

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS

7.1 Background and history

Our Company was incorporated in Malaysia as a private limited company on 28 August 1972, under the Act as Perbadanan Ladang-Ladang Tabong Haji Sendirian Berhad. On 15 September 1997, our Company's name was changed to TH Plantations Sdn Bhd. Our Company was subsequently converted into a public limited company on 26 May 2005 and is now known as TH Plantations Berhad.

7.2 Share Capital

Our Company's share capital as at 31 December 2005 is as follows:

Type	No. of shares	Par value RM	Total RM
Authorised	200,000,000	0.50	100,000,000
Issued and paid-up	196,094,000	0.50	98,047,000

The changes in the issued and paid-up share capital of our Company since its incorporation are as follows:

Date of Allotment	No of shares	Par Value RM	Consideration	Resultant total RM
28 August 1972	2	1.00	Cash (Subscribers' shares)	2
26 November 1973	1,000,000	1.00	Cash	1,000,002
26 November 1973	1,000,000	1.00	Cash	2,000,002
26 November 1973	1,000,000	1.00	Cash	3,000,002
26 November 1973	744,106	1.00	Cash	3,744,108
23 December 1974	1,000,000	1.00	Cash	4,744,108
23 December 1974	1,000,000	1.00	Cash	5,744,108
23 December 1974	1,000,000	1.00	Cash	6,744,108
23 December 1974	1,000,000	1.00	Cash	7,744,108
23 December 1974	450,000	1.00	Cash	8,194,108
20 November 1975	1,000,000	1.00	Cash	9,194,108
20 November 1975	805,894	1.00	Cash	10,000,002
14 November 1978	1,000,000	1.00	Cash	11,000,002
5 September 1979	2,000,000	1.00	Cash	13,000,002
5 September 1979	1	1.00	Cash	13,000,003
21 March 1980	1,000,000	1.00	Cash	14,000,003
19 April 1980	3,000,000	1.00	Cash	17,000,003
21 May 1980	1,000,000	1.00	Cash	18,000,003
30 August 1980	2,000,000	1.00	Cash	20,000,003
26 April 1982	1,000,000	1.00	Cash	21,000,003
5 May 1982	1,000,000	1.00	Cash	22,000,003
12 August 1982	2,000,000	1.00	Cash	24,000,003
4 October 1982	1,000,000	1.00	Cash	25,000,003
4 January 1983	1,000,000	1.00	Cash	26,000,003
3 February 1983	1,000,000	1.00	Cash	27,000,003
3 March 1983	1,000,000	1.00	Cash	28,000,003
2 April 1983	1,000,000	1.00	Cash	29,000,003
6 May 1983	1,000,000	1.00	Cash	30,000,003
5 December 1983	1,000,000	1.00	Cash	31,000,003
5 January 1984	1,000,000	1.00	Cash	32,000,003

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

Date of Allotment	No of shares	Par Value RM	Consideration	Resultant total RM
7 February 1984	1,000,000	1.00	Cash	33,000,003
2 March 1984	1,000,000	1.00	Cash	34,000,003
10 April 1984	1,000,000	1.00	Cash	35,000,003
9 July 1985	1,000,000	1.00	Cash	36,000,003
27 September 1985	1,000,000	1.00	Cash	37,000,003
9 October 1985	1,000,000	1.00	Cash	38,000,003
31 October 1985	1,000,000	1.00	Cash	39,000,003
7 December 1985	1,000,000	1.00	Cash	40,000,003
30 January 1986	1,000,000	1.00	Cash	41,000,003
4 February 1986	1,000,000	1.00	Cash	42,000,003
1 March 1986	1,000,000	1.00	Cash	43,000,003
1 April 1986	1,000,000	1.00	Cash	44,000,003
2 May 1986	1,000,000	1.00	Cash	45,000,003
5 December 1986	4,999,997	1.00	Cash	50,000,000
23 September 2005	1,603,700	1.00	Other than cash – for the consideration of the Acquisition	51,603,700
26 September 2005	46,443,300	1.00	Bonus Issue on the basis of nine (9) Bonus Shares for every ten (10) existing ordinary shares held	98,047,000
26 September 2005	196,094,000	0.50	Share Split	98,047,000

7.3 Restructuring Exercise

In conjunction with our IPO, our Company undertook a restructuring exercise involving the following:

7.3.1 Acquisition of THPE

Our Company entered into sixteen (16) conditional SSAs dated 27 April 2005 for the acquisition of the 49% issued and paid-up ordinary share capital of THPE from the minority shareholders of THPE. These acquired shares comprised of 2,769,905 ordinary shares of RM1.00 each and is purchased for a consideration of RM8,658,795. The purchase consideration was satisfied by an issue of 1,603,700 new ordinary shares of RM1.00 each in our Company at an issue price of approximately RM5.40 per share and is credited as fully paid-up.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

The following illustrates the shareholdings of the minority shareholders of THPE in THPE and the number of our Company's shares issued to them arising from the Acquisition.

Minority shareholders of THPE	← Shareholdings in THPE →		New ordinary shares issued as consideration
	No. of shares held	%	
PPKB	155,200	2.75	89,900
PPBD	100,000	1.77	57,900
PPBP	190,500	3.37	110,200
PPG	50,000	0.88	28,900
PPK1	115,000	2.03	66,600
PPP	7,000	0.12	4,100
PPD	23,000	0.41	13,300
PPJ	10,500	0.19	6,100
PPKT	10,000	0.18	5,800
PPK3	11,000	0.19	6,400
PPK2	20,000	0.35	11,600
PPM	50,000	0.88	28,900
PPMB	189,500	3.35	109,700
PPMBR	40,000	0.71	23,200
PPNT	1,793,205	31.73	1,038,200
PPS	5,000	0.09	2,900
	2,769,905	49.00	1,603,700

The total purchase consideration of RM8,658,795 was arrived at on a willing buyer-willing seller basis after taking into consideration the audited NTA of THPE as at 31 December 2004 and after adjusting for parting dividends amounting to RM2,500,000 and the net revaluation surplus (net of deferred tax) amounting to RM11,038,666 arising from the revaluation of its plantation land and PDE, as detailed below:

	THPE RM
Share capital	5,652,868
Retained earnings	3,479,476
NTA	9,132,344
Net parting dividends	(2,500,000)
Net revaluation surplus (net of deferred tax)	11,038,666
Adjusted NTA	17,671,010
Equity interest acquired	49.00%
Adjusted NTA of vendors' interest in THPE	RM8,658,795

This revaluation surplus is not recorded in both our Company's and THPE's financial statements.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

Details of the computation net revaluation surplus of THPE are as follows:

	Land* RM	PDE Matured RM	PDE Immature RM	Total RM
Market valuation	14,813,250	453,380	1,983,370	17,250,000
Net book value as at 31 December 2004	751,000	340,120	827,400	1,918,520
Revaluation Surplus	14,062,250	113,260	1,155,970	15,331,480
Deferred tax [#]	(3,937,430)	(31,713)	(323,671)	(4,292,814)
Revaluation Surplus net of deferred tax	10,124,820	81,547	832,299	11,038,666

Notes:

* This comprises of four (4) parcels of land - Lot No. PT 345(P), Lot No. PT 342(P), Lot No. PT 341 (P) and Lot No. PT 369(P), all of which are located in Mukim of Hulu Cukai in the District of Kemaman.

Deferred taxation is computed based on 28% of the revaluation surplus.

The valuation of the above plantation land and PDE for the Acquisition was conducted by CH Williams Talhar & Wong Sdn Bhd. For further information on the valuation of the above plantation land and PDE for the Acquisition, please refer to Section 16 of this Prospectus.

For further information on the plantation land, please refer to Section 11 of this Prospectus.

The basis of the issue price of approximately RM5.40 per ordinary share of RM1.00 each in our Company was arrived at after taking into consideration our adjusted NTA as at 31 December 2004 and the estimated market value of plantations land as well as fixed assets within our Company.

The ordinary shares of RM1.00 each in THPE was acquired free from all mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention, preferential rights, trust arrangement, other security arrangement or agreement conferring a right to a priority of payment.

The Acquisition was completed on 23 September 2005.

7.3.2 Bonus Issue

On 26 September 2005, our Company undertook a bonus issue of 46,443,300 new ordinary shares of RM1.00 each on the basis of nine (9) Bonus Shares for every ten (10) existing ordinary share of RM1.00 each held in our Company.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

The Bonus Issue was capitalised from the retained earnings and share premium of our Company, the details of which are as follows:

	Company RM 000
Retained Earnings	
Audited as at 31 December 2004	63,078
Amount capitalised for the Bonus Issue	(41,388)
Retained earnings after capitalisation for the Bonus Issue	<u>21,690</u>
Share Premium	
Audited as at 31 December 2004	-
Add premium arising from the Acquisition	7,055
Amount capitalised for the Bonus Issue	(5,055)
Share premium after capitalisation for the Bonus Issue	<u>2,000</u>

Upon completion of the Bonus Issue, the issued and paid-up share capital of our Company increased from RM51,603,700 comprising of 51,603,700 ordinary shares of RM1.00 each to RM98,047,000 comprising of 98,047,000 ordinary shares of RM1.00 each.

The Bonus Shares rank equally in all respects with the existing Shares. The Bonus Issue was completed on 26 September 2005.

7.3.3 Share Split

On 26 September 2005, our Company undertook a share split of 98,047,000 ordinary shares to 196,094,000 ordinary shares by way of subdivision of par value of the ordinary shares of RM1.00 per share in our Company to RM0.50 per share.

7.3.4 Offer for Sale

In conjunction with our Listing, our Company will undertake an OFS of 74,515,700 of our Shares at an offer price of RM1.25 per Share in the following manner:

- (a) 41,071,600 Offer Shares will be made available for application by LTH Depositors;
- (b) 19,609,400 Offer Shares will be made available for application by way of private placement to the identified Islamic Institutions;
- (c) Up to 4,030,000 Offer Shares will be made available for application by eligible directors of our Group and LTH and the eligible employees of our Company and LTH; and
- (d) 9,804,700 Offer Shares will be made available for application by the Malaysian public.

