Level 3, Balai Felda
Jalan Gurney 1
54000 Kuala Lumpur
Malaysia

Tel. No. 03 2693 8355
Fax. No. 03 2698 5326



MSM MALAYSIA HOLDINGS BERHAD | PROSPECTUS

# P R O S P E C T U S

## MSM MALAYSIA HOLDINGS BERHAD

(Company No.: 935722-K)
(Incorporated in Malaysia under the Companies Act, 1965)

THE INITIAL PUBLIC OFFERING ("OFFERING") OF UP TO 234,564,700 ORDINARY SHARES OF RM0.50 EACH IN MSM MALAYSIA HOLDINGS BERHAD ("MSM HOLDINGS") ("SHARES") COMPRISING OFFER FOR SALE OF UP TO 109,564,700 EXISTING SHARES ("OFFER SHARES") AND PUBLIC ISSUE OF 125,000,000 NEW SHARES ("ISSUE SHARES") IN CONJUNCTION WITH THE LISTING OF AND QUOTATION FOR 702,980,000 SHARES ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD:

(I) INSTITUTIONAL OFFERING OF UP TO 206,444,700 SHARES COMPRISING:

- UP TO 73,811,600 OFFER SHARES TO MALAYSIAN INSTITUTIONAL AND SELECTED INVESTORS AND FOREIGN INSTITUTIONAL AND SELECTED INVESTORS OUTSIDE THE UNITED STATES OF AMERICA IN RELIANCE ON REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, AT THE INSTITUTIONAL PRICE TO BE DETERMINED BY WAY OF BOOKBUILDING ("INSTITUTIONAL PRICE");
- 35,753,100 OFFER SHARES AND 45,089,900 ISSUE SHARES TO BUMIPUTERA INSTITUTIONAL AND SELECTED INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AT THE INSTITUTIONAL PRICE; AND
- 51,790,100 ISSUE SHARES BY WAY OF PLACEMENT TO KOPERASI PERMODALAN FELDA MALAYSIA BERHAD AT THE INSTITUTIONAL PRICE,

(II) RETAIL OFFERING OF 28,120,000 SHARES COMPRISING:

- 14,060,000 ISSUE SHARES MADE AVAILABLE TO THE ELIGIBLE EMPLOYEES (AS DEFINED HEREIN) AND PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF THE BUSINESS OF MSM HOLDINGS AND ITS SUBSIDIARIES; AND
- 14,060,000 ISSUE SHARES MADE AVAILABLE TO THE MALAYSIAN PUBLIC;

AT THE RETAIL PRICE OF RM3.38 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,

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 and Sole Global Co-Ordinator

CIMB

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

Joint Bookrunners for the Institutional Offering and Joint Managing Underwriters for the Retail Offering

**CIMB Investment Bank Berhad** (Company Number: 18417-M)
**Maybank Investment Bank Berhad** (Company Number: 15938-H)

Joint Underwriters for the Retail Offering
*(In alphabetical order)*

**AmInvestment Bank Berhad** (Company Number: 23742-V)
**CIMB Investment Bank Berhad** (Company Number: 18417-M)
**HwangDBS Investment Bank Berhad** (Company Number: 14389-U)
**Maybank Investment Bank Berhad** (Company Number: 15938-H)
**MIDF Amanah Investment Bank Berhad** (Company Number: 23878-X)
**OSK Investment Bank Berhad** (Company Number: 14152-V)
**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 CERTAIN RISKS RELATING TO AN INVESTMENT IN THE SHARES WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, 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.

**This Prospectus is dated 2 June 2011**

Our Directors, Promoters and the 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**") and the Sole Global Co-ordinator 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.

The Securities Commission of Malaysia ("**SC**") has approved this issue, offer or invitation for the Offering 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 offering 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.

**THE VALUATION UTILISED FOR THE PURPOSE OF THE IPO SHOULD NOT BE CONSTRUED AS AN ENDORSEMENT BY THE SECURITIES COMMISSION ON THE VALUE OF THE SUBJECT ASSETS.**

**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 has been registered with the SC. 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 information for the financial year ended 31 December 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 Joint Managing Underwriters 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 Promoters, the Selling Shareholder, the Principal Adviser, the Sole Global Co-ordinator, the Joint Managing Underwriters, the Joint Underwriters and the Joint Bookrunners have not authorised anyone to provide any information or to make any representation not contained in this document, and any information or representation not contained in this document must not be relied upon as having been authorised by the Company, the Promoters, the Selling Shareholder, the Principal Adviser, the Sole Global Co-ordinator, the Joint Managing Underwriters, the Joint Underwriters and the Joint Bookrunners, 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 Promoters, the Selling Shareholder, the Principal Adviser, the Sole Global Co-ordinator, the Joint Managing Underwriters, the Joint Underwriters and the Joint Bookrunners 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 Securities Act of 1933, as amended (the "**US Securities Act**"). Our Shares may not be offered or sold within the United States or to US persons (as defined in Regulation S under the US Securities Act ("**Regulation S**")), except in a transaction pursuant to an exemption from, or a transaction not subject to, the registration requirements of the US Securities Act. Accordingly, our Shares are being offered and sold only outside of the United States 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, files 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 contract 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.

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## INDICATIVE TIMETABLE

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

| Events | Date |
|---|---|
| Opening of Institutional Offering | 2 June 2011 |
| Issuance of Prospectus/Opening of Retail Offering | 10:00 a.m., 2 June 2011 |
| Closing of Retail Offering | 5:00 p.m., 13 June 2011 |
| Closing of Institutional Offering | 14 June 2011 |
| Price Determination Date | 15 June 2011 |
| Balloting of applications for the Issue Shares pursuant to the Retail Offering | 15 June 2011 |
| Allotment/Transfer of the IPO Shares to successful applicants | 24 June 2011 |
| Listing | 28 June 2011 |

The Institutional Offering will close on the date stated above or such other date as the Directors, the Selling Shareholder and the Sole Global Co-ordinator may decide in their absolute discretion. The applications for the Retail Offering will close at the time and date stated above subject that the Directors, the Joint Managing Underwriters and the Sole Global Co-ordinator may decide in their absolute discretion to extend the closing time and date for applications to any later time(s) and/or date(s).

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

All defined terms used in this Prospectus are defined under "Presentation of Financial and Other Information" and "Definitions" commencing on pages viii and x respectively.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to "our Company" and "MSM Holdings" in this Prospectus are to MSM Malaysia Holdings Berhad. All references to "MSM Holdings Group" and "the Group" in this Prospectus are to the Company and its Subsidiaries 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 our Management.

In this Prospectus, reference to the "Selling Shareholder" is to FGVH and references to "Promoters" are to FELDA, FGVH and FGVS.

Unless otherwise indicated, the information in this Prospectus assumes the Over-allotment Option (as defined herein) is not exercised.

In this Prospectus, references to the "Government" are to the Government of Malaysia; references to "Ringgit", "Malaysian Ringgit", "RM" and "sen" are to the lawful 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 "Definitions" section. 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 companies and 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 stated in this Prospectus, provided that where no source is stated, it can be assumed that the information originates from us. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by Frost & Sullivan for inclusion in this Prospectus. We had appointed Frost & Sullivan to provide an independent market and industry review. In compiling their data for the review, Frost & Sullivan 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, we, the Selling Shareholder, Promoters, the Principal Adviser, the Joint Managing Underwriters, the Joint Underwriters, the Sole Global Co-ordinator and the Joint Bookrunners and their respective advisers have not independently verified these figures.

None of the Company, the Selling Shareholder, Promoters, the Principal Adviser, the Sole Global Co-ordinator, the Joint Managing Underwriters, the Joint Underwriters and Joint Bookrunners 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. You should not place undue reliance on the third-party projections cited in this Prospectus.

The information on our websites, or any website directly or indirectly linked to such websites does not form part of this Prospectus and you should not rely on it.

References to the "Latest Practicable Date" in this Prospectus are to 6 May 2011, 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 our Company 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 our Management'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 our Company for future operations;

(iv) our financial position;

(v) the regulatory environment and the effects of future regulation related to the level of sugar subsidy and sugar price ceilings; 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, tax rates and exchange 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. 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:

| | | |
|---|---|---|
| Acquisition of FGVP Business | : | The acquisition of FGVP's business (assets and liabilities but excluding amount owing to FGVH) and Chuping Plantation by KGFP further to the BTA |
| Acquisition of MSM | : | The acquisitions by MSM Holdings of MSM (together with its subsidiaries namely Astakonas and MSM Properties) pursuant to the MSM Share Sale Agreement |
| Acquisition of KGFP | : | The acquisitions by MSM Holdings of the entire equity interest in KGFP (together with the business and assets acquired from FGVP) pursuant to the KGFP Share Sale Agreement |
| 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(s) | : | Application form(s) for the application of the Issue Shares under the Retail Offering accompanying this Prospectus |
| Articles | : | Articles of Association of our Company |
| Astakonas | : | Astakonas Sdn Bhd |
| ATM | : | Automated teller machine |
| Board | : | Our Board of Directors |
| BTA | : | The Business Transfer Agreement entered into between FGVP and KGFP dated 21 March 2011 for the acquisition by KGFP of the business of FGVP, save for the following excluded assets and liabilities:<br><br>(a) Assets:<br>(i) all that piece of land held under H.S.(D) 194 PT Kawasan A, Tempat Rimba Mas-Mas, Mukim Titi Tinggi, Daerah Perlis measuring 1,244 hectares; and<br>(ii) all that piece of land held under PN 59 Lot 2601, Mukim Chuping, Negeri Perlis measuring 99 hectares;<br><br>(b) Liabilities:<br>(i) An amount of RM44,500,000 due and owing by FGVP to FGVH; and<br>(ii) The loan interest amounting to RM2,163,460 due and owing by FGVP to FGVH in respect of the loan of RM44,500,000 |
| 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 |
| Cargill International | : | Cargill International SA |
| CDS | : | Central Depository System |
| CF | : | Certificate of fitness or certificate of occupancy issued by the local authorities |
| Chuping Plantation | : | Collectively, the 9 pieces of lands located in Mukim Chuping, Daerah Perlis, Negeri Perlis comprising:<br>(i) Pajakan Negeri No. Hakmilik 37, Lot 2040;<br>(ii) Pajakan Negeri No. Hakmilik 39, Lot 2035;<br>(iii) Pajakan Negeri No. Hakmilik 40, Lot 2038;<br>(iv) Pajakan Negeri No. Hakmilik 41, Lot 2041;<br>(v) Pajakan Negeri No. Hakmilik 43, Lot 2037;<br>(vi) H.S.(D) 2587, P.T. 349;<br>(vii) H.S.(D) 8549, P.T. 4363;<br>(viii) H.S.(D) 8550, P.T. 4364; and<br>(ix) H.S.(D) 145, P.T. |
| CIMB | : | CIMB Investment Bank Berhad |
| CMSA | : | Capital Markets and Services Act, 2007, as amended from time to time and any re-enactment thereof |
| CSR | : | Central Sugars Refinery Sdn Bhd |
| DOE | : | Department of Environment of Malaysia |
| DOS | : | Department of Statistics of Malaysia |
| EBITDA | : | Earnings before interest, 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 Issue Shares under the Retail Offering through a Participating Financial Institution's ATMs |
| Eligible Employees | : | Eligible directors and employees of MSM Holdings Group, FGVH and FELDA |
| EPS | : | Earnings per share |
| FELDA | : | Federal Land Development Authority |
| Felda Group | : | FELDA, FGVH, its Subsidiaries and associates |
| FHB | : | Felda Holdings Bhd |
| FGVH | : | Felda Global Ventures Holdings Sdn Bhd |
| FGVP | : | Felda Global Ventures Perlis Sdn Bhd |
| FGVS | : | Felda Global Ventures Sugar Sdn Bhd |

| | | |
|---|---|---|
| Final Retail Price | : | The final price per Issue Share to be paid by investors pursuant to the Retail Offering, equivalent to RM3.38 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 |
| FRSM | : | Financial Reporting Standards of Malaysia |
| GDP | : | Gross Domestic Product |
| GNP | : | Gross National Product |
| GPT | : | Gula Padang Terap Sdn Bhd |
| ha | : | hectare(s) |
| Independent Market Research Consultant or Frost & Sullivan | : | Frost & Sullivan Malaysia Sdn Bhd |
| Initial Public Offering or IPO | : | Collectively, the Offer for Sale and the Public Issue |
| Institutional Offering | : | Offering of up to 206,444,700 Shares at Institutional Price, subject to clawback and reallocation, to be allocated in the following manner:<br>(i) 96,880,000 Issue Shares to be offered to:<br>(a) Bumiputera institutional and selected investors approved by the MITI; and<br>(b) KPF by way of placement under the Special Offering.<br>(ii) up to 109,564,700 Offer Shares to be offered to:<br>(a) Bumiputera institutional and selected investors approved by the MITI; and<br>(b) Malaysian institutional and selected investors and foreign institutional and selected investors outside the United States in reliance on Regulation S under the US Securities Act |
| Institutional Price | : | The price per Share to be paid by investors pursuant to the Institutional Offering. The Institutional Price 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 Issue Shares under the Retail Offering through an Internet Participating Financial Institution |
| IPO Shares | : | Collectively, the Offer Shares and the Issue Shares |
| Issuing House or MIDFCCS | : | MIDF Consultancy and Corporate Services Sdn Bhd |
| Issue Shares | : | The 125,000,000 new Shares being offered by MSM Holdings pursuant to the Public Issue |

| | | |
|---|---|---|
| Joint Bookrunners | : | Collectively, CIMB and Maybank Investment Bank Berhad |
| Joint Managing Underwriters | : | Collectively, CIMB and Maybank Investment Bank Berhad |
| Joint Underwriters | : | Collectively, AmInvestment Bank Berhad, CIMB, HwangDBS Investment Bank Berhad, Maybank Investment Bank Berhad, MIDF Amanah Investment Bank Berhad, OSK Investment Bank Berhad and RHB Investment Bank Berhad for the Retail Offering |
| KGFP | : | Kilang Gula Felda Perlis Sendirian Berhad |
| KGFP Facility | : | The integrated sugar mill and refinery which is located in the Chuping Plantation and owned by KGFP |
| KGFP Share Sale Agreement | : | The share sale agreement dated 1 April 2011 between MSM Holdings and FGVH and FHB in relation to the sale of shares of KGFP by FGVH and FHB to MSM Holdings pursuant to the Acquisition of KGFP |
| KPF | : | Koperasi Permodalan FELDA Malaysia Berhad |
| KTMB | : | Keretapi Tanah Melayu Berhad |
| Latest Practicable Date | : | 6 May 2011, being the latest practicable date prior to the registration of our Prospectus |
| Listing | : | Listing of and quotation for all of our enlarged issued and paid-up share capital on the Main Market of Bursa Securities |
| Listing Scheme | : | The scheme for our Listing as set out in Section 4 of this Prospectus |
| Malaysian Public | : | Malaysian citizens, companies, societies, co-operatives and institutions incorporated or organised under the laws of Malaysia |
| Market Day | : | A day on which Bursa Securities is open for securities trading |
| MDTCC | : | Ministry of Domestic Trade, Co-operatives and Consumerism |
| MITI | : | Ministry of International Trade and Industry |
| MSM | : | Malayan Sugar Manufacturing Company Bhd |
| MSM Facility | : | The sugar refinery operated by MSM which is located in Prai, Penang |
| MSM Holdings or Company | : | MSM Malaysia Holdings Berhad |
| MSM Holdings Group or Group | : | MSM Holdings and its Subsidiaries |
| MSM Holdings Share(s) or Share(s) | : | Ordinary share(s) of RM0.50 each in MSM Holdings |
| MSM Properties | : | MSM Properties Sdn Bhd |
| MSM Share Sale Agreement | : | The share sale agreement dated 1 April 2011 between MSM Holdings and FGVS and KPF in relation to the sale of shares of MSM by FGVS and KPF to MSM Holdings pursuant to the Acquisition of MSM |
| mt | : | Metric tonne(s) |

| | | |
|---|---|---|
| NA | : | Net assets |
| NBV | : | Net book value |
| NTA | : | Net tangible assets |
| Offer for Sale | : | Offer for sale by the Selling Shareholder of up to 109,564,700 Offer Shares at the Institutional Price, subject to clawback and reallocation, to be allocated in the following manner:<br><br>(i) up to 73,811,600 Offer Shares made available to Malaysian institutional and selected investors and foreign institutional and selected investors outside the United States in reliance on Regulation S under the US Securities Act at the Institutional Price pursuant to the Institutional Offering; and<br><br>(ii) 35,753,100 Offer Shares made available to Bumiputera institutional and selected investors approved by the MITI |
| Offer Shares | : | Up to 109,564,700 existing Shares to be offered by the Selling Shareholder pursuant to the Offer for Sale |
| Official List | : | A list specifying all securities which have been admitted for listing on the Bursa Securities and not removed |
| 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 this Prospectus |
| PAK | : | Perbadanan Aset Keretapi (Railway Asset Corporation) |
| Participating Financial Institutions | : | Participating financial institutions for Electronic Share Application |
| PAT | : | Profit after taxation |
| PBT | : | Profit before taxation |
| PE Multiple | : | Price-earnings multiple |
| Placement Agreement | : | The 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 |
| Placement Managers | : | Collectively, CIMB and Maybank Investment Bank Berhad |
| PPB Group | : | PPB Group Berhad |
| Pre-Listing Restructuring | : | The restructuring exercise undertaken by our Company prior to the IPO, as further described in Section 12.1.2 of this Prospectus |
| Price Determination Date | : | The date on which the Institutional Price and Final Retail Price will be determined |
| Promoters | : | FELDA, FGVH and FGVS |
| PwC | : | PricewaterhouseCoopers (AF1146) |

| | | |
|---|---|---|
| Public Issue | : | Public issue of 125,000,000 Issue Shares, subject to clawback and reallocation, to be allocated in the following manner:<br><br>(i) 28,120,000 Issue Shares made available to the Malaysian Public and our Eligible Employees and persons who have contributed to the success of the MSM Holdings Group at the Retail Price pursuant to the Retail Offering;<br><br>(ii) 45,089,900 Issue Shares made available to Bumiputera institutional and selected investors approved by the MITI; and<br><br>(iii) 51,790,100 Issue Shares to KPF under Special Offering |
| Regulation S | : | Regulation S under the US Securities Act |
| Retail Offering | : | Offering of 28,120,000 Issue Shares at the Retail Price, subject to clawback and reallocation, to be offered in the following manner:<br><br>(i) 14,060,000 Issue Shares to be offered to our Eligible Employees and persons who have contributed to the success of the MSM Holdings Group; and<br><br>(ii) 14,060,000 Issue Shares to be offered to the Malaysian Public |
| Retail Price | : | The initial price of RM3.38 per Share to be fully paid upon application pursuant to the Retail Offering subject to adjustment as described in Section 4.9 of this Prospectus |
| Retail Underwriting Agreement | : | Retail Underwriting Agreement dated 23 May 2011 between the Company, the Selling Shareholder and the Joint Managing Underwriters and the Joint Underwriters for the underwriting of the Retail Offering |
| ROC | : | Registrar of Companies, Malaysia |
| SAC of the SC | : | Shariah Advisory Council of the SC |
| SC | : | Securities Commission, Malaysia |
| SC Guidelines | : | The Equity Guidelines issued by the SC on 8 May 2009 and updated / effective 3 August 2009 |
| Selling Shareholder | : | FGVH |
| 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 |
| Share Registrar | : | Symphony Share Registrars Sdn Bhd |
| SICDA | : | Securities Industry (Central Depositories) Act, 1991 |
| SIRIM | : | SIRIM Berhad |
| Sole Global Co-ordinator | : | CIMB |
| Special Offering | : | Offering of 51,790,100 Issue Shares by way of placement to KPF at the Institutional Price |
| Stabilising Manager | : | CIMB |

| | | |
|---|---|---|
| Subsidiary(ies) | : | Subsidiary(ies) of the company as defined by Section 5 of the Act |
| USA or United States | : | United States of America |
| US Securities Act | : | United States Securities Act of 1933, as amended |
| **Currency:** | | |
| RM and sen | : | Ringgit Malaysia and sen |
| SGD | : | Singapore Dollar |
| USD and cent | : | United States Dollar and cent |

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# 1. INTRODUCTION

This Prospectus is dated 2 June 2011.

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 12 May 2011. The approval of the SC shall not be taken to indicate that the SC recommends our IPO. On 26 April 2011, 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 18 May 2011, the SAC of the SC classified our Shares as Shariah-compliant based on the audited combined financial information of our Company for the year ended 31 December 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 19 May 2011 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 Offer Shares and Issue 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 Offer Shares and Issue Shares have been credited into the respective CDS accounts of the successful applicants and the notices of allotment 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 fourteen (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.

## 1. INTRODUCTION *(Cont'd)*

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 and/or the Issue 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 Issue 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 |
|---|---|---|---|
| YB Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad<br>*(Non-Independent Non-Executive Chairman)* | PT 41191<br>Jalan BBN 8/78<br>Nilai Spring Villas<br>71900 Nilai<br>Negeri Sembilan | Company Director | Malaysian |
| Dato' Dzulkifli Abd Wahab<br>*(Non-Independent Non-Executive Director)* | No. 8, Jalan AU 5C/2<br>Lembah Keramat<br>Hulu Klang<br>54200 Kuala Lumpur | Company Director | Malaysian |
| Dato' Sabri Ahmad<br>*(Non-Independent Executive Director)* | No. 108<br>Jalan Athinahapan 2<br>Taman Tun Dr Ismail<br>60000 Kuala Lumpur | Company Director | Malaysian |
| Datuk R. Sharifuddin Hizan R. Zainal Abidin<br>*(Non-Independent Executive Director)* | No. 7, Lorong 7A<br>Taman Sri Ukay<br>68000 Ampang<br>Selangor | Company Director | Malaysian |
| Dato' Lim Chee Wah<br>*(Non-Independent Executive Director)* | 20, Changkat Hartamas 1<br>Hartamas Heights<br>50480 Kuala Lumpur | Company Director | Malaysian |
| Dato' Zainal Haji Ismail<br>*(Independent Non-Executive Director)* | 3B-4-1, Sri Lojing Condo<br>Seksyen 10<br>Wangsa Maju<br>53300 Kuala Lumpur | Company Director | Malaysian |
| Raja Anuar Raja Abu Hassan<br>*(Independent Non-Executive Director)* | 39, Jalan USJ 9/3E<br>UEP Subang Jaya<br>47620 Subang Jaya<br>Selangor | Company Director | Malaysian |
| Dato' Hajah Rosni Haji Zahari<br>*(Independent Non-Executive Director)* | Casa Rini Lot 3259<br>Bt 3, Jalan Maran-Temerloh<br>28000 Temerloh<br>Pahang | Company Director | Malaysian |

## 2. CORPORATE DIRECTORY *(Cont'd)*

### AUDIT COMMITTEE

| Name | Designation | Directorship |
|---|---|---|
| Raja Anuar Raja Abu Hassan | Chairman | Independent Non-Executive Director |
| Dato' Hajah Rosni Haji Zahari | Member | Independent Non-Executive Director |
| Dato' Zainal Haji Ismail | Member | Independent Non-Executive Director |

### NOMINATION AND REMUNERATION COMMITTEE

| Name | Designation | Directorship |
|---|---|---|
| Dato' Dzulkifli Abd Wahab | Chairman | Non-Independent Non-Executive Director |
| Dato' Hajah Rosni Haji Zahari | Member | Independent Non-Executive Director |
| Dato' Zainal Haji Ismail | Member | Independent Non-Executive Director |

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## 2. CORPORATE DIRECTORY *(Cont'd)*

| | | |
|---|---|---|
| **COMPANY SECRETARIES** | : | Norzaimah binti Maarof<br>(LS 0007979)<br>A-16A-03A<br>Armanee Terrace Condominum<br>Damansara Perdana<br>47820 Petaling jaya<br>Selangor Darul Ehsan<br>Malaysia<br><br>Koo Shuang Yen<br>(MIA 7556)<br>35, Jalan BU4/9<br>Bandar Utama Damansara<br>47800 Petaling Jaya<br>Selangor Darul Ehsan<br>Malaysia |
| **REGISTERED OFFICE** | : | Level 3, Balai Felda<br>Jalan Gurney 1<br>54000 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2693 8355<br>Fax. No.: +603 2698 5326<br>Website address: www.msmholdings.com |
| **HEAD OFFICE** | : | 11th Floor, Wisma Jerneh<br>38, Jalan Sultan Ismail<br>50250 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2148 4388<br>Fax. No.: +603 2142 1677<br>Website address: www.msmholdings.com<br>E-mail address: info@msmholdings.com.my |
| **SHARE REGISTRAR** | : | Symphony Share Registrars Sdn Bhd<br>Level 6, Symphony House<br>Pusat Dagangan Dana 1<br>Jalan PJU 1A/46<br>47301, Petaling Jaya<br>Selangor Darul Ehsan<br>Malaysia<br>Tel. No.: +603 7841 8000 |
| **SELLING SHAREHOLDER** | : | Felda Global Ventures Holdings Sdn Bhd<br>Level 3, Balai Felda<br>Jalan Gurney 1<br>54000 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2693 8355<br>Fax. No.: +603 2698 5326 |
| **AUDITORS AND REPORTING ACCOUNTANTS** | : | PricewaterhouseCoopers (AF1146)<br>Level 10, 1 Sentral, Jalan Travers<br>Kuala Lumpur Sentral<br>P.O. Box 10192<br>50706 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2173 1188 |

## 2. CORPORATE DIRECTORY *(Cont'd)*

| | | |
|---|---|---|
| **PRINCIPAL BANKERS OF THE GROUP** | : | Malayan Banking Berhad<br>Menara Maybank<br>100 Jalan Tun Perak<br>50050 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2074 7418 |
| | | HSBC Bank Malaysia Berhad<br>No. 2, Leboh Ampang<br>50100 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2070 0744 |
| | | Citibank Berhad<br>Menara Citibank<br>165 Jalan Ampang<br>50450 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2383 1111 |
| | | Bangkok Bank Berhad<br>105 Jalan Tun H. S. Lee<br>50000 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2173 7200 |
| | | CIMB Bank Berhad<br>Corporate Banking Regional Centre – Northern<br>Level 3, Menara BHL 51<br>Jalan Sultan Ahmad Shah<br>10050 Pulau Pinang<br>Malaysia<br>Tel. No.: +604 220 6972 / +604 220 6979 |
| **PRINCIPAL ADVISER** | : | CIMB Investment Bank Berhad<br>5th Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2084 8888 |
| **SOLE GLOBAL CO-ORDINATOR** | : | CIMB Investment Bank Berhad<br>5th Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2084 8888 |

