

PETRONAS CHEMICALS

PETRONAS CHEMICALS GROUP BERHAD

(Company No.: 459830-K)
(Incorporated in Malaysia under the Companies Act, 1965)

THE INITIAL PUBLIC OFFERING ("IPO" OR "OFFERING") OF UP TO 2,480 MILLION ORDINARY SHARES OF RM0.10 EACH IN PETRONAS CHEMICALS GROUP BERHAD ("PCG") ("SHARES"), IN CONJUNCTION WITH THE LISTING OF AND QUOTATION FOR 8,000 MILLION SHARES ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING:

(I) OFFER FOR SALE OF UP TO 1,780 MILLION EXISTING SHARES ("OFFER SHARES") COMPRISING:

- INSTITUTIONAL OFFERING OF UP TO 1,486.98 MILLION OFFER SHARES TO MALAYSIAN AND FOREIGN INSTITUTIONAL AND SELECTED INVESTORS INCLUDING BUMIPUTERA INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AT THE INSTITUTIONAL PRICE (OTHER THAN CORNERSTONE INVESTORS) TO BE DETERMINED BY WAY OF BOOKBUILDING ("INSTITUTIONAL PRICE");
- RETAIL OFFERING OF 293.02 MILLION OFFER SHARES TO THE MALAYSIAN PUBLIC, ELIGIBLE DIRECTORS OF PCG AND PETROLIAM NASIONAL BERHAD ("PETRONAS"), ELIGIBLE EMPLOYEES OF PCG AND ITS SUBSIDIARIES ("PCG GROUP"), PETRONAS AND SELECTED SUBSIDIARIES OF PETRONAS, ELIGIBLE CUSTOMERS AND OTHERS WHO HAVE CONTRIBUTED TO THE SUCCESS OF PCG GROUP AT THE RETAIL PRICE OF RM5.05 PER SHARE ("RETAIL PRICE"), PAYABLE IN FULL UPON APPLICATION AND SUBJECT TO REFUND OF THE DIFFERENCE, IN THE EVENT THAT THE FINAL RETAIL PRICE IS LESS THAN THE RETAIL PRICE; AND

(II) PUBLIC ISSUE OF 700 MILLION NEW SHARES TO MALAYSIAN AND FOREIGN INSTITUTIONAL AND SELECTED INVESTORS AT THE INSTITUTIONAL PRICE,

SUBJECT TO THE CLAWBACK AND REALLOCATION PROVISIONS AND OVER-ALLOTMENT OPTION (AS DEFINED HEREIN). THE FINAL RETAIL PRICE WILL BE EQUAL TO THE LOWER OF (I) THE RETAIL PRICE; AND (II) 97% OF THE INSTITUTIONAL PRICE, SUBJECT TO ROUNDING TO THE NEAREST SEN.

Principal Adviser, Managing Underwriter and Joint Underwriter

CIMB Investment Bank Berhad (18417-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Joint Global Co-ordinators and Joint Bookrunners for the Institutional Offering
(In alphabetical order)

CIMB Investment Bank Berhad
(Company Number: 18417-M)

Deutsche Bank AG, Hong Kong Branch
(Company Registration Number: F-2106)

Morgan Stanley & Co. International plc
(Company Registration Number: 2068222)

Co-Bookrunners for the Institutional Offering
(In alphabetical order)

Citigroup Global Markets Limited
(Company Registration Number: 1763297)

UBS AG, Hong Kong Branch
(Company Registration Number: 21847528-000-06-10-3)

Co-Lead Managers for the Institutional Offering
(In alphabetical order)

AmInvestment Bank Berhad
(Company Number: 23742-V)

J.P. Morgan Securities Ltd
(Company Registration Number: 2711006)

Standard Chartered Securities (Singapore) Pte. Limited
(Company Registration Number: 199000557R)

Joint Underwriters for the Retail Offering
(In alphabetical order)

AFFIN Investment Bank Berhad
(Company Number: 9999-V)

Alliance Investment Bank Berhad
(Company Number: 21605-D)

AmInvestment Bank Berhad
(Company Number: 23742-V)

ECM Libra Investment Bank Berhad
(Company Number: 682 – X)

Hong Leong Investment Bank Berhad
(Company Number: 43526-P)

HwangDBS Investment Bank Berhad
(Company Number: 14389-U)

KAF Investment Bank Berhad
(Company Number: 20657-W)

Maybank Investment Bank Berhad
(Company Number: 15938-H)

MIDF Amanah Investment Bank Berhad
(Company Number: 23878-X)

MIMB Investment Bank Berhad
(Company Number: 10209-W)

OSK Investment Bank Berhad
(Company Number: 14152-V)

Public Investment Bank Berhad
(Company Number: 20027-W)

RHB Investment Bank Berhad
(Company Number: 19663-P)

YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

FOR INFORMATION CONCERNING RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER, SEE "RISK FACTORS" IN SECTION 5 OF THIS PROSPECTUS.

THIS PROSPECTUS IS NOT TO BE DISTRIBUTED OUTSIDE MALAYSIA.

LISTING SOUGHT: MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD

Our Directors, and the Promoter and Selling Shareholder have reviewed and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information in this Prospectus. They confirm, after making all reasonable enquiries that, to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make any statement in this Prospectus false or misleading.

CIMB Investment Bank Berhad ("**CIMB**"), as the Principal Adviser to our initial public offering ("**IPO**"), the Managing and Joint Underwriter for the Retail Offering and the Joint Global Co-ordinator and Joint Bookrunner for the Institutional Offering in relation to our IPO, acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts in connection with our IPO.

It is to be noted that the roles of Deutsche Bank AG, Hong Kong Branch ("**Deutsche Bank**") and Morgan Stanley & Co. International plc ("**Morgan Stanley**") in the IPO is limited to being a Joint Global Co-ordinator and Joint Bookrunner in respect of the Institutional Offering outside Malaysia only. Deutsche Bank and Morgan Stanley do not have any role in, and disclaim any responsibility for, the Institutional Offering and Retail Offering in Malaysia.

It is to be noted that the roles of UBS AG, Hong Kong Branch ("**UBS**") and Citigroup Global Markets Limited ("**Citi**") in the IPO is limited to being a Co-Bookrunner in respect of the Institutional Offering outside Malaysia only. UBS and Citi do not have any role in, and disclaim any responsibility for, the Institutional Offering and Retail Offering in Malaysia.

It is to be noted that the roles of AmInvestment Bank Berhad ("**AmInvestment**"), J.P. Morgan Securities Ltd ("**J.P. Morgan**") and Standard Chartered Securities (Singapore) Pte. Limited ("**Standard Chartered**") in the IPO is limited to being a Co-Lead Manager in respect of the Institutional Offering outside Malaysia only. AmInvestment, J.P. Morgan and Standard Chartered do not have any role in, and disclaim any responsibility for, the Institutional Offering and Retail Offering in Malaysia.

The Securities Commission of Malaysia ("**SC**") has approved this IPO and a copy of this Prospectus has been registered with the SC. The approval and registration of this Prospectus should not be taken to indicate that the SC recommends the IPO or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of our Shares being offered for investment.

The SC is not liable for any non-disclosure in this Prospectus by us. The SC also takes no responsibility for the contents of this Prospectus and makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss that you may suffer as a result of your reliance on the whole or any part of the contents of this Prospectus.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE IPO AND AN INVESTMENT IN US. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD IMMEDIATELY CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS BEFORE APPLYING FOR OUR SHARES.

Our Company has obtained an approval from Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for our Shares. Our admission to the official list of Bursa Securities is not to be taken as an indication of the merits of the IPO, our Company or of our Shares.

You are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through Sections 248, 249 and 357 of the Capital Markets and Services Act, 2007 ("**CMSA**").

This Prospectus and the accompanying application forms, have also been lodged with the Registrar of Companies of Malaysia who takes no responsibility for its contents. This Prospectus can be viewed or downloaded from Bursa Securities' website at www.bursamalaysia.com.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning the IPO for which the persons set out in Section 236 of the CMSA, e.g. Directors and Advisers, are responsible.

Our Shares are classified as Shariah-compliant by the Shariah Advisory Council of the SC based on our audited combined financial statements for the financial year ended 31 March 2010 and this classification remains valid until the next Shariah compliance review is undertaken by the Shariah Advisory Council of the SC. The new status is released in the updated list of Shariah-compliant securities on the last Friday of May and November of each year.

You should not take the agreement by the Managing Underwriter and Joint Underwriters to underwrite the Shares under the Retail Offering as an indication of the merits of our Shares.

This Prospectus has been prepared in the context of an IPO under the laws of Malaysia. It does not comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or by any regulatory authority of any jurisdiction other than Malaysia.

This Prospectus is published solely in connection with our IPO. The Shares being offered in the IPO are offered solely on the basis of the information contained and representations made in this Prospectus. Our Company, the Promoter and the Selling Shareholder, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, the Joint Global Co-ordinators, the Joint Bookrunners, the Co-Bookrunners and the Co-Lead Managers have not authorised anyone to provide any information or to make any representation not contained in this document, and any information or representation must not be relied upon as having been authorised by our Company, the Promoter and the Selling Shareholder, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, the Joint Global Co-ordinators, the Joint Bookrunners, the Co-Bookrunners and the Co-Lead Managers, any of their respective Directors, or any other person involved in our IPO.

The distribution of this Prospectus and our IPO are subject to the laws of Malaysia. This Prospectus will not be distributed outside Malaysia except insofar as it is a part of the Offering Memorandum distributed to foreign institutional investors outside Malaysia in connection with the IPO. Our Company, the Promoter and the Selling Shareholder, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, the Joint Global Co-ordinators, the Joint Bookrunners, the Co-Bookrunners and the Co-Lead Managers have not authorised and take no responsibility for the distribution of this Prospectus outside Malaysia except insofar as it is a part of the Offering Memorandum distributed to foreign institutional investors outside Malaysia in connection with the IPO. No action has been taken to permit a public offering of the Shares in any jurisdiction other than Malaysia. Accordingly, this Prospectus may not be used for the purpose of and does not constitute an offer for subscription or purchase or invitation to subscribe for or purchase, any Shares under our IPO ("**IPO Shares**") in any jurisdiction in which such offer or invitation in any jurisdiction or in any circumstances in which such an offer is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation. The distribution of this Prospectus and the sale of our IPO Shares in certain other jurisdictions may be restricted by law. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

Our Shares have not been and will not be registered under the United States of America ("**United States**") Securities Act of 1933, as amended ("**the US Securities Act**") and may not be offered, sold, pledged or transferred within the United States, except to a Qualified Institutional Buyer ("**QIB**"), as defined in Rule 144A under the US Securities Act ("**Rule 144A**") in accordance with Rule 144A or outside the United States in accordance with Regulation S under the US Securities Act ("**Regulation S**"). The Shares are being offered and sold within the United States to QIBs in reliance on Rule 144A and to certain persons in offshore transactions in reliance on Regulation S.

ELECTRONIC PROSPECTUS

The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same. You may obtain a copy of the Electronic Prospectus (as defined herein below), from the website of CIMB at www.eipocimb.com. In addition, you may also obtain a copy of the Electronic Prospectus from the website of CIMB Bank Berhad at www.cimbclicks.com.my, Malayan Banking Berhad at www.maybank2u.com.my, Affin Bank Berhad at www.AffinOnline.com and RHB Bank Berhad at www.rhb.com.my.

The internet is not a fully secure medium. Your Internet Share Application may be subject to risks in data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institution. These risks cannot be borne by the Internet Participating Financial Institution. If you doubt the validity or integrity of an Electronic Prospectus, you should immediately request from us, our Principal Adviser or the Issuing House, a paper/printed copy of the Prospectus. If there is any discrepancy between the contents of the Electronic Prospectus and the paper/printed copy of this Prospectus, the contents of the paper/printed copy of this Prospectus which are identical to the copy of the Prospectus registered with the SC shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "**Third Party Internet Sites**"), whether by way of hyperlinks or by way of description of the Third Party Internet Sites, you acknowledge and agree that:

(i) we do not endorse and are not affiliated in any way to the Third Party Internet Sites. Accordingly, we are not responsible for the availability of or the content or any data, files or other material provided on the Third Party Internet Sites. You bear all risks associated with the access to or use of the Third Party Internet Sites;

(ii) we are not responsible for the quality of products or services in the Third Party Internet Sites, particularly in fulfilling any of the terms of any of your agreements with the Third Party Internet Sites. We are also not responsible for any loss or damage or cost that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance on any data, file or other material provided by such parties; and

(iii) any data, file or other material downloaded from the Third Party Internet Sites is done at your own discretion and risk. We are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other material.

Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institution, you are advised that:

(i) the Internet Participating Financial Institution is only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent of the content of the Electronic Prospectus on the web server of the Internet Participating Financial Institution which may be viewed via your web browser or other relevant software. The Internet Participating Financial Institution is not responsible for the integrity of the contents of an Electronic Prospectus which has been obtained from the web server of the Internet Participating Financial Institution and subsequently communicated or disseminated in any manner to you or other parties; and

(ii) while all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of an Electronic Prospectus cannot be guaranteed because the internet is not a fully secure medium.

The Internet Participating Financial Institution is not liable (whether in tort or contracts or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault with web browsers or other relevant software, any fault on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the Internet Participating Financial Institution, and/or problems occurring during data transmission which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

INDICATIVE TIMETABLE

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

Events	Date
Opening of Institutional Offering	26 October 2010
Issue of Prospectus/Opening of Retail Offering	10.00 a.m., 1 November 2010
Closing of Retail Offering	5.00 p.m., 9 November 2010
Closing of Institutional Offering	12 November 2010
Price Determination Date	12 November 2010
Balloting of applications for the Offer Shares pursuant to the Retail Offering	12 November 2010
Allotment/Transfer of the IPO Shares to successful applicants	24 November 2010
Listing	26 November 2010

Under the Institutional Offering, our Directors, the Selling Shareholder, Joint Global Co-ordinators and Joint Bookrunners may decide in their absolute discretion to vary the closing time and date for applications to any other date or dates. Under the Retail Offering, our Directors, the Selling Shareholder, the Managing Underwriter and the Joint Underwriters may decide in their absolute discretion to extend the closing time and date for applications to any later date or dates. If they decide to vary the closing date for the applications, the Price Determination Date and dates for the balloting of the Offer Shares, the allotment of the Issue Shares and the transfer of the Offer Shares and our Listing will be varied accordingly. We will announce any variation in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia.

All defined terms used in this Prospectus are defined under "Presentation of Financial and Other Information", "Definitions" and "Glossary of Technical Terms" commencing on pages (viii), (x) and (xvii) respectively.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to "our Company" and "PCG" in this Prospectus are to PETRONAS Chemicals Group Berhad. All references to "PCG Group" and "the Group" in this Prospectus are to our Company and our Subsidiaries taken as a whole and references to "we", "us" and "our" are to our Company and our Subsidiaries, save where the context otherwise requires. Unless the context otherwise requires, references to "Management" are to our Directors and key management personnel as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of PCG. Unless otherwise indicated, the information in this Prospectus assumes the Over-allotment Option is not exercised.

In this Prospectus, references to "PETRONAS", "Promoter" and "Selling Shareholder" are to Petroliam Nasional Berhad.

In this Prospectus, references to the "Government" are to the Government of Malaysia; references to "Ringgit Malaysia", "RM" and "sen" are to the currency of Malaysia. Any discrepancies in the tables between the amounts listed and the totals in this Prospectus are due to rounding. Certain acronyms, technical terms and other abbreviations used are defined in "Glossary of Technical Terms" appearing on pages (xvii) to (xxiii) of this Prospectus. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include corporations.

Any reference to any provisions of the statutes, rules, regulations, enactments or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations, enactments or rules of stock exchange (as the case may be) as modified by any written law or (if applicable) amendments or re-enactment to the statutes, rules, regulation, enactment or rules of stock exchange for the time being in force.

All references to dates and times are references to dates and times in Malaysia.

This Prospectus includes statistical data provided by us and various third parties and cites third-party projections regarding growth and performance of the industry in which we operate. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is acknowledged in this Prospectus, provided that where no source is acknowledged, it can be assumed that the information originates from us. In particular, certain information in this Prospectus is extracted or derived from the report prepared by Nexant Singapore PTE Ltd ("**Nexant**") for inclusion in this Prospectus. We had appointed Nexant to provide an independent market and industry review. In compiling their data for the review, Nexant relied on industry sources, published materials, its own private databanks and direct contacts within the industry. The information on the industry as contained in this Prospectus and the other statistical data and projections cited in this Prospectus is intended to help prospective investors understand the major trends in the industry in which we operate. However, our Company, the Promoter and the Selling Shareholder, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, the Joint Global Co-ordinators, the Joint Bookrunners, the Co-Bookrunners and the Co-Lead Managers and their respective advisers have not independently verified these figures.

Neither we nor the Promoter and the Selling Shareholder, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, the Joint Global Co-ordinators, the Joint Bookrunners, the Co-Bookrunners and the Co-Lead Managers and their respective advisers make any representation as to the correctness, accuracy or completeness of such data and accordingly, prospective investors should not place undue reliance on the statistical data cited in this Prospectus. Further, third-party projections cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. No assurances are or can be given that the estimated figure will be achieved, and you should not place undue reliance on the third-party projections cited in this Prospectus.

References to the "Latest Practicable Date" in this Prospectus are to 30 September 2010, which is the latest practicable date for certain information to be obtained and disclosed in this Prospectus prior to the registration of this Prospectus with the SC.

FORWARD LOOKING STATEMENTS

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives of PCG for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect PCG's current view with respect to future events and are not a guarantee of future performance. Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are not historical facts. Such forward-looking statements include, without limitation, statements relating to:

(i) the demand for our products and general industry environment;

(ii) our business strategies, trends and competitive position;

(iii) plans and objectives of PCG for future operations;

(iv) our financial position;

(v) the regulatory environment and the effects of future regulation; and

(vi) our future earnings, cash flows and liquidity.

Our actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitation:

(i) the general economic, business, social, political and investment environment in Malaysia and globally;

(ii) government policy, legislation or regulation;

(iii) interest rates and tax rates;

(iv) the competitive environment in our industry;

(v) delays, cost overruns, shortages in labour or problems with the execution of our expansion plans;

(vi) fixed and contingent obligations and commitments; and

(vii) any other factors beyond our control.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to those discussed in Section 5 and Section 8.2 of this Prospectus. We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the date of this Prospectus. Save as required by Section 238(1) of the CMSA and paragraph 1.02 of the Prospectus Guidelines (Supplementary Prospectus), we expressly disclaim any obligation or undertaking to release publicly any update or revision to any forward-looking statement contained in this Prospectus to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

DEFINITIONS

The following terms in this Prospectus bear the same meanings as set out below unless the term is defined otherwise or the context requires otherwise:

Act	:	Companies Act, 1965, as amended from time to time and any re-enactment thereof
ADA	:	Authorised Depository Agent
Admission	:	Admission of our Shares to the Official List of the Main Market of Bursa Securities
Application Form	:	Application form for the application of the Offer Shares under the Retail Offering accompanying this Prospectus
Aromatics Malaysia	:	Aromatics Malaysia Sdn Bhd
Articles	:	Articles of Association of our Company
ASEAN	:	Association of Southeast Asian Nations
ASEAN Bintulu Fertilizer	:	ASEAN Bintulu Fertilizer Sdn Bhd
Associates	:	BASF PETRONAS Chemicals, Kertih Terminals, Malaysian NPK Fertilizer and Idemitsu SM
ATM	:	Automated teller machine
BASF	:	BASF S.E.
BASF PETRONAS Chemicals	:	BASF PETRONAS Chemicals Sdn Bhd
Bekalan Air KIPC	:	Bekalan Air KIPC Sdn Bhd
Board	:	Board of Directors of PCG
BP Chemicals	:	BP Chemicals Investments Limited
BP PETRONAS Acetyls	:	BP PETRONAS Acetyls Sdn Bhd
Bumiputera	:	Malays, aborigines and the natives of Sabah and Sarawak as specified in the Federal Constitution of Malaysia
Bursa Depository or Central Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
Bursa Securities LR	:	Main Market Listing Requirements of Bursa Securities
CDS	:	Central Depository System
CIMB	:	CIMB Investment Bank Berhad
Citi	:	Citigroup Global Markets Limited

DEFINITIONS *(cont'd)*

CMSA	:	Capital Markets and Services Act, 2007, as amended, supplemented or modified from time to time
Co-Bookrunners	:	Collectively, Citi and UBS, being the Co-Bookrunners for the Institutional Offering
Co-Lead Managers	:	Collectively, AmInvestment Bank Berhad, J.P. Morgan and Standard Chartered, being the Co-Lead Managers for the Institutional Offering
Cornerstone Investors	:	Employees Provident Fund Board and Kumpulan Wang Persaraan (Diperbadankan), as set out in Section 4.3.1 of this Prospectus
CUF	:	Centralised utility facilities
Deutsche Bank	:	Deutsche Bank AG, Hong Kong Branch
Dow Chemical	:	The Dow Chemical Company
EBITDA	:	Earnings before interest expenses, taxation, depreciation and amortisation
Electronic Prospectus	:	Copy of this Prospectus that is issued, circulated or disseminated via the Internet, and/or an electronic storage medium, including but not limited to CD-ROMs
Electronic Share Application	:	Application for the Offer Shares under the Retail Offering through a Participating Financial Institution's ATMs
EPS	:	Earnings per share
Ethylene Malaysia	:	Ethylene Malaysia Sdn Bhd
Equity Guidelines	:	Equity Guidelines issued by the SC
Final Retail Price	:	The final price per Offer Share to be paid by investors pursuant to the Retail Offering, equivalent to RM5.05 per Share or 97% of the Institutional Price, whichever is lower, to be determined on the Price Determination Date in accordance with Section 4.9 of this Prospectus
FRS	:	Financial Reporting Standards
GAAP	:	Generally accepted accounting principles
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
Idemitsu Kosan	:	Idemitsu Kosan Co., Ltd.
Idemitsu SM	:	Idemitsu SM (Malaysia) Sdn Bhd
Independent Market Researcher or Nexant	:	Nexant Singapore PTE Ltd

Institutional Offering	:	Offering of up to 2,186.98 million IPO Shares, subject to clawback and reallocation, to the following: (i) Malaysian institutional and selected investors including Bumiputera investors approved by MITI; (ii) Institutional and selected investors outside the United States in reliance on Regulation S; (iii) QIBs in the United States in reliance on Rule 144A or pursuant to applicable exemption from registration under the US Securities Act; and (iv) Cornerstone Investors
Institutional Price	:	Price per IPO Share to be paid by investors pursuant to the Institutional Offering (other than Cornerstone Investors) which will be determined on the Price Determination Date by way of bookbuilding
Internet Participating Financial Institution	:	The participating financial institution for Internet Share Application
Internet Share Application	:	Application for the Offer Shares under the Retail Offering through an Internet Participating Financial Institution
IPC	:	Integrated petrochemical complex
IPO	:	Initial public offering comprising the Offer for Sale and Public Issue
IPO Shares	:	Collectively, the Offer Shares and the Issue Shares
Issuing House or MIH	:	Malaysian Issuing House Sdn Bhd
Issue Shares	:	New Shares issued pursuant to the Public Issue
Joint Global Co-ordinators and Joint Bookrunners	:	Collectively, CIMB, Deutsche Bank and Morgan Stanley, being the Joint Global Co-ordinators and Joint Bookrunners for the Institutional Offering
Jointly Controlled Entity	:	BP PETRONAS Acetyls
Joint Underwriters	:	Collectively, AFFIN Investment Bank Berhad, Alliance Investment Bank Berhad, AmInvestment Bank Berhad, CIMB, ECM Libra Investment Bank Berhad, Hong Leong Investment Bank Berhad, HwangDBS Investment Bank Berhad, KAF Investment Bank Berhad, Maybank Investment Bank Berhad, MIDF Amanah Investment Bank Berhad, MIMB Investment Bank Berhad, OSK Investment Bank Berhad, Public Investment Bank Berhad and RHB Investment Bank Berhad for the Retail Offering
J.P. Morgan	:	J.P. Morgan Securities Ltd
Kertih Port	:	Kertih Port Sdn Bhd
Kertih Terminals	:	Kertih Terminals Sdn Bhd
Latest Practicable Date	:	30 September 2010, being the latest practicable date prior to the registration of our Prospectus

Listing	:	Listing of and quotation for all of our issued and paid-up share capital on the Main Market of Bursa Securities
Malaysian NPK Fertilizer	:	Malaysian NPK Fertilizer Sdn Bhd
Market Day	:	A day on which Bursa Securities is open for securities trading
MITCO	:	Malaysian International Trading Corporation Sdn Bhd
MITCO (Japan)	:	Malaysian International Trading Corporation (Japan) Sdn Bhd
MITI	:	Ministry of International Trade and Industry
Morgan Stanley	:	Morgan Stanley & Co. International plc
MTBE Malaysia	:	MTBE Malaysia Sdn Bhd
NA	:	Net assets
NBV	:	Net book value
NTA	:	Net tangible assets
Offer for Sale	:	Offer for sale of up to 1,780 million Offer Shares comprising: (i) Institutional offering of up to 1,486.98 million Offer Shares to Malaysian and foreign institutional and selected investors including Bumiputera investors approved by MITI at the Institutional Price (other than Cornerstone Investors) to be determined by way of bookbuilding; and (ii) Retail offering of 293.02 million Offer Shares to the Malaysian public, eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS, eligible customers and others who have contributed to the success of our Group at the Retail Price, payable in full upon application and subject to refund of the difference, in the event that the Final Retail Price is less than the Retail Price
Offer Shares	:	Existing Shares to be offered pursuant to the Offer for Sale
Official List	:	A list specifying all securities which have been admitted for listing on Bursa Securities and not removed
OPTIMAL Chemicals	:	OPTIMAL Chemicals (Malaysia) Sdn Bhd
OPTIMAL Companies	:	Collectively, OPTIMAL Chemicals, OPTIMAL Glycols and OPTIMAL Olefins
OPTIMAL Glycols	:	OPTIMAL Glycols (Malaysia) Sdn Bhd
OPTIMAL Olefins	:	OPTIMAL Olefins (Malaysia) Sdn Bhd
Over-allotment Option	:	Over-allotment option granted by the Selling Shareholder to the Stabilising Manager (on behalf of the placement managers) as set out in Section 4.3.4 of the Prospectus

Participating Financial Institutions	:	Participating financial institutions for Electronic Share Application
PAT	:	Profit after taxation
PBT	:	Profit before taxation
PCG or Company	:	PETRONAS Chemicals Group Berhad
PCG Group or Group	:	PCG and its Subsidiaries
PCG Shares or Shares	:	Ordinary shares of RM0.10 each in our Company
PE Multiple	:	Price-earnings multiple
PETLIN	:	Petlin (Malaysia) Sdn Bhd
PETRONAS	:	Petroliam Nasional Berhad
PETRONAS Ammonia	:	PETRONAS Ammonia Sdn Bhd
PETRONAS Carigali	:	PETRONAS Carigali Sdn Bhd
PETRONAS Dagangan	:	PETRONAS Dagangan Berhad
PETRONAS Fertilizer	:	PETRONAS Fertilizer (Kedah) Sdn Bhd
PETRONAS Gas	:	PETRONAS Gas Berhad
PETRONAS Group	:	PETRONAS and its subsidiaries
PETRONAS International	:	PETRONAS International Corporation Ltd
PETRONAS Methanol	:	PETRONAS Methanol (Labuan) Sdn Bhd
PETRONAS Penapisan (Melaka)	:	PETRONAS Penapisan (Melaka) Sdn Bhd
PETRONAS Penapisan (Terengganu)	:	PETRONAS Penapisan (Terengganu) Sdn Bhd
PGU	:	Peninsular Gas Utilisation
Phu My	:	Phu My Plastics and Chemicals Company Limited
Placement Agreement	:	The placement agreement to be entered into by our Company, the Selling Shareholder, the Joint Bookrunners and the placement managers in respect of such number of Shares to be offered under the Institutional Offering

Polyethylene Malaysia	:	Polyethylene Malaysia Sdn Bhd
Polypropylene Malaysia	:	Polypropylene Malaysia Sdn Bhd
Price Determination Date	:	Date on which the Institutional Price will be determined
Promoter	:	PETRONAS
Prospectus Guidelines	:	Prospectus Guidelines – Equity and Debt issued by the SC
Public Issue	:	Public Issue of 700 million Issue Shares to Malaysian and foreign institutional and selected investors at the Institutional Price
QIB	:	Qualified institutional buyer, as defined under Rule 144A
Reorganisation	:	Reorganisation exercise undertaken by our Company prior to the IPO, as further described in Section 12.1.2 of this Prospectus
R&D	:	Research and development
Regulation S	:	Regulation S under the US Securities Act
Retail Offering	:	Offering of 293.02 million Offer Shares, subject to clawback and reallocation, to the Malaysian public, eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS, eligible customers and others who have contributed to the success of our Group
Retail Underwriting Agreement	:	Retail Underwriting Agreement dated 22 October 2010 between our Company, the Selling Shareholder and the Managing Underwriter and Joint Underwriters for the underwriting of the Retail Offering
Retail Price	:	The initial price of RM5.05 per Offer Share to be fully paid upon application pursuant to the Retail Offering subject to adjustment as described in Section 4.9 of this Prospectus
ROC	:	Registrar of Companies, Malaysia
RPS	:	Redeemable preference shares
Rule 144A	:	Rule 144A under the US Securities Act
SAC of the SC	:	Shariah Advisory Council of the SC
Sasol	:	Sasol Polymers International Investments (Pty) Ltd
SC	:	Securities Commission of Malaysia
Selling Shareholder	:	PETRONAS, the party undertaking the Offer for Sale
SICDA	:	Securities Industry (Central Depositories) Act, 1991

Share Lending Agreement	:	The agreement to be entered into by the Selling Shareholder and the Stabilising Manager under which the Selling Shareholder will lend Shares to the Stabilising Manager to cover over-allotments, if any
Stabilising Manager	:	CIMB
Standard Chartered	:	Standard Chartered Securities (Singapore) Pte. Limited
Subsidiaries	:	MITCO, Aromatics Malaysia, MTBE Malaysia, OPTIMAL Olefins, Polyethylene Malaysia, Ethylene Malaysia, PETLIN, OPTIMAL Chemicals, Vinyl Chloride (Malaysia), PETRONAS Methanol, OPTIMAL Glycols, ASEAN Bintulu Fertilizer, PETRONAS Fertilizer, PETRONAS Ammonia, Phu My, Polypropylene Malaysia and Kertih Port
UBS	:	UBS AG, Hong Kong Branch
UK	:	United Kingdom of Great Britain and Northern Ireland
United States	:	United States of America
US Securities Act	:	United States Securities Act of 1933, as amended, supplemented or modified from time to time
Vinyl Chloride (Malaysia)	:	Vinyl Chloride (Malaysia) Sdn Bhd

Currency:

RM and sen	:	Ringgit Malaysia and sen
USD	:	United States Dollar
VND	:	Vietnam Dong

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GLOSSARY OF TECHNICAL TERMS

Acetic acid or AA	:	Chemical intermediate (colourless liquid) traditionally made by fermentation. It is a raw material for several key petrochemical intermediates and products, including vinyl acetate monomer for coatings and adhesives, purified terephthalic acid for polyester production, acetate esters, cellulose acetate, acetic anhydride and monochloroacetic acid
Acrylic acid	:	Chemical intermediate used in the production of acrylate esters, superabsorbent polymers, detergents and flocculants. Acrylic acid is a propylene derivative, which is produced by propylene vapour-phase oxidation
Ammonia	:	A nitrogen and hydrogen compound in the form of colourless gas with a characteristic pungent odour
Aromatics	:	A family of hydrocarbons characterised by a single or multiple ring structure. The most commonly traded are benzene, toluene, and xylenes
Benzene	:	An aromatic hydrocarbon in the form of a colourless, flammable liquid. It is created by catalytically reforming naphtha, in the thermal cracking process, and is used in the production of other chemicals such as styrene, cumene, cyclohexane and maleic anhydride
Butane	:	A gas which liquefies with a relatively small increase in pressure or decrease in temperature. Butane is used for heating, as a petrochemical industry feedstock and as an additive in petrol to enhance its vapour pressure
Butanediol	:	A chemical intermediate (colourless liquid) which is used in the production of high performance polymers, solvents and fine chemicals
Butanol	:	A chemical intermediate (colourless flammable liquid) which is used to produce other chemicals, as an ingredient in formulated products such as cosmetics, coatings, adhesives and as a solvent
Butene-1	:	An organic chemical base, derived from cracking of petroleum or C_4 distillate and used mainly to produce butadiene and butanol
Butyl acetate	:	Butyl acetate is most commonly prepared by esterification, the reaction of acetic acid with n-butanol. The major end-use for butyl acetate is as a medium-boiling solvent for lacquers and enamels. It is also used as an active solvent for cellulosic resins, chlorinated rubber, polystyrene and methacrylate resins
Butyl acrylate	:	Butyl acrylate is a colourless liquid, produced from the esterification of crude acrylic acid and butanol. It is used in the production of coatings and inks, adhesives, sealants, textiles, plastics and elastomers
CAGR	:	Compounded annual growth rate
Capacity utilisation	:	Total production (including off-specifications products) expressed as a percentage of nameplate capacity during the year

Carbon monoxide	:	A colourless, odourless gas produced in the production of synthesis gas or syngas. Syngas is a mixture of carbon monoxide and hydrogen by partially oxidising natural gas at high temperatures and pressure. Carbon monoxide is used as a chemical feedstock for the production of acetic acid and methanol
Cracking	:	A refining process which breaks down large molecules of oil into smaller molecules. When the process is achieved by applying heat only, it is known as thermal cracking. Cracking uses molecular decomposition and recombination to produce a range of more useful base chemicals suitable for motor oils or petrochemicals
Cubic metre	:	A cubic metre of gas at a temperature of 0° Centigrade and an ambient pressure of one atmosphere
Debottlenecking	:	Increasing production capacity of existing facilities through the modification of existing equipment to remove throughput restrictions
DEG	:	Diethylene glycol, a colourless, odourless, viscous liquid which is a by-product during the production of MEG. It is a chemical intermediate used in the production of unsaturated polyester resins, plasticisers, acrylate and methacrylate resins and urethanes
EDC	:	Ethylene di-chloride is the first molecule produced in the vinyls chain and is a toxic, flammable, and corrosive liquid at room temperature. It is most commonly formed from ethylene and chlorine, and is used for VCM production, with small amounts used for the manufacture of other organic compounds
Ethane	:	A gaseous hydrocarbon that is one of the major raw materials for the ethylene petrochemical industry
Ethanolamines	:	Ethanolamines include monoethanolamines, diethanolamines and triethanolamines. Ethanolamines are used as sweeteners, detergent and specialty cleaner formulations, flexible urethane foam catalysts, pharmaceuticals, textile processing aids, personal care products, metalworking and oil well rust preventatives, concrete additives, agricultural chemicals, photographic emulsions, adhesive/rubber chemical intermediates, packaging and printing inks and others
Ethyl hexyl acrylate	:	A white water liquid with a characteristic odour. It is used in the production of homopolymers and co-polymers for example acrylic acid and its salts, esters, amides, methacrylates, acrylonitrile, maleates, vinyl acetate, vinyl chloride, vinylidene chloride, styrene, butadiene and unsaturated polyesters
Ethylbenzene	:	An aromatic liquid hydrocarbon, is a chemical intermediate made from the reaction of benzene and ethylene. It is a precursor to styrene production
Ethylene	:	An essential organic chemical base derived from the thermal cracking of ethylene and naphtha or from the dehydration of ethanol. It is used to make polyester and many organic chemical intermediates, such as polyethylene, ethylene oxide, ethylene glycol, vinyl chloride, styrene, acetaldehyde and ethanol

Ethylene glycol	:	An organic chemical compound, derived from the oxidation of ethylene. This includes monoethylene glycol, diethylene glycol, triethylene glycol and polyethylene glycol
Ethylhexanol	:	A chemical intermediate in the form of a clear, colourless liquid. Its major use is in plasticisers, mainly diisooctyl phthalate. It is also used in specialty plasticisers such as adipates, trimellitates and phosphates
Ethylene oxide	:	A highly reactive chemical intermediate used in the production of ethylene glycol and other oxide derivatives such as glycol esthers, polyethylene glycol, polyether polyols, diethylene and triethylene glycols and ethanolamines
Feedstock	:	Major raw materials used in a processing plant, of which naphtha and ethane are the most important for olefins production
Fuel oil	:	A flammable liquid hydrocarbon with a chemical formula of C_{9+}. Normally it is used as a fuel for plant boilers and ship bunkers. It can also be used to make carbon black material
Glacial acrylic acid	:	A clear, colourless liquid with a characteristic acrid odour. It is miscible with water, alcohol and ether. Acrylic acid will undergo the typical reactions of a carboxylic acid, as well as reactions of the double bond similar to those of the acrylate esters. It is a purified form of acrylic acid that is mainly used for super absorbent polymer production
Glycol ethers	:	Glycol ethers, consisting of a series of over 30 ethylene glycol and propylene glycol derivatives, are produced by reacting an alkylene oxide with an alcohol. During the reaction, monoglycol, diglycol and triglycol ethers are produced and then separated. The monoglycol and diglycol ethers are used primarily as solvents in coatings and cleaners. Triglycol ethers are used primarily in brake fluids
Granular urea	:	A droplet of liquid urea that is dried into roughly spherical shapes used as a fertiliser
HDPE	:	High density polyethylene, used for tubes, pipes, household containers, grocery bags, water coolers, milk bottles and other products
Hydrocarbons	:	Substances composed of carbon and hydrogen
km	:	Kilometres
kt	:	Thousands of metric tonnes
ktpa	:	Thousands of metric tonnes per annum
LDPE	:	Low density polyethylene, used for films, tubes, mechanical parts, toys, electric wire insulation and other products
LLDPE	:	Linear low density polyethylene. A strong, clear film used for packaging and other products
LPG	:	Liquefied petroleum gas, primarily propane and butane produced at refineries or natural gas processing plants

MEG	:	Mono-ethylene glycol, an organic chemical compound derived from the oxidation of ethylene. It is produced by the reaction of ethylene oxide and water. MEG is mainly used for polyester and anti-freeze production
Methane	:	A light, colourless gas which is the principal component in natural gas and a major raw material for the production of methanol
Methanol	:	Simplest organic alcohol and is a colourless, flammable liquid. While originally produced from wood or coal, today methanol is produced mainly using methane as feedstock
mmBtu	:	Million metric British Thermal Units
Monomers	:	Small molecules that may become chemically bonded to other monomers to form a polymer
MOPJ	:	Means of-Platts CFR Japan which shows daily price assessment of CFR Japan open specification naphtha market
mt	:	Metric tonne or "tonne" is equal to 1,000 kilograms, or 2,204.6 pounds
MTBE	:	Methyl tertiary butyl ether, an organic ether that is volatile, combustible in the form of a colourless liquid that is categorised as an oxygenate due to its ability to boost the oxygen content and octane rating of gasoline. It is relatively water soluble and exhibits an unpleasant taste and odour in solution
mtpa	:	Metric tonne per annum
MW	:	Megawatt, a measure of electrical power
Nameplate capacity	:	The capacity of a production facility based on technology licences and/or production rates guaranteed by the construction contractor
Naphtha	:	A general term used for low boiling hydrocarbon fractions that are a product of crude oil or condensate refining. Naphtha is used as feedstock for ethylene and propylene production
Natural gas	:	A colourless gas, high flammable gaseous hydrocarbon consisting primarily of methane, ethane, and small amounts of heavier gaseous hydrocarbon compounds such as propane
Nonyl phenol ethoxylates	:	Mixtures of nonionic surfactants with many uses primarily as surfactants in detergent formulations, emulsifiers, wetting agents and defoaming agents
n-butane	:	A gas in the LPG family of petroleum gases that can be separated from the gas stream that is often associated with crude oil as it leaves an oil well. Butane is a four carbon hydrocarbon that can either be arranged as a straight chain (n-butane) or branched (iso-butane). Butane extracted from associated gas is most usually a mixture of these two isomers. N-butane is more highly valued as a petrochemical feedstock as it yields more ethylene in a steam cracker
Olefins	:	A straight or branched-chain hydrocarbon with at least one unsaturated and carbon-carbon bond. Produced by cracking feedstock from raw materials such as natural gas and crude oil. The main olefins are ethylene and propylene and also include butadiene and C_4 derivatives

Oxo-alcohol	:	Oxo-alcohol is alcohol in the C_6-C_{11} range. Major products of oxo-alcohol are n-butanol, iso-butanol and 2-ethyl hexanol. n-Eutanol and iso-Butanol are used as solvents in coating formulations. They are also used as chemical intermediates in the manufacture of glycol ethers, acetate esters and acrylate esters. 2-ethyl hexanol also has a range of solvent applications, but is primarily used as a raw material for the manufacture of plasticisers
Oxogas	:	Synthesis gas or syngas or a mixture of hydrogen and carbon monoxide. It is produced from natural gas and other hydrocarbon feedstocks as an intermediate in the production of a number of derivatives including ammonia, methanol and oxo-alcohols
Palatinol Ah	:	A colourless, clear dioctyl phthalate. It is used as a plasticiser for cellulose coatings, cellulose acetate butyrate and dispersions
Paraxylene	:	An aromatic hydrocarbon in the form of a colourless, flammable liquid that is recovered from mixed xylenes streams by adsorption and by isomerisation of aromatics. It is a major raw material for polyester production
Performance chemicals	:	Chemicals produced in order to improve performance, increase efficiency and enhance features that benefit multiple industrial sectors
Petrochemicals	:	Chemicals derived from petroleum or natural gas
Phthalic anhydride	:	An aromatics derivative produced by the oxidation of ortho-xylene. Phthalic anhydride is used to make phthalate plasticisers, which are used for PVC production. It is also used in the production of alkyd resins and unsaturated polyester resins
Plasticiser	:	A chemical additive added especially to rubbers and resins to impart flexibility, workability or stretchability. Most common plasticisers for plastics are phthalates and they are often based on esters of polycarboxylic acids with linear or branched aliphatic alcohols of moderate chain length
Polyalkaline glycol	:	Polyalkaline glycol is used in rubber and lubricant applications. The benefits over using polyalkaline glycol based lubricants over petroleum, animal and vegetable oils are reduced energy usage, reduced machine wear and overall operational efficiency
Polyolefins	:	Hydrocarbons resulting from the chemical combination of olefins or polyolefins
Polyethylene	:	A polymer, derived from polymerisation of ethylene, and used to make various plastics such as film and sheet, piping and containers
Polyethylene glycol	:	A water-soluble linear polymer produced by the reaction of ethylene oxide. It is used in a wide range of applications from industrial manufacturing to medicine. For industrial applications, it is used as a dispersant for toothpastes, an ink dissolvent and lubricant for the print heads and precipitant for protein crystallisation. It is also used to improve flexibility of polyurethanes

GLOSSARY OF TECHNICAL TERMS *(cont'd)*

Polymer	:	When certain individual molecules (monomers) come together and link up in a chain-like fashion, they form a polymer. The chemical reaction that forms a polymer is called polymerisation
Polypropylene	:	A polymer, derived from polymerisation of propylene. It is used to make packaging materials, toys, mechanical parts, housewares, synthetic fibres and other products
Propane	:	A gaseous hydrocarbon (C_3H_8). It is a member of LPG used for heating and as a raw material for the production of propylene
Propylene	:	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas. It is obtained from the thermal cracking of hydrocarbons, ranging from natural gas liquids (ethane, propane and butane) to petroleum liquids (naphtha and gas oils). It is used to make polypropylene, acrylonitrile, propanoic acid ester, phenol, acetone, synthetic petroleum, synthetic resins, synthetic rubber and synthetic fibers
PVC	:	Polyvinyl chloride, a versatile thermoplastic polymer produced from VCM. It is extensively used in the construction sector for a variety of applications including pipes, siding and window/door profiles, wire and cable insulation, rigid film/sheet and flooring
Pygas	:	Pyrolysis gasoline, a naphtha-range product with a high aromatics content, used in the production of benzene, toluene and mixed xylenes and as a motor vehicle gas blending stock
RDO	:	Re-distilled ethylene oxide used as one of the main ingredients to produce chemical and performance chemical products
Refining	:	The conversion of crude oil into useful products, such as naphtha, a feedstock for the petrochemical industry. The general refining process begins with the separation of crude oil into different fractions by distillation. The fractions are further treated to convert them into mixtures of more useful products by various methods such as cracking, reforming, alkylation, polymerisation and isomerisation. These mixtures of new compounds are then separated using methods such as fractionation and solvent extraction
Resin	:	Any natural or synthetic organic compound consisting of a non-crystalline or viscous liquid substance. Natural resins are organic substances that are transparent or translucent, formed in plant secretions. Synthetic resins comprise a large class of synthetic products that have some of the physical properties of natural resins but are different chemically. Most synthetic resins are polymers
Specialty chemicals	:	Chemicals produced in small volume, having higher unit values and used for critical applications requiring stringent performance criteria
sq ft	:	Square feet
sq metre	:	Square metre
Styrene monomer	:	A colourless liquid that is a chemical intermediate made from dehydrogenation of ethylbenzene and a vinyl group of styrene molecule which can readily undergo polymerisation

GLOSSARY OF TECHNICAL TERMS *(cont'd)*

Toluene	:	An aromatic hydrocarbon used as an octane enhancer in gasoline, as a chemical intermediate in the production of benzene, paraxylene, toluene diisocyanate and as a solvent in paints
Urea	:	A fertiliser with a minimum nitrogen content of approximately 46% by weight
VCM	:	Vinyl chloride monomer is an intermediate chemical of the vinyls chain, mainly produced by thermal cracking of EDC. Almost all VCM produced is used to manufacture PVC, with other applications consuming very little VCM
Xylene	:	Xylene is an aromatic hydrocarbon that is a base for many petrochemicals and is used to derive orthoxylene and paraxylene. Orthoxylene is used in the production of plasticisers, vitamins, drugs, and dyes and paraxylene is used in the production of polyester

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1. INTRODUCTION

This Prospectus is dated 1 November 2010.

We have registered this Prospectus with the SC. We have also lodged a copy of this Prospectus together with the Application Forms with the ROC, who takes no responsibility for its contents.

We received the SC's approval for our IPO on 8 October 2010. The approval of the SC shall not be taken to indicate that the SC recommends our IPO. On 6 September 2010, we voluntarily submitted an application to the SC for a Shariah compliance review to be carried out by the SAC of the SC as part of the process of determining our Shariah status for the purposes of our IPO. On 24 September 2010, the SAC of the SC classified our Shares as Shariah-compliant based on the audited combined financial statements of our Company for the year ended 31 March 2010. This classification will remain valid until the next Shariah compliance review is undertaken by the SAC of the SC. Updates on the classification will be released in the updated list of Shariah-compliant securities on the last Friday of the month of May and November of each year. **You are advised to make your own independent assessment of our Company and should rely on your own evaluation to assess the merits and risks of our IPO and an investment in our Company.**

We have applied to Bursa Securities and received its approval on 20 October 2010 for the admission of our Shares to the Official List of the Main Market of Bursa Securities and for permission to deal in and the listing of and quotation for all our Shares, including the IPO Shares. Our Shares will be admitted to the Official List of the Main Market of Bursa Securities and official quotation will commence upon receipt of confirmation from Bursa Depository that all the IPO Shares have been credited into the respective CDS accounts of the successful applicants and the notices of allotment of the Issue Shares and notices of transfer have been despatched to all successful applicants. Admission to the Official List of the Main Market of Bursa Securities shall not be taken as an indication of the merits of our Company, our Shares or our IPO.

Pursuant to Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as a prescribed security. Consequently, our Shares offered in our IPO will be deposited directly with Bursa Depository. Any dealings in our Shares will be carried out in accordance with the SICDA and the Rules of Bursa Depository. We will not issue any share certificates to successful applicants.

Pursuant to the Bursa Securities LR, at least 25% of the total number of Shares for which listing is sought must be held by at least 1,000 public shareholders holding not less than 100 shares each at the point of our Listing. We expect to achieve this at the time of the Listing. In the event that the above requirement is not met, we may not be allowed to proceed with the Listing. Should such an event occur, we will return in full, without interest, monies paid in respect of all applications and if such monies are not returned in full within 14 days after we and the Selling Shareholder become liable to do so, in accordance with the provision of subsection 243(2) of the CMSA, in addition to the liability of the Company and the Selling Shareholder, the officers of the Company and Selling Shareholder shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be prescribed by the SC from the expiration of that period.

In the case of an application by way of Application Form, you should state your CDS account number in the space provided in the Application Form. If you do not presently have a CDS account, you must open a CDS account at an ADA before making an application for the Offer Shares. For an application by way of Electronic Share Application, only an applicant who has a CDS account number can make an Electronic Share Application and you should furnish your CDS account number to a Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen at which you submit your Electronic Share Application requires you to do so. In the case of an application by way of Internet Share Application, only an applicant who has a CDS account opened with an Internet Participating Financial Institution can make an Internet Share Application. Arising therewith, your CDS account number will automatically appear in the electronic IPO online Application Form. A corporation or institution cannot apply for the Offer Shares by way of Electronic Share Application or Internet Share Application.

IF YOU ARE IN ANY DOUBT ABOUT THIS DOCUMENT OR IN CONSIDERING YOUR INVESTMENT YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR ANY OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

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2. CORPORATE DIRECTORY

DIRECTORS

Name	Address	Occupation	Nationality
Datuk Wan Zulkiflee bin Wan Ariffin *(Non-Independent Non-Executive Chairman)*	5, Jalan 14/1 Taman TAR 68000 Ampang Selangor	Company Director	Malaysian
Dato' Tengku Mahamad bin Tengku Mahamut *(President/Chief Executive Officer)*	3, Jalan Temenggung 12/6 Seksyen 12 Bukit Kayangan 40100 Shah Alam Selangor	Company Director	Malaysian
Kamarudin bin Zakaria *(Non-Independent Non-Executive Director)*	4785, Jalan OZ 33 Ozana Villas Bukit Katil 75450 Melaka	Company Director	Malaysian
Datuk Manharlal a/l Ratilal *(Non-Independent Non-Executive Director)*	14, Jalan U2/49 Saujana Resort Seksyen U2 40150 Shah Alam Selangor	Company Director	Malaysian
Md Arif bin Mahmood *(Non-Independent Non-Executive Director)*	4, Jalan Duta U1/12A Seksyen U1, Glenhill 40150 Shah Alam Selangor	Company Director	Malaysian
Datuk Anuar bin Ahmad *(Non-Independent Non-Executive Director)*	9, Jalan SS 19/3B 47500 Subang Jaya Selangor	Company Director	Malaysian
Ching Yew Chye *(Independent Non-Executive Director)*	5, Jalan Setia Murni 9 Damansara Heights 50490 Kuala Lumpur	Company Director	Malaysian
Vimala a/p V.R. Menon *(Independent Non-Executive Director)*	11, Jalan SS19/4E 47500 Subang Jaya Selangor	Company Director	Malaysian
Kim Dong Soo *(Independent Non-Executive Director)*	Dupont Korea 3-5th Floor Asia Tower #726 Yeoksam-dong Kangnam-ku Seoul 135-719 Korea	Company Director	Korean

2. CORPORATE DIRECTORY *(cont'd)*

AUDIT COMMITTEE

Name	Designation	Directorship
Vimala a/p V.R. Menon	Chairman	Independent Non-Executive Director
Md Arif bin Mahmood	Member	Non-Independent Non-Executive Director
Ching Yew Chye	Member	Independent Non-Executive Director
Kim Dong Soo	Member	Independent Non-Executive Director

NOMINATION AND REMUNERATION COMMITTEE

Name	Designation	Directorship
Ching Yew Chye	Chairman	Independent Non-Executive Director
Datuk Anuar bin Ahmad	Member	Non-Independent Non-Executive Director
Vimala a/p V.R. Menon	Member	Independent Non-Executive Director

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2. CORPORATE DIRECTORY *(cont'd)*

COMPANY SECRETARY	:	Maliki Kamal bin Mohd Yasin LS No. 0005209 A-20-1, Villa Wangsamas Condominium Jalan Seri Wangsa 2 Wangsa Maju 53300 Kuala Lumpur Malaysia
REGISTERED OFFICE	:	Tower 1 PETRONAS Twin Towers Kuala Lumpur City Centre 50088 Kuala Lumpur Malaysia Tel. No.: +603 2051 5000 Fax. No.: +603 2051 1501
HEAD OFFICE	:	Tower 1 PETRONAS Twin Towers Kuala Lumpur City Centre 50088 Kuala Lumpur Malaysia Tel. No.: +603 2051 5000 Fax. No.: +603 2051 1501 Website address: www.petronaschemicals.com Email address: petronaschemicals@petronas.com.my
SELLING SHAREHOLDER	:	Petroliam Nasional Berhad Tower 1 PETRONAS Twin Towers Kuala Lumpur City Centre 50088 Kuala Lumpur Malaysia Tel. No.: +603 2051 5000 Fax. No.: +603 2026 5050
SHARE REGISTRAR	:	Symphony Share Registrars Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia Tel. No.: +603 7841 8000
AUDITORS AND REPORTING ACCOUNTANTS	:	KPMG Desa Megat & Co Level 10, KPMG Tower 8, First Avenue Bandar Utama 47800 Petaling Jaya Malaysia Tel. No.: +603 7721 3388

2. CORPORATE DIRECTORY *(cont'd)*

PRINCIPAL BANKERS	:	Malayan Banking Berhad Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur Malaysia Tel. No.: +603 2070 8833 Citibank Berhad Menara Citibank 165, Jalan Ampang 50450 Kuala Lumpur Malaysia Tel. No.: +603 2383 8585 RHB Bank Berhad Level 10, Tower One, RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Malaysia Tel. No.: +603 9287 8888 HSBC Bank Malaysia Berhad Head Office 2, Leboh Ampang 50100 Kuala Lumpur Malaysia Tel. No.: +603 2070 0744 CIMB Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888
PRINCIPAL ADVISER AND MANAGING UNDERWRITER	:	CIMB Investment Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888

2. CORPORATE DIRECTORY *(cont'd)*

JOINT GLOBAL CO-ORDINATORS AND JOINT BOOKRUNNERS FOR THE INSTITUTIONAL OFFERING *(In alphabetical order)*	:	CIMB Investment Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888 Deutsche Bank AG, Hong Kong Branch 48th Floor, Cheung Kong Centre 2 Queen's Road Central Hong Kong Tel. No.: +852 2203 8888 Morgan Stanley & Co. International plc 25 Cabot Square Canary Wharf London E14 4QA United Kingdom Tel. No.: +44 20 7425 8000
CO-BOOKRUNNERS FOR THE INSTITUTIONAL OFFERING *(In alphabetical order)*	:	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square Canary Wharf, London E14 5LB United Kingdom Tel. No: +44 20 7986 4000 UBS AG, Hong Kong Branch 2 International Finance Centre 52/F, 8 Finance Street Central Hong Kong Tel. No.: +852 2971 8888
CO-LEAD MANAGERS FOR THE INSTITUTIONAL OFFERING *(In alphabetical order)*	:	AmInvestment Bank Berhad Bangunan AmBank Group 55 Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2036 2633 J.P. Morgan Securities Ltd 125 London Wall London EC2Y 5AJ United Kingdom Tel. No.: +44 207 777 2000 Standard Chartered Securities (Singapore) Pte. Limited 6 Battery Road #03-00 Singapore 049909 Tel. No.: +65 6530 3674

2. CORPORATE DIRECTORY *(cont'd)*

JOINT UNDERWRITERS FOR THE RETAIL OFFERING *(In alphabetical order)*	:	AFFIN Investment Bank Berhad 27th Floor Menara Boustead 69, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2142 3700 Alliance Investment Bank Berhad Level 3, Menara Multi-Purpose, Capital Square 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Malaysia Tel. No.: +603 2692 7788 AmInvestment Bank Berhad Bangunan AmBank Group 55, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2036 2633 CIMB Investment Bank Berhad 10th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur Malaysia Tel. No.: +603 2084 8888 ECM Libra Investment Bank Berhad 1st Floor, Wisma Genting Jalan Sultan Ismail 50250 Kuala Lumpur Malaysia Tel. No.: +603 2178 1888 Hong Leong Investment Bank Berhad Level 8, Menara HLA 3, Jalan Kia Peng 50450 Kuala Lumpur Malaysia Tel. No.: +603 2168 1168 HwangDBS Investment Bank Berhad Suite 23-01, 23rd Floor Menara Keck Seng 203, Jalan Bukit Bintang 55100 Kuala Lumpur Malaysia Tel. No.: +603 9195 6888 KAF Investment Bank Berhad Level 14 Chulan Tower 3, Jalan Conlay 50450 Kuala Lumpur Malaysia Tel. No.: +603 2168 8800

2. CORPORATE DIRECTORY *(cont'd)*

JOINT UNDERWRITERS FOR THE RETAIL OFFERING *(cont'd)*	:	Maybank Investment Bank Berhad 33rd Floor, Menara Maybank 100, Jalan Tun Perak Kuala Lumpur Malaysia Tel. No.: +603 2019 1888 MIDF Amanah Investment Bank Berhad Level 8, 9, 10, 11 & 12 Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2173 8888 MIMB Investment Bank Berhad 12th Floor, Menara EON Bank 288, Jalan Raja Laut 50350 Kuala Lumpur Malaysia Tel. No.: +603 2691 0200 OSK Investment Bank Berhad 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel. No.: +603 2333 8331 Public Investment Bank Berhad 25th Floor, Menara Public Bank 146, Jalan Ampang 50450 Kuala Lumpur Malaysia Tel no +603 2166 9382 RHB Investment Bank Berhad Level 10, Tower One RHB Centre Jalan Tun Razak 50400 Kuala Lumpur Malaysia Tel. No.: +603 9287 3888
LEGAL ADVISERS	:	*To the Company, Promoter and Selling Shareholder as to Malaysian laws* Albar & Partners 6th Floor, Faber Imperial Court Jalan Sultan Ismail 50250 Kuala Lumpur Malaysia Tel. No.: +603 2078 5588

2. CORPORATE DIRECTORY *(cont'd)*

LEGAL ADVISERS *(cont'd)*	:	*To the Company, Promoter and Selling Shareholder as to United States and English laws* Cleary Gottlieb Steen & Hamilton LLP Bank of China Tower One Garden Road Hong Kong Tel. No.: +852 2521 4122 *To the Joint Global Co-ordinators and Joint Bookrunners as to Malaysian laws* Adnan, Sundra & Low Level 11, Menara Olympia 8, Jalan Raja Chulan 50200 Kuala Lumpur Malaysia Tel. No.: +603 2070 0466 *To the Joint Global Co-ordinators and Joint Bookrunners as to United States and English laws* Shearman & Sterling LLP 6 Battery Road, #25-03 Singapore 049909 Tel. No.: +65 6230 3800
INDEPENDENT MARKET RESEARCHER	:	Nexant Singapore PTE Ltd 138 Robinson Road, #17-00 The Corporate Office Singapore 068906 Tel. No.: +662 793 4600
ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia Tel. No.: +603 7841 8000
LISTING SOUGHT	:	Main Market of Bursa Securities
SHARIAH STATUS	:	Approved by the SAC of the SC

3. SUMMARY

This section is only a summary of the salient information about us and the IPO and is extracted and summarised from the full text of this Prospectus. You should read and understand this section together with the entire Prospectus before you decide as to whether or not to invest in us. Prospective investors are advised to read the risk factors described in Section 5 of this Prospectus for an understanding of the risks associated with the investment in our Company.

3.1 OVERVIEW

We are the leading integrated petrochemicals producer in Malaysia and one of the largest petrochemicals producers in Southeast Asia, involved primarily in manufacturing, marketing and selling a diversified range of petrochemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. We have a production capacity of over 11 million mtpa, which includes the production capacities of our Subsidiaries as well as our share of the production capacities of our Associates and Jointly Controlled Entity. We were established as part of the PETRONAS Group in order to maximise value from Malaysia's ample natural gas resources and have over 25 years of experience in the petrochemicals industry. For the year ended 31 March 2010 and the 4 months ended 31 July 2010, our petrochemical plants achieved an average reliability rate of 96.2% and 95.6%, respectively, and we produced a total of 7.4 million mtpa and 2.9 million mtpa, respectively, of petrochemical products during the same periods.

We have two major operating business segments: our olefins and polymers segment and our fertilisers and methanol segment. Our operations are vertically integrated, and we are well positioned to take full advantage of the synergies in our production processes. We operate 2 IPCs in eastern Peninsular Malaysia, one at Kertih and another at Gebeng. Through our IPCs, we seek to leverage the synergistic linkages and integration both within plants as well as between common infrastructure and support facilities within the IPCs, making the entire manufacturing process more cost effective and efficient. We also operate three manufacturing complexes in Gurun, Bintulu and Labuan that produce fertiliser and methanol products, as well as a PVC plant in Vung Tau, Vietnam. Our production facilities benefit from various support operations of the PETRONAS Group, including those provided by CUFs, and access to ports and a railway link providing an integrated and reliable logistics system. For a more detailed description of production facilities, refer to Section 7.7 of this Prospectus.