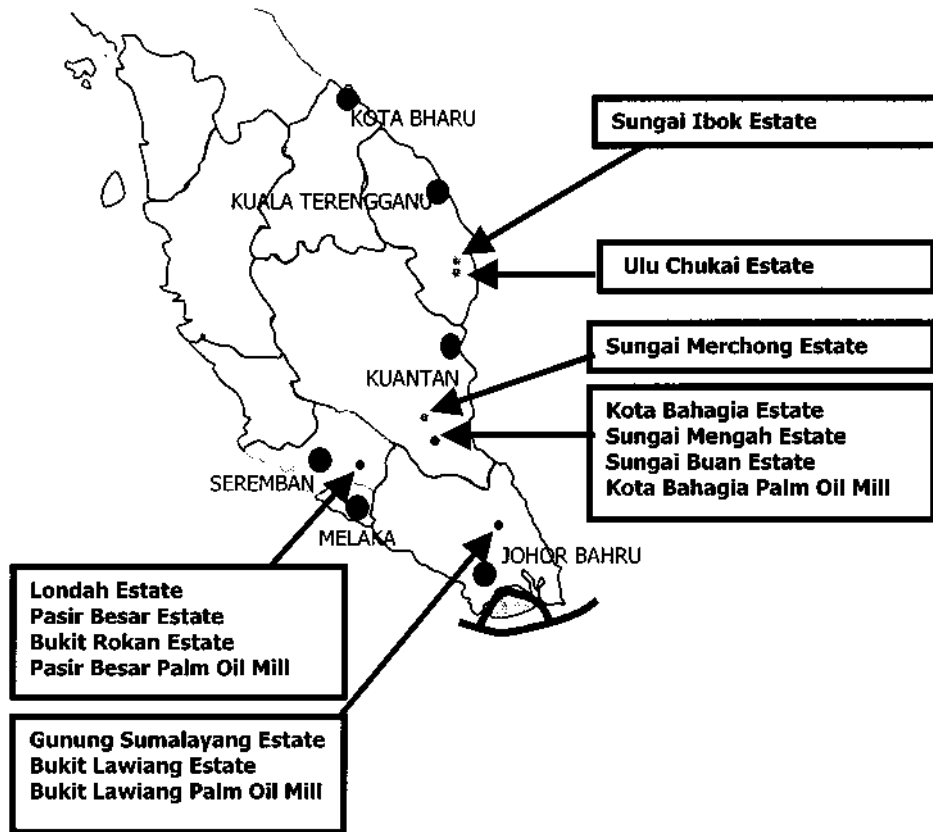
Please refer to Section 4 of this Prospectus for further details of the OFS.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

7.4 Business Overview

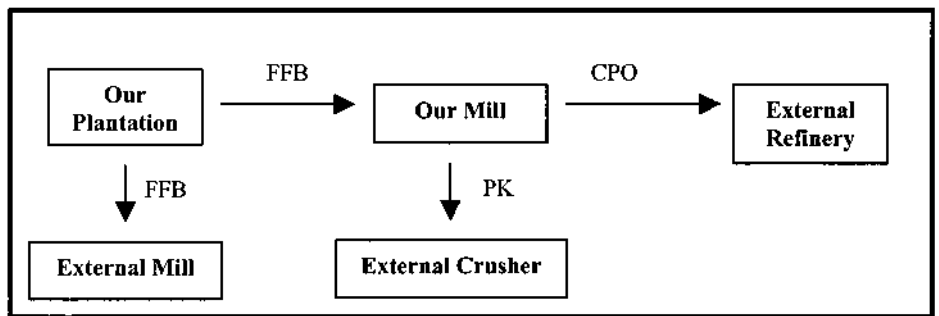
Our Group is principally involved in the cultivation of oil palm, processing of FFB, marketing of CPO, PK and FFB and provision of management services.

Our Group currently has a total plantation land of approximately 16,227 Ha of which 15,471 Ha has been fully planted and three (3) palm oil mills. The estates are located in Pahang, Johor, Negeri Sembilan and Terengganu whilst the mills are located in Johor, Pahang and Negeri Sembilan as follows:



7.4.1 Plantation

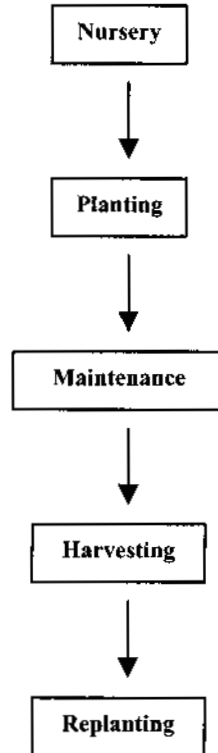
Our Group’s involvement in the palm oil industry’s production chain is depicted in the diagram below:



7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

Plantation Process

The oil palm plantation process is divided into five (5) stages i.e. nursery, field planting, field maintenance, harvesting and replanting.

**(a) Nursery (12 months)**

Oil palm seedlings are established either in a single or double stage nursery. The pre-germinated seedlings are purchased from reputable seed suppliers.

i) Single Stage Nursery

Establishment of healthy seedlings directly into the main nursery without the pre-nursery stage.

ii) Double Stage Nursery

The seeds are planted in the pre-nursery for three (3) months and subsequently transplanted into the main nursery until they are ready for field planting (eight (8) to nine (9) months).

(b) Planting

Seedlings of twelve (12) months old will be planted in the prepared field.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

(c) Maintenance

i) Immatured Stage (up to three (3) years after field planting)

Early growth and nurturing of oil palm is fundamental. Efforts must be made to ensure that palms in the formative years are maintained in good and vigorous conditions for exploitation of high yield and precocity.

ii) Matured Stage (three (3) years after planting)

Oil palm attained maturity after three (3) years of planting with the commencement of harvesting. Prudent maintenance is critical to serve highest potential yield throughout the period to replanting.

(d) Harvesting (three (3) to twenty five (25) years old)

Harvesting of FFB commenced from the third year until replanting. Oil palm yield usually attain its peak in seven (7) to eleven (11) years, thereafter the yield stabilises up to eighteen (18) years and gradually decline.

(e) Replanting (more than twenty five (25) years old)

Decision to replant will be made by the management when the palms are more than twenty-five (25) years of age, after considering the height of the palms and its yield.

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7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

Currently 94% of our plantations are at the matured stage. The details of our Group's plantation hectareage and maturity of crops as at 31 December 2005 are as follows:

	Immatured (less than 3 years) Ha	Matured and young (3 to less than 7 years) Ha	Matured and prime (7 to less than 12 years) Ha	Matured (12 years onwards) Ha	Total area planted Ha	Road, buildings, utilities and others Ha	Total area Ha
THP							
Kota Bahagia	710	444	760	-	1,914	73	1,987
Sungai Mengah	151	854	804	297	2,106	19	2,125
Sungai Buan	-	-	20	1,363	1,383	6	1,389
Sungai Merchong	-	-	-	1,718	1,718	305	2,023
Ulu Chukai	-	-	-	903	903	20	923
Bukit Lawiang	-	-	-	1,989	1,989	25	2,014
Gunung Sumalayang	-	-	-	2,003	2,003	38	2,041
Sub-total	861	1,298	1,584	8,273	12,016	486	12,502
THPE							
Sungai Ibok	-	132	-	728	860	97	957
LBU							
Londah	-	-	-	949	949	87	1,036
Pasir Besar	-	-	-	774	774	12	786
Bukit Rokan	-	-	302	570	872	74	946
Sub-total	-	-	302	2,293	2,595	173	2,768
Grand total	861	1,430	1,886	11,294	15,471	756	16,227

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

From the above estates, the total production of FFB from our matured areas and the average yield per hectare for the past five (5) years ended 31 December 2005 and are as follows:

	←-----Year ended 31 December----->				
	2001	2002	2003	2004	2005
FFB Production (MT)	296,178	278,563	306,919	296,828	303,981
Mature Plantation (Ha)	14,071	13,906	13,960	13,617	14,610
Average yield per hectare (MT/Ha)					
Our Group	21.05	20.03	21.99	21.80	20.81
Peninsular Malaysia	19.17	17.45	19.02	18.05	17.65
Malaysia	19.14	17.97	18.99	18.60	18.88

(Source: Information on the industry average for Peninsular Malaysia and Malaysia are sourced from MPOB website at www.mpob.gov.my)

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7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

The yield per hectare for the respective estates of our Group for the five (5) financial years ended 31 December 2005 and are as follows:

	<-----Year ended 31 December----->				
	2001 (MT/Ha)	2002 (MT/Ha)	2003 (MT/Ha)	2004 (MT/Ha)	2005 (MT/Ha)
THP					
Kota Bahagia	18.77	15.46	17.47	24.75	18.22
Sungai Mengah	17.86	15.44	16.08	17.05	15.26
Sungai Buan	25.52	23.07	24.97	22.16	25.29
Sungai Merchong	21.13	21.60	23.04	22.84	23.51
Ulu Chukai	20.99	23.09	22.35	20.15	21.37
Bukit Lawiang	24.68	25.19	26.43	23.65	22.67
Gunung Sumalayang	23.27	24.80	28.12	25.35	23.91
THPE					
Sungai Ibok	19.10	20.00	21.15	18.47	16.99
LBU					
Londah	17.89	12.93	17.82	19.20	20.15
Pasir Besar	19.00	14.26	18.33	25.05	21.71
Bukit Rokan	16.15	12.74	15.10	16.71	16.08

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

7.4.2 Milling Operations

Our Group currently has three (3) mills namely, Bukit Lawiang Palm Oil Mill located in Kluang, Johor, Kota Bahagia Palm Oil Mill located in Muadzam Shah, Pahang and Pasir Besar Palm Oil Mill located in Gemas, Negeri Sembilan.

Our associated company, KISPA also has a mill in Kemaman, Terengganu which serves two (2) of our Group's estates in Terengganu as well as third party estates.

- (a) The Bukit Lawiang Palm Oil Mill was built in 1988, commissioned at the end of May 1989 and was fully operational in June 1989. The mill's initial processing capacity was 30 MT per hour and this was upgraded to 40 MT per hour in 1994. The mill is presently running at a capacity of 200,000 MT per annum.
- (b) The Kota Bahagia Palm Oil Mill was built in 1975 with an initial processing capacity of 20 MT per hour and was subsequently upgraded to 30 MT per hour. The mill is presently running at a capacity of 165,000 MT per annum.
- (c) The construction of Pasir Besar Palm Oil Mill was completed and commissioned in February 2005 and was fully operational in June 2005 with a processing capacity of 10 MT per hour. The mill is expected to run at a capacity of 54,000 MT per annum.