## 2. CORPORATE DIRECTORY *(Cont'd)*

| | | |
|---|---|---|
| **JOINT BOOKRUNNERS FOR THE INSTITUTIONAL OFFERING** | : | CIMB Investment Bank Berhad<br>5th Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2084 8888<br><br>Maybank Investment Bank Berhad<br>33rd Floor, Menara Maybank<br>100, Jalan Tun Perak<br>50050 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2059 1888 |
| **JOINT MANAGING UNDERWRITERS FOR THE RETAIL OFFERING** | : | CIMB Investment Bank Berhad<br>5th Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2084 8888<br><br>Maybank Investment Bank Berhad<br>33rd Floor, Menara Maybank<br>100, Jalan Tun Perak<br>50050 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2059 1888 |
| **JOINT UNDERWRITERS FOR THE RETAIL OFFERING**<br>*(In alphabetical order)* | : | AmInvestment Bank Berhad<br>Bangunan Ambank Group<br>55, Jalan Raja Chulan<br>50200 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2036 2633<br><br>CIMB Investment Bank Berhad<br>5th Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2084 8888<br><br>HwangDBS Investment Bank Berhad<br>Suite 23-01, 23rd Floor<br>Menara Keck Seng<br>203 Jalan Bukit Bintang<br>55100 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 9195 6888 |

## 2. CORPORATE DIRECTORY *(Cont'd)*

| | | |
|---|---|---|
| **JOINT UNDERWRITERS FOR THE RETAIL OFFERING**<br>*(In alphabetical order) (Cont'd)* | : | Maybank Investment Bank Berhad<br>33rd Floor, Menara Maybank<br>100, Jalan Tun Perak<br>50050 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2059 1888 |
| | | MIDF Amanah Investment Bank Berhad<br>Level 8,9,10,11 & 12<br>Menara MIDF<br>82, Jalan Raja Chulan<br>50200 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2173 8888 |
| | | OSK Investment Bank Berhad<br>20th Floor, Plaza OSK,<br>Jalan Ampang<br>50450 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2333 8331 |
| | | RHB Investment Bank Berhad<br>Level 10, Tower One<br>RHB Centre<br>Jalan Tun Razak<br>50400 Kuala Lumpur<br>Tel. No.: +603 9287 3888 |
| **LEGAL ADVISERS** | : | *To the Company, Promoters and Selling Shareholder as to Malaysian law*<br>Albar & Partners<br>6th Floor, Faber Imperial Court<br>Jalan Sultan Ismail<br>50250 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2078 5588 |
| | | *To the Company and Promoters and Selling Shareholder as to United States and English law*<br>Cleary Gottlieb Steen & Hamilton LLP<br>39/F, Bank of China Tower<br>One Garden Road,<br>Central Hong Kong<br>Tel. No.: +852 2521 4122 |
| | | *To the Joint Underwriters as to Malaysian law*<br>Kadir, Andri and Partners<br>8th Floor, Menara Safuan<br>80 Jalan Ampang<br>50450 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2078 2888 |
| | | *To the Joint Underwriters as to United States and English law*<br>Clifford Chance Pte Ltd<br>One George Street<br>Singapore 049145<br>Tel. No.: +65 6410 2200 |

## 2. CORPORATE DIRECTORY *(Cont'd)*

| | | |
|---|---|---|
| **INDEPENDENT MARKET RESEARCH CONSULTANT** | : | Frost & Sullivan Malaysia Sdn Bhd<br>Suite E-08-15, Block E<br>Plaza Mont' Kiara<br>2 Jalan Kiara, Mont Kiara<br>50480 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 6204 5800 |
| **ISSUING HOUSE** | : | MIDF Consultancy and Corporate Services Sdn Bhd<br>Level 8, Menara MIDF<br>82 Jalan Raja Chulan<br>50200 Kuala Lumpur<br>Malaysia<br>Tel. No.: +603 2173 8888 |
| **VALUER** | : | Raine & Horne International Zaki + Partners Sdn Bhd<br>109A, 1st Floor, Jalan SS 14/1<br>47500 Subang Jaya<br>Selangor Darul Ehsan,<br>Malaysia<br>Tel. No.: +603 5631 9668 |
| **LISTING SOUGHT** | : | Main Market of Bursa Securities |
| **SHARIAH STATUS** | : | Approved by the SAC of the SC |

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## 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.**

### 3.1 OVERVIEW

We are the leading sugar producer in Malaysia, involved primarily in the production, marketing and sale of refined sugar products, with an annual production capacity of over 1.1 million mt of refined sugar. We conduct our business principally through two operating subsidiaries, MSM and KGFP. In 2010, we produced a total of approximately 945,000 mt of refined sugar products, accounting for approximately 57% of total sugar production in Malaysia.

We offer a variety of products and sell to a wide range of customers in Malaysia and in other countries directly and indirectly through traders, wholesalers and distributors. Our customers include major companies in the beverage and confectionery industries, hotels, restaurants, food outlets and household consumers. We operate two sugar refineries, one in Prai, Penang, and another in Chuping, Perlis. Our products range from white refined sugar of various grain sizes to soft brown sugar and are marketed and sold in a variety of packaging options under two brands – "Gula Prai" and "Gula Perlis". We also sell molasses, a byproduct of the refining process, to distilleries and producers of ethanol, animal feed and yeast, among other products.

We are part of the Felda Group, which is affiliated with the Malaysian government and is one of the largest agro-based businesses in Malaysia. FELDA has established 317 schemes throughout Malaysia covering a total of 479,765 ha of plantation land that is cultivated by the settlers in these schemes. In addition, FELDA owns 331,375 ha of land on which it grows various crops, including oil palm and rubber. FELDA has also established a commercial arm, FGVH, which has investments in over 80 subsidiaries, associated companies and joint ventures engaged in diverse activities in the agro-based industry, including multi-crop plantations, oils and fats, oleochemicals and logistics. In order to better align and consolidate the Felda Group's sugar businesses, we recently completed the Pre-Listing Restructuring. For more information regarding the Pre-Listing Restructuring, see Section 12.1.2 of this Prospectus.

In 2010, our sales in Malaysia accounted for 88.5% 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 selected overseas markets.

As at 31 March 2011, we had total assets of RM1,795.7 million. In 2010, we generated PAT of RM232.9 million on net revenue of RM2,168.6 million.

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## 3.2 COMPETITIVE STRENGTHS, BUSINESS STRATEGIES AND FUTURE PLANS

### 3.2.1 Competitive Strengths

#### 3.2.1.1 Leading Position in the Malaysian Sugar Industry

We are the leading sugar producer in Malaysia, with an annual production capacity of over 1.1 million mt. The sugar refinery operated by our subsidiary MSM is the largest in Malaysia. In 2010, we produced a total of approximately 945,000 mt of refined sugar, which represents approximately 57% of the refined sugar produced in Malaysia in that year. We are able to leverage on the scale of our operations by for example purchasing and storing raw sugar when market prices are favourable and also being able to optimise the costs of our operations over a greater volume of production. Our operating subsidiaries, MSM and KGFP, have been dedicated to the sugar business for 51 years and 40 years, respectively, and are recognised in the market for providing reliable, high-quality products to our customers. We believe that our established reputation and proven track record in the sugar industry in Malaysia will continue to assist our business and growth in the future.

#### 3.2.1.2 Strong Customer Relationships Through Product Quality and Customer Service

We have built strong and longstanding relationships, directly and through distributors, with a broad base of approximately 260 customers in Malaysia, which include mainly industrial customers, wholesalers and retailers and some of whom have been our customers for decades. MSM Holdings' customers include F&N Beverages Manufacturing Sdn Bhd, Permanis Sdn Bhd, Kraft Foods Manufacturing Malaysia Sdn Bhd, Cadbury Confectionery Malaysia Sdn Bhd, Nestle Manufacturing (M) Sdn Bhd, Tesco Stores (Malaysia) Sdn Bhd, Giant GCH Retail (Malaysia) Sdn Bhd, Jaya Jusco Stores Bhd (currently known as Aeon Co (M) Bhd) and Yeo Hiap Seng (Malaysia) Berhad. We have established these relationships by being a dependable supplier of quality products that is flexible and responsive in meeting our customers' changing needs. We continue to enhance the level of service and product offerings to cater to our customers by, for example, working with them in manufacturing products to their specifications, offering flexible delivery options through our just-in-time delivery capabilities and providing customised packaging sizes. Our customer relationships are closely managed by our experienced team of sales and marketing staff as well as by our senior management. We believe that our reputation as a reliable producer of high-quality products and our well-established base of quality, credit-worthy customers enable us to consistently maintain our leading market position.

#### 3.2.1.3 Strategic Location of our Production Facilities

Our production facilities are strategically located for efficient production and delivery of our products. The MSM Facility is located adjacent to the Prai River near Penang Port and has a dedicated jetty on-site that enables barges to easily and cost-effectively offload raw sugar taken from sea vessels directly into storage for use in our refining process. The KGFP Facility is located adjacent to the Chuping Plantation from which it receives sugar cane for milling, and the milling facility is next to the sugar refinery which processes the raw sugar from the milling facility together with imported raw sugar. The proximity of the MSM Facility to Penang Port also enables us to effectively deliver by sea our products to customers in East Malaysia and overseas markets, either as bagged bulk cargo, from our dedicated on-site jetty, or in full containers loaded at our own container loading facility with a loading capacity of 1,000 mt per day.

### 3.2.1.4 Effective Logistics Infrastructure

Our effective logistics infrastructure, which integrates our storage, packaging and distribution network, aims to ensure timely delivery of the right quality and quantity of products to our customers. Our production facilities in the north, as well as storage and distribution centres in Sungai Buloh and Johor Bahru in the central and southern regions, respectively, ensure efficient distribution of our products throughout Peninsular Malaysia, using rail transport and lorries. Railways connect the MSM Facility and our warehouse facilities in Sungai Buloh and Johor Bahru and enable fast and cost -efficient transport of our products. MSM's subsidiary, Astakonas also operates a dedicated fleet of lorries to transport our products in Peninsular Malaysia.

Moreover, our flexible logistics infrastructure allows us to offer our customers a variety of options in receiving our products. We offer our customers the option of bulk delivery from our production facilities and the Sungai Buloh warehouse via road tankers to customers who are able to receive the bulk sugar directly into their silos as well as the option of taking delivery at our production facilities or from the Sungai Buloh and Johor Bahru warehouses. In addition, our Sungai Buloh warehouse has its own packaging facilities, enabling us to offer just-in-time delivery by packaging our products at various times and in various sizes according to our customers' needs.

We believe that our ability to meet our customers' needs on a timely basis through our efficient warehousing, packaging and distribution network is a key strength that distinguishes us from our competitors in the Malaysian market.

### 3.2.1.5 Modern Integrated Production Facilities

The MSM Facility has successfully adopted advanced production systems in its sugar refining process by installing and implementing state-of-the-art equipment and technology that are in line with international standards and benefits from efficiencies realised through automation. For example, MSM has successfully reduced its energy consumption by being, we believe, the first sugar producer in Southeast Asia to operate a vertical continuous sugar vacuum pan that uses as its heat source recycled vapour from batch pans, which were subsequently upgraded with the triple-effect evaporator.

Moreover, through the use of a nano-filtration system that recycles water, the brine solution is recycled and the wastewater load for MSM is significantly reduced, thereby minimising the harmful impact on the environment. KGFP is currently reviewing plans to install additional equipment to modernise its facilities and to increase automation of its production processes in the near future.

The KGFP Facility is the only integrated facility in Malaysia with a sugar mill and refinery that processes both sugar cane and raw sugar to produce refined sugar, which provides us with the flexibility to source a portion of our raw sugar supply from sugar cane in addition to imported raw sugar. Our production facilities are also integrated such that we co-generate electricity using the steam produced by our boilers, allowing us to satisfy a part of our electricity needs internally. Furthermore, we are able to configure the equipment and machinery used in our production processes to optimise our output and energy use, which provides us with additional flexibility to reduce costs. We intend to continue to upgrade and modernise our equipment and technology as deemed necessary to maintain or increase our competitiveness.

#### 3.2.1.6 Diverse Portfolio of Quality Products

We develop and offer to our customers a full array of sugar products. We produce refined sugar products of varying types and grades such as fine and coarse granulated white sugar, brown sugar, icing and caster sugar, as well as molasses. Our products are sold in package sizes suited to our customers' convenience and requirements. In addition to packaging type, we work with customers with stringent product requirements to tailor our products' features, such as colour, grain size and moisture, to their specifications. Our production and quality assurance teams perform certain testing and research to assist our customers in manufacturing finished sugar products that conform to the specific properties and characteristics they require. For example, MSM has worked with customers to use alternative anti-caking agents in icing sugar and to produce low-moisture soft brown sugar. Furthermore, our products are well-recognised in Malaysia and overseas as reliable high-quality products. We believe that our ability to offer a diverse portfolio of products and our reputation as a manufacturer of quality products help us to maintain a loyal customer base.

#### 3.2.1.7 Benefit from Long-term Contracts for Raw Sugar

We currently purchase approximately 49% of our imported raw sugar volume pursuant to long-term supply contracts. Since the early 1970s, the Malaysian government has participated, together with Malaysian refined sugar producers, including MSM and KGFP, in negotiations for long-term raw sugar supply contracts with foreign raw sugar suppliers. Such contracts have helped us secure a consistent supply of raw sugar at fixed prices. The large volume of raw sugar purchased under these contracts and the long-term nature of these contracts, which are usually for a period of three years, allow us to fix in advance a significant portion of our cost of sales, providing us with the visibility to make and implement effective business plans.

#### 3.2.1.8 Strong Support from the Felda Group

We are part of the Felda Group, which is affiliated with the Malaysian government and is one of the largest agro-based businesses in Malaysia. FELDA has established 317 schemes throughout Malaysia covering a total of 479,765 ha of plantation land that is cultivated by the settlers in these schemes. In addition, FELDA owns 331,375 ha of land on which it grows various crops, including oil palm and rubber. FELDA has also established a commercial arm, FGVH, which has investments in over 80 subsidiaries, associated companies and joint ventures engaged in diverse activities in the agro-based industry, including multi-crop plantations, oils and fats, oleochemicals and logistics. The Felda Group is well-known in Malaysia and has a strong reputation as a valuable contributor to the country's economic development through the establishment of settlement programs that have successfully advanced Malaysia's agricultural industry and agro-based businesses. The Felda Group has a presence in many foreign countries, including the United States, Canada, Pakistan, China, Indonesia, Thailand, South Africa, France, Australia and Turkey. We believe that, with the Felda Group as the controlling shareholder, we have the support and commitment of a successful enterprise with a strong brand name in the agro-based industry for us to be a long-term player in the Malaysian sugar industry.

#### 3.2.1.9 Experienced and Dedicated Management Team

Our management team has significant industry knowledge across the entire sugar value chain and has extensive experience in leadership positions in sugar-related companies. In particular, Mr. Chua Say Sin, our Chief Executive Officer, Mr. Mohamad Amri Sahari, Mr. Gan Chong Ho and Mr. Ha Charm Mun have over 90 years of combined experience in the sugar industry.

The experience of our management team in the sugar industry spans across a wide range of business activities, including the operation of sugar refineries as well as Malaysia's only sugar cane plantation and sugar cane mill, implementing upgrades and expansions to production facilities, marketing and distributing sugar products in Malaysia and in export markets, hedging against movements in raw sugar prices and foreign currencies and managing various other risks associated with the sugar business. Our management has also adopted advanced production systems in the sugar refining process, such as implementation of state-of-the-art processes to use recycled vapour as a heat source and a filtration system that reduces wastewater. We believe that our management team has been key to our success, and it has the necessary experience and knowledge to continue to successfully manage our business and implement our growth strategies.

#### 3.2.1.10 Financial Strength

We have a proven record of strong cash generation, which has permitted us to fund most of our capital expenditures through internally generated funds. Our financial discipline has resulted in a strong balance sheet, with only short-term borrowings and a low debt-to-equity ratio of 0.15 as of 31 December 2010, and we have established a track record of consistent payment of dividends. We believe that our financial strength and strong balance sheet provide us with the flexibility to consider and pursue attractive investment opportunities that may become available in the future.

### 3.2.2 Business Strategies and Future Plans

#### 3.2.2.1 Achieve Synergies in the Operations of MSM and KGFP

After MSM and KGFP were brought into the Felda Group in January 2010, we began to take advantage of the numerous synergies that exist between these companies. We plan to coordinate the purchase of raw sugar for both companies to maximise our leverage in purchase negotiations, and we also expect the two companies to collaborate in their hedging activities for raw sugar and foreign currency. Our management will also review closely the marketing and distribution practices of the two operating companies and aim to apply the best practices from each of the companies to the marketing and distribution efforts of the Group as a whole. MSM and KGFP will also cooperate on the technical aspects of their operations, including on ways to increase the level of automation at the KGFP Facility.

### 3.2.2.2 Continue to Reduce Costs and Improve Operating Efficiency

We believe that our operating efficiency provides us with a cost advantage compared to other sugar producers in Malaysia. We plan to continue to enhance our cost competitiveness by increasing the level of automation at our production facilities, especially at the KGFP Facility, and by other targeted efforts to cut costs by upgrading the existing boilers at the KGFP Facility. We are also looking to enhance our economies of scale by expanding our total annual production capacity to approximately 1.5 million mt by 2016. As part of this effort, we intend to increase the KGFP Facility's annual production capacity from 150,000 mt to 200,000 mt by 2015. Furthermore, we are currently reviewing plans to gradually increase production capacity at the MSM Facility as well as making on-going efforts to maximise its daily melt by increasing sales volumes, which would allow us to minimise the downtime for machinery and increase our capacity utilisation rates. In addition, we plan to increase the storage capacity for raw sugar at the MSM Facility from 100,000 mt to 200,000 mt and to expand the storage capacity for refined sugar at MSM's storage warehouses from 27,000 mt to 37,000 mt. We will also look to reduce freight costs by increasing the use of rail transport in place of lorries. These initiatives are expected to allow us to maintain our low costs and improve our operating efficiency.

### 3.2.2.3 Expand Export Sales

Although we give priority to satisfying domestic demand, we have also sought to increase our export sales on an opportunistic basis to increase our sales volume, to earn foreign exchange to help meet part of our foreign currency obligations for raw material purchases, to maximise the use of our production capacity, to lower our average unit cost of production, to reduce our dependence on demand from local customers and to expand our international market presence. We have successfully penetrated attractive niche markets overseas, such as the market in Pakistan for sugar used in pharmaceuticals. We will continue to focus on increasing our competitiveness in existing export markets and further penetrate into our current overseas markets in Asia by securing new traders and distributors and deepening our ties with existing ones, and also by establishing direct relationships with end-customers by meeting them together with the distributors. For markets that currently impose high import duties or involve other import restrictions, we will monitor developments in these markets and attempt to capitalise on opportunities that may arise if there are favourable changes to such import restrictions.

### 3.2.2.4 Pursue Strategic Acquisitions or Investments

We plan to pursue opportunities to expand our production capacity and diversify to external markets through strategic acquisitions or investments on a selective basis outside Malaysia as such opportunities arise, particularly in Southeast Asia. We will explore such opportunities and endeavour to complete the strategic acquisitions or investments within two (2) years from Listing. By producing refined sugar in external markets, we would be able to penetrate those markets more effectively and also target nearby markets that are better served from that location. Any potential acquisition or investment would undergo an extensive evaluation process to determine whether it meets our strategic objectives and benefits our business as a whole.

For information on our competitive strengths and our business strategies and future plans, see Section 7.2 and Section 7.3, respectively, of this Prospectus.

## 3.3 FINANCIAL INFORMATION

### 3.3.1 Combined Financial Information

For illustrative purposes, we set out below the summary of our combined financial information for the three (3) financial years ended 31 December 2010 prepared based on the audited financial information of our subsidiaries and the unaudited financial information of our Company for the period from 10 March 2011 (date of incorporation) to 31 March 2011 after incorporating such adjustments considered necessary and on the assumption that our Group has been in existence throughout the financial years and period under review. The combined financial information for the three (3)-month period ended 31 March 2011 has been reviewed in accordance with the International Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity.

We advise you to read our financial information together with the accompanying notes and the assumptions included in the Accountant's Report as disclosed in Section 9 of this Prospectus and the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 8.2 of this Prospectus. Our Group's results of operations for any interim period are not necessarily indicative of our results of operations for a full financial year.

| | Audited | | | Unaudited | |
|---|---|---|---|---|---|
| | Year Ended 31 December | | | Three Months Ended 31 March | |
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Revenue | 1,154,230 | 1,643,621 | 2,168,598 | 497,753 | 503,172 |
| Cost of sales | (914,643) | (1,293,033) | (1,746,054) | (399,785) | (365,773) |
| Gross profit | 239,587 | 350,588 | 422,544 | 97,968 | 137,399 |
| Other operating income | 12,532 | 4,945 | 4,299 | 672 | 1,193 |
| Other (losses)/gains - net | - | 23,529 | (29,574) | (58,302) | (26,546) |
| Selling and distribution expenses | (50,238) | (49,006) | (49,279) | (10,649) | (11,659) |
| Administrative expenses | (29,984) | (28,491) | (33,693) | (10,284) | (9,035) |
| Profit from operations | 171,897 | 301,565 | 314,297 | 19,405 | 91,352 |
| Finance costs | (3,542) | (2,215) | (8,565) | (1,087) | (1,337) |
| PBT | 168,355 | 299,350 | 305,732 | 18,318 | 90,015 |
| Taxation | (46,145) | (62,057) | (72,866) | (6,279) | (27,814) |
| PAT | 122,210 | 237,293 | 232,866 | 12,039 | 62,201 |
| Depreciation | 19,851 | 27,534 | 39,967 | 10,136 | 10,403 |
| Amortisation | 70 | 70 | 3,292 | 862 | 862 |
| EBITDA[(1)] | 181,309 | 325,342 | 354,062 | 29,856 | 101,599 |
| No. of shares in issue[(2)] (000) | 702,980 | 702,980 | 702,980 | 702,980 | 702,980 |
| Gross EPS[(3)] (sen) | 23.9 | 42.6 | 43.5 | 10.4[(5)] | 51.2[(5)] |
| Net EPS[(4)] (sen) | 17.4 | 33.8 | 33.1 | 6.8[(5)] | 35.2[(5)] |
| NTA per ordinary share[(6)] (sen) | 81.1 | 68.3 | 106.6 | 99.2 | 67.9 |
| Gross profit margin (%) | 20.8 | 21.3 | 19.5 | 19.7 | 27.3 |
| PBT margin (%) | 14.6 | 18.2 | 14.1 | 3.7 | 17.9 |
| PAT margin (%) | 10.6 | 14.4 | 10.7 | 2.4 | 12.4 |
| EBITDA margin (%) | 15.7 | 19.8 | 16.3 | 6.0 | 20.2 |

## 3. SUMMARY *(Cont'd)*

***Notes:***

*(1)* *EBITDA refers to earnings before interest, taxation, depreciation and amortisation. 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 FRSM and should not be considered as an alternative to PAT, operating income, or any other performance measures derived in accordance with FRSM 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** | |
|---|---|---|---|---|---|
| | **Year Ended 31 December** | | | **Three Months Ended 31 March** | |
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| PBT | 168,355 | 299,350 | 305,732 | 18,318 | 90,015 |
| Amortisation | 70 | 70 | 3,292 | 862 | 862 |
| Depreciation | 19,851 | 27,534 | 39,967 | 10,136 | 10,403 |
| Finance costs | 3,542 | 2,215 | 8,565 | 1,087 | 1,337 |
| Interest income | (10,509) | (3,827) | (3,494) | (547) | (1,018) |
| EBITDA | 181,309 | 325,342 | 354,062 | 29,856 | 101,599 |

*(2)* *Based on the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(3)* *Computed as PBT divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(4)* *Computed as PAT divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(5)* *Annualised.*

*(6)* *Computed as Net Assets less intangible assets divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

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### 3.3.2 Pro Forma Consolidated Balance Sheets

We have prepared our Pro Forma Consolidated Balance Sheets for illustrative purposes only, based on our Company's audited financial information as at 31 December 2010 to show the effects of the Pre-Listing Restructuring, Public Issue, Offer for Sale and use of proceeds arising from the Public Issue and on the assumption that these transactions were completed as at 31 December 2010.

We advise you to read our Pro Forma Consolidated Balance Sheets together with the accompanying notes and the assumptions included in the Reporting Accountant's letter as disclosed in Section 8.9 of this Prospectus.

| | | Pro Forma I | Pro Forma II |
|---|---|---|---|
| | Incorporation of the Company | After Pre-Listing Restructuring | After Pro Forma I, Initial Public Offering and Utilisation of Proceeds |
| **NON CURRENT ASSETS** | **RM 000** | **RM 000** | **RM 000** |
| Property, plant and equipment*** | - | 313,413 | 633,413 |
| Intangible assets | - | 82,807 | 82,807 |
| Prepaid lease payments | - | 93,655 | 93,655 |
| Goodwill | - | 576,240 | 576,240 |
| Total non-current assets | - | 1,066,115 | 1,386,115 |
| **CURRENT ASSETS** | | | |
| Inventories | - | 330,844 | 330,844 |
| Biological assets | - | 8,728 | 8,728 |
| Receivables, deposits and prepayments | - | 215,544 | 215,544 |
| Tax recoverable | - | 690 | 690 |
| Amounts due from related parties | - | 752 | 752 |
| Derivative financial assets | - | 20,509 | 20,509 |
| Cash and cash equivalents | * | 2,055 | 95,880 |
| Total current assets | - | 579,122 | 672,947 |
| **LESS: CURRENT LIABILITIES** | | | |
| Payables and accruals | - | 35,680 | 35,680 |
| Amounts due to related parties | - | 38 | 38 |
| Taxation | - | 13,753 | 13,753 |
| Borrowings** | - | 467,000 | 467,000 |
| Total current liabilities | - | 516,471 | 516,471 |
| **NET CURRENT ASSETS** | * | 62,651 | 156,476 |
| **LESS: NON CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | - | 110,595 | 110,595 |
| Provision for staff retirement benefits | - | 1,032 | 1,032 |
| Total non current liabilities | - | 111,627 | 111,627 |
| **NET ASSETS** | * | 1,017,139 | 1,430,964 |

3. **SUMMARY** *(Cont'd)*

| | Incorporation of the Company | Pro Forma I<br>After Pre-Listing Restructuring | Pro Forma II<br>After Pro Forma I, Initial Public Offering and Utilisation of Proceeds |
|---|---|---|---|
| | RM 000 | RM 000 | RM 000 |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | | |
| Share capital | * | 288,990 | 351,490 |
| Share premium | - | - | 351,325 |
| Merger relief reserve | - | 1,664,582 | 1,664,582 |
| Reorganisation deficit | - | (1,070,596) | (1,070,596) |
| Retained earnings | - | 134,163 | 134,163 |
| **SHAREHOLDERS' EQUITY** | * | 1,017,139 | 1,430,964 |
| Net asset per ordinary share (RM) | - | 1.76 | 2.04 |
| Net tangible assets/(liabilities) (RM 000) | * | 358,092 | 771,917 |
| Net tangible assets/(liabilities) per ordinary share (RM) | - | 0.62 | 1.10 |
| Number of ordinary shares (000) RM0.50 nominal value | * | 577,980 | 702,980 |

***Notes:***

* *The Company was incorporated on 10 March 2011. For illustrative purposes, the Company is assumed to be incorporated on 31 December 2010 with an issued and paid up share capital of RM100, representing 200 shares ordinary shares of RM0.50 each.*

** *The total borrowings include RM250 million drawn down from revolving credit facilities subsequent to 31 December 2010 to reduce reliance on internally generated cash to fund the working capital and to free up the cash available to the group. These borrowings do not include other short term borrowings i.e. bankers' acceptances drawn down for payment to suppliers of raw sugar. As at 31 December 2010, the total outstanding bankers' acceptances amounted to RM217 million. Pursuant to the Pre-Listing Restructuring, the available cash would be utilised as payment for parting dividends by MSM and KGFP amounting to RM335 million to their existing shareholders. As of the date of this Prospectus, the parting dividends have been paid.*

*** *It is assumed that RM320 million of IPO proceeds will be utilised for the purchase of property, plant and equipment to increase efficiency and expand production capacity.*

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### 3.3.3 Capitalisation and Indebtedness

The table below sets out our cash and cash equivalents as well as capitalisation and indebtedness based on our combined financial information as at 31 December 2010 on the assumption that the Pre-Listing Restructuring and the IPO had occurred on 31 December 2010.

