half of 2003 had an impact on growth, the mutually reinforcing combination of strong economic fundamentals, supportive monetary and financial policies and decisive Government action provided the platform for growth to accelerate in the second half of 2003. For the year 2003 as a whole, real GDP expanded by 5.2% (2002: 4.1%), exceeding the official forecast of 4.5%.

The Malaysian economy is expected to strengthen further in 2004, building on the strong growth momentum in the second half of 2003 and brighter prospects for global growth in 2004. Real GDP is expected to expand by 6-6.5% (2003: 5.2%), underpinned by stronger domestic demand and reinforced by more favourable external demand. Growth will mainly be private sector driven, while the public sector gradually consolidates. The growing consumer and business confidence since the second quarter of 2003, strengthened economic fundamentals and the positive impact of pro-growth fiscal and monetary measures are expected to mutually reinforce robust consumer spending and the upturn in private investment activities.

(Source: Bank Negara Malaysia Annual Report 2003)

6.2 Overview and Outlook of the Construction and Property Development Sectors

6.2.1 Construction

In 2003, the construction sector expanded at a more moderate pace of 1.9% (2002: 2.3%) due mainly to a slowdown in the civil engineering subsector following the completion of several privatised projects. Growth was mainly supported by the residential sub-sector, while activity in the non-residential sub-sector remained subdued amidst the continued overhang of office and retail space, although the excess supply was reduced during the year 2003.

In the civil engineering sub-sector, growth was significantly slower due to the completion of several privatised projects, mainly power generation plants. Nevertheless, ongoing road projects such as the Kajang Ring Road, Guthrie Corridor Expressway, Penchala Link of the SPRINT Expressway, New Pantai Expressway, Kajang-Seremban Expressway and the Butterworth Outer Ring Road, supported civil engineering activity during the year 2003. Construction work was also ongoing for projects related to water, ports, sewerage and power generation plants. In view of the experience acquired in the domestic civil engineering sub-sector, Malaysian construction companies have diversified their earnings base and expanded overseas, particularly in the construction of highway projects and other infrastructure projects. These companies are able to compete in the global market, particularly in India and the Middle East. Infrastructure projects by the public sector, as reflected in the Federal Government development expenditure, remained strong during the year 2003, especially in the transportation sub-sector. Among the major ongoing public projects supporting growth was the SMART Intelligent Tunnel for Flood Mitigation in Kuala Lumpur and the Kuala Lumpur Convention Centre.

Growth in the construction sector is envisaged to increase at a moderate rate of 1.5%, due to lower activity in the civil engineering sub-sector following the completion of several infrastructure projects by both the Government and the private sector.

(Source: Bank Negara Malaysia Annual Report 2003)

6. INDUSTRY OVERVIEW AND OUTLOOK *(cont'd)*

6.2.2 Property Sector

Demand for residential houses was stimulated by innovative financing packages with attractive terms provided by financial institutions. To encourage home ownership, the economic package announced by the Government on 21 May 2003 ("Package") provided the following incentives for one year, beginning 1 June 2003:

- Stamp duty waiver on the sale and purchase agreements, loan and transfer documents for houses costing RM180,000 and below;
- Income tax relief on interest payments for new buyers of completed houses, and first time owners of houses costing between RM100,000 to RM180,000;
- Subsidy of RM600 for new buyers of houses costing below RM100,000; and
- Exemption from real property gains tax.

In line with the Government's objective to provide affordable houses to the low-income group, Syarikat Perumahan Negara Berhad has targeted to build at least 150,000 units of medium cost and affordable houses within a five-year period. With the liberalisation of the FIC guidelines in 2001, the FIC has approved the purchase of 1,617 units of residential properties (representing an increase of 30.1%) valued at RM771 million by foreigners in Malaysia during the year 2003.

Demand for residential property, especially for affordable housing, would remain favourable, encouraged by the incentives granted under the Package, especially the stamp duty exemption, tax relief and the waiver on the real property gains tax until the first half of 2004. Meanwhile, activity in the non-residential sub-sector is expected to remain subdued, although on an improving trend, as the average occupancy rates for office space and retail complexes have stabilised since the third quarter of 2003.

(Source: Bank Negara Malaysia Annual Report 2003)

6.3 Industry Players and Competition

The construction and property development sectors are highly competitive in nature with a large number of players, which include listed and non-listed companies.