Presently, our three (3) mills process FFB supplied by the majority of our Group's estates as well as from the small holder estates located around the mills. These FFB are processed and converted to CPO and PK which are then sold to palm oil refineries and external crushers.

The production records of Kota Bahagia Palm Oil Mill, Bukit Lawiang Palm Oil Mill and Pasir Besar Palm Oil Mill for the past five (5) financial years ended 31 December 2005 are as follows:

	←-----Year ended 31 December-----→				
	2001	2002	2003	2004	2005
Intake of FFB (MT)					
KSBL					
• Our Group	95,686	99,764	108,890	97,820	92,983
• Other estates	108,297	91,089	82,618	62,352	28,002
Sub-total	203,983	190,853	191,508	160,172	120,985
KSKB					
• Our Group	121,800	108,644	115,584	113,406	134,465
• Other estates	52,608	24,973	41,256	50,028	3,095
Sub-total	174,408	133,617	156,840	163,434	137,560
KSPB					
• Our Group	-	-	-	-	34,562
• Other estates	-	-	-	-	-
Sub-total	-	-	-	-	34,562
Total	378,391	324,470	348,348	323,606	293,106

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

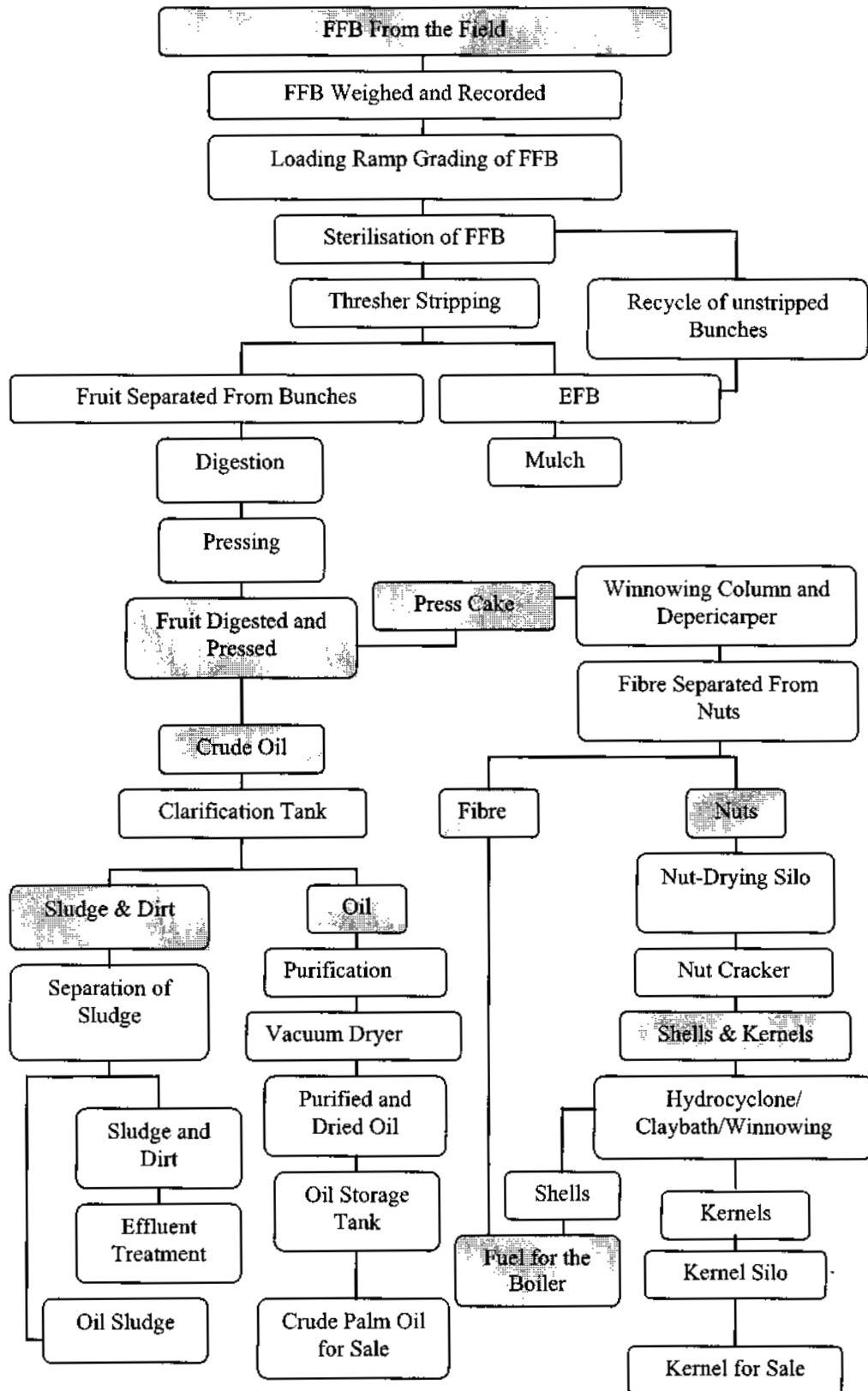
	←-----Year ended 31 December-----→				
	2001	2002	2003	2004	2005
Output of CPO and PK (MT)					
KSBL					
• CPO	36,816	36,689	36,151	31,733	24,240
• PK	10,564	10,299	10,017	8,362	6,594
KSKB					
• CPO	31,236	25,338	29,459	30,913	27,943
• PK	9,585	7,216	8,821	9,604	8,192
KSPB					
• CPO	-	-	-	-	6,907
• PK	-	-	-	-	1,776
Average extraction rate (%)					
KSBL (Johor)					
• CPO	18.05	19.22	18.88	19.81	20.04
• PK	5.18	5.40	5.23	5.22	5.45
KSKB (Pahang)					
• CPO	17.91	18.96	18.78	18.91	20.31
• PK	5.50	5.40	5.62	5.88	5.96
KSPB (Negeri Sembilan)					
• CPO	-	-	-	-	19.98
• PK	-	-	-	-	5.14
Industry Average (%)					
Johor					
• CPO	18.39	18.79	18.68	19.08	19.09
• PK	5.98	5.94	5.89	5.84	5.87
Pahang					
• CPO	18.52	18.92	19.05	19.31	19.33
• PK	5.70	5.65	5.56	5.48	5.58
Negeri Sembilan					
• CPO	-	-	-	-	18.95
• PK	-	-	-	-	5.75
Peninsular Malaysia					
• CPO	18.47	18.84	18.79	19.22	19.26
• PK	5.83	5.80	5.72	5.65	5.72
Malaysia					
• CPO	19.22	19.91	19.75	20.03	20.15
• PK	5.48	5.47	5.63	5.25	5.34

For the year ended 31 December 2005, the OER of KSBL, KSKB and KSPB is higher than Johor, Pahang and Negeri Sembilan's average OER, respectively because of lower quantity of crops purchased from external suppliers and higher loose fruits collection with the implementation of separate loose fruits collection team.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

Production Process

The extraction of crude palm oil involves the following processes:



7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

The extraction of CPO involves a series of processes known as milling. The main stages of extraction of CPO are sterilisation, bunch striping, digestion, oil pressing, oil extraction, oil clarification and purification, depericarping and storage.

A brief description of the CPO and PK production process is set out below:

(a) FFB Reception at the Mill

The palm oil milling process starts with the reception of FFB at the weighing bridge at the main gate entrance of the mill. FFB is transported from the field using tipper lorries or tractors. The FFB unloaded at the ramp of the mill is subsequently graded and then the quality is determined based on the ripeness and freshness of the fruits, the bunch size, lengths of the stalk, formation of the FFB and the percentage of loose fruits. The FFB received must be processed as soon as possible to ensure the production of high quality palm oil as the undesirable FFA content of the FFB starts to increase after harvesting. The FFB is transferred from the ramp to the fruit cages via the hydraulic controlled gate.

(b) Sterilisation

To enable efficient mechanical stripping of bunches and to obtain high yield oil from downstream process, the fruits are sterilised in a pressure vessel for approximately 90 minutes at a temperature of 145 Celsius. Sterilisation will (1) deactivate acid-forming enzymes, (2) loosen the fruits from the stalk and (3) pre-condition the mesocarp and nuts for further processing.

(c) Threshing

The sterilised FFB are emptied from the cages into a thresher and then fed into a revolving slated steel drum by an auto-feeder. The non-oil bearing bunch stalk are oil absorbent and hence is removed to prevent any absorption of oil. Bunches which are not fully stripped are sent for re-threshing to remove any entrapped fruits through a bunch crusher. During the drumming process, fruits loosened from the bunches are dropped through a steel slat into a conveyor below the drum and are then transferred via a fruit elevator into a digester.

After separation, EFB are transported using a conveyor to the empty bunch hopper. These EFB are sent back to the field for mulching as it contains high level of nutrients.

(d) Digestion

The purpose of a digester is to (1) release the oil by rupturing oil bearing cells in the mesocarp, (2) loosen the fibre from the nuts, (3) raise the temperature of the mash to facilitate subsequent pressing and (4) drain away free oil to reduce the volume to be pressed.

The fruits are transported to the digester via a fruit elevator and fruit distributing conveyor. In the digester, the fruits are mashed by sets of stirring arms which create relative circular and vertical movements of fruits. Steam is injected to maintain the temperature at 95 Celsius.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

(e) Pressing/Oil Extraction

The mash passing through the digester is fed into a screw press with the screw turning within a perforated press cage and pushing the mash towards a pre-set cone. The pressure on the mash is gradually increased, forcing the oil and moisture to be squeezed from the mash through the perforated press cage, leaving behind a compact dried mass, consisting mainly of nuts and fibre, called the press cake. The crude oil sludge extracted from the mash is then fed into a sand trap-tank in which dirt particles and shell fragments are allowed to settle to the bottom.