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

| | Combined Financial Information | Pro Forma I | Pro Forma II |
|---|---|---|---|
| | As at 31 December 2010 | After Pre-Listing Restructuring | After Pro Forma I and Public Issue and utilisation of proceeds |
| | Audited | Unaudited | Unaudited |
| | RM 000 | RM 000 | RM 000 |
| Cash and cash equivalents.. | 87,055 | 2,055 | 95,880 |
| Indebtedness[(1)] | | | |
| Short-term borrowings | | | |
| Bankers' acceptance............ | 217,000 | 217,000 | 217,000 |
| Total short-term borrowings . | 217,000 | 217,000 | 217,000 |
| Long-term borrowings | | | |
| Total long-term borrowings .. | - | - | - |
| Total indebtedness.............. | 217,000 | 217,000 | 217,000 |
| Total equity/capitalisation..... | 1,408,540 | 1,017,139 | 1,430,964 |
| Total capitalisation and indebtedness....................... | 1,625,540 | 1,234,139 | 1,647,964 |
| Gearing ratio (times)[(2)] ......... | 0.15 | 0.21 | 0.15 |

***Notes:***

*(1) Does not include RM250 million drawn down under revolving credit facilities as at the Latest Practicable Date.*

*(2) The gearing ratio is calculated by dividing total indebtedness over total equity.*

For detailed information on our capitalisation and indebtedness, see Section 8.4 of this Prospectus.

## 3.4 DIVIDEND POLICY

It is the policy of our Board in recommending dividends to allow shareholders to participate in our profits, as well as to retain adequate reserves for our future growth. The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of the Board and any final dividend for the year is subject to shareholders' approval.

The actual dividend that our Board may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board. In considering the level of dividend payments, if any, upon recommendation by our Board, we intend to take into account various factors including:

- the level of our cash, gearing, return on equity and retained earnings;
- our expected financial performance;
- our projected levels of capital expenditure and other investment plans; and
- our working capital requirements.

It is the present intention of our Board to adopt a dividend pay-out ratio of at least 50% of our profits after taxation attributable to shareholders excluding non-recurring income after taking into consideration the abovementioned factors, general financial condition, contractual restrictions and other factors considered relevant by our Board.

As we are a holding company, our Company's income, and therefore our ability to pay dividends, is dependent upon the dividends we receive from our subsidiaries. The payment of dividends by our subsidiaries will depend upon their distributable profits, 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 the loan agreements, if any, for the Company's 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.**

Please refer to Section 8.10 of this Prospectus for detailed information on our dividend policy.

## 3.5 DETAILS OF THE IPO

| | |
|---|---|
| IPO: | The Offer for Sale and the Public Issue. |
| Offer for Sale: | Offer for sale by the Selling Shareholder of up to 109,564,700 Offer Shares 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:<br>(i) up to 73,811,600 Offer Shares made available to Malaysian institutional and selected investors and foreign institutional and selected investors outside the United States in reliance on Regulation S under the US Securities Act at the Institutional Price pursuant to the Institutional Offering; and<br>(ii) 35,753,100 Offer Shares made available to Bumiputera institutional and selected investors approved by the MITI. |

Public Issue: Public Issue of 125,000,000 Issue Shares, subject to clawback and reallocation, to be allocated in the following manner:

(i) 28,120,000 Issue Shares made available to the Malaysian Public, our Eligible Employees and persons who have contributed to the success of the MSM Holdings Group's business at the Retail Price pursuant to the Retail Offering;

(ii) 45,089,900 Issue Shares made available to Bumiputera institutional and selected investors approved by the MITI; and

(iii) 51,790,100 Issue Shares to KPF by way of placement under the Special Offering.

Final Retail Price: The Retail Price is RM3.38 per Share. However, the Final Retail Price will be determined after the Institutional Price is fixed on the Price Determination Date pursuant to a bookbuilding exercise. 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.

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

Please refer to Section 4 of this Prospectus for detailed information relating to our IPO.

## 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 RM370,328,686[(1)] arising from the Offer for Sale of up to 109,564,700 Offer Shares will accrue entirely to the Selling Shareholder.

The expected gross proceeds of RM422,500,000[(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 | % |
|---|---|---|---|
| Capital expenditure for increase in efficiency and for expansion of production capacity (domestic/regional) | Within 2 years | 320,000 | 75.7 |
| Working capital | Within 1 year | 93,825 | 22.2 |
| Estimated listing expenses | Within 6 months | 8,675 | 2.1 |
| **Total gross proceeds** | | 422,500 | 100.0 |

***Note:***

*(1) We have assumed the Institutional Price and the Final Retail Price will be the Retail Price of RM3.38 per Share in arriving at this figure.*

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

## 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 sugar industry

3.7.1.1 The sugar industry in Malaysia is regulated by the Malaysian government, and we are affected by government policies and regulations relating to the sugar industry, including price controls and subsidies.

3.7.1.2 We are highly dependent on imported raw sugar to operate our refineries, and our financial performance could be impacted by fluctuations in the global supply and price of raw sugar and the availability of long-term raw sugar supply contracts.

3.7.1.3 Adverse weather conditions and general effects of global climate change may reduce the availability, increase the price and impact the quality of raw sugar we import.

3.7.1.4 We currently face competition in our domestic and export markets, which may adversely affect our market share and profitability, and we may face even greater competition in the Malaysian market if the restrictions on the import of refined sugar products is relaxed or eliminated in the future.

3.7.1.5 If demand for refined sugar in Malaysia decreases in the future, lower sales volumes and lower prices could result, which would affect us adversely.

### 3.7.2 Risks relating to our business

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

3.7.2.2 We engage in hedging transactions that involve risks and can incur significant losses which would adversely affect our financial performance.

3.7.2.3 Damage to any of our production facilities that results in prolonged interruption of operations could materially and adversely affect our results.

3.7.2.4 Significant or prolonged disruptions to our storage and distribution facilities or to our transportation infrastructure could have an adverse effect on us.

3.7.2.5 We may not be successful in reducing operating costs and increasing operating efficiencies.

3.7.2.6 Pursuit of new projects and initiatives to expand our business involves risks and we may not be able to successfully complete or fully realise the anticipated benefits.

3.7.2.7 Changes in the cost and availability of energy and essential utilities may result in increased operating expenses and reduced results of operations.

3.7.2.8 We are exposed to costs arising from compliance with environmental and health and safety regulations and may be exposed to liabilities in the event we fail to comply with these regulations.

3.7.2.9 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.

3.7.2.10 Funding, especially on terms acceptable to us, may not be available to meet our future capital needs.

3.7.2.11 Our insurance coverage may not be adequate to cover all losses and/or liabilities that may arise in connection with our operations.

3.7.2.12 We are controlled by FGVH, whose interests may not be aligned with those of the other shareholders of our Company.

3.7.2.13 Certain tax incentives or exemptions from the Malaysian government may no longer be available in the future.

3.7.2.14 We depend on certain key personnel and skilled employees.

3.7.2.15 Failure to maintain good employee relations may adversely affect our operations and the success of our business.

3.7.2.16 The Combined Financial Information, the historical audited financial information of our Subsidiaries and the Pro Forma Consolidated Balance Sheets included in this Prospectus may not accurately reflect our financial position, results of operations and cash flows.

3.7.2.17 We may not be able to achieve the anticipated synergies, economies of scale or other benefits resulting from the Pre-Listing Restructuring, and goodwill and intangible assets allocated to us pursuant to the Pre-Listing Restructuring may become impaired.

3.7.2.18 We are exposed to the credit and other counterparty risk of our customers in the ordinary course of our business.

3.7.2.19 Lease agreement with PAK for plots of land in Prai, Penang, on which the MSM Facility is located may not be finalised within the anticipated timeframe.

### 3.7.3 Risks relating to our shares

3.7.3.1 There has been no prior market for our Shares.

3.7.3.2 The Share price may be volatile.

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

3.7.3.4 We may not be able to pay dividends.

3.7.3.5 We plan to use the net proceeds from the Public Issue primarily for capital expenditure, expansion of our business and working capital, and you may not necessarily agree with how we use them.

3.7.3.6 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.

3.7.3.7 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.

3.7.3.8 Because the Retail Price is higher than our net tangible asset value 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

3.7.4.1 Unfavourable financial and economic developments in Malaysia or overseas may have an adverse effect on us.

3.7.4.2 Forward-looking statements in this Prospectus may not be accurate.

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

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# 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 Issue Shares under the Retail Offering will open at 10:00 a.m. on 2 June 2011 and will remain open until 5:00 p.m. on 13 June 2011 or such other date or dates as our Directors, the Sole Global Co-ordinator and the Joint Managing 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 | 2 June 2011* |
| Issue of Prospectus/Opening of Retail Offering | 10:00 a.m., 2 June 2011 |
| Closing of Retail Offering | 5:00 p.m., 13 June 2011 |
| Closing of Institutional Offering | 14 June 2011 |
| Price Determination Date | 15 June 2011 |
| Balloting of applications for the Issue Shares pursuant to the Retail Offering | 15 June 2011 |
| Allotment/Transfer of the IPO Shares to successful applicants | 24 June 2011 |
| Listing | 28 June 2011 |

***Note:***

* *The date bookbuilding commenced.*

The Institutional Offering will close on the date stated above or such other date as the Directors, the Selling Shareholder and the Sole Global Co-ordinator may decide in their absolute discretion. The applications for the Retail Offering will close at the time and date stated above subject that the Directors, the Sole Global Co-ordinator and the Joint Managing Underwriters may decide in their absolute discretion to extend the closing time and date for applications to any later time(s) and/or date(s).

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

## 4.3 OUR IPO

Our IPO consists of an Institutional Offering and a Retail Offering, totaling up to 234,564,700 IPO Shares pursuant to (i) the Offer for Sale of up to 109,564,700 Offer Shares by the Selling Shareholder and (ii) the offering by our Company of 125,000,000 Issue Shares. The 109,564,700 Offer Shares offered by the Selling Shareholder represent 15.6% of the enlarged issued and paid-up share capital of our Company. For avoidance of doubt, the IPO Shares offered under the Institutional Offering and Retail Offering do not include the Shares to be offered under the Over-allotment Option.

### 4.3.1 Institutional Offering

*Institutional Offering to investors at an Institutional Price payable in full upon allocation and determined by way of bookbuilding.*

Institutional Offering of up to 206,444,700 IPO Shares, representing 29.4% 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) Up to 73,811,600 Offer Shares to be offered to Malaysian institutional and selected investors and foreign institutional and selected investors outside the United States in reliance on Regulation S under the US Securities Act;

(ii) 35,753,100 Offer Shares and 45,089,900 Issue Shares to be offered to Bumiputera institutional and selected investors approved by the MITI; and

(iii) 51,790,100 Issue Shares to KPF by way of placement under the Special Offering.

### 4.3.2 Retail Offering

*Retail Offering at the Retail Price of RM3.38 per Issue 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 28,120,000 Issue Shares, representing 4% 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) 14,060,000 Issue Shares, representing 2% of the enlarged issued and paid-up share capital of our Company, have been reserved for the Eligible Employees and persons who have contributed to the success of the MSM Holdings Group;

(ii) 14,060,000 Issue Shares, representing 2% of the enlarged issued and paid-up share capital of our Company, are available for application as follows:

   (a) 7,030,000 Issue Shares, representing 1% 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) 7,030,000 Issue Shares, representing 1% 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 Issue 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 for Sale | | Public Issue | | Total | |
|---|---|---|---|---|---|---|
| **Categories** | **No. of MSM Holdings Shares** | **% of enlarged share capital** | **No. of MSM Holdings Shares** | **% of enlarged share capital** | **No. of MSM Holdings Shares** | **% of enlarged share capital** |
| **Retail Offering:** | | | | | | |
| Malaysian public (via balloting) | | | | | | |
| - Bumiputera | - | - | 7,030,000 | 1.0 | 7,030,000 | 1.0 |
| - Non-Bumiputera | - | - | 7,030,000 | 1.0 | 7,030,000 | 1.0 |
| Eligible Employees and persons who have contributed to the success of our Group | - | - | 14,060,000 | 2.0 | 14,060,000 | 2.0 |
| **Total** | - | - | 28,120,000 | 4.0 | 28,120,000 | 4.0 |
| **Institutional Offering:** | | | | | | |
| MITI approved Bumiputera investors | 35,753,100 | 5.1 | 45,089,900 | 6.4 | 80,843,000 | 11.5 |
| Other institutional investors | 73,811,600 | 10.5 | - | - | 73,811,600 | 10.5 |
| KPF | - | - | 51,790,100 | 7.4 | 51,790,100 | 7.4 |
| **Total** | 109,564,700 | 15.6 | 96,880,000 | 13.8 | 206,444,700 | 29.4 |
| **Grand Total** | 109,564,700 | 15.6 | 125,000,000 | 17.8 | 234,564,700 | 33.4 |

The completion of the Retail Offering and Institutional Offering are inter-conditional. The IPO is subject to the public spread requirement as per the Bursa Securities LR.

### 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 Eligible Employees and persons who have contributed to the success of the MSM Holdings Group are not fully taken up and if there is an over-application in the Retail Offering, the IPO Shares which are not taken up will be allocated to the Retail Offering as stated in Section 4.3.2 (ii);

(ii) if the IPO Shares allocated to the Bumiputera investors approved by MITI are not fully taken up by the Bumiputera investors, the IPO Shares which are not taken up will be allocated to Malaysian and foreign institutional and selected investors under the Institutional Offering (other than the Special Offering to KPF);

(iii) subject to 4.3.3 (ii) above, if there is an under-application in the Institutional Offering, and there is a corresponding over-application the Retail Offering, the IPO Shares may be clawed back from the Institutional Offering and allocated to the Retail Offering; and

(iv) 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 and selected investors under Institutional Offering.

Subject to the clawback and reallocation provisions above, the clawback and reallocation provisions set out in Section 4.3.3 (iii) and (iv) above 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, 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 21,089,400 Shares at the Institutional Price for each Share, representing up to approximately 9% 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 21,089,400 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 21,089,400 Shares, representing up to approximately 9% 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 21,089,400 Shares representing up to approximately 9% 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 Employees and persons who have contributed to the success of our Group

The Eligible Employees and persons who have contributed to the success of our Group are allocated 14,060,000 Shares under the IPO, which was approved by our Board.

The summary of allocation of the 14,060,000 Shares to the Eligible Employees and persons who have contributed to the success of our Group respectively are as follows:

| Eligibility | Number of eligible persons | Aggregate number of Shares allocated |
|---|---:|---:|
| Eligible Directors of our Company, FGVH and FELDA (1) | 24 | 480,000 |
| Eligible employees of our Group, FGVH and FELDA (2) | 4,006 | 11,575,100 |
| Persons who have contributed to the success of our Group (3) | 381 | 2,004,900 |
| **Total** | 4,411 | 14,060,000 |

***Notes:***

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

*(2) The criteria for allocation to the eligible employees of our Group, FGVH and FELDA are based on their staff grade and seniority, and length of service.*

*(3) The criteria for allocation to eligible persons who have contributed to the success of our Group is based on amongst others, the current and past contributions to our Group, nature and terms of their business relationship and the duration of their respective relationship with our Group.*

Any Issue Shares not taken up will be made available for application by the Malaysian citizens, companies, societies, cooperatives and institutions and always subject to the clawback and reallocation provisions.

## 4.4 SHARE CAPITAL

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

| | No. of Shares | RM |
|---|---|---|
| **Authorised** | | |
| 1,000,000,000 Shares | 1,000,000,000 | 500,000,000 |
| Issued and fully paid-up as at the date of this Prospectus | 577,980,000 | 288,990,000 |
| **To be issued and fully paid-up pursuant to the Public Issue** | 125,000,000 | 62,500,000 |
| Enlarged share capital upon Listing | 702,980,000 | 351,490,000 |

***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 RM2,376,072,400.

## 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 RM0.50 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 FEE, PLACEMENT FEE AND UNDERWRITING FEE

We will pay brokerage fees in respect of the Issue Shares under the Retail Offering, at the rate of 1% of the Final Retail Price per Issue Share under the Public Issue 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 are entitled to charge brokerage fees to successful applicants under the Institutional Offering. For avoidance of doubt, brokerage commission charged by the Placement Managers under the Institutional Offering will not be payable by us nor the Selling Shareholder.

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

The Selling Shareholder in respect of the Offer Shares and us in respect of the Issue Shares, will pay the relevant Placement Manager 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 offered pursuant to the Institutional Offering to Malaysian institutional and selected investors including Bumiputera investors approved by MITI and institutional and selected investors.

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

### 4.7.1 Underwriting

We and the Selling Shareholder have entered into the Retail Underwriting Agreement with the Joint Managing Underwriters and the Joint Underwriters to underwrite 28,120,000 Issue 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 17 of this Prospectus.

### 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 placement of 206,444,700 IPO Shares under the Institutional Offering, subject to clawback and reallocation provisions set out in Section 4.3.3 of this Prospectus. Each of us and the Selling Shareholder will be requested to give various representations, warranties and undertakings and to indemnify the Placement Managers against certain liabilities in connection with the Initial Public Offering.

### 4.7.3 Lock-up arrangement

We have agreed, subject to certain exceptions, that we shall not, without the prior written consent of the Sole Global Co-ordinator and the Joint Bookrunners, for a period of 180 days from the Listing:

- issue, offer, sell, contract to sell, grant any option to purchase, grant security over, encumber, pledge, mortgage, charge or otherwise dispose or agree to dispose of, directly or indirectly, any Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- enter into a swap, transaction (including a derivative transaction) or other arrangements with a similar economic effect to a sale or transfer of ownership of Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above,

and such restrictions shall apply to all Shares (or any interest therein) in the capital of the Company held by the Company at the date of Listing.

The Selling Shareholder has entered into a shareholder lock-up agreement under which it has agreed that, subject to certain exceptions, it shall not, without the prior written consent of the Sole Global Co-ordinator and the Joint Bookrunners, for a period of 180 days from the Listing:

- offer, sell, contract to sell, grant any option to purchase, grant security over, encumber, pledge, mortgage, charge or otherwise dispose or agree to dispose of, directly or indirectly, any Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- enter into a swap, transaction (including a derivative transaction) or other arrangements with a similar economic effect to a sale or transfer of ownership of Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above,

and such restrictions shall apply to all Shares (or any interest therein) in the capital of the Company held by the Selling Shareholder at the date of Listing.

The restrictions above do not apply (i) to Shares to be sold pursuant to the Institutional Offering, (ii) in respect of the 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 and (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.

Each of FGVS and KPF have entered into shareholder lock-up agreements under which they have agreed that, subject to certain exceptions, they shall not, without the prior written consent of the Sole Global Co-ordinator and the Joint Bookrunners, for a period of 180 days from the Listing:

- offer, sell, contract to sell, grant any option to purchase, grant security over, encumber, pledge, mortgage, charge or otherwise dispose or agree to dispose of, directly or indirectly, any Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- enter into a swap, transaction (including a derivative transaction) or other arrangements with a similar economic effect to a sale or transfer of ownership of Shares or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares;
- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above,

and such restrictions shall apply to all Shares (or any interest therein) in the capital of the Company held by FGVS and KPF at the date of Listing.

## 4.8 OBJECTIVES OF OUR IPO

The objectives of the IPO are as follows:

(i) to expand and enhance our leading position in the sugar industry;

(ii) to be more cost-effective in relation to general borrowing and funding to pursue future growth opportunities;

(iii) to create liquidity of our Shares; and

(iv) to provide opportunity for the investing community to participate in our future performance.

## 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 RM3.38 per Issue Share was determined and agreed upon by our Directors, the Principal Adviser, the Sole Global Co-ordinator and the Joint Managing Underwriters after taking into consideration the following factors:

(i) our NTA as at 31 December 2010 (as adjusted for the Pre-Listing Restructuring) of approximately RM358.0 million and the Proforma NTA as at 31 December 2010 after giving effect to the IPO of approximately RM771.9 million;

(ii) our NTA per Share as at 31 December 2010 (as adjusted for the Pre-Listing Restructuring) of approximately RM0.62 and the Proforma NTA per Share as at 31 December 2010 after giving effect to the IPO of approximately RM1.10;

(iii) our overview and prospects of the Sugar Refining Industry in Malaysia as outlined in Section 6 of this Prospectus;

(iv) our competitive strengths, business strategies and future plans as outlined in Sections 7.2 and 7.3 of this Prospectus; and

(v) our financial performance and operating history as described in Sections 8 and 9 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 4.9.3 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 RM3.38 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 2 June 2011 and will end on 14 June 2011 or such date or dates as the Directors, the Selling Shareholder and the Sole Global Co-ordinator 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 Sole Global Co-ordinator on the Price Determination Date.

### 4.9.3 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 December 2010 adjusted for the Pre-Listing Restructuring was RM0.62 per Share.

After giving effect to the issue of 125,000,000 new Shares under the Public Issue, and after further adjusting for the estimated listing expenses, our pro forma NTA per Share as at 31 December 2010 (based on an enlarged issued and paid-up share capital of 702,980,000 Shares) would have been RM1.10 per Share. This represents an immediate increase in NTA per Share of RM0.48 to our existing shareholders and an immediate dilution in NTA per Share of RM2.28, representing 67.5% 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, please 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 | 3.38 |
| Institutional Price | 3.38 |
| NTA per Share as at 31 December 2010 (as adjusted for the Pre-Listing Restructuring) | 0.62 |
| Proforma NTA per Share as at 31 December 2010 after giving effect to the IPO | 1.10 |
| Increase in NTA per Share to existing shareholders | 0.48 |
| Dilution in NTA per Share to retail / institutional investors | 2.28 |
| Dilution in NTA per Share to retail / institutional investors as a percentage to the Retail Price | 67.5% |

Save for the acquisition of Shares in our Company by our substantial shareholder pursuant to the Pre-Listing Restructuring as set out in Section 12.1.2 of this Prospectus, 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.

## 4.11 MINIMUM SUBSCRIPTION AMOUNT

There is no minimum subscription to be raised from the Initial Public Offering. 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 RM370,328,686[(1)] arising from the Offer for Sale of up to 109,564,700 Offer Shares will accrue entirely to the Selling Shareholder.

The expected gross proceeds of RM422,500,000[(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 | % |
|---|---|---|---|
| Capital expenditure for increase in efficiency and expansion of production capacity (domestic/regional)[(2)] | Within 2 years | 320,000 | 75.7 |
| Working capital[(3)] | Within 1 year | 93,825 | 22.2 |
| Estimated listing expenses[(4)] | Within 6 months | 8,675 | 2.1 |
| **Total gross proceeds** | | 422,500 | 100.0 |

***Notes:***

*(1) We have assumed the Institutional Price and the Final Retail Price will be the Retail Price of RM3.38 per Share in arriving at this figure.*

*(2) We intend to increase our production efficiency and capacity in the following manner:*

*(i) for KGFP to increase its annual production capacity from 150,000 mt to 200,000 mt at the estimated cost of RM49 million;*

*(ii) at the MSM Facility to increase the daily raw sugar melt capacity from 3,000 mt to 4,000 mt at the estimated cost of RM86 million;*

*(iii) increasing our storage capacity for raw sugar at the MSM Facility from 100,000 mt to 200,000 mt at the estimated cost of RM40 million;*

*(iv) expanding the storage capacity for MSM's warehouse capacity for refined sugar from 27,000 mt to 37,000 mt, at the estimated cost of RM45 million; and*

*(v) the balance of RM100 million of the proceeds raised from the Public Issue to be utilised towards selective strategic acquisitions and investments within Southeast Asia and other regions.*

*For further details of our future plans and strategies, refer to Section 7.3 of this Prospectus. Any excess proceeds not utilised within the period of 2 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 as well as payment to our suppliers for the purchase of raw sugar.*

*(4) Estimated listing expenses*

*The expenses of our Public Issue to be borne by us are estimated to be RM8.7 million and will comprise the brokerage, placement and underwriting fees as well as other listing related expenses.*

*We expect to fully utilise the proceeds from the Public Issue to defray estimated expenses of the IPO within 6 months 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. The expenses in respect of the Offer Shares shall be borne by the Selling Shareholder.*

## 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 production efficiency and capacity

We expect that the increase and expansion of our production efficiency and capacity by increasing KGFP's annual production capacity from 150,000 mt to 200,000 mt as well as increasing our storage capacity for raw sugar at the MSM Facility from 100,000 mt to 200,000 mt and expanding the storage capacity for MSM's warehouse capacity for refined sugar from 27,000 mt to 30,000 mt would contribute to our future profitability.

(b) Interest savings

As part of the proceeds from the IPO will be utilised to finance the expansion of our production capacity, we would enjoy savings in interest which we otherwise have to incur on borrowings. Based on an assumed interest rate of 4.0% per annum, we expect an interest savings of approximately RM12.8 million per annum.

## 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 RM10.00 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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**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 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 SUGAR INDUSTRY

### 5.1.1 The sugar industry in Malaysia is regulated by the Malaysian government, and we are affected by government policies and regulations relating to the sugar industry, including price controls and subsidies

As in many countries, the sugar industry in Malaysia is regulated by the Malaysian government. Pursuant to the Price Controls Act 1946, the Malaysian government has historically set price ceilings for refined white sugar products, taking into account various factors. In recent years, there has been a sharp increase in the price of raw sugar in the international markets. For example, the average price of raw sugar was 27.03 cents per pound in 2010 compared to 13.84 cents per pound in 2008, based on the Sugar No. 11 futures contract traded on the New York Board of Trade. For additional information about international raw sugar prices, see "Section 2.5 - Industry Risks and Challenges" of Section 6 of this Prospectus. Following such increases in raw sugar prices, the Malaysian government introduced a sugar price subsidy in 2009 so that the increase in the price of raw sugar would not be fully passed on to consumers of refined sugar products in Malaysia. Our financial performance, like the financial performance of other refined sugar producers in Malaysia, thus depends to a large extent on the government's policies with respect to the sugar industry, such as the level of price ceilings and sugar subsidy, which are beyond our control.

Starting in 2010, the Malaysian government has gradually adjusted the level of sugar subsidy and the sugar price ceiling, with the sugar subsidy amount generally being decreased and the price ceiling being increased. There can be no assurance that the Malaysian government will not decide to further decrease or eliminate its sugar subsidy or narrow its application in the future without a corresponding commensurate increase in the price ceiling. Because a substantial portion of our revenue is derived from sales of refined sugar products that are price controlled, if international raw sugar prices remain high or increase further and the Malaysian government decreases or eliminates the sugar subsidy without increasing or eliminating the refined sugar price ceilings, our profit margin, financial condition and results of operations would be materially and adversely affected. For details on the regulation of the sugar industry in Malaysia, see Section 7.13 of this Prospectus.