The Group's competitors in the construction sector are mainly Class "A" construction companies, particularly those listed on the Main Board of MSEB. The industry players in the construction sector can be sub-divided into three (3) segments, namely residential, non-residential and civil engineering. The level of competition varies from one sub-segment to another. Generally, the most competitive segment is the residential segment where the technical expertise required for such project is relatively low compared to the non-residential and civil engineering segments.

The Group is mainly involved in the non-residential and civil engineering segments of the sector which includes the construction of high-rise buildings, roads and bridges, power stations, dams and water retaining structures and marine works as well as water supply, sewerage and drainage works.

The Directors of Mudajaya believe that competition in these sub-segments is relatively less intense as the technical expertise required is more critical. With its strong financial base, experienced and knowledgeable personnel and good track record, the Directors of Mudajaya believe that the Group has the necessary attributes to compete and further excel in these sub-segments.

In respect of the property development sector, the competitors in the vicinity of Mudajaya Group's developments are mainly established property development companies in Kuching, Sarawak.

6. INDUSTRY OVERVIEW AND OUTLOOK *(cont'd)*

As land in prime locations is scarce, competition in the property development sector is dependent on the ability of the developer to procure land in strategic locations at low prices for development. In this respect, the Mudajaya Group's strategy has been to secure land in prime locations for development. The Group has achieved this by entering into a joint development with ADSB, a subsidiary of Amanah Saham Sarawak Berhad, to develop the Batu Kawah New Township which is only six (6) kilometres away from the Kuching town.

In addition, intense competition also exists where there are few developers developing projects within the same vicinity or in close proximity to each other. Therefore, the success of a market player is largely dependent on the ability of a developer to deliver attractively priced, innovative, well-designed and quality housing schemes to the property buyers.

The Directors of Mudajaya believe that with the business acumen, vision, leadership and know-how of personnel within the Group, Mudajaya will be able to compete efficiently and effectively in the property development sector in Sarawak.

6.4 Government Legislation and Policies

Under the Eighth Malaysian Plan, the development of low-cost housing will be expedited to ensure that those who are eligible will be provided houses, either for rent or sale. In this regard, there will be a change in the implementation strategy, whereby the Federal Government will be involved directly in the selection of suitable locations to expedite construction and to reduce the problem of mismatch between supply and demand for houses. The state governments will handle the sales as well as the arrangements for end-financing with the financial institutions and will continue to be responsible for the selection of buyers or tenants. A revolving fund will be established to finance the project.

(Source: Eighth Malaysian Plan)

The Group is governed by legislation such as the Malaysian Construction Industry Development Board Act, 1994, Housing Developers (Control and Licensing) Act, 1996, Occupational Safety and Health Act, 1994, the Environmental Quality Act, 1974 and regulations made under such legislation. In addition, the Group is also required to adhere to the regulations under CIDB, the body established under the Malaysian Construction Industry Development Board Act, 1994 which is responsible for regulating and improving the property development and construction industries by means of providing consultancy, quality accreditation, research and development, promoting of high technology as well as manpower training services.

Apart from the abovementioned, the Group is also subject to the terms of the licences awarded by various government bodies. For example, a company is required to be registered as a Class "A" contractor with Pusat Khidmat Kontraktor, Ministry of Entrepreneurial Development and as a Class G7 contractor with CIDB to tender for government and private sector projects of any size and amount. The Group's subsidiary, MJC, is currently a registered Class "A" and "G7" contractor.

Various policies set by the Government will also directly or indirectly affect the business of the Group. For example, higher public development expenditure in construction projects by the Government in the past two (2) years has indirectly provided more opportunities for the Group to tender for projects.

The Government has also promoted the property development industry through various initiatives such as the Package. The economic stimulus package contained plans to help reduce the overhang of residential properties by offering incentives such as exemption from stamp duty for purchase of houses below RM180,000 and exemption from real property gains tax for a year beginning 1 June 2003. Foreign purchase of residential properties in Malaysia has also increased following the liberalisation of the FIC guidelines on foreign home ownership which took effect in April 2001.

6. INDUSTRY OVERVIEW AND OUTLOOK *(cont'd)*

6.5 Industry Life-Cycle

The performances of the construction and property development sectors are cyclical in nature and are linked to the state of the general Malaysian economy. Its growth is highly correlated to the economic health and political stability of the country. With its numerous linkages to other sectors of the Malaysian economy, the construction and property development sectors are used as a tool to enhance activity in the national economy.