(f) Oil Clarification and Purification

The free oil which has been drained from the digester together with the crude oil sludge from the screw press are allowed to flow past a vibrating screen to further remove any retained fibre and shell particles. The composition of crude oil varies in accordance to the composition of the fruits, but is generally made up of 60% oil and 40% sludge (dirt particles and water). At this composition, the crude oil is highly viscous and therefore difficult to separate effectively from the sludge. In order to reduce to viscosity, hot water and steam is injected to accelerate the oil/sludge separation process. The process is achieved in the clarification tank with a retention time of about five (5) hours to ensure complete separation.

The crude oil is then skimmed off from the mixture and the oil extracted from the clarification contains approximately 0.6% water and 0.2% impurities. This is further reduced in a high speed centrifuge called a purifier to a moisture content of 0.3% and dirt content of 0.02%.

The purified oil is then pumped through a vacuum dryer to reduce the moisture content down to about 0.15%.

(g) Oil Storage Tank

The purified and dried oil (now known as CPO) is then conveyed via pipes and stored in the oil storage tanks before despatch. The oil in the storage tank is heated using closed steam coils to maintain a temperature of 55 Celsius. A constant homogeneity is maintained by using circulation pumps. The mill has four (4) storage tanks with total storage capacity of about 8,000 MT.

(h) Separation of Sludge

After the clarification process, the separated sludge is temporarily stored and heated in the sludge tank. The sludge will go through a second separation via a de-sander and a decanter at a temperature of 95 Celsius. The decanter is used to recover the final trace amount of suspended oil in the sludge, thereby maximising oil recovery and achieving minimal oil loss in the sludge water discharge and solids. The recovered oil is pumped back to the crude oil clarification tank. The sludge water discharge is transported to the effluent treatment plant via a sludge pit. The solid sludge is put back into the field for utilisation as compost.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

(i) Depericarping

In the kernel recovery station, the nuts are removed from the fibre with the fibre being used as fuel to generate power for the mill.

The nuts are cracked and the kernel separated from the shell. The kernels are then dried prior to packing and the shell augments fibre provides fuel for the mill power supply. The nuts are sent to the de-stoner to remove any stones and foreign matters, which may have been included in the fruits during transportation.

(j) Nut Drying Silo

The cleaned nuts are sent to the nut silo for drying. The moisture content of the nuts is reduced from 25% to 17% within a time period of fourteen (14) hours. The temperature of the hot air used for drying off the nut is regulated to prevent discolouration of the kernel. Drying will detach the kernel inside the nut from the nut shell, and this will facilitate cracking and separation at a later stage. The nuts are graded into three (3) different sizes so as to maintain optimum cracking efficiencies in the ripple mills.

(k) Ripple mills and Winnower

Dried nuts are fed into ripple mills to crack the shells. The cracked mixtures comprising kernel and shell are fed into a series of winnowers where the lighter shell fragments and any remaining fibre are blown off. The residue kernel and shell mixtures are then fed into the kernel grading drum. The whole kernel is then separated from the broken kernel and shells mixture in the drum before being conveyed to the kernel silo. The kernel and shell mixtures are then fed into a hydrocyclone via a conveyor.

(l) Hydrocyclone

The kernels and shells are separated in a hydrocyclone using the principles of centrifugal forces. Separated shells are sent to the boiler and burnt as fuel.

(m) Kernel silo

The kernels are dried in hot air heated by steam in a heat exchanger in the kernel silo. The drying time and temperature is regulated to give proper dryness consistency and moisture content. The installed drying facility is capable of drying twenty (20) MT of PK. The dried palm kernels are stored in a bulking silo before despatch.

(n) Power plant

We have our own power plant at the mills consisting of the steam boiler and steam turbine generations. The power generated at the plant is sufficient to run the operations of the mills.

7.4.3 Marketing and Distribution

Our Group's CPO and PK are sold to local refineries and crushers respectively, which are located in port areas including Port Klang and Pasir Gudang.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

The buyers of our Group's CPO and PK are well established and have been in the business for the last twenty (20) years. Payments for CPO are made via cash or telegraphic transfers after deliveries within the credit period whilst payments for PK are made via cash or telegraphic transfers before collections at the mills.

Sales are generally made through the following methods:

Long Term Contracts

Long term contracts are contracts which we entered into for at least a year. Our Group had entered into several sale and purchase agreements with our major buyers in respect of the CPO sales volume. The amount payable will be based on monthly average prices of CPO published by MPOB in the month of delivery.

Spot Sales

Our Group sells our CPO to refineries on a spot sale basis where selling price is determined during the point of sale. The sales will be carried out by our marketing department at a price agreed by both parties at that point of time. The price has also taken into consideration the demand, supply and any anticipated events or news which may affect the market.

Forward Contracts

Our Group enters into forward contracts with refineries where volume and price are predetermined. These forward contracts are used to hedge against fluctuations in CPO prices in the near future.

7.4.4 Major Customers

Our Group's major customers for the financial year ended 31 December 2005 are as follows:

Customer	Nature of business	Length of relationship (years)	Revenue for the financial year ended 31 December 2005	
			RM 000	% of total revenue
Pacific Inter-Link Sdn Bhd	Sales of CPO	3	27,637	24.67
Pan Century Edible Oils Sdn Bhd	Sales of CPO	15	20,402	18.21
PGEO Edible Oils Sdn Bhd	Sales of CPO	15	12,698	11.33
Mewaholeo Industries Sdn Bhd	Sales of CPO	9	12,299	10.98
KISPA	Sales of FFB	21	8,376	7.48
Premium Vegetable Oils Sdn Bhd	Sales of PK	14	7,090	6.33
IOI Loders Crocklaan Oils Sdn Bhd	Sales of CPO	1	3,523	3.14
Syarikat Perpaduan Kilang Minyak Sdn Bhd	Sales of PK	6	3,301	2.95
Sehcom Industries Sdn Bhd	Sales of PK	13	3,292	2.94
Mewah-Oils Sdn Bhd	Sales of CPO	3	1,929	1.72

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

Although the sales to Pacific Inter-Link Sdn Bhd and Pan Century Edible Oils Sdn Bhd are substantial based on the revenue for the financial year ended 31 December 2005, our Group is not dependent on any single customer.

7.4.5 Major Suppliers

Our Group has long-term relationship with our suppliers mainly for the procurement of FFB, fertiliser, chemicals, spare parts, equipment and consumables for the plantation estates and is not dependent on any single supplier. Our Group's largest suppliers for the financial year ended 31 December 2005 are set out in the table below:

Suppliers	Nature of business	Length of relationship (years)	Purchases for the financial year ended 31 December 2005	
			RM 000	% of total purchases*
CCM	Supply of fertiliser	10	8,312	95.86
Nilai Megah Sdn Bhd	Supply of FFB	2	2,806	31.53
Maju Jaya Prasarana Sdn Bhd	Supply of FFB	7	2,475	27.81
Chop Hup Guan	Supply of FFB	1	1,954	21.96
Kurnia Mastiara Sdn Bhd	Supply of FFB	2	771	8.67
UMW Equipment Sdn Bhd	Supply of vehicle	5	595	53.43
MH Industrial Supply	Supply of milling machinery spare parts	3	484	24.64
Ng Seng Wah Service Station Sdn Bhd	Supply of diesel	2	427	23.41
Syarikat Perniagaan Haji Yusof	Supply of FFB	2	410	4.61
Dian Heng Sdn Bhd	Supply of chemical	10	395	34.18

Note:

* The percentage of total purchases is calculated based on the total purchases for each category of purchase.

Although 95.86% of our Group's fertilisers were supplied by CCM for the financial year ended 31 December 2005, we are not solely dependent on CCM as we are able to purchase fertilisers from other suppliers such as Behn Meyer & Co (M) Sdn Bhd, Felda Agricultural Services Sdn Bhd, Sasco Sdn Bhd, Agromate (M) Sdn Bhd and Agrifert Malaysia Sdn Bhd (formerly known as Pengedar Bahan Pertanian Sdn Bhd).

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

7.4.6 Location of Operation

Our Group's principal location of operation:

Purpose	Address	Area
Headquarters	Tingkat 12, 26, 27 & 28 Bangunan TH Selborn 165 Jalan Tun Razak 50400 Kuala Lumpur	33,707 square feet

The locations of our Group's plantation estates are disclosed in Section 11 of this Prospectus.

7.4.7 Quality Control

Our Group's milling and plantation processes are governed by a strict quality control system which is set by our Management and is in accordance to the standards set and practised by MPOB and the Malayan Agricultural Producers Association. Under this quality control system, every stage in the processes is guided by its own set of quality control procedures and work instructions as outlined in the plantation operation manuals. As the quality of FFB input determines the mill's performance, FFB are graded by bunch weight, ripeness and year of planting in accordance to MPOB's recommended guidelines and practices. Graders are trained to identify the various categories of FFB classifications. The FFB grading reports generated are sent as feedback to suppliers of FFB for control purposes.

Quality control practised by the management is to ensure the optimal harvesting rounds, cutting the ripe fruit bunches and collecting loose fruit and the prompt delivery of FFB to mill are important. In addition, the mill management grades the FFB received by them and provide feedback to plantations on their grading results for necessary action. Co-ordination and co-operation between the plantation and mill management in FFB quality control are vital for achieving good OER.

Samples of CPO and PK produced are taken from the mill on an hourly basis and analysed by our mills' laboratories in accordance to guidelines published by MPOB. This is to ensure that the CPO and PK produced comply with relevant standards and technical specifications, especially the levels of acidity, moisture and impurities in the CPO and PK. Other samples from the intermediate process line are also taken to check the operation conformities to the specifications and control parameters. Before delivery to the refinery, CPO and PK are checked again for quality on each tanker load. The quality of raw water, treated water, boiler water and treated effluent are also checked on a daily basis in order to maintain proper control.

In addition, our Group has taken the following measures to ensure quality products:

- The FFB crop harvested from our oil palm plantation is despatched to the palm oil mill on the same day to minimise spoilage;
- The handling of our FFB at the ramp is minimised to reduce oil losses and to achieve lower levels of FFA;
- The sterilisation cycle selection is based on crop ripeness. A longer sterilisation time will be selected for unripe and extraordinary big bunches to ensure that the steam permeates into the core thoroughly, which in turn facilitates the subsequent threshing process. A shorter sterilisation time is selected for overripe and small bunches;

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

- Digestion efficiency is checked closely as poorly mashed fruitlets give rise to higher oil losses in the extraction units while excessive digestion will lead to reduced pressing efficiency;
- Effluent treatment system is consistently monitored to ensure proper operation. Pond samples are taken daily and tested for degradation efficiencies. These samples are analysed on a monthly basis by an independent qualified professional environmental impact assessment consultant and the results are counter checked with the acceptable variance;
- For the storage of CPO and PK, circulation, ventilation and temperature are constantly checked and controlled to maintain their freshness;
- All the milling processes are closely monitored to ensure minimal losses in the processing lines; and
- All machineries are under stringent maintenance programmes to ensure operational efficiency.