### 5.1.2 We are highly dependent on imported raw sugar to operate our refineries, and our financial performance could be impacted by fluctuations in the global supply and price of raw sugar and the availability of long-term raw sugar supply contracts

We are highly dependent on the supply of imported raw sugar to operate our business. Apart from the raw sugar produced from sugar cane harvested at the Chuping Plantation, all the raw sugar used by our refineries is imported, and the volatility of global raw sugar prices is high. The supply and price of raw sugar are influenced by a number of factors that we may not be able to predict or have any control over, such as adverse weather conditions and changes in agricultural or export policies affecting the exporting country. A significant portion of the total worldwide sugar production is traded on exchanges and thus is subject to speculation, which could affect the price of raw sugar.

The Malaysian government, represented by MITI, has historically participated in negotiations for long-term raw sugar supply contracts. Pursuant to these negotiations, MITI and all the refined sugar producers in Malaysia, including MSM and KGFP, collectively enter into supply contracts with foreign raw sugar suppliers typically covering a three-year period, and such contracts have helped us secure a consistent supply of raw sugar at prices that are usually lower than those available otherwise on the international spot market. Typically, the pricing terms of these contracts take into account the then-prevailing global market prices at the time of the contract, which in the first quarter of 2009 were lower than the current prices on the international spot market. A substantial portion of our imported raw sugar supply is sourced from such long-term supply contracts, and accordingly, if we do not continue to receive the benefit of such contracts in the future, we may not be able to secure raw sugar on as favourable terms to us. From 2008 to 2010, we purchased on average approximately 49% of our annual imported raw sugar volume pursuant to such long-term supply contracts. The current long-term supply contracts were entered into in the early part of 2009 and are scheduled to expire at the end of 2011. There can be no assurance that these long-term supply contracts will continue to be renewed as they expire, that they will be renewed with pricing or quantity terms that are as favourable as our previous contracts or that the duration of the contacts will be similar to previous contracts. If these contracts are not renegotiated and renewed on a timely basis prior to their scheduled expiry, we will have to purchase virtually all of the raw sugar we use from the international market at prevailing market prices that may be higher than those under long-term contracts, thereby increasing our exposure to the volatility in market prices of raw sugar and to higher costs of production. Furthermore, if global raw sugar prices decrease in the future to levels below the purchase price under our long-term supply contracts, we would be obligated to purchase a substantial portion of our raw sugar supply at a higher price than that on the international spot market. If any of the foregoing occurs, our profit margins, financial condition and results of operations could be adversely affected. For a more detailed description of long-term supply contracts for raw sugar, see Section 7.21 of this Prospectus.

### 5.1.3 Adverse weather conditions and general effects of global climate change may reduce the availability, increase the price and impact the quality of raw sugar we import

A substantial portion of the raw sugar we purchase is produced in Australia, Brazil and Thailand. Adverse weather conditions in these countries and worldwide could result in less sugar cane crop being harvested or lower sucrose content of sugar cane, leading to decreased volume of raw sugar produced in a given harvest. Globally, sugar cane crop yields and sucrose content depend primarily on weather conditions such as rainfall and temperature as well as other factors such as instances of crop disease and pestilence, all of which may be influenced by global climate change. Weather conditions have historically caused volatility in the sugar industry as a result of crop failures or reduced crop in a given harvest. Cyclones, floods, droughts or other severe weather conditions in sugar growing countries, such as those recently experienced in Australia, Thailand and India, can adversely affect the global supply of raw sugar and consequently increase the price of raw sugar in the global market.

There can be no assurance that these severe weather conditions impacting the sugar growing countries will not occur again in the future or that they will not occur more frequently due to potentially changing weather patterns brought on by global climate change. If the global supply and quality of raw sugar are affected by these factors or if there is an acute global shortage of raw sugar, we may not be able to secure an adequate supply of quality raw sugar to efficiently and cost-effectively operate our refineries, which could decrease our profit margin and/or production volume, and our business, financial condition and results of operations could be adversely affected.

### 5.1.4 We currently face competition in our domestic and export markets, which may adversely affect our market share and profitability, and we may face even greater competition in the Malaysian market if the restrictions on the import of refined sugar products is relaxed or eliminated in the future

We compete primarily with other domestic sugar producers in Malaysia and foreign sugar producers in overseas markets. The import of refined sugar into Malaysia is restricted by the Malaysian government, with such imports only being allowed for industrial consumers with approved permits issued by the Malaysian government. At present we are not aware of any permits for the import of refined sugar having been approved and issued by the Malaysian government, thus our primary competitors in the domestic market are the operators of the other sugar refineries in Malaysia, namely CSR and GPT which are controlled by Tradewinds (M) Berhad. However, there can be no assurance as to whether the restriction on the import of refined sugar products into Malaysia will be maintained in whole or in part. If the Malaysian government relaxes its restrictions on the import of refined sugar products or eliminates such restrictions so that importation is freely permitted, we will be required to compete in the domestic market with refined sugar producers based outside Malaysia, which may have a material adverse effect on our market share, profit margins, financial condition and results of operations.

In the domestic market for refined sugar products that are price-controlled, we compete primarily on the basis of product offerings, product quality, the ability to meet timely delivery requirements and overall customer service, while in markets that are not subject to price control, we also compete on the basis of price. If our ability to service customer requirements is disrupted, some of our customers may seek supply from alternate sources during such periods, and there can be no assurance that prior levels of business with those customers will be fully restored following the disruption. In addition, our competitors in Malaysia rely entirely on imported raw sugar to produce their refined sugar products. As such, we also compete with them for imported raw sugar other than the raw sugar we purchase pursuant to long-term supply contracts negotiated with the Malaysian government's participation.

In overseas markets where our products are sold, our main competitors include local sugar producers in those markets, such as SIS '88 Pte Ltd in Singapore, as well as global sugar companies such as ED & F Man Holdings Limited, Wilmar International Limited and Mitr Phol Sugar Group. Some of our competitors in overseas markets, and potential competitors in the domestic market if imports of refined sugar become more widely permitted in Malaysia, are divisions of larger enterprises and have greater financial and marketing resources and broader product ranges than we do, and therefore may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we can. Moreover, some competitors in the export market may be able to sell their product at lower prices because their costs are less than ours, they have greater financial, technological and other resources than we have or their production facilities may be geographically closer to certain export markets.

If we are unable to compete effectively in domestic or export markets, our market share and results of operation may be adversely affected.

### 5.1.5 If demand for refined sugar in Malaysia decreases in the future, lower sales volumes and lower prices could result, which would affect us adversely

Demand for refined sugar in Malaysia could decrease in the future as a result of one or a combination of many different factors that we cannot predict and may not have any control over, including:

(i) changes in the Malaysian government's policies regarding its sugar subsidy and price ceilings that may result in higher retail prices for refined sugar products;

(ii) the Malaysian government's nutritional guidelines and labeling laws;

(iii) changes in consumer sweetener preferences, including impact of dietary trends;

(iv) changes in population demographics;

(v) impact of a weaker domestic and global economy; and

(vi) changes in the availability, development or potential use of various types of alternative sweeteners.

If demand for refined sugar products in Malaysia decreases and we are unable to successfully offset such decrease through higher domestic sales price, increased government subsidy, export sales in other markets, lower production costs, expansion of our business into other products or otherwise, our profit margins, business, financial condition and results of operations could be adversely affected.

## 5.2 RISKS RELATING TO OUR BUSINESS

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

Imported raw sugar, which accounted for 80.2% of our total cost of sales in 2010, is purchased in USD and certain hedging transactions related to these raw sugar purchases are also settled in USD. Moreover, our export sales, which accounted for 11.6% of our total revenues in 2010, are denominated in USD. The RM operates on a managed float basis, and a depreciation of the RM against the USD may materially and adversely affect our financial performance because it may increase our cost of production in RM terms. Conversely, an appreciation of the RM against the USD may have an adverse effect on our financial performance because it may reduce our export 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.

### 5.2.2 We engage in hedging transactions that involve risks and can incur significant losses which would adversely affect our financial performance

We are exposed to certain market risks arising from the conduct of our business activities, in particular, risks arising from fluctuations in raw sugar prices and exchange rates. For the raw sugar we purchase outside of our long-term supply contracts, unless hedged as discussed below, the purchase price is determined only as of the date of delivery at the then-prevailing market price, not as of the date that the order is placed, which is typically months prior to the delivery date. In addition to being exposed to the risk of market price volatility of raw sugar, because all of our raw sugar purchases as well as related hedges discussed below are made in USD, we are also exposed to exchange rate risks. For a description of exchange rate risks, see Section 5.2.1 of this Prospectus.

To minimise the risks associated with volatility in raw sugar prices, we engage in hedging transactions involving sugar futures contracts to fix the prices of some of our raw sugar imports. Additionally, because imported raw sugar is purchased in USD, we may from time to time hedge against exchange rate fluctuations by entering into currency forward contracts. While these hedging transactions are meant to limit our risks related to raw sugar prices and foreign exchange rates, they also expose us to the risk of potentially incurring significant financial losses in situations where the counterparty to the hedging contract defaults on its contractual obligations or there is an unfavourable change in the expected differential between the underlying price in the hedging agreement and the actual market price of raw sugar or exchange rate. Under the FRSM, we are required to record fair value gains and losses related to our hedging transactions. We recorded fair value gains of RM25.1 million in 2009 and fair value losses of RM19.3 million and RM25.2 million in 2010 and the three months ended 31 March 2011, respectively on raw sugar futures contracts. In 2009, 2010 and the three months ended 31 March 2011, we recorded fair value losses on USD forward contracts of RM1.6 million, RM10.3 million and RM1.3 million, respectively. From 1 April 2011 through 20 May 2011, the market price of raw sugar has generally fallen below the level on 31 March 2011. Since we record our hedging transactions at fair value, to the extent that the market price of raw sugar falls below the fixed price under our futures contract or the exchange rates move unfavourably, our results of operation will be lower than they would have been if we had not engaged in such transactions. Consequently, our financial performance could be adversely affected during periods in which raw sugar prices or exchange rates are volatile. Alternatively, we may choose not to engage in hedging transactions in the future, in which case we would not be subject to risks associated with entering into such transactions but our financial performance could be adversely affected during periods in which raw sugar prices increase significantly or the RM depreciates significantly with respect to the USD. For a more detailed description of hedging transactions, see Section 8.2 of this Prospectus.

### 5.2.3 Damage to any of our production facilities that results in prolonged interruption of operations could materially and adversely affect our results

We own and operate two sugar refineries, as well as a sugar cane milling facility. These production facilities are subject to potential hazards such as fire, explosions and other events that could result in material damage to the production facilities. Damage to any of our production facilities or prolonged interruptions in the operation of the facilities due to failure of critical pieces of machinery and equipment or repairs, disruption to logistics and flow of incoming raw sugar deliveries and outgoing finished products or other similar events could have a material adverse effect on our business, financial condition and results of operations.

### 5.2.4 Significant or prolonged disruptions to our storage and distribution facilities or to our transportation infrastructure could have an adverse effect on us

We engage in a high volume business that is highly dependent on storage, distribution and transportation services to ensure smooth operation. We depend on the uninterrupted operation of our storage and distribution facilities and various means of transportation from those facilities to deliver our finished products to our customers. For example, MSM relies on uninterrupted operation of railways that connect its production facilities in Prai, Penang, to its warehouses located in Sungai Buloh, Selangor and Johor Bahru, Johor. Because of our limited storage capacity at the MSM Facility, MSM relies on regularly scheduled bulk transport of finished products to its two warehouses for packaging and fast distribution to customers located in the central and southern regions of Peninsular Malaysia in a cost-effective manner.

As with other companies engaged in similar activities, our transportation infrastructure and logistics or operations at our storage and distribution facilities are subject to being partially or completely shut down, temporarily or permanently, as a result of any number of circumstances that are not within our control, such as catastrophic events, adverse weather conditions, environmental remediation and breakdown in equipment or machinery. Any significant or prolonged interruption at these facilities or an inability to transport products to or from these facilities for any reason would create a bottleneck in the flow of our business operations and impact our ability to serve our customers. If we experience any such disruptions or interruptions and are unable to quickly identify and resolve them, our reputation, business, financial position and results of operations could be adversely affected.

### 5.2.5 We may not be successful in reducing operating costs and increasing operating efficiencies

As part of our business strategy, we continue to seek to reduce operating costs and increase operating efficiencies to improve our results of operation and financial performance. For example, we plan to increase operating efficiency and reduce costs by increasing the level of automation at our production facilities, especially at the KGFP Facility, to enable centralised monitoring and control of our production processes. We also hope to lower our energy costs by replacing the biofuel powered boilers at the KGFP Facility with gas powered boilers that would be cheaper to operate and maintain. We may not be able to achieve the cost savings or increased operational efficiencies that we expect to realise from these and other initiatives. Any failure to realise anticipated cost savings or increased operating efficiencies may adversely affect our competitiveness as well as our financial condition and results of operation.

### 5.2.6 Pursuit of new projects and initiatives to expand our business involves risks and we may not be able to successfully complete or fully realise the anticipated benefits

As part of our growth strategy, we intend to expand our existing facilities and may seek to offer our products in new export markets to expand our business. For example, we are pursuing projects to enhance our economies of scale by expanding the production capacity at the KGFP Facility and the MSM Facility and increasing the storage capacity for raw sugar and refined sugar at the MSM Facility.

Our ability to continue to expand our business through new projects and initiatives depends on many factors, including our ability to identify and implement promising projects and investments. In addition, we may be unable to obtain the required financing for these projects or initiatives on satisfactory terms, or at all. Any such project may require us to obtain environmental or other permits, designs or engineering, procurement and construction contracts. Due to these complexities, we may not be able to complete any such projects on a timely basis or at all, and may not realise the related benefits we anticipate. The integration of new projects or expansion of our existing facilities may result in unforeseen operating difficulties and may require significant financial and managerial resources. If these new projects and initiatives are not successfully completed or do not realise their anticipated benefits or if we fail to address one or more challenges associated with those activities, our business, financial condition and results of operation could be adversely affected.

### 5.2.7 Changes in the cost and availability of energy and essential utilities may result in increased operating expenses and reduced results of operations

Our production processes require a high level of energy use and rely on a constant supply of essential utilities such as electrical power and water. Accordingly, increases in cost of energy or essential utilities may have an adverse effect on our profit margin and results of operations. For example, when the price of natural gas increased significantly from August 2008 to February 2009 due to a reduction in gas price subsidies by the Malaysian government, we experienced an increase in fuel costs of approximately RM10.7 million during this period. In addition, any significant or prolonged interruption in the supply of fuel, electrical power, water and other essential utilities could have an adverse impact on us. An increase in fuel prices would also affect our transportation and distribution costs.

### 5.2.8 We are exposed to costs arising from compliance with environmental and health and safety regulations and may be exposed to liabilities in the event we fail to comply with these regulations

We are subject to various Malaysian federal, state and local environmental laws and health and safety laws and regulations that impose limitations and requirements related to, among other things, the emission and discharge of hazardous materials into the ground, air or water from our facilities, safety and integrity of refineries, food quality, combustible dust risk mitigation, toxic substances, solid waste and emergency planning.

These laws and regulations may require us to purchase and install pollution control equipment or to make operational changes to limit actual or potential impacts on the environment or the health of our employees. Currently, we do not anticipate any material claims or liabilities resulting from a failure to comply with these laws and regulations. However, any violations of these laws and regulations may result in substantial fines, criminal sanctions, revocations of operating permits or shutdowns of our facilities.

Due to the possibility of changes to environmental and health and safety laws and regulations and other unanticipated developments, the amount and timing of future expenditures to comply with such laws and regulations may vary substantially from those currently anticipated. Our costs of complying with current and future environmental and health and safety laws and regulations, and our liabilities arising from future releases of, or exposure to, hazardous substances could adversely affect our business, financial condition and results of operations.

### 5.2.9 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. For a more detailed description regarding our permits and licenses see Section 10 of this Prospectus.

### 5.2.10 Funding, especially on terms acceptable to us, may not be available to meet our future capital needs

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; 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 funding is not available when needed, or is available only on unfavourable terms, meeting our capital needs or otherwise taking advantage of business opportunities or responding to competitive pressures may become challenging, which could have a material and adverse effect on our business, financial condition and results of operations.

### 5.2.11 Our insurance coverage may not be adequate to cover all losses and/or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities. However, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations. For example, our insurance may not cover losses due to workers being on strike resulting in work stoppages that could have a material and adverse effect on us. In addition, as is customary in the industry, we do not insure most of our assets against war, terrorism or sabotage. Moreover, we will be subject to the risk that in the future we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could have a materially adverse effect on our business, financial condition and results of operations.

### 5.2.12 We are controlled by FGVH, whose interests may not be aligned with those of the other shareholders of our Company

Upon the successful completion of the IPO, FGVH will own, directly and indirectly, 54.0% of our Shares and thus will continue to be the controlling shareholder of our Company. FELDA, which is an entity established pursuant to the Land Development Act 1956, is the sole shareholder of FGVH. 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, FGVH 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 FGVH, FELDA exercises similar control over FGVH, and thus FELDA also indirectly exercises control over our Company. There can be no assurance that FGVH or FELDA will not take actions in the future that would have an adverse effect on us.

### 5.2.13 Certain tax incentives or exemptions from the Malaysian government may no longer be available in the future

The Malaysian government provides certain tax incentives for the promotion of investments in selected industries in Malaysia, including the Reinvestment Allowance ("**RA**"). The RA is available for manufacturing companies that incur capital expenditures on projects for purposes of expansion, modernisation or diversification. The rate of RA is 60% on the qualifying capital expenditures and this amount is in addition to capital allowances claims. The RA is used to reduce up to 70% of statutory income. In 2009, the total amount of RA claimed and utilised by MSM and KGFP was RM45.0 million. MSM and KGFP currently qualify for this incentive, but under current regulations, the incentive period for RA is fifteen consecutive years beginning from the first year of claim by a company, and the availability of the RA for both MSM and KGFP will expire at the end of 2011. If current regulations are not amended to extend the incentive period for the RA incentive beyond the end of 2011, the loss of such tax incentive could have an adverse effect on our business, financial condition and results of operations.

### 5.2.14 We depend on certain key personnel and skilled employees

Our success depends on the continued contributions of our key personnel and skilled employees. Although we intend to focus on succession planning issues to reduce our dependence on such personnel, the experience and knowledge gained by our key personnel, including our directors and senior management, may be difficult to replace. If we are unable to retain our existing key personnel, including our directors and senior management, or skilled employees, or attract, hire and integrate appropriate replacements and successors, our operations may be materially and adversely affected.

### 5.2.15 Failure to maintain good employee relations may adversely affect our operations and the success of our business

Maintaining good employee relations is important for the smooth operation of our production facilities and our business as a whole. As of 31 March 2011, 39% of our employees were unionised, and MSM and KGFP are parties to collective bargaining agreements with their respective employees represented by in-house unions. We may not be able to favourably negotiate the terms and conditions of any new labour agreements, and strikes or disruptions to our operations may occur in the future due to this or other reasons. If we are unable to maintain good employee relations in the future or fail to negotiate collective bargaining agreements in the future on acceptable terms and on a timely basis, or if there are disputes relating to the interpretation or implementation of the collective bargaining agreements, our business, financial condition and results of operations may be adversely affected. For a more detailed description of our employees, see Section 7.17 of this Prospectus.

### 5.2.16 The Combined Financial Information, the historical audited financial information of our Subsidiaries and the Pro Forma Consolidated Balance Sheets included in this Prospectus may not accurately reflect our financial position, results of operations and cash flows

The Combined Financial Information included in this Prospectus has been prepared based on the sugar business that was carved-out of the historical consolidated financial statements of PPB for the financial years ended 31 December 2008 and 31 December 2009, being the period prior to the acquisition of PPB's sugar business by FGVH, and the historical consolidated financial statements of FGVH for the financial year ended 31 December 2010.

The Combined Financial Information is presented for informational purposes only and do not incorporate the effects of the Pre-Listing Restructuring and related accounting treatment on the Company. Thus the Combined Financial Information is not necessarily indicative of the financial position, results of operations and cash flows that would have occurred if the Subsidiaries had been operated together as a standalone group during the financial years or periods under review or had the Pre-Listing Restructuring been completed at or as of 1 January 2008.

The individual historical financial information of each of the Subsidiaries included in this Prospectus was prepared and audited with respect to these independent standalone entities prior to the Pre-Listing Restructuring. Accordingly, they do not reflect the effects of the Pre-Listing Restructuring, including the formation of the Company.

The Pro Forma Consolidated Balance Sheets have been prepared on the basis that the Pre-Listing Restructuring, IPO and Listing occurred on 31 December 2010. As the Pro Forma Consolidated Balance Sheets are prepared for illustrative purposes only, such information, by its nature, does not give a true picture of the effects of the Pre-Listing Restructuring, IPO and Listing on the financial position of the Company had the transactions or events occurred at the balance sheet date.

Accordingly, the financial information presented in the Combined Financial Statements, the individual historical financial information of the Subsidiaries and the Pro Forma Consolidated Balance Sheets may not provide a true and accurate picture of the financial position or results of operations of our Company for the periods and dates presented. Further, such financial information does not purport to predict our future financial position or results of operations.

**5.2.17 We may not be able to achieve the anticipated synergies, economies of scale or other benefits resulting from the Pre-Listing Restructuring and goodwill and intangible assets allocated to us pursuant to the Pre-Listing Restructuring may become impaired**

We recently undertook the Pre-Listing Restructuring in order to better align and consolidate the Felda Group's sugar businesses under one group. Our success will depend, in part, on our ability to manage and operate the Subsidiaries and realise the anticipated synergies, economies of scale or other potential benefits from the Pre-Listing Restructuring.

Prior to the Pre-Listing Restructuring, MSM and KGFP have operated as independent standalone businesses and not as a single group of companies. The Chuping Plantation was also previously operated by another entity before it became a part of KGFP through the Pre-Listing Restructuring. As such, there is no operating history of our Subsidiaries managed as one economic entity under the same group, and there can be no assurance that any of the intended benefits of the Pre-Listing Restructuring will be fully realised within the anticipated timeframe, if at all. There are a number of risks that may adversely affect us and our ability to maintain a competitive position in the sugar industry in Malaysia and in the export market, including:

- unforeseen challenges that may require significant financial and managerial resources that could otherwise have been directed to other aspects of our business;

- higher than expected costs or difficulties associated with coordinating and integrating certain business functions, such as procurement of raw sugar, hedging activities and marketing and distribution efforts, and execution of strategic initiatives;

- difficulties in integrating the management teams, strategies, cultures, technologies and operations of the Subsidiaries; and

- potential duplication in functions, operations or processes that may lead to inefficiencies that could take time to eliminate.

In addition, in 2010, in connection with the acquisition of PPB's sugar business by FGVH, we recorded RM662.3 million of intangible assets comprising RM576.2 million in goodwill and RM86.0 million in acquired brand name, as well as an amortisation charge of RM3.2 million related to the brand name. See Note 2 to the Combined Financial Information included in this Prospectus for additional information on purchase price allocation in respect of the acquisition and Note 6.9 for additional information on our intangible assets.

In accordance with FRSM, we will have to assess the carrying value of our intangible assets for impairment at least annually and whenever there is an indication of impairment. Additionally, any intangible asset identified with finite life, such as the acquired brand name, will be subject to amortisation over its estimated economic life. Intangible assets will be impaired when the carrying amount of the intangible assets exceeds their recoverable amount. Any reduction in, or impairment of, the value of the intangible assets and amortisation of finite life intangible assets will result in a charge against earnings, which could materially and adversely affect our financial condition and results of operations. Events that may give rise to the potential impairment of intangible assets include the cessation of our refined sugar business, suspension or cancellation of our licenses by the Malaysian government and obsolescence or physical damage to our operating assets.

There can be no assurance that our efforts to take advantage of certain potential benefits through the Pre-Listing Restructuring will help enhance our financial performance or that our goodwill and intangible assets will not be impaired in the future. See Section 7.3.1 of this Prospectus for more information on potential benefits related to the Pre-Listing Restructuring.

### 5.2.18 We are exposed to the credit and other counterparty risk of our customers in the ordinary course of our business

We have various credit terms with virtually all of our wholesale and industrial customers, and our customers have varying degrees of creditworthiness which exposes us to the risk of non-payment or other default under our contracts and other arrangements with them. In the event that a significant number of material customers default on their payment obligations to us, our business, financial condition and results of operations could be materially and adversely affected.

### 5.2.19 Lease agreement with PAK for plots of land in Prai, Penang, on which the MSM Facility is located may not be finalised within the anticipated timeframe

MSM is currently in the process of formalising a lease agreement with PAK in respect of four plots of land in Prai, Penang (the "Prai Land"), on which the MSM Facility is located. The Prai Land is the site of certain factory buildings, warehouses, railway lines and other structures that are part of the MSM Facility currently used by MSM in its business operations. For a more detailed description of the relevant plots of land, see Section 11.2 of this Prospectus. MSM has received a letter of undertaking from PAK dated 8 April 2011, which sets out the decision on 1 April 2011 by the Malaysian government, as the controlling entity of PAK, to approve a long-term lease with respect to the Prai Land. For more information on the letter of undertaking, see Section 7.21.1(v) of this Prospectus. Under the letter of undertaking, PAK has agreed to grant a lease to MSM for the Prai Land, and MSM and PAK are to formalise such an agreement within a period of six month from 1 April 2011. PAK and MSM have agreed to the key terms of the lease agreement, and the lease agreement is expected to be finalised and executed within the anticipated timeframe. However, if for any reason the lease agreement is not entered into within the required timeframe on the terms we currently anticipate, there can be no assurance that a valid and binding lease agreement will be entered into at all, or if eventually entered into, that it will be on the terms contained in the letter of undertaking. Consequently, our operations at the MSM Facility, our business, financial condition and results of operations would be materially and adversely affected.

## 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. None of us, the Promoters, the Selling Shareholder and the Placement Manager have an obligation to make a market in our Shares.

Application has been made to Bursa Securities for the listing of and quotation for our entire share capital (including the IPO Shares) on the Main Market of Bursa Securities 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 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 The 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 or shares of companies comparable to ours;

(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 the Listing:

(i) we are unable to meet the minimum public spread requirements as determined by Bursa Securities, that is, 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 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 of Directors may decide, in 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 any borrowings we may have outstanding at the time. 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 plan to use the net proceeds from the Public Issue primarily for capital expenditure, expansion of our business and working capital, and you may not necessarily agree with how we use them

The net proceeds to be received by us from the Public Issue are expected to be RM422.5 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. Even though at the time of the investment decision we believed in good faith that the investment would be beneficial to our Company and maximise returns to our shareholders, the benefits of the investment, for whatever reason, may not be realised as expected.