Despite the cyclical effects to the construction and property development sectors, the Group has proven its ability to withstand economic slowdown based on the Group's long standing profitable track record in the past 20 years.

6.6 Contribution to Economic Growth

Construction has been a key sector in the Government's efforts to stimulate domestic economic activities and in enhancing growth. As the economy continues to rely on the domestic sector, the contribution of construction sector to GDP growth will have to be further enhanced. The Government, under the Package, introduced several measures and incentives as well as cash payment to first home owners under the Home Ownership for the People project to stimulate the property and construction sectors.

(Source: Economic Report 2003/2004)

In addition to its own activities, these sectors are linked to and provide business to various supporting industries including manufacturers and suppliers of cement, steel bars and other building materials, the transportation industry and the service industries such as engineering consultancy and architectural and design services. The sectors have also been instrumental in improving the country's infrastructure and provide a relatively high number of jobs for the country's workforce.

6.7 Ease of Entry of New Players

The construction and property development sectors consist of large and small construction and property development firms competing side-by-side. The following are possible barriers of entry to new players in the construction and property development sectors in which the Group operates:

- (a) Requirement for skilled and experienced technical manpower with extensive construction or property development experience as well as project management expertise;
- (b) Established market presence with a proven track record for the successful delivery of projects;
- (c) Requirement for significant amount of capital outlay and ready access to substantial financial resources especially in undertaking large projects; and
- (d) Substantial goodwill and reputation built-up over the years with its clients/customers, suppliers and subcontractors alike.

With continuing support from its bankers, internally generated resources and experienced and knowledgeable personnel, the Directors of Mudajaya believe that the Mudajaya Group has the necessary attributes to further excel in the construction and property development sectors and will be able to secure more construction and property projects to allow for the continued growth of the Group.

6. INDUSTRY OVERVIEW AND OUTLOOK *(cont'd)*

6.8 Reliance on and Vulnerability to Imports

The Directors of Mudajaya believe that the local construction and property development sectors are not reliant on imports from abroad. Amongst the construction materials used by the Group in its operations are cement, steel bars, timber, plywood and piles which can easily be sourced from established manufacturers and traders throughout Malaysia. In general, no particular manufacturer is thought to be able to dictate the price of the construction materials and the market for supplies of construction materials can be considered to be relatively competitive.

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7. PROSPECTS AND FUTURE PLANS

7.1 Prospects of the Mudajaya Group

The Directors of Mudajaya hold a positive view on the future prospects of the Group. In addition to the reasonably favourable prospects of the construction sector as mentioned in Section 6.2 of this Prospectus, the Directors of the Company are of the opinion that the following factors place the Group's future in good stead:

7.1.1 Capability to Diversify

The Group's diversification policy revolves around its area of expertise, namely construction. Listed below are four (4) ways where the Mudajaya Group has sought to diversify its income stream from its construction activities:

(a) **Geographic Diversification**

The Mudajaya Group has been able to expand its activities domestically by successfully completing jobs in various states in Malaysia. In addition, the Group has also established its presence outside Malaysia in India where it has secured three (3) contracts worth a total of approximately RM256 million (based on exchange rate of 100 Rupees equal to RM8.26 to RM8.33, depending on the date of signing of the contract) on a joint venture basis for the construction of highways. This is a testimony to the Group's ability to diversify geographically not only locally but also overseas.

(b) **Technical Diversification**

Throughout the years, the Group has established itself as a contractor capable of undertaking various types of projects including the construction of highways, roads, bridges, power stations, buildings, infrastructure, marine structures, dams and retaining structures, water supply works, drainage and sewerage works. Such capability has enabled the Group to procure a wider range of construction projects and the Directors of Mudajaya believe that this will cushion the Group from the effects of a slowdown in any particular segment within the construction industry.

(c) **Vertical Diversification**

Over the years, the Group has also diversified into the production of crushed aggregates, ready-mixed concrete, pre-stressed concrete bridge beams, concrete sections and box culvert, trading of construction products and rental of sheet piles, construction plants and machinery to complement the construction and property development businesses. The Directors of Mudajaya believe that vertical diversification will benefit the Group in terms of cost, timely delivery and quality of products apart from reducing its reliance on certain supplies of construction materials to support its construction activities.