Quality control is done on FFB prior to processing by the mill. Rejection is negligible, amounting to approximately 1.0% of the total FFB input for 2005. Rejected FFB that are purchased from outside suppliers are returned whereas the rejected FFB from our Group's own plantations are discarded.

Our mills have always achieved the desired quality of CPO and there has been no rejection of CPO by the buyer.

Our Group employs professional agronomists and plantation advisers to conduct analysis and studies on the palm nutrient status, palm leaves, palm appearance, ground conditions, pests and diseases, EFB application, pruning, yields, manuring plan and fertiliser programme in order to ensure its plantations are in optimal conditions.

7.4.8 Research and Development ("R&D")

Our Group realises that in order to remain competitive in the industry, investment in R&D is necessary and this is realised through PTMGI (a subsidiary of our substantial shareholder, LTH) which has its own dedicated research lab. Among the areas covered for the R&D in agronomy, plant protection and weed management are, but not limited to the following:

- Improve FFB yield through improved agronomic management practice, including optimal fertiliser usage;
- Carry out in-house fertiliser, soil and foliar analysis;
- Study the potential and beneficial usage of FFB and POME as inorganic fertiliser substitute;
- Study new fertiliser placement techniques and suitable fertilisers under different soil types and agroclimate regime;
- Evaluate the agronomic efficiency of new fertilisers introduced in the market e.g. organic compound fertilisers and liquid fertilisers;
- Evaluate new clonal/tissue culture planting materials for future planting programme;

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

- Monitor pest and disease occurrence in the estate;
- Carry out agrochemical trials and screening for environmental friendly products which are cost effective;
- Study the biological method to control major pests and diseases;
- Collaborate research programmes with chemical companies and research institutions on weed control; and
- Determine the type of herbicides for weed control and to understand the properties.

Our Group has also benefited directly and indirectly, from various researches undertaken by various government agencies such as MPOB which have enabled our Group to increase the quantity and improve the quality of its products. Our Group works closely with MPOB in R&D activities and has provided input and support to these activities. From time to time, we also engage external research specialists to conduct specialised research and analytical works.

7.4.9 Employees

As at 28 February 2006, our Group has a workforce of 2,463 employees comprising the following:

Category	Number of employees	Average no. of years
Management and Professionals	112	10
Clerical and related occupations	288	10
General workers	2,063	3
Total	2,463	-

The profiles of our Directors and senior management are detailed in Section 9 of this Prospectus.

Our employees at our corporate office do not belong to any union while our employees at estates and mills in the category of clerical and non-clerical staffs are members of The All Malayan Estate Staff Union and our employees in the category of general workers are members of the National Union of Plantation Workers. All our employees at our corporate office, plantation and mill levels enjoy a cordial relationship with our management and there has been no major reported labour dispute between our Group's employees and management.

Training and Development Programmes

One of the key success factors of our Group is its ability to retain a team of highly skilled and knowledgeable workforce. It is with this objective that continuous employees training and development is conducted by our Group to improve productivity, quality and knowledge as well as a platform for career advancement within the organisation.

For 2005, our employees in all categories attended approximately thirty-seven (37) courses, seminars, conferences and in-house trainings which emphasised on the aspects of team-building, spiritual and management skills.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

7.4.10 Key achievements and awards

Among the key achievements and milestones of our Group were:

- a) The success of our Group in managing and developing PTMGI's (a subsidiary of our major shareholder, LTH) oil palm plantations on peat areas in Riau, Indonesia, which is approximately 82,000 Ha in size and is the biggest contiguous plantation sited on peat soil that ranges from shallow peat to very deep peat. Proper and efficient water management is an integral part of planting in peat soils thus we have developed an extensive canal and drainage system, infrastructure and field facilities covering the whole plantation. Our success in managing this plantation especially under the very challenging circumstances inherent in peat soil, has attracted MPOB and other reputable plantation companies to visit PTMGI's plantation in order to learn and possibly emulate our accomplishment.
- b) Our Group's Palm Oil Mill in Kluang, Johor being accredited with ISO 9001:2000 by SIRIM QAS International Sdn Bhd on 8 January 2004 in recognition of its implementation of a quality management system which complies with the required standards for processing of FFB to CPO and PK; and
- c) The numerous awards won by KSBL as detailed below:

No.	Description	Date	Achievement
1.	National Productivity Corporation Middle Zone QCC Convention (Kuala Lumpur)	Nov 1999	Gold
2.	National Productivity Corporation National QCC Convention	Aug 2000	Gold

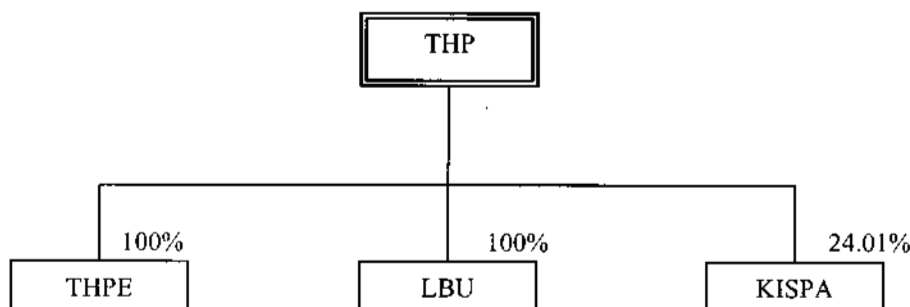
7.4.11 Business Interruption

For the past twelve (12) months, there has been no interruption in the business which had a significant effect on the operations of our Group.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

7.5 Subsidiaries and Associated Company

The corporate group structure of our Group as at 31 December 2005 is set out below:



The details of our subsidiaries and associated company are as follows:

7.5.1 THPE

(a) Background and History

THPE was incorporated in Malaysia under the Act on 14 August 1979 as a private limited company under the name of Syarikat Peladang LUTH Sdn Bhd and subsequently changed to its present name of TH Peladang Sdn Bhd on 5 October 1998.

The principal activities of THPE are the cultivation of oil palm and selling of FFB.

(b) Share capital

The authorised share capital of THPE is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which 5,652,868 ordinary shares have been issued and fully paid-up.

The changes in the issued and paid-up share capital of THPE since its incorporation are as follows:

Date of allotment	No. of shares	Par value RM	Consideration	Resultant total RM
14 August 1979	2	1.00	Cash (Subscribers' shares)	2
29 December 1979	300,000	1.00	Cash	300,002
14 January 1980	1,540,000	1.00	Cash	1,840,002
20 July 1982	2,317,150	1.00	Cash	4,157,152
24 June 1983	200,000	1.00	Cash	4,357,152
28 February 1984	211,000	1.00	Cash	4,568,152
11 January 1985	110,000	1.00	Cash	4,678,152
11 January 1985	974,716	1.00	Other than cash	5,652,868

(c) Subsidiaries and Associated Companies

THPE currently has no subsidiary or associated company.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

(d) Substantial Shareholder

THPE is wholly owned by our Company.

7.5.2 LBU**(a) Background and History**

LBU was incorporated in Malaysia under the Act on 18 February 1989 as a private limited company under the name of Ladang Bangka Ulu Sdn Bhd.

The principal activities of LBU are the cultivation of oil palm, processing of FFB and marketing of CPO, PK and FFB.

(b) Share capital

The authorised and issued and paid-up share capital of LBU is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up share capital of LBU since its incorporation are as follows:

Date of allotment	No. of shares	Par value RM	Consideration	Resultant total RM
18 February 1989	2	1.00	Cash (Subscribers' shares)	2
15 April 1989	275,000	1.00	Cash	275,002
26 August 1989	1,265,615	1.00	Other than cash	1,540,617
11 December 1989	990,615	1.00	Other than cash	2,531,232
30 August 1990	300,000	1.00	Cash	2,831,232
27 October 1990	220,051	1.00	Cash	3,051,283
3 September 1992	1,534,520	1.00	Other than cash	4,585,803
3 September 1992	1,000,000	1.00	Cash	5,585,803
29 September 1992	964,925	1.00	Cash	6,550,728
24 December 1993	1,801,725	1.00	Other than cash	8,352,453
18 July 1994	12,456,020	1.00	Cash	20,808,473
16 March 1995	568,620	1.00	Other than cash	21,377,093
16 March 1995	1,281,411	1.00	Cash	22,658,504
29 June 1995	500,000	1.00	Cash	23,158,504
2 September 1995	400,000	1.00	Cash	23,558,504
30 November 1995	1,441,496	1.00	Cash	25,000,000

(c) Subsidiaries and Associated Companies

LBU currently has no subsidiary or associated company.

(d) Substantial Shareholder

LBU is wholly owned by our Company.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

7.5.3 KISPA

(a) Background and History

KISPA was incorporated in Malaysia under the Act on 12 June 1980 as a private limited company under the name of Kilang Sawit Panji Alam Sdn Bhd.

The principal activity of KISPA is the processing of FFB and marketing of CPO and PK.

(b) Share capital

The authorised share capital of KISPA is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which 7,600,000 ordinary shares have been issued and fully paid-up.

The changes in the issued and paid-up share capital of KISPA since its incorporation are as follows:

Date of allotment	No. of shares	Par value RM	Consideration	Resultant total RM
12 June 1980	2	1.00	Cash (Subscribers' shares)	2
15 October 1980	500,000	1.00	Cash	500,002
20 May 1981	1,000,000	1.00	Cash	1,500,002
1 December 1981	1,500,000	1.00	Cash	3,000,002
1 March 1982	1,000,000	1.00	Cash	4,000,002
15 August 1982	1,000,000	1.00	Cash	5,000,002
15 September 1982	1,999,998	1.00	Cash	7,000,000
15 December 1984	600,000	1.00	Cash	7,600,000

(c) Subsidiaries and Associated Companies

KISPA currently has no subsidiary or associated company.