We plan to use the net proceeds from the Public Issue primarily for capital expenditure, expansion of our business and working capital. We will have discretion as to the actual application of our net proceeds, detailed further in "Section 4.12 - Use of Proceeds", 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 of Directors). The ability of our Subsidiaries to pay dividends or make other distributions to us is subject to the availability of distributable reserves and to these companies' having sufficient funds that are not needed to fund their operations, other obligations or business plans.

In addition, changes in FRSM may affect the ability of our Subsidiaries (and consequently our ability) 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 234,564,700 IPO Shares, up to 26% of our Shares will be publicly held by investors participating in the IPO, while 379,609,448 Shares, or 54% of our Shares, will be held, directly and indirectly through FGVS, by FGVH and 140,595,952 Shares, or 20% of our Shares, will be held by KPF. Following the Listing, the Shares sold in the IPO (other than the Offer Shares sold to KPF) will be tradable on the Main Market without restriction. The Shares may also be sold outside the United States subject to the restrictions of Regulation S. We, the Selling Shareholder, FGVS and KPF have entered into the lock-up arrangements as described in Section 4.7.3 of this Prospectus, and FELDA and FGVS, as Promoters, and FGVH, as a Promoter and the Selling Shareholder, are subject to a moratorium in accordance with the SC's requirements and the lock-up arrangements described in Section 14.2 and Section 4.7.3 of this Prospectus.

However, notwithstanding our 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 FGVH, FGVS or KPF may dispose of some or all of their Shares after the lock-up period and moratorium period pursuant to their own investment objectives. If FGVH, FGVS or KPF 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 net tangible asset value 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 net tangible asset value per Share. Therefore, purchasers of our Shares in the IPO will experience an immediate dilution in net tangible asset value of RM2.28 per Share at the Retail Price of RM3.38, and our existing shareholders will experience an increase in the net tangible asset value 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 or overseas may have an adverse effect on us**

We are incorporated in Malaysia, all of our assets are located or registered in Malaysia, and Malaysia is the principal market for our products. As a result, we are subject to political, social, economic, legal and regulatory 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. More 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. The Malaysian economy recovered in 2010, with its GDP growing at 7.2%. We cannot assure you that the Malaysian economy will continue to grow or that GDP in Malaysia will not decrease.

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 earthquake and tsunami in Japan, the recent European sovereign debt crisis, recent developments in North Africa and the Middle East, higher oil and other commodities prices, inflation or the threat thereof, rising interest rates, 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.

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 or 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, among others, general economic and business conditions, competition, the impact of new laws and regulations affecting our industry and initiatives of the Malaysian government.

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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(Prepared for inclusion in this Prospectus)

FROST & SULLIVAN

Frost & Sullivan Malaysia Sdn Bhd (522293W)
Suite E-08-15, Block E, Plaza Mont' Kiara,
2 Jalan Kiara, Mont' Kiara,
50480 Kuala Lumpur,
Malaysia.
Tel: +603.6204.5800 Fax: +603.6201.7402
www.frost.com

23 May 2011

The Board of Directors
**MSM Malaysia Holdings Berhad**
Level 3, Balai Felda
Jalan Gurney 1
54000 Kuala Lumpur
Malaysia

Dear Sirs,

**Executive Summary of the Independent Market Research Report on the Sugar Refining Industry in Malaysia for MSM Malaysia Holdings Berhad ("MSM Holdings" or the "Company")**

We, Frost & Sullivan Malaysia Sdn Bhd ("Frost & Sullivan"), have prepared the Executive Summary of the Independent Market Research report on the sugar refining industry in Malaysia ("Report") for inclusion in MSM Holdings' Prospectus dated 02 JUN 2011 ("Prospectus") in relation to the initial public offering and the listing of and quotation for the entire issued and paid-up share capital of MSM Holdings on the Main Market of Bursa Malaysia Securities Berhad.

We are aware that this Report will be included in the Prospectus and we further confirm that we are aware of our responsibilities under section 214 of the Capital Market and Services Act, 2007.

This research is undertaken with the purpose of providing an overview of the sugar refining industry in Malaysia.

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

Frost & Sullivan has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in the industry. Frost & Sullivan shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this report or otherwise.

For and on behalf of Frost & Sullivan Malaysia Sdn Bhd:

Dennis Tan
Director

*Bangalore Kolkata Bangkok Kuala Lumpur San Antonio Beijing London Sao Paulo Bogota Melbourne Seoul Buenos Aires Mexico City Shanghai Cape Town Mumbai Singapore Chennai NewYork Sydney Delhi Oxford Tokyo Dubai Palo Alto Toronto Frankfurt Paris*

The market research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research, which involves discussing the status of the industry with leading industry participants and industry experts. The research methodology used is the *Expert Opinion Consensus Methodology.* Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in the business and industry climate.

This market research was completed in May 2011.

This report is prepared for inclusion in the Prospectus of MSM Malaysia Holdings Berhad (MSM Holdings) for submission to the Securities Commission Malaysia and other relevant parties.



For further information, please contact:
Frost & Sullivan Malaysia Sdn Bhd
Suite E-08-15, Block E, Plaza Mont' Kiara
2, Jalan Kiara, Mont' Kiara
50480 Kuala Lumpur.

## 1.1 INTRODUCTION

The sugar refining industry in Malaysia began in the 1950s with the incorporation of Malayan Sugar Manufacturing Company Limited (MSM) in 1959. Prior to the establishment of MSM, Malaysia depended on imports of refined sugar from Britain and Hong Kong for local sugar consumption. MSM was incorporated as a joint venture between two companies from Japan – Mistui & Co. (a trading company) and Nissin Sugar Manufacturing Company (a sugar refining company) – and a local company, Kuok Brothers Sdn Bhd (a sugar trading company). The refinery in Seberang Prai, Penang was commissioned in 1964.

In 1965 another sugar refinery commenced operations. United Malay State Sugar Industries, currently known as Central Sugars Refinery Sdn Bhd (CSR), comprised investors from Taiwan and Malaysia. CSR's refinery is situated in Shah Alam, Selangor.

With the establishment of two sugar refineries already in place, the Government of Malaysia looked into the possibility of cultivating sugar cane in order to establish a local sugar industry. In 1965 a team of Colombo Plan experts determined that Perlis possessed suitable soil and climate for sugar cane cultivation. A research team was deployed by MSM to conduct trial planting of sugar cane to corroborate the findings. The Perlis Sugar Project was henceforth established, whereby Perlis Plantation Berhad (PPB) and FELDA both engaged in sugar cane cultivation, and established a joint venture Kilang Gula Felda Perlis Sdn Bhd (KGFP) to operate an integrated sugar cane mill and refinery.

Gula Padang Terap Sdn Bhd (GPT) was incorporated in 1973, and their present factory is located in Kuala Nerang, Kedah. Tradewinds (M) Berhad (Tradewinds) acquired CSR in 1983, and later on GPT in 2006.

In 2010, Felda Global Ventures Holdings Sdn Bhd acquired 100% of MSM and a 50% equity interest in KGFP, as well as the 5,797 hectare plantation land in Chuping, Perlis and a 20% interest in Tradewinds. Presently there are only four sugar refining companies in Malaysia.

## 1.2 MARKET SEGMENTATION

Sugar is a type of carbohydrate that can be found naturally in all green plants, fruits and vegetables. Sugar is formed as a result of photosynthesis, the process by which plants utilise energy from the sun to convert carbon dioxide and water into food. Sugar occurs in greatest quantities in sugar cane and sugar beets; hence these two plants are commonly used as commercial sources of sugar. Sugar cane only grows in tropical climates, while sugar beets thrive in parts of the world with a temperate climate. However, in 2007, researchers have developed the tropical sugar beet plant capable of tolerating higher temperatures and requiring less water than sugar cane, making tropical sugar beet suitable for cultivation in tropical climate.

In addition to providing a sweet taste to many types of food, sugar also serves as a versatile ingredient and offers other functions in cooking and baking. For example, adding sugar into baked goods will add colour and texture to the dough. Sugar is also used in the fermentation process in the production of bread and other products containing alcohol. Sugar acts as a bulking agent in ice cream and baked goods, and serves as a preservative to deter the growth of micro-organisms in jams, preserves and milk. Furthermore, sugar imparts a pleasing "mouth-feel", or body to beverages. In non-sweet foods such as salad dressings and condiments, the addition of sugar enhances flavour and balances the acid content in tomato and vinegar-based food products. Sugar is also used in the pharmaceutical industry as a coating to mask the bitter taste of medicine.

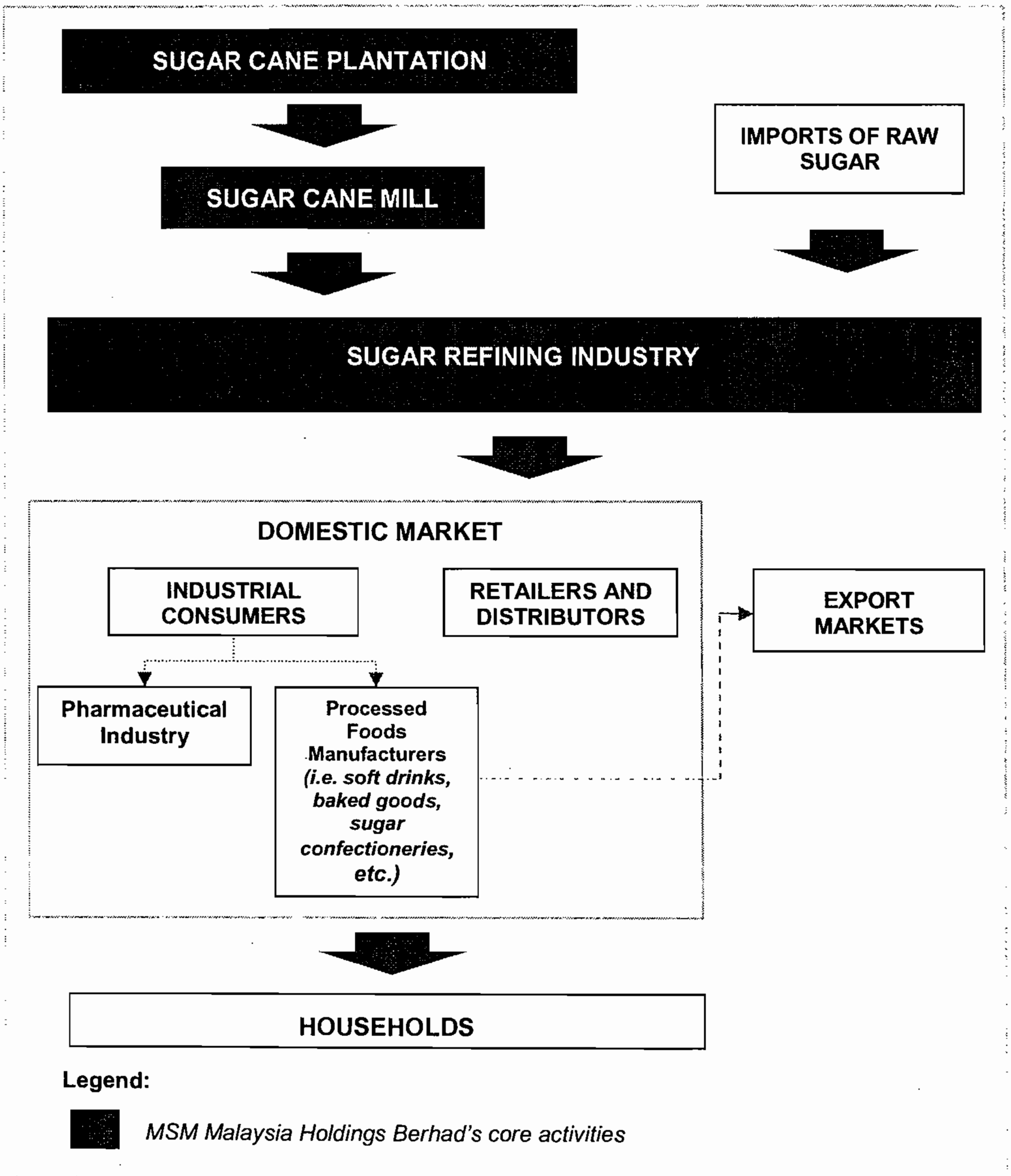
Apart from its many uses in different types of food, sugar is also used for non-food purposes. Sugar is used in the fermentation process to produce industrial alcohol, which is then used to produce industrial chemicals. Sugar can also be used as a retarding mechanism for cement and glues, and as a raw material in the production of rigid polyurethane foams. In the textile industry, sucrose is used for sizing and finishing fabrics. Sucrose fatty acid esters are biodegradable surfactants that are used to reduce the surface tension of liquids in the manufacture of cosmetics and detergents.

The value chain of the sugar manufacturing industry in Malaysia stretches from upstream sugar cane cultivation to downstream distribution and retail for industrial consumers as well as households. The industry value chain can be divided into the following steps:

- **Cultivation of sugar cane and production of raw sugar**
  In Malaysia, there is only one sugar cane plantation and sugar cane mill, located in Chuping, Perlis, and owned by KGFP. Cane seedlings are usually planted from December to April, and are harvested during the dry season in the same period the following year, peaking in January and February. The harvested sugar cane will then be brought to the sugar cane mill, where it is grinded, crushed, boiled and spun and dried in a centrifuge to produce raw sugar. In 2010, 1% of raw sugar supply in Malaysia was produced locally, while the remaining 99% was sourced from abroad, mainly from Brazil, Australia, Guatemala and Thailand.
- **Refining of raw sugar to produce refined sugar**
  Raw sugar will undergo a series of processes to produce refined sugar, along with a byproduct known as molasses. Currently all four players own and operate sugar refineries in Malaysia, along with packaging facilities: MSM in Penang, KGFP in Perlis, CSR in Selangor and GPT in Kedah. Of the four refineries, KGFP alone utilises locally produced raw sugar. Refined sugar, which contains approximately 99% sucrose, is packaged into a variety of sizes and grades.
- **Distribution and retail to industrial consumers and retail customers**
  Refined sugar is sold under different grain specifications and purity levels, both for domestic and export consumption. Packaged refined sugar is delivered to industrial

consumers to be used in food processing as well as pharmaceutical industries, along with retailers and distributors to be sold to households. Molasses has a low sucrose content of approximately 45-55%, and is sold to producers of ethanol, animal feed and yeast.

**Value Chain of the Sugar Refining Industry (Malaysia)**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

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## 1.3 INDUSTRY SIZE AND GROWTH TRENDS

The sugar refining industry in Malaysia has seen steady growth over the past 20 years, with production volume of refined sugar registering a compound annual growth rate (CAGR) of 3.31% over the years 1991 to 2010. In 1991, the annual production volume of refined sugar stood at 895,366 tonnes, and has since grown by 85.59% to 1.66 million tonnes in 2010. The growth trend of local production of refined sugar is highly influenced by several factors, including current world and domestic economic conditions, population growth, global prices of raw sugar, crude oil price, and weather conditions.

The production of refined sugar is seen to exhibit steady, albeit moderate growth in the early years of the period between 1991 and 2010. However, the Asian financial crisis in 1998 instigated a decline in production volume that year, with production falling by 7.15% due to a drop in domestic and foreign demand. The industry quickly recovered in 1999 whereby production increased by 14.27%, attributed in part by falling market prices of raw sugar. The industry contracted slightly in 2001, before picking up again the following year.

In 2005, a worldwide shortage of raw sugar caused global market prices to escalate, leading to a 2.50% decline in local production volume. Production declined again in 2008 and 2009 due to the global financial crisis along with soaring market prices of raw sugar. The sugar subsidy introduced by the Government in 2009 helped to keep domestic prices of coarse and fine refined white sugar relatively low, leading to an 11.62% growth in production volume in 2010 despite global market prices of raw sugar reaching a monthly average of USD0.3109 per pound in December 2010, its highest figure since end-1974.

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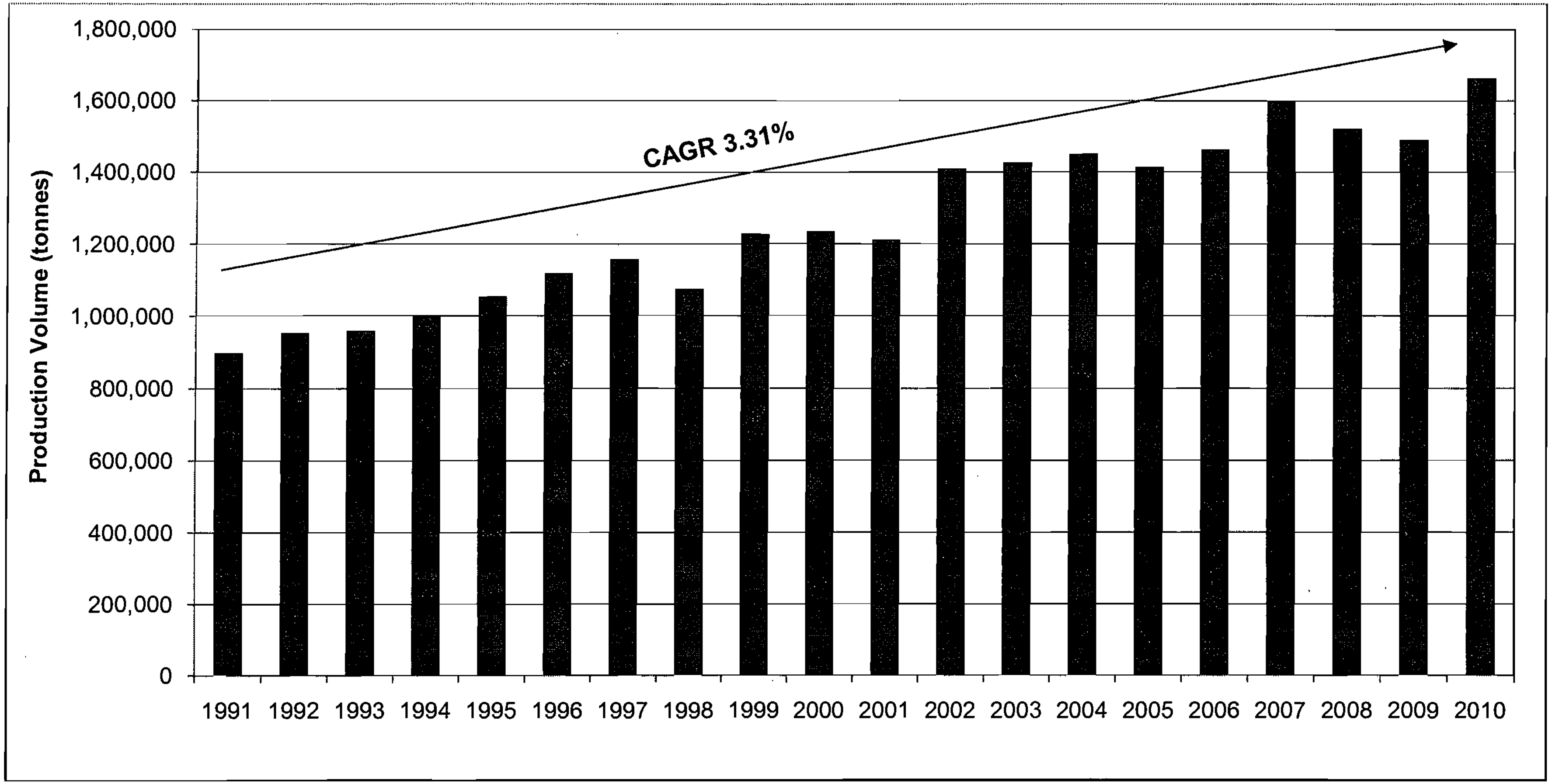
**Production Volume of Refined Sugar (Malaysia), 1991-2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

## 1.4 INDUSTRY RISKS AND CHALLENGES

**Volatility of Global Market Price of Raw Sugar**

The local sugar refining industry is highly dependent on imports of raw sugar, whereby approximately 99% of raw sugar supply is sourced from abroad. However, the global market price of raw sugar is highly volatile and is subject to external economic fluctuations, adverse weather conditions and changes in international trade policies. As such historically the market price of raw sugar, which is traded on the New York Board of Trade under the Intercontinental Exchange (ICE), has been seen to fluctuate from extreme ends of the price spectrum. In a period of 20 years from 1991 to 2010, the monthly average of the ICE Contract No. 11 nearby futures price has dipped to USD0.0477 per pound in May 1999, and rose to USD0.3109 per pound in December 2010. The average market price of raw sugar for the calendar year of 2010 was USD0.2249 per pound, the highest monthly average price for the period between 1991 and 2010. In April 2011, the average market price for the month was recorded at USD0.2543 per pound.

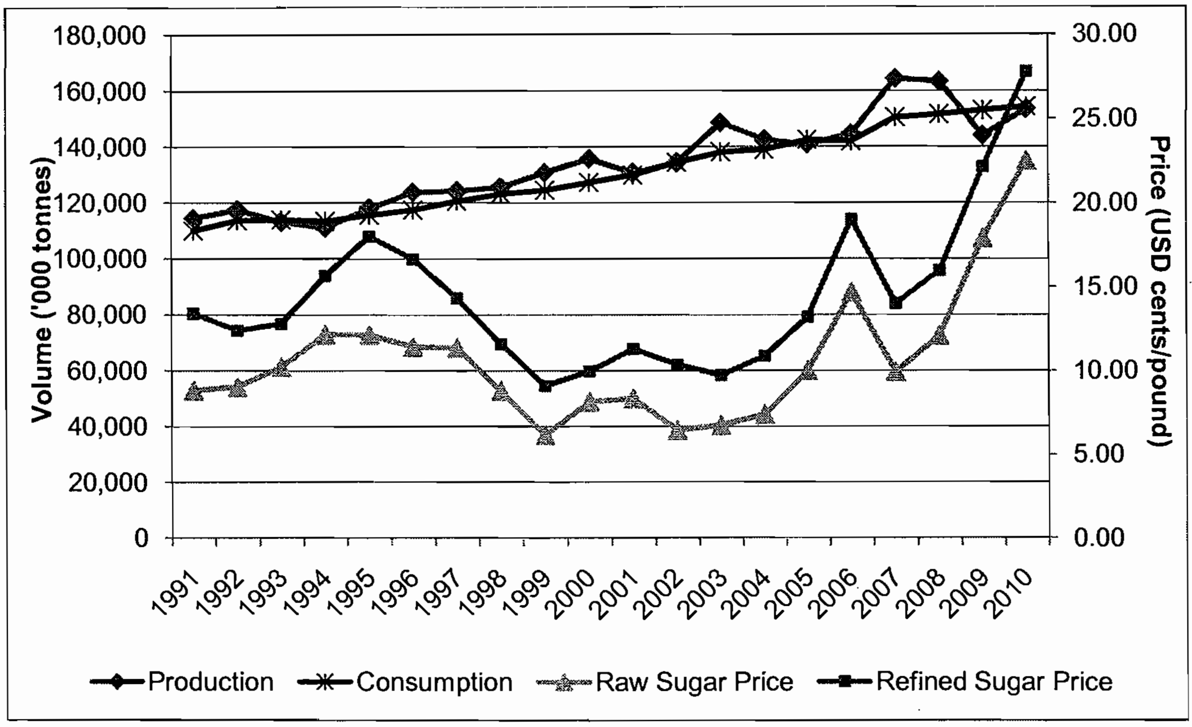
Refined sugar is traded on the London International Financial Futures and Options Exchange (LIFFE). The global market price of refined sugar can be seen to move in tandem with the market price of raw sugar. Over the years 1991 to 2010, the monthly average of the London Daily Price Contract No. 5 futures price was at its lowest in December 1999 at USD0.0761 per pound and peaked at USD0.3478 per pound in December 2010, displaying a similar trend to the market price of raw sugar throughout the period. The average market price of refined sugar for the calendar year of 2010 was recorded at USD0.2778 per pound. In April 2011, the average market price for the month was recorded at USD0.2911 per pound.

A global surplus of raw sugar caused a dip in market prices in 2002, continuing on to 2003 due to increased output by key producing nations, particularly Brazil. In 2004, increased demand from developing countries buoyed by population and gross domestic product (GDP) growth caused prices to rise.

Raw sugar prices started to soar in the later part of 2005, largely due to a significant rise in crude oil prices, in addition to a deficit in the world supply of sugar. Furthermore, European Union (EU) policy reforms reduced world exports, leading to a further increase in prices. Prices eventually declined throughout the year, aided by increasing world supply, decreasing crude oil prices and reduced speculative trading.

The continuous increasing supply subsequently led to a surplus of raw sugar, causing prices to fall in 2007. However Brazil, the world's largest exporter of sugar, started to venture more into the production of ethanol due to better returns, thereby moderating the global supply of sugar and reducing the downward pressure of prices. As sugar prices started to stabilise, prices of other commodities at the same time were on the rise, causing producers to switch to other types of more profitable crops. The decreasing acreage, weather-related reductions in yields, and increasing sugar consumption, contributed to the soaring prices of raw sugar in 2009 and 2010.

**Production and Market Price of Raw Sugar, and Consumption and Market Price of Refined Sugar (Global), 1991-2010**




*Note: Price points refer to average annual price for the calendar year*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

**Operational and Financial Risks**

As with any other manufacturing business, the sugar refining industry is subject to operational and financial risks. Risks in day-to-day operations include the risk of fire, flood, disruption in supply of utilities, breakdown of machinery, logistics failure and pilferage. These risks may have adverse effects to the business, possibly causing significant interruptions to the production line.

Players in the industry also face significant financial risks. Since sugar is a price-controlled item in Malaysia, changes in retail price are determined by the Government, who has to take into account the welfare of the population at large. Hence, this poses a challenge to manufacturers who may not be able to react quickly to changes in the global market of raw sugar in order to maintain viability.

In addition, manufacturers require a steady stream of income to gain back their respective returns on investment, which is estimated to be in the range of RM100 million. To start a refinery, the minimum production level required to ensure viability is estimated to be 400 tonnes per day.

**Distance from Key Export Markets**

Malaysia's geographical position presents a disadvantage when it comes to exporting to key markets such as China and Korea. Thailand has an advantage over Malaysia in this case as it is more strategically located, enabling producers from Thailand to incur lower logistics and transport costs. This poses a challenge to local sugar manufacturers planning on exporting sugar abroad, causing them to rely on other factors such as quality and branding to compete in the global market.

## 1.5 BARRIERS TO ENTRY

**Licensing Requirement for the Refining and Retailing of Sugar**

As sugar is a controlled item, the production and sale of sugar requires a license. Under the Control of Supplies Act 1961, sugar is listed as both a scheduled and controlled article. Hence, under the Act, in order to manufacture or refine sugar, a license is first required. For details regarding the Act, refer to Section 1.8 – Relevant Laws and Regulations. Due to the structure of the sugar industry which is highly regulated by the Government, this licensing requirement will prove to be a barrier for potential entrants.

**High Capital and Operational Expenditures**

The high costs associated with capital and operational expenditures deter entry into the local sugar refining industry. High capital investments required for sugar refiners include the initial purchase of machinery, equipment and various infrastructures such as land, refinery, storage facilities, packaging plant, laboratory facilities and administrative offices. Operational expenditures required for day-to-day operations include costs incurred for procuring raw sugar, logistics, transportation, personnel, maintenance and overhead costs.