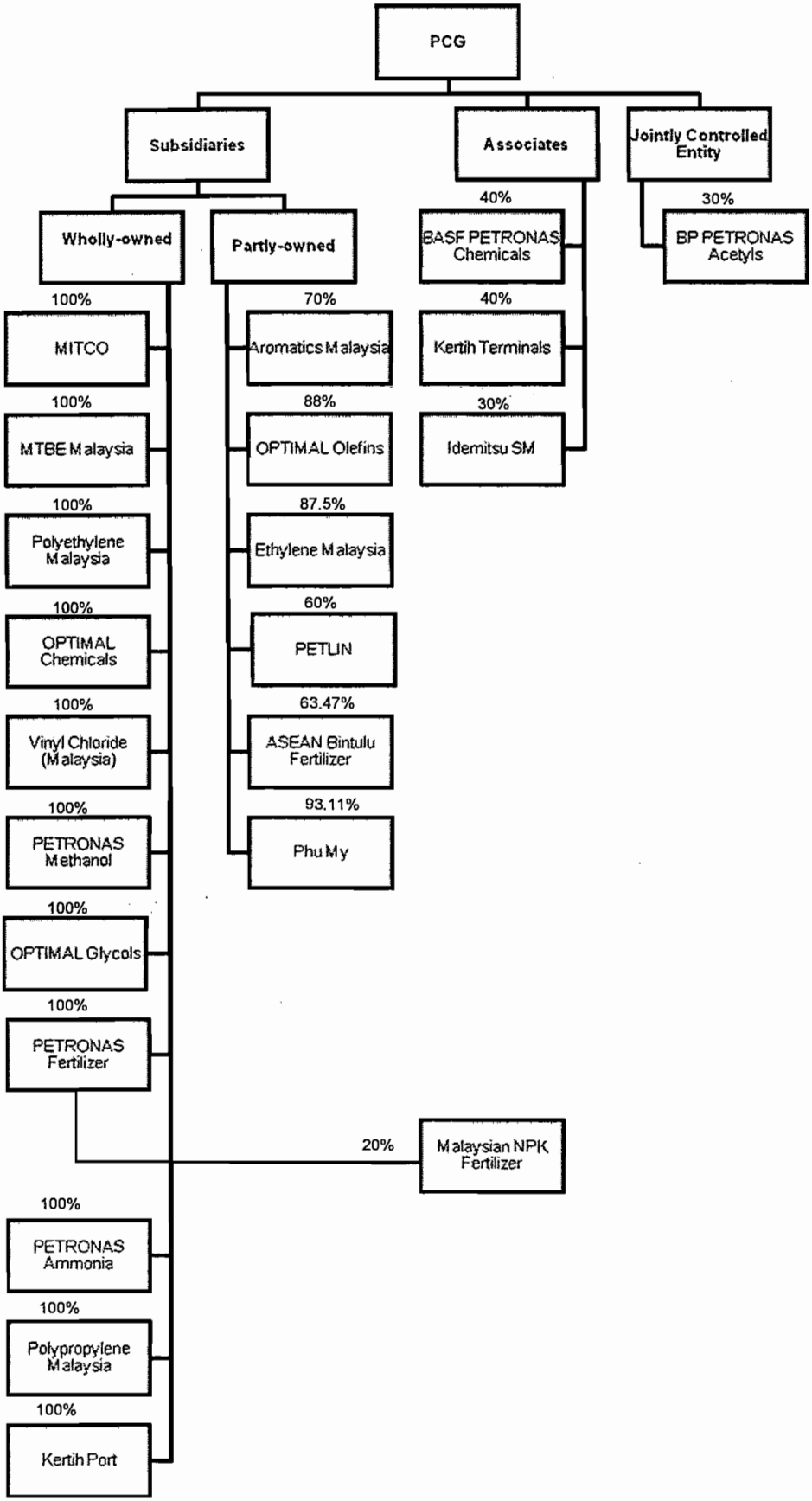
We have been involved in several large-scale petrochemical projects with multinational joint venture partners. In undertaking these types of projects, we have sought joint venture partners with the appropriate technology, financing capability and marketing and distribution expertise, enabling us to acquire advanced petrochemical expertise and technological know-how. Our joint venture partners have included Dow Chemical, BASF, BP Chemicals, Idemitsu Kosan, Mitsubishi Corporation and Sasol Limited.

We have a diversified portfolio of products. We are the largest producer of methanol by volume in Southeast Asia and fourth largest in the world. We are the largest producer of ethylene glycols and the third largest producer of urea in Southeast Asia by volume. We are also the largest producer of LDPE in Southeast Asia based on installed capacity. We are the market leader in the Malaysian petrochemicals industry based on our sales of urea, glycols and methanol, and are the only producer of methanol, urea, paraxylene, MTBE and certain specialty chemicals in Malaysia. For the year ended 31 March 2010, our sales in Malaysia accounted for 44.8% of our revenues, while the remainder was derived from sales in other countries. We continue to seek opportunities to establish our products both in Malaysia and in other countries, with a particular emphasis on the growing Asia-Pacific region, including China.

As at 31 March 2010 and 31 July 2010, we had total assets of RM26,892 million and RM25,064 million, respectively. For the year ended 31 March 2010 and the 4 months ended 31 July 2010, we generated PAT of RM2,594 million and RM938 million, respectively, on net revenue of RM12,203 million and RM4,218 million, respectively.

3. SUMMARY *(cont'd)*

Our corporate structure after the Reorganisation and prior to the IPO is set out below:



3.2 COMPETITIVE STRENGTHS, BUSINESS STRATEGIES AND FUTURE PLANS

3.2.1 Competitive strengths

We are the leading integrated petrochemicals producer in Malaysia and one of the largest in Southeast Asia, with reliable and attractively priced feedstock, operating a number of world class production sites, which are fully vertically integrated from feedstock to downstream end-products. Our strong and experienced management team and skilled employees operate these assets according to a culture of operational excellence in order to produce a highly diversified product portfolio which we market from our strategic location close to our key markets through our established and wide distribution and marketing network. We benefit from the reputation, sponsorship and support of the PETRONAS Group, which along with our strong strategic partnerships with global petrochemical players has allowed us to generate highly attractive and resilient profitability levels.

We believe our principal competitive strengths are:

(i) Reliable and attractively priced gas feedstock

We have secured a reliable supply for our gas feedstock requirements, pursuant to long-term supply agreements with the PETRONAS Group, at prices we believe to be attractive. The feedstock covered by these agreements, principally, methane, ethane, propane and butane, is delivered to our facilities via the PGU pipeline network, also operated by the PETRONAS Group. We are the only company to which the PETRONAS Group supplies gas feedstock for petrochemicals production, and we currently do not purchase gas feedstock from any other suppliers.

(ii) Leadership position in Southeast Asia underpinned by world class production sites

We are one of the largest petrochemicals producers in Southeast Asia, enjoying a top three position across a number of our key products, according to Nexant. With respect to methanol, we are the largest producer in Southeast Asia and the fourth largest in the world. Our new Mega Methanol plant in Labuan, with a capacity of 1.7 million mtpa, is the largest methanol plant in Asia, and also one of the largest globally. We are also the largest producer of ethylene glycols and the third largest producer of urea in Southeast Asia by volume. We are also the largest producer of LDPE in Southeast Asia based on installed capacity. In Malaysia, we are the largest producer of olefins, methanol and urea, and the second largest producer of polyolefins.

(iii) Fully integrated petrochemicals operations

We benefit from a high degree of integration within and across our production facilities, from the intake of feedstock to the manufacture of downstream products. This allows us to achieve highly efficient production, minimising both logistics costs and product wastage in between each step of the production chain. Our high degree of integration also maximises the economies of scale of our facilities and reduces our fixed costs per product unit. Moreover, we believe that the integration of our facilities provides us with operational flexibility to readily alter our product mix and production levels in response to prevailing market conditions. Such flexibility further enhances our operating efficiency, competitiveness and responsiveness, and allows us to achieve greater stability in volumes and sales.

(iv) Strong operational excellence

We have a strong culture of operational excellence and a disciplined management system that we share with the other companies in the PETRONAS Group. We have built upon the industry-leading practices we have absorbed from our joint ventures and partnerships with leading global petrochemicals operators such as Dow Chemical and BASF to create models of organisational, technical, operational, and managerial excellence.

(v) Attractive and diversified product portfolio

Our business is highly diversified compared to our peers that are engaged only in commodity chemicals production. Through the full vertical integration of our operations, we can leverage our attractively priced feedstock supply to efficiently produce a full range of products along each of the methane, ethane, propane and butane value chains, from upstream olefins through to downstream intermediate and derivative performance chemicals. Although we began our business in 1985 producing only approximately 0.5 million mtpa of fertiliser products, we have invested significantly to expand and develop our product portfolio since then.

Today, our diversified product portfolio includes ethylene, propylene and a range of their respective derivatives. In addition to urea and methanol, we also produce downstream intermediate and derivative performance chemicals such as ethanolamines, nonyl phenol ethoxylates, surfactants, polyethylene glycol, primary alcohol ethoxylate, and gas treating fluids, which we believe achieve premium pricing due to the fact that they are less commoditised and are protected by higher barriers to entry such as technology and market access. Through our Associates and Jointly Controlled Entity, we also produce acrylics, oxo-alcohols, butanediol, acetic acid and styrene monomer.

(vi) Strategic location close to key growth markets

The strategic location of our production facilities across Malaysia facilitates efficient distribution and transport to our customers both in Malaysia as well as to other countries. The Kertih and Gebeng IPCs together form a petrochemicals hub on the east coast of Peninsular Malaysia that benefits from ready access to rail and road networks to other major industrial areas of Malaysia and to sea ports for marine transportation to international locations. Ships using these key ports located close to our production sites are able to avoid the busy Straits of Malacca, minimising delays in delivery to customers in our principal export destinations in Southeast and Northeast Asia.

(vii) Resilient financial performance with high profitability

We believe the combination of our attractive feedstock costs, highly efficient operations and attractive end-market dynamics, among other things, has allowed us to enjoy a strong competitive advantage and enabled us to achieve profitability that has been highly resilient to economic cycles, with EBITDA margins averaging 43.4% between the 3 years ended 31 March 2008, 31 March 2009 and 31 March 2010, and 34.3% for the 4 months ended 31 July 2009 and 31 July 2010, and high cash flow generation, with a cash conversion rate averaging 77.9% between the 3 years ended 31 March 2008, 31 March 2009 and 31 March 2010, and 83.5% for the 4 months ended 31 July 2009 and 31 July 2010.

(viii) Established and extensive marketing and distribution network

Our company has developed a strong marketing and distribution operation with a wide network serving approximately 550 customers in Malaysia and approximately 900 customers in over 25 countries internationally, principally in Asia. Leveraging on our consistent large production volumes, MITCO, as our primary marketing arm, serves a vital link in our integrated business model, enabling us to connect our products with our end-customers.

(ix) Strong strategic partnerships with global petrochemical players

We have a track record of highly beneficial partnerships with global strategic chemical partners such as BASF, Dow Chemical, Sasol Limited, BP Chemicals, Mitsubishi Corporation and Idemitsu Kosan. Through a number of joint ventures and equity co-investments, we have been able to gain international market access, technology and production know-how, while our partners have benefited from access to attractively priced feedstock and integrated production facilities in strategically located sites.

(x) Reputation, sponsorship and support from the PETRONAS Group

Our principal shareholder, PETRONAS, is a fully integrated global oil and gas company and wholly-owned by the Government of Malaysia. We believe that the "PETRONAS" brand is recognised within the oil and gas industry for its strong culture of shared values, operational excellence, long-term commitment to the countries in which it operates, and reliability as a supplier. These values form the core of our businesses and are a heritage on which we intend to build.

(xi) Strong and experienced management team

Our management team is composed of highly experienced managers with longstanding leadership experience, as well as significant industry knowledge across the entire petrochemicals value chain. In particular, our President/Chief Executive Officer, Dato' Tengku Mahamad bin Tengku Mahamut, and the Heads of our Olefins and Polymers and Fertiliser and Methanol divisions, Abd Manaf bin Abd Hamid and Yusa' bin Hassan respectively, together have approximately a combined 59 years of experience in the petrochemicals industry. Together with our Chief Financial Officer, Wan Shamilah binti Wan Muhammad Saidi, the key management team has a combined 77 years of experience within PETRONAS.

3.2.2 Business strategies and future plans

Our objective is to maximise our shareholder value by consolidating our position as a market leader in the Asian petrochemicals industry in terms of integration of operations, focus on key growth markets, profitability and return on capital. In the shorter term, we intend to focus on consolidating our petrochemical activities and maximising their efficiency, as well as strengthening our marketing and sales network. In the medium to longer term, we will look to expand our product portfolio and production capacity, including through the development of new production plants using gas and alternate types of feedstock, as well as potentially synergistic and prudent acquisitions to pursue growth.

(i) Consolidation of our petrochemicals activities

As we develop our business, we will continue to focus on increasing the efficiency and profitability of our operations. We intend to continue the process of consolidating all of PETRONAS' petrochemicals activities into a single entity. This multi-phase process began with the Reorganisation, through which all of PETRONAS' petrochemicals businesses became part of our Group. The subsequent phases, after our IPO, will entail further integration of our Group's operations and management to achieve reductions in operating costs, higher revenues and greater responsiveness to changing market conditions.

(ii) Increase international sales and marketing network

We intend to consolidate all our sales and marketing functions into MITCO, allowing us to better coordinate the management of our customer relationships and to benefit from economies of scale. We believe that through a more coordinated approach to sales and marketing, we will be better positioned to increase our international sales and distribution capabilities. This will also enable us to better manage and strengthen our customer relationships both in Malaysia and in other countries and facilitate the flow of end products to customers. In particular, we will look to further expand our sales, marketing and distribution network in Asia through increased collaboration with local partners in our targeted markets. These efforts would increase our sales volume and would allow us to widen our customer base, further driving our revenue growth. In the long term, we aim to develop MITCO into a preferred marketer of petrochemical products, building on its expertise gained from marketing our products, its marketing network and the volume and range of products that it manages.

(iii) Broaden and deepen our product portfolio

We intend to continue to expand our product portfolio, and to increase the range of end-applications our products serve, as well as develop new processes to manufacture our existing products. Our R&D group will continue to focus on the development of new products and new grades of existing products that can meet our customers' changing requirements. As an example, we are currently developing a specific type of HDPE product with increased durability and particular chemical stability characteristics for use in the production of pipes.

(iv) Expand our production capacity

We intend to strategically increase our production capacity through enhancements to our existing facilities and potentially through investments in new facilities. We plan to pursue cost-efficient opportunities to increase our output, enhance efficiency and further reduce production costs, including by making changes to the configuration of our production processes. In particular, we are considering making operational improvements to our two ethylene crackers at the Kertih IPC to enable us to extract even greater value from our ethane feedstock. In addition, we are also reviewing debottlenecking projects for certain upstream product processes to maximise our ability to produce higher value added products further downstream.

To capitalise further on Malaysia's advantages as a petrochemicals production hub, we intend to examine adding new plants and facilities in Malaysia. We may also review opportunities to expand our production capacity outside Malaysia. In particular, we are studying the possibility of developing a greenfield ammonia and urea production facility that would be supplied with natural gas feedstock available off the coast of East Malaysia. In addition, PETRONAS is currently studying a greenfield project to develop an integrated refinery and petrochemicals complex in Peninsular Malaysia that would produce, among other things, naphtha for use as feedstock for petrochemical products. With PETRONAS currently taking the lead in evaluating the project, we expect to become more closely involved in examining the project at a suitable juncture.

(v) Selective synergistic growth acquisitions

We will continue to consider selective opportunities to expand both domestically and abroad through incremental strategic acquisitions that are consistent with our focus on our core petrochemicals activities, and that can achieve synergies with our existing operations. We consider each acquisition opportunity carefully, and any potential acquisition would undergo extensive review and evaluation procedures to ensure that such transaction would be beneficial to our business as a whole.

For detailed information on our competitive strengths and business strategies and future plans, refer to Sections 7.2 and 7.3 of this Prospectus respectively.

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3.3 FINANCIAL INFORMATION

Polyethylene Malaysia became our wholly-owned subsidiary on 2 September 2010. Hence, for purposes of presenting our historical financial information throughout this Prospectus in relation to disclosure periods up to the 4 months ended 31 July 2010, references to 'jointly controlled entities' include Polyethylene Malaysia, whilst references to 'Subsidiaries' exclude Polyethylene Malaysia.

3.3.1 Historical Financial Information

The following selected historical audited combined financial information as at or for the years ended 31 March 2008, 31 March 2009 and 31 March 2010, and as at or for the 4 months ended 31 July 2009 and 31 July 2010, have been derived from the audited combined financial statements of our Group and should be read in conjunction with the Accountants' Report and related notes in Section 9 and with Section 8.2 of this Prospectus.

Prospective investors should note that we are part of the PETRONAS Group and prior to the Reorganisation, did not operate independently as a group. The combined financial statements have been carved out from the consolidated financial statements of the PETRONAS Group and, where appropriate, adjustments have been made to specifically present only our combined financial position, results of operations and cash flows. The financial information presented in the combined financial statements do not incorporate the effects of the Reorganisation and IPO and as such, may not be the same as the consolidated financial statements of our Group after incorporating the abovementioned events. Further, such financial information from the combined financial statements does not purport to predict our Group's financial position, results of operations and cash flows of our business. Please refer to Section 12.1.2 and Section 8.9 of this Prospectus for further information on the Reorganisation and Pro Forma Consolidated Statements of Financial Position of our Group.

	Audited			Unaudited[1]	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
	(RM million except for share and margin data)				
Revenue	12,855	12,367	12,203	3,252	4,218
Cost of revenue	(6,499)	(7,500)	(8,561)	(2,395)	(3,010)
Gross profit	6,356	4,867	3,642	857	1,208
Selling and distribution expenses	(337)	(335)	(351)	(118)	(127)
Administration expenses	(319)	(320)	(318)	(100)	(98)
Other expenses	(55)	(111)	(127)	(15)	(46)
Other income	283	342	403	76	133
Operating profit	5,928	4,443	3,249	700	1,070
Financing costs	(81)	(57)	(62)	(16)	(24)
Share of profit after tax and minority interest of equity accounted Associates and jointly controlled entities	273	25	181	56	172
PBT	6,120	4,411	3,368	740	1,218
Tax expense	(1,491)	(962)	(774)	(153)	(280)
PAT	4,629	3,449	2,594	587	938

3. SUMMARY *(cont'd)*

	Audited			Unaudited[1]	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
	(RM million except for share and margin data)				
PAT attributable to:					
PETRONAS	3,925	2,818	2,199	505	814
Minority shareholders	704	631	395	82	124
	4,629	3,449	2,594	587	938
Amortisation	-	3	2	-	1
Depreciation	633	684	894	254	339
EBITDA[2]	6,834	5,155	4,326	1,010	1,582
No. of Shares in issue (million)[3]	8,000	8,000	8,000	8,000	8,000
Gross EPS[4] (sen)	76.5	55.1	42.1	27.8[6]	45.7[6]
Net EPS[5] (sen)	49.1	35.2	27.5	18.9[6]	30.5[6]
NTA per ordinary share[7] (RM)	1.9	2.0	2.0	2.0	2.0
Gross profit margin (%)	49.4	39.4	29.8	26.4	28.6
PBT margin (%)	47.6	35.7	27.6	22.8	28.9
PAT margin (%)	36.0	27.9	21.3	18.1	22.2
EBITDA margin (%)	53.2	41.7	35.5	31.1	37.5

Notes:

(1) *Unaudited and included for comparison purposes only.*

(2) *EBITDA refers to earnings before interest expenses, taxation, depreciation and amortisation. Our EBITDA includes interest income of RM206 million, RM228 million and RM168 million for the years ended 31 March 2008, 2009 and 2010, respectively, and RM51 million and RM59 million for the 4 months ended 31 July 2009 and 2010, respectively.*

Our EBITDA presented in this document is a supplemental measure of our performance and liquidity and is not required by, or presented in accordance with FRS in Malaysia and should not be considered as an alternative to PAT, operating income, or any other performance measures derived in accordance with FRS in Malaysia or as an alternative to our cash flows or as a measure of our liquidity. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such a term may not be possible. Other companies may calculate EBITDA differently from us, limiting its usefulness as a comparative measure.

We believe that the presentation of EBITDA facilitates the operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of tangible assets (affecting relative depreciation expense).

The following is a reconciliation of our PBT to EBITDA:

	Audited			Unaudited	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
	(RM million)				
PBT	6,120	4,411	3,368	740	1,218
Amortisation	-	3	2	-	1
Depreciation	633	684	894	254	339
Financing costs	81	57	62	16	24
EBITDA	6,834	5,155	4,326	1,010	1,582

(3) Based on the enlarged issued and paid-up share capital after the Reorganisation and IPO.

(4) Computed as PBT divided by the enlarged number of Shares in issue after the Reorganisation and IPO.

(5) Computed as PAT attributable to PETRONAS divided by the enlarged number of Shares in issue after the Reorganisation and IPO.

(6) Annualised.

(7) Computed as NA less intangible assets less minority interests divided by the enlarged number of Shares in issue after the Reorganisation and IPO.

3.3.2 Pro Forma Consolidated Statements of Financial Position

We have prepared the Pro Forma Consolidated Statements of Financial Position below for illustrative purposes only, to show the effects of the subdivision of Shares, Reorganisation and IPO on the assumption that the events had been effected on 31 July 2010. The Pro Forma Consolidated Statements of Financial Position have been properly prepared on the basis as set out in the notes in Section 8.9 of this Prospectus, using financial statements prepared in accordance with Malaysian FRS and in a manner consistent with both the format of the financial statements and the accounting policies of our Company, and where appropriate, of our Subsidiaries and the basis of consolidation as set out in Section 8.9 of this Prospectus.

The Pro Forma Consolidated Statements of Financial Position should be read in conjunction with the Reporting Accountants' Letter and the Pro Forma Consolidated Statements of Financial Position as at 31 July 2010 and the notes thereon of our Group as set out in Section 8.9 of this Prospectus.

3. SUMMARY *(cont'd)*

	As at 31 July 2010 (audited)	Pro Forma I After subdivision of Shares and Reorganisation (unaudited)	Pro Forma II After Pro Forma I and IPO (unaudited)
		(RM million)	
ASSETS			
Property, plant and equipment	-	13,018	13,018
Investment in associates	-	918	918
Investment in jointly controlled entity	-	76	76
Intangible assets	-	1,863	1,863
Long term receivables	-	30	30
Deferred tax assets	-	494	494
Total non-current assets	-	16,399	16,399
Trade and other inventories	-	1,258	1,258
Trade and other receivables	-	1,608	1,608
Tax recoverable	-	188	188
Fund and other investments	-	20	20
Cash and cash equivalents	2	3,912	7,351
Total current assets	2	6,986	10,425
TOTAL ASSETS	2	23,385	26,824
EQUITY			
Share capital	1	730	800
Merger relief	-	7,176	7,176
Share premium	-	4,561	7,946
Merger reserve	-	(7,319)	(7,319)
Retained earnings	1	8,913	8,897
Other reserves	-	148	148
Reserves attributable to shareholders of the Company	2	14,209	17,648
Minority shareholders' interests	-	1,323	1,323
TOTAL EQUITY	2	15,532	18,971
LIABILITIES			
Borrowings	-	3,530	3,530
Deferred tax liabilities	-	1,148	1,148
Other long term liabilities and provisions	-	28	28
Total non-current liabilities	-	4,706	4,706
Trade and other payables	-	2,465	2,465
Borrowings	-	444	444
Taxation	-	238	238
Total current liabilities	-	3,147	3,147
TOTAL LIABILITIES	-	7,853	7,853
TOTAL EQUITY AND LIABILITIES	2	23,385	26,824

	As at 31 July 2010 (audited)	Pro Forma I After subdivision of Shares and Reorganisation (unaudited)	Pro Forma II After Pro Forma I and IPO (unaudited)
		(RM million)	
Number of Shares (million)			
RM0.10 nominal value	0.001	7,300	8,000
NA (RM million)[1]	2	14,209	17,648
NTA (RM million)[2]	2	12,346	15,785
NA per share (RM)	2,000	1.95	2.21
NTA per share (RM)	2,000	1.69	1.97

Notes:

(1) Being NA attributable to ordinary shareholders.

(2) NTA is computed as NA less intangible assets less minority interests.

3.3.3 Capitalisation and indebtedness

The table below sets out our cash and cash equivalents as well as capitalisation and indebtedness based on the audited combined financial statements of our Group as at 31 July 2010 and as adjusted for the following which are assumed to have occurred on 31 July 2010:

(i) the effects of the subdivision of PCG Shares and the Reorganisation; and

(iii) the net proceeds from the Public Issue and intended use of the proceeds from the Public Issue.

The pro forma financial information below does not represent our Group's actual capitalisation and indebtedness as at 31 July 2010 and is provided for information purposes only. The total indebtedness of our Group is not guaranteed by any third party.

	As at 31 July 2010 (audited)[1]	Pro Forma I After subdivision of Shares and Reorganisation (unaudited)	Pro Forma II After Pro Forma I and Public Issue and utilisation of proceeds (unaudited)
		(RM million)	
Cash and cash equivalents[2]	6,604	3,912[3]	7,351
Indebtedness			
Short-term borrowings			
Secured			
Term loans	72	72	72
Islamic financing facilities	92	92	92

3. SUMMARY *(cont'd)*

	As at 31 July 2010 (audited)[1]	Pro Forma I After subdivision of Shares and Reorganisation (unaudited)	Pro Forma II After Pro Forma I and Public Issue and utilisation of proceeds (unaudited)
		(RM million)	
Unsecured			
Term loans	4	4	4
Revolving credits	231	231	231
Bankers' acceptance	45	45	45
PETRONAS loans and advances	170	-[4]	-
Total short-term borrowings	614	444[3]	444
Long-term borrowings			
Secured			
Term loans	249	249	249
Islamic financing facilities	339	339	339
Unsecured			
Term loans	22	22	22
PETRONAS loans and advances	616	2,920[4]	2,920
Related company's advance	48	-[4]	-
Total long-term borrowings	1,274	3,530[3]	3,530
Total indebtedness[5]	1,888	3,974	3,974
Total equity/capitalisation	19,136	15,532[4]	18,971
Total capitalisation and indebtedness	21,024	19,506	22,945
Gearing ratio (times)[6]	0.10	0.26	0.21

Notes:

(1) The selected financial information is extracted from our audited combined financial statements as at 31 July 2010.

(2) Cash and cash equivalents include restricted deposits of RM89 million that is required to be maintained as part of the covenants for the secured USD term loans and Islamic financing facilities. On 27 September 2010, we had made a cash payment of RM1,029 million to PETRONAS. This amount relates to settlement of trade payables in relation to gas price revision for ASEAN Bintulu Fertilizer, which had not been reflected in the cash and cash equivalents above.

(3) Refer to Pro Forma Consolidated Statements of Financial Position as set out in section 8.9 of this Prospectus.

(4) The movement in the balances are mainly due to, amongst others, the distributions before Listing, acquisition of liabilities of certain of our subsidiaries from PETRONAS and PETRONAS International as well as new loan facility from PETRONAS under the Reorganisation.

(5) Total indebtedness includes short-term borrowings and long-term borrowings.

(6) The gearing ratio is calculated by dividing total borrowings over total equity.

For our detailed financial information refer to Section 8 of this Prospectus.

3.4 DIVIDEND POLICY

The declaration and recommendation of interim dividends and final dividends are subject to the discretion of our Board and any final dividend for a particular year is subject to the approval of our shareholders. It is our Board's intention to pay dividends to our shareholders in the future to allow them to participate in our profits. However, our ability to pay dividends or make other distributions to our shareholders will depend upon a number of factors, including our earnings, capital requirements, general financial condition, our distributable reserves and other factors considered relevant by our Board.

Our Board intends to adopt a policy of active capital management. We propose to pay dividends out of cash generated from our operations after setting aside necessary funding for capital expenditure and working capital needs. As part of this policy, our Company targets a payout ratio of around 50% of our consolidated PAT under Malaysian GAAP in each calendar year, beginning from the year ending 31 March 2011, subject to the confirmation of our Board and to any applicable law, licence and contractual obligations and provided that such distribution would not be detrimental to our cash needs or to any plans approved by our Board. Investors should note that this dividend policy merely describes our Company's present intention and shall not constitute legally binding statements in respect of our Company's future dividends which are subject to modification (including reduction or non-declaration thereof) at our Board's discretion.

As our Company is a holding company, our income, and therefore our ability to pay dividends, is dependent upon the dividends and other distributions that we receive from our Subsidiaries. The payment of dividends or other distributions by our Subsidiaries will depend upon their operating results, financial condition, capital expenditure plans and other factors that their respective boards of directors deem relevant. Dividends may only be paid out of distributable reserves. In addition, covenants in loan agreements, if any, for our Subsidiaries may limit their ability to declare or pay cash dividends.

No inference should be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in the future.

For detailed information on our dividend policy, refer to Section 8.10 of this Prospectus.

3.5 DETAILS OF THE IPO

Our IPO consists of an Institutional Offering and a Retail Offering, totaling up to 2,480 million IPO Shares pursuant to (i) the Offer for Sale of up to 1,780 million Offer Shares by the Selling Shareholder and (ii) the offering by our Company of 700 million Issue Shares. The 1,780 million Offer Shares offered by the Selling Shareholder represent up to 22.25% of the enlarged issued and paid-up share capital of our Company.

3.5.1 Institutional Offering

Institutional Offering to investors other than the Cornerstone Investors at an Institutional Price payable in full upon allocation and determined by way of bookbuilding and to the Cornerstone Investors at the lower of RM5.20 per IPO Share and the Institutional Price.

Institutional Offering of up to 2,186.98 million IPO Shares, representing up to 27.34% of the enlarged issued and paid-up share capital of our Company, at the Institutional Price to be determined by way of bookbuilding, subject to clawback and reallocation and Over-allotment Option, to be allocated in the following manner:

(i) Malaysian institutional and selected investors of which 920.00 million IPO Shares, representing 11.50% of the enlarged issued and paid-up share capital of our Company are to be placed to Bumiputera investors approved by MITI;

(ii) Institutional and selected investors outside the United States in reliance on Regulation S;

(iii) QIBs in the United States in reliance on Rule 144A or pursuant to applicable exemption from registration under the US Securities Act; and

(iv) Cornerstone Investors.

On 22 October 2010, the Selling Shareholder entered into the master cornerstone placing agreement with our Company, CIMB and the Cornerstone Investors whereby the Cornerstone Investors have agreed to acquire from the Selling Shareholder, subject to the terms of the individual cornerstone placing agreements, the aggregate of 445 million Shares at RM5.20 per Share or the Institutional Price, whichever is lower. None of the Cornerstone Investors will individually acquire 5% or more of the issued and paid-up share capital of our Company under the cornerstone placing agreements. However, a cornerstone investor may acquire additional IPO Shares in the IPO such that its aggregate holding of the Shares at the date of Admission may exceed 5% of the issued and paid-up share capital of our Company.

3.5.2 Retail Offering

Retail Offering at the Retail Price of RM5.05 per Offer Share, payable in full upon application and subject to refund of the difference in the event the Final Retail Price is less than the Retail Price.

Retail Offering of 293.02 million Offer Shares, representing 3.66% of the enlarged issued and paid-up share capital of our Company at the Retail Price, subject to clawback and reallocation and Over-allotment Option, to be allocated in the following manner:

(i) 133.02 million Offer Shares, representing 1.66% of the enlarged issued and paid-up share capital of our Company, have been reserved for the eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS, eligible customers and others who have contributed to the success of our Group;

(ii) 160.00 million Offer Shares, representing 2.00% of the enlarged issued and paid-up share capital of our Company, are available for application as follows:

(a) 80.00 million Offer Shares, representing 1.00% of the enlarged issued and paid-up share capital of our Company, are set aside for Bumiputera individuals, companies, co-operatives, societies and institutions; and

(b) 80.00 million Offer Shares, representing 1.00% of the enlarged issued and paid-up share capital of our Company, are available to Malaysian citizens, companies, co-operatives, societies and institutions.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will equal the lower of:

(i) the Retail Price; and

(ii) 97% of the Institutional Price;

subject to rounding to the nearest sen.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to successful applicants of the Retail Offering, without any interest thereon. The refund in the form of cheques will be despatched to the successful applicants at their own risk.

Any Offer Shares not taken up by investors under Section 3.5.2 (i) will be made available for application by investors under Section 3.5.2 (ii) with any remaining amounts under the Retail Offering thereafter underwritten by the Joint Underwriters, subject to the clawback and reallocation provisions in Section 4.3.3 of this Prospectus.

The completion of the Retail Offering and Institutional Offering are inter-conditional and subject to the minimum subscription amount as set out in Section 4.11 of this Prospectus.

3.6 UTILISATION OF PROCEEDS

Our Company will not receive any proceeds from the Offer for Sale. The gross proceeds from the Offer for Sale of up to RM8,989 million* arising from the Offer for Sale of up to 1,780 million Offer Shares will accrue entirely to the Selling Shareholder.

The expected gross proceeds of RM3,535 million* arising from the Public Issue are expected to be fully utilised for our core business in the following manner:

Details of utilisation of proceeds	Estimated timeframe for utilisation upon Listing	RM 000	%
Expansion of business and synergistic growth acquisitions	Within 5 years	2,239,000	63.3
Working capital requirements and general corporate purposes	Within 2 years	1,200,000	34.0
Estimated listing expenses	Within 1 year	96,000	2.7
Total gross proceeds		3,535,000	100.0

Note:

* *We have assumed the Institutional Price and the Final Retail Price will be the Retail Price of RM5.05 per Share in arriving at this figure.*

For detailed information on the utilisation of proceeds from our Public Issue, refer to Section 4.12 of this Prospectus.

3.7 RISK FACTORS

Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks of such an investment as summarised below. The following is not an exhaustive list of challenges that we currently face or that may develop in the future.

3.7.1 Risks relating to the petrochemical industry

(i) Cyclical changes in the petrochemicals industry and the volatility of international market prices for petrochemical products may adversely affect our sales;

(ii) Demand and supply for petrochemical products are dependent on general economic conditions, and deterioration in such conditions would adversely affect our results;

(iii) We operate in a global, competitive environment and face substantial competition;

(iv) The manufacturing processes for our products are complex and hazardous;

(v) Due to the integrated nature of our production facilities, problems in one part of our facilities may cause disruption to other parts of the production facilities;

(vi) We are exposed to costs arising from environmental compliance and clean-up, and these costs may have a material adverse effect on our business, financial condition and results of operations;

(vii) Our products may become subject to anti-dumping or countervailing duties, import quotas or tariffs in various countries, which may have a material adverse effect on our export sales;

(viii) Our insurance coverage may not be sufficient and may not adequately protect us against certain operating hazards;

3.7.2 Risks relating to our business

(i) We depend on the PETRONAS Group for our supply of natural gas and processed gas as feedstock; if we are no longer able to obtain necessary feedstock from the PETRONAS Group at acceptable prices or at all, we may not be able to obtain it from other sources or on acceptable terms;

(ii) We depend on a few key suppliers to provide the electricity and water that we require for our production facilities;

(iii) Our development and operational plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties;

(iv) New projects and capital expenditures may expose us to large-scale project-related risks;

(v) Changes in the exchange rate between the USD and the RM could have a negative impact on our results of operations and financial condition;

(vi) There may be risks relating to acquisitions, new projects or new partnerships and joint ventures;

(vii) We are controlled by PETRONAS, whose interests may not be aligned with those of the other shareholders of our Company;

(viii) We rely on skilled management and technical personnel and our performance may be affected by our ability to attract and retain skilled personnel;

(ix) Our businesses are concentrated in Malaysia and the Asia-Pacific Region;

(x) If we are not able to renew or maintain the permits and approvals required to operate our business, this may have a material adverse effect on our business;

(xi) We depend on intellectual property and technology licences to operate our business;

(xii) Changes in laws, regulations or policies of governments or other governmental activities in the countries that we export to could reduce demand for or our ability to sell our products;

(xiii) Certain tax incentives or exemptions from the Government of Malaysia may no longer be available in the future;

3.7.3 Risks relating to our Shares

(i) There has been no prior market for our Shares;

(ii) Our Share price may be volatile;

(iii) There may be a delay or failure in trading of our Shares;

(iv) We may not be able to pay dividends;

(v) We have significant discretion as to how we will use the net proceeds of the Public Issue, and you may not necessarily agree with how we use them;

(vi) We are a holding company and, as a result, are dependent on dividends from our Subsidiaries to meet our obligations and to provide funds for payment of dividends on our Shares;

(vii) The sale or the possible sale of a substantial number of our Shares in the public market following the IPO could adversely affect the price of our Shares;

(viii) Because the Retail Price is higher than our NTA per share, purchasers of our Shares in the IPO will experience immediate and substantial dilution. Purchasers of our Shares may experience further dilution if we issue additional Shares in the future;

3.7.4 Other risks

(i) Unfavourable financial and economic developments in Malaysia may have an adverse effect on us; and

(ii) Forward-looking statements in this Prospectus may not be accurate.

For a detailed discussion on the risks associated with investing in our Company, refer to Section 5 of this Prospectus.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING

Our IPO is subject to the terms and conditions of this Prospectus and upon acceptance, the IPO Shares are expected to be allocated/ transferred in the manner described below, subject to the clawback and reallocation provisions and Over-allotment Option as set out in Sections 4.3.3 and 4.3.4 of this Prospectus.

4.1 OPENING AND CLOSING OF APPLICATION

Application for the Offer Shares under the Retail Offering will open at 10.00 a.m. on 1 November 2010 and will remain open until 5.00 p.m. on 9 November 2010 or such other date or dates as our Directors, the Selling Shareholder, the Managing Underwriter and Joint Underwriters may mutually decide in their absolute discretion.

4.2 INDICATIVE TIMETABLE

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

Events	Date
Opening of Institutional Offering*	26 October 2010
Issue of Prospectus/Opening of Retail Offering	10.00 a.m., 1 November 2010
Closing of Retail Offering	5.00 p.m., 9 November 2010
Closing of Institutional Offering	12 November 2010
Price Determination Date	12 November 2010
Balloting of applications for the Offer Shares pursuant to the Retail Offering	12 November 2010
Allotment/Transfer of the IPO Shares to successful applicants	24 November 2010
Listing	26 November 2010

Note:

* *The date bookbuilding commenced.*

In the event that the closing date and time for applications of either the Institutional Offering or the Retail Offering are varied, the closing date for the applications, the Price Determination Date and dates for the balloting of the Offer Shares, the allotment of the Issue Shares and the transfer of the Offer Shares and our Listing will be varied accordingly. We will announce any variation in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia.

4. DETAILS OF OUR INITIAL PUBLIC OFFERING *(cont'd)*

4.3 OUR IPO

Our IPO consists of an Institutional Offering and a Retail Offering, totaling up to 2,480 million IPO Shares pursuant to (i) the Offer for Sale of up to 1,780 million Offer Shares by the Selling Shareholder and (ii) the offering by our Company of 700 million Issue Shares. The 1,780 million Offer Shares offered by the Selling Shareholder represent up to 22.25% of the enlarged issued and paid-up share capital of our Company.

4.3.1 Institutional Offering

Institutional Offering to investors other than the Cornerstone Investors at an Institutional Price payable in full upon allocation and determined by way of bookbuilding and to the Cornerstone Investors at the lower of RM5.20 per IPO Share and the Institutional Price.

Institutional Offering of up to 2,186.98 million IPO Shares, representing up to 27.34% of the enlarged issued and paid-up share capital of our Company, at the Institutional Price to be determined by way of bookbuilding, subject to clawback and reallocation and Over-allotment Option, to be allocated in the following manner:

(i) Malaysian institutional and selected investors of which 920.00 million IPO Shares, representing 11.50% of the enlarged issued and paid-up share capital of our Company are to be placed to Bumiputera investors approved by MITI;

(ii) Institutional and selected investors outside the United States in reliance on Regulation S;

(iii) QIBs in the United States in reliance on Rule 144A or pursuant to applicable exemption from registration under the US Securities Act; and

(iv) Cornerstone Investors.

On 22 October 2010, the Selling Shareholder entered into the master cornerstone placing agreement with our Company, CIMB and the Cornerstone Investors whereby the Cornerstone Investors have agreed to acquire from the Selling Shareholder, subject to the terms of the individual cornerstone placing agreements, the aggregate of 445 million Shares at RM5.20 per Share or the Institutional Price, whichever is lower. None of the Cornerstone Investors will individually acquire 5% or more of the issued and paid-up share capital of our Company under the cornerstone placing agreements. However, a cornerstone investor may acquire additional IPO Shares in the IPO such that its aggregate holding of the Shares at the date of Admission may exceed 5% of the issued and paid-up share capital of our Company.

The cornerstone placing agreements are conditional upon the Retail Underwriting Agreement and Placement Agreement being entered into and not having been terminated pursuant to their respective terms.

4.3.2 Retail Offering

Retail Offering at the Retail Price of RM5.05 per Offer Share, payable in full upon application and subject to refund of the difference in the event the Final Retail Price is less than the Retail Price.

Retail Offering of 293.02 million Offer Shares, representing 3.66% of the enlarged issued and paid-up share capital of our Company at the Retail Price, subject to clawback and reallocation and Over-allotment Option, to be allocated in the following manner:

(i) 133.02 million Offer Shares, representing 1.66% of the enlarged issued and paid-up share capital of our Company, have been reserved for the eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS, eligible customers and others who have contributed to the success of our Group;

(ii) 160.00 million Offer Shares, representing 2.00% of the enlarged issued and paid-up share capital of our Company, are available for application as follows:

  (a) 80.00 million Offer Shares, representing 1.00% of the enlarged issued and paid-up share capital of our Company, are set aside for Bumiputera individuals, companies, co-operatives, societies and institutions; and

  (b) 80.00 million Offer Shares, representing 1.00% of the enlarged issued and paid-up share capital of our Company, are available to Malaysian citizens, companies, co-operatives, societies and institutions.

The Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date, and will equal the lower of:

(i) the Retail Price; and

(ii) 97% of the Institutional Price;

subject to rounding to the nearest sen.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to successful applicants of the Retail Offering, without any interest thereon. The refund in the form of cheques will be despatched to the successful applicants at their own risk.

Any Offer Shares not taken up by investors under Section 4.3.2 (i) will be made available for application by investors under Section 4.3.2 (ii) with any remaining amounts under the Retail Offering thereafter underwritten by the Joint Underwriters, subject to the clawback and reallocation provisions in Section 4.3.3 of this Prospectus.

In summary, the IPO Shares will be allocated and allotted (subject to clawback and reallocation provisions and Over-allotment Option) in the following manner:

	Offer Shares		Issue Shares		Total	
Categories	No. of PCG Shares	% of enlarged share capital	No. of PCG Shares	% of enlarged share capital	No. of PCG Shares	% of enlarged share capital
	000	%	000	%	000	%
Retail Offering:						
Malaysian public (via balloting)						
- Bumiputera	80,000	1.00	-	-	80,000	1.00
- Non-Bumiputera	80,000	1.00	-	-	80,000	1.00
Eligible Directors of our Company and PETRONAS	380	0.01	-	-	380	0.01
Eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS	123,570	1.54	-	-	123,570	1.54
Eligible customers and others who have contributed to the success of our Group	9,070	0.11	-	-	9,070	0.11
	293,020	3.66	-	-	293,020	3.66
Institutional Offering:						
MITI approved Bumiputera investors	920,000	11.50	-	-	920,000	11.50
Other institutional investors	566,980[(1)]	7.09	700,000	8.75	1,266,980	15.84
	1,486,980	18.59	700,000	8.75	2,186,980	27.34
Total	**1,780,000**	**22.25**	**700,000**	**8.75**	**2,480,000**	**31.00**

Note:

(1) *This includes 445 million Offer Shares representing 5.56% of our enlarged issued and paid-up share capital, to be acquired by Cornerstone Investors.*

The completion of the Retail Offering and Institutional Offering are inter-conditional and subject to the minimum subscription amount as set out in Section 4.11 of this Prospectus.

4.3.3 Clawback and reallocation

The Retail Offering and Institutional Offering shall be subject to the following clawback and reallocation provisions:

(i) if the IPO Shares allocated to the Bumiputera investors approved by MITI are not fully taken up by the said Bumiputera investors, the IPO Shares which are not taken up will be made available to such other institutional investors under the Institutional Offering as may be approved by the relevant authorities;

(ii) if there is an under-application in the Institutional Offering (including for any IPO Shares allocated to the Bumiputera investors approved by MITI that have not been taken up by other investors in the Institutional Offering pursuant to 4.3.3(i) above) and there is a corresponding over-application in the Retail Offering, the IPO Shares may be clawed back from the Institutional Offering and allocated to the Retail Offering; and

(iii) if there is an under-application in the Retail Offering and there is a corresponding over-application in the Institutional Offering, the IPO Shares may be clawed back from the Retail Offering and allocated to the Institutional Offering.

The clawback and reallocation shall not apply in the event of over-application in both the Retail Offering and the Institutional Offering.

4.3.4 Over-allotment Option

The Selling Shareholder may grant an Over-allotment Option to the Stabilising Manager (on behalf of the placement managers for the Institutional Offering) and may appoint the Stabilising Manager to undertake any price stabilisation actions. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may at their absolute discretion, over-allot Shares (on behalf of the placement managers) and subsequent thereto, effect transactions which may stabilise or maintain the market price of our Shares at levels that might not otherwise prevail in the open market. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Shares. If the Stabilising Manager creates a short position in the Shares in connection with the Institutional Offering and Retail Offering, the Stabilising Manager may reduce that short position by purchasing Shares in the open market. The Stabilising Manager may also elect to reduce any short positions by exercising all or part of the Over-allotment Option.

If granted, the Over-allotment Option will be exercisable in whole or in part by the Stabilising Manager, on one or more occasions, by giving written notice to the Selling Shareholder at any time, within 30 days from the date of Listing to purchase from the Selling Shareholder up to an aggregate of 372 million Shares at the Institutional Price for each Share, representing up to 15% of the total number of IPO Shares offered, solely for purposes of covering over-allotments of our Shares (if any).

Subject to there being an over-allotment, the Stabilising Manager will (on behalf of the placement managers) enter into the Share Lending Agreement with the Selling Shareholder to borrow up to 372 million Shares to cover over-allotments. Any Shares that may be borrowed by the Stabilising Manager under the Share Lending Agreement will be returned by the Stabilising Manager to the Selling Shareholder either through the purchase of Shares in the open market by the Stabilising Manager in the conduct of stabilisation activities or through the exercise of the Over-allotment Option by the Stabilising Manager, or a combination of both. The exercise of the Over-allotment Option will not increase the total number of Shares issued.

Purchases of a security to stabilise the price or to cover the over-allotment may cause the price of the security to be higher than it might be in the absence of these purchases. Such transactions may be effected on the Main Market of Bursa Securities and in other jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulations, including the CMSA and any regulations thereunder. The number of Shares that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may buy to undertake stabilising action, shall not exceed an aggregate of 372 million Shares, representing up to 15% of the total number of IPO Shares. However, there is no obligation on the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) to undertake any such stabilising action. Such stabilising actions may commence on or after the commencement of trading of our Shares on the Main Market of Bursa Securities and, if commenced, may be discontinued at any time and cannot be effected after the earliest of (i) the date falling 30 days from the commencement of trading of the Shares on the Main Market of Bursa Securities or (ii) the date when the Stabilising Manager has bought, on the

Main Market of Bursa Securities, an aggregate of 372 million Shares representing up to 15% of the total number of IPO Shares to undertake stabilising action.

Neither our Company, the Selling Shareholder nor the Stabilising Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Shares. In addition, neither our Company, the Selling Shareholder, nor the Stabilising Manager makes any representation that the Stabilising Manager will engage in such transactions, or that such transactions once commenced, will not be discontinued without notice (unless such notice is required by law).

4.3.5 Details of allocation to eligible Directors, employees, customers and others who have contributed to the success of our Group

The eligible Directors of our Company and PETRONAS and eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS are allocated 123.95 million Offer Shares whereas the eligible customers and others who have contributed to the success of our Group are allocated 9.07 million Offer Shares under the IPO, which was approved by our Board.

The summary of allocation of the 133.02 million Offer Shares to the eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS and eligible customers and others who have contributed to the success of our Group respectively are as follows:

Eligibility	Number of eligible persons	Aggregate number of Offer Shares allocated
		000
Eligible Directors of our Company and PETRONAS[1]	19	380
Eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS[2]	*20,587	123,570
Eligible customers and others who have contributed to the success of our Group[3]	464	9,070
Total	21,070	133,020

Notes:

* *Approximate number.*

(1) *All existing Directors of our Company and PETRONAS have been allocated 20,000 Offer Shares each.*

(2) *All eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS as at 31 August 2010 and who have not resigned up to 29 October 2010, being the day prior to the issuance of the Prospectus. Eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS have been allocated 6,000 Offer Shares each whilst eligible employees holding the position of Vice-President and above have been allocated 10,000 Offer Shares each.*

(3) *Eligible customers with business dealings with our Group have been allocated 20,000 Offer Shares each whilst former employees of PETRONAS who have held the position of Vice-President and above have been allocated 10,000 Offer Shares each.*

4.4 SHARE CAPITAL

Upon the completion of the IPO, our share capital would be as follows:

	No. of Shares	RM
Authorised		
15,000,000,000 Shares	15,000,000,000	1,500,000,000
Issued and fully paid-up as at the date of this Prospectus	7,300,000,000	730,000,000
To be issued and fully paid-up pursuant to the Public Issue	700,000,000	70,000,000
Enlarged share capital upon Listing	8,000,000,000	800,000,000

Note:

* *The Offer for Sale would not have an effect on our issued and paid-up share capital as the Offer Shares are already in existence prior to the IPO.*

Based on the Retail Price, the market capitalisation of our Company on the Main Market of Bursa Securities upon Listing would be RM40.4 billion.

4.5 CLASSES OF SHARES AND RANKINGS

As at the date of this Prospectus, we only have 1 class of shares, being ordinary shares of RM0.10 each. The Issue Shares will, upon allotment and issue, rank equally in all respects with our other existing issued and paid-up ordinary shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared subsequent to the date of allotment of the Issue Shares.

The Offer Shares will rank equally in all respects with our existing issued and paid-up ordinary shares including voting rights and will be entitled to all rights and dividends and distribution that may be declared.

Upon allotment and issue, and subject to any special rights attaching to any shares that we may issue in the future, our shareholders shall in proportion to the amount paid-up on the Shares held by them, be entitled to share in the profits paid out by us in the form of dividends and other distributions and any surplus in the event of our liquidation, in accordance with our Articles.

At every general meeting, each of our shareholders shall be entitled to vote in person, by proxy or by attorney, and on a show of hands, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have 1 vote and on a poll, every one of our shareholders present in person or by proxy or by attorney or other duly authorised representative shall have 1 vote for each Share held. A proxy may but need not be a member of our Company.

4.6 BROKERAGE, PLACEMENT FEE AND UNDERWRITING FEE

The Selling Shareholder will pay brokerage fees in respect of the Offer Shares under the Retail Offering, at the rate of 1.00% of the Final Retail Price per Offer Share for all successful applications which bear the stamp of either CIMB, a member of Bursa Securities, a member of the Association of Banks in Malaysia, a member of Malaysian Investment Banking Association or the Issuing House.

The placement managers will be entitled to charge brokerage fees of up to 1.0% to successful applicants under the Institutional Offering. For avoidance of doubt, any brokerage fees under the Institutional Offering will not be payable by us nor the Selling Shareholder.

The Selling Shareholder will pay the Managing Underwriter and Joint Underwriters a total managing underwriting and underwriting commission of 1.70% of the value of the Retail Offering (being the number of underwritten Offer Shares multiplied by the Retail Price) in accordance with the terms of the Retail Underwriting Agreement ("**Underwriting Commission**").

The Selling Shareholder in respect of the Offer Shares, will pay the relevant placement managers a placement fee and selling commission of 1.50% of the amount equal to the Institutional Price multiplied by the number of IPO Shares placed pursuant to the Institutional Offering to Bumiputera investors approved by MITI in accordance with the terms of the Placement Agreement.

The Selling Shareholder in respect of the Offer Shares and we in respect of the Issue Shares, will pay the relevant placement managers a placement fee and selling commission of 1.65% and a discretionary fee of up to 0.5% of the amount equal to the Institutional Price multiplied by the number of IPO Shares placed pursuant to the Institutional Offering to Malaysian and foreign institutional and selected investors (other than Bumiputera investors approved by MITI) in accordance with the terms of the Placement Agreement.

The placement fee and selling commission to be paid by the Selling Shareholder to the relevant placement managers will be funded by proceeds arising from the Offer for Sale.

4.7 DETAILS OF THE UNDERWRITING, PLACEMENT AND LOCK-UP ARRANGEMENTS

4.7.1 Underwriting

We and the Selling Shareholder have entered into the Retail Underwriting Agreement with the Managing Underwriter and the Joint Underwriters to underwrite 293.02 million Offer Shares under the Retail Offering (the "**Underwritten Shares**") subject to clawback and reallocation provisions set out in Section 4.3.3 of this Prospectus, for the Underwriting Commission set out in Section 4.6 of this Prospectus.

Details of the Underwriting Commission and Retail Underwriting Agreement are set out in Sections 4.6 and 15 of this Prospectus respectively.

4.7.2 Placement

We and the Selling Shareholder expect to enter into a Placement Agreement with the Joint Bookrunners and the placement managers in relation to the Institutional Offering. Each of us and the Selling Shareholder will be requested, on a several basis, to give various representations, warranties and undertakings and provide an indemnity, subject to applicable law, against all claims, actions, enquiries, investigations, liabilities, demands, proceedings or judgments threatened, brought or established against certain parties including the placement managers under the Placement Agreement arising out of, among other things, untrue statements of a material fact in this document and other offering documents in relation to the Institutional Offering, any breach or failure by us or the Selling Shareholder to perform our obligations under the Placement Agreement or any breach of our respective warranties set out thereunder.

4.7.3 Lock-up arrangements

(i) In conjunction with the Placement Agreement, we expect to agree, subject to certain exceptions, that we shall not, and shall procure that our nominees or trustees holding Shares on trust for our Company or on its behalf shall not, without the consent of the Joint Bookrunners, for a period of 180 days from the date of Listing:

- offer, pledge, sell, contract to sell, mortgage, charge, assign, issue, or issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend, subscribe for, hypothecate or create any encumbrance, or otherwise transfer or dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into or exercisable or exchangeable for Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise;

- enter into any swap, hedge or derivative or other transaction or arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares (or any securities convertible into or exercisable or exchangeable for or that represent the right to receive Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise; or

- agree to do or announce any intention to do any of the above or an offering or sale of, any of the Shares or any other securities exercisable or exchangeable for or convertible into or that represent the right to receive such Shares (or any interest therein or in respect thereof) or file any registration statement under the US Securities Act, with respect to any of the foregoing.

(ii) In conjunction with the Placement Agreement, the Selling Shareholder will agree that, subject to certain exceptions, it shall not, and shall procure that its nominees or trustees holding Shares on trust for it or on its behalf shall not, without the consent of the Joint Bookrunners, for a period of 180 days from the date of Listing:

- offer, pledge, sell, contract to sell, mortgage, charge, assign, issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend, subscribe for, hypothecate or create any encumbrance, or otherwise transfer or dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into or exercisable or exchangeable for Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise;

- enter into any swap, hedge or derivative or other transaction or arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Shares (or any securities convertible into or exercisable or exchangeable for or that represent the right to receive Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise; or

- agree to do or announce any intention to do any of the above or an offering or sale of, any of the Shares or any other securities exercisable or exchangeable for or convertible into or that represent the right to receive such Shares (or any interest therein or in respect thereof) or file any registration statement under the US Securities Act with respect to any of the foregoing.

The restrictions above shall apply to all Shares (or any securities convertible into or exercisable or exchangeable for Shares) (i) held by the Selling Shareholder as at the date of the Placement Agreement or (ii) acquired by the Selling Shareholder after the date of the Placement Agreement and until and including the date of Listing.

The restrictions above do not apply (i) to Shares to be sold pursuant to the IPO, (ii) in respect of the additional Shares that are sold pursuant to the Over-allotment Option granted by the Selling Shareholder to the Stabilising Manager, on behalf of the placement managers, or (iii) to the transfer of Shares by the Selling Shareholder as contemplated under the Share Lending Agreement, provided that these lock-up restrictions will apply to our Shares returned to the Selling Shareholder pursuant to the Share Lending Agreement.

(iii) Each of the Cornerstone Investors has severally agreed that, subject to certain exceptions, it shall not, and shall procure that its shareholders, affiliates and nominees or trustees holding Shares on trust for it or on its behalf shall not, without the prior consent of our Company, the Selling Shareholder and CIMB, for a period of 180 days from the Listing Date:

- offer, pledge, sell, contract to sell, mortgage, charge, assign, issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase, lend, subscribe for, hypothecate or create any encumbrance, or otherwise transfer or dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into or exercisable or exchangeable for Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise;

- enter into any swap, hedge or derivative or other transaction or arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares (or any securities convertible into or exercisable or exchangeable for or that represent the right to receive or are substantially similar to, the Shares), whether any such transaction is to be settled by delivery of Shares or such other securities, in cash or otherwise;

- deposit any Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase or that represent the right to receive or are substantially similar to, the Shares) in any depository receipt facilities;

- agree to do or announce any intention to do any of the above or an offering or sale of, any of the Shares or any other securities exercisable or exchangeable for or convertible into or that represent the right to receive, or are substantially similar to, such Shares (or any interest therein or in respect thereof) or file any registration statement under the US Securities Act with respect to any of the foregoing; or

- sell, transfer or otherwise dispose of any interest in any shares in any company or other entity controlled by it which is directly, or through another company or other entity indirectly, the beneficial owner of the Shares.

The restrictions above shall apply to all Shares (or any securities convertible into or exercisable or exchangeable for Shares) acquired by the respective Cornerstone Investors pursuant to their respective individual cornerstone placing agreements and shall apply to all Shares acquired independently from the individual cornerstone placing agreement unless otherwise provided to the contrary in the relevant individual cornerstone placing agreement.

4.8 OBJECTIVES OF OUR IPO

Through the Reorganisation, 22 petrochemicals-related companies in the PETRONAS Group are being consolidated into our Company which, under the leadership of our own dedicated management team, will be well-positioned to increase operational efficiency and better capitalise on our Company's competitive strengths.

In conjunction with the Reorganisation, PETRONAS Group is undertaking the Listing to achieve the following objectives:

(i) to enhance the stature of our Company in marketing our products and services and to participate more actively in the growth of the petrochemicals industry;

(ii) to gain better access to cost-effective funding from the capital markets which would increase our financial flexibility to pursue future growth opportunities and, more specifically, to raise funds for the purposes stated in Section 4.12 of this Prospectus; and

(iii) to provide an opportunity for the investing community, including the Malaysian public, eligible Directors of our Company and PETRONAS, eligible employees of our Group, PETRONAS and selected subsidiaries of PETRONAS, eligible customers and others who have contributed to the success of our Group, to become our shareholders and participate in our future performance by way of equity participation.

Drawing upon the anticipated benefits of the Reorganisation and the Listing, our Company would be in a strong position to pursue more fully the growth and development opportunities available to us in the petrochemicals industry.

4.9 BASIS OF ARRIVING AT THE RETAIL PRICE, FINAL RETAIL PRICE, INSTITUTIONAL PRICE AND REFUND MECHANISM

4.9.1 Retail Price

The Retail Price of RM5.05 per Offer Share was determined and agreed upon by our Directors, the Principal Adviser, the Managing Underwriter and Joint Underwriters, the Selling Shareholder and the Joint Global Co-ordinators and Joint Bookrunners after taking into consideration the following factors:

(i) Our financial performance and operating history as described in Sections 7, 8 and 9 of this Prospectus; and

(ii) Our competitive strengths, business strategies and future plans as outlined in Sections 7.2 and 7.3 of this Prospectus.

The Final Retail Price will be determined after the Institutional Price is determined on the Price Determination Date, and will be the lower of:

(i) the Retail Price; and

(ii) 97% of the Institutional Price;

subject to rounding to the nearest sen.

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded to successful applicants, without any interest thereon. For further details on the refund mechanism, refer to Section 4.9.4 of this Prospectus.

Prospective retail investors should be aware that the Final Retail Price will not in any event be higher than the Retail Price of RM5.05 per Share nor lower than the par value of the Shares.

The Final Retail Price and the Institutional Price are expected to be announced within 2 Market Days from the Price Determination Date in a widely circulated Bahasa Malaysia and English daily newspaper within Malaysia. In addition, all successful applicants will be given written notice of the Final Retail Price and the Institutional Price together with the notices of allotment.

Applicants should also note that the market price of the Shares upon Listing is subject to the vagaries of market forces and other uncertainties which may affect the price of the Shares.

4.9.2 Institutional Price

The Institutional Price will be determined by a bookbuilding process wherein prospective institutional investors will be invited to bid for portions of the Institutional Offering by specifying the number of IPO Shares they would be prepared to acquire and the price they would be prepared to pay for the acquisition. This bookbuilding process commenced on 26 October 2010 and will end on 12 November 2010 or such date or dates as the Directors, the Selling Shareholder and the Joint Global Co-ordinators and Joint Bookrunners in their absolute discretion may decide. Upon the completion of the bookbuilding process, the Institutional Price will be fixed via agreement between us and the Selling Shareholder in consultation with the Joint Global Co-ordinators and Joint Bookrunners on the Price Determination Date.

4.9.3 Price of Offer Shares acquired by Cornerstone Investors

The price payable by the Cornerstone Investors for the Offer Shares has been determined on a negotiated basis based on the Institutional Price, after taking into consideration the commitment provided by the Cornerstone Investors in acquiring the Offer Shares prior to the commencement of the Institutional Offering and the lock-up undertakings by the Cornerstone Investors as set out in Section 4.7.3 of this Prospectus.

4.9.4 Refund Mechanism

In the event that the Final Retail Price is lower than the Retail Price, the difference will be refunded without any interest thereon. The refund will be made by cheques, which will be despatched by ordinary mail to the address of successful applicants as stated in the Bursa Depository's records for applications made via the Application Form, Electronic Share Application or Internet Share Application, within 10 Market Days from the final ballot of the application, at the successful applicants' own risk.

Prior to the IPO, there has been no trading market for our Shares within or outside Malaysia. You should also note that the market price of our Shares upon the Listing is subject to the vagaries of market forces and other uncertainties. You are reminded to consider carefully the risk factors as set out in Section 5 of this Prospectus.

4.10 DILUTION

Dilution is the amount by which the price paid by retail and institutional investors for our Shares exceeds our NTA per Share after the IPO. Our NTA per Share as at 31 July 2010 adjusted for the Reorganisation was RM1.69 per Share.

After giving effect to the issue of 700 million new Shares under the Public Issue, and after further adjusting for the estimated listing expenses, our pro forma NTA per Share as at 31 July 2010 (based on an enlarged issued and paid-up share capital of 8,000 million Shares) would have been RM1.97 per Share. This represents an immediate increase in NTA per Share of RM0.28 to our existing shareholders and an immediate dilution in NTA per Share of RM3.08, representing 61.0% of the Retail Price and the Institutional Price (assuming the Institutional Price and the Final Retail Price will be the Retail Price), to our retail and institutional investors. For NTA per Share figures, refer to Section 8.1 of this Prospectus.

The following table illustrates such dilution on a per Share basis assuming the Retail Price is equal to the Final Retail Price and Institutional Price:

	RM
Retail Price	5.05
Institutional Price	5.05
NTA per Share as at 31 July 2010 (as adjusted for the Reorganisation)	1.69
Proforma NTA per Share as at 31 July 2010 after giving effect to the IPO	1.97
Increase in NTA per Share to existing shareholders	0.28
Dilution in NTA per Share to retail/ institutional investors	3.08
Dilution in NTA per Share to retail/ institutional investors as a percentage to the Retail/ Institutional Price	61.0%

Save as disclosed below, none of our Directors or key management, or persons connected to them have acquired Shares in our Company in the 3 years prior to the Latest Practicable Date:

	No. of Shares	Consideration RM million	Average price per Share RM
PETRONAS	7,290 million	12,465.9	1.71

The acquisition of Shares in our Company by PETRONAS is pursuant to the new Shares issued in relation to the Reorganisation. For further details of the Reorganisation, refer to Section 12.1.2 of this Prospectus.