(d) Substantial Shareholders

The substantial shareholders of KISPA as at 31 December 2005 are as follows:

Substantial Shareholders	←-----Direct----->		←-----Indirect----->	
	No. of shares held	% of issued and paid-up share capital	No. of shares held	% of issued and paid-up share capital
Ketengah Holding Sdn Bhd	2,280,000	30.00	-	-
Ketengah Jaya Sdn Bhd	2,022,000	26.61	-	-
THP	1,825,000	24.01	-	-
FELCRA	875,000	11.51	-	-
Ladang Mawar Sdn Bhd	455,000	5.99	-	-

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS *(Continued)*

7.6 Future Prospects of our Group

Our management believes that there are still numerous opportunities in the palm oil industry, particularly in view of the continuous R&D carried out in the potential of palm oil products in the area of food, energy and lubrications.

Biodiesel

Against an environment of prolonged high crude oil prices but weak commodity prices, some market players are exploring the possibility of increasing production of biodiesel as an alternative energy source to petroleum diesel. This is clear from the USA and Europe's recent move to put in place new tax incentives and new legislation to encourage the use of biodiesel. According to the CEO of Malaysian Palm Oil Promotion Council, Haron Siraj, our country is eager to promote the use of palm oil as fuel, with high-energy consuming countries such as Japan and South Korea showing keen interest. Turkey is already using palm oil to blend with fuel. If successful, these new developments should facilitate the commercial production of biodiesel and to spur demand for vegetable oils, for instance soya bean oil, rapeseed oil and palm oil.

Previously, commercial production of biodiesel was disrupted by the high production cost of biodiesel relative to petroleum diesel. Today, although the cost differential remains high, the key focus has shifted to fuel "security" and "diversification". President George Bush signed the first bill containing biodiesel tax incentives in 2004, citing it as a provision that will increase domestic energy security, reduce pollution and stimulate the economy.

Although the development of biodiesel as an alternative fuel is in its early stages, it is believed that it should bode well for prices of oils and fats and palm oil prices would benefit over the longer term. United States Department of Agriculture ("USDA") expects the recently signed tax bills in relation to biodiesel to increase demand for biodiesel by about ten folds from 42,000 tonnes (13 million gallons) in 2002 to at least 400,000 tonnes per annum (124 million gallons) by 2012.

The European Union Commission has issued a directive in May 2003 to promote the use of biodiesel as an alternative fuel. The centerpiece of the proposal prescribes a minimum proportion of biofuels for each member country based on its share of the respective fuel markets. It is proposed that the market share of biological fuels to be increased gradually from 2% in 2005 to 5.75% in 2010, equivalent to an annual hike of 0.75%. The objective of the directive is to achieve 20% replacement of fossil fuels with non-fossil fuels by 2020.

(Source: The above information was extracted from CIMB's periodically published industry analyst report titled "Plantation Sector - Good Harvest Delayed For Now, CIMBS Research 2 February 2005". This report was not prepared for the inclusion in this Prospectus.)

Malaysian Palm Oil Association chairman Datuk Sabri Ahmad says biodiesel is the 'safety valve' for crude palm oil, which until recently has been dogged by fluctuating prices. After the recent interest generated by biofuel, CPO prices bounced from RM1,350 early this year to nearly RM1,450.

The case for using biodiesel also gains currency against the backdrop of the country's fast-depleting petroleum reserves. At last count, these reserves amount to 4.8 billion barrels, which can last another 16 years unless new discoveries are made.

But while it makes economic sense to introduce palm biofuel at the pumps, it is at the global level that the commodity can gain a reputation as renewable liquid gold.

7. BUSINESS OVERVIEW AND FUTURE PROSPECTS (Continued)

Many signatory countries to the Kyoto Protocol are rushing to reduce their greenhouse gas emissions by 2012.

(Source: The New Straits Times dated 22 October 2005)

As such, our management is confident of the future prospects of the oil palm industry.

LTH's plantations

Our Group plans to continue expanding our business via the procurement of new plantation lands and the acquisition of existing plantation businesses. Our substantial shareholder, LTH also holds other plantation in Malaysia totalling 39,884 Ha which we may plan to acquire in the future. Details of LTH's land banks in Malaysia are as follows:

	Land size (Ha)
1. Sabah & Sarawak Plantation Operations	38,706
2. New Expansion in Terengganu	1,178
TOTAL	<u>39,884</u>

Other expansions

Historically, our Group has been able to acquire land economically through ventures with state agencies, namely MAINS and the Offerors (save for LTH). We plan to continue to capitalise on our previous successes by entering into further partnerships with these or other state agencies to develop lands for plantation in exchange for equity participation by our partners.

Our Management believe that with the opportunities in the oil palm industry coupled with the expansion strategies of the Group, the prospects of the Group are likely to remain favourable.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis of our Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes for the five (5) financial years ended 31 December 2001, 2002, 2003, 2004 and 2005 included in Section 13.1 and Section 14 of this Prospectus. This discussion and analysis contains data derived from the audited consolidated financial statements of our Group and forward-looking statements that involves risks and uncertainties. Our Group's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those included in the projected forward-looking statements include, but are not limited to, those discussed below and elsewhere in the Prospectus, particularly in Section 5. Our Group's consolidated financial statements are prepared in accordance with the approved accounting standards in Malaysia.

Except as otherwise indicated, statistical and certain other information relating to the palm oil industry and contained in this section is based on or derived from data prepared by MPOB. The information has not been independently verified by us, the Underwriters or any other person. Much of the available information is based on best estimates and should therefore be regarded as indicative only and treated with the appropriate caution.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our Group's actual results may differ significantly from those stated in such forward-looking statements. Factors that might cause future results to differ significantly from those stated in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in Section 5 of this Prospectus.

Save as disclosed in Section 2 and Section 13 of this Prospectus, our financial performance, position and operations are not affected by any of the following:

- (a) known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expects to have, a material favourable or unfavourable impact on our financial performance, position and operations;
- (b) material commitments for capital expenditure;
- (c) unusual or infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations; and
- (d) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

8.1 Overview

Our Company was incorporated in Malaysia as a private limited company on 28 August 1972. Our Group is principally involved in the cultivation of oil palm, processing of FFB, marketing of CPO, PK and FFB and provision of management services. We commenced operations in 1972 with our first plantation, Ladang Kota Bahagia in Pahang. Over the years, our Group has expanded through numerous acquisitions of lands in Pahang, Johor, Negeri Sembilan and Terengganu and to date, we have a total of eleven (11) estates with a total area of 16,227 Ha and three (3) palm oil mills with total annual capacity of approximately 419,000 MT.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

In 1998, we started planting *Sentang* and teak trees in some of our plantations as border markers. The planting of these trees was then further expanded to land for which the planting of oil palm trees was not suitable. These trees are logged for timber and the areas are then replanted with the same species of trees. Income from this operation is minimal and we do not expect it to contribute significantly to the profits of our Group in the future. Nevertheless, we will continue with this activity in order to maximise the utilisation of our lands.

After a restructuring exercise in 2004 and 2005 by our major shareholder LTH, we had streamlined our businesses where non-plantation related businesses as well as plantations located outside of Peninsular Malaysia were disposed off to LTH Group and the plantation businesses of LTH Group in Peninsular Malaysia were consolidated under our Company except for THB which was not injected into our Company as it has not commenced operations. This has resulted in us fully acquiring the remaining shareholding stake in THPE and LBU, thus forming our current Group's structure.

In 2003, we ventured into the provision of management services whereby we provide our management expertise in the plantation business to other companies within LTH group. Prior to this, we had only been charging nominal fees for our services and only to our subsidiaries. By managing other plantations, it had provided us with additional income. Currently the revenue from these management services does not contribute significantly to our Group. However, our Directors are keen to grow this area of our business with the aim that it will be one of our core activities in the future.

Our Milling Operations

In our effort to move further along the value chain as well as to diversify our earning base, we had built and commissioned our first mill in Kota Bahagia in 1975 with an initial processing capacity of 20 MT/Hr. To cater for the rising FFB production from our plantations and the surrounding small holder estates which sell their FFB to us, we upgraded the processing capacity of our mill in Kota Bahagia to 30 MT/Hr. We had also constructed and commissioned a second mill in Bukit Lawiang, Johor in 1989 which was operating at a capacity of 30 MT/Hr. We further increased the capacity in 1994 to 40 MT/Hr. A third mill was constructed in Gemas, Negeri Sembilan and was commissioned in 2005 with a production capacity of 10 MT/Hr. Our Company also holds a minority equity interest in another mill, KISPA in Terengganu which is majority owned and operated by Lembaga Kemajuan Terengganu Tengah.

8.2 The Palm Oil Industry

The palm oil industry is capital intensive and operating margins in this industry have been volatile. Margins are sensitive to supply and demand of the global market for edible oil and the demand for our Group's products, namely CPO and PK which are linked generally to the level of global consumption of edible oil. FFB is the primary raw input used in the production of CPO and PK where its prices correlate directly to the prices of CPO. Hence, fluctuation of CPO prices will have a corresponding effect on FFB prices.

Our Group's sales volume is a function of our production volume. Our products are generally sold to refineries (for CPO) and oil palm mills (for FFB). Accordingly, demand for our products is closely linked to the level of economic activity of our markets. Our production volume is dependent on the quantity of crops harvested from our plantations as well as crops purchased from outside suppliers. Crop production in turn is dependent upon many factors, amongst which is the age of our crops and the weather conditions during the year.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS *(Continued)*

The table below sets out local commodities prices for the last five (5) years ended 31 December 2004.

Prices of CPO, PK and FFB

	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Average local prices					
CPO per MT	997	895	1,364	1,544	1,610
PK per MT	707	448	661	732	1,063
FFB per 1% extraction rate ¹	9.79	8.11	13.19	15.62	17.3

(Source: www.mpob.gov.my)

Note:

- This represents the rate paid per percentage of extraction rate per tonne of FFB. This rate is prescribed by MPOB while the quantum of extraction rate is arrived at through negotiations between the buyer and seller of FFB.*

CPO

During the first and second quarter of 2000, the average prices of CPO were RM1,120 and RM1,130 respectively. However, average prices during the third and last quarter of 2000 fell to RM976 and RM781 respectively. The high stock levels of CPO throughout 2000 coupled with an increase in production had greatly dampened the average CPO price per MT. In addition, the export tax cut by Indonesia also affected the price sentiments in the market.