The required initial investment is estimated at RM100 million, while working capital required to run operations is estimated at RM200 million. These high costs subsequently require a steady flow of sales income to ensure viability in the market, serving as a barrier to potential entrants without much industry experience.

**Established Distribution Network**

Sugar is a staple food that is consumed by both households as well as industrial consumers across Malaysia. Hence a well-established distribution network is essential in ensuring that the sugar produced reaches all ends of the consumer market, from the urban cities to the rural villages in the outskirts of town. An effective transportation and delivery network takes time to build, in addition to the high development and maintenance costs involved. Hence with the well-established wide range of distribution channels already in place by the current players in the industry, other parties looking to enter the industry will be deterred.

**Reputation and Industry Expertise**

As a producer of a fast moving consumer good (FMCG), an established reputation is essential in order to thrive in the sugar business, where expertise is required in the production process, along with solid industry knowledge in marketing and distribution. Reputation and good track record are vital in building and maintaining customer relationships. Good relations with wholesalers and distributors take time to develop, and once established poses a barrier for new entrants to compete with the current players in the industry, who would already have the upper hand. Similarly good product quality and track record can develop into long-term contracts with industrial consumers, who are likely to request for specific types of sugar, be it in terms of grain size, colour or purity level. Hence potential entrants will face difficulties in entering into new contracts with industrial consumers, who would already have their own suppliers.

## 1.6 PRODUCT SUBSTITUTION

Refined sugar is a staple food product consumed by all segments of the market. However sugar substitutes are widely available for consumption, for both household and industrial consumers. Artificial sweeteners such as aspartame and saccharin are commonly used in hot beverages and in baking, and are readily available in supermarkets. Natural sugar substitutes, such as stevia, are also gaining popularity in Malaysia. However, stevia is typically priced at a premium for smaller quantities when compared to refined sugar. The retail price of natural sugar substitute products is not controlled by the Government of Malaysia.

Consumers may turn to sugar substitutes for a number of reasons, most of which are related to health concerns. Diabetics are required to limit their sugar intake to regulate their blood sugar levels; hence by turning to artificial sweeteners they are able to consume sugar-free sweet-tasting food. Sugar substitutes also have little or no calorie content, and can assist in weight loss. Sweeteners such as xylitol can prevent tooth decay as they are not fermented by bacteria present in teeth.

In the production of raw sugar, sugar beets can also be used as an alternative to sugar cane. However, as sugar beets are not grown in Malaysia, they do not serve as a substitute in a local context.

## 1.7 RELIANCE AND VULNERABILITY TO IMPORTS

The sugar refining industry in Malaysia is heavily dependent on the imports of raw sugar, whereby imports constituted 99% of total raw sugar input used in refineries in 2010. Imports of raw sugar mainly come from Brazil, Australia, Guatemala and Thailand. In Malaysia, approximately 70% of total purchases of raw sugar from foreign suppliers are made through long-term contracts (LTCs). LTCs for raw sugar have been negotiated since the 1970s, and typically cover a three-year period with the current LTC being valid from 2009 to 2011.

The Government of Malaysia, through the Ministry of International Trade and Industry (MITI), along with all the local producers of refined sugar, collectively enter into LTCs with foreign suppliers of raw sugar to secure a consistent flow of supply. The LTC stipulates the quantum of raw sugar to be purchased over the length of the contract, at a predetermined price, which is influenced by the market price of raw sugar at the time of negotiation. Other purchases outside the amount agreed upon in the LTC will be made at global market prices.

In addition to the importation of raw sugar, machinery and equipment utilised in the sugar refining process are imported from Japan and Germany.

## 1.8 RELEVANT LAWS AND REGULATIONS

In Malaysia, the sugar industry is regulated by the Government. Refined sugar is a controlled-price item, with the Government providing subsidies since 2009 to keep domestic retail prices below global market levels in order to protect the consumers. Domestic prices of coarse and fine refined white sugar are set by the Government, while other sugar products such as brown sugar, caster sugar and molasses are determined at prevailing market prices. In addition, imports of refined sugar are controlled in Malaysia.

**Regulations Governing Sugar Trade and Distribution**

**Price Control Act 1946**

The Price Control Act 1946 is an Act providing for the control of price of selected goods. Under this Act, price controlled goods shall be not be sold above the determined price, whereby additionally the sale of such goods requires a license. The sale of refined sugar is currently under price control, and its production is subsidised by the Government. The Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) is responsible in ensuring the compliance of this Act by the manufacturers and traders with the aim towards encouraging ethical trade practices, as well as protecting consumer interest.

The Price Control Act 1946 will be replaced by the Price Control and Anti-Profiteering Act 2011 when the latter comes into force. The Price Control and Anti-Profiteering Act aims to provide for the determination of the maximum, minimum or fixed price for the manufacturing, producing, wholesaling or retailing of any goods. MDTCC is authorised to prescribe the mechanisms to determine whether profit is unreasonably high, as the Minister deems fit. All regulations, rules and orders made under the Price Control Act 1946 shall continue to be in operation until replaced or revoked.

**Control of Supplies Act 1961**

The Control of Supplies Act 1961 controls and rations the supplies of certain goods in Malaysia. Under this Act, sugar is both a scheduled article as well as a controlled article. By being a scheduled article, a license is required to trade (at both wholesale and retail levels) or manufacture/refine sugar. As a controlled article, the sale of sugar, by either a wholesaler or retailer, also requires a license. In addition, the premises in which sugar is sold require a separate license. The Control of Supplies Act is enforced by the MDTCC.

**Industrial Co-ordination Act 1975**

The Industrial Co-ordination Act 1975 is an Act introduced with the objective of maintaining the coordination, orderly development and growth in Malaysia's manufacturing sector. As sugar refining is part of the manufacturing sector, thus a license is required for the manufacturing of sugar products. The Act requires manufacturing companies with shareholders' funds of RM2.50 million and above or engaging 75 or more full-time employees in Malaysia to apply for a manufacturing license for approval by MITI.

Applications for the Manufacturing License are to be submitted to the Malaysian Industrial Development Authority (MIDA), in which it will subsequently be approved and issued by MITI. The licenses are non-transferable unless with prior approval obtained from MITI.

<u>**Regulations Governing Sugar Plantation and Refinery**</u>

**Occupational Safety and Health Act 1994**

The manufacturing industry, which includes the sugar refining industry, is also regulated by the Occupational Safety and Health Act 1994. As part of the manufacturing industry, all sugar manufacturers possess a general duty of care to the employees to provide and maintain the production facilities and systems that are practicable, safe and without risks or hazard to employees' health and safety. It is also the obligation of the employer to provide employees with the training, knowledge, information and supervision, in providing a safe working environment without risks to their health, safety and welfare. The Department of Occupational Safety and Health (DOSH) is authorised to ensure that companies have taken proper steps to ensure a safe working environment for their employees.

DOSH also stipulated that for most manufacturing industries, including the sugar refining industry, companies that employ more than 500 employees are required to appoint a safety and health officer, who will be responsible in ensuring the due observance of the statutory obligations with regards to workplace health and safety as well as the promotion of a safe and healthy working environment. A health and safety committee should also be formed to monitor the implementation of the safety measures during work, to promote and also plan measures to ensure employees' safety and health.

**Factories and Machinery Act 1967**

DOSH also requires compliance with the Factories and Machinery Act by all manufacturers in Malaysia. The Factory and Machinery Act 1967 provides for the regulation of factories with respect to matters relating to the safety, health and welfare of employees, and also the registration and inspection of the machineries, and manufacturing facilities identified for the purpose of sugar manufacturing. Under the Act, it is required that all machineries manufactured locally or imported for manufacturing purposes require a valid certificate of fitness before they can be operational. This approval needs to be obtained from DOSH.

**Employment Act 1955**

Sugar plantation cultivation is a labour intensive activity. The Employment Act 1955 stipulates the rights and welfare benefits that employees are entitled to, and which all employers are required to comply. The Act also states that an employer is required to obtain a license to import legal foreign workers under the contract of services, and ensure their welfare and rights are fulfilled in terms of their wages, hours of work, rest days, and sick and annual leave. The Ministry of Human Resource is responsible in monitoring and ensuring that companies are in compliance with the Act and protects the welfare of employees.

**Environmental Quality Act 1974**

The Department of Environment (DOE) Malaysia is responsible for the implementation and monitoring of Malaysia's environmental regulations and policies. The Environmental Quality Act 1974 prohibits industrial activities which cause air, sound, soil, and water pollution without obtaining a valid license. Therefore, the burning of waste or rubbish or any open burning is prohibited without obtaining the necessary licenses or permits.

However, according to the DOE, the burning of sugar cane leaves by sugar plantations is allowed under this Act, subject to approval by the Director General of DOE in writing. The burning of sugar cane leaves is allowed in an area that does not exceed 20 hectares during the harvesting period. This activity must be done only during dry weather, between the time of 11am to 5pm. Smoke and particles resulting from the burning should not cause interference to road traffics and major routes, in which warning signs and potential hazard warnings should be given to road users around the area.

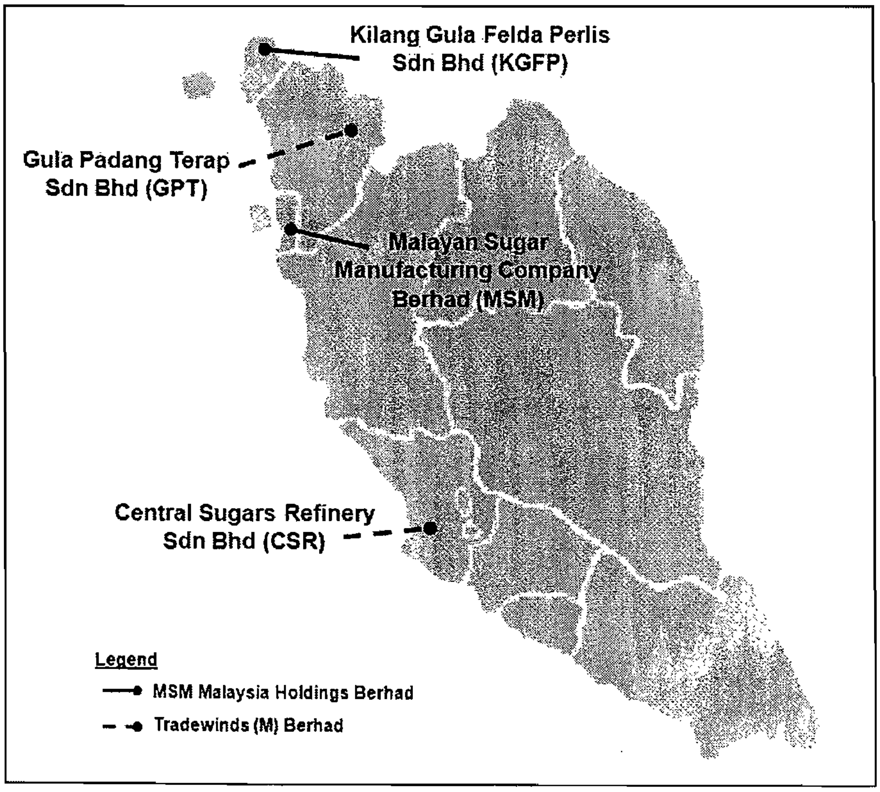
Such burning must be closely monitored by a competent person and the nearest police station should be notified prior to such burning. Such burning is not allowed to be conducted on peaty soils at any time. All open burning will need to be halted with immediate effect if there is any evidence that the air quality in the surrounding areas of the sugar plantation has reached an unsatisfactory level.

## 1.9 INDUSTRY PLAYERS

The players in the sugar refining industry in Malaysia are

- MSM Malaysia Holdings Berhad
  - Kilang Gula Felda Perlis Sdn Bhd (KGFP)
  - Malayan Sugar Manufacturing Company Berhad (MSM)
- Tradewinds (M) Berhad
  - Central Sugars Refinery Sdn Bhd (CSR)
  - Gula Padang Terap Sdn Bhd (GPT)

**Key Players in the Sugar Industry (Malaysia), 2011**

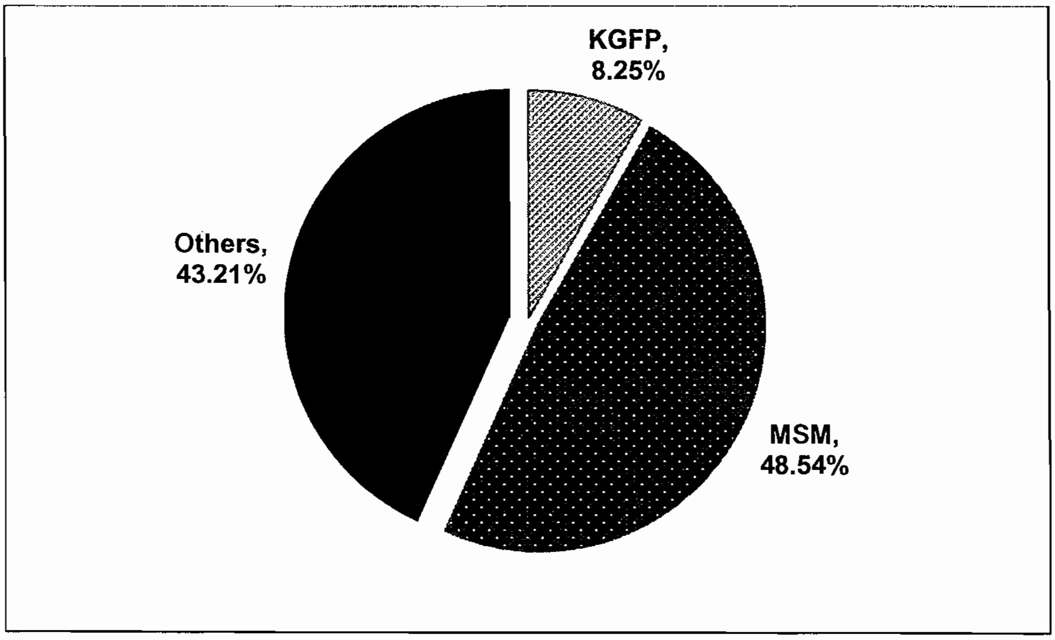



*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

## 1.10 MARKET SHARE AND RANKING

The production of refined sugar in Malaysia is closely monitored by the Department of Statistics (DOS). Market share is calculated based upon total production volume of refined sugar released by DOS. In 2010, the total production of refined sugar in Malaysia was recorded at 1.66 million tonnes. In 2010, MSM produced 806,658 tonnes of refined sugar and KGFP produced 137,104 tonnes of refined sugar. Hence based on these figures, MSM and KGFP collectively held a market share of 56.79% (whereby MSM held 48.54% and KGFP 8.25%) of the total production volume of refined sugar in Malaysia in 2010, making them the industry leader in 2010.

**Market Share by Production Volume (Malaysia), 2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

## 1.11 DEMAND CONDITIONS AND DEPENDENCIES

### 1.11.1 Sugar Consumption and Growth Trends

#### *1.11.1.1 Global*

Global consumption of refined sugar has been seen to exhibit steady growth over the years 1991 to 2010, registering a CAGR of 1.80% over the 20-year period. According to data released by the United States Department of Agriculture (USDA) Foreign Agriculture Service, in 1991 global consumption was recorded at 109.94 million tonnes, and since then has grown by 40.28% to 154.23 million tonnes in 2010.

Consumption is driven mainly by countries in Central and South America, Africa, the Middle East and Asia, with growth trends influenced by several factors such as increased consumer income, population growth, and rising demand for processed foods and drinks containing sugar. As sugar is largely regarded as a staple food item, consumption has not been seen to be adversely impacted during periods of economic crisis. Consumption figures have continued to grow during the Asian financial crisis in 1998, along with the global financial crisis in 2008/2009.

Global consumption grew at a CAGR of 1.64% over the years 1991 to 2000, and increased to 1.92% over the years 2001 to 2010. The increased growth rate at the latter decade can be attributed to increased consumer income in developing countries, which constitute the largest consumers of sugar. Global consumption grew at the highest rate in 2007 by 6.04% from 141.82 million tonnes in 2006 to 150.39 million tonnes, attributed to a decline in the market price of raw sugar brought about by a surplus in global production.

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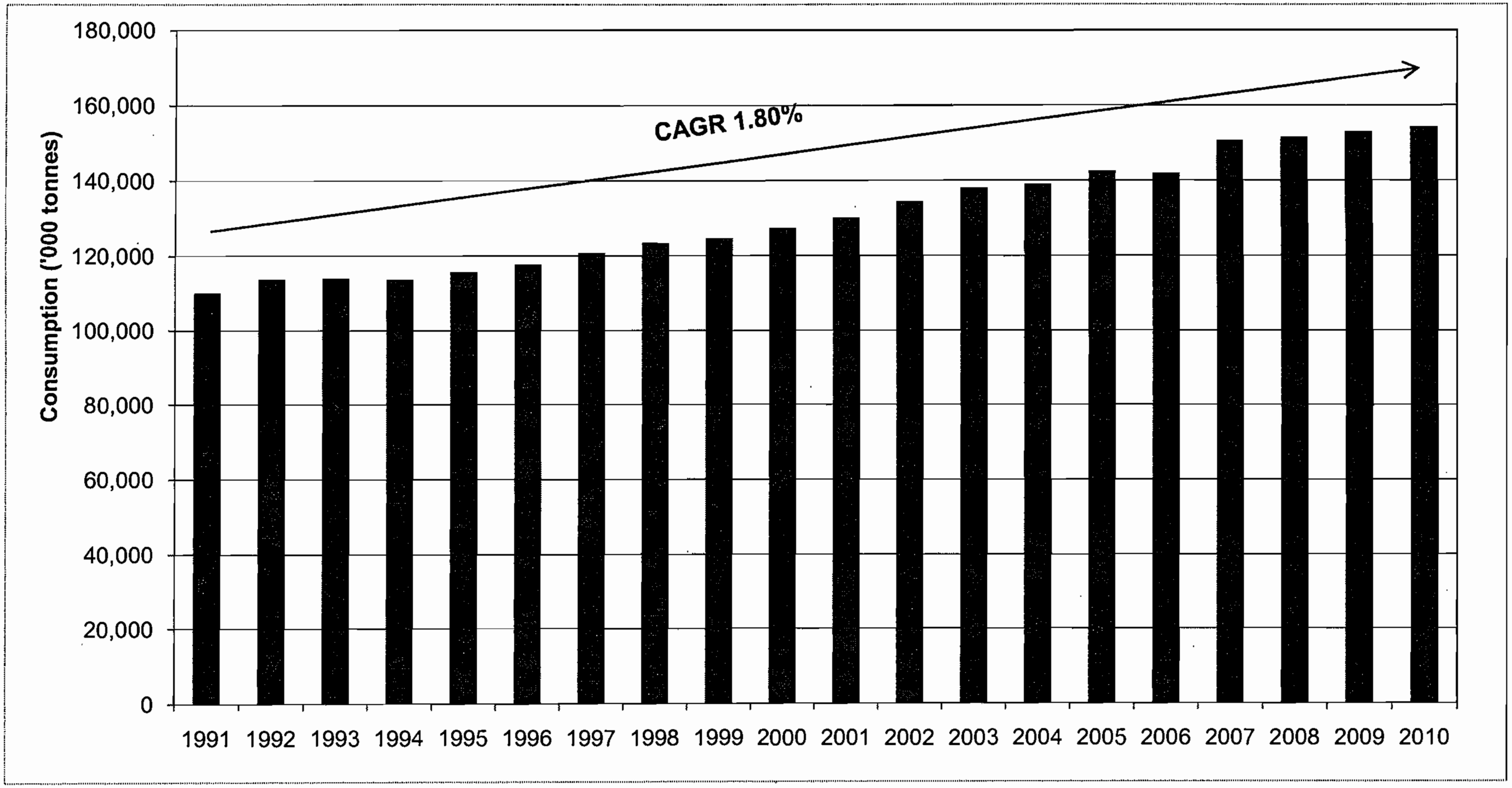
**Consumption of Refined Sugar (Global), 1991-2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

On a global scale, the top five sugar consuming countries per capita in 2009 were Swaziland (262 kilograms (kg) per person), New Caledonia (164 kg per person), St. Kitts and Nevis (81 kg per person), Macedonia (81 kg per person) and Israel (75 kg per person). In 2009, the global average for sugar consumption per capita was 31 kg per person per year. Malaysia's sugar consumption per capita that year was 48 kg per person, well above the global average, and ranking Malaysia 22nd out of the 147 countries recorded by USDA.

### *1.11.1.2 Asia Pacific and Gulf Cooperation Council*

The Asia Pacific (APAC) and Gulf Cooperation Council (GCC) region represents a significant market for sugar consumption, constituting 41.47% of global consumption of sugar in 2010. In the context of this report, APAC and GCC can be further broken down into the following sub-regions:

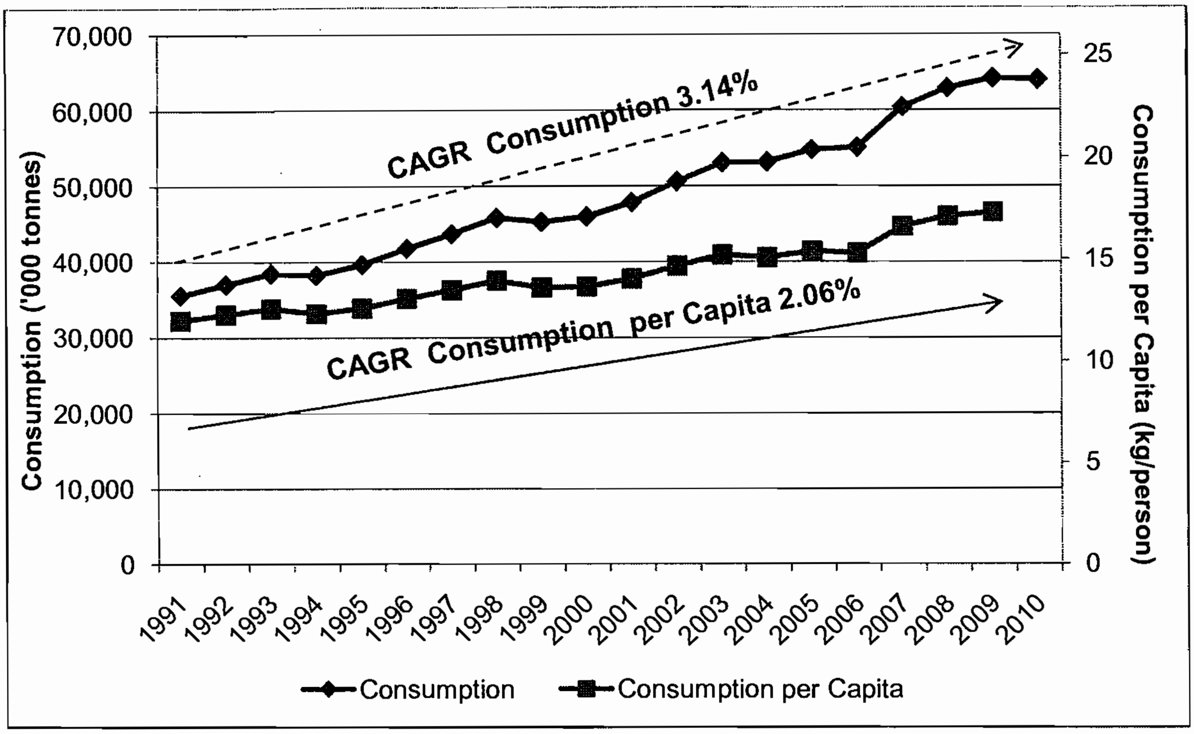
- Association of South East Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)
- Australasia (Australia and New Zealand)
- North Asia (China, Hong Kong, Japan, Macau, North Korea, South Korea and Taiwan)
- South Asia (Bangladesh, India, Pakistan and Sri Lanka) and
- GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE)

Consumption in APAC and GCC has exhibited high growth rates over the years 1991 to 2010. APAC and GCC consumption has grown at a CAGR of 3.14% from 35.54 million tonnes in 1991 to 63.96 million in 2010, relatively at a higher rate compared to the CAGR of world consumption over the same period (1.80%).

The high consumption growth in APAC and GCC is driven by developing economies. The highest CAGRs recorded over the years 1991 to 2010 were by Cambodia (18.94%), Bangladesh (11.05%), Myanmar (8.57%), Laos (6.44%) and Vietnam (6.07%). In addition, China and India, the two countries with the largest consumption by volume also recorded healthy growth rates, with CAGR registered at 3.64% and 3.47% respectively over the period. High consumption rates in the region can be attributed to the high population, notably in India and China, as well as rapid economic growth leading to increased income levels and development in the food processing industries.

As a whole, the population level of APAC and GCC has exhibited steady and positive, though declining growth rates over the years 1991 to 2009, growing at a CAGR of 1.25%. As such, since consumption has grown at a higher rate than population, consumption level per capita is seen to be growing as well. This means that on average, each individual in APAC and GCC has been consuming an increasing amount of sugar per year over the period. APAC and GCC consumption per capita has grown at a CAGR of 2.06% from 12 kg per person in 1991 to 17 kg per person in 2009.

**Sugar Consumption and Sugar Consumption per Capita in Selected Countries (APAC and GCC), 1991-2010**




*Note: Population figures for 2010 are publicly unavailable as at the time of publication of this report*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

In the context of APAC and GCC, Malaysia ranked 4th among the 29 selected countries, whereby the regional average sugar consumption per capita was 26 kg per person in 2009. Singapore topped the regional ranking in 2009 with 60 kg per person, followed by Australia (57 kg per person), New Zealand (54 kg per person), Malaysia (48 kg per person) and South Korea (45 kg per person). Of the five countries, Singapore and South Korea exhibited slight overall decline, with CAGRs recorded at 0.04% and 0.31% respectively over the years 1991 to 2009. Australia, New Zealand and Malaysia meanwhile registered slight increases in sugar consumption per capita, with a CAGR of 0.72%, 0.83% and 1.60% respectively.

Of the five regions, GCC recorded the highest CAGR for consumption over the period, growing from 635,000 tonnes in 1991 to 1.28 million tonnes in 2010 at a CAGR of 3.77%. South Asia, the largest consumers in the region by volume, also recorded high growth with a CAGR of 3.57% from 15.28 million tonnes in 1991 to 29.74 million tonnes in 2010. Consumption in ASEAN registered a CAGR of 3.40% over the period, growing from 6.51 million tonnes in 1991 to 12.23 million tonnes in 2010. In North Asia, consumption increased from 12.08 million tonnes in 1991 to 19.15 million tonnes in 2010 at a CAGR of 2.46%. Australasia registered the lowest CAGR in the region with 1.93%, where consumption rose from 1.03 million tonnes in 1991 to 1.49 million tonnes in 2010.

Import volume of refined sugar in APAC and GCC has generally been on an uptrend over the years 2000 to 2009, with the exception of ASEAN. Imports of refined sugar into ASEAN has declined from 914,000 tonnes in 2000 to 535,000 tonnes in 2009 at a CAGR of 5.77%, largely owing to the respective Governments of the majority of ASEAN nations' intentions of protecting the local sugar industry in order to achieve self-sufficiency. For instance, the importation of refined sugar into Indonesia has declined at a CAGR of 17.46% from 562,595 tonnes in 2000 to 100,038 tonnes in 2009. Similarly, imports into Philippines have declined at a CAGR of 21.61% from 180,682 tonnes in 2000 to 20,195 tonnes in 2009.