4.11 MINIMUM SUBSCRIPTION AMOUNT

There is no minimum subscription to be raised from the IPO. However, in order to comply with the public spread requirements of Bursa Securities, the minimum subscription in terms of the number of IPO Shares will be the number of IPO Shares required to be held by public shareholders of our Company to comply with public spread requirements as per the Bursa Securities LR or as approved by Bursa Securities.

4.12 UTILISATION OF PROCEEDS

Our Company will not receive any proceeds from the Offer for Sale. The gross proceeds from the Offer for Sale of up to RM8,989 million[1] arising from the Offer for Sale of up to 1,780 million Offer Shares will accrue entirely to the Selling Shareholder.

The expected gross proceeds of RM3,535 million[1] arising from the Public Issue are expected to be fully utilised for our core business in the following manner:

Details of utilisation of proceeds	Estimated timeframe for utilisation upon Listing	RM 000	%
Expansion of business and synergistic growth acquisitions[2]	Within 5 years	2,239,000	63.3
Working capital requirements and general corporate purposes[3]	Within 2 years	1,200,000	34.0
Estimated listing expenses[4]	Within 1 year	96,000	2.7
Total gross proceeds		3,535,000	100.0

Notes:

(1) *We have assumed the Institutional Price and the Final Retail Price will be the Retail Price of RM5.05 per Share in arriving at this figure.*

(2) *We intend to strategically increase our production capacity through amongst others, investments in new facilities. We are currently evaluating the expansion of our operations in East Malaysia as well as a greenfield project to develop an integrated refinery and petrochemicals complex in Peninsular Malaysia. We also intend to use part of the proceeds for selective synergistic growth acquisitions. For further details of our business strategies and future plans, refer to Section 7.3 of this Prospectus. If the actual proceeds required for expansion of business and synergistic growth acquisitions are higher than budgeted, the deficit will be funded out of internally generated funds and/or working capital. However, if the actual proceeds required for expansion of business and synergistic growth acquisitions are lower than budgeted, the excess proceeds will be utilised for working capital requirements for our Group. Any proceeds not utilised within a period of 5 years will be reallocated for our working capital requirements.*

(3) *We intend to use part of the proceeds raised from the Public Issue for our working capital requirements to support our business operations which include financing of daily operations, administration expenses and other expenses.*

(4) *Estimated listing expenses*

The expenses of our Public Issue to be borne by us are estimated to be RM96 million and will comprise the following:

	RM 000
Estimated professional fees	*7,790*
Placement fee and selling commission	*76,810*
Other fees and expenses such as printing, advertising, travel and roadshow expenses incurred in connection with the Public Issue	*7,610*
Miscellaneous expenses and contingencies	*3,790*
Total estimated listing expenses	***96,000***

We expect to fully utilise the proceeds from the Public Issue to defray estimated expenses of the IPO within 1 year from the date of Listing. If the actual expenses are higher than budgeted, the deficit will be funded out of working capital. However, if the actual expenses are lower than budgeted, the excess will be utilised for general working capital requirements for our Group.

Pending full utilisation of the gross proceeds received, we intend to place the proceeds raised from our IPO (including accrued interest, if any) or the balance thereof in interest-bearing fixed deposit accounts with licensed financial institution(s) or in short-term money-market instruments.

4.13 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS

Our utilisation of proceeds from the Public Issue is expected to have the following financial impact on our Group:

(a) Increase capacity and productivity

Our Group is currently evaluating the expansion of our production capacity through investments in new facilities, a potential expansion of operations in East Malaysia as well as a potential greenfield project to develop an integrated refinery and petrochemicals complex in Peninsular Malaysia. We expect that an expansion of our production capacity would enhance our revenue and profits over the next few years. We expect such new business opportunities to give our Group added flexibility in terms of utilisation of assets and resources.

(b) Enhancement of capital structure

With an increase in our shareholders' funds, we expect our gearing to drop. It is our objective to minimise our gearing to enable our Group to have the flexibility to expand our operations locally or overseas and to raise financing as and when attractive opportunities arise.

4.14 TRADING AND SETTLEMENT IN SECONDARY MARKET

Upon the listing of and quotation on Bursa Securities, the IPO Shares will be traded through Bursa Securities and settled by book-entry settlement through CDS, which is operated by Bursa Depository. This will be effected in accordance with the Rules of Bursa Depository for the operation of CDS accounts, as amended from time to time and the provisions of the SICDA. Accordingly, we will not deliver share certificates to subscribers for, or purchasers of, the IPO Shares.

Beneficial owners of Shares are required under the Rules of Bursa Depository to maintain the IPO Shares in CDS accounts, either directly in their name or through authorised nominees. Persons whose names appear in the Records of Depositors maintained by Bursa Depository will be treated as our shareholders in respect of the number of Shares credited to their respective securities accounts.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's CDS account being debited with the number of Shares sold and the buyer's CDS account being credited with the number of Shares acquired. No transfer stamp duty is currently payable for our Shares that are settled on a book-entry basis, although there is a nominal transfer fee of RM10 payable for each transfer not transacted on the market.

Shares held in CDS accounts may not be withdrawn from the CDS except in the following instances:

(i) to facilitate a share buy-back;

(ii) to facilitate conversion of debt securities;

(iii) to facilitate company restructuring process;

(iv) where a body corporate is removed from the Official List of Bursa Securities;

(v) to facilitate a rectification of any error; and

(vi) in any other circumstances determined by Bursa Depository from time to time, after consultation with the SC.

Trading of shares of companies listed on Bursa Securities is normally done in "board lots" of 100 shares. Investors who desire to trade less than 100 shares are required to trade under the odd lot board. Settlement of trades done on a "ready" basis on Bursa Securities generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the third Market Day following the transaction date.

It is expected that the Shares offered in the IPO will not commence trading on Bursa Securities until approximately 12 Market Days after the close of the Retail Offering. Subscribers of the Shares will not be able to sell or otherwise deal in the Shares (except by way of book-entry transfer to other CDS accounts in circumstances which do not involve a change in beneficial ownership) prior to the commencement of trading on Bursa Securities.

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5. RISK FACTORS

Before investing in our Shares, you should pay particular attention to the fact that we, and to a large extent our operations, are subject to the legal, regulatory and business environment in Malaysia. Our business is subject to a number of factors, many of which are outside our control. Before making an investment decision, you should carefully consider, along with the other matters in this Prospectus, the risks and investment considerations set out below. The risks and investment considerations set out below are not an exhaustive list of the challenges that we currently face or that may develop in the future. These and other risks, whether known or unknown, may have a material adverse effect on us or our Shares.

5.1 RISKS RELATING TO THE PETROCHEMICALS INDUSTRY

5.1.1 Cyclical changes in the petrochemicals industry and the volatility of international market prices for petrochemical products may adversely affect our sales

We operate in the petrochemicals industry, which has historically been cyclical in nature. The industry is characterised by periods of tight supply, when utilisation rates and margins are high, followed by periods of oversupply, primarily resulting from significant capacity additions. If such additions in capacity are not matched by a corresponding growth in demand, average industry utilisation rates and margins will fall. We expect that the prices for petrochemical products will continue to reflect this cyclicality, and thus our operating margins will also be affected by these cycles.

Following the onset of the global economic crisis, the global petrochemicals industry experienced a down-cycle due to lower demand growth coupled with supply additions that led to overcapacity in the industry. For a more detailed description of this cyclicality and the current state of the petrochemicals industry, refer to Section 6 of this Prospectus. We cannot assure you whether or when the petrochemicals industry will recover from its current position, and a prolonged down-cycle in the petrochemicals industry would have a material adverse effect on our business, financial condition and results of operations.

In addition, our operating results are affected by the prices of our products in the international market, which historically have been volatile. These fluctuations may impact the prices that we receive for our products, and as a result, may cause significant fluctuations in our margins and have an adverse effect on our results of operations.

5.1.2 Demand and supply for petrochemical products are dependent on general economic conditions, and deterioration in such conditions would adversely affect our results

Demand for petrochemical products is typically dependent on the level of general economic activity because petrochemicals are used in a wide range of industries across the economy. Petrochemicals are used to produce fertilisers, resins, adhesives, plastics, textiles, packaging materials, as well as many other industrial and consumer products. If general economic conditions are weak, the demand for petrochemical products will be adversely affected. In addition, the supply of petrochemical products is affected by additions to production capacity, and the ability of petrochemical companies to expand their capacity is dependent to a significant extent on the general health of the economy.

It is not possible to predict accurately the supply and demand balances, general economic and market conditions and other factors that may affect industry operating rates and margins in the future. The recent global financial crisis has contributed to the reduction in demand growth and in the price for certain petrochemical products. It is not clear if and when economic growth in Malaysia, Asia or globally will be as strong as it was in the past. The uncertainty as to the growth trend of international trade and the general global economic climate may continue to have an adverse impact on our business, financial condition and results of operations.

5.1.3 We operate in a global, competitive environment and face substantial competition

We operate in a highly competitive marketplace, competing against a number of Malaysian and foreign producers and traders. Most of our petrochemical products are of commodity grade and competition is principally on price. Competition for certain of our more specialised petrochemical products is based on performance, quality, manufacturing flexibility, delivery time and customer service as well as price. The relative importance of these factors is determined by the needs of particular customers and the characteristics of particular products.

A number of our competitors have a larger scale of operations and greater financial resources than we do. These competitors may also be able to maintain considerable operating flexibility, and therefore may be better equipped to withstand changes in general economic conditions than we are. Some of these competitors also have a broader range of products and a different mix of product that may make them less susceptible to cyclical downturns. Emerging companies attempting to obtain a share of the existing markets may also act as competitors, creating price pressure on our products. Additionally, competitors' pricing decisions could compel us to decrease our prices, which could reduce our margins and profitability.

Other changes in the competitive environment could also have a material adverse effect on our business and operations. These changes could include significant capacity expansion by competitors, entry of new competitors into our key markets in Southeast Asia (including into Malaysia as a result of the removal of tariffs on petrochemical products under the ASEAN Free Trade Agreement), intensification of price competition from other producers (in particular, producers with access to cheaper feedstock), adoption of new trade restrictions and the adoption of new environmental laws and regulatory requirements. For example, in recent years, certain petrochemicals producers in the Middle East have expanded their capacity, leveraging on their competitive advantage in feedstock cost.

Thus, increased competition could have a material adverse effect on our business, results of operations and financial conditions, and we cannot assure you that we will be able to compete successfully against either current competitors or new competitors in the future. For details on competition, refer to Section 7.13 of this Prospectus.

5.1.4 The manufacturing processes for our products are complex and hazardous

The operation of our facilities for the production of petrochemical products entails the use of complex manufacturing processes that involve a variety of safety and other operating risks, including the handling, production and transportation of highly flammable, explosive and toxic materials. For a more detailed description of our production processes, refer to Section 7.8 of this Prospectus. Because our business operations involve certain inherently hazardous activities, we are exposed to a number of additional risks, including fires, explosions, release of toxic fumes and other unexpected or hazardous conditions that could cause personal injuries or death, property damage, environmental damage or interruption of operations. Our employees, as well as employees of our service providers, suppliers and customers, and residents in the vicinity of our production facilities are exposed to these hazards. Although we believe that we have taken adequate steps to minimise these risks, and that we have appropriate insurance coverage in place, these types of risks cannot be completely eliminated.

We may experience difficulties in achieving targeted production levels for our products as a result of any of these risks. The likelihood of facing difficulties in achieving targeted production levels is higher when we are transitioning to new methods of production. If we are unable to run our production facilities at our targeted capacity utilisation rates for a prolonged period because of a technical failure at our production plants, a disruption to our raw material supplies or for any other reason, and we are unable to shift sufficient production to other plants or draw on inventories, our production and sales would be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations.

5.1.5 Due to the integrated nature of our production facilities, problems in one part of our facilities may cause disruption to other parts of the production facilities

Many of our production processes at our facilities are highly integrated such that many of the products we produce are used as raw materials to make other products at our plants. Because of this integration, any problems that may develop in the production of one product may adversely affect the production of other petrochemicals in the same production chain. Production problems of this type would cause disruptions at downstream facilities and result in temporary shutdowns and reduced production. In addition, many of our highly integrated production processes also rely on shared common utilities and infrastructure, meaning that any problem with these shared utilities or infrastructure may adversely affect our production at multiple production facilities.

Many of our facilities are located close to one another in our 2 IPCs in Kertih and Gebeng, Malaysia. For details of our production facilities, refer to Section 7.7 of this Prospectus. The concentration of our production facilities in these two sites makes us particularly vulnerable to any unexpected interruptions. In particular, extensive damage at Kertih, whether as a result of an industrial accident or explosion or a major flood, earthquake, hurricane or other natural disaster, would severely affect our ability to conduct our business operations and, as a result, could have a material adverse effect on our business, financial conditions and results of operations. Although production disruptions in the past have been dealt with expeditiously and they have not had a material impact to our Group, financially or otherwise, we cannot assure you that any future disruptions that may occur will not have a material adverse effect on our business, financial conditions and results of operations.

5.1.6 We are exposed to costs arising from environmental compliance and clean-up, and these costs may have a material adverse effect on our business, financial condition and results of operations

Our business involves the transport, handling, production and use of substances and compounds that may be considered toxic or hazardous within the meaning of environmental laws. Furthermore, our manufacturing operations generate gaseous chemical wastes, liquid wastes, wastewater and other industrial wastes at various stages of the manufacturing process. As a result, we are subject to stringent environmental, health and safety laws and regulations addressing air pollutant emissions and discharge of treated wastewater and establishing standards for the treatment, storage and disposal of solid and hazardous wastes. Some of these laws and regulations require our facilities to operate under permits that are subject to renewal or modifications. Typically, these laws and regulations provide for monetary fines or terms of imprisonment, or both, in the event of violations. Violations of these laws and regulations could also result in permit revocation and/or shutdown of facilities. For a more detailed description of health, safety and environmental matters, refer to Section 7.14 of this Prospectus. We cannot assure you that any of our new projects will not be delayed or significantly modified as a result of environmental concerns.

As part of our normal business operations, we have incurred and expect to continue to incur capital and operating costs to comply with health, safety and environmental laws and regulations. In addition, introduction of new laws and regulations, stricter enforcement of, or changes to, existing laws and regulations, or the imposition of new clean-up requirements could require us to incur additional costs, or affect our production or revenues, in ways that may have an adverse effect on our financial condition or results of operations. Although we believe that we are in compliance in all material respects with applicable environmental laws and regulations, we cannot assure you that material capital expenditures, costs or operating expenses beyond those currently anticipated will not be required under applicable health, safety and environmental laws and regulations, or that developments with respect to such laws and regulations will not adversely affect our production or revenues.

5.1.7 Our products may become subject to anti-dumping or countervailing duties, import quotas or tariffs in various countries, which may have a material adverse effect on our export sales

The imposition of anti-dumping or countervailing duties, import quotas or tariffs, whether adopted by individual governments or addressed by regional trade blocs, may impact the competitive position of our products or prevent us from being able to sell our products in certain countries. The export of methanol to China by suppliers from the Middle East and Asia-Pacific (including us) is currently the subject of anti-dumping investigations by the Chinese authorities. The imposition of anti-dumping or countervailing duties, quotas or tariffs on our exports to China or elsewhere may limit our exports to these regions in the future and may have a material adverse effect on our business, financial condition or results of operations.

5.1.8 Our insurance coverage may not be sufficient and may not adequately protect us against certain operating hazards

The hazards inherent in our operations may result in fires, explosions, release of toxic fumes and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. In addition, some of these risks may result in personal injury and loss of life or environmental damage, and may also result in suspension of our operations and the imposition of civil or criminal penalties, which may not be covered by our insurance policies.

In addition to the foregoing hazards, we are subject to additional risks of mechanical failure and power outages, prolonged equipment breakdown, labour difficulties, transportation interruptions and terrorist attacks. These instances may result in disruptions to our operations, or disruptions or damage to our production facilities. To the extent that we suffer losses or damages that are not recoverable by insurance or exceed our insurance coverage, our results of operations and cash flows may be adversely affected.

In addition, our insurance carriers have created exclusions for losses resulting from terrorism from our "all risk" property insurance policies. While separate terrorism insurance coverage is available, premiums for this type of coverage are expensive, especially for petrochemical facilities, and the policies are subject to high deductibles. Available terrorism coverage typically excludes coverage for losses from acts of foreign governments as well as nuclear, biological and chemical attacks. We have determined that it is not economically prudent to maintain terrorism insurance, and accordingly, damage to our properties from acts of terrorism is currently not covered by insurance. If a terrorist attack were to affect a substantial part or all of our facilities, our business, results of operation and cash flows could be adversely affected, and we could become liable for any contamination or for personal or property damage due to exposure to hazardous materials caused by any catastrophic release that may result from a terrorist attack.

5.2 RISKS RELATING TO OUR BUSINESS

5.2.1 We depend on the PETRONAS Group for our supply of natural gas and processed gas as feedstock; if we are no longer able to obtain necessary feedstock from the PETRONAS Group at acceptable prices or at all, we may not be able to obtain it from other sources or on acceptable terms

To operate our business we must obtain sufficient quantities of high quality raw materials in a timely manner and at acceptable prices. Feedstock cost is the largest component of our operating costs, accounting for 53.5%, 55.8% and 58.0% of our cost of revenue for the years ended 31 March 2008, 2009 and 2010, respectively, and 51.2% and 53.6% of our cost of revenue for the 4 months ended 31 July 2009 and 2010, respectively. As a result, our operations are vulnerable to changes in the supply and prices of raw materials, primarily natural gas and its various streams. We obtain all of our processed gas feedstock, namely the ethane and propane used by our gas crackers as their main raw materials, from other companies in the PETRONAS Group. The PETRONAS Group also supplies all of the methane, butane and heavy naphtha that we use in our other production facilities.

Historically, we purchased feedstock from the PETRONAS Group under long-term supply contracts at attractive prices. However, in keeping with the Government of Malaysia's overall policy of gradually phasing out the discounted gas prices available to various sectors of the Malaysian economy, the PETRONAS Group recently adjusted the pricing terms under our supply agreements for methane, butane and propane for some of our Subsidiaries. As a result, the unit feedstock cost for methane, butane and propane for these operating companies increased. In respect of ASEAN Bintulu Fertilizer, pending renegotiation of terms of the previous gas supply contract which expired in October 2005, we agreed to apply these new pricing terms effective from 1 October 2005. The adjustments to the pricing terms of our other feedstock supply agreements were phased in commencing from 1 August 2008 but were not applied retrospectively for any periods prior to this date. Our two ethane feedstock agreements are due to expire in 2016 and 2023. Although we intend to seek to renew these contracts on competitively priced terms, we cannot provide any assurance that our prices for ethane will remain similar to current levels. If prices of feedstock from the PETRONAS Group increase further, such price increases may have a material adverse effect on our liquidity, working capital, financial condition and results of operations.

In addition, if there are material interruptions in supply from the PETRONAS Group and we are unable to obtain raw materials of an acceptable quality in a timely and cost-effective manner from alternative sources, our production and delivery schedules may be delayed, which may result in loss of customers and revenues. Although we have not experienced any significant difficulties in obtaining sufficient feedstock from the PETRONAS Group to satisfy our production requirements to date, we cannot assure you that an adequate supply of natural gas will continue to be available to the PETRONAS Group in order to supply us with sufficient feedstock.

5.2.2 We depend on a few key suppliers to provide the electricity and water that we require for our production facilities

Our manufacturing business is also dependent upon the supply of electricity to meet our energy needs. A majority of our facilities use electricity that are generated in the CUFs located within our manufacturing complexes or in our own power plants. We purchase natural gas from the PETRONAS Group to fuel those power plants that we operate. Energy and utilities cost accounted for 8.8%, 13.5% and 11.6% of our cost of revenue in the years ended 31 March 2008, 2009 and 2010, respectively.

To reduce the loss of work-in-progress and to facilitate smooth resumption of electricity supply, we have back-up system arrangements, which vary among our facilities, to provide electricity to our machinery and equipment until they can be safely turned off or switched to an alternate electricity supply. Tenaga Nasional Berhad, Malaysia's main electric power company, supplies electricity that we do not produce ourselves, including back-up power supplies to address situations in which our own power generation facilities are unavailable. However, we cannot assure you that our results of operation or financial condition will not be adversely affected by power interruptions.

PETRONAS Gas is the primary provider of water and sewage disposal services to a majority of our production facilities that do not have their own source of water or sewage disposal capabilities for their facility. Any material increase in the price we pay for electricity from utility facilities, for natural gas to fuel our power plants or in the tariffs charged by the utility company or material interruptions in the supply of electricity, water or sewage disposal could have an adverse effect on our business, financial condition and results of operations.

5.2.3 Our development and operational plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties

The petrochemical business is capital intensive. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditures for the year ending 31 March 2011 of approximately RM699 million and as of 31 July 2010, our capital commitments for investments in property, plant and equipment were RM776 million, which we expect to fund through funds generated from our operations, financing activities and the net proceeds to us from the Public Issue. Our actual capital expenditures may vary significantly from these planned amounts due to various factors, including our ability to generate sufficient cash flows from operations to finance capital expenditures, ability to finance such expenditures through borrowings, other necessary investments and other factors that may be beyond our control. In addition, we cannot assure you whether, or at what cost, our capital projects will be completed or the success of these projects if they are completed.

We may incur substantial capital expenditures from time to time in connection with projects intended to expand our production capacity or operational capabilities and improve our business. These projects may include, but are not limited to, de-bottlenecking, modernising and increasing production capacity of our existing manufacturing plants and construction of new facilities. Failure to successfully and timely complete these projects due to inadequate capital resources or otherwise may have an adverse effect on our operations and in executing our business plans. In addition, if we are not able to obtain sufficient funding for our planned capital expenditures, our business, results of operations and financial condition could be adversely affected.

Our ability to obtain external financing and to make timely repayments of our debt obligations are subject to various uncertainties, including our future results of operations, financial condition and cash flows; the condition of the Malaysian economy and the markets for our products; the cost of financing and the condition of financial markets; the issuance of relevant government approvals and other project risks associated with the development of infrastructure in Malaysia; and the continuing willingness of banks to provide new loans. We cannot assure you that any required additional financing, either on a short-term or long-term basis, will be made available to us on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, we may be forced to curtail expansion plans, which could result in a loss of customers, an inability to successfully implement our business strategies and limitations on the growth of our businesses.

In addition, our investments in our Subsidiaries, Associates and Jointly Controlled Entity could require us to make significant additional capital contributions, shareholder financing or contingent support, such as the provision of guarantees for bank financing activities, to fund these Subsidiaries', Associates' or Jointly Controlled Entity's operations or expansion.

5.2.4 New projects and capital expenditures may expose us to large-scale project-related risks

Any new projects and capital expenditures we decide to undertake in the future may expose us to large-scale project-related risks that may be beyond our control. Actual costs and expenditures related to any project could exceed planned costs and expenditures, and any delays in completion of these projects could adversely affect our operations. For example, when our new methanol plant in Labuan was commissioned in January 2009, facilities to provide additional water supplies were to have been completed by that time to meet the anticipated increase in water usage at the Labuan facilities. However, the construction of such facilities, which was undertaken by a third party, was delayed, and we decided to shut down our existing methanol plant at Labuan until the additional water supplies become available so that the water needs of both the new and the existing plants could be met.

In addition, these types of projects may result in overcapacity in the market for some of our products and decreased margins. These types of effects could also result from the completion of projects by our competitors. Moreover, we cannot assure you that market conditions will be favourable as and when projects are completed or that projects will be completed on time.

5.2.5 Changes in the exchange rate between the USD and the RM could have a negative impact on our results of operations and financial condition

A substantial portion of our revenues is denominated in USD. For the year ended 31 March 2010, 57% of our revenue was denominated in USD. The RM operates on a managed float basis, and an appreciation of the RM against the USD may materially and adversely affect our financial performance because it may reduce our revenue in RM terms and raise the prices for our products against other currencies. Accordingly, changes in the USD to RM exchange rate could have an adverse impact on our results of operations and financial condition, including as a result of translation adjustments in converting USD amounts to RM for financial statement purposes.

5.2.6 There may be risks relating to acquisitions, new projects or new partnerships and joint ventures

We have previously expanded our business, including the production and sale of new products, through joint ventures. We may seek to grow our businesses in similar ways in the future, as well as by making acquisitions or embarking on projects or entering into partnerships. Acquisitions, projects, partnerships or joint ventures may require us to make significant cash investments, issue stock or incur substantial debt. In addition, acquisitions, projects, partnerships or investments may require significant attention from our management, which may stretch our managerial resources. Furthermore, any projects, joint ventures or acquisitions of businesses or facilities could entail a number of additional risks, including problems with effective integration of operations, limited influence or control over the joint venture, failure of our joint venture partners to perform their obligations and inability to maintain key pre-acquisition business relationships.

5.2.7 We are controlled by PETRONAS, whose interests may not be aligned with those of the other shareholders of our Company

Upon the successful completion of the IPO, PETRONAS will own no less than 69.00% of our Shares and thus will continue to be the controlling shareholder of our Company. The Government of Malaysia is the sole shareholder of PETRONAS. As the controlling shareholder of our Company, other than in respect of certain votes regarding matters in which it is an interested party and must abstain from voting under the Bursa Securities LR, PETRONAS will control the approval of all corporate matters requiring a shareholder resolution under the Act without the approval of other shareholders of our Company. This includes the approval of all final dividends and the appointment of directors. As the sole shareholder of PETRONAS, the Government of Malaysia exercises similar control over PETRONAS, and thus the Government of Malaysia also indirectly exercises control over our Company. There can be no assurance that PETRONAS or the Government of Malaysia will not take actions in the future that would have an adverse effect on us.

5.2.8 We rely on skilled management and technical personnel and our performance may be affected by our ability to attract and retain skilled personnel

Competition for highly qualified management and technical personnel is intense in our industry. Our future performance and operations are largely dependent upon our ability to recruit and retain key technical, support, sales and management personnel. Historically, we have a good track record of recruiting and retaining the skilled personnel necessary for our business and operations, although we have experienced aggressive efforts by new and rapidly expanding competitors to hire our employees, particularly our experienced technical personnel. To counter these efforts, we have had to enhance in the past, and may be required to enhance in the future, our remuneration package to retain our skilled personnel, and we will continue to devote significant time and resources to train new employees until they attain the requisite level of skill for our operations. Our continuing ability to recruit and retain skilled personnel is critical to our success, especially during periods where there is a shortage of skilled personnel, and our inability to do so could have a material adverse effect on our business, financial condition and results of operations.

5.2.9 Our businesses are concentrated in Malaysia and the Asia-Pacific Region

Our production is concentrated in Malaysia, and sales of our products are concentrated in Malaysia and other countries in the Asia-Pacific region. As a result, our revenues and results of operations and future growth depend, to a large extent, on the growth of the economies of Malaysia and other countries in the Asia-Pacific region. As our business is affected by economic conditions in these markets and by the global markets generally, any decline in the economies of Malaysia and/or the Asia-Pacific region could adversely affect our business, financial condition, results of operations and future growth.

5.2.10 If we are not able to renew or maintain the permits and approvals required to operate our business, this may have a material adverse effect on our business

We require certain permits and approvals to operate our business and facilities. In the future, we may be required to renew these permits and approvals or to obtain new permits and approvals. While we have not experienced any difficulty in renewing and maintaining these permits and approvals in the past, as and when required, we cannot assure you that in the future the relevant authorities will issue any required permits or approvals in the time-frame we anticipate or at all. Failure by us to renew, maintain or obtain the required permits and approvals may interrupt our operations or delay or prevent the implementation of any capacity expansion or other new projects and may have a material adverse effect on our business, financial condition and results of operations.

5.2.11 We depend on intellectual property and technology licences to operate our business

We depend upon a wide range of intellectual property to support our business and have obtained licences for certain technologies that we use in our manufacturing processes. Any cancellation of or inability to maintain a material technology licence or disputes related to its use could require us to cease using the relevant technology and, therefore, adversely affect our ability to produce the relevant products. Our inability to maintain any head licence that is the subject of a sub-licence of technology to any of our subsidiaries or affiliates and which are necessary to develop new products and product enhancements, could require us to cease using the technology and to license these rights from other third parties on less favourable commercial terms, if at all, or obtain substitute technology of lower quality or performance standards at greater cost.

Furthermore, new technologies and processes are being continuously developed in the petrochemicals sector worldwide. Significant developments in technology could result in the technologies and processes that we currently use becoming uncompetitive, while changes in laws and regulations may prohibit the use of certain products or technologies that we currently use, either of which could adversely affect our business, financial condition and results of operations.

5.2.12 Changes in laws, regulations or policies of governments or other governmental activities in the countries that we export to could reduce demand for or our ability to sell our products

New legal or regulatory requirements may be enacted in various jurisdictions to which we export our products that may have an adverse effect on our ability to successfully market and sell our products in those jurisdictions. While we take steps to ensure compliance with all applicable requirements, if we are unable to fully comply with any such requirements for any reason, it could have an adverse effect on our business, financial condition and results of operations. In addition, if any new legislation or regulation were to be adopted and implemented in those jurisdictions that prohibit or mandate extra fees or taxes in respect of our products or other end products for which we supply feedstock, demand for our products would be reduced, and as a result, our business, financial condition and results of operations could be adversely affected.

5.2.13 Certain tax incentives or exemptions from the Government of Malaysia may no longer be available in the future

Some of our operating companies are eligible for certain tax incentives and exemptions allowed by the Government of Malaysia, including investment tax allowances and re-investment allowances. For those operating companies to benefit from these tax incentives and exemptions, certain conditions must be satisfied during the period in which these tax incentives are in effect. The conditions imposed under these tax incentives relate to such matters as production levels, capital expenditures and investment amounts. To the extent that these conditions are not met before the respective expiry date, these tax incentives and exemptions may no longer be available to us. Loss of such tax incentives and exemptions could have an adverse effect on our business, financial condition and results of operations.

5.3 RISKS RELATING TO OUR SHARES

5.3.1 There has been no prior market for our Shares

There has been no prior market for our Shares and there can be no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares. Neither we nor the Promoter and Selling Shareholder and the Managing Underwriter and Retail Underwriters have an obligation to make a market in our Shares.

Application will be made to Bursa Securities for the listing of and quotation for our entire share capital (including the IPO Shares) on the Main Market and it is expected that there will be an approximate 12 Market Day gap between closing of the Retail Offering and trading of our Shares. We cannot assure you that that there will be no event or occurrence that will have an adverse impact on the securities markets, our industry or us during this period that would adversely affect the market price of our Shares when they begin trading.

5.3.2 Our Share price may be volatile

The market price of our Shares could be affected by numerous factors, including:

(i) general market, political and economic conditions;

(ii) trading liquidity of our Shares;

(iii) changes in earnings estimates and recommendations by financial analysts;

(iv) changes in market valuations of listed shares in general and other securities exchanges' shares in particular;

(v) changes in government policy, legislation or regulation; and

(vi) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of our Shares. Accordingly, there can be no assurance that our Shares will not trade at prices lower than the Institutional Price or the Retail Price.

Over the past few years, the Malaysian, regional and global equity markets have experienced significant price and volume volatility that have affected the share prices of many companies. Share prices of many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. There can be no assurance that the price and trading of our Shares will not be subject to fluctuation.

5.3.3 There may be a delay or failure in trading of our Shares

The occurrence of certain events, including the following, may cause a delay in or termination of our Listing:

(i) we are unable to meet the minimum public spread requirements as determined by Bursa Securities, i.e. having at least 25% of our issued and paid-up Shares in the hands of at least 1,000 public shareholders holding at least 100 Shares each at the point of Listing; or

(ii) we are not able to obtain the approval of Bursa Securities for the Listing for whatever reason.

In such an event, investors will not receive any IPO Shares and we and the Selling Shareholder will be jointly and severally liable to return in full, all monies paid in respect of any application for the IPO Shares. If such monies are not paid within 14 days after we and the Selling Shareholder become liable to repay it, then pursuant to sub-section 243(2) of the CMSA, we and the Selling Shareholder will become jointly and severally liable to repay the monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

5.3.4 We may not be able to pay dividends

We intend to adopt a policy of active capital management. We propose to pay dividends out of cash generated by our operations after setting aside necessary funding for capital expenditures and working capital needs.

Dividend payments are not guaranteed and our Board may decide, at its sole absolute discretion, at any time and for any reason, not to pay dividends or to pay smaller dividends than we currently propose. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of the investment in our Shares may be reduced.

Further, our payment of dividends may adversely affect our ability to fund unexpected capital expenditures as well as our ability to make interest and principal repayments on our debt. As a result, we may be required to borrow additional money or raise capital by issuing equity securities, which may not be possible on favourable terms or at all. Further, in the event we incur new borrowings subsequent to the Listing, we may be subject to covenants restricting our ability to pay dividends.

5.3.5 We have significant discretion as to how we will use the net proceeds of the Public Issue, and you may not necessarily agree with how we use them

The net proceeds to be received by us from the Public Issue will be RM3,535 million. We may spend the net proceeds from the Public Issue in ways you may not agree with or that may not yield a favourable return to our shareholders such as an investment that we decide to make, which at the time of investment decision we believed in good faith would be beneficial to our Company and maximise returns to our shareholders, but for whatever reason, the benefits of the investment may not be realised as expected.

We plan to use the net proceeds from the Public Issue for expansion of business and other general corporate purposes. We will have discretion as to the actual application of our net proceeds, detailed further in Section 4.12 of this Prospectus, and you are providing your funds to us, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the Public Issue.

5.3.6 We are a holding company and, as a result, are dependent on dividends from our Subsidiaries to meet our obligations and to provide funds for payment of dividends on our Shares

We are a holding company and conduct substantially all of our operations through our Subsidiaries. Accordingly, dividends and other distributions received from our Subsidiaries are our principal source of income. Consequently, the amount of these dividends and distributions are an important factor in our ability to pay dividends on our Shares (to the extent declared by our Board). The ability of our Subsidiaries to pay dividends or make other distributions to us is subject to the availability of distributable reserves, applicable legal restrictions contained in their loan agreements and to these companies' having sufficient funds that are not needed to fund their operations, other obligations or business plans.

In addition, changes in Malaysian FRS may affect the ability of our Subsidiaries (and consequently us) to declare and pay dividends. As we are a shareholder of our Subsidiaries, our claims as a shareholder will generally rank junior to all claims of our Subsidiaries' creditors and claimants. In the event of a liquidation of a subsidiary, there may not be sufficient assets for us to recoup our investment in that subsidiary.

5.3.7 The sale or the possible sale of a substantial number of our Shares in the public market following the IPO could adversely affect the price of our Shares

Following the sale of up to 2,480 million IPO Shares, up to 31.00% of our Shares will be publicly held by investors participating in the IPO, and 5,520 million Shares, or 69.00% of our Shares, will be held by PETRONAS. The IPO Shares sold in the IPO (other than the IPO Shares sold to the Cornerstone Investors) will be tradable on the Main Market without restriction following the Listing. The Shares may also be sold in the United States, subject to the restrictions of Rule 144A, or outside the United States subject to the restrictions of Regulation S. We and the Cornerstone Investors have entered into the lock-up arrangements as described in Section 4.7.3 of this Prospectus and PETRONAS, as the Promoter and Selling Shareholder, is subject to a moratorium in accordance with the SC's requirements and the lock-up arrangements described in Section 4.7.3 of this Prospectus.

However, notwithstanding our Group's existing level of cash and cash equivalents. we may issue additional Shares after the end of the lock-up period in connection with financing activities or otherwise, and it is possible that PETRONAS or the Cornerstone Investors may dispose of some or all of their Shares pursuant to their own investment objectives. If we, PETRONAS or the Cornerstone Investors sell or are perceived as intending to sell a substantial amount of Shares, the market price for our Shares could be adversely affected.

5.3.8 Because the Retail Price is higher than our NTA per Share, purchasers of our Shares in the IPO will experience immediate and substantial dilution. Purchasers of our Shares may experience further dilution if we issue additional Shares in the future

The Retail Price is higher than the NTA per Share. Therefore, purchasers of our Shares in the IPO will experience an immediate dilution in NTA of RM3.08 per Share at the Retail Price of RM5.05, and our existing shareholders will experience an increase in the NTA per Share.

In order to meet our funding requirements, we may consider offering and issuing additional Shares or equity-linked securities in the future. Purchasers of our Shares may experience further dilution in the net tangible book value per share if we issue additional Shares or equity-linked securities in the future.

5.4 OTHER RISKS

5.4.1 Unfavourable financial and economic developments in Malaysia may have an adverse effect on us

We are incorporated in Malaysia, and most of our assets are located or registered in Malaysia. As a result, we are subject to political, social, economic, legal and regulatory risks specific to Malaysia. Also, general economic conditions in Asia may have an effect on our business, financial condition and results of operations, as well as our future prospects. The recent global financial crisis, the recent European sovereign debt crisis, recent developments in the Middle East, higher oil prices, the general weakness of the global economy and the occurrence of avian flu and swine flu in Asia and other parts of the world have increased the uncertainty of global economic prospects and may continue to adversely affect the Malaysian economy. Any future deterioration of the Malaysian and global economy could adversely affect our business, financial condition and results of operations.

Beginning in July 1997 and lasting until 1999, Malaysia experienced a significant financial and economic downturn that resulted in, among other things, a significant devaluation of the RM and an increase in the number and size of companies filing for corporate reorganisation and protection from their creditors. Recently, Malaysia's economy has been affected by the global economic crisis that began in late 2007, as evidenced by the 1.7% decline in Malaysia's GDP in 2009 and the decline in the growth rate of Malaysia's GDP to 4.6% in 2008, compared to 6.3% in 2007. We cannot assure you that the Malaysian economy will continue to grow or that GDP in Malaysia will not decrease.

Terrorist attacks and other acts of violence or war may negatively affect the Malaysian market in which our Shares will trade and may also adversely affect financial markets globally. These acts may also result in a loss of business confidence, decrease the demand for our products and ultimately adversely affect our business. In addition, any such activities in Malaysia or its neighbouring countries in Southeast Asia might result in concern about the stability in the region, which could adversely affect the price of our Shares.

5.4.2 Forward-looking statements in this Prospectus may not be accurate

This Prospectus contains forward-looking statements. All statements, other than statements of historical facts, included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and prospects of our management for future operations are forward-looking statements. Such forward-looking statements are made based on assumptions that we believe to be reasonable as at the date hereof. Forward-looking statements can be identified by the use of forward-looking terminology such as words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast" or similar expressions and include all statements that are not historical facts. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Group, or industry results, to be materially different from any results, performance expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such factors include, inter-alia, general economic and business conditions, competition, the impact of new laws and regulations affecting our industry and the Government of Malaysia initiatives.

In light of these uncertainties, the inclusion of such forward-looking statements in this Prospectus should not be regarded as a representation or warranty by us or our advisers that such plans and objectives will be achieved.

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6. INDUSTRY OVERVIEW

(Prepared for inclusion in this Prospectus)

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22 October, 2010

PETRONAS Chemicals Group Berhad
Tower 1, PETRONAS Twin Towers,
Kuala Lumpur City Centre,
50088 Kuala Lumpur,
Malaysia

Dear Sirs,

INDEPENDENT MARKET REPORT ON THE GLOBAL & MALAYSIAN PETROCHEMICALS INDUSTRY PREPARED FOR PETRONAS CHEMICALS GROUP BERHAD ("PCG") FOR THE PURPOSE OF INITIAL PUBLIC OFFERING.

We, Nexant Singapore PTE Ltd, have prepared the Industry Report for inclusion of the PCG Prospectus in relation to the forthcoming initial public offering.

We are aware that the contents of this report will be included in the prospectus and confirm that the report has been written in an objective and independent manner.

Further, we are aware of our responsibilities under section 214 of the Capital Markets and Services Act, 2007.

This research is undertaken with the purpose of providing an overview of the global and Malaysian petrochemicals industry.

Except as otherwise indicated, statistical and certain other information contained in the following report is based on or derived from data prepared by Nexant. We believe that this report is based on best estimates and presents a true and fair view of the industry within limitations of, amongst others, our primary and secondary research.

We acknowledge that if we are aware of any significant changes affecting any of contents of this Report between the date hereof and the issue date of the Prospectus, we have an on-going obligation to cause this Report to be updated for changes and, where applicable, cause PCG to issue a supplementary prospectus, or withdraw our consent to the inclusion of this Report in the Prospectus.

Andrew Spiers

Andrew Spiers

Industry Report

The following report covers key aspects of the global petrochemical sector. The reports focus is on the major petrochemical products being produced today which include the following:

- Olefins (ethylene and propylene)
- Olefin derivatives (polyethylene, polypropylene and ethylene glycol)
- Methanol
- Urea

The report includes product analysis covering details of market demand, market supply, net trade and pricing.

1.1 INTRODUCTION

Petrochemicals are chemical products derived from petroleum and other hydrocarbon sources and represent a global industry with revenues of approximately $3 trillion in 2009. They are used principally as building blocks for a wide variety of materials and applications. Given the wide diversity of uses in which the petrochemical industry plays an integral role in both the manufacturing and consumer sectors, and due to limitations of feasible substitutes, an essential component of the global economy. Key market end-use sectors include, transportation, packaging, construction, consumer goods and electronics, fertilizers and agriculture and textiles.

The petrochemical industry is predominantly a process-based industry that is characterised by the following key issues:

- **Feedstock inputs**: Raw materials typically account for the majority of operating expenses. Although diverse, feedstocks used are predominantly petroleum based. Therefore most petrochemical producers have significant exposure to crude oil pricing. Given the importance of feedstock, producers with access to low priced gas feedstocks (e.g. in the Middle East, Malaysia, and Russia), typically have a competitive advantage and higher levels of profitability over higher cost naphtha based producers;
- **Regional diversity:** Whilst the industry is global, market demand growth for chemicals is highest in developing regions. Asia has become a major consumer and demand driver for petrochemical products. This is attributed to the rapid expansion in the region's industrial and manufacturing sectors and its large population base and rising income levels. Mature markets such as the US and Europe are significant in size but exhibit much lower growth;
- **Capital intensity:** Economies of scale through construction of large facilities and continued asset reinvestment to leverage improved technology and maintain plant equipment are essential to sustain competitiveness. Access to capital is therefore a significant barrier to entry to the industry. Capital spending is also cyclical and follows industry peaks when cash pools are more readily available;

- **Cyclicality:** Demand for petrochemicals is subject to business and economic developments driving cyclicality in industry profitability. This is further impacted by industrial supply typically increasing during peak levels of profitability due to easier access to capital;
- **Portfolio realignment:** Despite a high level of diversity, the industry has also experienced considerable portfolio realignment and increased levels of vertical integration. This is predominantly the consequence of increased competitive rivalry which has resulted in restructuring, mergers and acquisitions and demergers;

In addition to the above factors, the urea industry, given its primary use as fertiliser to increase agricultural productivity and output, is driven by the growth in food consumption, local government subsidies and limited availability of arable land. As a result, levels of cyclicality in the industry are more moderated given the secular long term growth in both global population and income driving increased demand for food.

Table 1.1 Overview of Major Petrochemicals and Polymers Covered within this Review

			Global		Asia Pacific		South East Asia	
Building Block	Derivative	Key Applications	Demand 2009 (Thousand Tons)	CAGR (2010-2017)F	Demand 2009 (Thousand Tons)	CAGR (2010-2017)F	Demand 2009 (Thousand Tons)	CAGR (2010-2017)F
Ethylene			114352	4.3	38028	4.0	6450	4.8
	Polyethylene	Packaging, agriculture, automotive, construction	66901	4.9	6445	5.6	4617	4.5
	EG	Textiles, packaging & automotive	18233	4.6	13128	5.0	1406	3.4
	Styrene	Packaging, electronics, automotive, construction	24278	3.0	13094	3.3	1201	3.0
	PVC	Construction, packaging	33741	5.4	17125	6.3	1570	3.3
Propylene			70276	4.3	31329	4.3	3938	7.0
	Polypropylene	Packaging, textiles, automotive, construction	43741	5.0	20833	5.4	3567	4.9
	Acrylic Acid	Personal care, automotive, construction	3904	5.1	1804	5.8	170	2.8
Methanol			44961	9.4	23605	12.1	2339	3.4
	Formaldehyde	Construction (plywood and chipboard/particle board)	32664	5.8	16093	7.9	1898	4.3
	Acetic Acid	Packaging, textiles, adhesives and coating	12383	4.4	7115	5.2	605	2.9
	MTBE	Gasoline blending	16002	2.0	5438	4.0	1042	1.7
Ammonia	Urea	Agriculture (fertilisers), construction (resins)	146967	2.7	101762	2.7	19602	2.4

Note: F = Forecast
Source: Nexant

1.2 OVERVIEW OF INDUSTRY

1.2.1 Industry Outlook

Petrochemical industry margins have historically been cyclical. Changes in supply and demand and resulting industry utilisation levels are key factors that influence the cycle and margins. Additionally the sector is highly capital intensive and this also contributes to the cyclicality.

Currently the industry has exhibited improved demand through the first half of 2010. This improvement has been driven by a faster pace of recovery in the Asia Pacific markets. Additionally a level of inventory restocking has also been taking place as buyers look to replenish previously depleted stock levels. Although the short term outlook of the industry remains under pressure as further capacity is forecast, we expect that a gradual recovery in utilisation rates and industry margins will occur with sustainable recovery being forecast from 2011. Industry margins are forecast to climb to a new peak around 2015, with returns

comparable to those seen in the last major peak in 2006/7. Within this context, Asia Pacific will represent the most attractive market in terms of growth and profitability.

Ethylene and propylene demand in the Asia Pacific is projected to grow at 4.1% over the 2010-2017 period. Rising living standards and the continuing trend of substitution of basic materials with plastics are key drivers across many Asia Pacific countries. In comparison, we expect mature economies of North America and Europe to exhibit much lower demand growth over the same period of 1.2% and 2.5% respectively.

Polyethylene demand was estimated at approximately 67 million tons in 2009 and is forecast to grow at approximately 5% CAGR over the period 2010-2017. Key demand drivers for this sector are the packaging industry and further product substitution of basic materials. Asia Pacific is a key demand driver with forecast growth of over 5% CAGR over the 2010-2017 period.

Global demand in 2009 for ethylene glycol ("EG"), a major ethylene oxide derivative, was estimated at approximately 18 million tons and forecast to grow at 4-5% CAGR over the period 2010-2017. A key driver for consumption growth of EG is the textiles market where polyester holds a strong market position based on cost on performance versus other fibres. Asia Pacific is the major growth region with its growth derived from both self consumption and derivative productions for exports. Other Ethylene oxide derivatives are used predominantly in detergents and water treatment applications and are generally less susceptible to industry cyclicality.

Global polyvinyl chloride ("PVC") demand in 2009 was estimated at approximately 34 million tons and forecast to grow at approximately 5% CAGR over the period 2010-2017. This market is driven primarily by the construction sector where PVC is used in a range of applications including pipes, cable jackets, door and window frames and flooring. Asia Pacific is the major growth region and is forecast by to grow at approximately 6% CAGR over the period 2010-2017.

Global methanol consumption has slowed down during 2008 to 2009 as traditional end-uses such as formaldehyde and acetic acid, which are strongly linked to the construction sector, were affected by the global economic crisis. Newer end-uses such as dimethyl ether, gasoline blending and biodiesel mitigated the slowdown of traditional uses contributing to the growth. Overall short term demand growth for some applications will still be effected by global economic crisis and the rate of recovery in key sectors such as construction and textile fibers. However, long term demand growth is still expected to be firm driven primarily by new applications such as methanol to olefins ("MTO").

Urea, given its position as the most widely used fertiliser in the world, is forecast to grow at CAGR of 2-3% over the 2010-2017 period. Population growth, currently increasing worldwide at an average 75 million per year, is a major factor driving fertiliser consumption growth. Economic progress and government policies on tariffs and subsidies are also key contributors that are leading to increasing urea demand. Apart from these traditional drivers, additional urea demand is expected to come from its new usage in environmentally led applications such as bio-fuels and bio-plastics.

1.2.2 Pricing & Profitability

Industry demand is primarily influenced by economic activity while supply is affected by new capacity additions. Capital spending cycles are a common theme of the sector as companies usually have access to large cash reserves at the same time. In times of economic growth, profitability is high and new investments take place. The result is oversupply as large increments of new capacity are realised at the same time. This often leads to lower pricing and depressed margins for extended periods of time until the new capacity can be absorbed by slower growing demand. Cyclicality also promotes restructuring, mergers, demergers and acquisitions. These issues often result in capacity rationalisation whereby older, smaller scale, higher cost production units are closed.

The duration of cycles vary in length. We estimate recent cycle lengths have been between 6-11 years in duration, measuring peak to peak. Due to the global nature of the industry, the profitability of all commodity petrochemicals tends to follow the same cycle so that most products typically demonstrate peak or trough levels of profitability in similar years. Occasionally, structural changes in a given market can cause profitability of one sector to diverge from the overall industry cycle.

Figure 1.1 provides an overview of petrochemical industry profitability and highlights the cyclicality of the sector. Profitability is represented as a cash margin index which measures aggregate cash flows per ton of petrochemical for leader plants on a production weighted average basis, and is expressed as a per unit of output. This gives an estimated weighted average cash margin for the industry.

Period 1988-1995

Profitability for the industry climbed to a sharp peak in 1988 and again in 1995. Conversely, a weak global economy contributed to depressed profitability leading to a broad trough during the 1991-1993 period. Over this period, total ethylene capacity grew at approximately one percent higher than demand on a CAGR basis, resulting in lower industry utilisation.

Period 1995-2005

Average profitability levels were high during the 1995 industry peak and this resulted in a significant investment wave. During the period 1997-2002, approximately 21 million tons of new ethylene capacity was added to the market compared to incremental demand growth of less than 18 million tons. Capacity additions resulted across all major regions.

The downturn over the period 1995-2005, was particularly prolonged partly due to the consequences of the Asia Pacific crisis which resulted in lower consumption growth from key industry sectors. However, this also resulted in longer lead times and delays for many new project investments which ultimately contributed to the extended up-swing seen during the 2004-2007 period.

Period 2005-2010

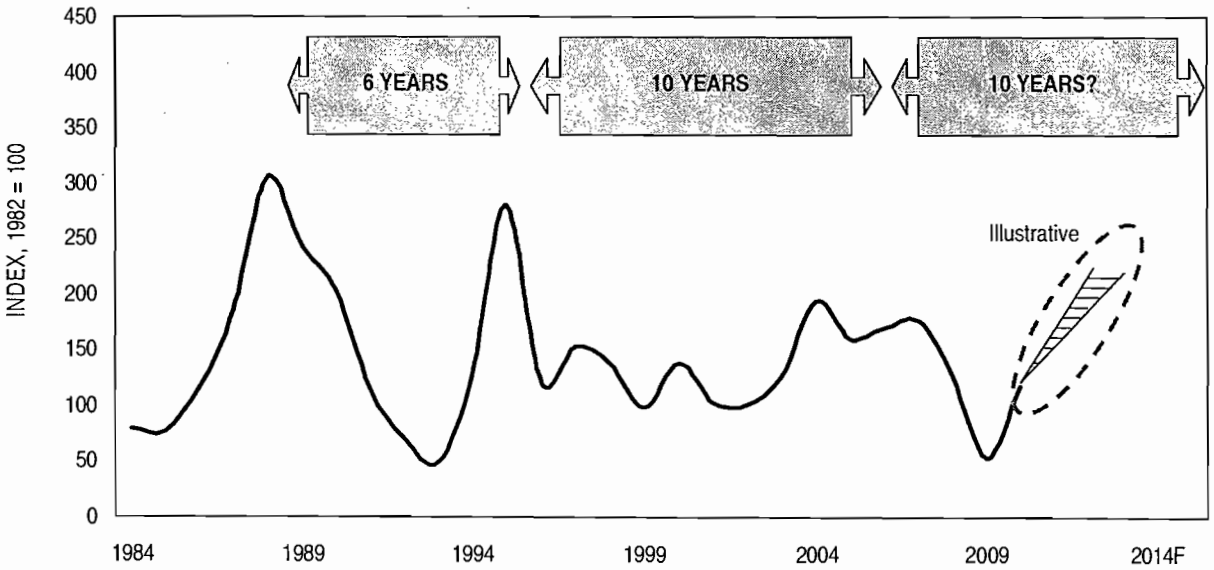
Industry profitability has been increasingly turbulent, in recent years, driven by increased volatility in crude oil and petrochemical feedstock markets along with irregular purchasing

patterns, as consumers optimise purchasing volumes against rapidly changing prices. This period was characterised by robust consumption growth and limited capacity additions, partly assisted by project delays. Average industry profitability steadily increased through 2005, remaining at a broad peak through 2007.

The industry has recently experienced a down-turn in profitability, following a period of good margins sustained over the 2005-2007 period. The recent decline in petrochemical industry profitability is partly attributed to a fall in global GDP and sharp increase in incremental petrochemical supply. A net ethylene capacity increase of 11 million tons per year has resulted over the 2008-2010 period. This corresponds with consumption growth of approximately 9 million tons over the same period.

From the second quarter of 2009, global demand appeared to stabilise as a result of government stimulus packages, lower crude oil and petrochemical prices, and revived consumer confidence. The full impact from new capacity additions was also partly alleviated by project delays. However, despite this, most product margins reached a low point in 2009.

Figure 1.1 Petrochemical Industry Cyclicality
(Cash margin index – commodity chemicals & polymers)



Source: Nexant

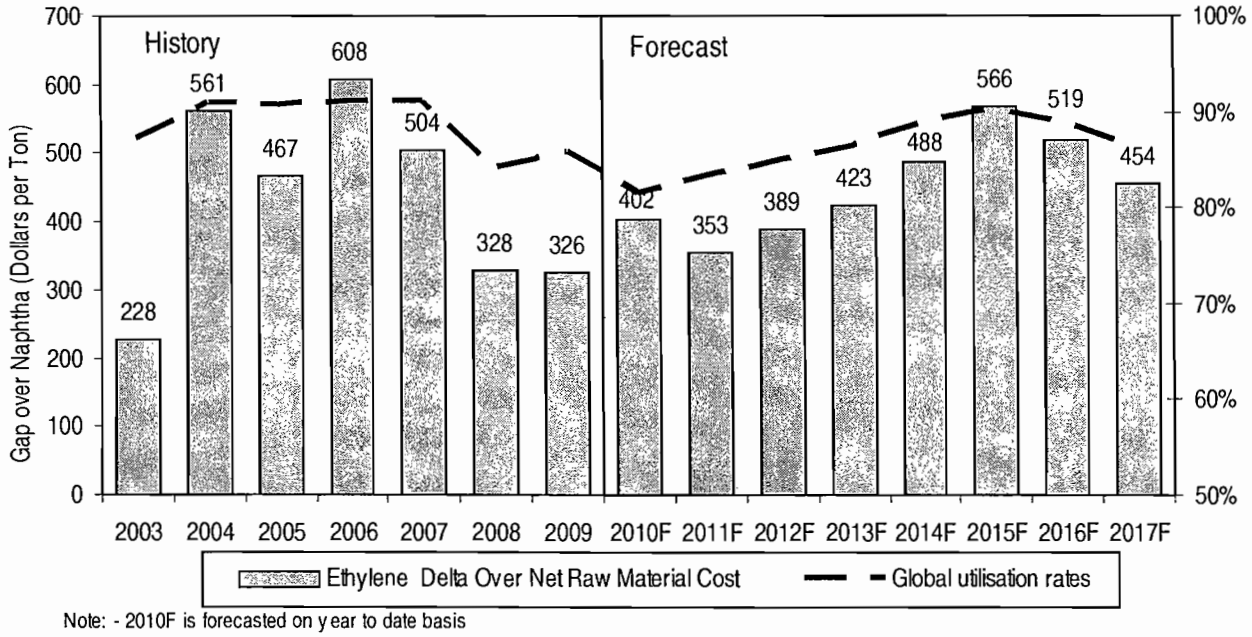
Forecast Period 2010-2015

Petrochemical market demand has improved through the first half of 2010. This improvement has been driven by a faster pace of recovery in Asia Pacific markets. Additionally a level of inventory restocking has also been taking place as buyers look to replenish previously depleted stock levels. Margins in the first half of 2010 have been marginally higher than expected due to some unplanned production outages and delays in new project start-ups. We believe that demand fundamentals remain good for the second half of the year but are ultimately tied to the overall global economic recovery. We expect that product margins will remain under pressure

over the next 6-9 months as further capacity is scheduled to start up in 2010. The full impact of this capacity on industry utilisation may be reduced by delays in project start-ups which are becoming increasingly common due to current scale and complexity of new builds.

We forecast petrochemical industry profitability to start a sustainable recovery in 2011 as fewer capacity start-ups are scheduled. We estimate total new ethylene additions in 2011 of approximately 5 million tons compared with approximately 11 million tons in 2010. We expect the rate of new capacity additions to decline from a peak in 2010 of 18 million tons (combined ethylene and propylene) to approximately 6 million tons in 2014. We forecast industry margins to climb to a new peak around 2015, with returns comparable to those seen in the last major peak in 2006/7. This forecast is based on a stable improvement in the global economy being sustained.

Figure 1.2 Ethylene Price Spreads over Naphtha
(Basis: South East Asia Market Pricing)



Note: - 2010F is forecasted on year to date basis
- Forecast price is based on Brent crude at $70 per barrel

Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

We note that the actual timing of peaks and troughs of the cycles are highly speculative, since these depend on economic developments and decisions yet to be made about investments due to come on-stream over the medium and longer term.

1.3 PETROCHEMICALS KEY DRIVERS & TRENDS

1.3.1 Demand Side Fundamentals

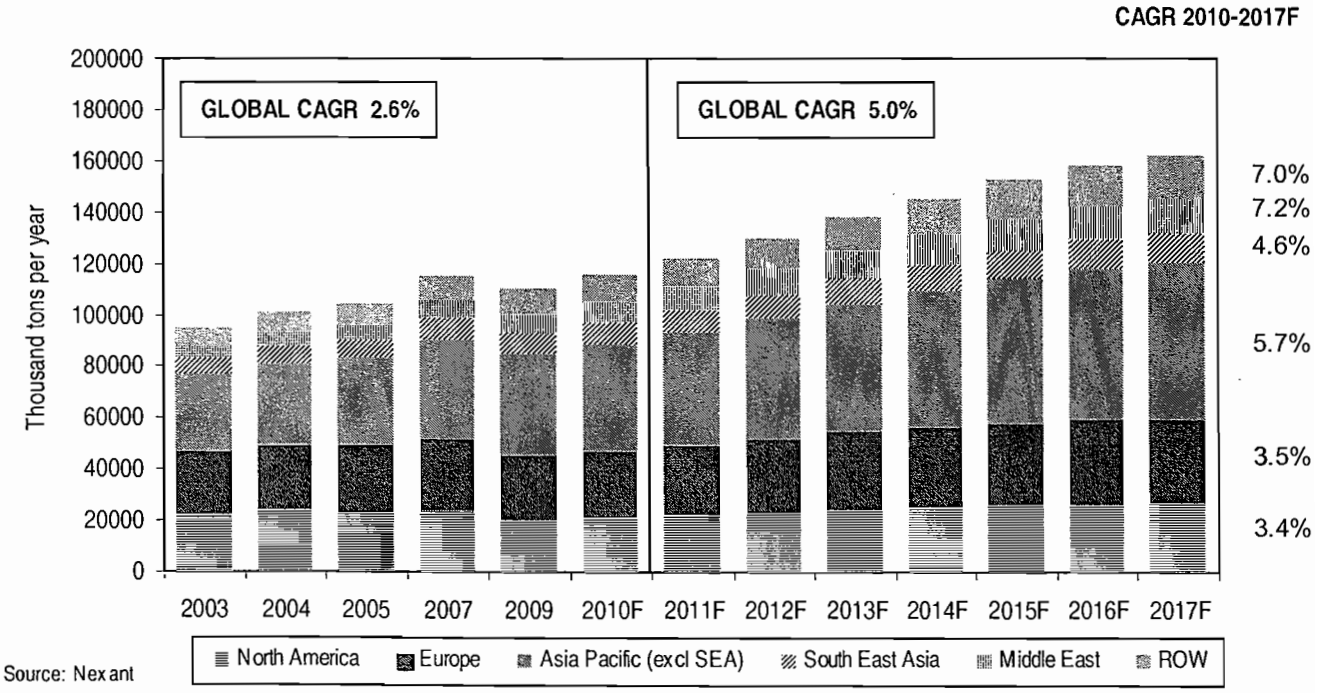
Consumption growth of petrochemicals can be measured by total olefins (ethylene and propylene) demand. However, most olefins are consumed for captive consumption to produce other olefin derivatives onsite. Therefore actual consumption growth of olefins by region does

not provide a clear overview of end-user demand. We believe that the consumption of polyolefins provides a more accurate representation of petrochemicals demand by region as they are consumed directly by end users in a wide variety of key end uses such as construction, automotive, packaging, agricultural products, textiles and various consumer goods.

Emerging economies represent the key demand driver for petrochemicals, which, as an industry, is associated with wider scale investments in manufacturing industries, large populations and rising income levels.

In terms of polyolefins' consumption, the market is increasingly being driven by Asia Pacific and other developing markets such as South America and the Middle East. We forecast consumption in North East Asia and South East Asia to grow at a CAGR of 5.1% and 4.6%, respectively, over the period 2010-2017. However, we expect China, with a forecasted consumption growth of 6.4% CAGR, to drive demand in North East Asia over the 2010-17 period. We also forecast higher consumption growth from other developing regions such as the Middle East with a CAGR forecast of 7.8% over the period 2010-2017, albeit from a lower base. We forecast consumption growth in North America and Europe for the period 2010-2017, to be lower, at approximately 3.5% CAGR basis as we believe that both of these markets have largely reached maturity.

Figure 1.3 Polyolefins Consumption by Region



Source: Nexant

The current level of market penetration of material substitutes in emerging markets also tends to be lower compared to more developed economies, thus providing a further demand driver for petrochemicals. Petrochemical products are substituting basic materials such as wood, glass, metals, paper and card in packaging, automotive and construction industries. This substitution

takes place as plastics tend to offer higher performance at a lower cost. Additional inter-material competition also exists between major plastics. This is relatively common between polyolefins and other commodity resins such as polystyrene, PVC and polyethylene terephthalate ("PET") resins. Such substitution is normally linked to cost and performance issues of the end-user.