The high carryover stocks coupled with an increase in monthly production and high monthly stock levels continued to pressure prices in the domestic market. Prices during the first half of 2001 continued to remain weak averaging only RM760, a decline of 32.5% compared to RM1,126 for the corresponding period in 2000. The weakening of CPO prices at the beginning of the year was attributed to the high carryover of palm oil stocks. Despite a modest price recovery during the second half of 2001 reaching RM1,126 or up 28.2% compared to RM878 in 2000, this increase in price was not sufficient to offset the price decline during the first half of 2001. The increase in prices during the second half of 2001 was in line with the sharp draw down in palm oil stocks to 0.89 million tonnes as a result of better export demand, reduction in CPO import by India and seasonal decline in production. Higher vegetable oil prices in the world market due to unfavorable weather conditions in the USA during the soya bean crop development stage also contributed to the price rally during the second half of 2001.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

Despite sluggish demand, prices firmed up gradually in 2002 owing to the lower carryover stocks from 2001, the seasonal decline in production and the announcement of higher palm oil import quota by PRC which reduced stocks to below 1.2 million tonnes by the end of first quarter and resulted in an average price of RM1,150. During the second quarter, the CPO price increased by 12.5% to RM1,295 due to the improved export demand and slow pace of production which further depleted stocks to 0.91 million tonnes by the end of June. In addition, the issuance of import licenses by PRC and the slow export sales from Argentina due to their economic and financial crisis also contributed to the price firmness. Despite a sharp increase in production in September, CPO prices continued to increase by 10.6% to RM1,432 due to the surge in exports which managed to keep a lid on stocks from building up sharply. Prices remained firm during the fourth quarter, averaging RM1,543, a 7.85% increase compared to the previous quarter which is in line with the seasonal decline in production, moderate increase in exports and draw down in stock level to 1.13 million tonnes at the end of the year.

In 2003, CPO prices increased by 2.5% to an average of RM1,581 during the first quarter. Although the year began promisingly with firming CPO prices due to lower opening stocks and decline in production, the market sentiments were weakened by the disappointment over the news that the Indian Government left tariffs on palm oil unchanged in their 2003/2004 budget and the concern that the USA led war on Iraq which broke out in March would result in higher freight rates and disruptions of shipments to various Middle East if the war was prolonged. During the second quarter, the overall CPO prices declined by 6.0% to RM1,487 due to the lower trade in April owing to concerns over higher production. Although CPO prices rose gradually after April as a result of India's decision to cut the import duty on RBD palm olein and base prices for palm oil products, the price rise was not substantial enough to offset the price decline resulted from lower trade. Despite the price recovery in September underpinned by strong exports and surge in Chicago Board of Trade ("CBOT") soya bean oil prices after the United States Department of Agriculture predicted lower USA soya bean production in 2003/2004 following adverse weather, CPO prices further declined by 3.1% to RM1,441 during the third quarter. The decline in average CPO prices were attributed to the price retreat in July and August on concerns that rising production would exceed demand resulting in a build-up in stocks. CPO prices gain sharply by 23.5% to RM1,779 in the fourth quarter due to the increase in exports which resulted in lower stock level and further improved the market sentiment.

CPO prices continued its upward momentum during the first quarter in 2004 as a result of the decline in production and better export performance. This has resulted in a draw down of stock levels to 0.96 million tonnes. In addition, the spillover strength from rising CBOT soya bean oil prices due to the tightness in USA supply, outbreak of avian flu disease and shrinking prospects of Brazil's soya bean production due to Asian rust fungus and adverse weather have driven the increase in CPO prices. During the second quarter, domestic market witnessed extreme price volatility arising from negative developments taking place in PRC namely the tightening of credit by the Chinese government and rumours that the Chinese importers were canceling several soya bean and palm oil cargoes contracted at higher prices. This created uncertainty and risk in trading circles thus prompting massive selling in the CBOT which set pace for the rapid decline in soya bean and CPO prices. During the third quarter, the overall CPO prices stabilised although prices in July decreased due to the seasonal increase in production and lower soya bean oil prices as a result of excellent weather for soya bean crop development in USA. However, from mid-August to September, CPO prices recovered, underpinned by strong export demand, nearby supply tightness and rising soya bean oil prices amid unfavourable weather condition in USA. Towards the end of the last quarter of 2004, prices decline to RM1,420 due to the concern over the supply of palm oil which would outpace exports.

(Source: Review of the Malaysian Oil Palm Industry 2000 – 2004)

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

PK

During 2000, prices of PK fell uninterruptedly after the second quarter due to the sharp build-up in monthly PK stocks especially during the second half of the year.

In 2001, the average price of PK declined significantly by 36.6% to RM448 compared to 2000. Prices were lower during most quarters due to the build-up in monthly PK stocks.

Although prices came under pressure during the third quarter 2002 as a result of seasonal increase in production and build-up in stock levels, the average PK price in 2002 increased by 47.7% to RM661. This was attributed to the shortfall in production coupled with low monthly stock levels during the first, second and fourth quarter.

PK prices remained strong at the beginning of 2003 and gradually declined in March as a result of an improvement in supply and lower CPKO prices. Nevertheless, the average price for the first quarter rose slightly by 2.9% to RM772. During the second and third quarter, the PK market remained on the weak side due to the seasonal increase in production coupled with the build-up in stock levels especially during the second quarter. The market sentiment was also dampened by the decrease in CPO and CPKO prices. From September onwards, PK prices continued its upward momentum due to the decline in seasonal production, drawn down in stocks and high CPKO prices.

In 2004, the average price of PK rose by 45.2% to RM1,063 as compared to 2003 due to the marginal growth in production and higher CPKO prices. During the first and second quarter, prices rise by 13.3% and 9.2% to RM1,036 and RM1,131 respectively due to the tightness in PK supplies as a consequence of the slow growth in production. During the third quarter, market sentiments were weakened as production picked up pace and this resulted in a 6.6% decline in PK price to RM1,056. However, PK prices managed to stabilise during the fourth quarter as a consequence of the decline in production and firmness in CPKO prices.

(Source: Review of the Malaysian Oil Palm Industry 2000 – 2004)

FFB

Both CPO and PK prices have a significant impact on the price of FFB because of the industry's pricing mechanism. As such, FFB price in 2000 decreased as a result of the weak CPO and PK prices.

Despite the improvement in CPO prices during the second half of 2001 which supported the recovery of FFB prices, the average price of FFB at 1% OER declined by 17.2% to RM8.1 as compared to 2000.

The higher CPO and PK prices in 2002 had led to a 62.7% increase in the average price of FFB at 1% OER to RM13.1 as compared to 2001. This is equivalent to an average price of RM250 per tonne as compared to RM150 in 2001 based on Peninsular Malaysia's annual oil extraction rate.

The increase in CPO and PK prices in 2003 had led to a 18.4% increase in the average price of FFB at 1% OER to RM15.6 as compared to 2002. This is equivalent to an average price of RM293 per tonne as compared to RM250 in 2002 based on Peninsular Malaysia's annual oil extraction rate.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS *(Continued)*

FFB fetched a higher price in tandem with the increase in CPO and PK prices in 2004. The average price of FFB at 1% OER in 2004 increased by 10.5% to RM17.3 as compared to 2003. This is equivalent to an average price of RM332 per tonne as compared to RM293 in 2003 based on Peninsular Malaysia's annual oil extraction rate.

(Source: Review of the Malaysian Oil Palm Industry 2000 – 2004, MPOB)

8.3 Year on Year Commentaries on the Results of our Group

Our Group's proforma financial summary for the last five (5) financial years ended 31 December 2005

The following table sets out a summary of the proforma consolidated results of our Group for the past five (5) financial years ended 31 December 2005, based on the assumption that our Group had been in existence throughout the years under review. The proforma consolidated results are presented for illustrative purposes only and should be read in conjunction with Section 13 and the accompanying notes and assumptions included in the Accountants' Report set out in Section 14 of this Prospectus.

	<----- Year ended 31 December ----->				
	2001	2002	2003	2004	2005
	RM 000	RM 000	RM 000	RM 000	RM 000
Revenue	78,312	119,591	140,883	145,736	112,047
Other income – management fees	60	60	7,159	8,052	12,505
EBITDA	11,986	40,767	62,620	63,023	52,041
Depreciation	(6,961)	(6,850)	(6,705)	(6,966)	(7,354)
Finance cost	(120)	(121)	(347)	-	-
Share of profit/(loss) from associated company	439	(11)	25	77	31
PBT	5,344	33,785	55,593	56,134	44,718
Taxation	(1,663)	(9,355)	(14,567)	(15,485)	(12,574)
Zakat	-	-	(1,045)	(1,036)	(959)
PAT	3,681	24,430	39,981	39,613	31,185
<i>Pre-tax profit margin (%)</i>	6.82	28.25	39.46	38.52	39.91
<i>Post-tax profit margin (%)</i>	4.70	20.43	28.38	27.18	27.83
<i>Effective tax rate (%)</i>	31.12	27.69	26.20	27.59	28.12

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS *(Continued)*

Revenue of our Group by products for the last five (5) financial years ended 31 December 2005

The table below sets out a summary of the proforma consolidated revenue by products of our Group for the past five (5) financial years ended 31 December 2005 based on the assumption that our Group had been in existence throughout the years under review.

	<----- Year ended 31 December ----->				
	2001	2002	2003	2004	2005
	RM 000	RM 000	RM 000	RM 000	RM 000
Revenue					
CPO	59,688	94,199	108,393	100,043	83,967
PK	9,232	12,012	13,434	19,470	16,881
FFB	9,392	13,380	19,056	26,223	11,199
Total Revenue	78,312	119,591	140,883	145,736	112,047

Average selling prices of our products for the last five (5) financial years ended 31 December 2005

The following table sets out the average selling price by products of our Group for the past five (5) financial years ended 31 December 2005. It must be noted that our average selling price will not be identical to the average local price due to the daily fluctuation of prices during the year and our average selling prices will very much depend upon the days on which we carry out our sales whereas the local average is just a general average of selling prices during the year experienced by the industry.