Of the remaining regions, imports into South Asia have registered the highest CAGR of 27.37%, growing from 133,000 tonnes in 2000 to 1.17 million tonnes in 2009. Imports into South Asia were strongly driven by Bangladesh, while India and Pakistan import high amounts of refined sugar during instances of supply shortage. North Asia has also seen high growth, with imports rising from 85,000 tonnes in 2000 to 184,000 tonnes in 2009 and registering a CAGR of 8.95%. Imports of refined sugar into Australasia have seen an increase from 24,000 tonnes in 2000 to 46,000 tonnes in 2009 at a CAGR of 7.64%. Meanwhile GCC's imports have risen at a CAGR of 4.81%, growing from 257,000 tonnes in 2000 to 393,000 tonnes in 2009.

### *1.11.1.3 Malaysia*

In Malaysia, the consumption of refined sugar has been on an uptrend over the years 1991 to 2010, growing at a CAGR of 4.08% over the period. Domestic consumption has grown by 113.58% from 663,000 tonnes in 1990 to 1.42 million tonnes in 2010. The increase in sugar consumption is attributed to rising GDP, along with growth in the food manufacturing and food processing industries. Domestic consumption is closely tied with the domestic production level of refined sugar, as the Government of Malaysia restricts the importation of refined sugar.

The domestic consumption of refined sugar grew strongly from 1991 to 1997, growing by 57.85% from 663,000 tonnes in 1991 to 1.05 million tonnes in 1997. However, consumption declined by 9.61% to 947,000 tonnes in 1998 due to decreased production caused by the 1998 Asian financial crisis. The consumption of sugar in Malaysia recovered in 1999 but declined again in 2000 and 2001 caused by increased global market prices of raw sugar, which led to decreased production.

Subsequently, domestic consumption displayed continued growth until 2008, before falling by 3.10% in 2009. The drop in consumption in 2009 was attributed to the fall in production of refined sugar that year, caused by the slowdown in the domestic economy brought about by the global financial crisis, along with the soaring global market prices of raw sugar. In 2009, Malaysia's GDP contracted by 1.70%, and the overall manufacturing industry recorded a contraction of 9.40%.

Consumption then recovered in 2010, increasing by 6.86% from 1.33 million tonnes in 2009 to 1.42 million tonnes, despite three instances of price increase by the Government that year.

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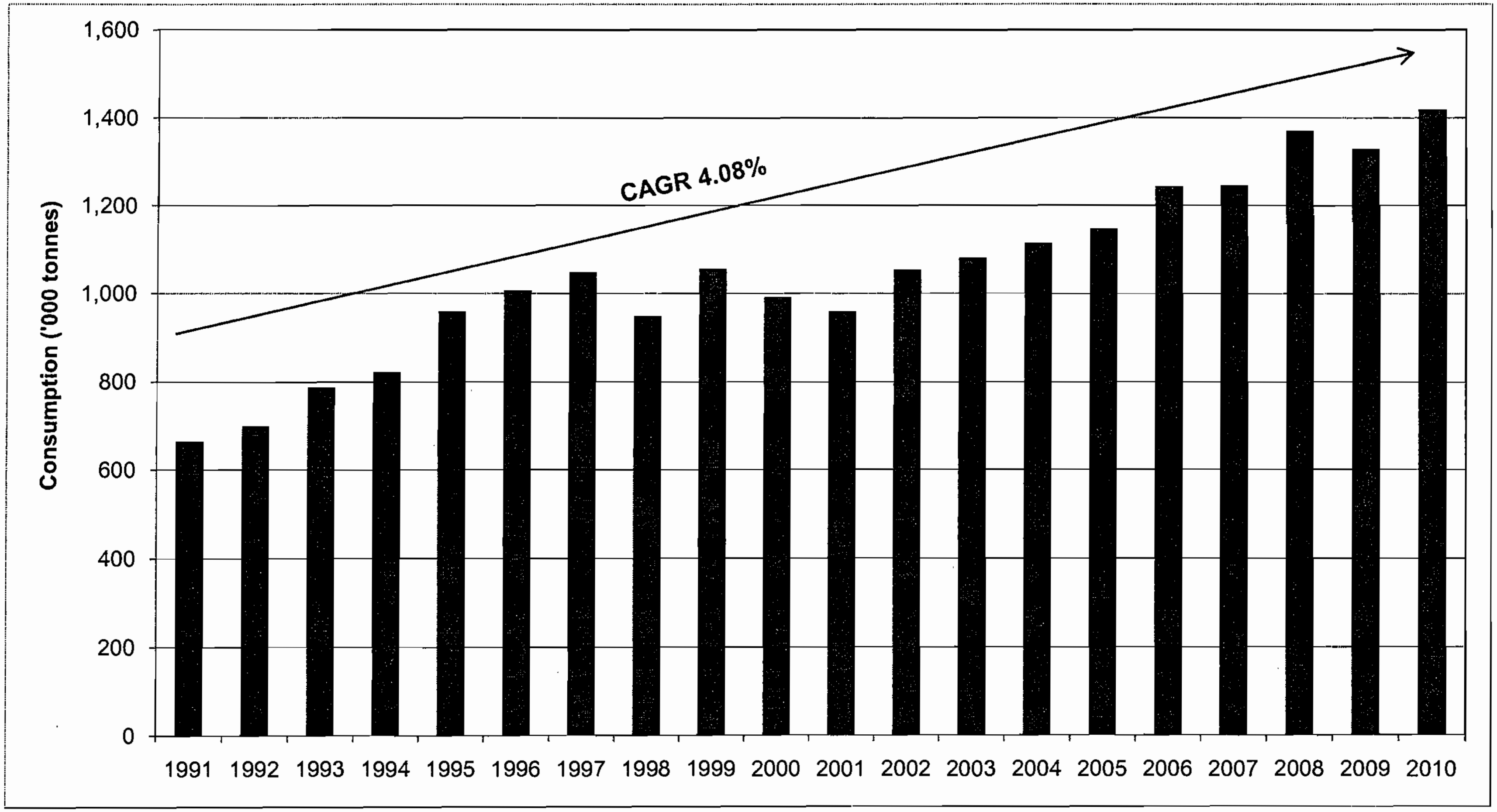
**Refined Sugar Consumption (Malaysia), 1991-2010**



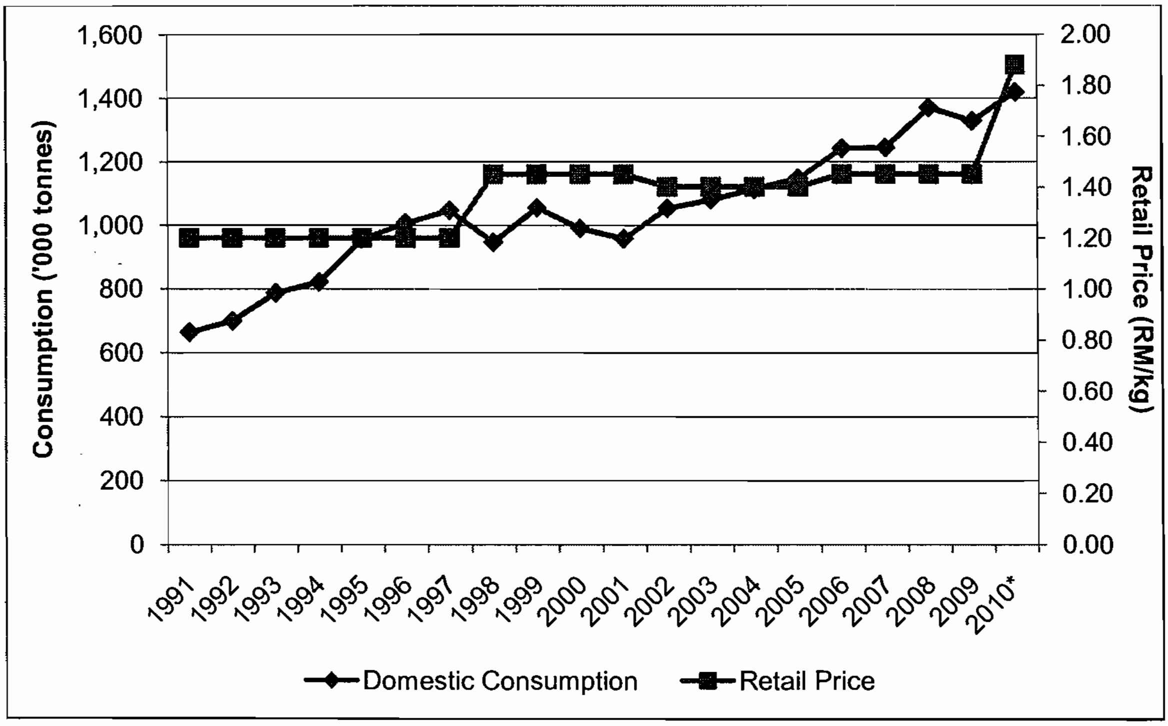

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

### 1.11.2 Price Trend

The price of sugar in Malaysia from 1991 to 2009 remained relatively stable despite the volatility of the global market price of raw sugar. The steady retail price of sugar has led to an increase in domestic consumption, most notably from 1998 to 2009 where consumption grew by 40.23% while retail prices remained steady between RM1.40 to RM1.45 per kg.

In line with the Tenth Malaysia Plan (10MP) where the Government has announced its intention to bring the retail price of refined sugar closer to market rates, the Government raised the ceiling price for refined sugar in 2010. The retail price of coarse refined white sugar was controlled at RM1.45 per kg from 13 September 2006 until 31 December 2009, and on 1 January 2010 the price was increased to RM1.65 per kg. This was subsequently followed by two more price increases in 2010, whereby the retail price of coarse sugar rose to RM1.90 in July and RM2.10 in December. On 10 May 2011, the Government increased the retail price of coarse sugar by RM0.20 to reach RM2.30 per kg.

**Sugar Consumption and Retail Price (Malaysia), 1991-2010**




** The average price of sugar was used as a data point in 2010*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

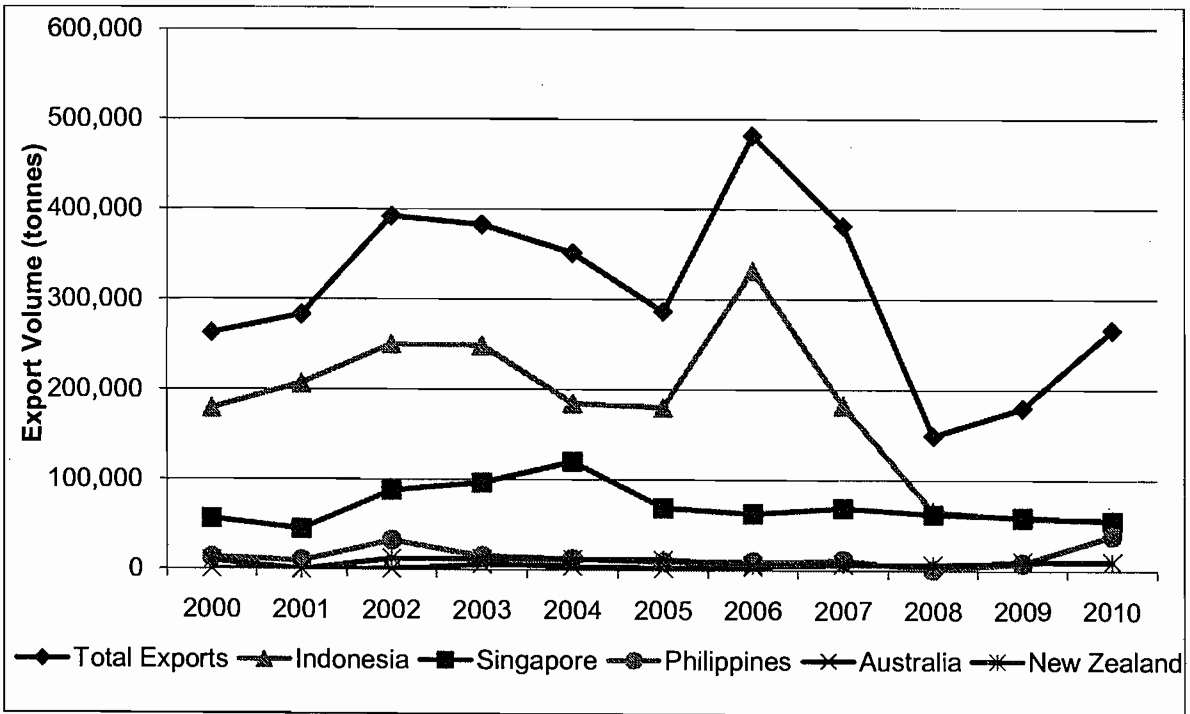
### 1.11.3 Exports of Refined Sugar

Malaysia's major export markets for refined sugar are Indonesia, Singapore, Philippines, Australia and New Zealand. Malaysia also exports to other countries such as Pakistan, Thailand, Hong Kong, Sri Lanka, Cambodia and Russia. Malaysia's exports of refined sugar have increased at a CAGR of 0.12% over the years 2000 to 2010.

Over the years 2000 to 2010, Indonesia was Malaysia's largest export market, with the exception of 2009 when Indonesia was narrowly overtaken by Singapore. Between the years 2000 to 2006, exports to Indonesia constituted an average of 64.96% of Malaysia's total exports of refined sugar. Exports to Indonesia started to decline in 2007, largely due to the rise of the local sugar industry in Indonesia, thereby decreasing the country's dependency on imported refined sugar. Malaysia's exports of refined sugar to Indonesia have declined at a CAGR of 11.12% over the years 2000 to 2010.

Of the remaining four major export markets, Malaysia's exports to Singapore and New Zealand have displayed the most steady patterns over the same period, declining at a CAGR of 0.22% and 0.48% respectively over the years 2000 to 2010. Exports to Australia have exhibited the highest growth, with CAGR recorded at 55.39% over the same period. Exports to Philippines meanwhile have also increased at a CAGR of 11.09% over the years 2000 to 2010. Malaysia's exports to other countries have increased at a CAGR of 38.53%, whereby notably exports to Pakistan have increased at a CAGR of 39.40% from 357 tonnes in 2000 to 9,890 tonnes in 2010.

**Major Exports of Refined Sugar (Malaysia), 2000-2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

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### 1.11.4 Market Drivers

**Growth of Food and Beverage Manufacturing Industry**

Sugar is a versatile food ingredient, and has a wide array of uses in food and drinks. Sugar is mainly used as a sweetener to increase palatability, but is also used as a bulking agent and as a preservative in food. As such, sugar is used as an ingredient in the manufacturing and processing of a variety of food and drinks, driving the sugar refining industry forward.

The sales values of various food manufacturing industries have exhibited high growth from 2007 to 2010. The total sales value of the manufacturing of soft drinks in Malaysia has grown from RM855.45 million in 2007 to RM1.59 billion in 2010, registering a strong 85.52% increase over a span of four years. Over the same period, the manufacturing of biscuits and cookies has grown by 31.58%, the manufacturing of bread and other bakery products has grown by 16.76% and the manufacturing of chocolate products and sugar confectionery grew by 13.33%. Molasses which is used in the manufacturing of animal feed, has grown by 18.69% from 2007 to 2010.

The sales value of the manufacturing of sugar has grown by 38.66% over the same period, from RM2.23 billion in 2007 to RM3.09 billion in 2010.

**Sales Value of Selected Manufactured Food and Beverage Products (Ex-factory) (Malaysia), 2007-2010**

| Industry | Total Sales Value (RM'000) | | | | Growth Rate (2007-2010) |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | |
| Manufacture of soft drinks | 855,449 | 1,021,452 | 1,250,802 | 1,587,059 | **85.52%** |
| Manufacture of sugar | 2,225,481 | 2,082,004 | 2,262,747 | 3,085,765 | **38.66%** |
| Manufacture of biscuits and cookies | 837,480 | 875,724 | 1,033,808 | 1,101,996 | **31.58%** |
| Manufacture of animal feed | 3,125,186 | 3,972,351 | 3,764,760 | 3,709,247 | **18.69%** |
| Manufacture of bread and other bakery products | 425,972 | 421,231 | 464,806 | 497,363 | **16.76%** |
| Manufacture of chocolate products and sugar confectionery | 680,954 | 569,701 | 526,953 | 771,745 | **13.33%** |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

The production volume of carbonated and non-carbonated sweet beverages has also grown strongly over the years 2007 to 2010. Total production volume of non-carbonated sweet beverages has grown from 1.77 billion litres in 2007 to 2.53 billion litres in 2010, registering growth of 42.96%. The production of carbonated sweet beverages grew by 22.08% from 366.35 million litres in 2007 to 447.23 million litres in 2010. The production of sweetened condensed milk has also exhibited strong growth, with production volume recording 37.36% growth from 170,136 tonnes in 2007 to 233,700 tonnes in 2010.

**Production of Selected Beverage Products (Malaysia), 2007-2010**

| Product | Unit | Total Production Volume | | | | Growth Rate (2007-2010) |
|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2010 | |
| Sweet beverages (non-carbonated) | '000 litres | 1,772,085 | 1,696,241 | 1,275,300 | 2,533,453 | **42.96%** |
| Sweetened condensed milk | tonnes | 170,136 | 173,234 | 233,865 | 233,700 | **37.36%** |
| Sweet beverages (carbonated) | '000 litres | 366,351 | 373,208 | 391,707 | 447,229 | **22.08%** |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

**Limited Product Substitution**

Sugar is a staple food item and is considered a necessity in Malaysia, both in the food and beverage industry as well as for household consumption. Sugar is a natural source of energy for our body and possesses many qualities that are not easily found in other food products. Sugar substitutes generally only mimic the sweet taste of sugar.

Sugar substitutes have been available in the domestic market for many years. Aspartame, an artificial sweetener and stevia, a natural sweetener are examples of sugar substitutes used by households in Malaysia, while high fructose corn syrup is used for industrial consumption. However these sugar substitutes are not as widely available as sugar itself, and their prices are not controlled by the Government. Hence, the limited amount of product substitution available in Malaysia serves as a driver for the industry.

**Population Growth**

Malaysia's population has grown at a CAGR of 2.25% over the years 1990 to 2010. The growth in population supports the demand for sugar in Malaysia, which is consumed by all age groups. In addition, the population growth in APAC was registered at a CAGR of 1.27% over the years 1990 to 2009, serving as a driver for sugar consumption in the region.

### 1.11.5 Market Restraints

**Increase in Health Awareness**

Excessive consumption of sugar has been known to cause adverse health effects, such as obesity, diabetes, high blood pressure and tooth decay. According to Malaysia Diet Guidelines, sugar intake should not exceed more than 50 grams a day. In 2010, Malaysia's sugar consumption per capita was recorded at 50 kg per person, translating to an average of 137 grams a day, 2.74 times the recommended maximum daily intake. Hence, the

Ministry of Health Malaysia launched a "Less Sugar Campaign" in 2010 to curb sugar intake by Malaysians. In addition, many beverages sold in the local market have a "less sugar" variety, thereby discouraging the public from consuming excessive amounts of sugar. These drives, and the growing health consciousness of consumers, serve as a strong restraint to the development of the industry.

**Possibility of Price Increase Due to Gradual Reduction of Subsidy**

The volatility of the global market prices of raw sugar in 2009 led the Government to provide sugar subsidies in a move to keep the retail price of refined sugar low for consumers. Sugar subsidies were provided at RM0.60 per kg in 2009, and increased to RM 0.80 in the early part of 2010. However, the Government slowly reduced the sugar subsidies throughout the remaining part of 2010, with subsidies decreasing to RM0.70 per kg from 1 June to 15 July, RM0.49 per kg from 16 July to 3 December and RM0.29 per kg from 4 December to 31 December. The Government increased the subsidy rate on 1 January 2011 to RM0.40 per kg, and subsequently reduced to RM0.20 per kg on 10 May 2011.

**Sugar Subsidy Amount (Malaysia), 2009-2011**

| Period | Subsidy Amount (RM/kg) |
|---|---|
| 1 January 2009 – 31 December 2009 | 0.60 |
| 1 January 2010 – 31 May 2010 | 0.80 |
| 1 June 2010 – 15 July 2010 | 0.70 |
| 16 July 2010 – 3 December 2010 | 0.49 |
| 4 December 2010 – 31 December 2010 | 0.29 |
| 1 January 2011 – 9 May 2011 | 0.40 |
| 10 May 2011 – Present | 0.20 |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

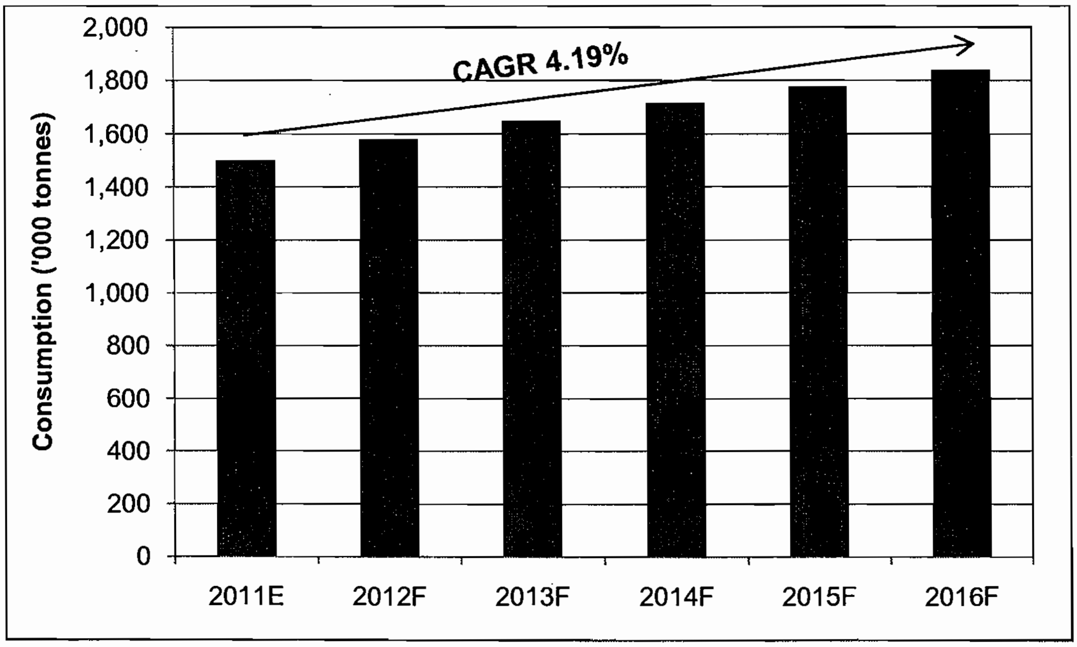
The gradual decline in the subsidy has translated to higher retail prices for fine and coarse sugar in 2010 onwards compared to 2006 to 2009, when retail prices remained steady at RM1.45 per kg. In 2010, the retail price for coarse sugar was increased to RM1.65 per kg in January, then to RM1.90 per kg in July, and to RM2.10 per kg in December. Sugar price rose for the first time in 2011 on 10 May 2011, where the retail price of coarse sugar increased by RM0.20 to RM2.30 per kg. Hence the price increases may serve as a restraint to the domestic demand for sugar.

The price increases in 2010 and 2011 were in line with the 10MP, in which the Government laid out its intentions to rationalise the subsidies and price controls for sugar.

### 1.11.6 Outlook and Forecast of Sugar Consumption

Sugar consumption is a key driver for the sugar refining industry. Frost & Sullivan estimates that consumption of refined sugar in Malaysia will grow at a healthy pace from 1.50 million tonnes in 2011 to 1.84 million tonnes in 2016, registering a CAGR of 4.19%. Domestic sugar consumption is expected to exhibit positive growth as a result of increased demand from both industrial as well as household consumers. Growth in the food manufacturing and processing industry, population growth and limited product substitution are expected to drive sugar consumption, and consequently the sugar refining industry forward.

**Projected Sugar Consumption (Malaysia), 2011E-2016F**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

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## 1.12 SUPPLY CONDITIONS AND DEPENDENCIES

### 1.12.1 Raw Sugar Production and Growth Trends

#### *1.12.1.1 Global*

Global production of raw sugar has proven to be volatile over the past two decades, but nevertheless growing at a CAGR of 1.56% over the years 1991 to 2010. Global production of raw sugar from both sugar cane and sugar beet was recorded at 114.38 million tonnes in 1991, and has grown by 34.16% to 153.46 million tonnes in 2010.

Global production of raw sugar is strongly driven by Brazil, India, China, United States and Thailand, along with the members of the EU. In 2010, these sugar producing nations collectively accounted for 64.78% of total production of raw sugar worldwide. Brazil, India and Thailand produce cane sugar, while China, United States and the EU produce both beet and cane sugar. This is because cane sugar only grows in tropical climate, while conversely beet sugar thrives in temperate climate. Tropical sugar beet has yet to be grown in a wide commercial scale.

Over the past 20 years, global production of raw sugar has proven to be unstable, with production volume varying from year to year as a result of vulnerability to volatile market prices, weather conditions, natural disasters, fertility of soil, pest attack and diseases, switching patterns of farmers to other crops, as well as stock count from previous years. All these factors account for the unpredictable trend of historical raw sugar production.

Production figures reached its highest point during the period in 2007 at 164.17 million tonnes, due to rising market prices in 2006 caused by increasing crude oil prices and a deficit in raw sugar supply. This led producers to increase output in 2007, but global production volume declined again in 2008 and 2009 due to rising prices of other commodities, leading producers to switch to more profitable crops. Raw sugar production recovered in 2010, mainly attributed to generally favourable weather conditions and rising sugar prices, as production volume reached 153.46 million tonnes that year.