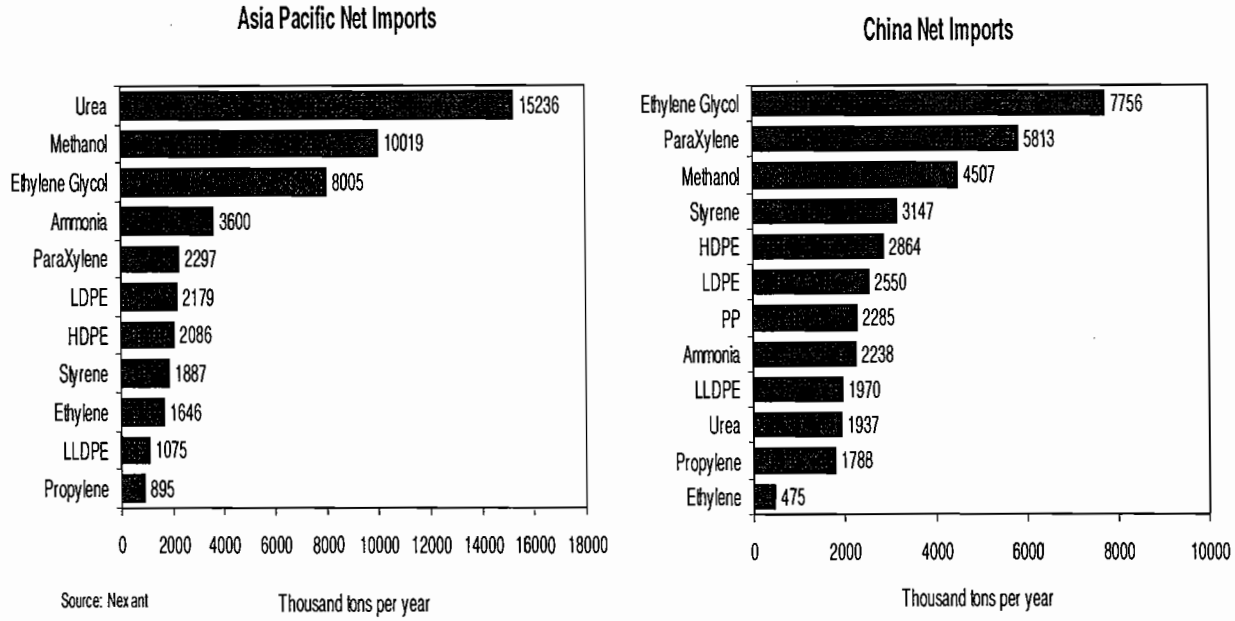
Asia Pacific has become a major consuming region for petrochemicals over the past decade. According to our analysis, demand growth for polyolefins has been growing at approximately 5% CAGR over the period 2003-2009 and is set to continue at around this level over the forecast period 2010-2017. This development has occurred largely in support of the region's rapidly expanding manufacturing sectors. A large proportion of this manufacturing is for export-oriented goods. However, domestic consumption levels for finished goods are also increasing, thus providing further demand growth potential for chemical-related products throughout the region.

China is a significant contributor to overall Asia Pacific industrial growth. We forecast that domestic demand for polyolefins alone will grow at approximately 6% CAGR basis over the period 2010-2017. However, other markets, including Taiwan, Vietnam, Malaysia and Thailand have also undergone rapid expansion over the last decade and we forecast demand growth for polyolefins in South East Asia to grow at approximately 5% CAGR basis over the period 2010-2017.

We forecast demand growth for petrochemicals in Asia Pacific during 2010-2017 to continue to outpace the rate of new supply additions in the region. As a result, we believe that Asia Pacific will remain a significant importer of various chemical intermediates and polymers for the foreseeable future.

The following figure provides our estimate of net trade imports for Asia Pacific and China in 2015 for major petrochemical products.

Figure 1.4 Forecast Net Imports of Major Petrochemical Products
(Basis 2015F)



We expect that a large proportion of these net imports will be for ethylene derivatives such as ethylene glycol, polyethylene and styrene for the Chinese market. For example, we forecast Asia Pacific's total net import of ethylene glycol in 2015 to be approximately 8 million tons with approximately 98% of this volume for the Chinese market.

Key drivers and trends for global petrochemicals' demand (during the forecast period 2010-2017) include the following:

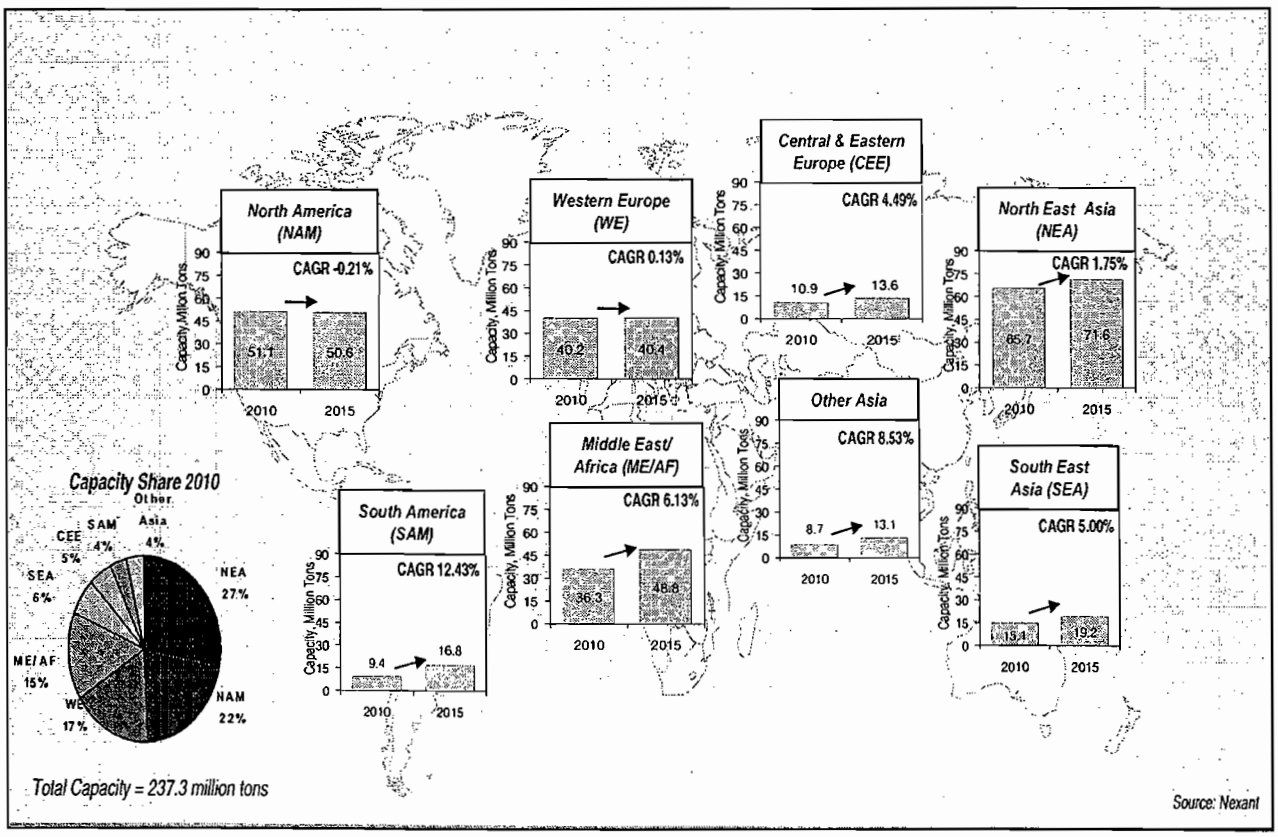
- **Olefins/polyolefins markets are forecast to exhibit growth inline with global GDP and are relatively sensitive to changing economic climate** – Consumption primarily driven by packaging, automotive and building and construction industries. Consumer spending and confidence tends to promote market consumption. Demand also benefits from the substitution of basic materials such as glass, metals, paper and card etc.
- **Ethylene glycol and paraxylene are forecast to exhibit above global GDP growth.** Consumption growth driven primarily by high demand for polyester fibres and polyester resins for packaging. Polyester fibres hold a strong market share relative to other synthetic and natural fibres based on cost and performance. Demand growth is highly focused in China, Taiwan and other parts of South East Asia.
- **Methanol markets are forecast to exhibit above GDP type growth** – Consumption growth driven primarily by new application demand in China. This includes methanol for fuel usage in automotive and as a fuel substitute for liquefied petroleum gas ("LPG"). Additional demand growth emerges for methanol as a feedstock for olefins production. Traditional applications are more sensitive to the economic environment due to major applications in construction.

- **Urea markets are forecast to exhibit relatively low but consistent consumption growth that is largely resilient to the changing economic climate.** Consumption growth is driven primarily by population growth and the ongoing need for fertiliser products in the agricultural market. Population growth and rising wealth has resulted in increased grain demand and in particular demand for protein rich diets such as meat. The higher grain requirement of meat provides further pressure on agricultural output which given limited arable land has increased emphasis on fertilisers such as urea that increase farming productivity and yield. Urea provides an excellent source of nitrogen which is an essential nutrient for crop growth. Additional fertiliser demand has resulted from the rapid increase in bio fuels demand – however this sector is now reaching maturity in some markets.

1.3.2 Supply Side Fundamentals

Current and future investments in new petrochemicals capacity is taking place predominantly in the Middle East and throughout Asia Pacific. Capacity expansions for olefins in other markets are relatively minor in comparison.

Figure 1.5 Olefins Forecasted Capacity Changes
(Million tons, 2010 vs-2015F)



In Europe, the US and Japan, rationalisation of older, higher cost plants has been taking place. This trend is expected to continue in the near-term as lower cost capacity from other regions start production. A total of approximately one million tons of olefins capacity is anticipated to be closed in the US and Europe over the period 2010-2015.

The majority of new capacity investments in Asia Pacific are taking place in China. We forecast that China alone will add approximately 6 million tons per annum of olefins capacity over the period 2010-2015. These projects are supported by excellent domestic demand fundamentals and available feedstocks from local coal reserves and new refinery investments (providing a source of naphtha). Coal based projects are being promoted by the Chinese government to reduce dependency on oil-based products. This is the principal driver for new capacity developments in the region. However, we do not expect coal based projects to have a significant impact on future Chinese imports of polyolefins. Total additions of olefins from coal is expected to be relatively minor over the 2010-2017 period representing around 6% of total domestic olefins capacity.

Outside of China, major new investments are also taking place in India, Thailand and Singapore. Longer-term, both Vietnam and Indonesia are expected to make significant new capacity investments. Olefins capacity growth in South East Asia is forecast at over 5% CAGR basis over the forecast period 2010-2017, representing an addition of approximately 4 million tons capacity per annum.

Investments in the Middle East, representing approximately 10 million tons of olefins capacity, are primarily driven by the availability of low cost gas in the region. However, these projects have also been supported by the following additional factors:

- Access to leading process technologies
- Available markets (deficit markets primarily in Asia Pacific)
- Formation of strategic partnerships with leading petrochemical players.

Longer-term developments in the region will primarily depend on future availability of advantaged feedstocks, specifically ethane and other natural gas liquids ("NGLs") extracted from associated (from crude oil production) and non-associated gas sources.

1.3.3 Petrochemicals Cost Position

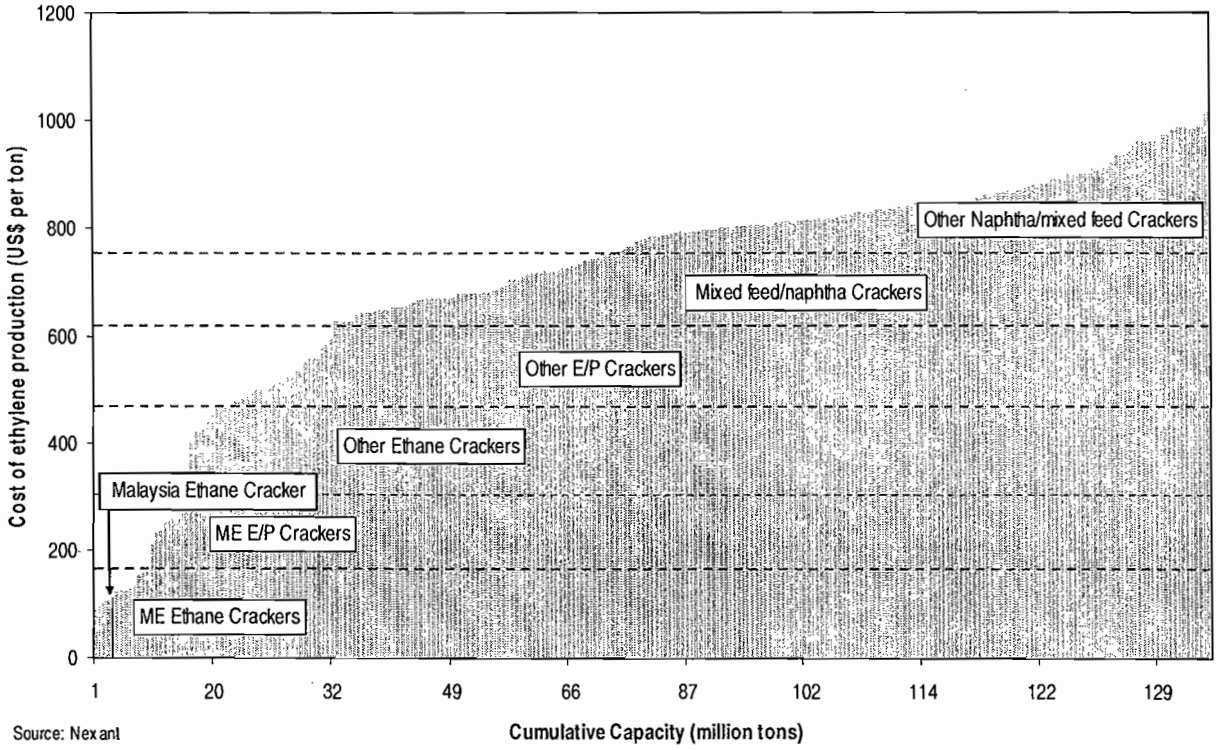
The cost of producing petrochemicals varies greatly by location around the world. The principal factors in determining operating costs are linked to the cost of the prevailing feedstock. However, secondary cost advantages are associated with the following key points:

- Plant scale
- Utility costs
- Technology/complexity
- Co-product credit values (location/integration)
- Fixed costs (location issues)

Currently, the lowest cost olefin producers are based in the Middle East. Leader ethylene crackers in the region are typically 100% ethane-based. The ethane is usually supplied at a fixed price, that is considerably below market price levels available in Europe or the US, with no linkage to the wider energy market.

Additional advantages for many Middle East players include; low average utility costs, excellent economies of scale and lower associated capital expenditure ("CAPEX") with 100% ethane-based crackers relative to naphtha cracker counter-parts. New ethylene plants in the Middle East are being constructed with capacities of approximately 1.2 million tons per year. This scale is approximately double the typical ethylene cracker sizes in operation in Europe, US and most of Asia Pacific.

Figure 1.6 Global Ethylene Cost Curve
(Cash Cost Basis: 2009)



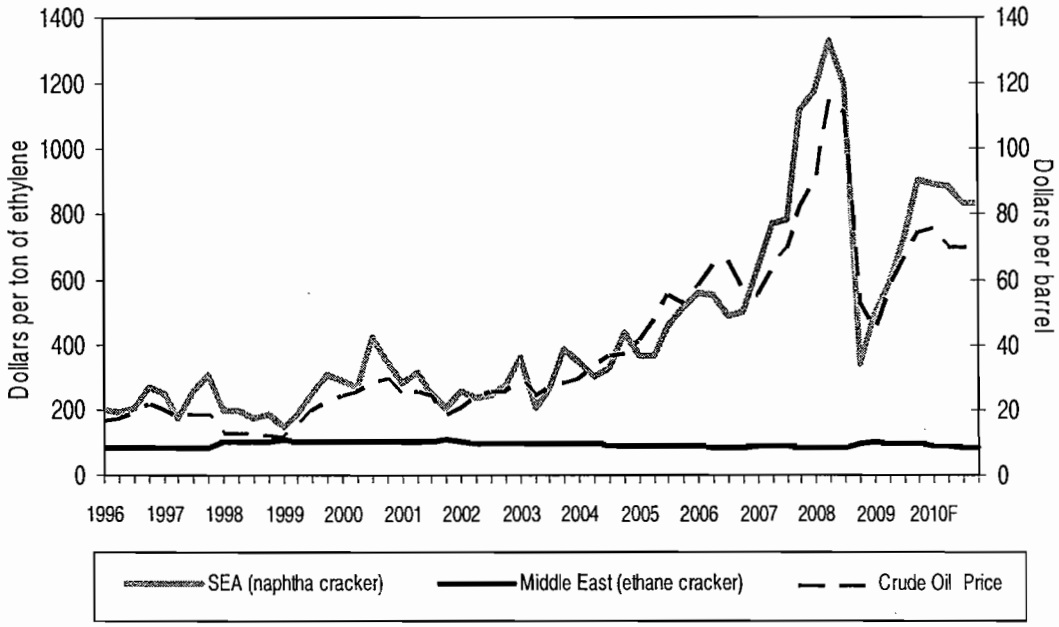
Source: Nexant

ME (Middle East), E/P (ethane/propane)

Ethylene is mainly produced from two different feedstocks (oil and gas) via steam cracking process. Oil-based ethylene feedstocks such as naphtha and condensate produce a greater proportion of propylene and butadiene per unit of ethylene produced while gas feedstocks such as ethane produce almost exclusively ethylene.

In general, naphtha-based plants offer the highest cost route to ethylene production (via steam cracking). These operations have no noticeable feedstock advantage and are highly capital intensive due to the complexity of the facility required to separate and utilise co-product streams.

Figure 1.7 Impact of Crude Oil Pricing on Ethylene Production Costs
(Basis – Leader Cracker)



Source: Nexant

Prior to the rapid escalation in crude oil prices (before 2004), production cost comparisons between naphtha crackers and advantaged ethane crackers were more evenly matched. According to our analysis, the average difference in production costs between leader ethylene producers in the Middle East and a conventional naphtha producer was approximately $190/ton of ethylene produced over the period 1996-2004.

The difference in production costs between naphtha-based producers and ethane (stranded gas) producers has increased greatly over the last five years following the sharp escalation in crude oil pricing. The average difference in production costs between leader ethylene producers in the Middle East and a conventional naphtha producer increased to approximately $600/ton of ethylene produced over the period 2004-2008.

Crude oil price volatility has continued to impact the global competitiveness structure of the industry. According to our analysis, the cash cost spread between leader and conventional producers peaked at approximately $1200/ton in Q2 2008 before crashing to approximately $230/ton in Q4 2008, as oil prices declined to below $50 per barrel. More recently (2008-2010), the ethylene production cost spread has increased gradually back up to over $600 per ton as oil prices have climbed to approximately $70 per barrel.

1.4 MALAYSIAN PETROCHEMICAL INDUSTRY

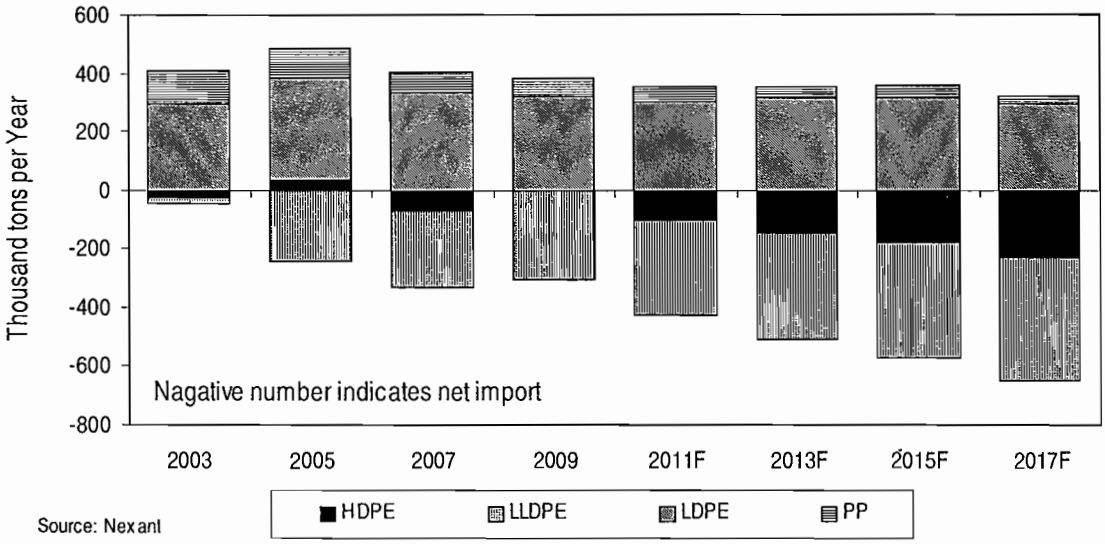
The petrochemical industry is an important sector in Malaysia's overall economy. Investments in the petroleum and petrochemical industries in Malaysia for 2008, according to the Ministry of Industrial Development Authority, MIDA were in the region of RM 57.2 billion.

Overall petrochemical industry in Malaysia is dominated by two major producers including PETRONAS Chemicals Group Berhad ("PCG") and Titan Chemicals Group Berhad ("Titan"). Titan primarily focuses on olefins and polyolefins productions with an integrated operation based on naphtha feedstock. PCG has a comparable scale in olefins and polyolefins productions, however, it offers a wider range of petrochemical products including methanol, ammonia, urea, aromatics and other derivatives. Most of these products are produced domestically, solely by PCG. PCG has access to low priced gas feedstocks, which places PCG amongst the world's lowest cost producers of olefins and urea. PCG further leverages its feedstock position by forward integration into more value added downstream derivatives.

Through efforts provided by the Malaysian government and PETRONAS, Malaysia has attracted a number of major international petrochemical players such as Dow Chemical, BASF, Mitsui, Toray Industries and BP. According to MIDA, there are currently forty one petrochemicals companies operating in Malaysia, out of which 53 % are based on foreign investments and the remaining 47 % are from domestic sources.

According to data published by MIDA in 2008, the US is the largest source of foreign investment into Malaysia's petrochemical sector followed by Japan, the United Kingdom, Germany and Taiwan. Domestic players consist of PETRONAS, the largest domestic player, and Titan.

Figure 1.8 Overview of Domestic Polyolefins Net Trade



Source: Nexant

Although the Malaysian market is self sufficient in many petrochemical products, it also relies on imported petrochemical products from other countries. Some of these imports include materials that compete directly with products already being produced domestically. Within the polyolefins' sector, Malaysia is a net exporter of low density polyethylene ("LDPE") and polypropylene (PP) grades but is reliant on imports for linear low density polyethylene (" LLDPE"). Commencing 2010, Malaysia is also expected to become a net importer of HDPE.

Longer-term dependency on imports is forecast to increase further as there are currently no firm plans for new polyolefins capacity in Malaysia.

Overall growth for the Malaysian petrochemicals industry in 2009 remained relatively unchanged compared to 2008. However, Asia Pacific consumption levels displayed an improvement in the first half of 2010 for most petrochemical products as manufacturing activities increased.

Following the conclusion of the ASEAN Free Trade Area ("AFTA"), petrochemicals producers in Malaysia now benefit from tariff free access to other South East Asian markets. Additionally, the ASEAN-China agreement, concluded in early 2010, provides free trade access to China for many petrochemical products.

Malaysia is a major producer of petrochemicals in the South East Asia region. In 2009, Malaysia had approximately 2.8 million tons per year of olefins capacity which accounts for approximately 24% of the total capacity of the South East Asia region. The majority of olefins production is consumed domestically for the production of polyolefins and other key intermediates such as ethylene glycol, acrylic acid and styrene.

Titan and PCG are the leading producers of petrochemicals and polymers in Malaysia. Both companies have a strong domestic position but also export significant volumes to other countries such as Indonesia and China.

It is reported that Korea's Honam Petrochemical is currently in the process of acquiring a controlling stake in Titan for $1.5 billion. The deal is expected to be completed at the end of November 2010.

Major product exports from Malaysia include polypropylene, polyethylene, methanol and urea. Additionally, the domestic market also imports these products from other producers operating outside of Malaysia. This type of trade is generally driven by price.

The following table provides an overview of domestic capacity and demand for major petrochemicals and polymers.

Table 1.2 Overview of Malaysian Petrochemical Industry

Products	Capacity 2009 (Thousand Tons)	Demand 2009 (Thousand Tons)	Demand Growth CAGR (2003-2009)	Demand Growth CAGR (2010-2017)F
Ethylene	1775	1364	1.3	0.5
Propylene	1081	754	-0.7	1.2
Polyethylene	1035	958	5.9	3.5
Polypropylene	560	338	0.9	3.4
VCM	400	266	15.7	2.8
PVC	260	163	1.4	2.2
EO	385	327	0.2	1.2
EG	380	185	0.8	1.8
Styrene	240	295	2.7	0.7
Acrylic Acid	160	62	-2.0	0.6
Methanol	2427	723	3.0	2.8
MTBE	300	284	15.6	2.3
Ammonia	1288	774	0.9	3.2
Urea	1450	538	-0.9	2.5
Para Xylene	540	291	-4.1	0.3
Benzene	309	198	3.2	-0.4

Source: Nexant

Titan utilises naphtha as the primary feedstock for its business and is regarded as a higher cost player based on open market naphtha pricing. The company has a combined olefins capacity of 1.2 million tons per year.

PCG, via its upstream activities, has access to low priced gas feedstocks and is amongst the world's lowest cost producers of olefins and urea. The company is one of South East Asia Pacific's leading producers of olefins by capacity with a capacity of approximately 1.5 million tons per year.

Table 1.3 Overview of Malaysian Petrochemical Production Capacity
(Thousand tons, 2009)

Company	Ethylene	Propylene	Polyethylene	Polypropylene	MTBE	VCM	PVC	Benzene
PCG	1040	466	495	80	300	400	150	179
Titan	735	495	540	480				130
Shell Chemicals		120						
Industrial Resins							30	
Kaneka Paste Polymers							30	
Malayan Electrochemical							50	
% PCG share	59%	43%	48%	14%	100%	100%	58%	58%
% Titan share	41%	46%	52%	86%	-	-	-	42%
% Others share	-	11%	-	-	-	-	42%	-

Company	Paraxylene	Ethylene Oxide	Ethylene Glycol	Methanol	Ammonia	Urea
PCG	540	385	380	2427	1288	1450
% PCG share	100%	100%	100%	100%	100%	100%

Source: Nexant

PCG is also the sole domestic producer of natural gas chemicals, methanol, ammonia and urea and a major exporter of these products throughout Asia Pacific.

1.4.1 10th Malaysia Plan ("10 MP")

Under the 10 MP, oil and gas sector has been designated as one of the twelve national key economic areas ("NKEA") for generating income to support Malaysia's target of 6% annual GDP growth until 2015.

The 10 MP also envisaged downstream oil and gas operations to contribute RM39.8 billion in 2015. In order to achieve this, investment targets in the petrochemical sector have been set at RM 11.3 billion annually with an export target at RM 27.7 billion by 2015.

These targets set out by the government under the 10 MP will provide further opportunities for the petrochemical sector to grow and to compete in international markets.

Key Incentives for investors in petrochemicals include the following:

- 100% foreign ownership in petrochemical assets
- Reinvestment Allowance ("RA") up to a rate of 60% on the qualifying capital expenditure made for companies' that are engaged in the manufacturing sector. Companies that undertake reinvestment projects in promoted areas, e.g. PETRONAS at Gebeng or Kerteh could also offset the RA against 100% of its statutory income for the year of assessment.
- Accelerated Capital Allowance ("ACA") is a special allowance that allows the capital expenditure to be written off within three years with an initial allowance of 40% followed by an annual allowance of 20% for the subsequent years.
- Tax Exemption on Exports - incentives to encourage the export of Malaysian products, whereby the rate of tax relief for statutory income is based on the percentage of increase in value of the overall exports.

- Incentives for High Technology Companies – Tax incentives for companies with relatively high R&D expenditure or where scientific and technical staffing comprise at least 7% of a company's total workforce.
- Incentives to Strengthen Industrial Linkage ("ILP") - expenses incurred during personnel training, product development, testing and factory auditing to ascertain vendor's product quality are eligible for certain income tax deduction.

Other general incentives include industrial building allowance, infrastructure allowance and tariff related incentives.

1.4.2 Prevailing Laws and Regulations

The petrochemical industry is highly regulated. Associated regulations are intended to protect and improve the worker's and the nation's health, safety and environment. Regulations cover every step of a chemical products life cycle, from the manufacturing process through to its final disposal.

The regulatory environment of the industry is subdivided in a number of ways and monitored by various government departments and agencies. Examples of the principal monitoring agencies include the following:

- **Environmental Protection Agency** – clean air act and the control of pollutants. Also covers site clean-up and clean water act.
- **Food and Drug Administration ("FDA")** – sets standards for and evaluates tests of food, drugs and cosmetics
- **Department of Labour** – Defines hazards and permissible exposure limits to prevent industrial accidents
- **Department of Transportation** – Defines regulations for hazardous materials transportation.

1.4.3 Governing laws and regulations specific to Malaysia

The Petroleum Development Act 1974 regulates the petroleum and petrochemicals industries in Malaysia. PETRONAS is authorised to regulate all activities in the upstream sector, while the downstream sector is regulated by the Ministry of Domestic Trade and Consumer Affairs and the Ministry of International Trade and Industry ("MITI").

All associated licensing for the marketing, distribution and production of petrochemicals are granted through MITI and governed by the following legislations:

- Industrial Co-ordination Act 1975 – licensing for manufacturing activities.
- Petroleum Development Act 1974 – specific to petrochemicals
- Occupational Health and Safety Act 1994 – employee training requirements
- Environmental Quality Act 1974 – restricting pollution (atmospheric, ground and noise).
- Atomic Energy Licensing Act 1984 – regulating the control of atomic energy.

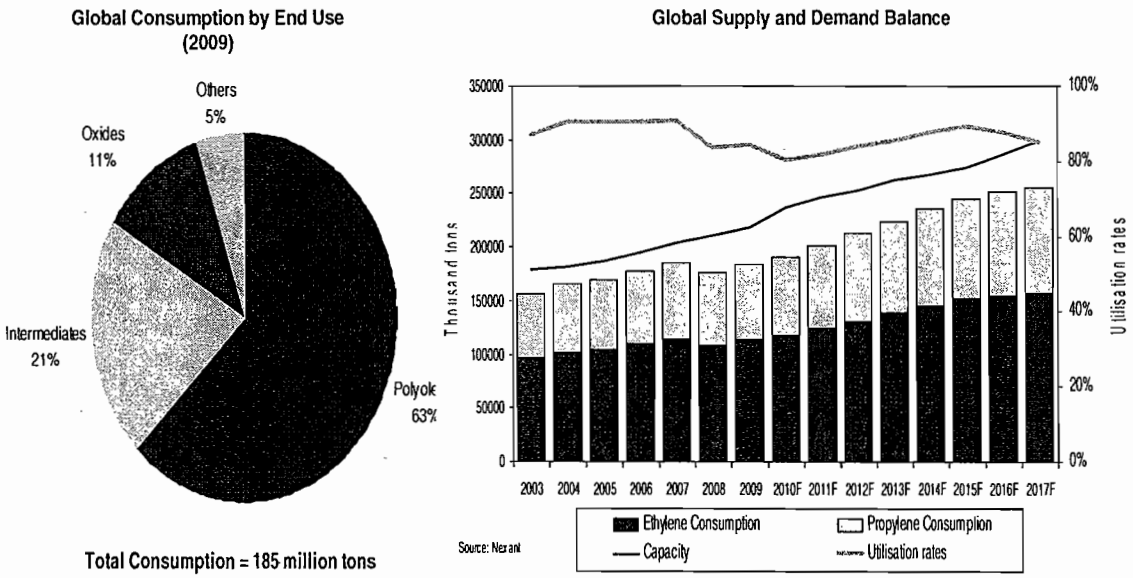
1.5 OLEFINS & DERIVATIVES KEY DRIVERS & TRENDS

1.5.1 Global Overview

We regard base olefins (ethylene & propylene) to be the most commercially important components of the petrochemical industry and the primary building blocks for various chemical intermediates and polymers. We estimate that the combined consumption of base olefins (ethylene/propylene) was approximately 185 million tons in 2009 and we forecast this to grow at a CAGR of 4-5% over the period 2010-2017. The main consumption drivers are tied to further growth from packaging, automotive, textiles and construction sectors.

We estimate that approximately 63% of base olefins is consumed directly to make polyolefins. Intermediates, such as ethylene dichloride, styrene and cumene account for approximately 21% of consumption and oxides (ethylene oxide/propylene oxide) approximately 11%.

Figure 1.9 Global Olefins Supply and Demand Balance



NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

Market consumption is predominantly for ethylene which in 2009 accounted for approximately 62% of the total. However, we forecast both ethylene and propylene to exhibit similar demand growth of 4-5% CAGR over the forecast period 2000-2017.

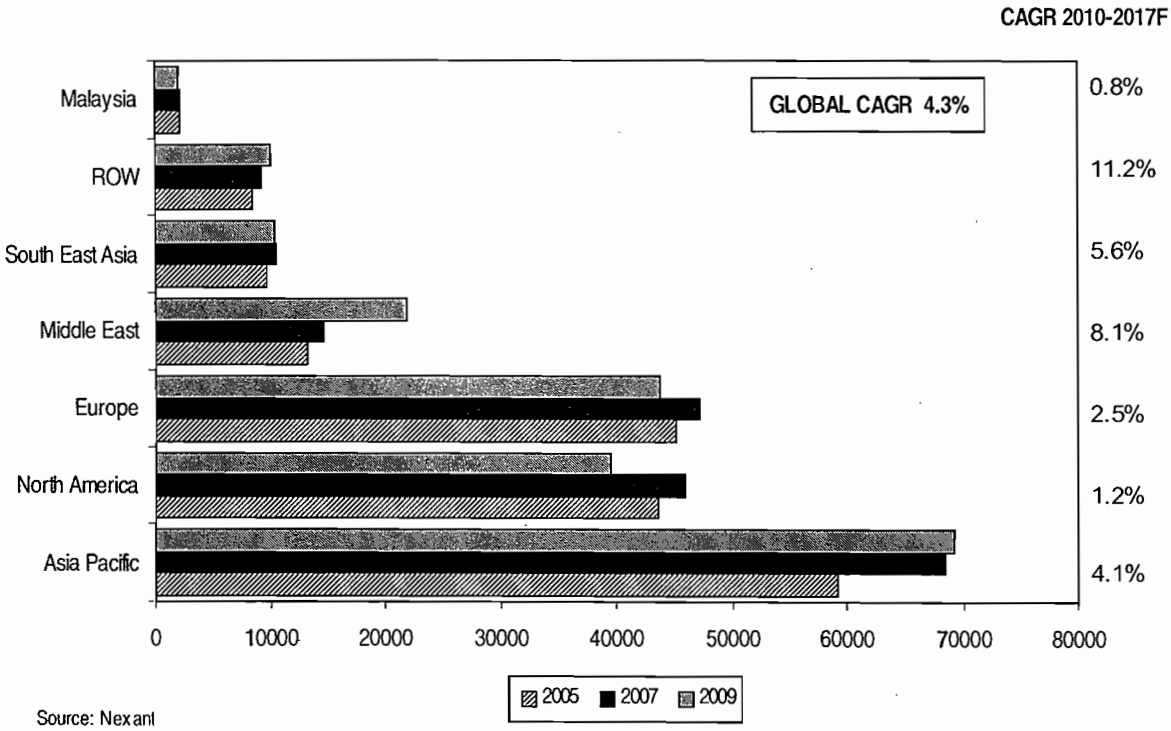
The majority of olefins produced tend to be for captive consumption whereby production is consumed on site. This trend is partly driven by the high cost of transportation associated with olefins which are gases at standard temperature and pressure.

Global utilisation rates remained high throughout the 2004-2007 period as markets exhibited firm demand growth with limited incremental capacity being added to the market. However, utilisation rates declined in 2008 and we forecast they will remain at a low level in 2010. This decline is attributed to weaker demand for key derivatives resulting from the recent economic downturn.

Additionally, the slowdown in markets corresponds with the start-up of significant amounts of new olefins capacity. This includes conventional olefins capacity from refining and cracking and additional capacity from coal to olefins projects in China. We expect some plant closures of older, higher cost facilities in North America and Europe and forecast a total of 42 million tons of new capacity additions over the 2008-2012 period. This corresponds with our forecast for consumption growth of approximately 23 million tons over the same period. The majority of this new capacity is being built in the Middle East and throughout Asia Pacific.

We expect average utilisation rates to begin to recover gradually from 2011 onwards as excess supply is gradually utilised, and forecast a new operating peak in 2015 when we expect average utilisation levels to be at approximately 90%.

Figure 1.10 Overview of Olefins Consumption by Region
(Thousand tons per year)



Source: Nexant

Markets are forecast to recover gradually as the global economy emerges from recession. Demand for polymers and key intermediates have already displayed an improvement in 2010, especially in key Asia Pacific markets. The outlook is for a steady sustainable recovery in consumption levels, resulting in improved utilisation rates as excess capacity is gradually utilised.

Higher growth levels for olefins are tied to Asia Pacific, the Middle East and other developing markets. It is within these markets where the majority of new olefin derivative capacity investments are being made. However underlying demand drivers for olefins' derivatives consumption is more closely linked to developing regions where there are higher levels of manufacturing and construction taking place. We expect demand growth levels of olefins in

Asia Pacific, which we forecast will experience a CAGR of 4% over the period 2010-2017, to be 2-3 times higher than Europe and North America.

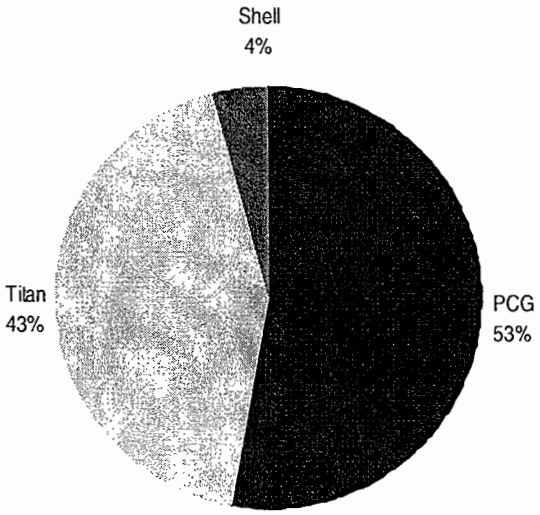
Overall, growth rates for olefins are relatively modest in North America and Europe as we expect new derivative investments to be more limited in these regions over the forecast period. Plant closures of older derivatives capacity is also expected in these markets.

1.5.2 Malaysian Market

Total olefins capacity is approximately 2.9 million tons in Malaysia. The market is supplied by three companies; PCG, Titan and Shell Chemicals.

PCG holds a majority capacity share with an estimated 53% of the domestic olefins market in 2009. Most of olefins produced by PCG are consumed onsite to produce polyolefins and key intermediates such as glycols and acrylic acid. Titan is also a major domestic olefins producer. Titan's market share in 2009 was estimated at 43%. The company also has relatively high levels of forward integration predominantly into polyolefins. Shell Chemicals is also active in propylene production, via refinery integration. However its overall capacity is relatively small.

Figure 1.11 Domestic Market Share
(Capacity basis 2009)



Total Capacity = 2.9 million tons

Source: Nexant

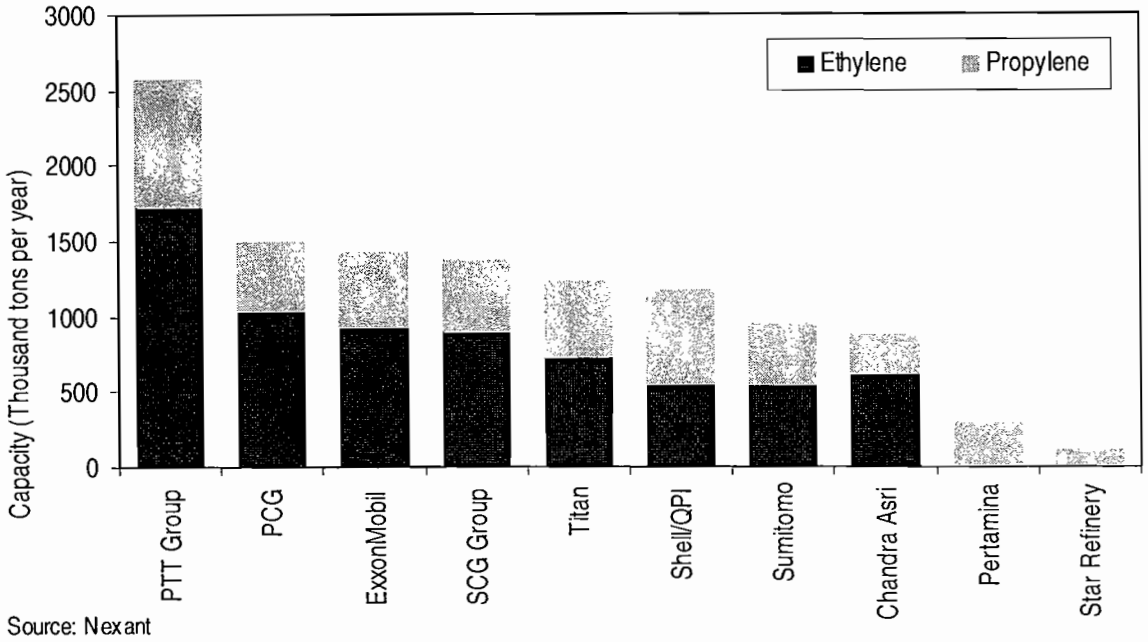
Exports of olefins take place, however overall volumes are relatively modest. We forecast this trend to continue as producers take advantage of short-term market situations.

1.5.3 Competitive Positioning

Olefins supply in South East Asia primarily consists of regional companies operating from a domestic base. However, international players, including Shell Chemicals, ExxonMobil and Sumitomo, also have olefins capacity in the region. All major olefins producing companies have

forward integration into polyolefins. A number of producers, including Petroleum Authority of Thailand ("PTT"), PCG and Shell Chemicals, also have integration into ethylene oxide and ethylene glycol.

Figure 1.12 Olefins Top Ten South East Asia Producers
(Capacity basis 2009)



Source: Nexant

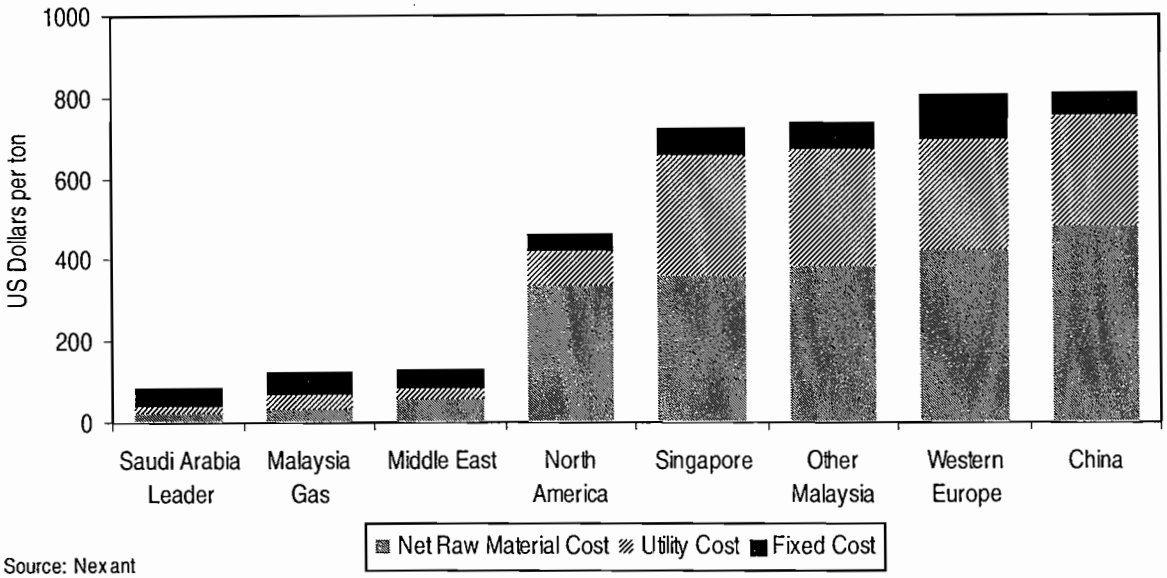
We have estimated ethylene competitiveness on a cash cost basis to highlight the differences in production costs between different producers in different regions. Ethylene competitiveness on this basis is an important parameter for determining the competitiveness of a range of derivatives.

Key assumptions include the following:

- Producers in Saudi Arabia, Middle East and North America are based on 100% ethane cracking at prevailing domestic pricing levels.
- Malaysian gas-based producer for ethylene and polyethylene ("Malaysia Gas") is based on 100% ethane cracking at prevailing domestic pricing level.
- Middle East economics are representative of typical leader crackers in the region.
- Comparison is on a per ton of ethylene produced, therefore credits for co-products produced, e.g. propylene or benzene, reduce the overall cost of ethylene production.
- Singaporean, other Malaysian, and Western European producers are based on 100% naphtha cracking.
- China ethylene production is based on a mix feed cracker based on naphtha and gas oil.

- Co-product crackers (associated with heavy feed crackers) are based on local market valuations.

Figure 1.13 Comparison of Ethylene Production Cash Costs
(2009)



Source: Nexant

Saudi Arabia is estimated to have the lowest cost position in ethylene production. However this advantage, based on 100% ethane cracking, is limited to only a few plants in the country. Overall, Malaysia Gas also has a leading cost position for ethylene production which is comparable with leading producers in the Middle East. Its advantage is largely derived from low cost ethane available in Malaysia. PCG is currently the only gas based producer of olefins in Malaysia.

A number of Middle East producers have access to low priced ethane price that provides significant competitive advantage over most producers in other regions. Additional benefits result from plant scale and utility costs. However, it is noted that only a few crackers in the Middle East enjoy this maximum advantage. The majority of crackers in the Middle East utilise mixture of ethane and propane gas and these have a marginally higher cost of production overall.

Naphtha-based crackers from different regions tend to have comparable economics as the price of naphtha is similar. The main differences result from plant scale and co-product valuations which vary marginally by location.

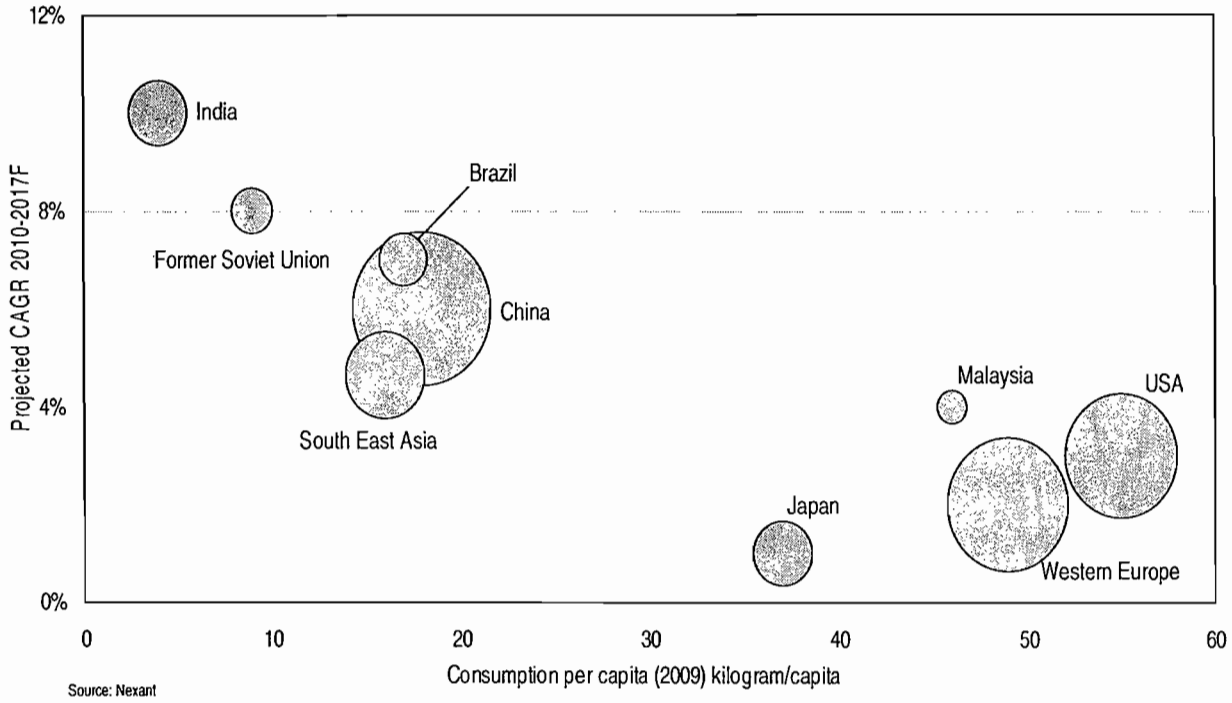
1.5.4 Polyolefins

1.5.4.1 Global Overview

Polyolefins are commodity thermoplastic polymers consisting of long chains of the monomer ethylene or propylene. These plastics are used in a wide range of market segments including consumer, automotive, construction, packaging and general industrial and agriculture.

Global demand for polyolefins was approximately 111 million tons in 2009 and we forecast this to grow at a CAGR of 5% over the period 2010-2017. We forecast the demand split between the different products will be as follows: PP 39%, high density polyethylene ("HDPE") 27%, LLDPE 17% and LDPE 16%.

Figure 1.14 Polyolefins Consumption per Capita



The market growth potential within developing markets for plastics is evident on a consumption per capita basis. Key developing regions such as India and China still have a relatively low consumption per capita for polyolefins, relative to more developed regions. These and other high population countries provide high consumption potential for plastics as living standards improve and material substitution continues to take place.

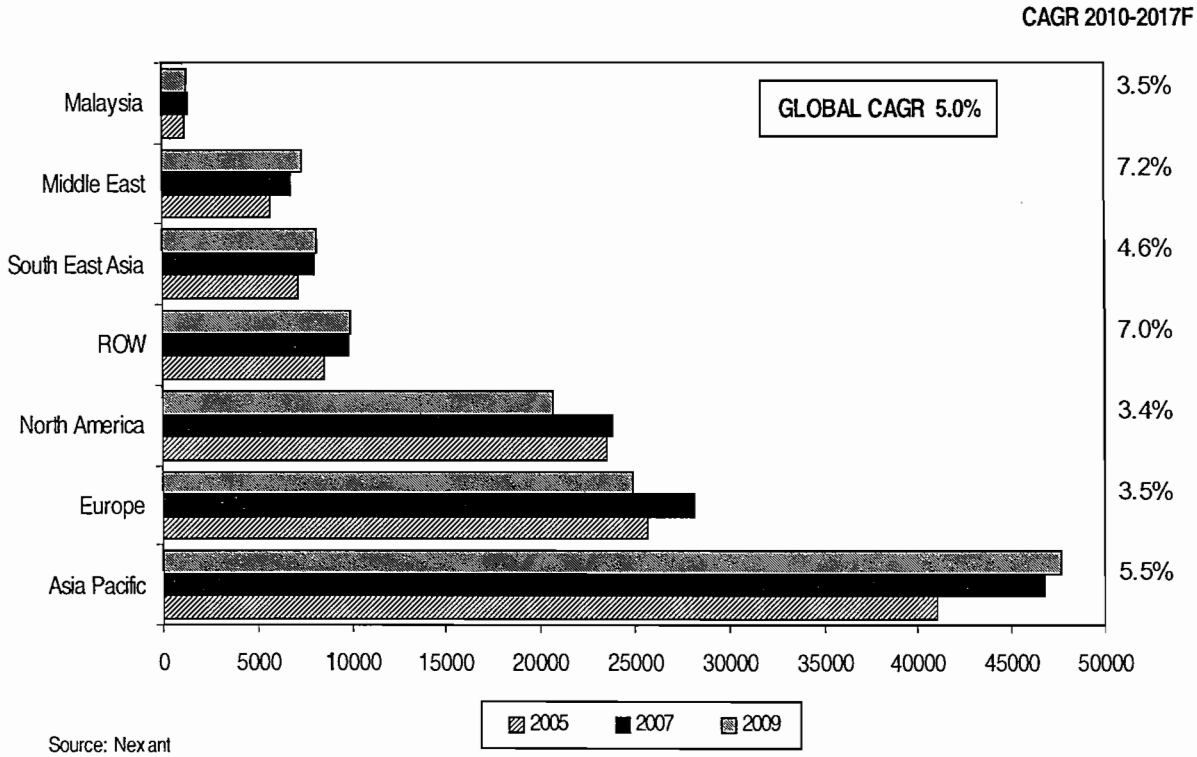
North East Asia is a major driver for global polyolefins consumption growth. We forecast total consumption growth in the region at approximately 5.1% CAGR basis over the period 2010-2017. Within the region, we expect China to be a key driver for consumption with forecast demand growth of over 7% over the period 2010-2017. Domestic consumption is being driven by the rapid development of the Chinese economy, resulting in increasing investments in manufacturing and rising disposable income levels leading to higher domestic consumption.

Demand growth is also highest in developing regions such as the Middle East which we forecast to grow at close to 8% CAGR over the period 2010-2017. We forecast demand growth in South East Asia, where markets are less mature and product substitution of basic materials is having a greater impact on consumption growth, to grow at a 4.6% CAGR over the period 2010-2017.

North America and Europe are large markets for polyolefins, but growth rates have been relatively flat in recent years due to application maturity and low population growth. We forecast

growth at approximately 3.0-3.5% CAGR for both regions over the period 2010-2017. Demand in North America is also supported by the rapid development of the Mexican economy.

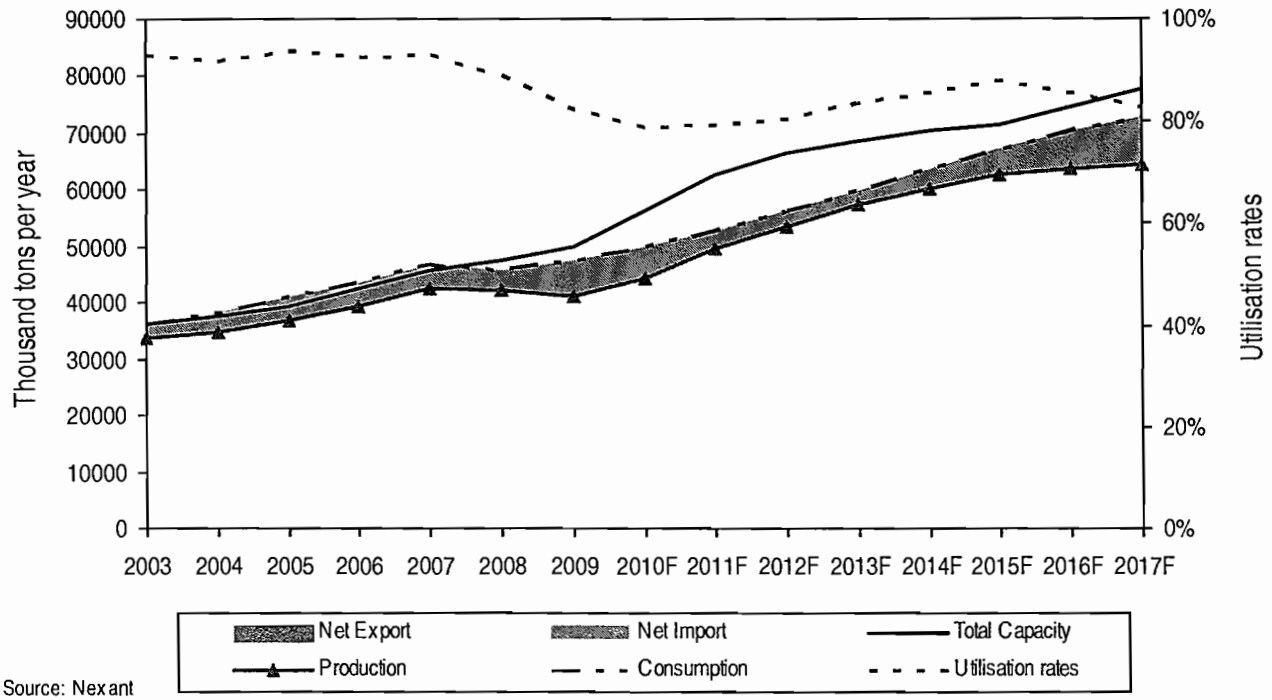
Figure 1.15 Polyolefins Consumption by Region
(Thousand tons per year)



Source: Nexant

From 2004 to 2007, utilisation rates for polyolefins remained consistently high at close to 90% levels on average. This was mainly driven by strong consumption growth and a relatively tight supply situation which was sustained partly due to project delays. This resulted in price spreads over primary feedstocks approaching $700 per ton. Despite limited capacity additions in 2008, global utilisation rates declined as consumption contracted as a result of the global economic slowdown. This impacted all end use sectors, although demand from construction, automotive and consumer related products were the most badly affected.

Figure 1.16 Polyolefins Supply, Demand and Trade - Asia Pacific

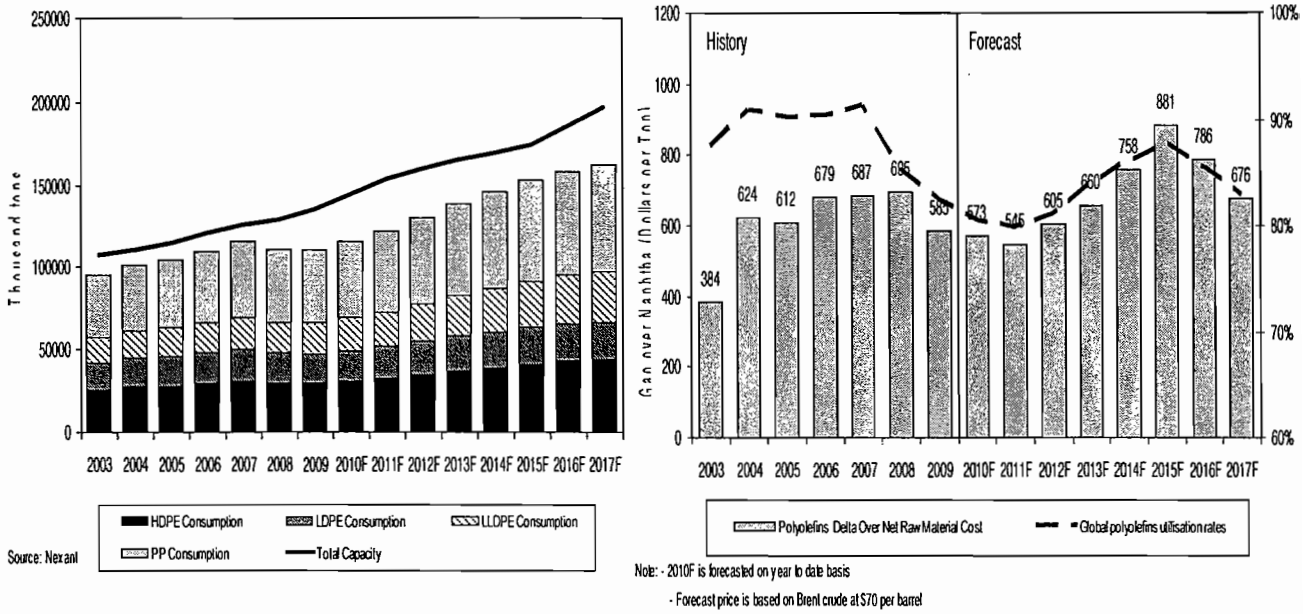


Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

While consumption improved marginally in 2009, utilisation rates declined further as new capacity came on-stream predominantly from Middle East but also in China. As a result, price spreads declined to below $600 per ton level.

Figure 1.17 Polyolefins Global Supply and Demand Balance and Price Spread
(Price spreads are in current US$)



NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

We expect further capacity increments by the end of 2010 to drive global utilisation rates to approximately 80%, which we expect will mark a low point in the cycle. We expect that margins will recover post 2010 as surplus capacity is gradually used up, with 2011 representing the first increase in margins and we expect margins to accelerate towards a new peak in 2015. This forecast is based on a gradual improvement in demand resulting from a continued recovery in the global economic environment.

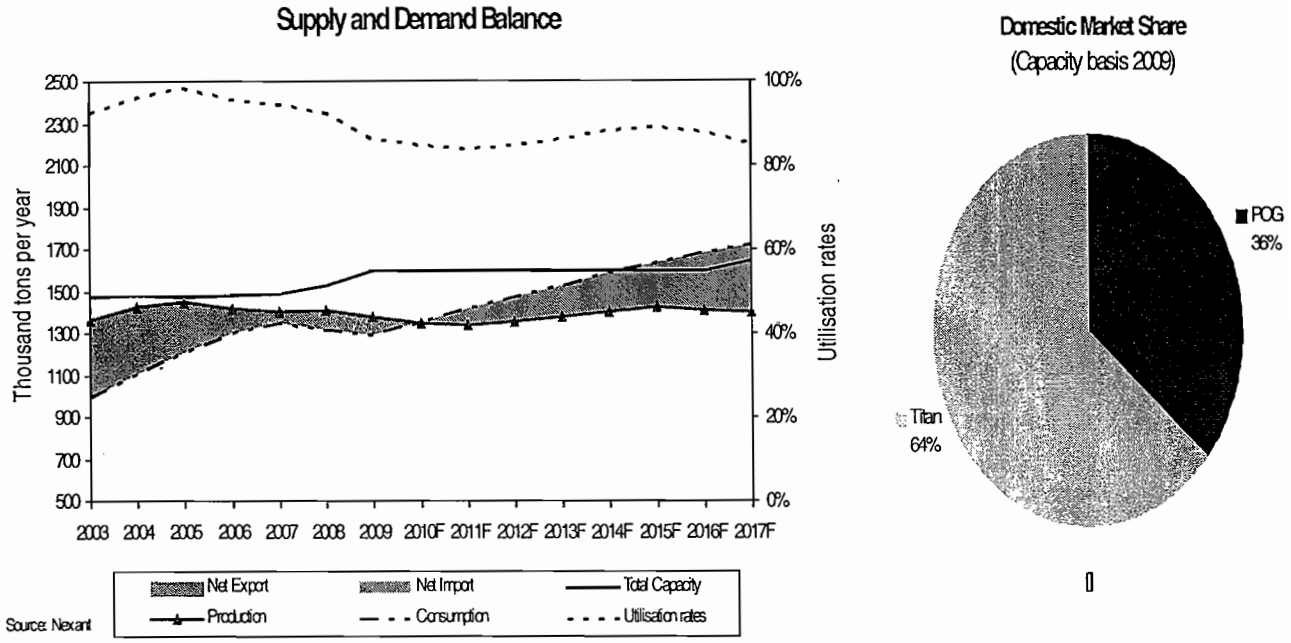
1.5.4.2 Malaysian Market

Malaysia consumes plastics across a variety of different products including; packaging, electrical/electronics, household products, construction materials and automotive components. We estimate that approximately 50% of these products are for exports.