(d) **Diversification into Construction Related Industries**

The Group has been involved in the construction industry since 1965 and has established itself as a reputable contractor in the construction industry. In 1996, the Group decided to leverage on its reputation as a contractor to venture into the property development sector by undertaking the development of Villa Angsana Condominium, Kuala Lumpur. In 1997, the Group expanded its property development business further by entering into a joint development agreement with ADSB to develop the Batu Kawah New Township project in Kuching, Sarawak. The project is expected to be fully completed by 2015.

7. PROSPECTS AND FUTURE PLANS (cont'd)

The Directors of Mudajaya believe that the Group's diversified activities provide a platform for the Mudajaya Group to offer an integrated construction service to its customers and creates synergy as it allows the Mudajaya Group to enhance its earnings by undertaking various facets of a construction project within the Group rather than subcontracting work to third parties. By being able to control the construction process of a project, the quality and timeliness of the projects would be more assured. Apart from cost savings in terms of operational and administrative expenses, the Mudajaya Group is also able to diversify its income stream by selling its concrete products and properties in the Batu Kawah New Township, Kuching, Sarawak to outside parties.

7.1.2 Capability to Design and Build

The profit margins for design and build projects are generally higher than conventional building projects due to the input of the contractor's technical expertise in designing the project. Under design and build projects, the contractor participates with the architect and engineering consultants from the design stage of the construction project and contributes their building expertise and practical knowledge to enhance the conception of the project and to resolve potential problem areas before construction work commences. This results in higher construction efficiency for the project, less material wastage, shorter project duration and potential cost savings.

However, costs may not be the primary consideration for the award of design and build projects since attention is also given to design innovation, architectural aesthetics, functionality and the quality of the design.

The Mudajaya Group has the ability to undertake projects on a design and build basis owing to its experienced, professionally qualified and capable personnel. These design and build personnel have gained extensive experience from working with various project consultants on a project-to-project basis. As at the LPD, the Group has 39 qualified engineers and seven (7) quantity surveyors who are able to work on design and build projects.

The major projects which have been/are undertaken by the Mudajaya Group on a design and build basis are as follows:

- (i) Track Transit System for Aero Train at Kuala Lumpur International Airport;
- (ii) Civil and structural works on a combined cycle conversion power plant in Melaka;
- (iii) Phases 1, 2 and 3 of the Batu Kawah New Township, Kuching, Sarawak;
- (iv) Villa Angsana Condominium, Kuala Lumpur;
- (v) Civil and structural works on Kulim High-Technology Park Independent - Power Plant in Kulim, Kedah Darul Aman;
- (vi) Tall chimneys for the Sultan Salahuddin Abdul Aziz Power Plant in Port Klang, Selangor Darul Ehsan; and
- (vii) Teluk Intan District Hospital, Perak Darul Ridzuan.

The capability to design and build has enabled the Group to successfully form joint development partnerships such as the Batu Kawah New Township Project in Kuching, Sarawak and provide all the services/products from materials, design of the property development project, construction of the houses, marketing for the property development project and sales to the end customers.

7. PROSPECTS AND FUTURE PLANS *(cont'd)*

7.1.3 Capability to Construct Power Plants and Tall Chimneys

Since 1976, the Mudajaya Group has been actively participating in power generation plant construction in Malaysia. As at the LPD, MJC has completed the construction of civil works for eight (8) power plants in Malaysia. In 1988, MJC completed a 175 metre tall reinforced concrete chimney and the civil works for the Sultan Salahuddin Abdul Aziz Power Plant (also commonly known as Kapar Power Plant), one of the largest coal fired power plants in Malaysia. The construction of the tall chimney for the Sultan Salahuddin Abdul Aziz Power Station earned MJC the distinction of being the only local contractor to have had completed a tall reinforced concrete chimney for a power plant. In 1996, MJC was entrusted to design and build a 180-metre tall reinforced concrete chimney for the Sultan Salahuddin Abdul Aziz Power Station extension project. This project was completed in 1998 and it is currently the second tallest reinforced concrete chimney structure in Malaysia.

Construction of power plants and tall chimneys are highly specialised jobs which require engineering expertise and experience. Normally, such construction works are offered to experienced contractors with a proven track record.