	<----- Year ended 31 December ----->				
	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM
Average prices					
CPO per MT	886	1,365	1,588	1,643	1,406
PK per MT	475	643	728	1,067	1,017
FFB per 1% extraction rate ¹	8.9	13.7	15.9	16.4	14.1

Note:

1. This represents the rate paid per percentage of extraction rate per tonne of FFB. This rate is prescribed by MPOB while the quantum of extraction rate is arrived at through negotiations between the buyer and seller of FFB.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS *(Continued)*

Gross profit margin analysis for our Group

The table below sets out the cost of sales and the corresponding gross profit margin of our Group for the past five (5) financial years ended 31 December 2005.

	←----- Year ended 31 December ----->				
	2001	2002	2003	2004	2005
Cost of sales (RM 000)	64,663	73,469	81,858	87,843	70,253
Cost of sales per MT of CPO (RM)	776	807	820	806	883
Cost of sales per MT of PK (RM)	537	586	584	576	624
Cost of sales per MT of FFB (RM)	130	148	148	150	143
Gross profit margin (%)	17.43	38.57	41.90	39.72	37.29

Production volume, sales volume and other operational data of our Group

The table below sets out a summary of the proforma production volume, sales volume and other operational data of our Group for the past five (5) financial years ended 31 December 2005 based on the assumption that our Group had been in existence throughout the years under review.

	←----- Year ended 31 December ----->				
	2001 MT	2002 MT	2003 MT	2004 MT	2005 MT
Production volume					
- CPO	68,052	62,027	65,610	62,646	59,089
- PK	20,149	17,516	18,838	17,966	16,563
- FFB	296,178	278,563	306,919	296,828	303,981
Sales volume					
- CPO	67,368	69,010	68,273	60,879	59,723
- PK	19,454	18,671	18,459	18,249	16,605
- FFB	65,838	54,375	63,947	85,602	41,970
Extraction rate (%)					
- OER	17.98	19.12	18.83	19.36	20.16
- KER	5.32	5.40	5.41	5.55	5.65
Production yield (MT/Ha)	21.05	20.03	21.99	21.80	20.81

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

8.3.1 Year ended 31 December 2005 Compared to Year Ended 31 December 2004***Revenue***

Our revenue is lower compared to 2004 mainly due to the lower production and sales volume of CPO and PK. Our average selling price of CPO has declined by 14.42% from RM1,643 per MT in 2004 to RM1,406 per MT in 2005.

Our production and sales volume of CPO and PK is generally lower despite higher extraction rates from our mills due to lower external crops purchased. Our OER and KER improved from 19.36% to 20.16% and from 5.55% to 5.65%, respectively.

Gross Profit

Gross profit margin has decreased from 39.72% in 2004 to 37.29% in 2005, as a result of the decrease in CPO prices. Furthermore, the increase in petroleum product costs had also increased the fertiliser costs, thus resulted in higher upkeep and cultivation costs.

Other Income – Management fees

The increase in management fees was mainly due to the increase in the quantity of FFB produced by the companies managed by us as well as the increase in their sales and purchases volume.

Pre-Tax and Post-Tax Profits

In 2005, the pre-tax profit margin increased by 1.39%. However, post-tax profit margin only increased by approximately 0.65% due to higher taxation charges.

Taxation

The effective tax rate in 2005 is slightly higher than the statutory tax rate as a result of certain PDE written off has been treated as non-qualifying expenditure for tax purposes.

8.3.2 Year Ended 31 December 2004 Compared to Year Ended 31 December 2003***Revenue***

Our revenue increased in 2004 compared to 2003 mainly due to the across-the-board increase in our selling prices for CPO, PK and FFB (3.46%, 46.57% and 3.15% respectively), which was in line with the overall increase in local prices. The increase in our OER from 18.83% to 19.36% was due to the increase in the hectareage of trees coming of age. The production of higher yielding FFB had also contributed to the increase in revenue.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

These increases however, were offset against a decrease in our CPO sales by 10.83% from 68,273 MT in 2003 to 60,879 MT in 2004. The decrease in CPO sales was mainly attributed to lower demand and the decline in FFB production of 3% caused by the reduction in matured areas (from 13,960 Ha in 2003 to 13,617 Ha in 2004) as 353 Ha of our existing estates was being replanted in LKB. This had also resulted in a slight dip in production yield from 21.99 MT/Ha to 21.80 MT/Ha.

Gross Profit

Despite the increase in selling prices of our products, significant increase in the prices of fertiliser by 30% during the year has resulted in marginal lower gross profit margin. The increase in fertiliser prices was mainly due to the increase in prices of crude oil, a key component in the production of fertilisers. This has pushed the cost of sales up by RM29 per MT as manuring cost makes up about 60% of total cost of sales.

Other Income – Management fees

The increase in management fees charged was mainly due to an increase in volume of FFB produced and processed as well as higher CPO prices, both of which are a component in the computation of management fees. For the bases of calculation of management fees, please refer to Section 12.3 of this Prospectus.

Pre-Tax and Post-Tax Profits

In 2004, though gross profit margin decreased by 2%, our Group's pre-tax profit margin decreased by only 1%. This was mainly attributed to the increase in management fees income charged to PTMGI. The decrease in pre-tax profit margin had a corresponding effect on post-tax profit margin which had decreased by approximately 1%.

Taxation

The effective tax rate in 2004 is slightly lower than the statutory tax rate as a result of certain plantation development expenditures capitalised on new planting areas being allowed as a deduction for tax purposes. The taxation for current year also include deferred tax expense amounting to RM263,000.

8.3.3 Year Ended 31 December 2003 Compared to Year Ended 31 December 2002***Revenue***

As a result of a significant increase in the global price of CPO, our average selling prices for CPO for the year had increased by 16%. However, sales of CPO for the year was lower by 1.1% despite an increase in CPO production by approximately 5.8% as a result of a 10.1% increase in FFB production due to the increase in matured areas. In 2003, there was an increase in matured areas of about 250 Ha in Ladang Sungai Mengah which had generated an additional 7.5 MT/Ha in its first year of harvesting. Favourable weather had also played a crucial part in the markedly increase production for the year.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

Gross Profit

Gross profit for the year showed a significant improvement compared to 2002 mainly due to the increase in average selling prices while the cost of sales per MT had remained relatively constant.

Other Income

In 2003, management agreements were entered into by our Company with all plantation companies within LTH Group except THPE and LBB. These management fees were charged for the provision of management services by us to manage the day to day operations of the plantations of LTH. The computation of management fees is based on predetermined rate for agency fee, selling commission, buying commission, group engineer's fee, mill management fees, planting advisor's fee, agronomic advisory fee and other fees such as audit, human resources, secretarial, corporate and accounts advisory fee. The management fees charged to PTMGI, an Indonesian subsidiary of LTH, is subjected to a 15% withholding tax payable to the Indonesian tax authority. For information on the basis of charge of the management fees, please refer to Section 12.3 of this Prospectus.

Pre-Tax and Post-Tax Profits

As a result of the income from management fees, the pre-tax profit margin for our Group increase by 11% for the year 2003 compared to 2002. Post-tax profit margin did not increase in proportion to the pre-tax profit margins due to the of payments of zakat by our Group amounting to RM1 million which, our Group previously did not pay.

Taxation

As with 2004, the effective tax rate in 2003 was lower than the statutory tax rate as a result of certain plantation development expenditures capitalised on new planting areas being allowed as a deduction for tax purposes.

8.3.4 Year Ended 31 December 2002 Compared to Year Ended 31 December 2001***Revenue***

With average prices of CPO, PK and FFB increasing by more than 50% in 2002, our revenue for the year increased by almost 53% compared to the previous year. Our CPO sales volume had increased marginally by only 2.4% while our CPO production volume experienced a drop of 9% as a result of the drop in FFB production by 6%. This was mainly attributable to the declining production of FFB in LKB and Ladang Sungai Mengah. Approximately 353 Ha and 297 Ha of trees in LKB and Ladang Sungai Mengah was over twenty-eight (28) years of age and was only yielding approximately 19.5 MT/Ha to 23.0 MT/Ha. These areas were felled and replanted in subsequent years as it was becoming less profitable to maintain these trees.

Gross Profit

During the same period, gross profit margin had more than doubled from 17.43% in 2001 to 38.57% in 2002. This was mainly due to less than proportional increase in cost of sales per MT which had only increased by 21%.

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS *(Continued)*

Pre-Tax and Post-Tax Profits

Pre-tax profit margin has increased by 314% mainly due to the increase in gross profit margin. As changes in general and administrative expenses does not fluctuate with prices of our products, the increase in the average selling prices will have a larger than proportional impact on our pre-tax profit margin. Despite a provision of RM1.4 million for the diminution of investment, pre-tax profit increased in the same period. As a result of the foregoing, post-tax profit margin had increased by almost the same quantum.

Taxation

The effective tax rate in 2002 was slightly lower than the statutory tax rate and significantly lower than 2001 due to certain plantation development expenditures capitalised on new planting areas being allowed as a deduction for tax purposes.

8.4 Capital Expenditures

The table below sets forth our Group's capital expenditures for each of the years ended 31 December 2001, 2002, 2003, 2004 and 2005.

	Land RM 000	Building RM 000	Plant and Machinery RM 000	Motor Vehicles RM 000	PDE RM 000	Work in Progress RM 000	Total RM 000
2001	-	465	231	404	2,554	-	3,654
2002	-	1,149	800	508	2,986	-	5,443
2003	-	638	2,534	1,199	2,784	485	7,640
2004	14	617	1,178	1,597	3,750	6,944	14,100
2005	1,044	475	3,934	1,298	7,721	5,567	20,039
Total	1,058	3,344	8,677	5,006	19,795	12,996	50,876

Our largest capital expenditure over the years has mainly been plant and machinery, work in progress and PDE incurred for trees that have yet to mature. This proportion of capital expenditure which skews towards plant and machinery and work in progress is expected to continue as we continue to expand our operations in the future which would also result in a higher spending on the acquisition of plantation land. In prior years, we had been successful in keeping the cost of land low as we usually venture into new areas with the land owners who will inject available land in exchange for equity in the joint venture company.