Malaysia consumed approximately 1.3 million tons of polyolefins in 2009 with the majority of this material produced from domestic sources. We forecast demand growth at a 3-4% CAGR over the 2010-2017 period. Overall, Malaysia is broadly balanced in polyolefin supply and demand. However, with no firm capacity additions expected in the near-term, we expect Malaysia will rely increasingly on imported polymers from other countries.

Malaysia is currently a net exporter of LDPE and PP with the majority of these exports shipped to China and Indonesia. Conversely, Malaysia is a net importer of LLDPE and HDPE. The majority of these imports originate from the Middle East, Singapore and Thailand.

Figure 1.18 Polyolefins Supply, Demand and Trade – Malaysia



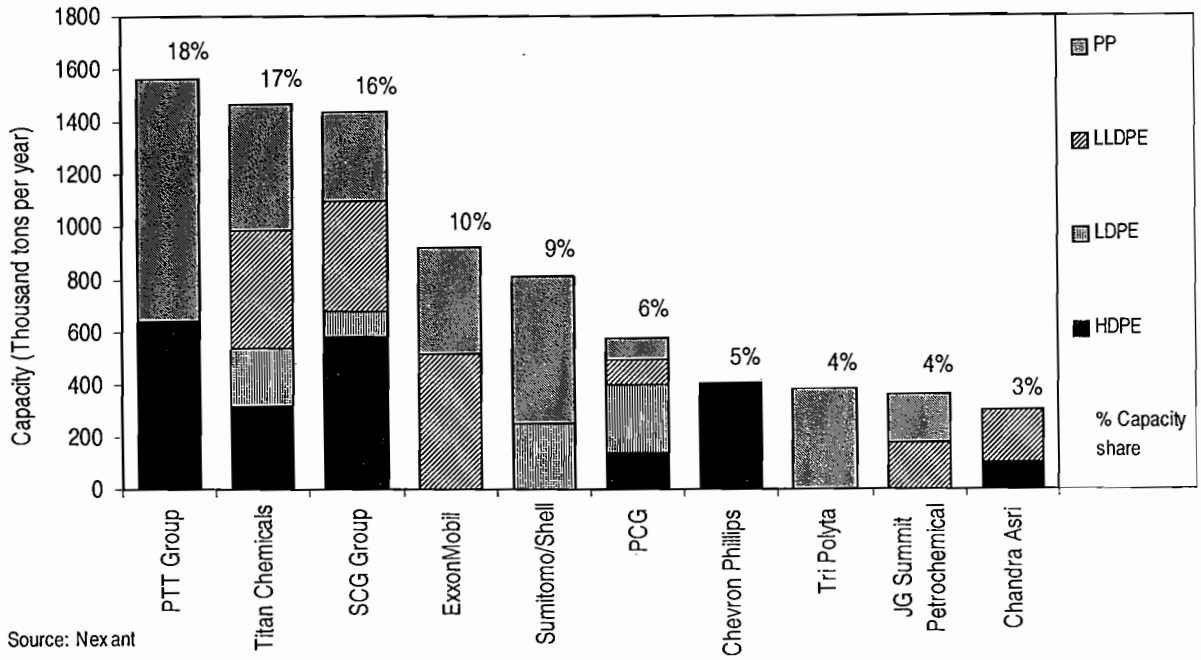
NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

Malaysia has two producers of polyolefins, Titan and PCG. Titan has a larger capacity share estimated at approximately 64%. PCG holds the remaining 36% capacity share. PCG has a higher olefins production capacity but also produces other derivatives such as ethylene glycol and acrylic acid. Overall, competition in the domestic market is relatively high both between domestic players as well as imports from various regional producers and Middle Eastern sources.

1.5.4.3 Competitive Positioning

Polyolefins supply in South East Asia largely consists of regional players operating from a domestic base. In terms of regional market share the market is dominated by three companies; PTT, Titan and Siam Cement Group ("SCG") (Thailand). Combined, these companies account for approximately 50% of regional polyolefins capacity. Additionally, major international players such as ExxonMobil, Sumitomo and Chevron Philips also have an operational presence in the region. Leading polyolefin players typically produce most product grades (HDPE, LDPE, LLDPE and PP).

Figure 1.19 Polyolefins Top Ten South East Asia Producers
(Capacity basis 2009)



Source: Nexant

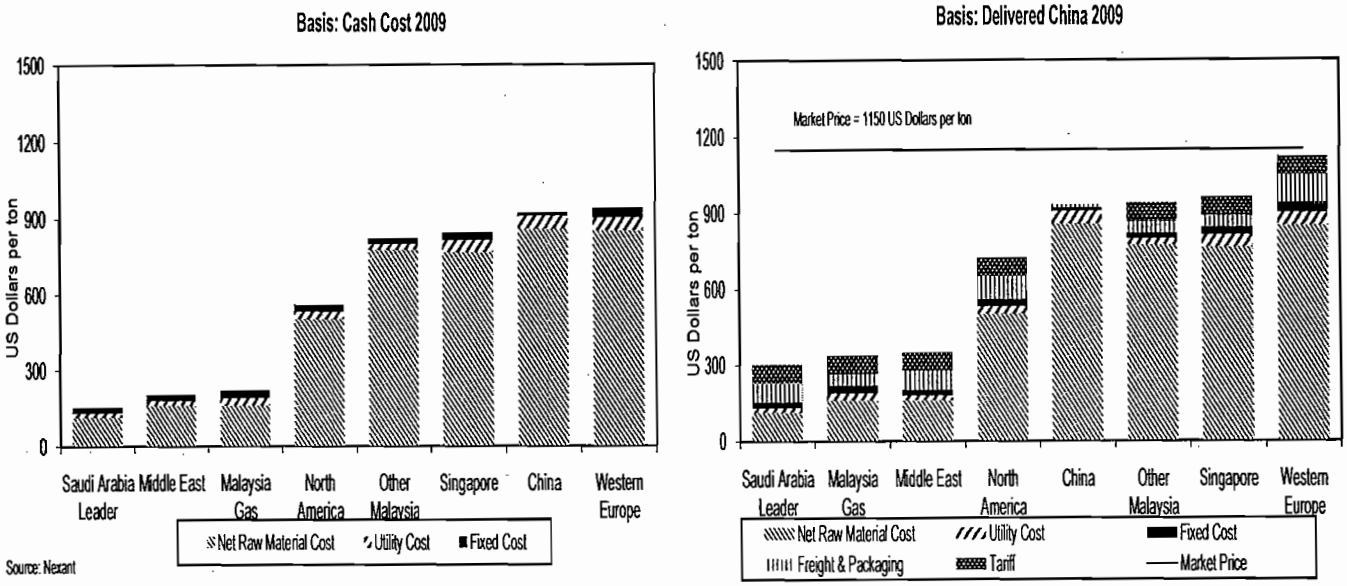
Competitiveness of polyolefin's production is primarily determined by the cost of olefin supply. The majority of production operational today has upstream integration into an olefin production source, usually on the same site.

For polyethylene competitiveness cash cost of ethylene is the key determinant.

Key assumptions for polyethylene competitiveness include the following:

- All producers have been evaluated on an integrated ethylene basis with ethylene cost being transferred at a cash cost value.
- Polyethylene costs have been compared on a delivered market basis to China.
- Import duty levy of 6.5% was applied to all polyethylene exporters in 2009.

Figure 1.20 Comparison of Polyethylene Production Costs



Comparison of competitiveness of polyethylene displays a similar picture to ethylene cash cost economics. Lowest cost producers are ethane-based olefin producers including Saudi Arabia, the Middle East and Malaysia Gas. On a cash cost basis Middle Eastern producers are estimated to have the lowest production cost.

On a delivered market basis producers in Saudi Arabia are estimated to have the best competitive position derived primarily from its low gas feedstock position. Malaysia Gas is also competitive due to its low cost gas position. Malaysia Gas gains additional competitive advantage over Middle Eastern players due to lower logistics costs into key Asia Pacific markets.

Other producers are primarily disadvantaged due to higher ethylene production costs resulting from naphtha. This is also the case for US producers where ethane prices are sensitive to wider energy markets. However US producers still have an attractive advantage over conventional naphtha-based producers.

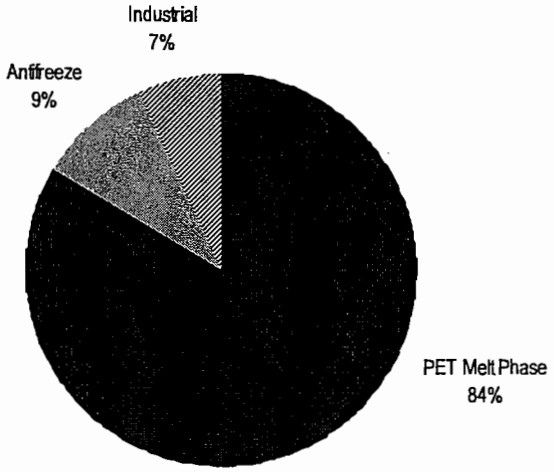
1.5.5 Ethylene Glycol ("EG")

1.5.5.1 Global Overview

EG is a major raw material used in the production of polyester fibre and resin. EG is produced from ethylene oxide ("EO") which is also used as a raw material for other derivatives productions. Global demand in 2009 was approximately 18 million tons and we forecast demand to grow at a 4-5% CAGR over the period 2010-2017. A key driver for consumption growth of EG is the textiles market where polyester holds a strong market position based on cost on performance versus other fibres.

EG is also widely used as an ingredient in antifreeze blends due to its ability to resist freezing. It is commonly used as a de-icer in windshield applications.

Figure 1.21 Ethylene Glycol Global Consumption by Application (2009)



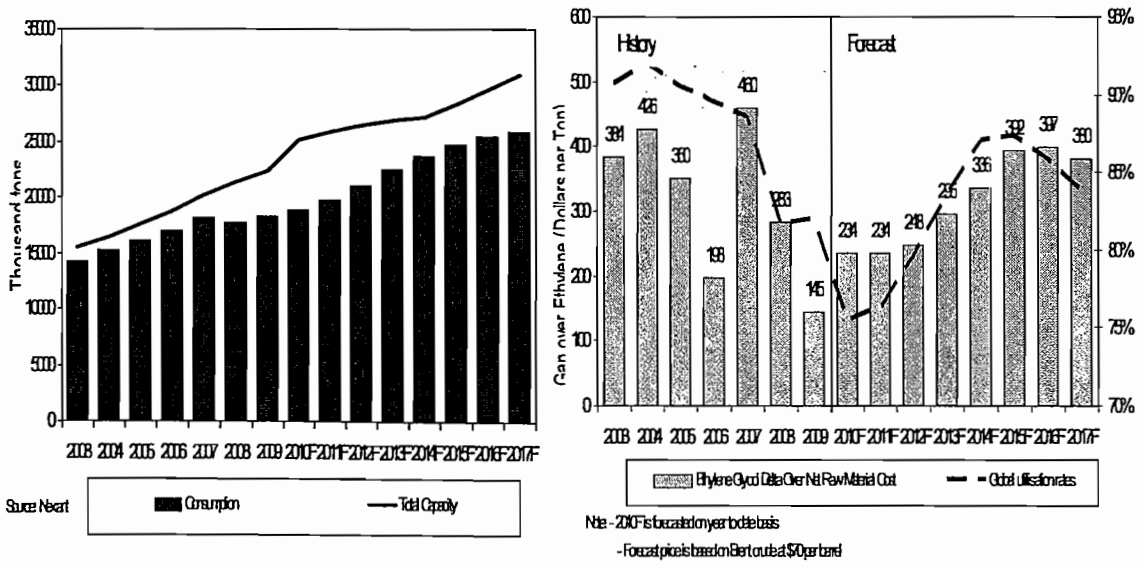
Source: Nexant

Total Consumption = 18.2 million tons

On a global basis, EG demand is highly concentrated in Asia Pacific. This is due to the high concentration of polyester production in the region that has resulted in very high growth rates for EG consumption. Total Asia Pacific demand in 2009 was approximately 13 million tons, or 72% of global demand, and we forecast demand growth of approximately 5% CAGR over the period 2010-2017.

New capacity developments are usually linked to wider olefin complexes and are typically constructed with upstream integration into ethylene oxide. In recent years, most new capacity developments have been taking place in Asia Pacific and the Middle East.

Figure 1.22 Ethylene Glycol Global Supply, Demand and Balance and Spread



Product price spreads over ethylene peaked in 2007 at approximately $460 per ton. This was supported by relatively high industry utilisation backed up by strong market demand. However, price spreads declined sharply in 2009 to approximately $145 per tons as demand growth subsided and new capacity was brought on-stream.

We expect the high level of capacity addition in 2010 to reduce global utilisation rates significantly, to below 80%. Capacity additions of approximately 3.5 million tons per year are expected to come online in 2010. We forecast product price spreads to recover relatively quickly due to strong outlook on consumption growth.

Figure 1.23 Overview of Ethylene Glycol Consumption by Region
(Thousand tons per year)

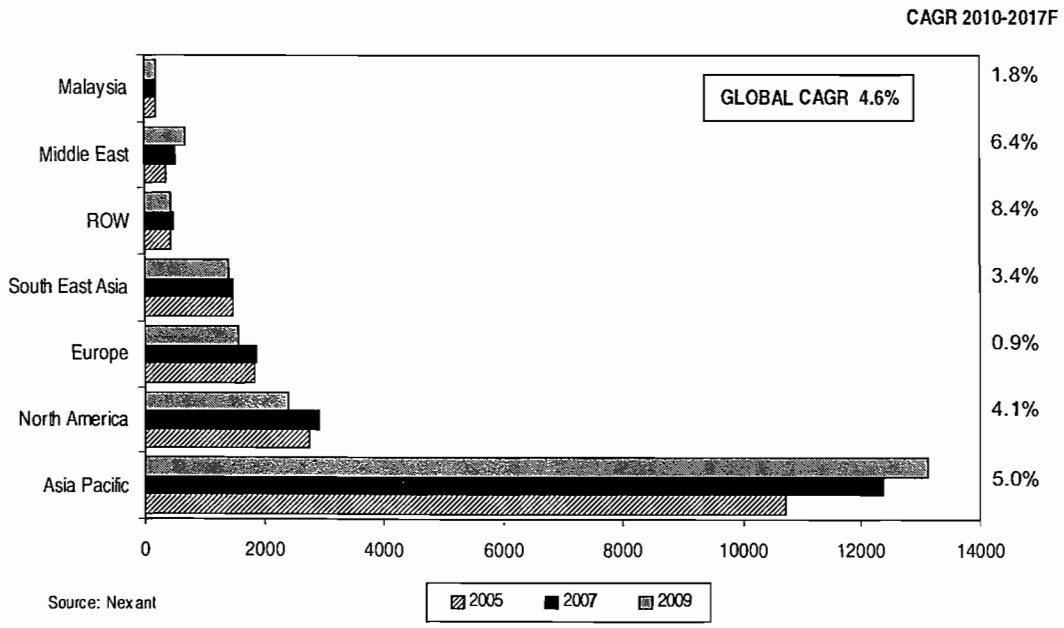
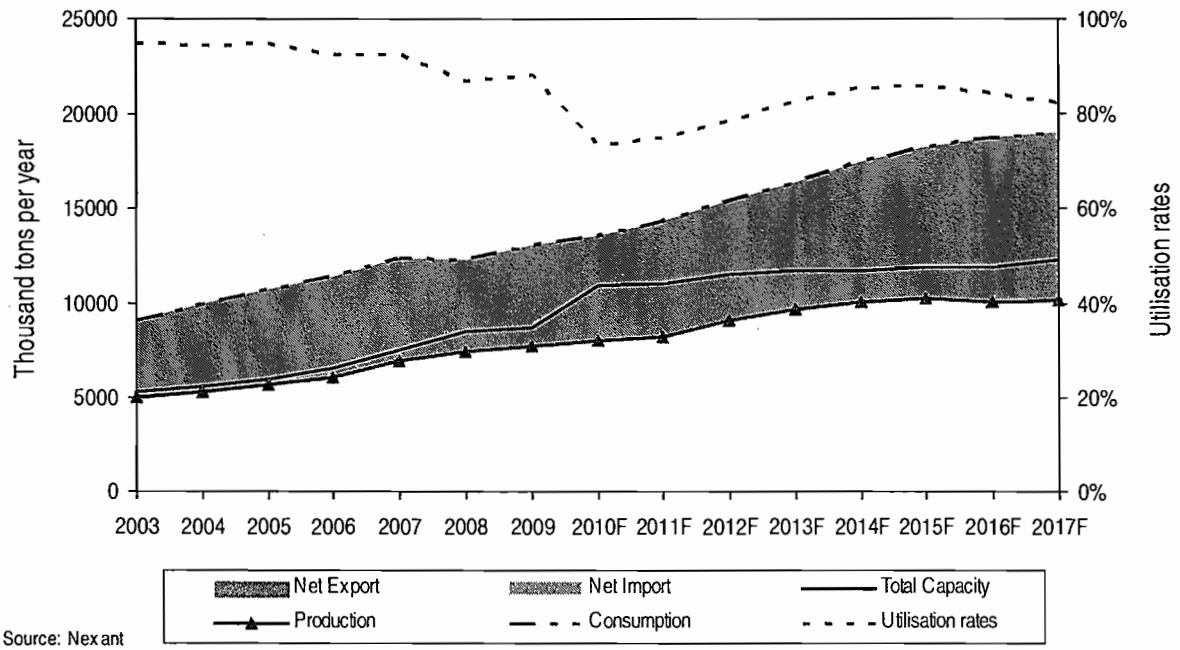


Figure 1.24 Ethylene Glycol Supply, Demand and Trade - Asia Pacific



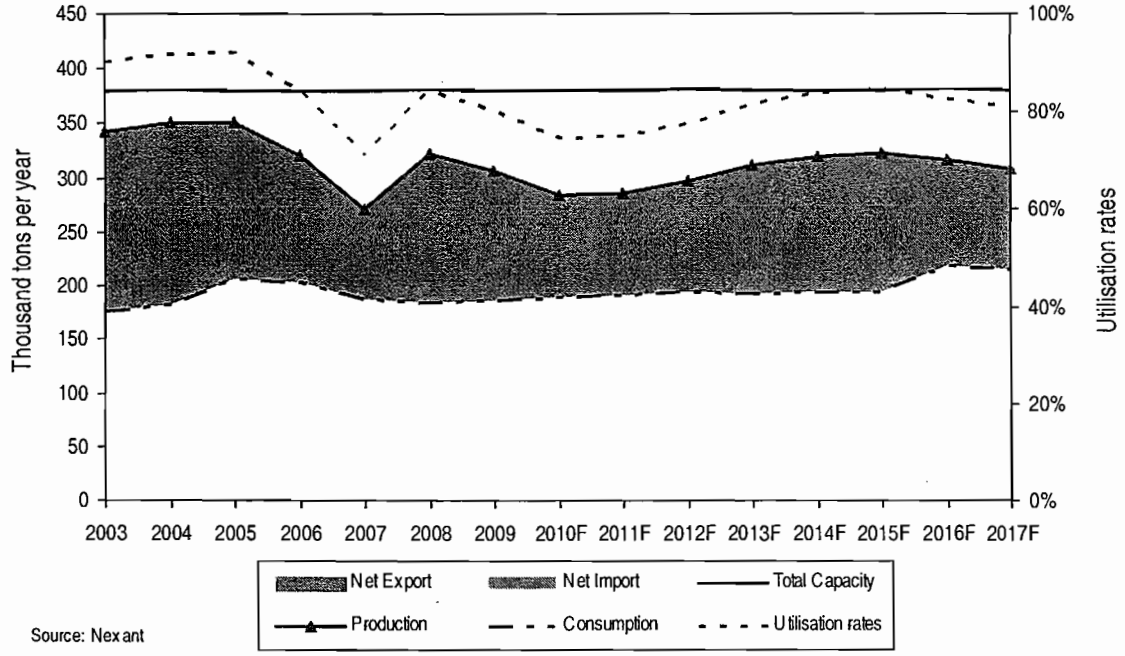
Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

1.5.5.2 Malaysian Market

EG is primarily consumed for polyester production which will continue to be the principal driver for EO/EG growth. Malaysia is a relatively minor consumer of EG and consumed approximately 185 thousand tons of EG in 2009. This accounts for just over 1% of total Asia Pacific demand.

Figure 1.25 Ethylene Glycol Supply, Demand and Trade - Malaysia



Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

We forecast domestic consumption growth to increase at an average annual rate of close to 2% per year from 2010 to 2017. Malaysia has become a net exporter of EG. However, we expect that total net trade will decline modestly as domestic demand for EG continues to grow.

PCG is currently the only EG producer in Malaysia.

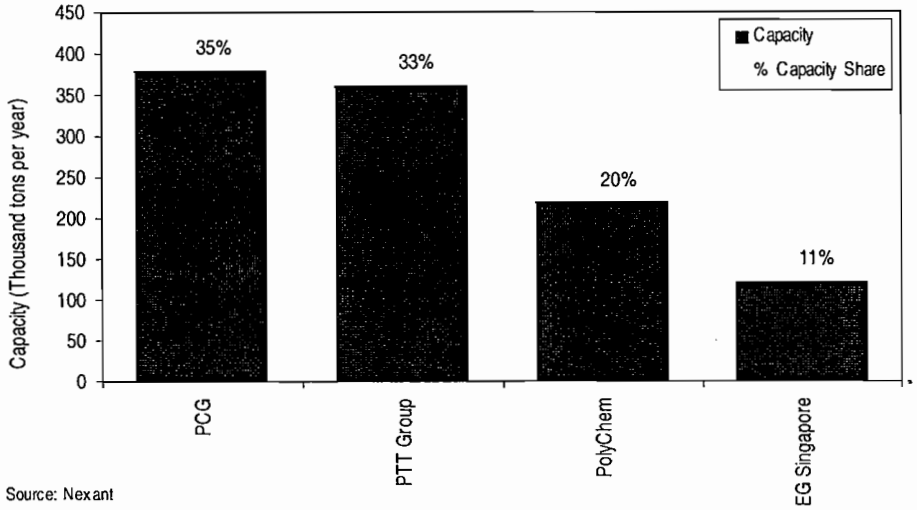
1.5.5.3 Competitive Positioning

Total EG capacity in South East Asia is approximately 1.1 million tons. The supply base consists of only four companies. PCG and PTT together account for an estimated 69% of the regions total installed capacity.

EG Singapore is a joint venture between Shell Chemicals and Mitsubishi. It has been reported that Shell Chemicals is set to commence operation of new 750 thousand tons per year EG facility in Singapore in 2010.

PolyChem is Indonesia's sole producer of EG and also manufactures polyester.

Figure 1.26 Ethylene Glycol South East Asia Producers
(Capacity basis 2009)



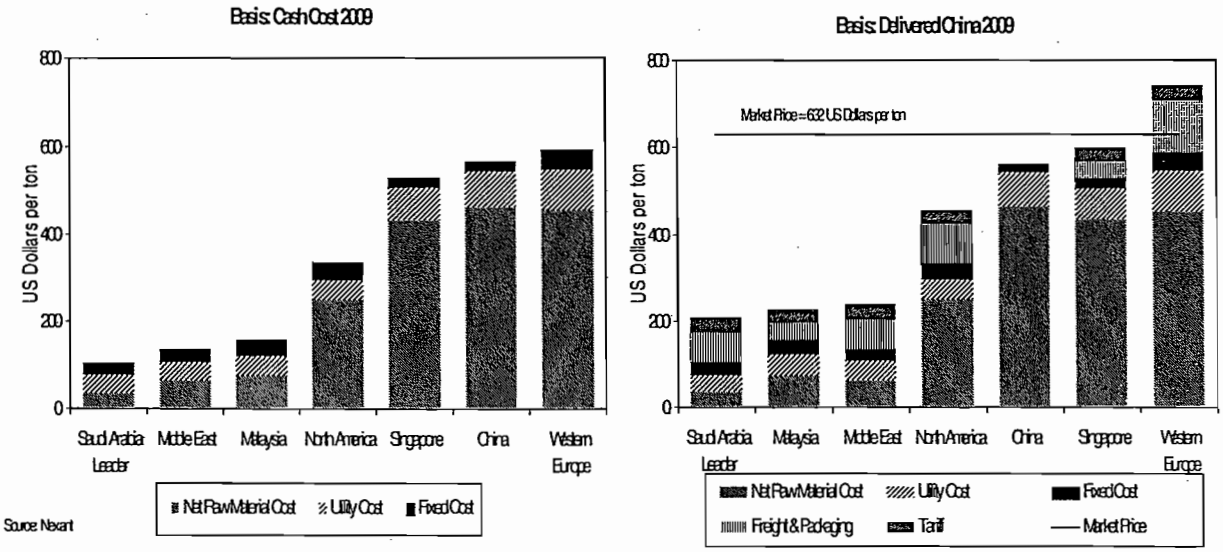
Source: Nexant

EG is produced by the reaction of ethylene oxide ("EO") with water and its economics are therefore driven principally by the cost of ethylene. All EG plants are back-integrated into EO. This is essential as EO is explosive and cannot be easily transported. Cost competitiveness is largely determined by the cost of ethylene supply as most leading producers are also integrated into ethylene feed.

Key assumptions for EG competitiveness include the following:

- All producers have been evaluated on an integrated ethylene basis with ethylene cost being transferred at cash cost.
- EG production costs have been compared on a delivered market basis to China.
- All EG plants except the plant in Singapore employ conventional EO/EG technology (ethylene oxidation and ethylene oxide hydration).
- EG production in Singapore is based on Shell Chemical's OMEGA technology, which gives higher yield of EG per ton of ethylene.
- Import duty of 5.5% was applied for EG exporters into China in 2009.

Figure 1.27 Comparison of Ethylene Glycol Production Costs (2009)



Source: Nexant

EG producers in the Middle East (leader producers) and Malaysia, have much lower cost positions as a result of a low cost ethylene feedstock. Leading Middle Eastern producers have lower production cash costs but bear higher freight costs to key Asia Pacific markets.

Other producers are primarily disadvantaged due to higher ethylene production costs. Producers in Western Europe and North America are also subjected to high transportation costs due to the proximity to the destined market.

1.5.5.4 Other Ethylene Derivatives

PVC

PVC is a highly versatile plastic and the third most widely used after polyethylene and polypropylene. Key applications are tied largely to the construction sector. These include profiles (door and window frames) flooring, pipe & conduit and cable insulation. Global demand for PVC is estimated at approximately 34 million tons and is forecast to grow at approximately 5% CAGR over the period 2010-2017. Asia Pacific currently accounts for approximately 50% of global consumption. The main consumption driver is the construction sector.

Ethylene Oxide Derivatives

More than 70% of ethylene oxide production is used for the production of glycols with the remaining 30% consisting of a variety of smaller chemical intermediates. These include ethoxylates and ethanolamines. These products are consumed largely in mature end-use sectors such as detergents, solvents and gas treatment. However these tend to offer more stable growth, albeit low, and less subject to market cyclicality.

Ethoxylates

Ethoxylates are generally classified in two main categories, alcohol ethoxylates and aromatic based alkylphenol ethoxylates. Ethylene oxide and in some cases propylene oxide are the reactive chemicals employed to form the ethoxylated non-ionic surfactants, which is the principal application for ethoxylates. Smaller volumes of ethoxylates are used as solvents, adhesives and for surface coatings.

Ethanolamines

Ethanolamines end use markets depend largely on application and can vary significantly by geography. Monoethanolamine (MEA) is used in wood preservatives a practice most common in North America while Diethanolamine (DEA) is used in manufacture of herbicides glyophosphates, a practice not common in Europe or other markets. Other DEA applications are relatively small scale and include gas sweetening and pharmaceuticals.

1.6 METHANOL KEY DRIVERS & TRENDS

1.6.1 Global Overview

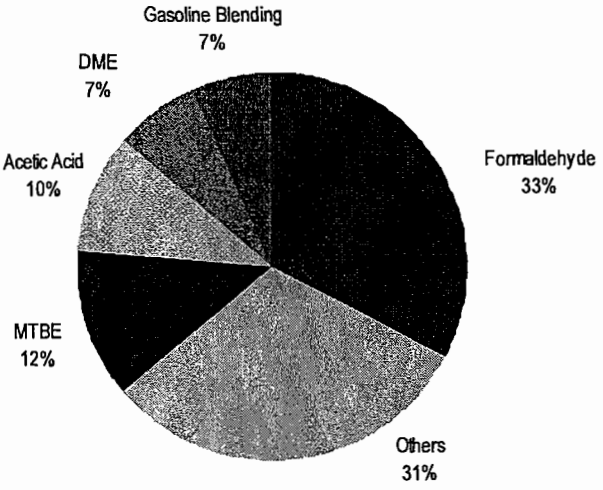
Global methanol demand is approximately 45 million tons. Methanol is consumed as a chemical feedstock (~43%) and in fuel related markets (~22% of the market). The balance of the market is difficult to quantify accurately and includes various applications such as solvent uses, antifreeze and chemical intermediate methylamines (used in textiles and animal feed production).

The major chemical use for methanol is in formaldehyde, which accounts for approximately 33% of global consumption. Formaldehyde is predominantly used in producing resins (glues) for use in binding plywood and chipboard/particle board.

Methyl tertiary butyl ether ("MTBE") and fuels represent the second largest outlet for methanol. However, in the last decade, a large proportion of MTBE demand has been lost because of concerns about groundwater contamination in the US market. As a result, MTBE usage in the US as a gasoline blend component has been phased out completely. MTBE is still widely used as gasoline blend component in other markets outside of the US.

Direct blending of methanol into gasoline has been minimal due to immiscibility, volatility and toxicity issues. Nevertheless, due to high oil prices and insufficient hydrocarbon reserves, methanol blending into gasoline continues to grow in China.

Figure 1.28 Global Methanol Consumption by Application (2009)



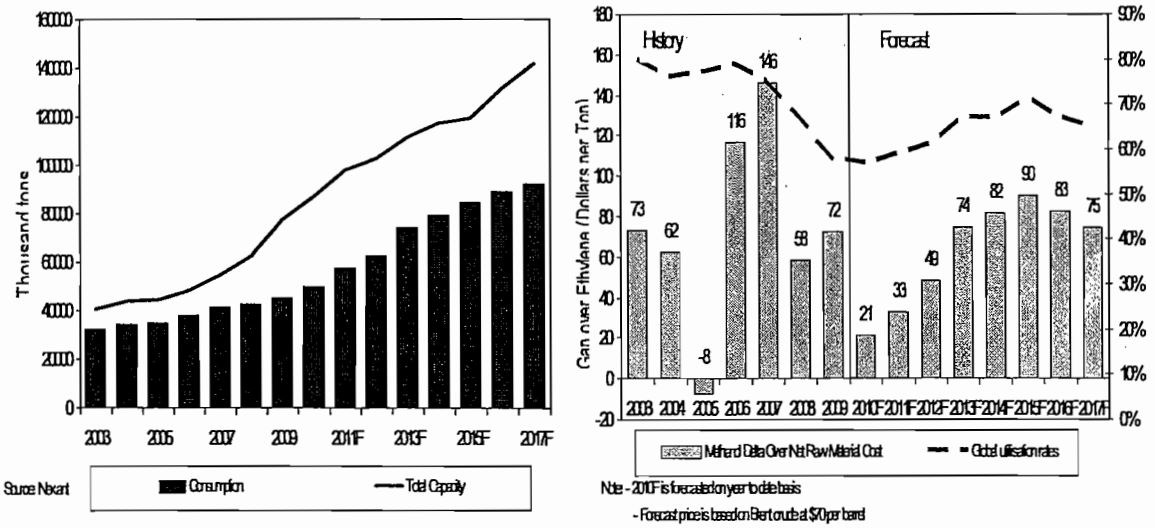
Total Consumption = 45 million tons

Source: Nexant

We forecast global methanol demand to exhibit relatively high growth in the near-term at approximately 9% CAGR over the period 2010-2017. The principal driver for demand is new and emerging applications such as methanol to olefins ("MTO") and dimethyl ether ("DME"), a possible substitute for LPG. Traditional applications are expected to grow more closely to GDP levels.

However, during 2008 to 2009 demand declined for traditional end-uses such as formaldehyde and acetic acid, due to the economic slowdown which negatively impacted the construction and synthetic fibres sectors. Despite this, the wider methanol market continued to exhibit positive growth despite the adverse economic climate.

Figure 1.29 Methanol Global Supply and Demand Balance and Spread



6. INDUSTRY OVERVIEW *(cont'd)*

Globally, methanol is predominantly produced using natural gas as feedstock. As with the pricing of other commodity chemicals, methanol prices have been driven by feedstock costs and supply/demand factors. Due to its transparency, the US natural gas prices are usually used as a feedstock benchmark for methanol production. Spreads between methanol prices and the US gas prices provide the simplified profitability of methanol production.

Average methanol price spreads have come down dramatically in 2009/10 due to the current market oversupply, with a low point in 2009 of just $6/ton based on market priced US gas prices.

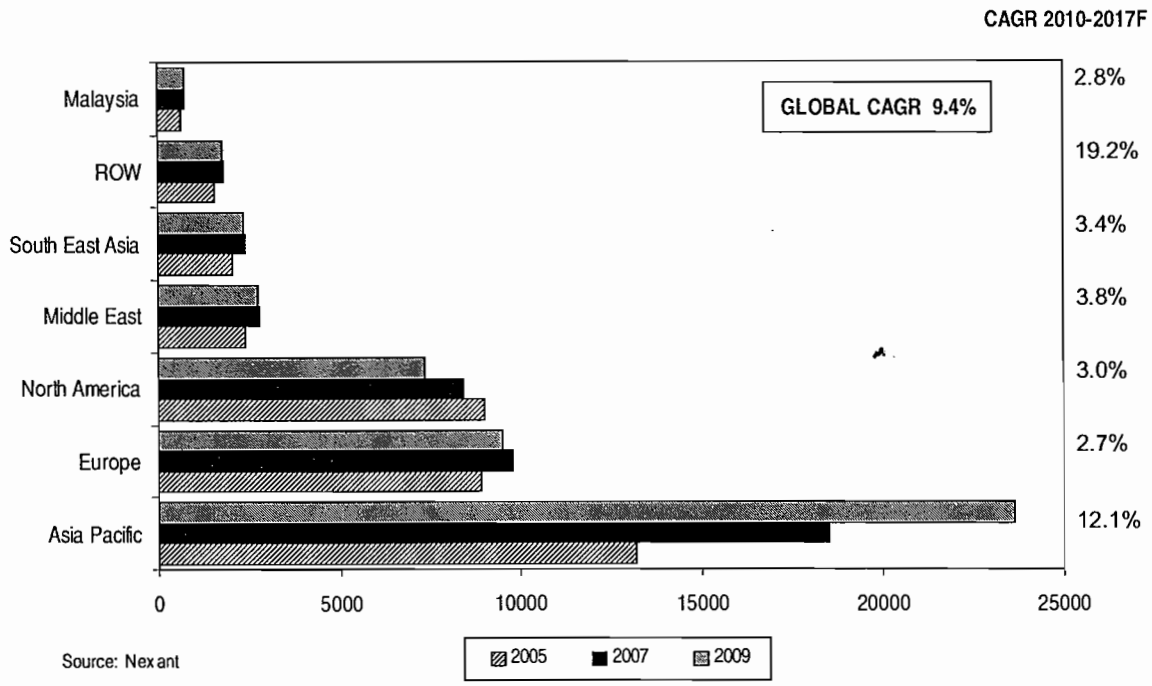
Average utilisation rates have declined quite sharply due to the extent of new methanol capacity coming on-stream in 2009/10. There is also a significant capacity over hang in China from higher cost coal based methanol producers. Many of these producers have been operating at very low utilisation levels recently due to the current oversupply.

We expect average price spreads to recover to an average of approximately $70 per ton over the forecast period, marginally below historic levels. Margins showed a slight increase in 2010 based largely on improved market demand. We expect this trend to continue into 2011 especially as traditional end-use markets recover from the recent economic downturn, and forecast a new peak will occur in 2015.

Methanol prices in Asia Pacific began to recover during the fourth quarter of 2009 and increase significantly in the first quarter of 2010. This is due to supply shortages as regional producers confronted unplanned production disruptions as well as tight supply in China where some of the natural gas based were forced to cease production as natural gas was diverted for heating purposes during winter season.

Major developments in methanol capacities tend be located in the regions with access to low cost natural gas resources such as the Middle East and parts of South East Asia. An additional increase in capacity is also taking place in China via coal-based projects. However, most of these methanol projects are part of fully integrated MTO projects and are expected to have a limited impact on merchant methanol markets. Additionally, many of these coal-based projects are located in land-locked locations, close to coal reserves but long distances from major methanol end users located at coastal locations. Logistics costs to these markets are high due to distance and available infrastructure. As a result, we expect the majority of methanol produced from these projects to be consumed within relatively close proximity of the operations.

Figure 1.30 Overview of Methanol Consumption by Region
(Thousand tons per year)

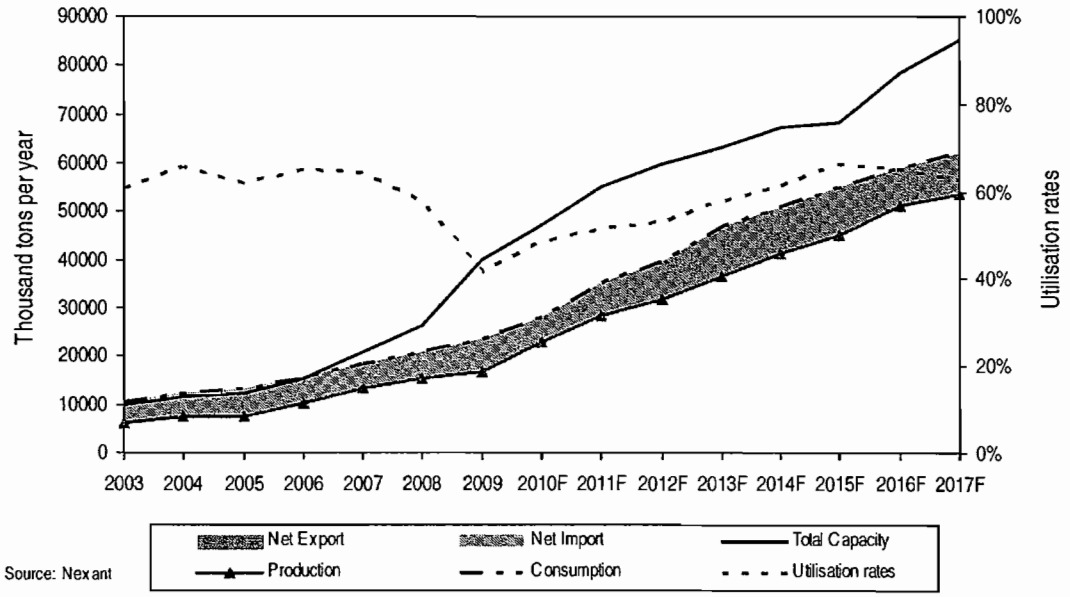


Asia Pacific is the world's largest methanol market with consumption of approximately 24 million tons in 2009. High demand growth in the region is largely associated with China and developing end use markets such as various fuel usages and MTO. We forecast methanol demand growth in China at approximately 15% CAGR over the period 2010-2017.

The price of natural gas is a key determining factor in the location of mega methanol facilities. Recent capacity investments have largely been restricted to regions where advantaged gas pricing is available such as the Middle East, South America and South East Asia.

The only exception to this has been China, where new projects based on a coal feedstock are also being developed. We expect an estimated 28 million tons of new methanol capacity to be added to the Chinese market over the 2009-2015 period. The majority of this capacity is planned for captive consumption via coal to olefins projects.

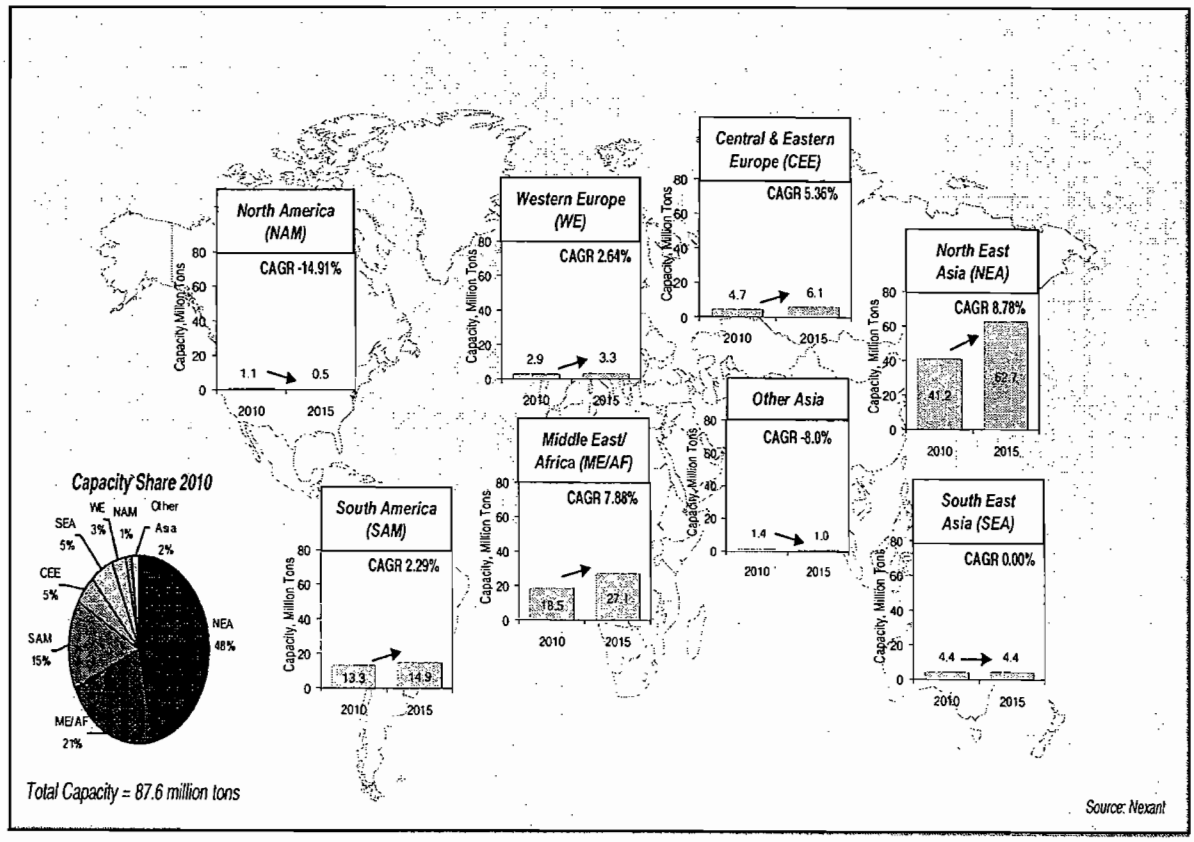
Figure 1.31 Methanol Supply, Demand and Trade - Asia Pacific



Source: Nexant

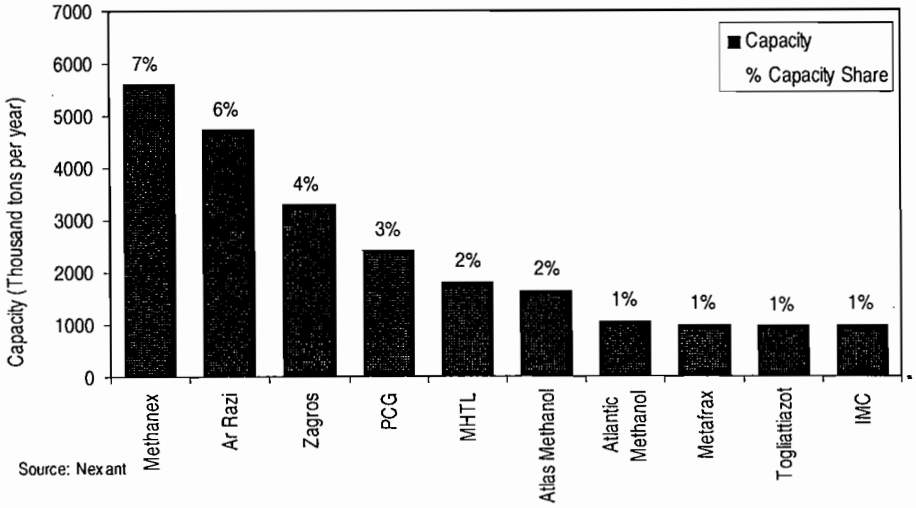
NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

Figure 1.32 Methanol Forecasted Capacity Changes
(Million tons, 2010 vs-2015F)



The combined capacity of the top ten producers accounts for approximately 30% of the global total capacity in 2009. The remaining 70% of the market comprised a highly fragmented group of largely small coal based producers in China.

Figure 1.33 Methanol Top Ten Global Producers
(Capacity basis, 2009)

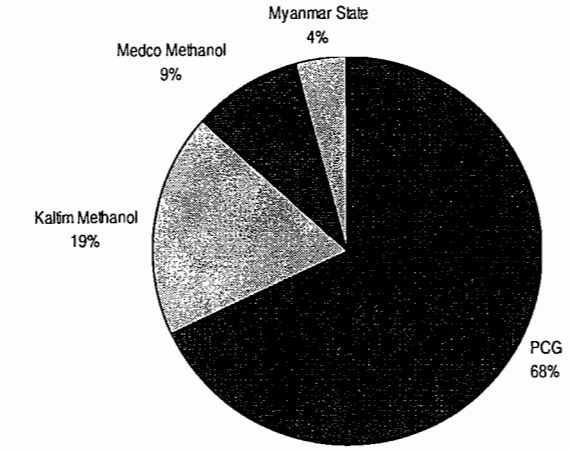


Methanex, the world's largest producer operates multiple sites at different locations around the world and has a total production capacity of approximately 6 million tons. Ar Razi is the world's second largest methanol producer. The company, based in Saudi Arabia, is joint venture between Sabic and Mitsubishi Gas Chemical.

PCG is one of the world's largest methanol producers with an annual production capacity of approximately 2.4 million tons. PCG was ranked as the number four methanol player globally.

The majority of other leading producers are national oil or petrochemical companies that operate locally with access to advantaged gas pricing. The majority of leading methanol producers are 100% merchant suppliers with limited forward integration.

Figure 1.34 South East Asia Methanol Market Share
(Capacity basis 2009)



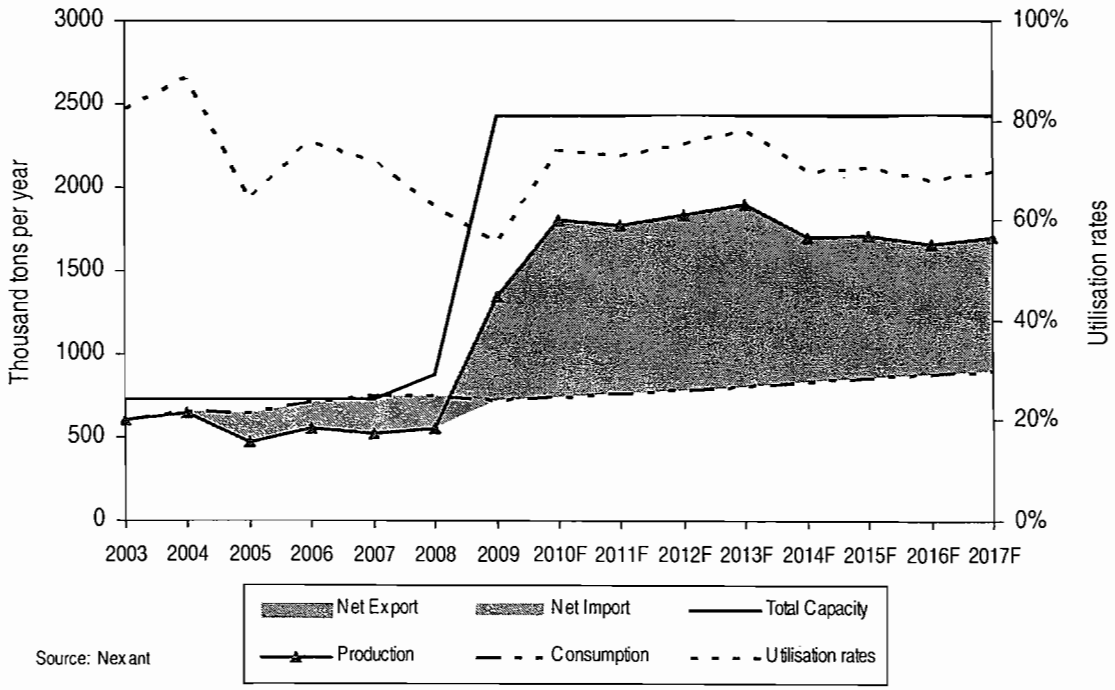
Source: Nexant **Total Capacity = 3.6 million tons**

Note: - Brunei Methanol plans to start up a 850 kta plant in 2010
- Medco Methanol has been shutdown since early 2009

1.6.2 Malaysian Market

Malaysia has historically been a small net importer of methanol. However following the start up of PCG's new mega methanol plant in 2009, the country is now a major net exporter. PCG is the sole domestic methanol producer and exports primarily to other Asia Pacific markets such as Japan, Taiwan, Korea, and China.

Figure 1.35 Methanol Supply, Demand and Net Trade – Malaysia



Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

Methanol demand in Malaysia is driven primarily by chemical uses; acetic acid, formaldehyde (for particle board resin), and MTBE production. Formaldehyde and acetic acid production account for more than half of total methanol use.

1.6.3 Competitive Positioning

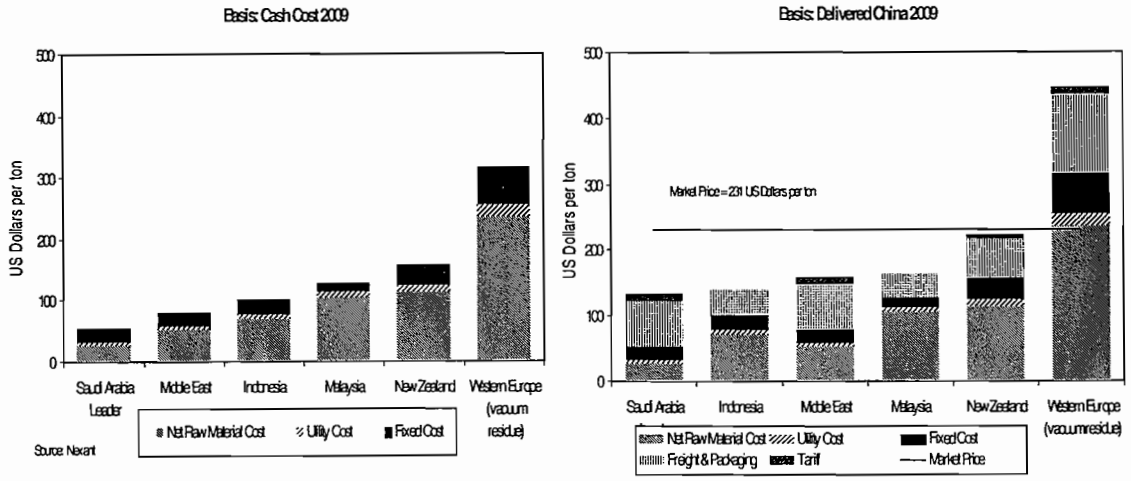
Methanol is large volume bulk commodity that is produced by similar plants utilising comparable production technology. The cost of producing methanol varies greatly by location around the world. The key determining factor for production competitiveness is tied to the prevailing natural gas price. As a result producers in advantaged gas regions have leader production economics.

Secondary factors effecting competitiveness are tied to plant scale (economies of scale) and proximity to market.

Key assumptions for methanol competitiveness include the following:

- Methanol production technology in Malaysia, Indonesia, Saudi Arabia, the Middle East and New Zealand is natural gas-based.
- Methanol technology in Western Europe is vacuum residue-based (representative producer).
- Methanol costs have been compared on a delivered market basis to China.
- Import duty of 5.5% was applied for methanol exports originating from the Middle East and Western Europe in 2009. Under New Zealand-China free trade agreement, methanol exports from New Zealand was imposed with 3.3% import tax in 2009.
- Chinese domestic methanol production from coal has been excluded from the analysis as these costs are location specific and are generally tied to inland locations and markets.

Figure 1.36 Comparison of Methanol Production Costs
(2009)



Overall production competitiveness of methanol depends primarily on feedstock and shipping costs. Producers in lower cost gas regions (Malaysia, Indonesia and the Middle East) are considerably more competitive versus other producers.

1.7 UREA KEY DRIVERS & TRENDS

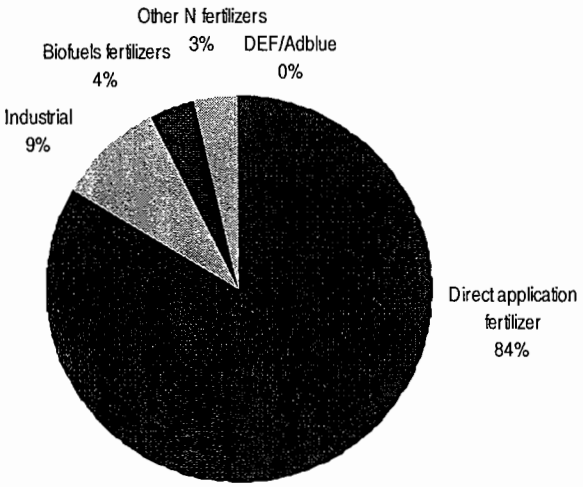
1.7.1 Global Overview

Ammonia demand is driven primarily by urea consumption, which in turn is driven by fertiliser demand. Fertiliser demand has historically been linked to food consumption through GDP and population growth as well as declining availability of arable land, increasing the need to improve yields and productivity. However, in recent years this dynamic has begun to change somewhat, due to the rapid growth in bio-fuels.

Urea is used in many areas of the world as the primary source of nitrogen for crop nutrition. With approximately 46% nitrogen content, it is the most concentrated form of solid nitrogenous fertiliser, and therefore, has a logistical advantage over ammonium nitrate fertilisers. It is used extensively in developing regions of the world and traded widely on international markets.

In addition to fertiliser usage, urea is also consumed in the production of certain resins such as urea formaldehyde resin and melamine. Urea formaldehyde resins are the dominant wood glues in particle board, chip board, and plywood. Over 90% of urea is used in fertiliser applications. The industrial sector, which contributes to approximately 9% of global urea demand, is generally expanding at rates close to GDP.

Figure 1.37 Urea Global Consumption by Application
(2009)



Source: Nexant **Total Consumption = 147 million tons**

Fertiliser consumption growth is the primary driver for ammonia and urea markets and is a function of the following:

- Population growth – resulting in increased demand for food products.
- Increasing wealth – increasing demand for protein rich foods (e.g. meat) and hence grain for cattle
- Declining arable land leading to an increased demand for fertilizers to improve crop yield and productivity
- Government policies on tariffs and subsidies – providing price protection to farmers and promoting consumption of bio-fuels
- Environmental implications – increased agricultural demand for bio-fuel markets

Government subsidies are a key driver for fertiliser demand in many countries as governments recognize the importance of a strong agricultural sector and a need to ensure that they do not become over reliant on food imports to feed growing populations. The cost of applying fertilisers at levels consistent with high productivity can be prohibitively expensive for low GDP/capita countries. As a result, various government schemes have been implemented to protect farmers from volatile pricing thus providing a more stable demand environment for fertiliser products.

These subsidies take many forms and some of the key ones are summarized below:

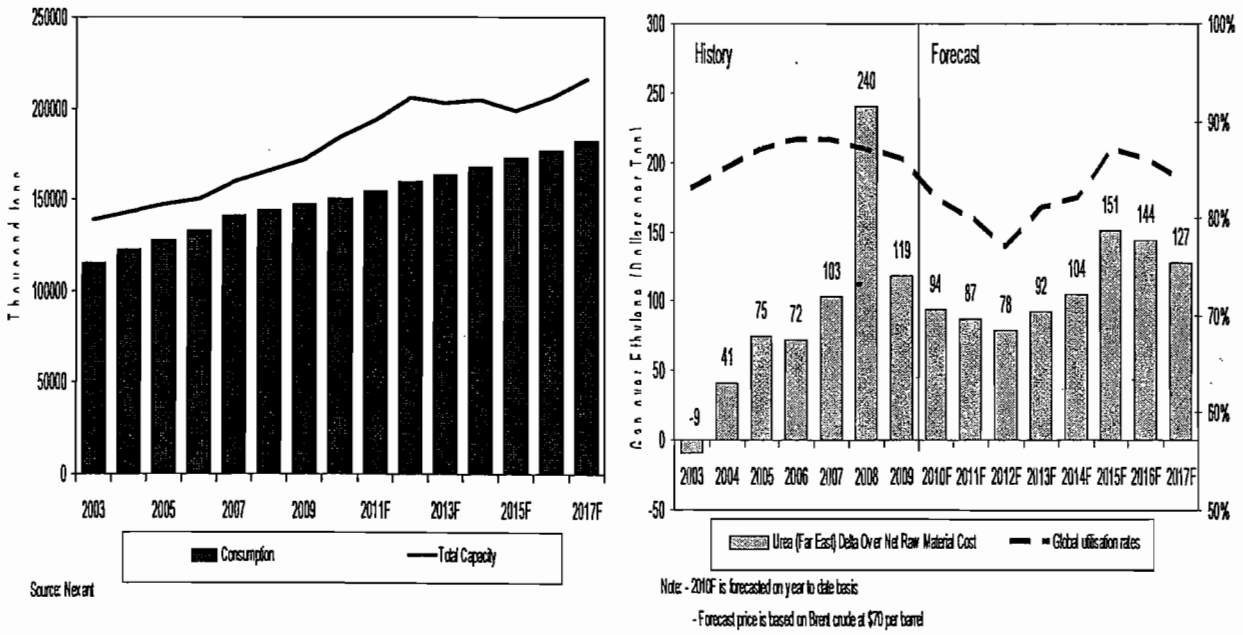
- Direct subsidies
  - direct subsidies to farmers for fertiliser use
  - recompensing fertiliser companies for differentials between market price & cash cost + ROI on a per ton basis
  - tax breaks and VAT holidays for fertiliser manufacturers.

- Indirect subsidies
  - discounts on energy prices for fertiliser manufacture –widely used in regions of high energy costs such as South East Asia and China
  - interest free loans for farmers at the start of the growing season, repayable at harvest time
  - exemption from import tariffs for fertilisers and fertiliser feedstocks such as ammonia and phosphoric acid
  - subsidies for transportation of fertilisers and fertiliser feedstocks.

In general, demand growth for urea is relatively stable and less susceptible to the changing economic environment. This is partly attributed to government subsidies that offer price protection to end users and its application as an essential input into grain production. Overall, global urea demand was approximately 147 million tons in 2009 and we forecast this demand to grow at a CAGR of 2.7% over the forecast period 2010-2017.

However, the market is still cyclical, due to its commodity nature, and new investments are expected to continue to have a downward effect on utilisation rates in the near-term as significant new capacity is added to the market.

Figure 1.38 Urea Global Supply and Demand Balance



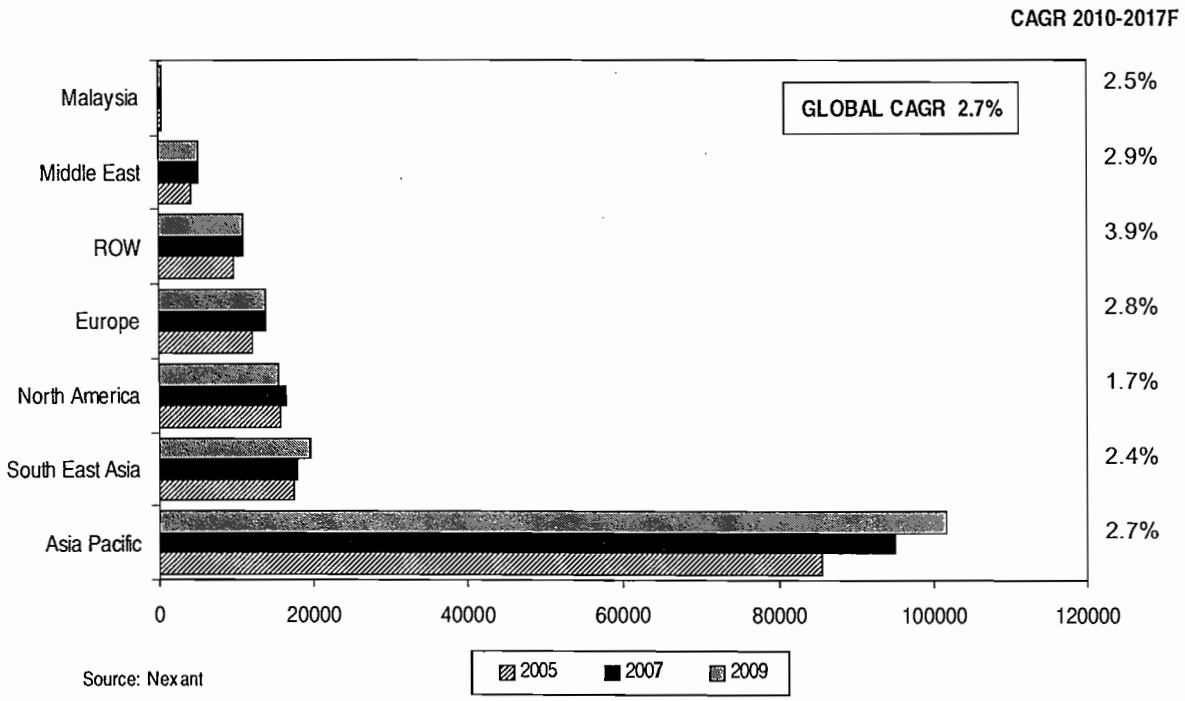
NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities

Average price spreads peaked in 2008 at approximately $240 per ton supported by high industry utilisation rates of close to 90%. However, following the start-up of new capacity and a weakening within some market segments, price spreads declined to approximately $119 per ton. We forecast price spreads to remain relatively low in the near-term as new capacity is added to the market. We estimate that approximately 9 million tons per year of new capacity will commence in 2011 compared with only 4 million tons per year of demand growth which we

outpace the rate of further capacity additions. We forecast average utilisation rates and margins to recover gradually, with a new peak in 2015.