Through its experience in the construction of power plants and tall chimneys, Mudajaya has positioned itself as a specialist in this area which is capable of providing quality designs and completing the project in a timely and cost effective manner.

7.1.4 Established Relationships with Consultants, Suppliers and Subcontractors

The management has good working relationships with its business associates. Over the years, the Group has managed to build a large base of suppliers and sub-contractors. The Mudajaya Group's timely payments to its suppliers and subcontractors has cultivated strong relationships which has allowed the Mudajaya Group to enjoy a good credit standing with its suppliers and subcontractors. Through the close working relationships with its suppliers and subcontractors, the Mudajaya Group has been able to maintain its competitiveness in terms of pricing and timely delivery.

7.1.5 Experienced Management and Skilled Workforce

The Group is led by Mr. Ng Ying Loong and Mr. Anto A/L SF Joseph who have vast experience in the construction and property development sectors (please refer to Section 9.3.3 of this Prospectus for their respective profiles). Assisted by an able team of experienced professionals, the management believes that it has positioned the Group as a leading player in the local construction sector.

In addition, the Mudajaya Group also provides education and training to upgrade the skills and proficiency of its employees in order to achieve higher standards and quality of work. Towards this, the Mudajaya Group engages its employees continually in on-the-job training and enrolls them, from time to time, in external programmes which are relevant to the scope of their individual duties and responsibilities.

7. PROSPECTS AND FUTURE PLANS (cont'd)

7.1.6 Ability to Withstand an Economic Slowdown

The construction industry experienced a severe contraction in 1998 of 23% and a further decline of 5.6% in 1999 (Source: *Economic Report 1999/2000*) due to the slowdown in the Malaysia's economy. Notwithstanding this, the Mudajaya Group has been able to withstand economic slowdowns and changes to its business environment. Coupled with prudent management, the Group managed to increase its turnover, and PBT and MI as well as maintain reasonable level of profits during the economic downturn, as shown below:

Financial year ended 31 December	1998 RM 000	1999 RM 000	2000 RM 000
Turnover	136,518	168,246	183,804
% change	N/A	23.24	9.25
PBT and MI	5,452	11,086	14,338
% change	N/A	103.34	29.33

Other factors which the Directors of Mudajaya believe will mitigate the risk to the Mudajaya Group of any economic slowdown are as follows:

- (a) Its policy of maintaining low gearing levels to ensure that the Group will not be burdened by high financing cost; and
- (b) The continuing growth of its order book. As at the LPD, the Group has an order book of approximately RM950.8 million, of which RM277.4 million has already been recognised in Mudajaya's accounts as at 31 October 2003. These projects are expected to sustain the revenue of the Mudajaya Group and minimise the impact of any economic slowdown.

With a track record of generating continuous profits for the last 20 years, Mudajaya has proven that it can consistently generate profit from its business even in difficult economic conditions.

7.1.7 Emphasis on Business Development

Emphasis is placed on business development to seek opportunities within the industry from both the Government and private sector. This allows for the allocation of resources by management to the prospective clients.

In addition, the Group also undertakes research and development activities to improve its competitive edge. Please refer to Section 8.3.6 of this Prospectus for further details.

Based on the above factors, the Directors of Mudajaya are of the opinion that Mudajaya will be able to secure construction contracts in the future and compete with other companies which are involved in the same industry as Mudajaya although MJC, the direct subsidiary of Mudajaya and through which the Group's business operate under, is no longer a part of the Mulpha Group effective from February 2003.

7.2 Future Plans of the Group

The Mudajaya Group intends to further establish itself as one (1) of the major players in the construction sector over the next five (5) years. The Group intends to seek further opportunities in the industry in terms of location and scope. Its past track record indicates that the Group is capable of charting further growth in its businesses. The Directors of Mudajaya believe that in order to stay competitive, the quality of its works and products and the timely completion of projects and products are crucial factors valued by its customers. To achieve this, the Group intends to integrate its activities further to provide a complete solution package to its customers.

7. PROSPECTS AND FUTURE PLANS *(cont'd)*

Details of the Group's future plans are as follows:

7.2.1 Construction

The Mudajaya Group intends to expand and strengthen its construction activities further in the following areas:

(a) Design and Build Contracts

The Mudajaya Group intends to extend the scope of activities under design and build contracts such as undertaking more complex and sophisticated building designs. Premised upon its proven track record for the successful implementation of large-scaled design and build contracts as stated in Section 7.1.2 of this Prospectus, the Directors of Mudajaya envisage that the Group will be able to successfully undertake more design and build contracts which generally have higher profit margin to enhance the Group's revenue and profits.