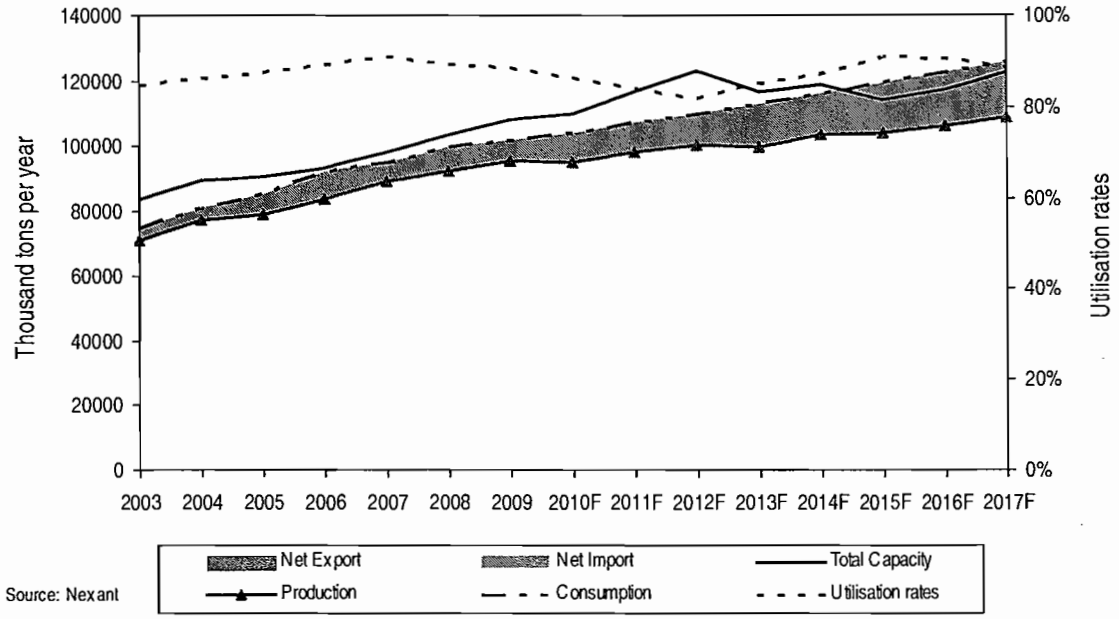
On a regional basis we expect urea demand to grow at higher rates in developing regions where population growth is highest and farming techniques are being improved and industrialized via increased usage of fertilisers. Conversely, North America and Europe are expected to exhibit limited growth due to lower population growth and a well-developed agricultural industry.

Figure 1.39 Overview of Urea Consumption by Region



China is the world's biggest fertiliser consumer, representing more than half of the Asia Pacific market and approximately one third of global demand respectively. Besides China, sizeable urea consumption is found in India, Indonesia, Thailand, and Vietnam.

Figure 1.40 Urea Supply, Demand and Trade - Asia Pacific

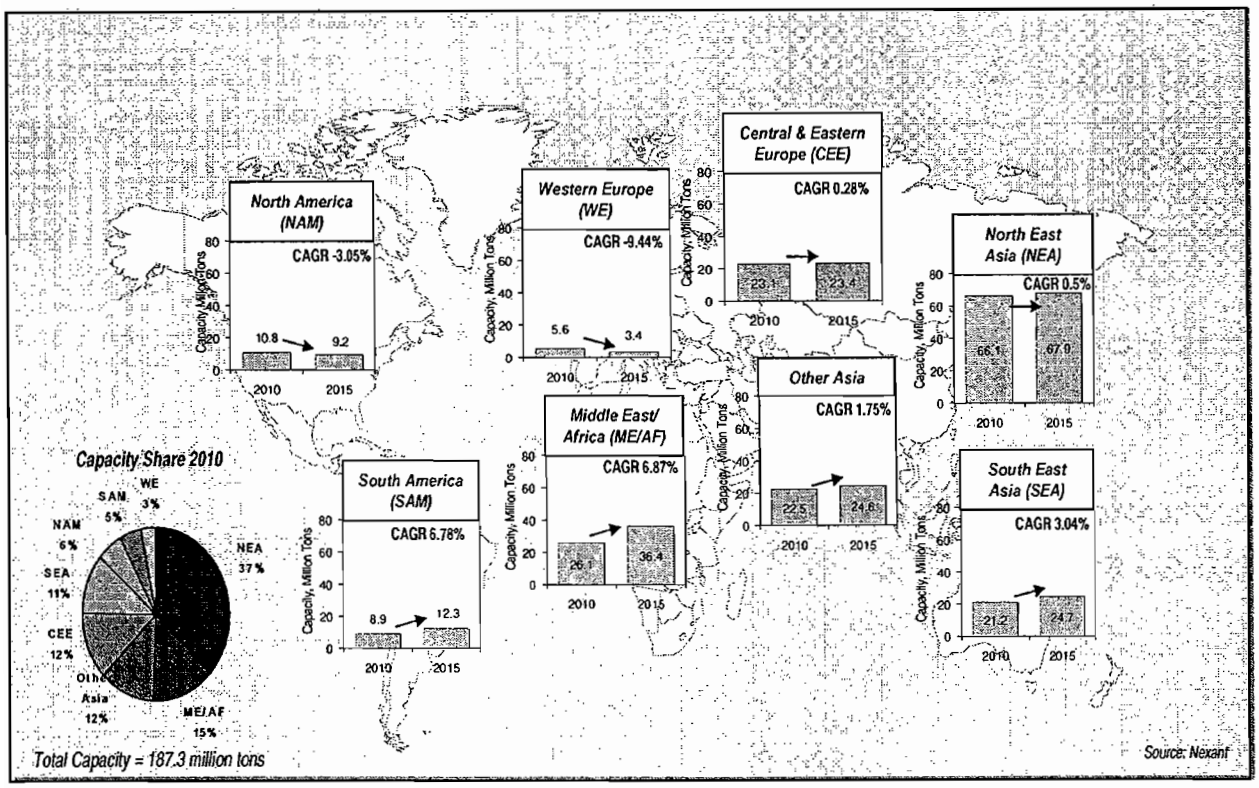


Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

Global urea supply is relatively fragmented and consists largely of regional entities that have access to domestic gas resources. Approximately 10 million tons of new urea capacity is scheduled to be added in the Africa and Middle East regions over the period 2010-2015.

Figure 1.41 Urea Forecasted Capacity Changes
(Million tons, 2010 vs-2015F)

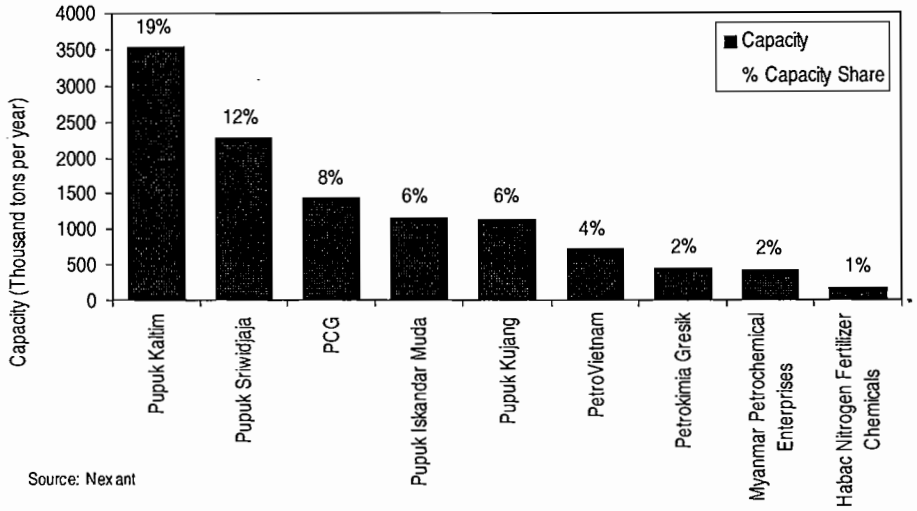


Conversely, urea plant closures are expected to take place in the US and Europe as average price spreads remain below $100/ton level. These are regarded as a higher cost plants for urea production.

The top ten urea producers account for 16% of total global capacity. Most of these players have access to low cost gas and are predominantly located in the Middle East, Africa and Russia.

Urea supply in South East Asia is dominated by Indonesia and Malaysia. Indonesian producers, Pupuk Kaltim and Pupuk Sriwidjaja are currently the two largest urea producers in the region. Most producers in the region are integrated with ammonia feedstock. PCG is ranked as the third largest producer in South East Asia.

Figure 1.42 Urea Top Ten South East Asia Producers
(Capacity basis 2009)



Source: Nexant

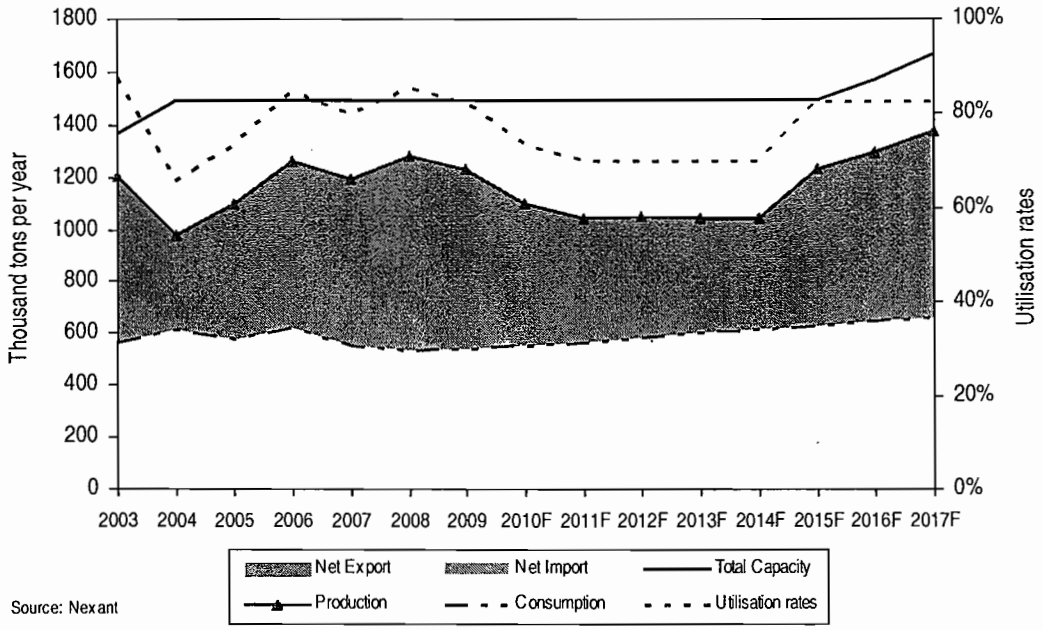
1.7.2 Malaysian Market

Malaysia imports a vast array of fertilisers with the exception of granular urea and ammonia which are produced domestically. Through the availability of low cost gas, Malaysia has become a major producer and exporter of granular urea in Asia Pacific. Total net exports are sustainable at approximately 500-700 thousand tons per year or approximately 50% of production.

The domestic urea market is relatively small and only offers modest growth prospects. As a result, Malaysia is expected to continue as a significant net exporter of urea over the 2010-2017 period. Major export destinations include Thailand, the Philippines, Australia, Japan, and other Asia Pacific countries.

PCG is the sole urea producer in the country with two production facilities located in Bintulu and Gurun Kedah. Both of these facilities are integrated with ammonia productions.

Figure 1.43 Urea Supply, Demand and Net Trade – Malaysia



Source: Nexant

NB. Utilisation is total production expressed as a percentage of nameplate capacity excluding mothballed facilities.

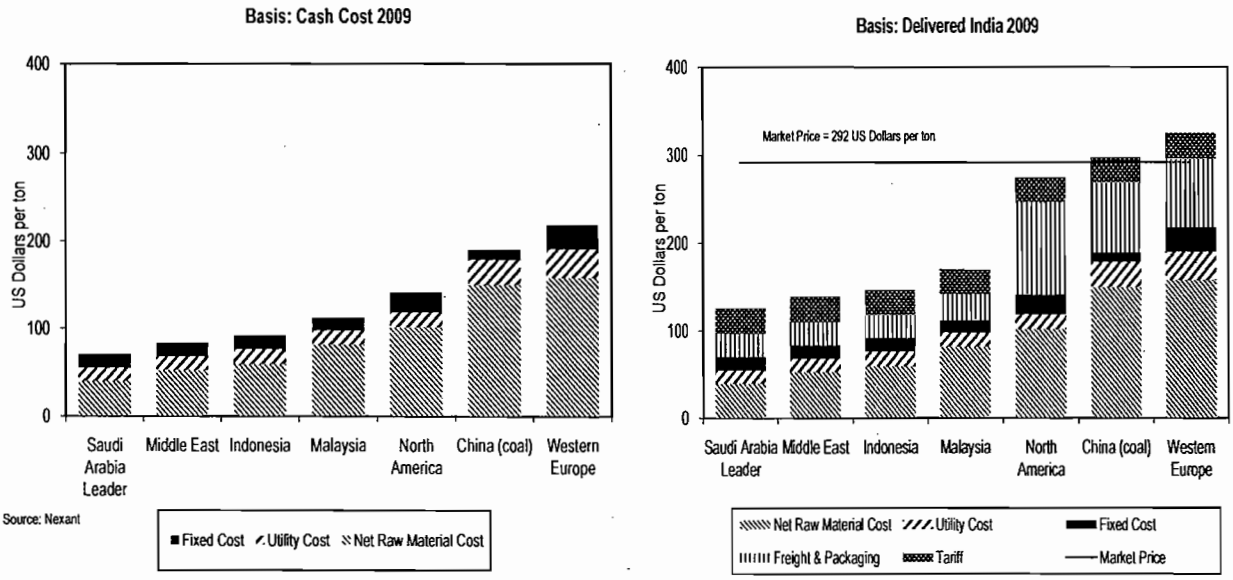
1.7.3 Competitive Positioning

The key determining factor for production competitiveness in ammonia/urea is tied to the prevailing natural gas price. As a result producers in low cost gas regions have leader production economics.

Key assumptions for urea competitiveness include the following:

- All models are based on integrated ammonia/urea production with ammonia transferred at its cash cost of production. With the exception of China which is coal-based other technologies are gas based.
- Comparisons have been made on a delivered market basis to India (a major net importer of urea).
- Existing market tariffs of 10% are applied to all producers for exports to India.

Figure 1.44 Comparison of Urea Production Costs
(2009)



The cash cost of urea is generally dominated by feedstock costs and scale of production. As a result producers from the Middle East, Malaysia and Indonesia have leading comparable competitive positions. Additionally there are producers in other locations such as Africa and Russia that have comparable production costs.

Chinese producers, utilising coal, are relatively high cost in comparison but have a minor advantage over producers in North America and Western Europe.

7. BUSINESS OF OUR GROUP

7.1 OVERVIEW

We are the leading integrated petrochemicals producer in Malaysia and one of the largest petrochemicals producers in Southeast Asia, involved primarily in manufacturing, marketing and selling a diversified range of petrochemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. We have a production capacity of over 11 million mtpa, which includes the production capacities of our Subsidiaries as well as our share of the production capacities of our Associates and Jointly Controlled Entity. We were established as part of the PETRONAS Group in order to maximise value from Malaysia's ample natural gas resources and have over 25 years of experience in the petrochemicals industry. For the year ended 31 March 2010 and the 4 months ended 31 July 2010, our petrochemical plants achieved an average reliability rate of 96.2% and 95.6%, respectively, and we produced a total of 7.4 million mtpa and 2.9 million mtpa, respectively, of petrochemical products during the same periods.

We have two major operating business segments: our olefins and polymers segment and our fertilisers and methanol segment. Our operations are vertically integrated, and we are well positioned to take full advantage of the synergies in our production processes. We operate 2 IPCs in eastern Peninsular Malaysia, one at Kertih and another at Gebeng. Through our IPCs, we seek to leverage the synergistic linkages and integration both within plants as well as between common infrastructure and support facilities within the IPCs, making the entire manufacturing process more cost effective and efficient. We also operate three manufacturing complexes in Gurun, Bintulu and Labuan that produce fertiliser and methanol products, as well as a PVC plant in Vung Tau, Vietnam. Our production facilities benefit from various support operations of the PETRONAS Group, including those provided by CUFs, and access to ports and a railway link providing an integrated and reliable logistics system. For a more detailed description of production facilities, refer to Section 7.7 of this Prospectus.

We have been involved in several large-scale petrochemical projects with multinational joint venture partners. In undertaking these types of projects, we have sought joint venture partners with the appropriate technology, financing capability and marketing and distribution expertise, enabling us to acquire advanced petrochemical expertise and technological know-how. Our joint venture partners have included Dow Chemical, BASF, BP Chemicals, Idemitsu Kosan, Mitsubishi Corporation and Sasol Limited.

We have a diversified portfolio of products. We are the largest producer of methanol by volume in Southeast Asia and fourth largest in the world. We are the largest producer of ethylene glycols and the third largest producer of urea in Southeast Asia by volume. We are also the largest producer of LDPE in Southeast Asia based on installed capacity. We are the market leader in the Malaysian petrochemicals industry based on our sales of urea, glycols and methanol, and are the only producer of methanol, urea, paraxylene, MTBE and certain specialty chemicals in Malaysia. For the year ended 31 March 2010, our sales in Malaysia accounted for 44.8% of our revenues, while the remainder was derived from sales in other countries. We continue to seek opportunities to establish our products both in Malaysia and in other countries, with a particular emphasis on the growing Asia-Pacific region, including China.

As at 31 March 2010 and 31 July 2010, we had total assets of RM26,892 million and RM25,064 million, respectively. For the year ended 31 March 2010 and the 4 months ended 31 July 2010, we generated PAT of RM2,594 million and RM938 million, respectively, on net revenue of RM12,203 million and RM4,218 million, respectively.

7.2 COMPETITIVE STRENGTHS

We are the leading integrated petrochemicals producer in Malaysia and one of the largest in Southeast Asia, with reliable and attractively priced feedstock, operating a number of world class production sites, which are fully vertically integrated from feedstock to downstream end-products. Our strong and experienced management team and skilled employees operate these assets according to a culture of operational excellence in order to produce a highly diversified product portfolio which we market from our strategic location close to our key markets through our established and wide distribution and marketing network. We benefit from the reputation, sponsorship and support of the PETRONAS Group, which along with our strong strategic partnerships with global petrochemical players has allowed us to generate highly attractive and resilient profitability levels.

We believe our principal competitive strengths are:

7.2.1 Reliable and attractively priced gas feedstock

We have secured a reliable supply for our gas feedstock requirements, pursuant to long-term supply agreements with the PETRONAS Group, at prices we believe to be attractive. The feedstock covered by these agreements, principally, methane, ethane, propane and butane, is delivered to our facilities via the PGU pipeline network, also operated by the PETRONAS Group. We are the only company to which the PETRONAS Group supplies gas feedstock for petrochemicals production, and we currently do not purchase gas feedstock from any other suppliers.

Our feedstock sourcing prices vary according to production facility. Ethane is an attractive feedstock because of its high and cost-effective ethylene yield and is our most important feedstock as products from the ethylene value chain are the largest contributor to our revenue. We currently purchase ethane at prices which Nexant believes are in line with those paid by the average Middle Eastern petrochemicals producers. For propane and butane, we are currently paying lower prices than the published Saudi Aramco delivered propane and butane contract prices. We purchase methane as feedstock for our fertiliser plants at an attractive discount to the average of a basket of global urea prices.

According to Nexant, we are amongst the lowest cost major producers of ethylene and ethylene derivatives globally. We believe this is a result of our attractive feedstock costs, full vertical integration, and operational excellence. According to Nexant, our ethylene production costs are slightly lower than those of the average Middle Eastern producers while our production costs for polyethylene and ethylene glycols are similar to those of the average Middle Eastern producers. Nexant ranks our urea production costs as slightly higher than those of Indonesian producers, who in turn have costs that are marginally higher than those of the average Middle Eastern producers.

7.2.2 Leadership position in Southeast Asia underpinned by world class production sites

We are one of the largest petrochemicals producers in Southeast Asia, enjoying a top three position across a number of our key products, according to Nexant. With respect to methanol, we are the largest producer in Southeast Asia and the fourth largest in the world. Our new Mega Methanol plant in Labuan, with a capacity of 1.7 million mtpa, is the largest methanol plant in Asia, and also one of the largest globally. We are also the largest producer of ethylene glycols and the third largest producer of urea in Southeast Asia by volume. We are also the largest producer of LDPE in Southeast Asia based on installed capacity. In Malaysia, we are the largest producer of olefins, methanol and urea, and the second largest producer of polyolefins.

Our leading regional market position is underpinned by the sophistication and scale of our manufacturing sites. Our production sites comprise a number of world class facilities that employ modern technologies by leading licensors such as Linde, Dow Chemical, Lummus, and Lurgi, which, together with the production facilities of our Associates and Jointly Controlled Entity, have the capacity to produce over 11 million mtpa of petrochemical products.

7.2.3 Fully integrated petrochemicals operations

We benefit from a high degree of integration within and across our production facilities, from the intake of feedstock to the manufacture of downstream products. This allows us to achieve highly efficient production, minimising both logistics costs and product wastage in between each step of the production chain. Our high degree of integration also maximises the economies of scale of our facilities and reduces our fixed costs per product unit. Moreover, we believe that the integration of our facilities provides us with operational flexibility to readily alter our product mix and production levels in response to prevailing market conditions. Such flexibility further enhances our operating efficiency, competitiveness and responsiveness, and allows us to achieve greater stability in volumes and sales.

Our petrochemicals production base is principally comprised of 2 IPCs at Kertih and Gebeng and 3 production complexes at Labuan, Bintulu and Gurun. Our IPCs are fully vertically integrated production sites, with dedicated pipelines supplying natural gas and other feedstock from the PETRONAS Group, that are connected to our olefin crackers and other chemicals and polymer plants located within the respective IPCs. This vertical integration allows us to fully utilise co-products (such as certain gases and steam) and recycle any by-products throughout the facilities, minimising the amount of wasted feedstock molecules.

In addition, each IPC contains a full complement of necessary infrastructure and support services. In particular, each IPC has a CUF onsite which provides electricity, steam, industrial gases, waste water treatment services and other utilities to our production facilities. Moreover, each IPC has its own logistics terminal, warehousing space, and loading and unloading bays for truck deliveries to domestic customers. Finished products for export can also be piped to each IPC's dedicated port and bulk loading/unloading facilities for overseas shipping. For the Kertih IPC, we own the port that is located onsite and both IPCs are linked to the Kuantan port by a railway line owned and operated by the PETRONAS Group.

7.2.4 Strong operational excellence

We have a strong culture of operational excellence and a disciplined management system that we share with the other companies in the PETRONAS Group. We have built upon the industry-leading practices we have absorbed from our joint ventures and partnerships with leading global petrochemicals operators such as Dow Chemical and BASF to create models of organisational, technical, operational, and managerial excellence.

In 2003, we embarked on a systematic approach of Operating Performance Improvement ("**OPI**"), which was centered on capability development and building a continuous improvement culture, to propel our asset performance towards world-class standards. OPI has played a major role in making changes happen and delivering its impact through leadership at all levels. The OPI impact has been tracked along three dimensions – opportunity captured, capability built through Technical Path Career Progression and sustainable performance oriented culture.

As a result, we have developed a highly reliable and safe operational methodology and work culture, with average plant reliability rate of over 96% and very low rates of recordable incidents or lost time injuries in our facilities. As a result, we have been able to achieve operational excellence with exemplary track record with respect to health, safety and the environment.

Additionally, each of our production facilities has its own quality control unit and the quality management system employed by each of them is certified to the appropriate ISO standards, such as ISO 9001 and, for some of our quality testing facilities, ISO 17025. We employ stringent standards to ensure that our products meet or exceed the quality level and specifications that our customers expect from us.

7.2.5 Attractive and diversified product portfolio

Our business is highly diversified compared to our peers that are engaged only in commodity chemicals production. Through the full vertical integration of our operations, we can leverage our attractively priced feedstock supply to efficiently produce a full range of products along each of the methane, ethane, propane and butane value chains, from upstream olefins through to downstream intermediate and derivative performance chemicals. Although we began our business in 1985 producing only approximately 0.5 million mtpa of fertiliser products, we have invested significantly to expand and develop our product portfolio since then. We have a demonstrated track record of creating significant value from our ethane, propane, methane and butane feedstocks, and for the year ended 31 March 2010 and the 4 months ended 31 July 2010, we generated revenues of RM9,255 million and RM3,183 million from olefins and polymers, RM2,886 million and RM1,008 million from fertilisers and methanol, respectively. Moreover, in addition to our established portfolio of products, we continue to modify our existing products for new applications as well as to develop and commercialise new products through our research and development efforts.

Today, our diversified product portfolio includes ethylene, propylene and a range of their respective derivatives. In addition to urea and methanol, we also produce downstream intermediate and derivative performance chemicals such as ethanolamines, nonyl phenol ethoxylates, surfactants, polyethylene glycol, primary alcohol ethoxylate, and gas treating fluids, which we believe achieve premium pricing due to the fact that they are less commoditised and are protected by higher barriers to entry such as technology and market access. Through our Associates and Jointly Controlled Entity, we also produce acrylics, oxo-alcohols, butanediol, acetic acid and styrene monomer.

Our diversified product portfolio combined with our operational flexibility help mitigate the effects of cyclicality of any single product and enable us to record resilient results during economic downturns. Moreover, because we offer a wide range of products to our customers, we are able to cater to our existing customers' wide array of needs as well as attract new customers, further strengthening the stability of our business.

7.2.6 Strategic location close to key growth markets

We believe that demand for petrochemical products in Asia will experience strong growth driven by a combination of non-cyclical factors including wider scale investments in manufacturing industries, rising income levels and growing populations.

The strategic location of our production facilities across Malaysia facilitates efficient distribution and transport to our customers both in Malaysia as well as to other countries. The Kertih and Gebeng IPCs together form a petrochemicals hub on the east coast of Peninsular Malaysia that benefits from ready access to rail and road networks to other major industrial areas of Malaysia and to sea ports for marine transportation to international locations. Ships using these key ports located close to our production sites are able to avoid the busy Straits of Malacca, minimising delays in delivery to customers in our principal export destinations in Southeast and Northeast Asia.

We believe that the strategic location of our production facilities is a key competitive advantage over Middle Eastern producers that seek to compete with us in similar markets. Combined with our strategic location and our leadership position in Asia, we believe that we are well positioned to take advantage of the positive outlook for demand for petrochemical products in Asia to further grow our business.

7.2.7 Resilient financial performance with high profitability

We believe the combination of our attractive feedstock costs, highly efficient operations and attractive end-market dynamics, among other things, has allowed us to enjoy a strong competitive advantage and enabled us to achieve profitability that has been highly resilient to economic cycles, with EBITDA margins averaging 43.4% between the 3 years ended 31 March 2008, 31 March 2009 and 31 March 2010, and 34.3% for the 4 months ended 31 July 2009 and 31 July 2010, and high cash flow generation, with a cash conversion rate averaging 77.9% between the 3 years ended 31 March 2008, 31 March 2009 and 31 March 2010, and 83.5% for the 4 months ended 31 July 2009 and 31 July 2010.

7.2.8 Established and extensive marketing and distribution network

Our company has developed a strong marketing and distribution operation with a wide network serving approximately 550 customers in Malaysia and approximately 900 customers in over 25 countries internationally, principally in Asia. Leveraging on our consistent large production volumes, MITCO, as our primary marketing arm, serves a vital link in our integrated business model, enabling us to connect our products with our end-customers.

Through our sales, marketing and distribution staff, we enjoy longstanding relationships with many of our customers, and we have been able to grow and maintain market share both domestically and in the countries we export to, and we are able to capitalise on our established reputation as a reliable supplier to expand our reach into new markets.

In addition to selling and marketing the products we produce, MITCO also trades petrochemical products, principally to enhance our marketing capability through increased volumes. By increasing the volume of products it handles, MITCO is able to enhance its visibility in the market and expand its network of suppliers and customers. This enables MITCO to obtain better insights about prices as well as supply and demand conditions for petrochemical products. In addition, MITCO's trading activities allow us to ensure continuity of supply to our customers when it becomes necessary to procure additional supplies to meet our customers' requirements.

7.2.9 Strong strategic partnerships with global petrochemical players

We have a track record of highly beneficial partnerships with global strategic chemical partners such as BASF, Dow Chemical, Sasol Limited, BP Chemicals, Mitsubishi Corporation and Idemitsu Kosan. Through a number of joint ventures and equity co-investments, we have been able to gain international market access, technology and production know-how, while our partners have benefited from access to attractively priced feedstock and integrated production facilities in strategically located sites.

We believe our reputation as a reliable partner allows us to take advantage of market opportunities and mitigate any downsides to such investments through shared facilities and other operational and marketing partnerships. We continue to work with our partners to exchange ideas, collaborate on R&D and share best practices and know-how as part of our on-going efforts to continuously enhance our capabilities and to remain as a partner of choice for petrochemicals in Southeast Asia.

7.2.10 Reputation, sponsorship and support from the PETRONAS Group

Our principal shareholder, PETRONAS, is a fully integrated global oil and gas company, and wholly-owned by the Government of Malaysia. We believe that the "PETRONAS" brand is recognised within the oil and gas industry for its strong culture of shared values, operational excellence, long-term commitment to the countries in which it operates, and reliability as a supplier. These values form the core of our businesses and are a heritage on which we intend to build.

Given its significant shareholding in our Company after the offering and its role as the supplier under our long-term feedstock supply agreements, we believe that PETRONAS will continue to be a strong sponsor of our business. In addition, we believe that the importance of our Company to the PETRONAS Group ensures its strong and on-going support in terms of consistency of feedstock supply, business opportunities and managerial and technical resources. We believe this synergy will position us well to participate in and take advantage of future growth opportunities in the petrochemicals business that may arise from further expansion by the PETRONAS Group.

7.2.11 Strong and experienced management team

Our management team is composed of highly experienced managers with longstanding leadership experience, as well as significant industry knowledge across the entire petrochemicals value chain. In particular, our President/Chief Executive Officer, Dato' Tengku Mahamad bin Tengku Mahamut, and the Heads of our Olefins and Polymers and Fertiliser and Methanol divisions, Abd Manaf bin Abd Hamid and Yusa' bin Hassan respectively, together have approximately a combined 59 years of experience in the petrochemicals industry. Together with our Chief Financial Officer, Wan Shamilah binti Wan Muhammad Saidi, the key management team has a combined 77 years of experience within PETRONAS.

Our management team has broad experience across the spectrum of business activities from operations to sales and marketing, and has a proven track record of successfully implementing capital-intensive projects to increase our production capacities. The team was instrumental in acquiring Dow Chemical's stake in the OPTIMAL Companies in 2009 and operating these entities as our subsidiaries since the acquisition. Based on this track record, we believe that our management team has the necessary experience and knowledge to successfully manage and grow our business.

7.3 BUSINESS STRATEGIES AND FUTURE PLANS

Our objective is to maximise our shareholder value by consolidating our position as a market leader in the Asian petrochemicals industry in terms of integration of operations, focus on key growth markets, profitability and return on capital. In the shorter term, we intend to focus on consolidating our petrochemical activities and maximising their efficiency, as well as strengthening our marketing and sales network. In the medium to longer term, we will look to expand our product portfolio and production capacity, including through the development of new production plants using gas and alternate types of feedstock, as well as potentially synergistic and prudent acquisitions to pursue growth.

7.3.1 Consolidation of our petrochemicals activities

As we develop our business, we will continue to focus on increasing the efficiency and profitability of our operations. We intend to continue the process of consolidating all of PETRONAS' petrochemicals activities into a single entity. This multi-phase process began with the Reorganisation, through which all of PETRONAS' petrochemicals businesses became part of our Group. The subsequent phases, after our IPO, will entail further integration of our Group's operations and management to achieve reductions in operating costs, higher revenues and greater responsiveness to changing market conditions.

We intend to develop centralised management that will enable us to optimally coordinate the operation of all of our production facilities. Centralised production management will enable us to better coordinate the allocation of feedstock and other resources among our various integrated production facilities toward products with the highest demand and profit potential to enable us to maximise our financial performance as a whole. Centralised management is also expected to improve the management of plant turnarounds, capacity improvements and maintenance projects to minimise any disruptions to our operations. Our production functions and inventory management systems will benefit from such coordination and will have a positive impact on our overall output and profitability.

Operationally, we will seek to manage our two ethylene crackers at the Kertih IPC as a single resource, allowing us to optimise our use of ethane feedstock. Moreover, we will look to maximise upstream product capacity in order to increase our production capacity for higher value products further downstream.

In addition, through enhanced monitoring of the performance of each component of our integrated production chains, any weaknesses can be more quickly and effectively evaluated and resolved so that optimal production output and efficiency can be maintained.

We also intend to streamline and further optimise the use of our resources. In particular, we will consolidate our administrative functions into one centralised corporate head office and will also seek to achieve economies of scale in our procurement including through bulk purchases.

7.3.2 Increase international sales and marketing network

We intend to consolidate all our sales and marketing functions into MITCO, allowing us to better coordinate the management of our customer relationships and to benefit from economies of scale. We believe that through a more coordinated approach to sales and marketing, we will be better positioned to increase our international sales and distribution capabilities. This will also enable us to better manage and strengthen our customer relationships both in Malaysia and in other countries and facilitate the flow of end products to customers. In particular, we will look to further expand our sales, marketing and distribution network in Asia through increased collaboration with local partners in our targeted markets. These efforts would increase our sales volume and would allow us to widen our customer base, further driving our revenue growth. In the long term, we aim to develop MITCO into a preferred marketer of petrochemical products, building on its expertise gained from marketing our products, its marketing network and the volume and range of products that it manages.

7.3.3 Broaden and deepen our product portfolio

We intend to continue to expand our product portfolio, and to increase the range of end-applications our products serve, as well as develop new processes to manufacture our existing products. Our R&D group will continue to focus on the development of new products and new grades of existing products that can meet our customers' changing requirements. As an example, we are currently developing a specific type of HDPE product with increased durability and particular chemical stability characteristics for use in the production of pipes.

We are also looking to produce products further down the value chain, such as intermediates and differentiated derivative products. We have already begun to move downstream by developing a range of higher value products including performance chemicals such as ethanolamines, nonyl phenol ethoxylates, surfactants, polyethylene glycol and primary alcohol ethoxylate.

Overall, we expect the broader range of differentiated products will allow us to achieve premium pricing and to better respond to our customers' needs and gain new customers that have specific requirements. Ultimately, we believe these products, with their more stable end-markets and higher value will allow us to increase our profitability while at the same time increasing our resilience to economic cycles.

7.3.4 Expand our production capacity

We intend to strategically increase our production capacity through enhancements to our existing facilities and potentially through investments in new facilities. We plan to pursue cost-efficient opportunities to increase our output, enhance efficiency and further reduce production costs, including by making changes to the configuration of our production processes. In particular, we are considering making operational improvements to our two ethylene crackers at the Kertih IPC to enable us to extract even greater value from our ethane feedstock. In addition, we are also reviewing debottlenecking projects for certain upstream product processes to maximise our ability to produce higher value added products further downstream.

To capitalise further on Malaysia's advantages as a petrochemicals production hub, including its substantial sources of feedstock and its central geographic location within Southeast Asia, we intend to examine adding new plants and facilities in Malaysia. We may also review opportunities to expand our production capacity outside Malaysia.

We are currently evaluating the expansion of our operations in East Malaysia to take advantage of the natural gas feedstock available in that region. In particular, to enhance our profile as a key producer of ammonia and urea in Southeast Asia, we are studying the possibility of developing a world-scale, greenfield ammonia and urea production facility that would be supplied with natural gas feedstock available off the coast of East Malaysia. This project is currently at a pre-feasibility study phase, and we expect to make a final decision in fiscal year 2012 whether to proceed with the investment. If the project were to proceed, we would be able to build upon our significant expertise and experience gained from the operation of our existing fertiliser production facilities and fully utilise our strong marketing and distribution network for fertilisers.

In addition, PETRONAS is currently studying a greenfield project to develop an integrated refinery and petrochemicals complex in Peninsular Malaysia together with international partners that would produce, among other things, naphtha for use as feedstock for petrochemical products. With PETRONAS currently taking the lead in evaluating the project, we expect to become more closely involved in examining the project at a suitable juncture. While it is currently at a pre-feasibility study phase, the project, if it were to proceed and be completed, would permit us to diversify our feedstock source and expand our production capacity for olefins and polymers, including a range of high value derivative products. With PETRONAS as the supplier of naphtha as feedstock, the project would present opportunities for us to leverage on our relationship with PETRONAS to gain a dependable source of feedstock. In addition, the project would reaffirm PETRONAS' strategic focus on the petrochemicals industry and reinforce Malaysia's reputation as one of Southeast Asia's premier petrochemicals production hubs.

7.3.5 Selective synergistic growth acquisitions

We will continue to consider selective opportunities to expand both domestically and abroad through incremental strategic acquisitions that are consistent with our focus on our core petrochemicals activities, and that can achieve synergies with our existing operations. We consider each acquisition opportunity carefully, and any potential acquisition would undergo extensive review and evaluation procedures to ensure that such transaction would be beneficial to our business as a whole. For example, in September 2009, Dow Chemical's 50% interest in OPTIMAL Glycols and OPTIMAL Chemicals, respectively, and 23.75% interest in OPTIMAL Olefins were acquired following a considered review of the acquisition's potential to benefit our business and add value to our operations. In September 2010, we acquired BP Chemical's 12.79% interest in Ethylene Malaysia and its 60% interest in Polyethylene Malaysia. In October 2010, we acquired BP Chemical's remaining 2.21% interest in Ethylene Malaysia.

We intend to continue to explore growth opportunities that complement our products or markets, or enable us to gain footholds in countries where the PETRONAS Group already has oil and gas operations so that we can leverage on the PETRONAS Group's presence to develop vertically integrated operations in that market.

7.4 HISTORY AND MILESTONES

We were incorporated in Malaysia under the Act on 25 March 1998 as a private limited company under the name Kuantan Terminals Sdn Bhd as part of the PETRONAS Group, which has played a leading role in the development of the petrochemicals industry in Malaysia. We changed our name to PETRONAS Chemicals Group Sdn Bhd on 26 October 2009 and recently undertook the Reorganisation to better align and consolidate PETRONAS' petrochemical businesses. For details regarding the Reorganisation, refer to Section 12.1.2 of this Prospectus. On 27 August 2010, we were converted into a public limited company and changed our name to PETRONAS Chemicals Group Berhad.

7. BUSINESS OF OUR GROUP *(cont'd)*

Our operations in the petrochemical business began in 1985 with the production of ammonia and urea. Since then, our operations have grown significantly both organically and through joint ventures with other key players in the industry. We began our first ethylene production in 1995, and the OPTIMAL Companies commenced operations in 2002 as joint ventures with Dow Chemical. We acquired Dow Chemical's interests in the OPTIMAL Companies in 2009 bringing all 3 of these entities under our control. We have continued to grow our business and expand our operations through the construction of new plants as well as capacity increases in existing plants. In recent years, production capacities at the Gurun and Bintulu production facilities have been expanded, and in 2009, our Mega Methanol plant in Labuan commenced operations, bolstering our position as a leading methanol producer both regionally and globally. On 2 September 2010, we acquired BP Chemicals' interests in Polyethylene Malaysia and Ethylene Malaysia, making Polyethylene Malaysia our wholly-owned subsidiary and increasing our stake in Ethylene Malaysia. Today, our operations comprise a diverse portfolio of petrochemical products that are sold both domestically and internationally.

Certain key dates and milestones for our petrochemicals business include:

1985	ASEAN Bintulu Fertilizer commenced first commercial production of ammonia and urea in the Bintulu complex
1992	MTBE Malaysia commenced operations
	Methanol plant at Labuan acquired from Sabah Gas Industries Sdn Bhd
	Polypropylene Malaysia commenced operations
1994	MITCO entrusted with the marketing of petrochemical products produced by PETRONAS' wholly-owned subsidiaries
1995	Polyethylene Malaysia commenced production of polyethylene
	Ethylene Malaysia commenced production of ethylene
1997	Idemitsu SM, a joint venture with Idemitsu Kosan, commenced operations for production of styrene monomer
1999	First power generated at the CUF in the Kertih and the Gebeng IPCs
	PETRONAS Fertilizer commenced operations for production of methanol, ammonia and urea
2000	BASF PETRONAS Chemicals's Acrylic Acid complex fully operational
	Aromatics plant at Aromatics Malaysia commenced operations for production of paraxylene and benzene
	PETRONAS Ammonia's plant commenced operations
	VCM and PVC plants at Vinyl Chloride (Malaysia) commenced operations
	BP PETRONAS Acetyls, a joint venture with BP Chemicals, started production of acetic acid
2002	OPTIMAL Companies' olefins plant, glycols plant and chemicals plant commenced operations
	PETLIN's LDPE plant commenced operations
	Phu My in Vung Tau, Vietnam commenced PVC production
	Official opening of the PETRONAS Petroleum Industry Complex in Kertih
2004	Creeping of ASEAN Bintulu Fertilizer's production facilities in Bintulu complex, expanding production capacities of ammonia and urea by 13% and 25%, respectively

2006	Creeping of PETRONAS Fertilizer's production facilities in Gurun complex, expanding production capacities of methanol, ammonia and urea by 11%, 17% and 25%, respectively
2009	Mega Methanol plant in Labuan commissioned
	Dow Chemical's interests in the OPTIMAL Companies' joint ventures acquired
2010	BP Chemicals' interests in Polyethylene Malaysia and Ethylene Malaysia acquired
	Completion of the Reorganisation

7.5 CORPORATE STRUCTURE

We are a holding company and conduct our business through our operating subsidiaries. Our two main operating segments are our olefins and polymers segment and our fertilisers and methanol segment. In addition to these two main operating business segments, we also own and operate the Kertih Port, which provides port services in connection with the sale and distribution of our petrochemical products. Marketing and sales of our petrochemical products across our two main operating segments are primarily conducted through our subsidiary, MITCO, which closely coordinates our marketing and sales activities with our production operations.

We have 17 wholly-owned and majority-owned Subsidiaries, as well as minority interests in 5 Associates and Jointly Controlled Entity. The chart in the following page presents our Subsidiaries as well as our Associates and Jointly Controlled Entity, and our total direct and indirect percentage of ownership in these companies.

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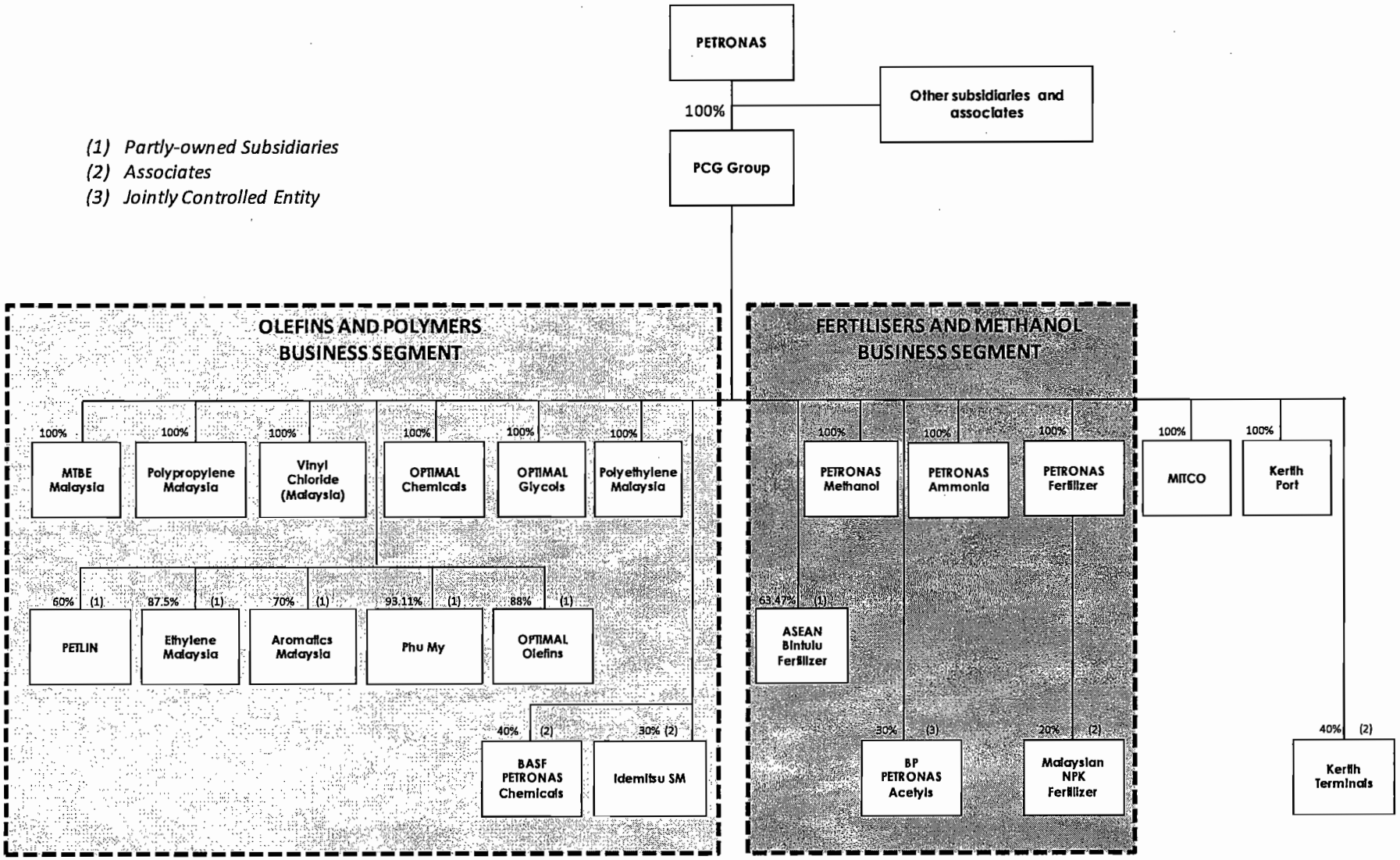
7. BUSINESS OF OUR GROUP *(cont'd)*

(1) Partly-owned Subsidiaries
(2) Associates
(3) Jointly Controlled Entity



7.6 PRODUCTS

We benefit from integrated operations where, in addition to selling the products to external parties, we use the products as feedstock for the production of other petrochemicals. We produced a total of 7.4 million mtpa and 2.9 million mtpa of petrochemical products during the year ended 31 March 2010 and the 4 months ended 31 July 2010, respectively. We sold 2,905 KT, 2,730 KT and 2,986 KT of olefins and polymers and 2,591 KT, 2,735 KT and 3,211 KT of fertilisers and methanol in the years ended 31 March 2008, 2009 and 2010, respectively. We sold 886 KT and 984 KT of olefins and polymers and 1,107 KT and 1,144 KT of fertilisers and methanol in the 4 months ended 31 July 2009 and 2010, respectively.

Polyethylene Malaysia became our wholly-owned subsidiary on 2 September 2010. Hence, for purposes of presenting our historical financial information throughout this Prospectus, of which the disclosure period is up to the 4 months ended 31 July 2010, references to 'jointly controlled entities' include Polyethylene Malaysia, whilst references to 'Subsidiaries' exclude Polyethylene Malaysia.

The following table sets forth, for each of our major petrochemical products, the volume of sales to parties external to our Group as well as to our Associates and jointly controlled entities for the periods indicated, as well as the percentage of the relevant segment's total sales volume accounted for by each product.

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	(in KT, except percentages)									
Olefins and Polymers										
Paraxylene	480	16.5%	554	20.3%	527	17.7%	168	19.0%	116	11.8%
Ethylene	555	19.1	560	20.5	427	14.3	152	17.2	125	12.7
MTBE	310	10.7	198	7.3	313	10.5	105	11.9	108	11.0
PVC	209	7.2	247	9.0	270	9.0	100	11.3	67	6.8
Propylene	305	10.5	303	11.1	264	8.8	94	10.6	98	10.0
Polyethylene (HDPE, LLDPE & LDPE)	273	9.4	274	10.0	237	7.9	63	7.1	93	9.4
Benzene	274	9.4	228	8.4	214	7.2	72	8.1	51	5.2
Ethylene glycols	1	0.0	3	0.1	194	6.5	2	0.2	104	10.6
N-butane	118	4.1	55	2.0	93	3.1	35	3.9	32	3.2
Performance and other chemicals	-	-	-	-	150	5.0	-	-	100	10.2
Polypropylene	68	2.3	54	2.0	75	2.5	21	2.3	29	2.9
VCM	193	6.7	104	3.8	70	2.4	29	3.3	28	2.8
Other petrochemical products	119	4.1	150	5.5	152	5.1	45	5.1	33	3.4
Total olefins and polymers	2,905	100.0%	2,730	100.0%	2,986	100.0%	886	100.0%	984	100.0%
Fertilisers and Methanol										
Urea	1,296	50.0%	1,347	49.3%	1,329	41.4%	439	39.6%	456	39.9
Methanol	605	23.4	701	25.6	1,185	36.9	449	40.6	494	43.1
Ammonia	391	15.1	431	15.8	455	14.2	140	12.6	137	12.0
Carbon Monoxide	237	9.1	189	6.9	242	7.5	66	6.0	57	5.0
Oxogas	62	2.4	67	2.4	-	-	13	1.2	-	-
Total fertilisers and methanol	2,591	100.0%	2,735	100.0%	3,211	100.0%	1,107	100.0%	1,144	100.0%
Total sales volume	5,496	100.0%	5,465	100.0%	6,197	100.0%	1,993	100.0%	2,128	100.0%

7.6.1 Olefins and Polymers

Our olefins and polymers segment manufactures and sells a wide range of olefin and polymer products, from ethylene and propylene, which are used as basic feedstock for other products, to intermediate products such as ethylene oxide, ethylene glycol, butanol chemicals, as well as various ethylene oxide derivatives, including basic and high performance chemicals.

Key products in our olefins and polymers segment include the following:

Product	Description	Feedstock	Primary End Uses
Ethylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Ethane	Feedstock for production of polyethylene and other derivates, including ethylene oxide, an intermediate product in the production of ethylene glycol, ethyl alcohol, brake fluids, surfactants and synthetic motor oils; also used to produce styrene, a raw material used in the production of plastic and rubber goods
Propylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Propane	Feedstock for the production of polypropylene, acrylic acids, acrylic esters and oxo-alcohols
Polyethylene (LLDPE, HDPE, LDPE)	A polymer derived from polymerisation of ethylene	Ethylene	Feedstock in manufacture of plastic products, including film, pipes, wires, cables and ducting
Polypropylene	A polymer derived from polymerisation of propylene	Propylene	Feedstock in manufacture of woven bags, plastics, films, ropes, yarn, chairs, food and garment packaging and other industrial and consumer products
Mono-Ethylene Glycol (MEG)	An organic chemical compound derived from the oxidation of ethylene	Ethylene, oxygen	Polyester resins for fibers and PET containers and bottles, antifreeze, electronic applications and brake fluid formulation
Di-Ethylene Glycols (DEG)	An organic chemical compound derived from the oxidation of ethylene	Ethylene, oxygen	Fiberglass application and brake fluid formulation
VCM	Colourless reactive gas primarily used to manufacture PVC	Ethyl Dichloride, ethylene, oxygen	Feedstock in production of PVC
PVC	A versatile thermoplastic polymer produced from VCM	VCM	Feedstock in manufacture of pipes, pipe and conduit fittings, automobiles, blow moulding, roofing tiles, bottles, containers, films, wires and cables
Paraxylene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy naphtha	Production of purified terephthalic acid, which in turn is used in the manufacture of polyester for packaging applications, soft drink bottles, fibers and film

7. BUSINESS OF OUR GROUP *(cont'd)*

Product	Description	Feedstock	Primary End Uses
Benzene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy naphtha	Feedstock for styrene monomer production and raw material for derivatives used in manufacture of disposable food containers, cutlery, packing electrical appliances and tyres
MTBE	An organic ether that is volatile, combustible in the form of a colourless liquid that is categorised as an oxygenate due to its ability to boost the oxygen content and octane rating of gasoline	Propane, butane, methanol	Gasoline additive to boost octane levels to improve burning of fuel and reduce level of emissions
N-Butane	Highly flammable, colourless gas	Butane	Feedstock for production of butanediol
Performance chemicals	Chemicals produced in smaller volume with higher unit values and used for critical applications requiring stringent performance	Ethylene oxide	Production of surfactants, personal care products, urethane foam, cement and construction applications, detergents and emulsifiers

In addition to the products listed above, our Associates and Jointly Controlled Entity produce and sell certain derivative products, including the following petrochemical products:

- acrylics (used primarily for the production of textiles and non-woven fibers, adhesives, paint and paper coatings, detergents and plastic modifiers);
- oxo-alcohols (used to manufacture paints and coatings, cables, wires and floor tiles);
- butanediol (used to produce polyesters, polyurethanes and plasticisers); and
- styrene monomer (feedstock for production of polystyrene and unsaturated polyester resins used in the manufacture of plastic casings, insulation materials and rubber goods).

7.6.2 Fertilisers and Methanol

Our fertilisers and methanol segment produces and sells methanol and a range of nitrogen, phosphate and compound fertilisers. Key products in our fertilisers and methanol segment include the following:

Product	Description	Feedstock	Primary End Uses
Urea	A fertiliser with a minimum nitrogen content of approximately 46% by weight	Ammonia, carbon dioxide	Commercial fertiliser used in the production of many crops; raw material for the manufacture of adhesives, moulding powders, varnishes and foams
Ammonia	A nitrogen and hydrogen compound in the form of colourless gas with a characteristic pungent odour	Methane, hydrogen and nitrogen	Feedstock for the production of urea and other industrial applications, including as a refrigerant and latex anti-coagulant
Methanol	Simplest organic alcohol and is a colourless, flammable liquid	Methane	Used to produce, among other things, formaldehyde, acetic acid, chloromethanes and methyl methacrylate, which are used in the production of, among other things, resins, adhesives, paints, plastics, flavourings, silicones and plexiglass
Carbon monoxide	Colourless, odourless and tasteless gas that is lighter than air	Methane, hydrogen and nitrogen	Feedstock for production of acetic acid
Oxo gas	Gas consisting primarily of carbon monoxide and hydrogen	Methane	Feedstock for production of butanol
Acetic acid[1]	Chemical intermediate in the form of colourless liquid	Methanol, carbon monoxide	Raw material for petrochemical intermediates and end-products, including vinyl acetate monomer for coatings and adhesives, purified terephthalic acid for polyester production, acetate esters, cellulose acetate, acetic anhydride and monochloroacetic acid

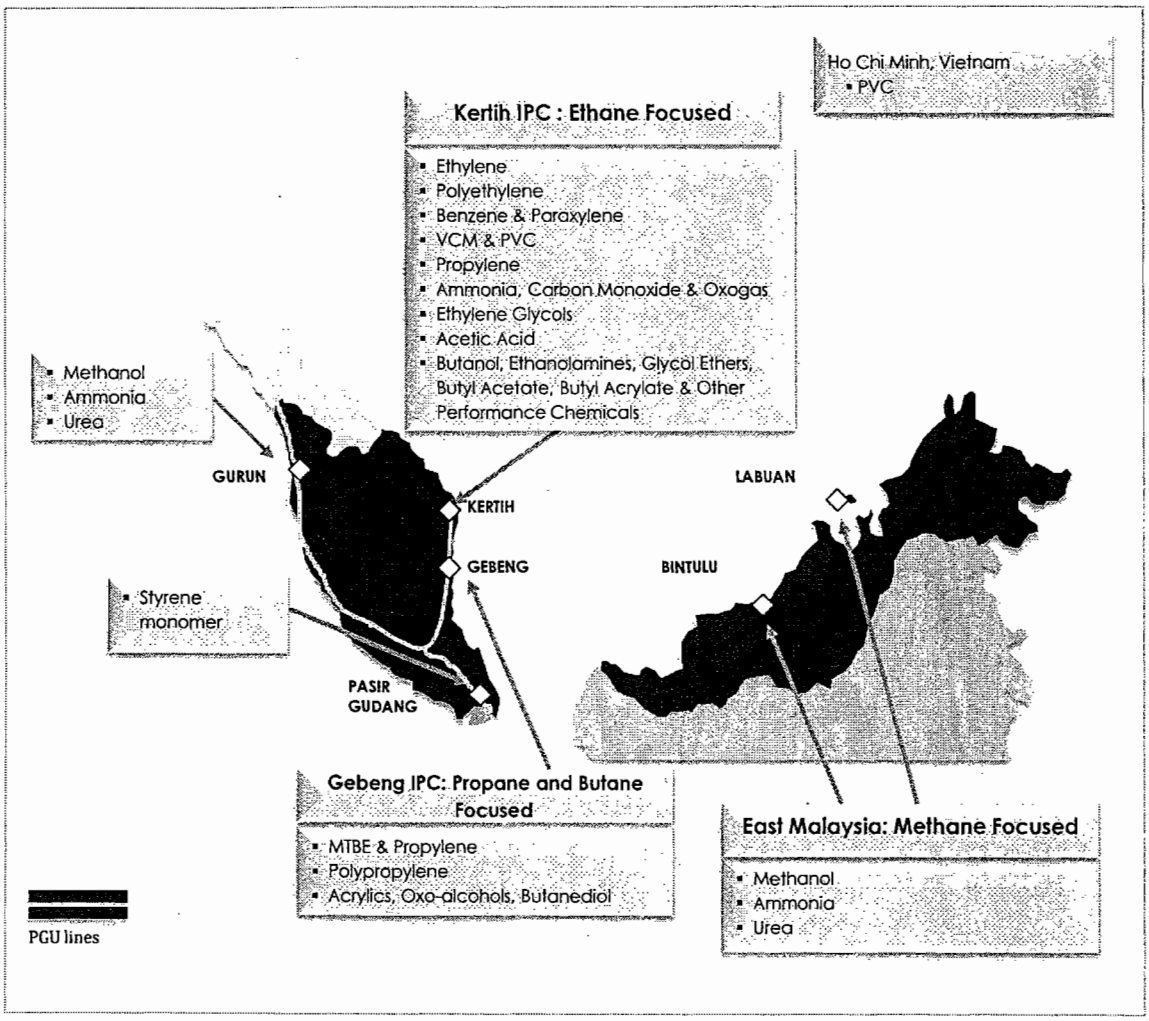
Note:

(1) Produced by our Jointly Controlled Entity.

7. BUSINESS OF OUR GROUP *(cont'd)*

7.7 PRODUCTION FACILITIES

All of our production facilities are located in Malaysia, except for a PVC plant that is located in Vietnam. The following map highlights the location and the key products manufactured by us as well as our Associates and Jointly Controlled Entity in Malaysia:



Since 1984, PETRONAS Gas, a listed company within the PETRONAS Group, has been processing natural gas sourced at the offshore Terengganu fields and processing and transmitting piped gas to end-users in the power, industrial and commercial sectors in Peninsular Malaysia, as well as power plants in Singapore, via its PGU pipeline system. The PGU pipeline system has a combined capacity of approximately 2,060 million standard cubic feet per day (mmscfd) and approximately 2,550km of main and lateral pipelines.

Our production facilities focus on manufacturing processes that are designed to be highly integrated. All of our facilities have dedicated pipelines that supply our feedstock and many of our production facilities located in Peninsular Malaysia receive their gas feedstock through the PGU pipeline system. Common feedstocks and related products enable us to maximise synergies that can be realised from integrated operations. For a more detailed discussion of our production processes, refer to Section 7.8 of this Prospectus.

The Kertih IPC focuses mainly on ethane-related products, including ethylene, polyethylene (HDPE, LLDPE and LDPE), VCM, PVC and ethylene glycol. There is also an aromatics plant in the Kertih IPC that produces benzene and paraxylene. The Gebeng IPC focuses mainly on propane and butane-related products, including propylene, polypropylene and MTBE. The Gebeng IPC also includes production facilities operated by our joint venture company with BASF that produce acrylic acids, oxo-alcohols and butanediol products. Our production facilities located in Gurun in Peninsular Malaysia and Labuan and Bintulu in Eastern Malaysia mainly focus on methane-related products, including methanol, ammonia and urea. Idemitsu SM, our joint venture with Idemitsu, produces styrene monomers at its facilities in Pasir Gudang in Peninsular Malaysia. We also own and operate a plant in Vung Tau, Vietnam, that produces PVC.

7.7.1 Kertih IPC

The Kertih IPC is located on the east coast of Peninsular Malaysia and consists principally of ethane-based petrochemical projects. Its petrochemical facilities include two ethylene crackers, two polyethylene plants, an ethylene oxide/ethylene glycol plant, a multi-unit derivatives plant, VCM and PVC plants, ammonia/synthesis gas plants, an acetic acid plant and an aromatics complex.

Plants

We own and operate the following petrochemical plants located at the Kertih IPC:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Ethane/Propane cracker	OPTIMAL Olefins	600,000 mtpa Ethylene; 84,720 mtpa Propylene	PCG (88%) Sasol (12%)	January 2002	1,238,549
Ethane cracker	Ethylene Malaysia	400,000 mtpa Ethylene	PCG (87.5%) Idemitsu Kosan (12.5%)	September 1995	674,893

7. BUSINESS OF OUR GROUP *(cont'd)*

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
VCM	Vinyl Chloride (Malaysia)	400,000 mtpa VCM	PCG (100%)	September 2000	237,918
PVC	Vinyl Chloride (Malaysia)	180,000 mtpa PVC	PCG (100%)	October 2000	122,812
Ammonia/ Oxo gas	PETRONAS Ammonia	450,000 mtpa Ammonia; 435,700 mtpa Oxogas; 246,700 mtpa Carbon Monoxide	PCG (100%)	November 2001	494,958
Aromatics (Paraxylene and Benzene)	Aromatics Malaysia	500,000 mtpa Paraxylene; 187,700 mtpa Benzene	PCG (70%) MJPX Co. Ltd. (30%)	July 2000	434,968
Ethylene Oxide, Ethylene Glycol	OPTIMAL Glycols	385,000 mtpa Ethylene Oxide; 380,000 mtpa Ethylene Glycols	PCG (100%)	February 2002	809,688
Ethylene derivatives	OPTIMAL Chemicals	30,000 mtpa Ethoxylates; 75,000 mtpa Ethanolamines; 60,000 mtpa Glycol Ethers; 140,000 mtpa Butanol; 50,000 mtpa Butyl Acetate; 30,000 mtpa Nonylphenol Ethoxylates; 15,000 mtpa Polyethylene Glycol; 10,000 Polyalkaline Glycol	PCG (100%)	April 2002	870,528
Low density Polyethylene	PETLIN	255,000 mtpa LDPE	PCG (60%) Sasol (40%)	February 2002	488,358
Polyethylene	Polyethylene Malaysia	240,000 mtpa HDPE/LLDPE; 60,000 mtpa Pipe-grade compound	PCG (100%)	May 1995	171,836

In addition, our Jointly Controlled Entity operates the following production facilities in the Kertih IPC:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Acetic Acid	BP PETRONAS Acetyls	500,000 mtpa Acetic Acid	PCG (30%) BP Holdings International B.V. (70%)	November 2000	271,912

Feedstock

The main feedstocks used by our production facilities located in the Kertih IPC are ethane, propane and heavy naphtha. The gas feedstock is delivered through the PGU network and the heavy naphtha is delivered through another dedicated pipeline directly from the oil refinery operated by PETRONAS Penapisan (Terengganu).

Infrastructure

The Kertih IPC contains common infrastructure facilities that support the operation of our plants, including the CUF, chemical storage, distribution terminals and centralised warehousing facilities. The CUF at the Kertih IPC is owned and operated by PETRONAS Gas. The CUF commenced operations in 1999 and provides our production facilities located in the Kertih IPC with utilities such as electricity, steam, oxygen, nitrogen, industrial water and wastewater treatment. Each of our subsidiaries that operate production facilities in the Kertih IPC has a long term supply agreement with PETRONAS Gas pursuant to which utilities are provided. Bekalan Air KIPC, a subsidiary of PETRONAS, operates the centralised water supply facilities in nearby Dungun and supplies water to our production plants in the Kertih IPC pursuant to long-term supply contracts.

Kertih Port, our wholly-owned subsidiary that owns and operates port facilities, has six berths that can accommodate chemical tankers of up to 50,000 dead-weight mt. In addition, Kuantan Railway Services, a 86-km dedicated railway system owned and operated by the PETRONAS Group, connects the Kertih IPC to Kuantan Port, which is used to transport certain petrochemical products to and from the IPC. Kertih Terminals, a joint venture between us, Dialog Equity Group Sdn Bhd and Vopak Terminal Penjuru Pte Ltd owns and operates the Kertih IPC's storage and distribution terminal, which provides us with centralised services for the handling, storage and distribution of feedstocks and intermediates as well as finished products and by-products from the plants in the Kertih IPC.

Integration

The Kertih IPC's petrochemical plants are fully integrated both among one another within the IPC as well as with the surrounding infrastructure facilities and other process plants in Kertih, including six gas processing plants ("**GPPs**") operated by PETRONAS Gas and an oil refinery operated by PETRONAS Penapisan (Terengganu). The GPPs and oil refinery are part of the PETRONAS Petroleum Industry Complex.

Our production facilities located within the Kertih IPC are integrated with one another to maximise synergies across the plants and minimise product loss across our product lines. We use common or related feedstock and common facilities such as the CUF to support our operations. In addition to using the product of one plant as feedstock for a downstream process, our production processes in the Kertih IPC are further integrated through their use of by-products of one plant as raw material for another product. For details of our production processes, refer to Section 7.8 of this Prospectus.

7.7.2 Gebeng IPC

The Gebeng IPC, also located on the east coast of Peninsular Malaysia, is an integrated self-contained petrochemical complex where our propane and butane-based petrochemical projects are centered. We own and operate an MTBE plant, a propane dehydrogenation plant and a polypropylene plant at the Gebeng IPC. In addition to our wholly-owned and joint venture operations, the Gebeng IPC also hosts a number of multinational chemical companies, such as BP Chemicals, which owns and operates a purified terephthalic acid plant, and Eastman Chemicals, which owns and operates a copolyester plastic resin plant.

Plants

We own and operate the following petrochemical plants at Gebeng IPC:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
MTBE	MTBE Malaysia	300,000 mtpa MTBE; 80,000 mtpa Propylene; 135,000 mtpa n-butane	PCG (100%)	December 1992	428,715
Propane Dehydrogenation	MTBE Malaysia	300,000 mtpa Propylene	PCG (100%)	May 2001	738,982
Polypropylene	Polypropylene Malaysia	80,000 mtpa Polypropylene	PCG (100%)	November 1992	76,722

In addition, our joint venture company operates the following production facilities in the Gebeng IPC:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Acrylics Complex	BASF PETRONAS Chemicals	160,000 mtpa Crude Acrylic Acid; 40,000 mtpa Glacial Acrylic Acid; 100,000 mtpa Butyl Acrylate; 70,000 mtpa 2-Ethyl Hexyl Acrylate	PCG (40%) BASF Nederland B.V. (60%)	July 2000	72,123
Oxo-Alcohols/ Syngas Complex	BASF PETRONAS Chemicals	135,000 mtpa 2-Ethylhexanol; 40,000 mtpa Phthalic Anhydride; 100,000 mtpa Palatinol Ah; 165,000 mtpa Butanols	PCG (40%) BASF Nederland B.V. (60%)	July 2001	210,756
Butanediol Complex	BASF PETRONAS Chemicals	100,000 mtpa Butanediol	PCG (40%) BASF Nederland B.V. (60%)	January 2004	224,337

Feedstock

The main feedstocks used by our production facilities located in the Gebeng IPC are propane and butane. The gas feedstock to the Gebeng IPC is delivered through the PGU network.

Infrastructure

The CUF at the Gebeng IPC, which commenced operations in 1999, is owned and operated by PETRONAS Gas. The CUF provides our production facilities located in the Gebeng IPC with utilities such as electricity, steam, nitrogen, industrial water and wastewater treatment. Each of our subsidiaries that operate production facilities in the Gebeng IPC has a long term utilities supply agreement with PETRONAS Gas pursuant to which utilities are provided. We receive our water supply in the Gebeng IPC from the local water authority based on the applicable tariff rates.

We use the nearby Kuantan port to transport products from the Gebeng IPC, which minimises warehousing and ground transport costs. We maintain a storage tank for MTBE near the Kuantan port, where we also have a dedicated jetty for MTBE product use.

Integration

The Gebeng IPC's petrochemical plants are fully integrated both among one another within the IPC as well as with the surrounding infrastructure facilities. Our production facilities located within the Gebeng IPC are integrated with one another to maximise synergies across the plants and minimise product loss across our product lines. We use common or related feedstock and common facilities such as the CUF to support our operations. In addition to using the product of one plant as feedstock for a downstream process, our production processes in the Gebeng IPC are further integrated through their use of by-products of one plant as raw material for another product. For details of our production processes, refer to Section 7.8 of this Prospectus.

7.7.3 Labuan Methanol Complex

Plants

Our methanol production facilities located in Labuan comprise two methanol plants that have a combined capacity of 2.4 million mtpa.

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Labuan Methanol Plant 1	PETRONAS Methanol	666,000 mtpa Methanol	PCG (100%)	February 1985	424,418
Labuan Mega Methanol Plant 2	PETRONAS Methanol	1,665,000 mtpa Methanol	PCG (100%)	January 2009	1,946,794

Feedstock

The main feedstock used by our production facilities in Labuan is natural gas purchased from PETRONAS and its subsidiary, PETRONAS Carigali. Natural gas for the methanol plant 1 and the Mega Methanol plant 2 is sourced from several gas fields off the coast of Sabah.

Infrastructure

Our production complex in Labuan is self-sufficient. The complex has its own electricity supply and also has other supporting facilities, including an air separation unit, water demineralisation facilities, cooling tower and sea water cooling facilities. Power management for both plants is handled internally to ensure stability and continuous availability of power, with emergency backup power supplied by Sabah Electricity Sdn Bhd, the local power utility provider. Water is supplied by the local water authority based on the applicable tariff rates.

Each methanol plant has its own intermediate and product storage tanks. The plants are also supported by product loading and dedicated jetty facilities for transport of products.

Integration

The two methanol plants in Labuan benefit from closely integrated operations with interconnecting facilities to provide flexibility in plant operation, such as the ability for the Mega Methanol plant 2 to supply steam and oxygen to methanol plant 1. Such integrated operational capability increases the overall reliability of the plants. Our methanol plants are also integrated within the broader scheme of our production processes, as a portion of the methanol produced in Labuan is supplied to MTBE Malaysia as a feedstock for its MTBE production. For details of our production processes, refer to Section 7.8 of this Prospectus.

7.7.4 Other petrochemical operations

In addition to the petrochemical plants located in the Kertih and Gebeng IPCs and in Labuan, we own and operate several production facilities located in Malaysia and one plant in Vietnam.

Plants

We own and operate the production facilities listed in the table below:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Bintulu Urea/ Ammonia Complex	ASEAN Bintulu Fertilizer	750,000 mtpa Urea; 450,000 mtpa Ammonia	PCG (63.47%) Ministry of Finance, Thailand (13%) The Republic of Indonesia (13%) National Development Company of the Philippines (9.53%) Temasek Holdings (Pte) Ltd (1%)	September 1985	46,785
Gurun Urea/ Ammonia Complex	PETRONAS Fertilizer	66,700 mtpa Methanol; 400,000 mtpa Ammonia; 683,000 mtpa Urea	PCG (100%)	May 1999	675,038
Vung Tau PVC plant in Vietnam	Phu My	100,000 mtpa PVC	PCG (93.11%) Vung Tau Shipyard Co. (6.89%)	October 2002	101,301

Feedstock

Natural gas feedstock for our production complexes in Gurun and Bintulu is supplied by PETRONAS. Our production complex in Gurun receives its natural gas feedstock from Kertih and the Trans-Thai Malaysia pipeline via the PGU network, while natural gas feedstock to the Bintulu complex is sourced from off the coast of Borneo.

Infrastructure

Our production complexes in Bintulu and Gurun are self-sufficient. Each production complex has its own electricity supply and is supported by other utilities and services needed for its manufacturing processes. Emergency backup power is provided from the national grid by local power providers, Syarikat SESCO Berhad in Bintulu and Tenaga Nasional Berhad in Gurun. Each complex also has support facilities such as steam generation, demineralisation water system, cooling water system, wastewater treatment capabilities and product storage. Water to each complex is supplied by the local water authority at a price that is based on the applicable tariff rates.

The Gurun complex has distribution and loading facilities, including methanol and ammonia loading for road tankers and bulk urea loading for road trucks. We also utilise the Urea Export Terminal ("**UET**"), which is located 45 km from Gurun at Butterworth Port in Penang, to transport our urea. The UET is connected to our production complex by railway and is equipped with a bulk urea loading gantry crane.

Similarly, the Bintulu production complex has storage facilities for ammonia and urea and uses Bintulu port, an industrial port located 1.6km from our Bintulu production complex, for transportation of those products. In addition, it also has urea loading facilities for road tankers.

Integration

Our production complex in Gurun that comprises the methanol, ammonia and urea plants benefits from integration among the plants. In addition to the common infrastructure that supports operations, the plants within the complex are also linked to one another to maximise value. Synthesis gas from processing of natural gas is used for the production of methanol as well as ammonia, which are both sold as end products. A substantial portion of the ammonia and carbon dioxide produced by the ammonia plant is used as feedstock for the urea plant. For details of our production processes, refer to Section 7.8 of this Prospectus.

In addition to the above, our Associates Idemitsu SM and Malaysian NPK Fertilizer operate the following production facilities in Malaysia:

Plant	Company	Nameplate Capacity	Shareholders	Commission Date	Audited NBV as at 31 July 2010 (RM 000)
Pasir Gudang styrene monomer plant	Idemitsu SM	240,000 mtpa Styrene Monomer	PCG (30%) Idemitsu Kosan (70%)	February 1997	130,561
NPK Fertilizer plant	Malaysian NPK Fertilizer	310,000 mtpa NPK	PETRONAS Fertilizer (20%) Pertubuhan Peladang Kebangsaan (National Farmers Organisation) (80%)	November 2004	43,004

7.8 PRODUCTION PROCESSES

Integrated operations

The production of our major products, from olefins and polymers to fertilisers and methanol, is closely integrated and benefits from the synergies across our Group. We manufacture our main product lines in our IPCs in Kertih and Gebeng, as well as in our other key production hubs located throughout Malaysia and in Vietnam. Through the IPCs and our other production complexes, we seek to achieve a competitive advantage by integrating petrochemical operations using common or related feedstock and common facilities, both within our self-contained production complexes as well as among various plants, to maximise value across our product lines. One of the elements of this integration within the IPCs is the use of the product of one plant as the feedstock in the process of the plant in the next stage of the production process. This integration enables our plants to capture maximum margins along the product value chain hence decreasing our exposure to cyclicality of the markets and raw materials.

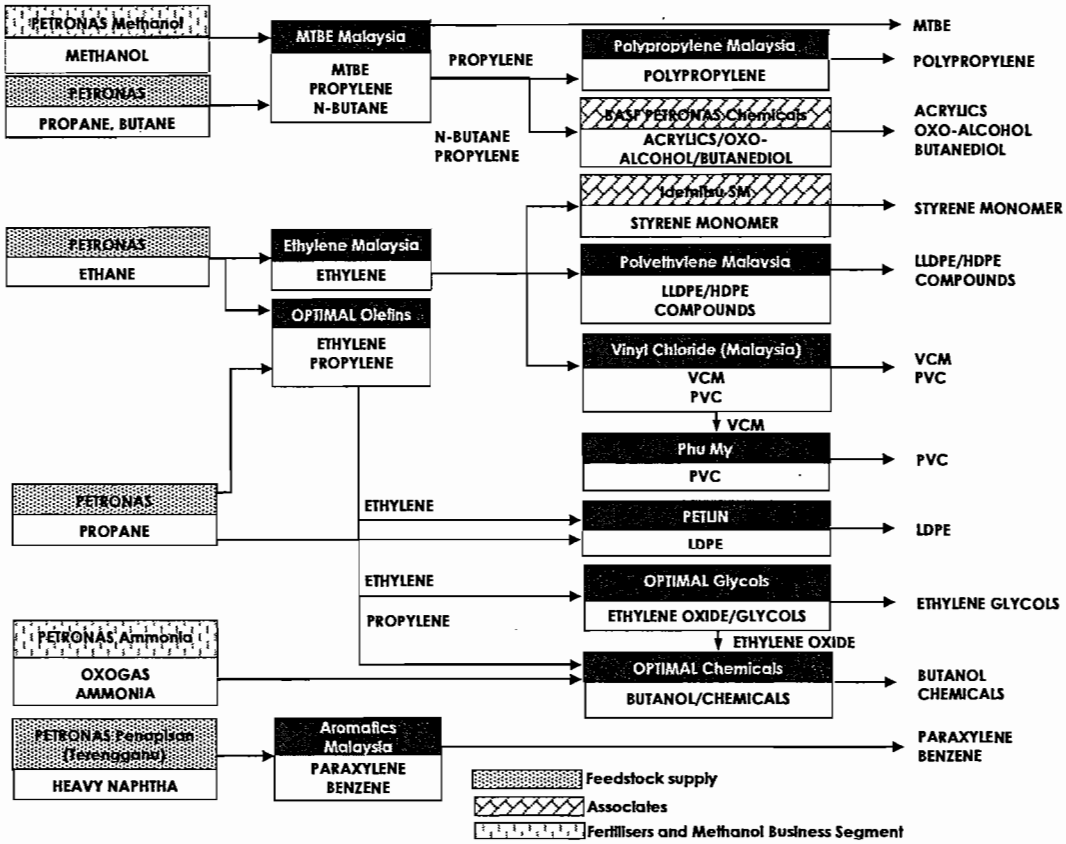
In addition to our use of the product of one plant into the next, the IPCs also achieve further integration through their use of by-products of one plant as raw material for another product. For example, the hydrogen produced as a by-product in our production of paraxylene and benzene in our aromatics plant is used as one of the raw materials in the production of ammonia in our ammonia plant. Without this integration, we would likely use the hydrogen as fuel in some other process, and we believe using it in the production of ammonia helps us to achieve greater efficiency and maximise value within our production processes. We believe that this integration strategy enables us to control the value along our production chains, which is important in providing us with a competitive advantage and allowing us to maintain a market leadership position.

7.8.1 Olefins and Polymers

Our two main feedstocks for our olefins and polymers products are ethane and propane. Both of these feedstocks are supplied to the main production sites in the Kertih IPC and the Gebeng IPC from the GPPs in the PETRONAS Kertih Petroleum Industry Complex through the PGU pipeline. For details on raw materials and suppliers, refer to Section 7.10 of this Prospectus. The plants in the IPCs use the feedstock to produce ethylene and propylene, which in turn are used as feedstock for other downstream production processes.

The following diagram illustrates our integrated production process flow across our olefins and polymers operations and the synergies in the production processes across all our product lines.

7. BUSINESS OF OUR GROUP *(cont'd)*



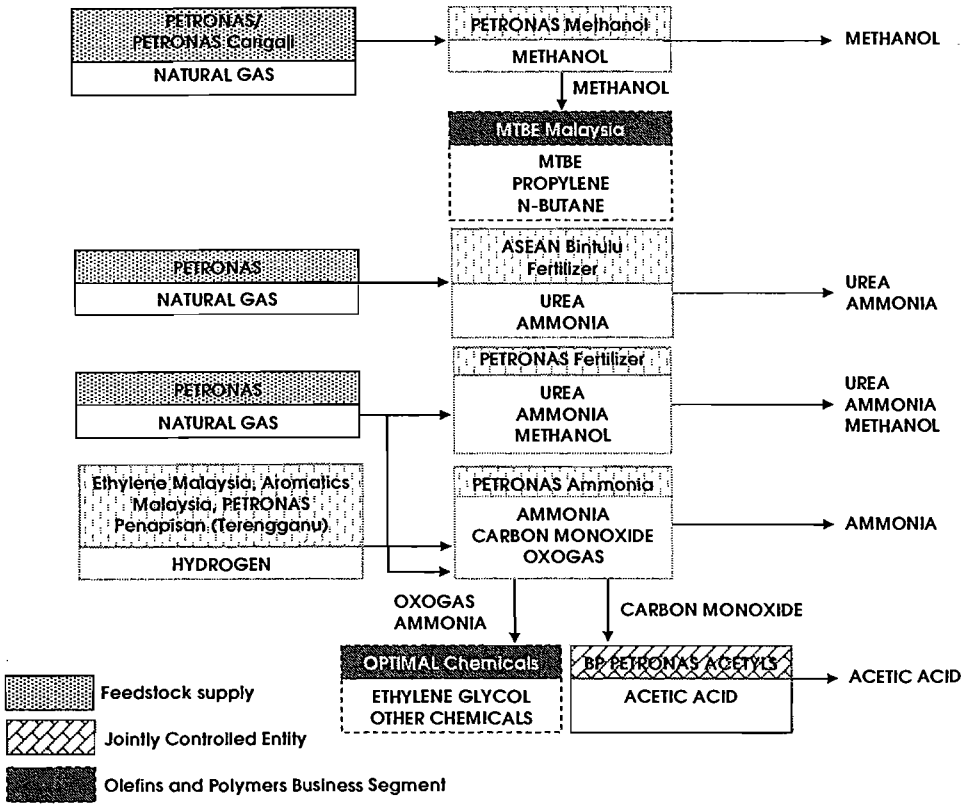
Ethane and propane feedstocks supplied by the GPPs in Kertih are processed in our facilities to produce ethylene and propylene that are in turn supplied to our various plants to be used in downstream production processes that we or our joint venture company operate. Ethylene is used as feedstock for the manufacture of products such as polyethylene (HDPE, LLDPE and LDPE), VCM, ethylene glycols and styrene monomer. Propylene is used as feedstock for polypropylene and is also used in combination with oxogas and ammonia supplied from our ammonia plant located in the Kertih IPC to produce butanol chemicals.

Our MTBE plant is the first plant in the world to use a combined feed of butane and propane to simultaneously produce MTBE and propylene. MTBE is produced using butane supplied through the PGU pipeline and methanol produced by our methanol plants in Labuan, while propylene is produced through the dehydrogenation unit from the propane supplied through the PGU pipeline. MTBE is sold as a finished product and propylene is subsequently fed into our polypropylene plant and acrylics/oxo-alcohol production processes while n-butane is used in the butanediol production process.

7.8.2 Fertilisers and Methanol

The products in our fertilisers and methanol segment are manufactured mainly in our production hubs located in Labuan, Gurun and Bintulu utilising methane and hydrogen derived from natural gas that are supplied by PETRONAS and PETRONAS Carigali as well as our upstream production plants.

The following diagram illustrates our integrated production process flow across our fertilisers and methanol operations and the synergies in the production processes across those product lines:



Methanol is primarily produced in our two methanol plants located in Labuan using natural gas as feedstock. The methanol produced in Labuan is sold to third-parties as well as supplied to our plant in the Gebeng IPC as feedstock for its production of MTBE. Methanol is also produced in our production complex in Gurun. Urea and ammonia are produced at our production complexes in Gurun and Bintulu using natural gas feedstock. Ammonia is mainly used as feedstock to produce urea. A plant in our Kertih IPC also produces ammonia, as well as carbon monoxide and oxogas that are supplied as feedstock for the downstream production of ethylene glycol, acetic acid and other chemicals.

7.9 PLANT PERFORMANCE

The production facilities of our Subsidiaries are monitored by tracking a number of performance indicators commonly used in the petrochemicals industry. The following table sets forth the achieved key performance indicators for the production facilities of our Subsidiaries for the periods indicated:

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
Plant	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability
	(in %)									
Olefins and Polymers										
OPTIMAL Olefins										
Ethylene	81.1	92.8	97.3	98.0	85.2	99.0	57.1	95.4	86.6	95.5
Propylene	84.8	92.8	86.3	97.7	80.3	99.0	51.7	95.4	86.3	87.0
Ethylene Malaysia										
Ethylene	98.2	100.0	75.7	94.0	92.4	98.4	83.8	95.8	98.1	100.0
Vinyl Chloride (Malaysia)										
VCM	86.1	97.3	80.9	97.0	77.3	92.0	76.7	100.0	66.0	100.0
PVC	96.2	94.3	101.9	99.0	86.5	99.0	92.4	100.0	52.4	100.0
Phu My										
PVC	102.3	98.7	93.0	98.9	104.9	99.8	107.6	99.8	89.4	99.3
Aromatics Malaysia										
Paraxylene	83.5	90.4	105.4	98.9	99.5	98.3	93.8	97.5	68.2	83.8
Benzene	87.7	96.2	100.5	98.3	94.2	98.3	65.1	97.5	59.5	83.6
OPTIMAL Glycols[(1)]										
Ethylene Oxide	76.1	95.1	105.9	95.1	93.0	97.8	61.6	100.0	89.2	97.7
Ethylene Glycol	66.8	95.1	105.4	95.1	86.4	97.8	56.0	100.0	74.8	97.9
OPTIMAL Chemicals[(1)]										
Chemical derivatives	60.5	89.8	76.3	95.2	76.0	95.0	47.5	97.0	79.7	95.1
Butanol	65.4	91.3	74.3	98.6	67.2	94.7	31.3	100.0	81.7	100.0
PETLIN										
LDPE	95.3	91.2	97.6	94.6	84.0	94.4	55.4	93.6	91.7	89.5
MTBE Malaysia										
MTBE	94.4	94.5	57.9	72.0	90.4	94.1	96.3	93.6	94.2	92.1
Propane Dehydrogenation	83.6	92.3	83.6	99.0	86.4	95.2	89.5	89.3	106.2	97.1

7. BUSINESS OF OUR GROUP *(cont'd)*

Plant	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability	Capacity Utilisation	Reliability
	(in %)									
Polypropylene Malaysia										
Polypropylene	76.1	92.9	56.3	83.0	98.5	95.0	98.5	88.3	105.1	94.2
Polyethylene Malaysia[2]										
HDPE and LLDPE	104.3	94.2	76.8	98.1	88.2	92.5	73.0	90.9	79.5	93.6
Fertilisers and Methanol										
ASEAN Bintulu Fertilizer										
Ammonia	83.1	87.4	92.5	95.0	97.1	94.4	101.2	97.8	97.7	93.6
Urea	81.9	98.2	90.0	97.1	95.1	98.8	98.5	97.8	97.6	100.0
PETRONAS Ammonia										
Ammonia	88.2	99.8	87.8	99.9	95.5	99.2	76.0	95.2	93.8	100.0
Oxogas	95.8	100.0	88.6	98.1	97.5	98.4	84.1	97.5	95.9	100.0
Carbon monoxide	96.0	99.0	76.6	98.6	98.2	99.2	80.4	97.8	69.1	100.0
PETRONAS Fertilizer										
Methanol	84.0	94.1	57.3	92.1	57.6	91.0	55.0	96.7	50.3	80.8
Ammonia	96.1	94.9	99.5	93.7	92.2	94.4	94.6	98.2	89.5	88.3
Urea	97.0	93.9	99.0	94.0	93.1	95.0	96.1	98.8	90.9	97.6
PETRONAS Methanol										
Methanol	95.3	99.8	106.3	99.4	55.0	88.0	60.1	80.4	63.5	99.3

Notes:

(1) *Became our Subsidiary in September 2009 when we acquired all of DOW Chemicals' interests.*

(2) *Became our Subsidiary on 2 September 2010 when we acquired all of BP Chemical's interest.*

We seek to operate our production facilities at optimal levels of capacity utilisation that takes into consideration the prevailing general economic conditions, demand for our products and our costs of revenue. Some of our production facilities are currently operating at below full capacity, while our reliability rates at most of our plants are relatively high. Therefore, we are in a position to readily grow our business by expanding our production volumes at our current production facilities to meet any increased demand for our products.

Capacity utilisation is total production (including off-specifications products) expressed as a percentage of nameplate capacity during the year. Reliability is calculated by dividing the number of actual operating days for the period by the total number of available operating days adjusted for scheduled shutdowns during the period. For information about our production volume, refer to Section 7.6 of this Prospectus. For details of the nameplate capacities of our production facilities, refer to Section 7.7 of this Prospectus.

Capacity utilisation is affected by the number of lost days of production due to unscheduled plant shutdowns. From time to time, unscheduled shutdowns occur due to various reasons, including external factors such as disruption in power supply or equipment breakdown. Capacity utilisation at the methanol plant 1 in Labuan was adversely impacted during the year ended 31 March 2010 due to our decision to shut down the plant in light of a water supply shortage caused by a third party's delay in completing additional water supply facilities in connection with the Mega Methanol plant 2 coming into operation. We expect that the water supply issue will be fully remedied by early 2011. Despite our decision to shut down plant 1, our overall production of methanol increased during this period due to the Mega Methanol plant 2 coming online, more than offsetting the decreased production from the shutdown of plant 1.

Our MTBE plant was shut down for approximately 126 days during the year ended 31 March 2009 due to upgrading of computer control systems and repair of a processing unit during the scheduled turnaround period. As a result of the upgrade and repair work on the plant during the year ended 31 March 2009 when it recorded a reliability rate of 72.0%, the plant has increased its reliability rate to 94.1% for the year ended 31 March 2010.

7.9.1 Maintenance

Our production facilities are shut down periodically for scheduled maintenance and occasionally for unscheduled corrective maintenance and catalyst changes. Turnarounds, which involve a complete shutdown and a comprehensive maintenance check, are typically required at least once every 18 months in order to comply with regulatory requirements. Turnarounds enhance product yields and quality, increase plant efficiency and safety, reduce the possibility of future unscheduled plant shutdowns, and allow required regulatory equipment inspections to be performed.

However, as a result of our improved asset reliability and integrity programs that were implemented, our plants have been granted extensions from the Department of Occupational Safety & Health ("**DOSH**") so that turnarounds may be conducted at three to five year intervals, depending on business conditions and the relevant plant's operating status. These extensions for turnarounds have contributed to reduction of our long-term maintenance costs and improvement of our asset utilisation. In addition to the benefits resulting from a periodic comprehensive inspection, turnarounds also offer opportunities to carry out debottlenecking projects to increase capacity through equipment modifications to remove operational constraints.

As turnarounds occur every three to five years, we also conduct periodic scheduled maintenance of our product facilities that are smaller and less complex which take a shorter amount of time. Moreover, we continuously monitor the performance and health of our equipment in our production facilities and perform any necessary online maintenance on our facilities without shutting down operations to ensure that appropriate measures are taken to optimise the long-term reliability of key equipment and the production processes as a whole. Online maintenance helps to minimise downtime of our plants and allows them to operate at higher capacity utilisation while performing at high reliability rates.

7.9.2 Business interruptions

There has not been any material interruption to our business activities during the past 12 months.

7.9.3 Quality control

Product quality is extremely important in our industry, and we place great emphasis on quality control of all our products to strive to meet the highest standard for petrochemical products that we produce. Each of our production facilities has its own quality control unit and the quality management system employed by each of them is certified to the appropriate ISO standards, such as ISO 9001 and, for some of our quality testing facilities, ISO 17025. Our quality management systems in place at each of our production facilities undergo both annual internal and external audits to ensure compliance to established procedures and measure effectiveness of control systems. External audits of our quality management systems are conducted and certified by SIRIM, the Malaysian national standards development and inspection agency for international certification bodies.

Our quality control processes for our products and facilities are conducted at each of our plants through "in process" testing of products at various stages of production to effectively detect and remedy any deviation from our established product quality standards. For example, our methanol plants carry out around-the-clock testing on the plants' processes, including tests relating to gases, water treatment and boiler systems and the crude, rundown and pure methanol, to ensure that the pure chemical-grade methanol we produce is subject to stringent analytical tests using the United States Federal grade AA specification guidelines and also meets the highest Japanese quality standard for methanol. Additionally, the methanol plants work to ensure that pollution levels, including noise and effluent, comply with the requirements of the Malaysian Department of Environment and DOSH. We have a total of 164 personnel dedicated to quality control and management systems, including 13 certified chemists.

7.10 RAW MATERIALS

Our costs of raw materials constituted 53.5%, 55.8% and 58.0% of our cost of revenue for the years ended 31 March 2008, 2009 and 2010, respectively, and 51.2% and 53.6% of our cost of revenue for the 4 months ended 31 July 2009 and 2010, respectively.

The primary feedstocks for our petrochemical production processes are ethane, propane, methane, butane and heavy naphtha. We obtain ethane, propane, methane and butane primarily from PETRONAS. PETRONAS provides these feedstocks to us through the PGU pipeline network from the GPPs operated by PETRONAS Gas in Kertih, which process the natural gas sourced in offshore Peninsular Malaysia into methane, ethane, propane and butane. A portion of our methane feedstock is also sourced from off the coast of East Malaysia, and this is supplied to us by both PETRONAS and PETRONAS Carigali. Our heavy naphtha is supplied by PETRONAS Penapisan (Terengganu). We believe that we are uniquely positioned to take advantage of built-in synergies within our Company, as well as those achieved through our close relationship with companies in the PETRONAS Group.

The table below sets forth certain information regarding the principal raw materials we use, the principal uses of such raw materials and the principal source/suppliers of such raw materials.

Raw material	Feedstock volume (31 March 2010)	Principal use(s)	Principal supplier(s)
	000		
Methane – C_1	69,024 mmBtu	Feedstock for methanol, ammonia and urea	PETRONAS; PETRONAS Carigali
Ethane – C_2	1,038 mt	Feedstock for ethylene	PETRONAS
Propane – C_3	700 mt	Feedstock for propylene	PETRONAS
Butane – C_4	360 mt	Feedstock for n-butane and MTBE	PETRONAS
Heavy naphtha	902 mt	Feedstock for paraxylene and benzene	PETRONAS Penapisan (Terengganu)

Ethane and propane are the primary raw materials that we process in our crackers to produce ethylene and propylene, which are key feedstocks in the manufacture of many of our petrochemical products. Methane, heavy naphtha and butane are also important raw materials we use to manufacture our petrochemical products as well as other key feedstocks used in downstream production processes.

Raw materials from the companies in the PETRONAS Group are purchased pursuant to supply contracts that generally provide for a delivery of supplies to us for a fixed term with take-or-pay obligations for specified quantities. While pricing terms differ among the supply contracts, prices we pay for the raw materials are generally attractive relative to prevailing market prices. Pricing under some of our feedstock supply contracts is determined through a formula that is linked to prices quoted in published industry benchmarks while other feedstock supply contracts provide for a fixed price. Some of our feedstock supply contracts with PETRONAS Group companies contain clauses providing that, if there is a substantial change in circumstances that seriously prejudices or is expected to seriously prejudice either party, either party can require both parties to consult together in a spirit of mutual understanding and co-operation to determine whether and what revision to the terms and conditions of the contract is necessary. Thus, consultations about changes in pricing and other terms may take place under such clauses or otherwise as have occurred in the past after the Government of Malaysia adopted an overall policy of gradually phasing out the discounted gas prices available to various sectors of the Malaysian economy. For further details on feedstock contracts, please refer to Section 5.2.1 of this Prospectus.

In addition to the feedstock listed in the above table, our production facilities also use ethylene and propylene mostly as feedstock for the production of polymers and derivatives. Ethylene and propylene are produced primarily in the Kertih IPC and the Gebeng IPC and distributed primarily through pipelines to other plants and facilities within those complexes, with the remainder being distributed to plants and facilities located elsewhere. Our production capacities for ethylene and propylene at plants operated by OPTIMAL Olefins, Ethylene Malaysia and MTBE Malaysia have historically been sufficient to provide adequate supply of feedstock to our downstream manufacturing processes.

Suppliers

Companies of the PETRONAS Group are our primary suppliers of raw materials used in our production processes, including ethane, propane, butane, methane and heavy naphtha.

There is no supplier other than the companies of the PETRONAS Group that has accounted for 10 percent or more of our total purchases for the years ended 31 March 2008, 2009 and 2010 and for the 4 months ended 31 July 2010.

7.11 SALES AND MARKETING

MITCO, our wholly-owned subsidiary, serves as the main sales and marketing arm for our petrochemical products. Leveraging on the consistent large production volumes of petrochemical products from our production facilities, MITCO serves as a vital link in our integrated value chain of business activities allowing us to offer and package a wide portfolio of products to our customers. MITCO has approximately 90 employees engaged in marketing and sales.

While some of our plants sell their products directly to customers, most of our marketing and sales are handled by MITCO. A substantial portion of petrochemical products we produce are sold through MITCO. Sales by MITCO accounted for approximately 59%, 63% and 60% for the years ended 31 March 2008, 2009 and 2010, respectively, and 67% and 59% for the 4 months ended 31 July 2009 and 31 July 2010, respectively of the sales of petrochemical products of our Group. MITCO has entered into marketing agreements with most of our operating companies to market the products manufactured by those companies. Through this arrangement, MITCO receives a stable supply of products for sale into the market. The commercial and operational terms of the arrangement between MITCO and the contracting operating companies are reviewed regularly.

MITCO primarily markets our petrochemical products in the domestic and Asia Pacific region. MITCO markets methanol, ammonia and urea for our fertilisers and methanol segment, and markets a range of olefins, polymers, vinyls, glycols, aromatics and other products, such as MTBE, for our olefins and polymers segment. Sales of olefins and polymers account for the majority of MITCO's sales.

7.12 PRINCIPAL MARKETS AND CUSTOMERS

We market and sell our products both in Malaysia and in various other countries. Sales in Malaysia accounted for 56.6%, 48.4% and 44.8% and sales to other countries accounted for 43.4%, 51.6% and 55.2% of all our sales for the years ended 31 March 2008, 2009 and 2010, respectively. For the 4 months ended 31 July 2009 and 2010, sales in Malaysia accounted for 46.5% and 45.2%, respectively, and sales to other countries accounted for 53.5% and 54.8%, respectively, of all our sales. We believe that our partnerships with our customers are the most critical aspect of our business that complements our various strengths. We benefit from longstanding relationships with many of our customers and we have been able to grow and maintain market share both domestically and in our key international markets. We also leverage from our established reputation as a reliable supplier of petrochemical products to expand our reach into new markets. In addition, our marketing and sales efforts benefit from our diversified product portfolio that is supported by our operational experience, integrated production facilities and our excellent track record in timely meeting our customers' needs. No single customer has contributed 10 percent or more of our total revenue for the years ended 31 March 2008, 2009 and 2010 or for the 4 months ended 31 July 2010. MITCO Labuan Co Ltd ("**MITCO Labuan**"), a subsidiary of PETRONAS, distributes our products to end-customers. Sales to MITCO Labuan contributed approximately 12.2%, 13.4%, 11.2% and 13.9% of our total revenue for the years ended 31 March 2008, 31 March 2009, 31 March 2010 and 4 months ended 31 July 2010. Barring unforeseen circumstances, by mid 2011, MITCO Labuan's business related to petrochemical marketing and trading will be assumed and undertaken by us.

7.12.1 Malaysian market

We have a diverse customer base of approximately 550 customers in Malaysia, comprising principally distributors, traders and manufacturers serving the packaging, household, construction and agricultural markets, as well as manufacturers of industrial products. We are the sole producer of methanol, granular urea, ammonia, MTBE, paraxylene and certain specialty chemicals in Malaysia.

In Malaysia, our products are sold both to local distributors and traders and directly to end users. We are the sole producer in Malaysia of granular urea in the domestic fertilisers market for direct application in the agricultural sectors. Our granular urea is also sold to glue and fertiliser compound manufacturers. Our methanol sales in the Malaysian market are to our own operating unit for the production of MTBE as well as to local distributors or traders and, in lesser quantities, to formaldehyde manufacturers. Polymers, including LDPE, PVC and polypropylene resins, are primarily sold to our customers in Malaysia for the manufacture of film, packaging, pipes and profiles.

Customer relationship management is key to our sales efforts in the Malaysian market. We continue to enhance the level of service and product offerings. To increase our brand recognition and expand our customer base in Malaysia, we participate in trade exhibitions as well as advertise our products in local industry publications.

In order to facilitate distribution of our products, we have a network of inland transporters, including MISC Integrated Logistics Services Sdn Bhd, a company within the PETRONAS Group, to deliver our products throughout Malaysia, Thailand and Singapore. These transporters are chosen on the basis of cost, reliability and regional reach. The proximity of our production facilities to key customers allows us to minimise warehousing needs and enhance reliability of product delivery to customers.

7.12.2 Other countries

We also sell our products to a broad range of approximately 900 customers in more than 25 countries. Our major markets outside of Malaysia include Southeast Asia, Northeast Asia, the Indian subcontinent, Australia and New Zealand. Key competitive determinants in these markets for petrochemical products are price, product quality, reliability and flexibility on delivery and customer relationships.

Our products are exported primarily to end-users and distributors and traders in key markets. Our overseas representatives in China, Indonesia, India, the Philippines, Thailand, Vietnam, the United Arab Emirates and South Africa engage in widening our market and customer base, gathering market intelligence as well as ensuring that we meet the requirements of local business operations.

To facilitate distribution of our products in international markets, we enter into contracts with selected transporters through time charter, contract of affreightments and spot charter market. These contracts typically have terms of one or two years. We believe that our ability to meet our customers' delivery requirements is key to maintaining our established reputation as a reliable supplier of petrochemical products. Our ability to be flexible in delivering small parcel size and "just-in-time" delivery are important in retaining our traditional market. We also utilise the Kertih Kuantan Railway Services system to transport products from our plants in the Kertih IPC to the main port in Kuantan for distribution to various destinations.

7.12.3 Sales information

The following tables set forth sales amounts, sales as a percentage of total sales and volume for our key products by market for the periods indicated[1].

	Year ended 31 March								
	2008			2009			2010		
	(RM million)	%	KT	(RM million)	%	KT	(RM million)	%	KT
Sales in Malaysia									
Olefins and polymers	5,945	46.2	1,783	4,808	38.8	1,599	4,524	37.0	1,555
Ethylene	1,777	13.8	533	1,476	11.9	540	1,077	8.8	393
Propylene	1,097	8.5	300	1,047	8.5	291	788	6.4	260
Paraxylene	447	3.5	119	529	4.3	166	484	4.0	142
MTBE	741	5.8	261	496	4.0	189	429	3.5	172
Ethylene glycols	-	-	-	-	-	-	251	2.1	96
Polypropylene	251	2.0	56	175	1.4	40	251	2.1	56
PVC	218	1.7	64	192	1.5	59	213	1.7	72
N-butane	281	2.2	118	162	1.3	55	197	1.6	93
Benzene	514	4.0	144	187	1.5	61	190	1.5	68
Polyethylene (LDPE, LLDPE and HDPE)	118	0.9	23	125	1.0	25	144	1.2	31
Performance and other chemicals	-	-	-	-	-	-	108	0.9	27
VCM	210	1.6	81	166	1.3	68	78	0.6	34
Other petrochemical products	291	2.2	84	253	2.1	105	314	2.6	111
Fertilisers and methanol	1,218	9.5	1,191	1,110	9.0	879	886	7.3	963

7. BUSINESS OF OUR GROUP *(cont'd)*

	Year ended 31 March								
	2008			2009			2010		
	(RM million)	%	KT	(RM million)	%	KT	(RM million)	%	KT
Urea	624	4.9	573	573	4.6	344	488	4.0	481
Carbon monoxide	207	1.6	237	205	1.7	189	234	1.9	242
Methanol	303	2.4	262	259	2.1	257	156	1.3	231
Ammonia	52	0.4	57	37	0.3	22	8	0.1	9
Oxogas	32	0.2	62	36	0.3	67	-	-	-
Others	117	0.9	-	72	0.6	-	62	0.5	-
Rendering of services	57	0.4	-	57	0.5	-	59	0.5	-
Sales of general merchandise	60	0.5	-	15	0.1	-	3	0.0	-
Total sales in Malaysia	7,280	56.6%	2,974	5,990	48.4%	2,478	5,472	44.8%	2,518
Sales in other countries									
Olefins and polymers	4,071	31.7	1,122	3,782	30.6	1,131	4,731	38.8	1,431
Paraxylene	1,357	10.6	361	1,282	10.4	388	1,294	10.6	385
Polyethylene (LDPE, LLDPE and HDPE)	1,158	9.0	250	1,120	9.1	249	899	7.4	206
PVC	527	4.1	145	563	4.5	188	596	4.9	198
Performance and other chemicals	-	-	-	-	-	-	526	4.3	123
Benzene	435	3.4	130	450	3.5	167	430	3.5	146
MTBE	136	1.1	49	21	0.2	9	379	3.1	141
Ethylene glycols	3	-	1	8	0.1	3	279	2.3	98
Ethylene	84	0.7	22	47	0.4	20	124	1.0	34
VCM	269	2.1	112	83	0.7	36	92	0.8	36
Polypropylene	39	0.3	12	44	0.4	14	64	0.5	19
Propylene	19	0.1	5	43	0.3	12	13	0.1	4
Other petrochemical products	44	0.3	35	121	1.0	45	35	0.3	41
Fertilisers and methanol	1,504	11.7	1,400	2,595	21.0	1,856	2,000	16.4	2,248
Urea	766	6.0	723	1,527	12.3	1,003	854	7.0	848
Methanol	413	3.2	343	403	3.3	444	762	6.3	954
Ammonia	325	2.5	334	665	5.4	409	384	3.1	446
Total sales in other countries	5,575	43.4%	2,522	6,377	51.6%	2,987	6,731	55.2%	3,679
Total	12,855	100%	5,496	12,367	100%	5,465	12,203	100%	6,197

	4 months ended 31 July					
	2009			2010		
	(RM million)	%	KT	(RM million)	%	KT
Sales in Malaysia						
Olefins and polymers	1,245	38.3	524	1,628	38.6	541
Ethylene	295	9.1	146	356	8.4	115
Propylene	225	6.9	94	328	7.8	98
Paraxylene	147	4.5	43	114	2.7	36
MTBE	199	6.1	84	175	4.1	70
Ethylene glycols	-	-	-	168	4.0	66
Polypropylene	79	2.5	19	100	2.4	23
PVC	74	2.3	30	80	1.9	26
N-butane	60	1.8	35	74	1.8	32
Performance and other chemicals	-	-	-	72	1.7	16
Polyethylene (LDPE, LLDPE & HDPE)	31	1.0	8	38	0.9	9

7. BUSINESS OF OUR GROUP *(cont'd)*

	4 months ended 31 July					
	2009			2010		
	(RM million)	%	KT	(RM million)	%	KT
VCM	27	0.8	13	35	0.8	12
Benzene	56	1.7	24	31	0.7	12
Other petrochemical products	52	1.6	28	57	1.4	26
Fertilisers and methanol	248	7.7	287	253	6.0	268
Urea	143	4.4	136	142	3.4	144
Carbon monoxide	55	1.7	66	56	1.3	57
Methanol	38	1.2	67	49	1.2	62
Oxogas	7	0.2	13	-	-	-
Ammonia	5	0.2	5	6	0.1	5
Others	18	0.6	-	27	0.6	-
Sales of general merchandise	1	0.1	-	14	0.3	-
Rendering of services	17	0.5	-	13	0.3	-
Total sales in Malaysia	1,511	46.5%	811	1,908	45.2%	809
Sales in other countries						
Olefins and polymers	1,070	32.9	362	1,555	36.9	443
Performance and other chemicals	-	-	-	388	9.2	84
Polyethylene (LDPE, LLDPE & HDPE)	193	5.9	55	367	8.7	84
Paraxylene	424	13.0	125	255	6.0	80
PVC	186	5.7	70	126	3.0	41
MTBE	56	1.7	21	100	2.4	38
Benzene	112	3.5	48	96	2.3	39
Ethylene glycols	5	0.2	2	94	2.2	38
VCM	36	1.1	16	46	1.1	16
Ethylene	15	0.5	6	32	0.8	10
Polypropylene	8	0.2	2	26	0.6	6
Other petrochemical products	35	1.1	17	25	0.6	7
Fertilisers and methanol	671	20.6	820	755	17.9	876
Methanol	259	7.9	382	341	8.1	432
Urea	308	9.5	303	282	6.7	312
Ammonia	104	3.2	135	132	3.1	132
Total sales in other countries	1,741	53.5%	1,182	2,310	54.8%	1,319
Total	3,252	100.0%	1,993	4,218	100.0%	2,128

Note:

(1) Consists of sales to our Associates and jointly controlled entities and parties external to our Company.

The olefins and polymers segment is the largest contributor to our revenues. Sales of olefins and polymer products contributed 77.9%, 69.5% and 75.8% of our total revenues for the years ended 31 March 2008, 2009 and 2010, respectively, and 71.2% and 75.5% of our total revenues for the 4 months ended 31 July 2009 and 2010, respectively.

The fertiliser and methanol segment is the second largest contributor to our revenues. Sales of fertiliser and methanol products contributed 21.2%, 30.0% and 23.7% of our total revenues for the years ended 31 March 2008, 2009 and 2010, respectively, and 28.3% and 23.9% of our total revenues for the 4 months ended 31 July 2009 and 2010, respectively.

We also derive revenues from our other businesses segment, which consists primarily of the operations of Kertih Port. Kertih Port operates the marine port facilities in the Kertih IPC for the shipping of petrochemical products and feedstocks to and from Kertih. Our other businesses segment contributed 0.9%, 0.5% and 0.5% of our total revenues for the financial years ended 31 March 2008, 2009 and 2010, respectively, and 0.5% and 0.6% of our total revenues for the 4 months ended 31 July 2009 and 2010, respectively.

7.13 COMPETITION

We compete with other petrochemical players on the basis of product and service offerings, pricing, timing of deliveries and overall customer service. Petrochemical companies also attempt to differentiate themselves based on customer relations, market position, facility scale, feedstock costs, proprietary products and process technologies. Our competitors include some of the world's largest chemical companies and major integrated oil companies that have strong financial resources and also are vertically integrated with their own raw material resources.

Petrochemical product prices are determined largely by external market factors including supply and demand balances and feedstock costs that to some extent are beyond our control. We, like our competitors, generally sell our products at prices we negotiate based on prevailing market prices.

In the polymers market in Malaysia, we compete primarily with other Malaysian producers, such as Titan Chemicals Corp. Berhad (whose proposed acquisition by Honam Petrochemicals Corp. has been announced in July 2010), as well as non-Malaysian producers who have entered the petrochemicals market in Malaysia, including companies such as ExxonMobil, SABIC, Equate and PTT Group. With respect to those petrochemical products for which we are the sole local producers, such as certain urea, methanol, aromatics and some specialty chemicals, we face lesser competition in Malaysia.

In markets of other countries, our competitors include companies from countries in the Middle East such as Iran, Kuwait, Qatar, Saudi Arabia, and countries in the Asia-Pacific region, including China, Indonesia, Singapore, Taiwan, Thailand, South Korea and Japan. In addition to petrochemical companies, we also compete with traders such as Mitsubishi Corporation, Marubeni Corporation, Mitsui & Co., as well as other integrated oil and petrochemical companies, such as ExxonMobil, Reliance Industries, PTT Group and SABIC.

7.14 HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We have a comprehensive health, safety and environmental ("**HSE**") management policy and systems covering environmental protection and conservation, people safety, health and asset.

7.14.1 Environmental Compliance

Our environmental compliance policy covers a range of areas, including air, water and noise pollution, as well as the disposal of gas, liquid and solid wastes and the protection of the local ecology. Environmental protection is one of the important criteria we use when selecting new technologies, plants and equipment. We implement these policies partly through the inclusion of inbuilt control equipment and pollution monitoring in our plant design and partly through an emphasis on control procedures and pollution management as an integral part of the training provided by process licensors on plant operating and maintenance procedures.

Our environmental management policy requires full compliance with all local, state and federal laws and regulations concerning environmental protection and related matters, including those that govern the use, storage, transportation and disposal of toxic and hazardous materials. Our operations are monitored by several governmental entities, including the Department of Environment, which is responsible for enforcing pollution control regulations and policies in Malaysia.

Malaysian law requires those companies, including manufacturers, whose business activities are expected to have a potential significant impact on the environment, to prepare environmental impact assessments, environmental monitoring plans and environmental management plans (together, an "**environmental impact assessment report**") in connection with certain operations that are considered likely to have an impact on the environment. An environmental impact assessment report must be submitted to a commission consisting of representatives of various federal and local government agencies and non-governmental organisations before the construction of a facility. Once the commission approves the environmental impact assessment report, which sets out various compliance standards and other obligations, amendments to the environmental impact assessment report must be provided to a similar commission in connection with the commencement of the subject company's operations. For our existing facilities, all appropriate environmental requirements were completed.

We maintain compliance with environmental regulations promulgated by local and national governing bodies. The results of inspections and other compliance requirements are typically within the required specifications. We report the compliance related data on a regular basis to the local regulatory office and the HSE Division of the PETRONAS Group.

We believe that our operations are in compliance in all material respects with applicable environmental laws and regulations currently in effect in Malaysia. We are not aware of any environmental violations or incidents that have led to claims or any environmental proceedings or investigations to which we are, or to which we expect to become, a party.

7.14.2 Health and Safety

The health and safety of our employees are of critical importance to us, and we are required to comply with a range of health and safety laws and regulations. We review our health and safety standards on an ongoing basis and our operations are subject to health and safety inspections by government authorities throughout the year. Our health and safety policies center around the guiding principle that each employee is responsible not only for his or her own safety, but also for the safety of fellow workers. Our ongoing training programs apply to all phases of our safety system, from plant site equipment and its usage, to safety documentation and material safety data. All levels of our operations are included in a monthly safety awareness meeting. We also conduct walk-through inspections to verify safety conditions and employee activities.

We believe that our health and safety activities instill a strong sense of safety awareness among our employees. For the year ended 31 March 2008, 2009 and 2010, our lost time injury frequency was 0.13, 0.07 and nil, respectively. For the 4 months ended 31 July 2010, our lost time injury frequency remained low at 0.35. We have a fully equipped fire station along with a core group of firemen in many of our plants and production complexes. In addition, we benefit from the services of Central Emergency and Fire Services Response, a company that has an emergency response team that includes firemen and emergency medical personnel. The team provides fire fighting expertise and equipment and, with their assistance, emergency training is conducted on an on-going basis and drills are also conducted periodically.

At our facilities, we use qualified inspectors to maintain the integrity of our plants. We conduct routine inspections of static equipment by various methods. Our static equipment inspectors are responsible for our compliance with local and national regulations regarding pressure vessels and fire equipment. We also have inspectors for all rotating equipment. Results of our inspections are reported and registered with DOSH.

We maintain compliance with health and safety regulations promulgated by local and national governing bodies. The results of inspections and other compliance requirements are typically within the required specifications. We report the compliance related data on a regular basis to the local regulatory office and the HSE Division of the PETRONAS Group.

For compliance with stack emissions, heat stress and noise survey requirements, we engage third party providers for such analyses. These analyses are conducted on a quarterly basis and as and when required and are reported to respective regulatory offices.

Additionally, we have in place a management system for health, safety and environment that enables us to effectively manage the minimum environment management standard that we have established that is in line with international best practices. A number of our plants are also certified to Occupation Health and Safety Assessment Series standards, which are international occupational health and safety management system specifications intended to help organisations control their occupational health and safety risks.

Each of our operating companies is required to report its key HSE performance indicators on a monthly basis to our HSE Division who will analyse, alert and recommend mitigations to the operating companies and to our management. HSE assurance is conducted by an external party every 3 to 5 years at all operating companies, including major contractors, and the results are reported to our Board. In addition, we conduct an internal compliance audit on an annual basis at all of our plants.

We also organise various HSE forums and workshops where industrial HSE best practices and lessons are shared and discussed. Furthermore, we organise an annual HSE conference for all personnel, contractors and partners where international experts share and discuss the latest HSE knowledge and developments.

In addition, we are planning to launch "Zero Tolerance Rules" for all our operations to ensure all high-risk activities are carried out safely. Emphasising the principle of zero tolerance against non-compliance for HSE matters, the policy aims to improve our safety performance.

7.15 RISK MANAGEMENT AND INSURANCE

Risk management is embedded in our business activities, as we seek to manage the key risks impacting our business objectives. Our risk management framework involves identifying and analysing risks affecting our objectives, the formulation of response strategies and monitoring and reporting risks on a regular basis.

Our business continuity plan is intended to address unexpected and unknown risks for the recovery of critical business processes and systems in a cost-effective and timely manner and to minimise the impact of any disruption to our business operations. These risks may have an impact not only on the affected facility, but also on other downstream production facilities given that our operations are closely integrated across product lines. Our recovery plan involves the identification and protection of our critical business processes and functions required to maintain an acceptable level of operations in the event of a sudden and unexpected interruption in these processes and functions and their supporting resources.

Our operations are subject to numerous operating risks, including fire, seismic events, floods, machinery breakdown, product liability, employer's liability and cargo damage. These risks and hazards could result in damage to or destruction of our production facilities, personal injury, environmental damage and business interruption. To protect ourselves against such risks, we carry insurance against property damage and consequent business interruption through "all risks" policies provided through the umbrella insurance coverage under the PETRONAS Group. Our insurance is underwritten by registered insurance companies in Malaysia and is, in turn, reinsured by major international insurance companies. Our existing "all risks" policies are in force until 31 March 2011 and are renewed annually.

Our "all risks" coverage has a maximum indemnification limit of approximately RM7 billion for each combined single loss (i.e. physical loss or damage combined with business interruption following physical loss or damage), without limit to the total amount of indemnification per year. Our "all risks" insurance coverage is subject to standard industry exclusions, namely terrorism, war and certain other events. We do not believe that it is economically prudent to obtain terrorism insurance, especially since certain other significant risks would not be covered by this type of insurance, and accordingly, we do not currently carry terrorism insurance. While separate terrorism insurance coverage is available, premiums for such coverage are expensive, especially for chemical facilities, and the policies are subject to high deductibles. Terrorism insurance coverage typically excludes coverage for losses from acts of foreign governments as well as nuclear, biological and chemical attacks.

In addition to these policies, we maintain other insurance policies for specified risks, including marine and transport insurance and other types of coverage that are not included in our "all risks" policies.

We believe our insurance coverage is in accordance with industry standards in Malaysia and in the region.

7.16 EMPLOYEES

To promote unity of culture and consistency of employment terms, we follow the PETRONAS model where executives and managerial and professional staff in the companies of the PETRONAS Group are usually employed by PETRONAS and seconded to a particular company within the PETRONAS Group.

As of 30 September 2010, we employed a total of 4,030 permanent staff, 108 contract staff (direct hire) and 185 contract staff (third party manpower-supplied staff).

As of 31 July 2010, 31 March 2010, 31 March 2009 and 31 March 2008, the petrochemicals businesses of PETRONAS which became part of the PCG Group through the Reorganisation had a total of 4,038, 4,139, 4,293 and 4,106 permanent staff, 108, 118, 146 and 143 contract staff (direct hire) and 193, 201, 166 and 129 contract staff (third party manpower-supplied staff), respectively.

7. BUSINESS OF OUR GROUP *(cont'd)*

As of 30 September 2010, our permanent staff, contract staff (direct hire) and contract staff (third party manpower-supplied staff) were located in the following locations:

Employee Type	Kuala Lumpur	IPCs (Kertih & Gebeng)	Northern Malaysia (Gurun)	Eastern Malaysia (Labuan & Bintulu)	Overseas
Permanent staff	944	1,595	472	863	156
Contract staff (direct hire)	8	55	11	33	1
Contract staff (third party manpower supplied staff)	65	62	12	42	4
Total	**1,017**	**1,712**	**495**	**938**	**161**

The following table sets forth the number of employees for each of our business segments as at 31 March 2008, 31 March 2009, 31 March 2010, 31 July 2010 and as at 30 September 2010.

	As at 31 March			As at 31 July	As at 30 September
Business	**2008**	**2009**	**2010**	**2010**	**2010**
Olefins and polymers	2,410	2,497	2,363	2,324	2,311
Fertilisers and methanol	1,591	1,718	1,688	1,610	1,612
Corporate office and others	377	390	407	405	400
Total	**4,378**	**4,605**	**4,458**	**4,339**	**4,323**

The following table sets forth the number of employees by job function as at 31 March 2008, 31 March 2009, 31 March 2010, 31 July 2010 and as at 30 September 2010.

	As at 31 March			As at 31 July	As at 30 September
Job Function	**2008**	**2009**	**2010**	**2010**	**2010**
Executive directors	12	12	12	9	12
Managerial and professional	434	454	439	413	415
Technical and supervisory	3,123	3,304	3,247	3,181	3,179
Clerical and related functions	502	545	491	477	468
Sales and marketing	294	277	256	245	240
General workers	13	13	13	14	9
Total	**4,378**	**4,605**	**4,458**	**4,339**	**4,323**

As of 30 September 2010, 1,842 employees, or approximately 43% of our employees, were unionised. They are represented by six unions: the 4 chapters of Kesatuan Kakitangan Petroliam Nasional Berhad ("**KAPENAS**") union, in Peninsular Malaysia (Semenanjung), Wilayah Persekutuan Labuan, Sabah and Sarawak, Kesatuan Pekerja-Pekerja OPTIMAL Chemicals ("**KEPKO**") and Phu My Trade Union. We have signed three-year collective agreements with our KAPENAS and KEPKO unionised employees and a two-year collective agreement with our Phu My Trade Union employees. The agreements with three KAPENAS unions (Semenanjung, Wilayah Persekutuan Labuan and Sarawak) were signed on 11 March 2008, and the agreement with Sabah was signed on 7 March 2008, in all cases, with an effective date of 1 July 2007. The agreement with KEPKO was signed on 20 July 2010 with an effective date of 1 April 2010. Under each of the three-year collective agreements, in the event that a new agreement has not been signed before the expiration of the three-year term of the current agreement, the current agreement will continue to be effective until a superceding agreement is entered into. The agreement with Phu My Trade Union was signed

on 25 February 2008. We believe we have a good relationship with our employees, and we have not experienced any strikes or material disruptions due to labour disputes.

Pursuant to the requirements under Malaysian law, we contribute amounts into the Employee Provident Fund, a mandatory employee retirement fund that is administered by a board appointed by the government of Malaysia. For the current and preceding years, we have no legal obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services.

We do not maintain any other retirement, pension or severance plans or have any unfunded pension liabilities.

We believe that our employees are key assets that play a pivotal role toward our continuous growth and we recognise the importance of retaining quality employees. It is our policy to encourage the development and training of our employees for the improvement of overall skill sets for the enhancement of productivity. We believe that professional training and development is an on-going process and encourage our employees to improve their skills and knowledge through hands-on training and field experience.

We benefit from PETRONAS Group's structured training and development system which manages the development of our executives' skills in a comprehensive manner. This structured approach to training and development links the capabilities required to implement business strategies to individual needs to ensure that our employees have the requisite skills and knowledge to successfully perform their roles. To support this effort, PETRONAS appoints dedicated persons as skill group advisors whose responsibility is to lead the planning and implementation of development efforts for our executives in business and technical skills.

In addition, we offer our technical executives with an opportunity to progress their careers as technical professionals, as an alternative to managerial career progression, under a scheme established by PETRONAS in 2000.

PETRONAS Management Training Sdn Bhd ("**PMTSB**") is a subsidiary of PETRONAS that provides management and technical training for the companies in the PETRONAS Group, including us. There are two primary training institutions operated by PMTSB, namely PETRONAS Management Training Centre ("**PERMATA**"), which provides management and leadership training, and Institut Teknologi Petroleum PETRONAS ("**INSTEP**"), which provides technical training. PERMATA and INSTEP are equipped with comprehensive and state-of-the-art training facilities and resources that are available to our employees.

The programs that are offered by the training centers reflect our commitment to building a capable and skilled workforce. The training programs encompass a wide range of skills and knowledge for employees of all levels and disciplines, and aim to ensure that our employees are equipped with a solid foundation in management and leadership skills and the requisite technical know-how, both of which are essential qualities in the successful operation of our business as well as organisational growth. While promoting the professional development of our employees, the programs also instill the core values of the PETRONAS Group that guide our Company.

7.17 RESEARCH AND DEVELOPMENT

Our R&D activities are primarily business-driven, designed to develop business opportunities for us. Accordingly, a key element of our strategy is to enhance customer relationships with value-added services including product development and improvement that is adapted to our customers' particular needs. As such, most of our R&D activities are based on the requirements of our domestic and overseas customers for new or improved products or grades that would be suitable for certain applications. We also conduct research into products that can help position us to take advantage of markets in the future. These R&D activities are managed by our two technology centers dedicated to our petrochemicals business, the PETRONAS Polymer Technology Center ("**PPTC**") and PETRONAS Fertilizer Technology Center ("**PFTC**"). These centers also collaborate with our technology partners, research institutes, universities and industry players.

PPTC was established to harness innovative approaches and new product development for our polymer products and plays a pivotal role in enhancing our competitiveness in the polymer industry domestically and internationally. It provides technical services for customers, makes improvements to existing product grades, creates new grades to meet our customers' requirements and deploys new technology derived from our R&D efforts to create new products and applications. For example, PPTC, working together with Vinyl Chloride (Malaysia) and a technology partner, recently developed a modified polyvinyl chloride compound that has been specifically formulated for pressure pipe applications, such as water transmission, that require strength and durability. Our current R&D projects for new products include degradable polymers, biopolymers and functionalised polymers for pipe coating and packaging applications.