(b) Overseas Market

To expand and strengthen its overseas market, Mudajaya plans to undertake more contracts on a joint venture basis with local contractors in overseas markets where Mudajaya will provide management expertise while the local contractors will provide the human resources and local knowledge on the overseas project. The successful procurement of three (3) highway projects on a joint venture basis with local contractors in India and the experience gained therefrom serves as a platform for Mudajaya to establish itself in India's construction market. Mudajaya believes that it will be able to secure more projects on a joint venture basis in other overseas markets.

(c) East Malaysian Market

The construction and development of the Batu Kawah New Township project has provided the platform for the Group to establish itself in the construction and property development businesses in the East Malaysian market. Amongst the projects in Sarawak which have recently been secured by Mudajaya are the Pusa-Sesang Coastal Road and the Oya-Mukah-Balingian to Persimpangan Kampung Matadeng Road construction projects.

As there are still a lot of untapped opportunities in East Malaysia especially in terms of infrastructure projects, the Directors of Mudajaya believe that the Group will be able to secure more projects in East Malaysia in the near future.

(d) Construction of Power Plants and Tall Chimneys

Construction of power plants and tall chimneys are niche markets within the construction industry. Mudajaya has established itself as a key player in the civil and structural works construction of power plants and tall chimneys.

With its proven track record in this area, the Directors of Mudajaya believe that Mudajaya has a competitive advantage over other contractors.

Mudajaya plans to leverage on its reputation and expertise to secure more projects in the local and overseas markets.

7. PROSPECTS AND FUTURE PLANS (cont'd)

7.2.2 Property Development

The Mudajaya Group's future plans in property development are as follows:

(a) To Continue Developing the Batu Kawah New Township

The Mudajaya Group has successfully completed the first three (3) phases of the Batu Kawah New Township comprising a total of 2,340 units of shops and apartments. The Mudajaya Group will continue to develop Batu Kawah New Township into a premier residential and commercial development project in Sarawak. Towards this end, the Mudajaya Group will develop the balance of approximately 6,000 residential units and 220 units of shops and offices, two (2) commercial buildings, a private college and a hospital over the next 11 years.

(b) To Expand its Land Bank

The Directors of Mudajaya is constantly looking at ways to expand its property development business by either acquiring new land banks at strategic locations at a reasonable cost or setting up joint ventures with landowners to develop property development projects.

In respect of this, MCity has entered into joint development agreements with ADSB whereby MCity is given the right to develop an additional 264 acres of land located beside the Batu Kawah New Township in the future. As at the LPD, Mudajaya plans to develop, inter-alia, shops, apartments, offices, schools and colleges on the 264 acres of land.

7.2.3 Manufacturing of Construction Products

The Mudajaya Group's future plans in the manufacturing of construction products are as follows:

(a) To Seek International Accreditation for its Construction Products

Mudajaya intends to seek international accreditation for its pre-cast concrete products division to complement its existing international accreditation for standards in the provision of construction and management services for civil engineering, infrastructure, building water supply and marine structure works as disclosed in Section 8.3.10 of this Prospectus. The Directors of Mudajaya believe that the manufacturing accreditation is important as it would enable Mudajaya to be recognised as a company that has achieved international standards.

(b) To Set Up Precast Manufacturing Plants in Sarawak and India

The Mudajaya Group has manufactured and supplied a substantial amount of precast beams and piles to Sarawak which are mainly used in the development of the Batu Kawah New Township. Currently, the Mudajaya Group is studying the feasibility of setting up precast manufacturing plants in Sarawak and India to supply precast beams to its existing property development and construction projects as well as to the other contractors in East Malaysia and India.

7. **PROSPECTS AND FUTURE PLANS** *(cont'd)*

(c) **To Expand its Plant and Machinery**

Mudajaya has been investing in plant and machinery to cater for the increasing demand for construction products by the Mudajaya Group as well as external parties. Mudajaya has invested RM2.9 million in plant and machinery for the financial year ended 31 December 2002 and another RM4.2 million for the ten (10)-month period ended 31 October 2003. Mudajaya will continue to invest significantly in plant and machinery to support its growing construction and property development business.

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