PFTC was formed to further our R&D efforts relating to the application of urea and other fertilisers, including the development of enhanced fertilisers that are compatible with the agricultural industry's move towards sustainability. PFTC conducts R&D in collaboration with external research and academic entities such as the Universiti Putra Malaysia, Malaysian Agriculture Research and Development Institute and Malaysian Rubber Board. PFTC's main activities focus on optimising usage of urea and fertilisers for crops in Malaysia as well as to identify problems associated with their usage and provide solutions to them. To create greater awareness, PFTC also provides information and technical advice on the safe and proper methods of urea and fertiliser usage, such as fertiliser recommendation for various crops, effectiveness of urea compared to other fertilisers and recommendation on new forms of fertilisers.

Both PPTC and PFTC are located within the PCG Group at PETRONAS Twin Towers, Kuala Lumpur City Centre. We conduct our R&D activities at the PETRONAS Research Laboratory in Bangi as well as at our research partners' facilities. Our product development and improvement projects are mainly conducted at the lab facilities of the respective manufacturing plants of our Subsidiaries, Associates and Jointly Controlled Entity.

PPTC and PFTC are staffed with dedicated teams of trained and dedicated technical professionals. PPTC has 27 staff members, including management, product technologists and application technologists, whilst PFTC has 3 staff members. PPTC and PFTC are each headed by a Senior Manager who works closely with the heads of our business segments.

In addition to these technology centers, we benefit from the resources of PETRONAS Group's Technology & Engineering ("**T&E**") division. Many of our R&D efforts undertaken by our technology centers are conducted in conjunction with and are supported by PETRONAS Group's T&E division. The terms and arrangements of our R&D projects that are undertaken in conjunction with the PETRONAS Group are typically determined on a project-by-project basis. For 3 of our current R&D projects, funding is being provided by the PETRONAS Research Fund. The intellectual property related to these particular projects belongs to PETRONAS and we are given the rights to use the intellectual property under a license.

7.18 AWARDS AND RECOGNITIONS

We have been recognised as one of the leading producers of petrochemicals products in the Asia-Pacific region. Our recent awards and recognitions include:

Award/Recognition	Recipient	Awarding Body	Year Awarded
• Silver Award	PETRONAS Fertilizer	Royal Society of Prevention of Accidents ("**ROSPA**")	2010
• Gold Award in Occupational, Health & Safety	ASEAN Bintulu Fertilizer, PETRONAS Ammonia	ROSPA	2009
• Notable Achievement in Environmental Performance	ASEAN Bintulu Fertilizer, Ethylene Malaysia, Polyethylene Malaysia	Prime Minister's Hibiscus Award	2009
• Grand Award in Occupational Safety & Health	ASEAN Bintulu Fertilizer	Malaysian Society of Occupational Safety and Health ("**MSOSH**")	2009
• Merit Awards on Distribution Code and Employee Health & Safety Code	Ethylene Malaysia, Polyethylene Malaysia	Chemical Industries Council of Malaysia ("**CICM**")	2009
• Best New Entry Award	PETRONAS Ammonia	ROSPA	2009
• Grand Award on Occupational Safety & Health	PETRONAS Ammonia	MSOSH	2008
• Sabah Industry Excellence Award	PETRONAS Methanol	Ministry of Industry Development	2008
• Certificate of Excellence, Quality Management Excellence Award	PETRONAS Methanol	MITI	2008
• Gold Award	MTBE Malaysia	MSOSH	2008
• Gold Merit Award	PETRONAS Fertilizer	MSOSH	2008
• Responsible Care Gold Award for Distribution Code and Silver Award for Pollution Prevention Code	OPTIMAL Glycols	CICM	2006

7.19 TECHNOLOGY AND INTELLECTUAL PROPERTY

7.19.1 Technology licences

We utilise advanced manufacturing technologies and processes at our production facilities. None of the technology licensors have any relationship, direct or indirect with our Group. The following table sets forth the major technologies used in our key production facilities:

Plant	Company	Licensor	Technology or Trademark	Validity of rights
Olefins and Polymers				
Ethane/ Propane Cracker	OPTIMAL Olefins	LINDE AG (Germany)	LINDE Ethylene Technology	The rights granted by the licensor shall remain valid throughout the lifetime of OPTIMAL Olefins's plant.
Ethylene Oxide/ Ethylene Glycol	OPTIMAL Glycols	Union Carbide Corporation (United States)	METEOR™ Technology	The rights granted to use the technology is irrevocable in accordance with the terms of the agreement.
Ethylene Derivatives	OPTIMAL Chemicals	Union Carbide Corporation (United States)	LP Oxo™ Process Ethylene Oxide Derivatives Technology	The rights granted to use the technology is irrevocable in accordance with the terms of the agreement.
		Dow Chemical (United States)	Dow Ethylene Oxide Derivatives Technology	
Ethylene	Ethylene Malaysia	ABB LUMMUS Crest Inc. (Netherlands)	LUMMUS Ethylene Technology	The rights granted to use the technology is irrevocable in accordance with the terms of the agreement.
HDPE, LLDPE	Polyethylene Malaysia	Ineos Europe Limited (United Kingdom)[1]	Innovene Gas Phase Process	The rights granted to use the technology is irrevocable in accordance with the terms of the agreement.
MTBE	MTBE Malaysia	Nikki-Universal Co. Ltd (Japan)	• BUTAMER™ • OLEFLEX™ • Huels Complete Saturation Process	The rights to use such technology and process shall survive the termination of the agreement.
	MTBE Malaysia	Institut Francais du Petrole ("IFP") (France)	• IFP Etherification • Catalytic Reactor Technology • Molecular Sieve Methanol Recovery And Oxygenate Removal Technology	The rights to use such technology and process shall remain valid unless revoked in accordance with the terms of the agreement.[2]

7. BUSINESS OF OUR GROUP *(cont'd)*

Plant	Company	Licensor	Technology or Trademark	Validity of rights
Propane dehydrogenation ..	MTBE Malaysia	Universal Oil Products LLC (United States)	• OLEFLEX™ Process • Huels Selective Hydrogenation Process	The rights to use such processes shall survive the termination of the agreement.
Polypropylene	Polypropylene Malaysia	Union Carbide Corporation (United States)	UNIPOL™ PP Process	The rights to use the process shall survive the termination of the agreement.
VCM.....	Vinyl Chloride (Malaysia)	Mitsui Toatsu Chemicals (Japan)	Pollution free oxygen based oxychlorination technology with total gas recycle system	The rights to use the technology shall survive the expiration of the agreement.
PVC	Vinyl Chloride (Malaysia)	EVC Nederlands B.V. (Netherlands)	PVC Process	The right to use the process shall be valid so long as the license agreement between EVC Nederlands B.V. and Technip Geoproduction dated 12 October 1998 is assigned to Vinyl Chloride (Malaysia).
PVC	Phu My	INOVYL B.V. (Belgium)	PVC Process	The rights granted to use the process shall survive the expiration of the agreement.
LDPE	PETLIN	STAMICARBON B.V. (Netherlands)	Single Train High Pressure CTR Technology	The rights granted to use the technology under the license are irrevocable in accordance with the terms of the agreement.
Aromatics	Aromatics Malaysia	Universal Oil Products LLC (United States)	• CCR Platforming™ Process for Aromatics Production • Sulfolane™ Process & BTX Fractionation • Xylene & Heavy Aromatics Fractionation • Isomar™ Process • Tatoray™ Process • Parex™ • Naphtha Hydrotreater • Catalytic Reformer	The rights to use such processes shall survive the termination of the agreement.
Fertilisers and Methanol				
Gurun Urea/Ammonia Complex	PETRONAS Fertilizer	HALDOR TOPSØE A/S ("**Haldor**") (Denmark)[3]	• Ammonia Process • Carbon Dioxide ("CO_2") Separation	The rights to use such processes shall survive the expiration of the agreement.
		SNAMPROGETTI S.p.A., (Italy)	Snamprogetti Urea process	The rights to use the process shall remain valid throughout the lifetime of PETRONAS Fertilizer's plant.

7. BUSINESS OF OUR GROUP *(cont'd)*

Plant	Company	Licensor	Technology or Trademark	Validity of rights
		YARA Fertilizer Technology B.V. (Netherlands)	Urea Granulation Process	The rights to use the process shall remain valid throughout the lifetime of PETRONAS Fertilizer's plant.
Bintulu Urea/Ammonia Complex	ASEAN Bintulu Fertilizer	UHDE GMBH (Germany)	UHDE Ammonia process	The rights to use such processes are irrevocable and shall be valid for the lifetime of ASEAN Bintulu Fertilizer's plant.
		STAMICARBON B.V. (Netherlands)	• Urea Process • CO_2 Stripping Urea Process	The rights to use such processes shall survive the termination of the agreement.
		YARA Fertilizer Technology B.V. (Netherlands)	Urea Granulation Process	The rights to use the process shall survive the termination of the agreement.
Labuan Methanol Plant	PETRONAS Methanol	Lurgi Kohle UND Mineraloltechnik GMBH (Germany)	LURGI Low Pressure Combined Reforming Process Technology LURGI MegaMethanol®	The rights to use the technology shall survive the termination of the agreement.
Ammonia Plant.....	PETRONAS Ammonia	HALDOR TOPSØE A/S (Denmark)	Ammonia Process	The rights to use the process shall survive the termination of the agreement.

Notes:

(1) *Ineos Europe Limited acquired Innovene Group from BP Chemicals Ltd. The rights granted to Polyethylene Malaysia were further to a licence agreement between BP Chemicals Ltd and Polyethylene Malaysia. BP Chemicals Ltd had previously transferred the licensing business to the Innovene Group.*

(2) *IFP has signed with Chemical Research and Licensing Co. ("**CR&L**") and Union Carbide Corporation ("**UCC**") mandatory contracts under which IFP has received the rights for MTBE Malaysia to use the technical data and knowledge relating to the process as developed by IFP, CR&L and UCC.*

(3) *Haldor has the right to grant PETRONAS Fertilizer a sublicense for carbon dioxide removal process owned and licensed by Universal Oil Products LLC.*

As demonstrated by the data in the table above, we use advanced technology from various sources, including some of the leading companies in the petrochemicals industry. These technologies include process-related technologies that relate to the ways in which certain of our plants operate, as well as product-related technologies that relate to the specific formulation of particular products, including some technologies used to produce proprietary chemical products.

The terms of the licences for the technologies we use vary. Some of the process-related technologies are intended to be used for the expected life of the plant, while the product-related technologies typically are only intended to be used as long as we produce the specific product to which the licence relates. Some of our technology agreements include obligations for the provider of the technology to offer us on-going technical support in the use of the technology and others require such provider to make available upgrades to the technology, helping us ensure that our production processes and products do not become obsolete. Our payments to the technology providers take a variety of forms, including lump-sum payment arrangements, royalty payments based on either the volume of sales or production, and time-based fees where our payments depend on how long we use the technology.

We are able to change from the technologies that we currently use to alternative technologies, but such changes may require changes to our plant and equipment, as well as lower production levels or temporary halts in production to adapt to the new technologies. The costs incurred for such technology modifications may be significant, but they are typically less costly than installing a new plant and equipment. Our general policy for technology acquisition is to obtain highly advanced, yet proven technologies. We believe this policy allows us to produce our products on a competitive basis, but without the risks associated with developing and deploying untried technologies.

7.19.2 Information technology

Our information technology infrastructure comprises integrated computer systems to support key functions, including our business enterprise systems software that manages logistics, financial information, human resource management, customer relationship management and corporate financial management. Our business enterprise systems software is licensed through PETRONAS. This licence entitles us to utilise all related proprietary information and selected third party databases. Our computer hardware, including our servers, are leased from and maintained by third party providers.

Our offices and production facilities in Kuala Lumpur and other locations throughout Malaysia are interconnected, enabling more efficient and effective management of information across our corporate structure and contributing to improved levels of service, delivery and performance.

7.19.3 Trademarks

We use a number of trademarks, trade names and service marks in connection with our business. Several of our subsidiaries license the "PETRONAS" name and the corporate logo from PETRONAS. In addition, we market using a number of brand names and trade names, including the following:

Product	Brand Name/Trademark
Granulated urea	Agrenas
Degradable bags made from our polyethylene	Ecoplus
PVC	Polinas and Polyvinas
LDPE	PETLIN

Product	Brand Name/Trademark
Polypropylene	Propelinas
Polyethylene	Etilinas

"Agrenas," "Ecoplus" and "Polinas" brands are all licensed from PETRONAS whereas the registered proprietors of the "PETLIN", "Propelinas", "Polyvinas" and "Etilinas" brands are PETLIN, Polypropylene Malaysia, Phu My and Polyethylene Malaysia respectively. A number of these marks are, or are in the process of being, registered in Malaysia and other countries, including China, Singapore, Vietnam, Bangladesh, Cambodia, Indonesia, Philippines, Sri Lanka and Thailand.

7.19.4 Patents and Other Intellectual Property

We are not dependent on any patents or other intellectual property rights for our business operations other than those listed in Section 7.19.1 of this Prospectus.

7.19.5 Dependency on licenses, trademarks, patents and other intellectual property

Save as disclosed in Sections 7.19.1, 7.19.2, 7.19.3 and 10 of this Prospectus, our Group is not dependent on any other major licences, permits, registrations, patents and other intellectual property rights for our business operations.

7.19.6 Dependency on commercial and financial contracts

The following contracts, being contracts within the ordinary course of business, are contracts on which the Group is highly dependent and are material to our Group's business or profitability:

7.19.6.1 Vinyl Chloride (Malaysia)

(i) Agreement for the sale and purchase of dry gas dated 1 November 2000 and made between PETRONAS and Vinyl Chloride (Malaysia) whereby PETRONAS has agreed to sell and deliver dry gas to Vinyl Chloride (Malaysia) and Vinyl Chloride (Malaysia) has agreed to purchase and pay PETRONAS for the dry gas delivered for cash consideration to be calculated based on the agreed rate set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective for a period of 15 years commencing on 16 November 1999 to 15 November 2014 and shall thereafter be automatically renewed on a year-to-year basis unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement for the terminal usage dated 5 February 1999 and made between Kertih Terminals and Vinyl Chloride (Malaysia) whereby Kertih Terminals has agreed to provide Vinyl Chloride (Malaysia) with storage facilities, pumps, piping, ancillary facilities, common facilities and such other facilities and Vinyl Chloride (Malaysia) has agreed to accept such provision for cash consideration to be calculated at the agreed rate set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective from 5 February 1999 for a period of 20 years commencing on 1 October 1999 to 30 September 2019 and shall thereafter be automatically renewed for additional periods of 10 years each unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of utilities dated 28 June 2004 and made between PETRONAS Gas and Vinyl Chloride (Malaysia) whereby PETRONAS Gas has (i) agreed to sell and deliver to Vinyl Chloride (Malaysia) utilities comprising intermediate pressure steam, gaseous nitrogen, gaseous oxygen and demineralised water and (ii) agreed to treat effluents of Vinyl Chloride (Malaysia) and Vinyl Chloride (Malaysia) has agreed to the above for cash consideration to be calculated at the agreed rates set out therein upon the terms and subject to the conditions therein contained. The agreement is effective from 11 March 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement for the sale and purchase of electricity dated 28 June 2004 and made between PETRONAS Gas and Vinyl Chloride (Malaysia) whereby PETRONAS Gas has agreed to supply to Vinyl Chloride (Malaysia) electricity and Vinyl Chloride (Malaysia) has agreed to purchase and pay PETRONAS Gas for such electricity supplied for cash consideration to be calculated based on the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 19 August 1999 to 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(v) Agreement for the supply of water dated 8 June 2009 and made between Vinyl Chloride (Malaysia) and Bekalan Air KIPC whereby Bekalan Air KIPC has agreed to supply water to Vinyl Chloride (Malaysia) and Vinyl Chloride (Malaysia) has agreed to purchase and pay Bekalan Air KIPC for such water supplied for cash consideration to be calculated at the agreed tariff and upon the terms and subject to the conditions therein contained. The agreement is effective for the period from 3 September 2001 to 7 August 2022 unless otherwise terminated in accordance with the terms thereof.

7.19.6.2 OPTIMAL Companies

(i) Agreement for the sale and purchase of dry gas dated 23 November 2001 and made between PETRONAS and the OPTIMAL Companies whereby PETRONAS has agreed to sell and deliver dry gas to the OPTIMAL Companies and the OPTIMAL Companies has agreed to purchase and pay PETRONAS for such dry gas delivered for cash consideration to be calculated based on the agreed rate set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective for a period of 15 years commencing on 1 July 2001 to 30 June 2016 and shall thereafter be automatically renewed on a year-to-year basis unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement for the sale and purchase of electricity dated 18 September 2000 as supplemented by a supplementary agreement dated 10 February 2010 both made between PETRONAS Gas and the OPTIMAL Companies whereby PETRONAS Gas has agreed to supply to the OPTIMAL Companies electricity and the OPTIMAL Companies has agreed to purchase and pay PETRONAS Gas for such electricity supplied for cash consideration to be calculated based on the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 18 September 2000 for a period of 20 years commencing from 1 May 2002 to 30 April 2022 and shall continue in effect in 5 years increments unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of utilities dated 18 September 2000 as supplemented by a supplementary agreement dated 10 February 2010 both made between PETRONAS Gas and the OPTIMAL Companies whereby PETRONAS Gas has agreed to sell and deliver to the OPTIMAL Companies utilities comprising high pressure steam, high pressure gaseous nitrogen, low pressure gaseous nitrogen, high pressure gaseous oxygen and demineralised water for cash consideration to be calculated at the agreed rates set out therein upon the terms and subject to the conditions therein contained. The agreement is effective from 18 September 2000 for a period of 20 years commencing from 1 May 2002 to 30 April 2022 and shall continue in effect in 5 years increments unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement for the supply of water dated 16 May 2006 and made between Bekalan Air KIPC and the OPTIMAL Companies whereby Bekalan Air KIPC has agreed to supply to OPTIMAL Companies water and OPTIMAL Companies has agreed to purchase and pay Bekalan Air KIPC for such water supplied for cash consideration to be calculated at the agreed tariff and upon the terms and subject to the conditions therein contained. The agreement is effective for the period from February 2001 to 7 August 2022 unless otherwise terminated in accordance with the terms thereof.

(v) Agreement for the sale and purchase of ethane and propane dated 11 February 1999 and made between PETRONAS and OPTIMAL Olefins, as supplemented by the supplementary agreement dated 18 December 2007, whereby PETRONAS has agreed to sell and deliver ethane and propane to OPTIMAL Olefins and OPTIMAL Olefins has agreed to purchase and pay PETRONAS for such ethane and propane delivered for cash consideration to be calculated based on the agreed formula set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective from 11 February 1999 for a period of 21 years commencing from 1 December 2002 to 30 November 2023 unless otherwise terminated in accordance with the terms thereof.

7.19.6.3 PETLIN

(i) Agreement for the sale and purchase of propane dated 28 February 2003 and made between PETRONAS and PETLIN whereby PETRONAS has agreed to sell and deliver propane to PETLIN and PETLIN has agreed to purchase and pay PETRONAS for such propane delivered for a cash consideration to be calculated at an agreed rate and upon the terms and subject to the conditions therein contained. The agreement shall be effective on 25 March 2002 for a period of 20 contract years commencing from 1 January 2003 unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement for the sale and purchase of electricity dated 1 August 2001 as supplemented by a supplementary agreement dated 10 March 2009 both made between PETRONAS Gas and PETLIN whereby PETRONAS Gas has agreed to supply PETLIN electricity and PETLIN has agreed to purchase and pay PETRONAS Gas for the electricity supplied for cash consideration to be calculated based on the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 1 February 2001 until 31 March 2023 unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the supply of water dated 1 June 2006 and made between PETLIN and Bekalan Air KIPC whereby Bekalan Air KIPC has agreed to supply to PETLIN water and PETLIN has agreed to purchase and pay Bekalan Air KIPC for the water supplied for cash consideration to be calculated at the agreed tariff and upon the terms and subject to the conditions therein contained. The agreement is effective for the period from 3 September 2001 to 6 August 2022 unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement for the sale and purchase of utilities dated 1 August 2001 as supplemented by a supplementary agreement dated 10 March 2009 both made between PETRONAS Gas and PETLIN whereby PETRONAS Gas has agreed to sell and deliver to PETLIN utilities comprising high pressure steam, high pressure gaseous nitrogen, low pressure gaseous nitrogen and demineralised water and PETLIN has agreed to purchase and pay PETRONAS Gas for the utilities provided for cash consideration to be calculated based on the agreed rates set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective from 16 April 2001 until 31 March 2023 unless otherwise terminated in accordance with the terms thereof.

7.19.6.4 PETRONAS Ammonia

(i) Agreement for the sale and purchase of dry gas dated 2 August 2000 and made between PETRONAS and PETRONAS Ammonia, as supplemented by the side letters dated 10 December 2003, 14 May 2004 and 7 May 2009, whereby PETRONAS has agreed to sell and deliver dry gas to PETRONAS Ammonia and PETRONAS Ammonia has agreed to purchase and pay PETRONAS for such dry gas delivered for cash consideration to be calculated based on the tariff set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 29 July 2000 until 28 July 2020 unless otherwise terminated in accordance with the terms thereof. Pursuant to the side letter dated 7 May 2009,

PETRONAS and PETRONAS Ammonia agreed to, amongst others, revise the price of the dry gas.

(ii) Agreement for the sale and purchase of hydrogen gas dated 11 September 2008 and made between PETRONAS Penapisan (Terengganu) and PETRONAS Ammonia whereby PETRONAS Penapisan (Terengganu) has agreed to sell and deliver hydrogen gas to PETRONAS Ammonia and PETRONAS Ammonia has agreed to purchase and pay PETRONAS Penapisan (Terengganu) for such hydrogen gas delivered for cash consideration to be calculated based on the agreed tariff set out in therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 9 December 2005 until 30 June 2011 unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of hydrogen gas dated 27 December 2007 and made between PETRONAS Gas and PETRONAS Ammonia whereby PETRONAS Ammonia has agreed to sell and deliver to PETRONAS Gas hydrogen gas and PETRONAS Gas has agreed to purchase and pay PETRONAS Ammonia for such hydrogen gas delivered for cash consideration to be calculated based on an agreed tariff set out therein and upon such other terms and conditions contained therein. The agreement is effective from 3 May 2007 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement for the terminal usage dated 13 February 1999 and made between Kertih Terminals and PETRONAS Ammonia whereby Kertih Terminals has agreed to provide PETRONAS Ammonia with storage facilities, pumps, piping, ancillary facilities, common facilities and such other facilities and PETRONAS Ammonia has agreed to accept such provision for cash consideration to be calculated at the agreed rate set out therein and upon the terms and subject to the conditions therein contained The agreement is effective from 13 February 1999 for a period of 20 years commencing from 1 April 2000 to 31 March 2020 and shall thereafter be automatically renewed for additional periods of 10 years each unless otherwise terminated in accordance with the terms thereof.

(v) Agreement for the sale and purchase of carbon monoxide dated 18 December 1998 as supplemented by supplemental agreement dated 9 December 2005 both made between PETRONAS Ammonia and BP PETRONAS Acetyls whereby PETRONAS Ammonia has agreed to sell and deliver carbon monoxide to BP PETRONAS Acetyls and BP PETRONAS Acetyls has agreed to purchase and pay PETRONAS Ammonia for such carbon monoxide supplied for cash consideration to be calculated based on the agreed tariff set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 18 December 1998 unless otherwise terminated in accordance with the terms thereof.

(vi) Agreement for the sale and purchase of utilities dated 21 January 2004 as supplemented by the supplementary agreements dated 31 October 2005 and 23 June 2009 and made between PETRONAS Gas and PETRONAS Ammonia whereby PETRONAS Gas has agreed to supply to PETRONAS Ammonia utilities comprising high pressure steam, high pressure GAN, low pressure GAN, demineralised water and raw water and effluent treatment as well as purchase and receive condensate returns from PETRONAS Ammonia and PETRONAS Ammonia has agreed to purchase and pay PETRONAS Gas for such utilities and effluent treatment supplied for cash consideration as well as to supply to PETRONAS Gas condensate returns, all to be calculated based on the agreed rates set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 20 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(vii) Compressed Air Sharing Agreement dated 1 March 2010 and made between PETRONAS Gas and PETRONAS Ammonia whereby PETRONAS Gas has agreed to operate and maintain the compressed air facility in proper working order and condition. By virtue of an amount of capital contribution of RM1,314,083.11 fully paid by PETRONAS Ammonia for the construction and installation of the compressed air facility, PETRONAS Ammonia had become the beneficial owner of the compressed air facility to the extent of such contribution. Further to the capital contribution, PETRONAS Ammonia has agreed to pay PETRONAS Gas monthly consumption charges, actual monthly costs for maintenance work and actual monthly maintenance or capital replacement work costs for cash consideration to be calculated in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 20 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(viii) Agreement for the sale and purchase of electricity dated 5 February 2002 as supplemented by the supplementary agreement dated 23 June 2009 and made between PETRONAS Gas and PETRONAS Ammonia whereby PETRONAS Gas has agreed to sell and supply electricity to PETRONAS Ammonia and PETRONAS Ammonia has agreed to purchase and pay PETRONAS Gas for such electricity supplied for cash consideration to be calculated at the agreed rate set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 7 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(ix) Fire Water Sharing Agreement dated 25 June 2008 and made between PETRONAS Gas and PETRONAS Ammonia whereby PETRONAS Gas has agreed to construct, operate and maintain a fire water facility and to supply fire water to PETRONAS Ammonia. By virtue of an amount of capital contribution of RM4,854,854.20 fully paid by PETRONAS Ammonia for the construction and installation of the fire water facility, PETRONAS Ammonia had become the beneficial owner of the fire water facility to the extent of such contribution. Further to the capital contribution, PETRONAS Ammonia shall pay to PETRONAS Gas actual costs for maintenance work, water, power, diesel consumption, actual water, power and diesel consumption charges in the event of drills and emergency and actual maintenance or capital replacement work for cash consideration to be calculated in accordance with the with the terms and subject to the conditions contained therein. The agreement is effective from 20 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

7.19.6.5 MTBE Malaysia

(i) Agreement for the sale and purchase of dry gas dated 6 March 1997 as supplemented by the addendums thereof, including the addendum dated 30 April 2002, and a supplemental agreement dated 9 December 2003, all made between PETRONAS and MTBE Malaysia whereby PETRONAS has agreed to sell and deliver dry gas to MTBE Malaysia and MTBE Malaysia has agreed to purchase and pay PETRONAS for such dry gas delivered for cash consideration to be calculated based on an agreed rate set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 1 July 1996 until 30 June 2011 unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement for the sale and purchase of propane and butane dated 3 September 2009 and made between PETRONAS and MTBE Malaysia whereby PETRONAS has agreed to sell and deliver propane and butane to MTBE Malaysia and MTBE Malaysia has agreed to purchase and pay PETRONAS for such propane and butane supplied for cash consideration to be calculated based on the agreed rate set out therein and in accordance with the terms and subject to the conditions therein contained. The Agreement is effective for a period of 10 contract years from 1 August 2008 unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of electricity dated 31 December 2001 as supplemented by a first supplementary agreement dated 3 April 2008 and second supplementary agreement dated 17 March 2009 and made between PETRONAS Gas and MTBE Malaysia whereby PETRONAS Gas has agreed to sell and supply to MTBE Malaysia electricity and MTBE Malaysia has agreed to purchase and pay PETRONAS Gas for such electricity supplied for cash consideration to be calculated at the agreed rate and in accordance with the terms and subject to the conditions therein contained. The Agreement is effective from 16 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement for the sale and purchase of utilities dated 14 March 2003 as supplemented by a supplementary agreement dated 28 April 2006 and 31 March 2009 all made between PETRONAS Gas and MTBE Malaysia whereby PETRONAS Gas has agreed to sell and deliver to MTBE Malaysia utilities comprising high pressure steam, gaseous nitrogen, demineralised water, cooling water, potable water and raw water for cash consideration to be calculated at the agreed rates set out therein upon the terms and subject to the conditions therein contained. The agreement is effective from 16 February 2000 until 31 December 2021 unless otherwise terminated in accordance with the terms thereof.

7.19.6.6 PETRONAS Methanol

(i) Agreement for the sale and purchase of natural gas dated 28 December 1994 and made between PETRONAS Gas Supply (Labuan) Sdn Bhd and PETRONAS Methanol, which has since been assigned to PETRONAS Carigali pursuant to a deed of assignment dated 5 February 1996 between PETRONAS Gas Supply (Labuan) Sdn Bhd and PETRONAS Carigali, as supplemented by the side letter dated 5 August 2010, and made between PETRONAS Carigali and PETRONAS Methanol to provide for supply of additional quantities and the revised price, whereby PETRONAS Carigali has agreed to sell and deliver natural gas to PETRONAS Methanol and PETRONAS Methanol has agreed to purchase and pay PETRONAS Carigali for such natural gas delivered for cash consideration to be calculated based on the formula set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective from 1 June 1992 unless otherwise terminated in accordance with the terms thereof. Pursuant to the side letter dated 5 August 2010, PETRONAS and PETRONAS Methanol agreed to, amongst others, revise the price of the natural gas.

(ii) Agreement for the sale and purchase of natural gas for PML Plant 2 dated 4 January 2010 and made between PETRONAS and PETRONAS Methanol whereby PETRONAS has agreed to sell and deliver natural gas to PETRONAS Methanol and PETRONAS Methanol has agreed to purchase and pay PETRONAS for such natural gas delivered for cash consideration to be calculated based on the agreed rates set out therein and in accordance with the terms and subject to the conditions contained therein. The agreement is effective for a period of 20 contract years from 28 February 2008 unless otherwise terminated in accordance with the terms thereof.

7.19.6.7 PETRONAS Fertilizer

(i) Agreement for the sale and purchase of dry gas dated 13 July 2000, as amended by an addendum dated 7 May 2009 both made between PETRONAS and PETRONAS Fertilizer whereby PETRONAS delivered dry gas to PETRONAS Fertilizer's fertiliser plant in Gurun, Kedah which are used as feed stock, fuel and for power generation at the said plant. The agreement is effective from 1 October 1998 to 31 January 2018 and thereafter shall be automatically renewed on a year-to-year basis unless otherwise terminated in accordance with the terms thereof. Pursuant to the addendum dated 7 May 2009, PETRONAS and PETRONAS Fertilizer agreed to, amongst others, revise the price of dry gas.

(ii) Agreement for the sale and purchase of electricity dated 1 April 2010 and made between Tenaga Nasional Berhad ("**TNB**") and PETRONAS Fertilizer whereby TNB has agreed to supply on a firm standby supply to PETRONAS Fertilizer electricity and PETRONAS Fertilizer has agreed to purchase and pay TNB for such electricity supplied at the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 1 April 2010 and shall be void and cease to have any effect on the expiration or termination of the agreement.

7.19.6.8 Aromatics Malaysia

(i) Agreement for the sale and purchase of dry gas dated 2 August 2000 as supplemented by an addendum dated 13 August 2003, and made between PETRONAS and Aromatics Malaysia whereby PETRONAS has agreed to sell and deliver dry gas to Aromatics Malaysia and Aromatics Malaysia has agreed to purchase and pay PETRONAS for such dry gas delivered for cash consideration to be calculated based on the agreed rate set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective from 1 November 1999 until 31 October 2019 and shall thereafter be automatically renewed on a year-to-year basis unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement for the sale and purchase of electricity dated 18 January 2002 as supplemented by a side letter dated 30 June 2008 and a supplementary agreement dated 31 December 2008, all made between PETRONAS Gas and Aromatics Malaysia whereby PETRONAS Gas has agreed to supply to Aromatics Malaysia electricity and Aromatics Malaysia has agreed to purchase and pay PETRONAS Gas for such electricity supplied for cash consideration to be calculated based on the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 27 January 2000 to 31 August 2021 unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of naphtha dated 3 March 2002 and made between PETRONAS and Aromatics Malaysia, whereby PETRONAS has agreed to supply to Aromatics Malaysia naphtha and Aromatics Malaysia has agreed to purchase and pay PETRONAS for such naphtha supplied for cash consideration to be calculated based on the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 1 April 2000 and shall continue thereafter unless otherwise terminated in accordance with the terms thereof. The agreement has since been novated by PETRONAS to PETRONAS Penapisan (Terengganu).

7.19.6.9 Ethylene Malaysia

(i) Agreement for the sale and purchase of ethane dated 13 June 1994 and made between PETRONAS and Ethylene Malaysia, as supplemented by a supplementary agreement dated 18 September 2001, whereby PETRONAS has agreed to sell and deliver ethane to Ethylene Malaysia and Ethylene Malaysia has agreed to purchase and pay PETRONAS for such ethane delivered for cash consideration to be calculated based on the agreed formula set out therein and upon the terms and subject to the conditions therein contained. The agreement is effective from 13 June 1994 and for a period of 20 years commencing from 1 October 1996 to 1 October 2016 unless otherwise terminated in accordance with the terms thereof. Pursuant to a supplemental agreement dated 18 September 2001, PETRONAS agreed to, amongst others, supply additional amount of ethane to Ethylene Malaysia and the parties further agreed to revise the price of ethane.

(ii) Agreement for sale and purchase of dry gas dated 6 March 1997 and made between PETRONAS and Ethylene Malaysia, as supplemented by the addendums to the agreement for the sale and purchase of dry gas dated 30 October 2001 and 13 August 2003 and a side letter dated 28 November 2007, whereby PETRONAS has agreed to supply dry gas to Ethylene Malaysia and Ethylene Malaysia has agreed to purchase and pay PETRONAS for the dry gas supplied for cash consideration to be calculated based on the agreed rate set out therein and upon the terms and subject to the conditions therein contained. The agreement is for a period of 15 years commencing on 1 July 1996 to 30 June 2011 and shall thereafter be automatically renewed on a year-to-year basis unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement for the sale and purchase of electricity dated 4 December 1994 and made between TNB and Ethylene Malaysia whereby TNB has agreed to supply to Ethylene Malaysia electricity and Ethylene Malaysia has agreed to purchase and pay TNB for such electricity supplied at the agreed rate and upon the terms and subject to the conditions therein contained. The agreement is effective from 4 December 1994 unless otherwise terminated in accordance with the terms thereof.

7.19.6.10 ASEAN Bintulu Fertilizer

PETRONAS has agreed to sell and deliver natural gas to ASEAN Bintulu Fertilizer and ASEAN Bintulu Fertilizer has agreed to purchase and pay PETRONAS for the natural gas delivered for cash consideration to be calculated based on the agreed rates as set out in the letter from PETRONAS to ASEAN Bintulu Fertilizer dated 3 February 2009 and as applicable from 1 October 2005, pending the finalisation and execution of a formal agreement between the parties.

7.20 CORPORATE SOCIAL RESPONSIBILITY

We aspire to create sustainable value for society and are committed to contributing to the well-being of the local communities in which we operate. To that end, we are actively involved in a broad range of corporate social responsibility ("**CSR**") programs in many areas, such as education and environmental protection, and engage in interactive activities with the local authorities, public awareness programs and other social responsibility programs. Our CSR activities have included programs such as ECOCARE (mangroves replantation program), development of an environmental center, beach cleaning project, biodiversity study of Kertih coastal area in conjunction with the University of Malaysia, Terengganu and recycling campaigns at local school and community centers.

In addition, many of our CSR activities that we participate in are part of broader programs and initiatives sponsored by the PETRONAS Group. Among these initiatives is the Program Bakti Pendidikan PETRONAS ("**BAKTI**"), a structured and integrated long-term education program focusing on borderline under performing school children. The BAKTI program enhances the teaching approach to improve academic achievements specifically in mathematics, English and science for students.

7.21 GOVERNING LAWS AND REGULATIONS

Our business is regulated by, and in some instances required to be licensed under specific laws of Malaysia. The relevant laws and regulations governing our Group and which are material to our operations are summarised below. The following does not purport to be an exhaustive description of all relevant laws and regulations of which our business is subject to.

7.21.1 Petroleum Development Act 1974 and Industrial Co-ordination Act 1975

The manufacture and marketing of petrochemical products is governed by the Petroleum Development Act 1974 and the Industrial Co-ordination Act 1975.

Downstream operations including the manufacture of petrochemical products as well as the marketing or distribution of the same are governed by the Petroleum Development Act 1974 and Petroleum Regulations 1974. Under the Petroleum Development Act 1974 and Petroleum Regulations 1974, the permission of the Prime Minister via the Secretary-General, MITI is required in relation to the manufacture of petrochemical products from petroleum and the permission of the Prime Minister via the Secretary-General, Ministry of Domestic Trade and Consumer Affairs is required in relation to the sale and distribution of petrochemical products from petroleum.

Pursuant to the Industrial Co-ordination Act 1975 and the Industrial Co-ordination (Exemption) Order, 1976, a licence is required for any manufacturing activity with shareholders' funds of RM2.5 million and above or employing 75 or more full-time paid employees. A licence will have to be obtained for the manufacture of specified products at each separate manufacturing site. Licences are typically issued in accordance with national economic and social objectives and to promote the orderly development of manufacturing activities in Malaysia. They are issued by the MITI, subject to conditions of the licence, and are non-transferable save with the prior approval of MITI.

7.21.2 Occupational Safety and Health Act 1994 ("OSHA")

We are also subject to the OSHA. Under the OSHA, we have a general duty to our employees to provide and maintain the plants and systems of work that are, so far as is practicable, safe and without risks to health, provide information, instruction, training and supervision to ensure, so far as is practicable, the safety and health of our employees at work, and to provide a working environment, which is as far as possible safe, without risks to health, and adequate as regards facilities for their welfare at work. We also have a duty to ensure, so far as is practicable, that other persons, not being their employees, who may be affected thereby are not thereby exposed to risks to their safety or health.

As we employ more than 100 employees, we are obliged under OSHA to employ a safety and health officer, who is tasked with ensuring the due observance of the statutory obligations as regards workplace health and safety and the promotion of a safe conduct of work at the place of work. We have also set up a health and safety committee, which we consult in promoting and developing measures to ensure the safety and health at the place of work of the employees, and in checking the effectiveness of such measures.

7.21.3 Environmental Quality Act 1974

The Environmental Quality Act 1974 restricts pollution of the atmosphere, noise pollution, pollution of the soil, pollution of inland waters without a licence, prohibits the discharge of oil into Malaysian waters, discharge of wastes into Malaysian waters without a licence, and prohibits open burning. The agency responsible for implementing and monitoring Malaysia's environmental regulations and policies is the Malaysian Department of Environment and the local environmental authority.

7.21.4 Atomic Energy Licensing Act 1984

The dealing in or possession or disposal of any radioactive material, nuclear material, prescribed substance or irradiating apparatus is prohibited unless carried out pursuant to a valid licence issued under the Atomic Energy Licensing Act 1984 by the Atomic Energy Licensing Board under the Ministry of Science, Technology and Innovation for such purpose and use as specified in the licence. Every licensee shall comply with all such directives as may be issued from time to time for the protection of the health and for the safety of workers and all other persons from ionizing radiation, including but not limited to conditions of exposure, occupational, medical, accidental or emergency exposure, exposure of members of the public, and dose limitation.

8. FINANCIAL INFORMATION

Polyethylene Malaysia became our wholly-owned subsidiary on 2 September 2010. Hence, for purposes of presenting our historical financial information throughout this Prospectus in relation to disclosure periods up to the 4 months ended 31 July 2010, references to 'jointly controlled entities' include Polyethylene Malaysia, whilst references to 'Subsidiaries' exclude Polyethylene Malaysia.

8.1 HISTORICAL FINANCIAL INFORMATION

The following selected historical audited combined financial information as at or for the years ended 31 March 2008, 31 March 2009 and 31 March 2010, and as at or for the 4 months ended 31 July 2009 and 31 July 2010, have been derived from the audited combined financial statements of our Group and should be read in conjunction with the Accountants' Report and related notes in Section 9 and with Section 8.2 of this Prospectus.

Prospective investors should note that we are part of the PETRONAS Group and prior to the Reorganisation, did not operate independently as a group. The combined financial statements have been carved out from the consolidated financial statements of the PETRONAS Group and, where appropriate, adjustments have been made to specifically present only our combined financial position, results of operations and cash flows. The financial information presented in the combined financial statements do not incorporate the effects of the Reorganisation and IPO and as such, may not be the same as the consolidated financial statements of our Group after incorporating the abovementioned events. Further, such financial information from the combined financial statements does not purport to predict our Group's financial position, results of operations and cash flows of our business. Please refer to Section 12.1 and Section 8.9 of this Prospectus for further information on the Reorganisation and Pro Forma Consolidated Statements of Financial Position of our Group.

The audited combined financial statements of our Group were not subject to any audit qualification for the years ended 31 March 2008, 31 March 2009, 31 March 2010 and for the 4 months ended 31 July 2010.

	Audited			Unaudited[1]	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
	(RM million except for share and margin data)				
Revenue	12,855	12,367	12,203	3,252	4,218
Cost of revenue	(6,499)	(7,500)	(8,561)	(2,395)	(3,010)
Gross profit	6,356	4,867	3,642	857	1,208
Selling and distribution expenses	(337)	(335)	(351)	(118)	(127)
Administration expenses	(319)	(320)	(318)	(100)	(98)
Other expenses	(55)	(111)	(127)	(15)	(46)
Other income	283	342	403	76	133
Operating profit	5,928	4,443	3,249	700	1,070
Financing costs	(81)	(57)	(62)	(16)	(24)
Share of profit after tax and minority interest of equity accounted Associates and jointly controlled entities	273	25	181	56	172
PBT	6,120	4,411	3,368	740	1,218
Tax expense	(1,491)	(962)	(774)	(153)	(280)
PAT	4,629	3,449	2,594	587	938

8. FINANCIAL INFORMATION *(cont'd)*

	Audited			Unaudited[1]	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
	(RM million except for share and margin data)				
PAT attributable to:					
PETRONAS	3,925	2,818	2,199	505	814
Minority shareholders	704	631	395	82	124
	4,629	3,449	2,594	587	938
Amortisation	-	3	2	-	1
Depreciation	633	684	894	254	339
EBITDA[2]	6,834	5,155	4,326	1,010	1,582
No. of Shares in issue (million)[3]	8,000	8,000	8,000	8,000	8,000
Gross EPS[4] (sen)	76.5	55.1	42.1	27.8[6]	45.7[6]
Net EPS[5] (sen)	49.1	35.2	27.5	18.9[6]	30.5[6]
NTA per ordinary share[7] (RM)	1.9	2.0	2.0	2.0	2.0
Gross profit margin (%)	49.4	39.4	29.8	26.4	28.6
PBT margin (%)	47.6	35.7	27.6	22.8	28.9
PAT margin (%)	36.0	27.9	21.3	18.1	22.2
EBITDA margin (%)	53.2	41.7	35.5	31.1	37.5

Notes:

(1) *Unaudited and included for comparison purposes only.*

(2) *EBITDA refers to earnings before interest expenses, taxation, depreciation and amortisation. Our EBITDA includes interest income of RM206 million, RM228 million and RM168 million for the years ended 31 March 2008, 2009 and 2010, respectively, and RM51 million and RM59 million for the 4 months ended 31 July 2009 and 2010, respectively.*

Our EBITDA presented in this document is a supplemental measure of our performance and liquidity and is not required by, or presented in accordance with FRS in Malaysia and should not be considered as an alternative to PAT, operating income, or any other performance measures derived in accordance with FRS in Malaysia or as an alternative to our cash flows or as a measure of our liquidity. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such a term may not be possible. Other companies may calculate EBITDA differently from us, limiting its usefulness as a comparative measure.

We believe that the presentation of EBITDA facilitates the operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of tangible assets (affecting relative depreciation expense).

The following is a reconciliation of our PBT to EBITDA:

	Audited			Unaudited	Audited
	Year ended 31 March			4 months ended 31 July	
	2008	2009	2010	2009	2010
			(RM million)		
PBT	6,120	4,411	3,368	740	1,218
Amortisation	-	3	2	-	1
Depreciation	633	684	894	254	339
Financing costs	81	57	62	16	24
EBITDA	6,834	5,155	4,326	1,010	1,582

(3) *Based on the enlarged issued and paid-up share capital after the Reorganisation and IPO.*

(4) *Computed as PBT divided by the enlarged number of Shares in issue after the Reorganisation and IPO.*

(5) *Computed as PAT attributable to PETRONAS divided by the enlarged number of Shares in issue after the Reorganisation and IPO.*

(6) *Annualised.*

(7) *Computed as NA less intangible assets less minority interests divided by the enlarged number of Shares in issue after the Reorganisation and IPO.*

8.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis with respect to the 3 years ended 31 March 2008, 2009 and 2010 and the 4 months ended 31 July 2009 and 2010 are based on, and should be read in conjunction with the Accountants' Report and related notes as set out in Section 9 of this Prospectus.

The following discussion contains forward-looking statements on risks and uncertainties and reflects our current views with respect to future events and financial performance. Our actual results may differ significantly from those anticipated in the forward-looking statements. Factors that might cause future results to differ significantly from those in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in the "Forward Looking Statements" in this Prospectus.

Our audited combined financial statements have been prepared and presented on a basis in accordance with Malaysian FRS.

8.2.1 Overview

We are the leading integrated petrochemicals producer in Malaysia and one of the largest petrochemicals producers in Southeast Asia involved primarily in manufacturing, marketing and selling a diversified range of petrochemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. We categorise our operations into three segments: the olefins and polymers segment, the fertilisers and methanol segment and other businesses segment. Our olefins and polymers segment produces and sells a diverse range of petrochemical products, including ethylene, propylene, polyethylene, polypropylene, paraxylene, benzene, VCM, MTBE, PVC and other chemicals and derivative products. Our fertilisers and methanol segment produces and sells fertiliser products, including urea and ammonia, as well as methanol. Products manufactured in our facilities are both sold in the domestic and international markets as well as used as feedstock for our other downstream processes. Our other businesses segment consists predominantly of port services.

Our Group was created as a result of the Reorganisation, which was undertaken by PETRONAS to better align and consolidate its petrochemicals businesses. For details regarding the Reorganisation and the operating companies that comprise our Group, refer to Section 12.1.2 of this Prospectus on the Reorganisation. In September 2009, Dow Chemical's 50% interest in each of OPTIMAL Glycols and OPTIMAL Chemicals was acquired and both companies are now our wholly-owned subsidiaries.

As at 31 March 2010 and 31 July 2010, we had total assets of RM26,892 million and RM25,064 million, respectively, and reserves excluding minority interests of RM17,069 million and RM17,196 million, respectively. For the years ended 31 March 2008, 2009 and 2010 and the 4 months ended 31 July 2010, we generated PAT of RM4,629 million, RM3,449 million, RM2,594 million and RM938 million, respectively, on net revenue of RM12,855 million, RM12,367 million, RM12,203 million and RM4,218 million, respectively.

8.2.2 Significant factors affecting our results of operations

Our operating results have been and will continue to be affected by a number of factors, including those set out below:

(i) Cyclicality of the petrochemicals industry

The prices of petrochemical products and their underlying feedstock are subject to significant fluctuations as they are influenced both by global supply and demand as well as movements in the prices of key commodities such as crude oil and natural gas. Consequently, margins have historically been cyclical and are sensitive to supply and demand imbalances both domestically and internationally. Supply is affected by significant capacity expansions by producers, and if such additions are not matched by corresponding growth in demand, which is generally linked to the level of economic activity, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterised by periods of tight supply, leading to high capacity utilisation rates and margins, followed by periods of oversupply, primarily resulting from significant capacity additions, leading to reduced capacity utilisation rates and margins.

(ii) Economic conditions

The overall macroeconomic conditions in Malaysia and globally significantly impact our operations because demand for our products is driven by end-customers across a diverse range of industries whose businesses are dependent on the state of the economy. Because we are incorporated in Malaysia and most of our assets are located or registered in Malaysia, we are subject to economic risks specific to Malaysia. Beginning in July 1997 and lasting until 1999, Malaysia experienced a significant financial and economic downturn that resulted in, among other things, a significant devaluation of the RM and an increase in the number and size of companies filing for corporate reorganisation and protection from their creditors. Recently, Malaysia's economy has been affected by the global economic crisis that began in late 2007, as evidenced by the 1.7% decline in Malaysia's GDP in 2009 and the decline in the growth rate of Malaysia's GDP to 4.6% in 2008, compared to 6.3% in 2007. In addition, the recent global financial crisis and the following general weakness of the global economy have resulted in reduced demand and decreased prices for certain petrochemical products. Global economic prospects remain uncertain and may continue to adversely affect the Malaysian economy. These conditions may have an adverse effect on our business and financial conditions.

(iii) Feedstock cost

Feedstock cost is the largest component of our operating costs, accounting for approximately 53.5%, 55.8% and 58.0% of our cost of revenue for the years ended 31 March 2008, 2009 and 2010, respectively, and 51.2% and 53.6% during the 4 months ended 31 July 2009 and 2010, respectively. To operate our business successfully, we must obtain sufficient quantities of high quality raw materials in a timely manner and at acceptable prices. Most of our raw materials, including the natural gas we use as feedstock and heavy naphtha, are typically sourced from other members of the PETRONAS Group.

Historically, we purchased feedstock from the PETRONAS Group under long-term supply contracts at attractive prices. However, in keeping with the Government of Malaysia's overall policy of gradually phasing out the discounted gas prices available to various sectors of the Malaysian economy, the PETRONAS Group recently adjusted the pricing terms under our supply agreements for methane, butane and propane for some of our Subsidiaries. As a result, the unit feedstock cost for methane, butane and propane for these operating companies increased. If prices of feedstock from the PETRONAS Group increase further, such price increases may have a material adverse effect on our liquidity, working capital, financial condition and results of operations.

(iv) Prices of products

Our net sales, gross margin and operating performance depend on the sales prices of our products, which are sensitive to supply and demand dynamics in both the domestic and international petrochemicals markets. Most of our petrochemical products are of a commodity nature, and competition among manufacturers of these products is based principally on price. The price of our products is determined largely by market demand and supply, which are generally linked to the level of economic activity in both Malaysia and globally and by production capacity available in the market. Prices for our products may come under pressure when competitors whose cost structure is lower than ours sell significant volumes of products into the markets we serve, particularly during periods of oversupply, resulting in depressed gross margins, and such developments may have a material adverse effect on our business, financial condition and results of operations.

(v) Capacity utilisation rate of plants

We aim to achieve manufacturing efficiency by running our facilities at high capacity utilisation rates with optimal levels of manpower, low overhead costs, as well as energy and utilities cost savings. We operate most of our production facilities non-stop throughout the year, except for periods of scheduled or unscheduled shutdowns. Our average capacity utilisation rate for the years ended 31 March 2008, 2009 and 2010 and 4 months ended 31 July 2010 was 89.9%, 90.3%, 83.7% and 81.6%, respectively. For further details on the capacity utilisation rates of our plants, refer to Section 7.9 of this Prospectus.

The number of days we shut down a production facility in any year has a substantial effect on our capacity utilisation rate for that year. Production at our manufacturing facilities or delivery of supplies to our customers, including to some of our operating companies that rely on another operating company within the PCG Group for its supply of feedstock, could be adversely affected if any of our production facilities were to be shut down due to technical failures, accidents, strikes, natural disasters, regulatory rulings and other factors. Unexpected events, such as manufacturing problems, unplanned shutdowns or loss of supplies, could lead to reduced sales. If we are unable to run our production facilities at our targeted capacity utilisation rates for a prolonged period because of technical failure at our production plants, disruption to our raw material supplies or for any other reason, and we are unable to shift sufficient production to other plants or draw on inventories, our production would be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations. Also, in the event that we fail to achieve our targeted capacity utilisation rates at our production facilities, we may not be able to fulfil our product delivery obligations, and we could be exposed to claims for damages and suffer reputational harm. In addition, capacity utilisation rates may be affected by the level of market demand for petrochemical products.

(vi) Foreign exchange fluctuations

Our functional reporting currency is RM. Our sales to countries outside of Malaysia are denominated mainly in USD. As such, the movement of the USD against the RM may have significant effect on our PAT. A strengthening of the USD against the RM has a positive effect on our revenue. For the year ended 31 March 2010 and the 4 months ended 31 July 2010, approximately 57% and 59%, respectively, of our revenue was denominated in USD.

We use foreign currency forward contracts from time to time to manage our foreign exchange exposures arising from known material foreign currency denominated commitments as and when they arise.

8.2.3 Critical accounting policies

We prepare our financial statements in conformity with Malaysian FRS. As such, we are required to make estimates, judgments and assumptions that affect (i) certain reported amounts of revenue and expenses during the reporting period, (ii) certain reported amounts of our assets and liabilities and (iii) the disclosure of our contingent assets and liabilities at the date of the financial statements. We base our estimates and judgments on our historical experience and on various other reasonable factors that together form the basis for making our judgments. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe our most critical accounting policies that result in the application of estimates or judgments are the following:

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Projects-in-progress are stated at cost and are not depreciated.

Depreciation for property, plant and equipment other than projects-in-progress, is recognised in the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use. Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter.

We review residual values, estimated useful lives and depreciation method of the assets at each financial year-end to determine the amount, method and period of depreciation expense to be recorded during any reporting period. Factors that could reasonably occur that would result in a change to our estimates include obsolescence arising from technological changes or improvements in production and obsolescence arising from a change in the market demand for products manufactures using such assets. Changes in the estimated useful life for our property, plant and equipment could have a material impact on our results of operations.

(ii) Impairments

The carrying amounts of assets (other than inventories), deferred tax assets and financial assets (financial assets in this context exclude investments in subsidiaries, associates and jointly controlled entities) are reviewed at each balance sheet date to determine whether there is any indication of impairment. For certain classes of assets, the carrying amounts are reviewed more frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(iii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

(iv) Intangible Assets

Goodwill arising from acquisitions represents the excess of the cost of the acquisition over our interest in the fair values of the net identifiable assets and liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the profit or loss. Goodwill is initially measured at cost. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

Other intangible assets are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Following initial recognition, other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives. The amortisation method and the useful life for other intangible assets are reviewed at least at the end of each reporting period. Subsequent expenditure on intangible asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. These intangible assets are reviewed for impairment whenever there is an indication that the intangible assets may be impaired.

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8.2.4 Results of operations

(i) Revenue

Our revenues are primarily derived from sales of our petrochemicals products to our Associates and jointly controlled entities and parties external to our Group.

- **Revenue by business segments**

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
	(RM million, except percentages)									
Olefins and Polymers	10,016	77.9%	8,590	69.5%	9,255	75.8%	2,315	71.2%	3,183	75.5%
Fertilisers and Methanol	2,722	21.2%	3,705	30.0%	2,886	23.7%	919	28.3%	1,008	23.9%
Other businesses	117	0.9%	72	0.5%	62	0.5%	18	0.5%	27	0.6%
Total	12,855	100.0%	12,367	100.0%	12,203	100.0%	3,252	100.0%	4,218	100.0%

- **Revenue by geographic segments**

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
	(RM million, except percentages)									
Malaysia	7,280	56.6%	5,990	48.4%	5,472	44.8%	1,511	46.5%	1,908	45.2%
Other countries										
China	929	7.2%	915	7.4%	1,734	14.2%	319	9.8%	745	17.7%
Other Asia	3,849	30.0%	4,778	38.7%	4,687	38.4%	1,410	43.3%	1,449	34.4%
Rest of the world	797	6.2%	684	5.5%	310	2.6%	12	0.4%	116	2.7%
Total	12,855	100.0%	12,367	100.0%	12,203	100.0%	3,252	100.0%	4,218	100.0%

For more information on our key markets, refer to Section 7.12 of this Prospectus on Business – Principal Markets and Customers.

8. FINANCIAL INFORMATION *(cont'd)*

- **Revenue and volume of sales by products**

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
Product	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)
Malaysia										
Olefins and Polymers	1,783	5,945	1,599	4,808	1,555	4,524	524	1,245	541	1,628
Ethylene	533	1,777	540	1,476	393	1,077	146	295	115	356
Propylene	300	1,097	291	1,047	260	788	94	225	98	328
Paraxylene[1]	119	447	166	529	142	484	43	147	36	114
MTBE	261	741	189	496	172	429	84	199	70	175
Polypropylene	56	251	40	175	56	251	19	79	23	100
Ethylene glycols	-	-	-	-	96	251	-	-	66	168
PVC	64	218	59	192	72	213	30	74	26	80
N-butane	118	281	55	162	93	197	35	60	32	74
Benzene[1]	144	514	61	187	68	190	24	56	12	31
Polyethylene (LDPE, LLDPE & HDPE)	23	118	25	125	31	144	8	31	9	38
Performance and other chemicals[2]	-	-	-	-	27	108	-	-	16	72
VCM	81	210	68	166	34	78	13	27	12	35
Other petrochemical products	84	291	105	253	111	314	28	52	26	57
Fertilisers and Methanol	1,191	1,218	879	1,110	963	886	287	248	268	253
Urea	573	624	344	573	481	488	136	143	144	142
Carbon monoxide	237	207	189	205	242	234	66	55	57	56
Methanol	262	303	257	259	231	156	67	38	62	49
Ammonia	57	52	22	37	9	8	5	5	5	6
Oxogas	62	32	67	36	-	-	13	7	-	-
Others	-	117	-	72	-	62	-	18	-	27
Rendering of services	-	57	-	57	-	59	-	17	-	13
Sales of general merchandise	-	60	-	15	-	3	-	1	-	14
Total sales in Malaysia	2,974	7,280	2,478	5,990	2,518	5,472	811	1,511	809	1,908

8. FINANCIAL INFORMATION *(cont'd)*

Product	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)	Volume (KT)	Revenue (RM million)
Other countries										
Olefins and Polymers	1,122	4,071	1,131	3,782	1,431	4,731	362	1,070	443	1,555
Paraxylene[1]	361	1,357	388	1,282	385	1,294	125	424	80	255
Polyethylene (LDPE, LLDPE & HDPE)	250	1,158	249	1,120	206	899	55	193	84	367
PVC	145	527	188	563	198	596	70	186	41	126
Benzene[1]	130	435	167	450	146	430	48	112	39	96
Performance and other chemicals[2]	-	-	-	-	123	526	-	-	84	388
MTBE	49	136	9	21	141	379	21	56	38	100
Ethylene glycols	1	3	3	8	98	279	2	5	38	94
Ethylene	22	84	20	47	34	124	6	15	10	32
VCM	112	269	36	83	36	92	16	36	16	46
Polypropylene	12	39	14	44	19	64	2	8	6	26
Propylene	5	19	12	43	4	13	-	-	-	-
Other petrochemical products	35	44	45	121	41	35	17	35	7	25
Fertilisers and Methanol	1,400	1,504	1,856	2,595	2,248	2,000	820	671	876	755
Urea	723	766	1,003	1,527	848	854	303	308	312	282
Methanol	343	413	444	403	954	762	382	259	432	341
Ammonia	334	325	409	665	446	384	135	104	132	132
Total sales in other countries	2,522	5,575	2,987	6,377	3,679	6,731	1,182	1,741	1,319	2,310
Total	5,496	12,855	5,465	12,367	6,197	12,203	1,993	3,252	2,128	4,218

Notes:

(1) *Includes benzene and paraxylene sold by MITCO, which were purchased from third parties for resale to customers.*

(2) *Represents products sold by OPTIMAL Chemicals.*

(ii) Cost of revenue

The components of our cost of revenue are as follows:

	Year ended 31 March						4 months ended 31 July			
	2008		2009		2010		2009		2010	
	(RM million, except percentages)									
Feedstock cost	3,479	53.5%	4,187	55.8%	4,965	58.0%	1,227	51.2%	1,612	53.6%
Energy and utilities	577	8.8%	1,013	13.5%	991	11.6%	320	13.3%	427	14.2%
Product cost	894	13.8%	597	8.0%	499	5.8%	208	8.7%	166	5.5%
Depreciation	590	9.1%	638	8.5%	842	9.8%	237	9.9%	323	10.7%
Materials and supplies	424	6.5%	396	5.3%	503	5.9%	102	4.3%	188	6.2%
Staff costs	316	4.9%	367	4.9%	393	4.6%	104	4.3%	116	3.9%
Repair and maintenance	78	1.2%	113	1.5%	155	1.8%	44	1.8%	36	1.2%
Services	10	0.2%	10	0.1%	11	0.1%	4	0.2%	4	0.1%
Others	131	2.0%	179	2.4%	202	2.4%	149	6.3%	138	4.6%
Total	6,499[(1)]	100.0%	7,500[(1)]	100.0%	8,561[(1)]	100.0%	2,395	100.0%	3,010[(1)]	100.0%

Note:

(1) Audited.

Our cost of revenue consists primarily of feedstock costs, principally the cost of methane, ethane, propane, heavy naphtha and butane. For further details on our arrangements for supply of raw materials, refer to Section 7.10 of this Prospectus. Other cost of revenue includes energy and utility costs, cost of petrochemicals and other products purchased by MITCO for resale, depreciation, cost of materials and supplies, staff costs as well as the cost of repairing and maintaining our production facilities.

(iii) Other operating expenses

Our operating expenses apart from cost of sales consist of selling and distribution expenses, administration expenses and other expenses.

Selling and distribution expenses include freighter costs for our export sales, transportation charges for our domestic sales, purchased services, trade commissions that were paid to Mitsubishi Corporation pursuant to a joint marketing arrangement that was in place until January 2010 for the sale of paraxylene and benzene, and advertising and promotion expenses. These expenses are generally tied to our sales levels.

Administration expenses include staff costs, depreciation, professional and purchased services, rent and lease payments, electronic data processing costs and insurance. These expenses are relatively stable and are generally not tied to our sales levels.

Other expenses include realised and unrealised foreign exchange losses and losses on disposal of property, plant and equipment.

The table below sets forth our selling and distribution expenses, administration expenses and other expenses for the specified periods:

	Year ended 31 March			4 months ended 31 July	
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	2008	2009	2010	2009	2010
			(RM million)		
Selling and distribution expenses	337	335	351	118	127
Administration expenses	319	320	318	100	98
Other expenses	55	111	127	15	46

(iv) Other income

Other income consists principally of interest income and also includes realised and unrealised foreign exchange gains, income from fund investments and gains on derivatives. Other income for the years ended 31 March 2008, 2009 and 2010 was RM283 million, RM342 million and RM403 million, respectively, and other income for the 4 months ended 31 July 2009 and 31 July 2010 were RM76 million and RM133 million, respectively.

(v) Financing costs

Financing costs consist mainly of interest expense, and these costs are affected by our level of borrowings and the interest rate applicable to such borrowings. Financing costs for the years ended 31 March 2008, 2009 and 2010 were RM81 million, RM57 million and RM62 million, respectively, and financing costs for the 4 months ended 31 July 2009 and 31 July 2010 were RM16 million and RM24 million, respectively.