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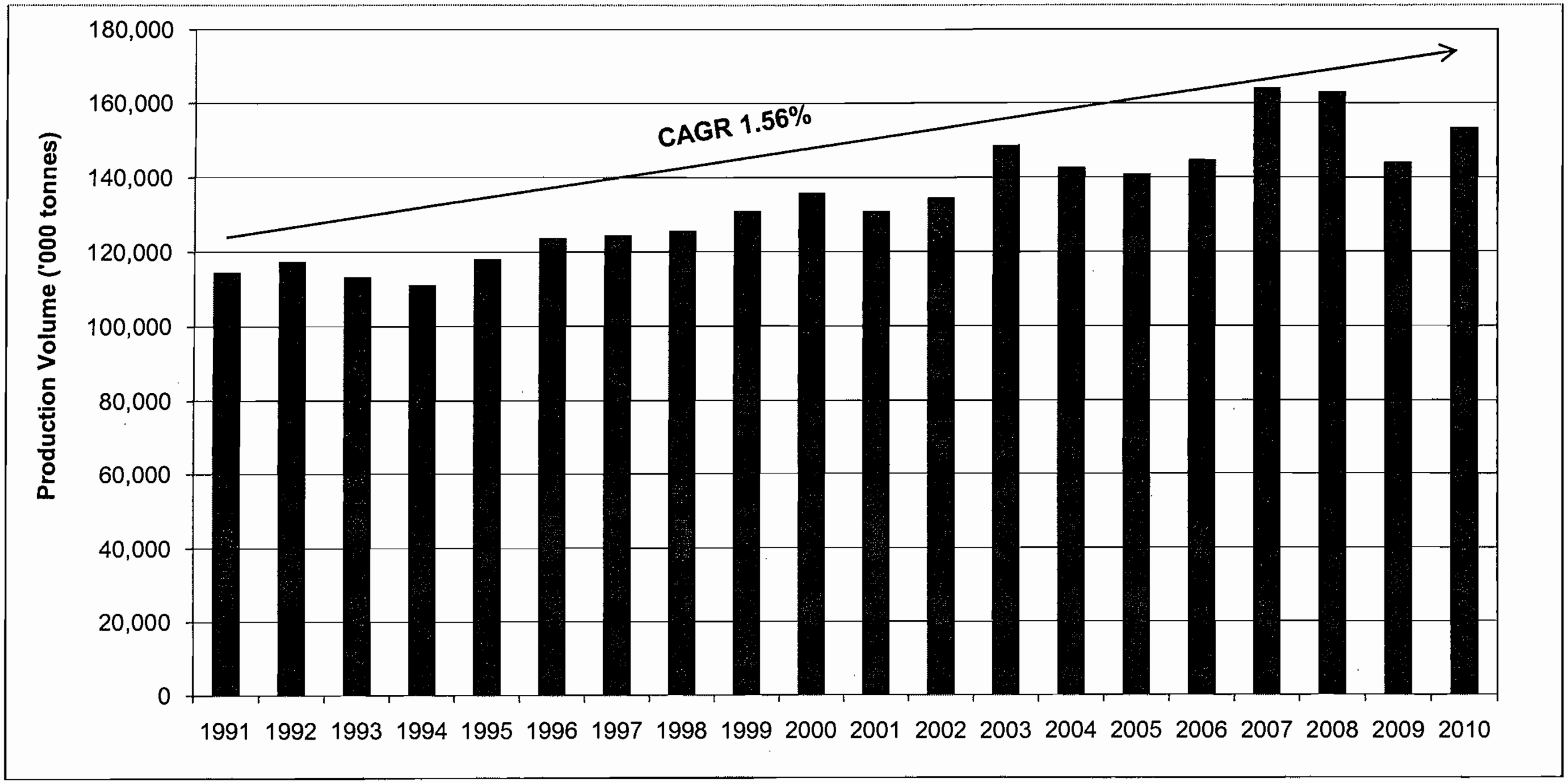
**Production of Raw Sugar (Global), 1991-2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

### *1.12.1.2 Malaysia*

In Malaysia, raw sugar is solely produced on a commercial scale in KGFP's plantation in Chuping, Perlis, whereby all of the raw sugar milled will be used as input in the sugar refinery in KGFP. Locally produced raw sugar accounts for 1% of the total amount of raw sugar used as input in sugar refineries in Malaysia. Domestic production of raw sugar has seen a decline over the years 1991 to 2009, falling at a CAGR of 5.82%. In 1991, Malaysia produced 50,678 tonnes of raw sugar, and this has since declined to 16,218 tonnes in 2010.

In Malaysia, the annual sugar cane harvesting period typically runs from December to April. Sugar cane crops are harvested each year, for an average five year cycle whereby the yield decreases with every subsequent harvest. After five years, new crops are planted, and the cycle begins again. As there is only one commercial sugar cane plantation in Malaysia, the domestic production of raw sugar will be determined primarily by the harvesting cycle of the Chuping plantation.

The decreasing production level of domestic raw sugar is also attributed to decreasing acreage of land used for sugar cane cultivation. According to DOS, the sugar cane plantation area has shrunk at a CAGR of 7.93%, decreasing from 22,500 hectares in 1991 to 4,678 hectares in 2010. The sugar cane plantation area remained relatively unchanged from 1991 to 2001, but began decreasing rapidly from 2002 onwards. Sugar cane plantation area has been decreasing since 1991 as a result of a shift to higher value crops, namely oil palm and rubber.

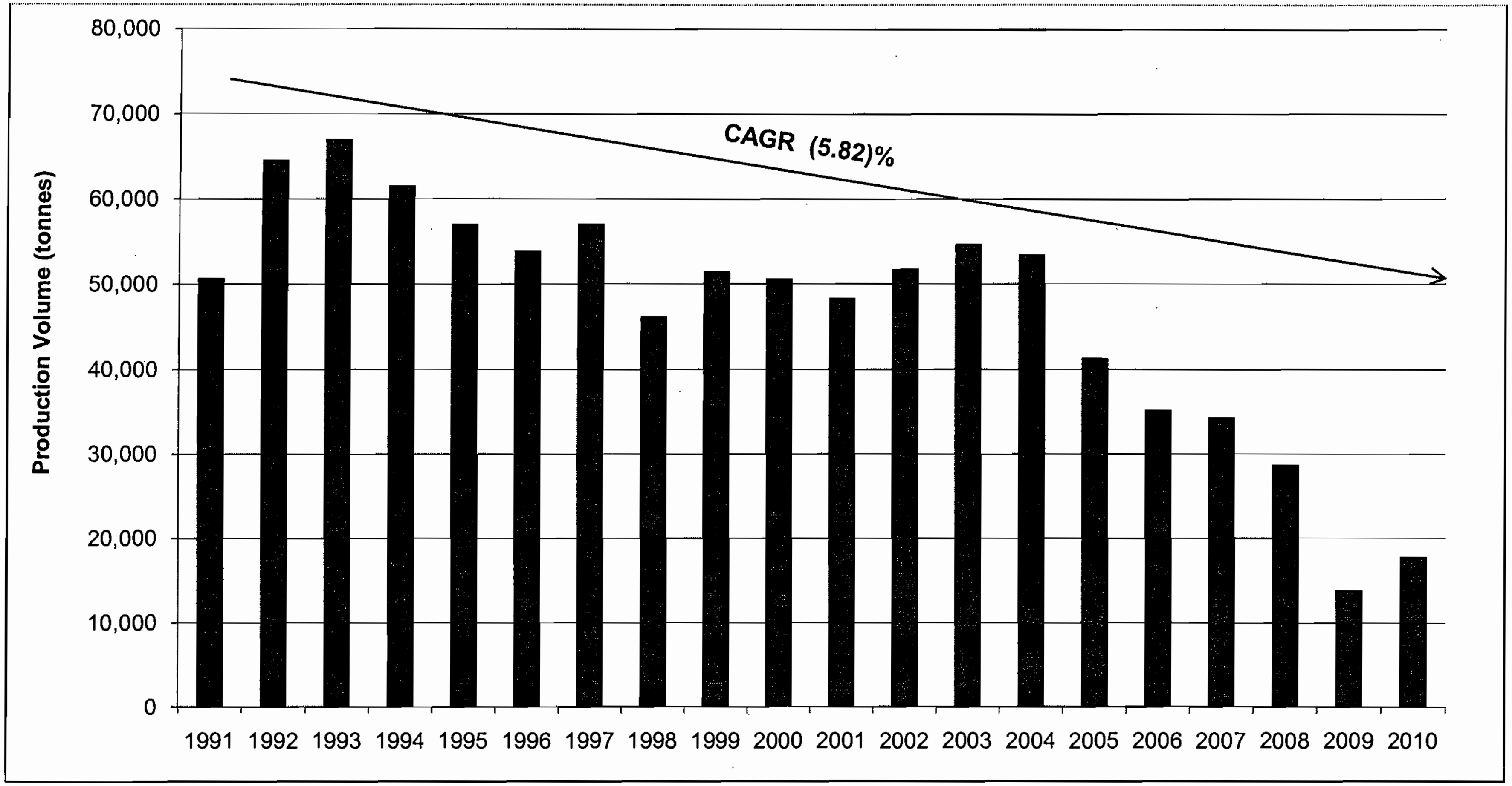
**Sugar Cane Plantation Area (Malaysia), 1991-2010**

| Year | Acreage ('000 hectare) | Growth Rate (%) | Year | Acreage ('000 hectare) | Growth Rate (%) |
|---|---|---|---|---|---|
| 1991 | 23 | - | 2001 | 21 | (1.31) |
| 1992 | 24 | 4.44 | 2002 | 16 | (24.64) |
| 1993 | 23 | (4.68) | 2003 | 16 | 0.00 |
| 1994 | 22 | (1.34) | 2004 | 15 | (7.39) |
| 1995 | 22 | 0.00 | 2005 | 14 | (3.33) |
| 1996 | 22 | 0.90 | 2006 | 15 | 3.13 |
| 1997 | 22 | (1.79) | 2007 | 15 | (0.89) |
| 1998 | 22 | 0.46 | 2008 | 5 | (69.01) |
| 1999 | 21 | (2.73) | 2009 | 5 | 0.24 |
| 2000 | 21 | (0.09) | 2010 | 5 | (0.26) |

*CAGR 1991-2010 = (7.93)%*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

**Domestic Production of Raw Sugar (Malaysia), 1991-2010**



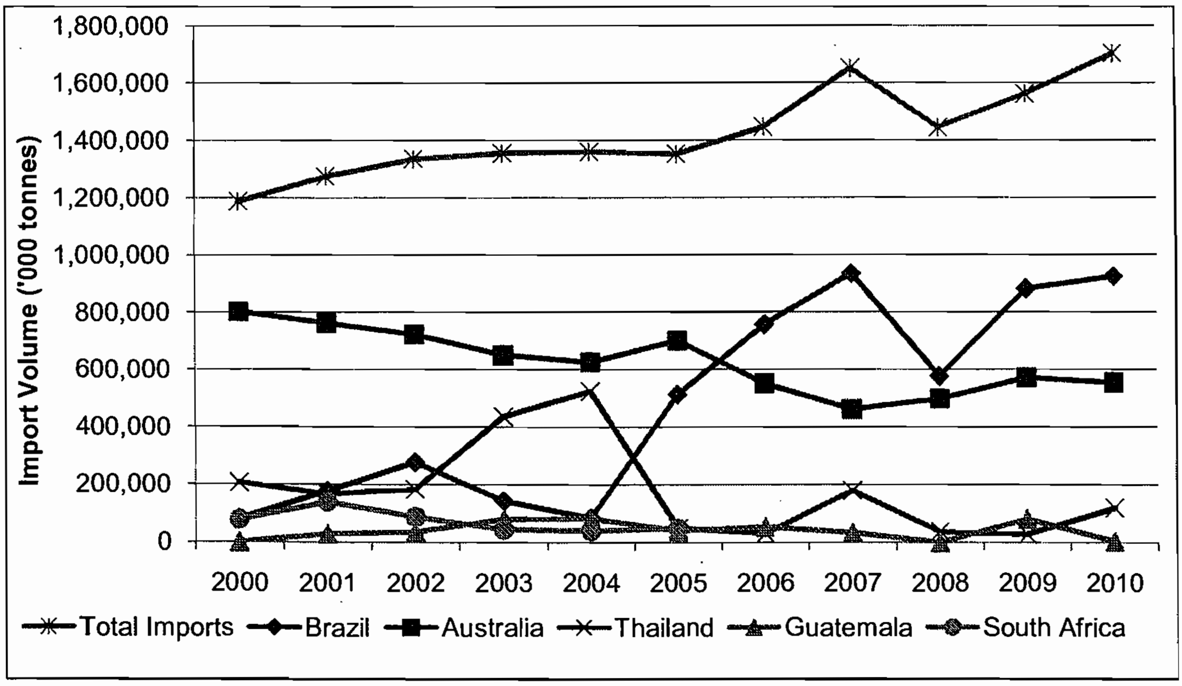

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

### 1.12.2 Imports of Raw Sugar

Malaysia is heavily dependent on imports of raw sugar for use by its sugar refineries, whereby 99% of raw sugar utilised is imported from abroad. Over the years 2000 to 2010, the majority of raw sugar imported into Malaysia was sourced from Brazil, Australia, Guatemala, Thailand and South Africa. Malaysia also imported raw sugar from Argentina, China, the United States, Honduras and Paraguay during this period. Malaysia's imports of raw sugar increased at a CAGR of 3.67% over the years 2000 to 2010. Since the 1970s, the majority of Malaysia's imports of raw sugar have been made through LTCs, whereby approximately 70% of total raw sugar imported were negotiated in advance by MITI and sugar producers. In 2010, Malaysia imported a total 1.70 billion tonnes of raw sugar.

Prior to 2006, Australia served as Malaysia's largest source of raw sugar before being replaced by Brazil. Australia's imports of raw sugar into Malaysia have declined at a CAGR of 3.63% over the years 2000 to 2010, while Brazil's imports into Malaysia over the same period have increased at a CAGR of 27.61%. Imports from Guatemala remained relatively stable over the years 2001 to 2009, growing at a CAGR of 13.80% before declining in 2010, falling at a CAGR of 22.76% over the period. Imports from Thailand declined at a CAGR of 5.37% over the same period, where imports in 2000 were recorded at 204.85 million tonnes and imports in 2010 were registered at 117.95 million tonnes. Imports of raw sugar from South Africa also declined, at a CAGR of 8.67% over the years 2000 to 2005, and no import data have been available since then.

**Major Import Sources of Raw Sugar (Malaysia), 2000-2010**




*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

### 1.12.3 Factors Affecting Supply

**Weather Conditions**

The productivity level of sugar cane and the quality of its juice are heavily influenced by prevailing weather conditions. Sugar cane thrives in tropical parts of the world, whereby temperature, light and availability of moisture determine the plant's growth, yield and quality. Weather conditions that promote sugar cane growth are low humidity, bright sunshine hours, cool nights and little rainfall during the ripening period.

- **Temperature**: For sprouting of stem cuttings, the optimal temperature is between 32°C and 38°C. Temperatures above 38°C reduce the rate of photosynthesis. For ripening, lower temperatures of 12°C to 14°C are preferred, as it enriches the sucrose contained in the sugar cane.
- **Humidity**: During the growing period, high humidity of 80% to 85% promotes cane elongation, whereas moderate humidity of 45% to 65% along with low water supply is preferable during the ripening stage.
- **Rainfall**: Plenty of rainfall during the growing period stimulates cane elongation, while drier conditions are favourable during the ripening and harvesting period.
- **Sunlight**: High sunlight intensity and long exposure of 10 to 14 hours a day promotes plant growth.

**Ideal Conditions for Cane Cultivation**

| Period | Temperature | Humidity | Rainfall | Sunlight |
|---|---|---|---|---|
| **Growing** | 32°C - 38°C | 80% - 85% | Heavy | High light intensity for 10 to 14 hours a day |
| **Ripening and Harvesting** | 12°C - 14°C | 45% to 65% | Light | - |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

Historically, instances of the absence of favourable weather conditions have led to low production of raw sugar. Recent examples include the drought in Brazil in 2010, and the flood brought about by heavy rainfall in Australia in end-2010.

In addition, natural disasters may also affect sugar supply, such as Hurricane Katrina and Rita in 2005 which caused damages to refineries in New Orleans, along with Hurricane Michelle which damaged sugar crops in Cuba in 2001, partly attributing to an increase in sugar prices in 2001.

**Crop Switching**

Raw sugar supply is also susceptible to switching patterns of famers away from cultivating sugar. Crop switching is highly influenced by market prices of sugar as well as other commodities. If prices of other commodities are higher than that of sugar, farmers are likely to switch to growing the more profitable crop. Crop switching occurred in India in 2008 where famers switched to grains and oilseeds, partly attributing to a 6.99% decline in domestic raw sugar production that year.

Apart from switching to other crops, producers may also switch to producing other sugar products instead of raw sugar. In Brazil, where both raw sugar and ethanol are produced from sugar cane, producers may opt to deviate to producing ethanol when ethanol prices are on the rise. Similarly in India, sugar cane is used to produce traditional sweeteners *khandsari* and *gur* in addition to producing raw sugar. Hence, an increase in demand and price of alternative sweeteners, which are not price controlled by the Government of India, will see farmers diverting portions of their sugar cane crop to producing *khandsari* and *gur*.

**Availability of Equipment and Machinery**

Sugar refining is a highly automated process that utilises a large amount of equipment and machinery. Most of the related equipment, such as filters, carbonators, vacuum pans, centrifuges, driers and boilers are typically sourced from abroad from countries such as Japan and Germany. Hence, the availability of such equipment, along with reliable after-sales services, is viewed as a key supply condition, and is able to affect the sugar refining process and delivery time.

**Stock Count from Previous Year(s)**

In many instances, the amount of raw sugar to be produced in a year is determined by the remaining stock count from previous year(s). Provided consumption patterns remain stable, raw sugar surplus will typically lead to decreased output, while a deficit in supply will lead farmers to increase acreage and yield to meet consumers' demand levels. A surplus or deficit in end-of-year stock levels can also put upward or downward pressure on market prices, following which the market will then react by decreasing or increasing output in order to stabilise the prices.

**Pest Attack and Crop Disease**

Sugar cane crops are susceptible to a variety of pest attacks as well as diseases. Several examples of pests that attack sugar cane crops include early shoot borer, internode borer, top borer, scale insect, pyrilla, termites and whitefly. These pests favour different types of climate conditions and attack at various growth stages of the sugar cane plant. Red rot, smut, pineapple disease, wilt, ratoon stunting disease, greasy shoot disease, leaf scald and yellow leaf spot are several types of fungal and bacterial diseases that typically spread to sugar cane crops. Crop diseases cause symptoms such as drying of leaves and shoots, discolouration, presence of patches and lesions, and stunted growth. These pest attacks and diseases cause considerable loss in yield and reduced sucrose content, thereby severely affecting the production of raw sugar.

## 1.13 Prospects and Outlook of the Sugar Refining Industry

### 1.13.1 Prospects and Outlook in Malaysia

Frost & Sullivan estimates that sugar consumption in Malaysia will increase from 1.50 million tonnes in 2011 to 1.84 million tonnes in 2016 at a CAGR of 4.19%. This positive growth is expected to be driven by growth in the food manufacturing and processing industry, population growth as well as limited product substitution. Sugar is regarded as a staple food item, and its wide array of uses in a variety of industries ensures its continued presence in the local market.

The Government of Malaysia regulates the local sugar industry to ensure food stability and security of supply. Price controls are set in place and subsidies are dispersed in order to protect the consumers from the unpredictable fluctuations in the global sugar market. In addition, there are only four sugar refiners producing sugar for the consumption of the entire nation, as the importation of refined sugar into Malaysia is restricted by the Government. By keeping the sugar industry limited to a handful of players the Government is allowed better control and ease of monitoring.

Under the 10MP, the Government of Malaysia has announced its intention to gradually rationalise the subsidies and price controls for sugar. By removing market distortions, sugar prices can then be allowed to float closer to market rates, thereby preventing wastage and overconsumption, and encouraging efficient allocation of resources. The Government has since embarked on its plan, where since 2010 the retail price of coarse and fine refined white sugar have been increased four times to reflect current global market prices.

Nevertheless, the Government has recognised the fact that sugar is considered a staple food item, and is widely considered a necessity in the day-to-day diet of a typical Malaysian. As such, under the 10MP the Government intends to provide assistance to households considered to be at the bottom 40% based on income level to ease the forthcoming burden of eventual price increases. Non-governmental organisations (NGOs), charities and corporations will be encouraged to participate in aid and corporate social responsibility programmes targeted at providing food and financial assistance to the less fortunate. The

Department of Social Welfare provides a database to identify the recipients and also to monitor the effectiveness of these programmes.

According to the 10MP, the Government intends to gradually remove price controls to reflect market prices, which has already begun with sugar. Key players in the sugar refining industry are likely to transfer this additional cost or savings to consumers. Individual household and industrial consumers will have the option of purchasing sugar from the refinery offering them the best rate or lowest rate, exerting pressure on all players in the industry to operate lean and effective refineries in order to keep operating costs low and remain commercially viable.

### 1.13.2 Potential Export Markets for Refined Sugar

Growth rates for sugar consumption in the ASEAN and GCC regions have generally been high over the years 2000 to 2010, growing at a CAGR of 2.90% and 4.85% respectively. Hence, this positive outlook presents opportunities for local players to expand their export activities. Currently, locally refined sugar is exported to countries such as Singapore, Indonesia, New Zealand, Australia, Philippines and Pakistan. Based on publicly available information, Frost & Sullivan notes that within APAC and GCC, Hong Kong and Singapore are the only countries that have liberalised sugar industries in terms of price control and trade restrictions.

<u>ASEAN</u>

Sugar consumption in ASEAN has grown from 9.24 million tonnes in 2000 to 12.30 million tonnes in 2010 at a CAGR of 2.90%. Imports of refined sugar into ASEAN countries (with the exception of Brunei, Laos and Myanmar) have decreased from 914,000 tonnes to 535,000 tonnes at a CAGR of 5.77% over the years 2000 to 2009 as 2010 import data is not yet publicly available for most ASEAN countries. The import volume of refined sugar into the respective ASEAN countries serves as an indicator as to the potential of these countries as export markets. The decrease in import volume is largely attributed to the intentions of the respective Governments of selected ASEAN nations to protect the local sugar industry to achieve self-sufficiency.

**Summary of Consumption and Imports of Refined Sugar (ASEAN), 2000-2010**

| Year | Consumption ('000 tonnes) | Imports ('000 tonnes) | Imports as a Percentage of Consumption (%) |
|---|---|---|---|
| 2000 | 9,239 | 914 | 9.90 |
| 2001 | 9,650 | 674 | 6.99 |
| 2002 | 9,952 | 862 | 8.66 |
| 2003 | 10,219 | 1,061 | 10.39 |
| 2004 | 10,355 | 1,056 | 10.20 |

| Year | Consumption ('000 tonnes) | Imports ('000 tonnes) | Imports as a Percentage of Consumption (%) |
|---|---|---|---|
| 2005 | 10,728 | 1,522 | 14.19 |
| 2006 | 11,239 | 1,201 | 10.69 |
| 2007 | 11,671 | 1,560 | 13.37 |
| 2008 | 11,867 | 1,113 | 9.38 |
| 2009 | 12,157 | 535 | 4.41 |
| 2010 | 12,299 | - | - |
| **CAGR 2000-2010** | **2.90%** | **(5.77%)*** | - |

*Note: Import data for Brunei, Laos and Myanmar are not publicly available as at the time of publication of this report*

** CAGR 2000-2009*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

At RM2.30 per kg, the price of coarse sugar in Malaysia is relatively low in the ASEAN region, with the closest being Thailand at RM2.36 (THB23.60) per kg. In Brunei, the price of sugar is controlled by the Government and has been fixed at RM3.00 (BND1.25) per kg. The price of sugar is not controlled in Philippines, but the Sugar Regulatory Administration (SRA) publishes a suggested retail price, which stood at RM4.20 (PHP60.00) per kg as of 10 May 2011. In Indonesia, Singapore and Vietnam, the price of sugar floats according to market rates. As of March 2011, sugar prices in Indonesia hovered around RM3.91 (IDR11,250) per kg. According to Department of Statistics Singapore, the average price of sugar in January 2011 was RM4.06 (SGD1.69) per kg. In Vietnam, unsubsidised sugar ranged between RM3.28 and RM3.50 (VND22,500 to VND24,000) per kg, while subsidised sugar was priced at RM2.63 (VND18,000) per kg.

**Comparison in the Retail Price of Refined Sugar (ASEAN), 2011**

| Country | Retail Price (RM/kg) |
|---|---|
| **Brunei** | RM3.00 (BND1.25) |
| **Indonesia** | RM3.91 (IDR11,250) |
| **Malaysia** | RM2.30 (coarse sugar)<br>RM2.40 (fine sugar) |
| **Philippines** | RM4.20 (PHP60.00) |
| **Singapore** | RM4.06 (SGD1.69) |
| **Thailand** | RM2.36 (THB23.60) |
| **Vietnam** | RM3.28 to RM3.50 (VND22,500 to VND24,000)<br>RM2.63 (VND18,000) (subsidised) |

*Note: Information for Cambodia, Laos, and Myanmar is publicly unavailable as at the time of publication of this report*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

In Brunei, the price of sugar is regulated by the Department of Economic Planning and Development, whereby the retail price is set at RM3.00 (BND1.25) per kg. Since 2004, import tariffs for refined sugar from ASEAN countries have been reduced to 0% as per the ASEAN Common Effective Preferential Tariff (CEPT) scheme in accordance to the ASEAN Free Trade Area (AFTA) agreement. An import license issued by the Information Technology and State Store Department Brunei is required for the importation of sugar.

The sugar refining industry in Cambodia has been revived, following a collapse caused by the civil war in the 1970s. Foreign investments from France, Thailand and Taiwan have helped rebuild the local sugar industry with the aims of exporting to Europe, whereby imports of any products, apart from arms and ammunition, from nations under the Least Developed Countries (LDCs) category are tariff-free under the 'Everything But Arms' trade initiative.

The importation of sugar is regulated by the Government of Indonesia. Only processors using the sugar as raw material for input in their production process are allowed to import raw and refined sugar. Indonesia's sources of refined sugar are Thailand, Malaysia, Singapore and South Korea. The Government of Indonesia intends to achieve self-sufficiency in sugar in the near future, whereby the total installed capacity of local refineries is being increased. Local food and beverage manufacturing and processing companies are encouraged to consume domestic refined sugar. The domestic retail price of sugar is not controlled by the Government, and fluctuates to reflect market conditions. As of March 2011, sugar prices have hovered around RM3.91 (IDR11,250) per kg.

Similar to Cambodia, Laos is listed under the category of LDCs by the UN, and hence benefits from duty-free exports of sugar into Europe. As such, a large proportion of sugar produced in Laos is exported to Europe while the remainder is utilised for domestic consumption. Hence, Laos still requires imports of sugar to meet domestic demand. However, information on imports of refined sugar into Laos is currently unavailable.

According to the Ministry of Agriculture and Irrigation, the importation of refined sugar into Myanmar is presently prohibited. However, sugar imports will be allowed by 2015 when the AFTA agreement comes into effect and Myanmar will have to lower import tariffs to less than 5%. The price of sugar in Myanmar is allowed to float according to domestic supply and demand.

As a net exporter of sugar, the Government of Philippines has focused on the domestic sugar industry for the nation's sugar supply, and imports of refined sugar will only occur if there is a shortage in supply. Philippines has listed raw and refined sugar under the highly sensitive list of the ASEAN CEPT scheme to delay the reduction of tariffs to 5% in accordance to AFTA agreement. Tariffs will remain at 38% in 2010 to 2011, and gradually be reduced to 28% in 2012, 18% in 2013, 10% in 2014 and 5% in 2015. However in 2010 the Government introduced a zero-tariff policy on imported refined sugar in order to alleviate the shortfall in domestic supply caused by unfavourable weather conditions, effective until 31 December 2010. The price of sugar is not controlled in Philippines, but the SRA publishes a suggested retail price as a recommendation, whereby supermarkets and grocery stores are monitored by the Regulation Department of the SRA. As of 10 May 2011, the suggested retail price for refined sugar was set at RM4.20 (PHP60.00) per kg.

Sugar is not a controlled item in Singapore, whereby there are no import or export barriers enforced by the Government. The domestic retail price of sugar is also not controlled and is allowed to float to reflect market rates. According to the Department of Statistics Singapore, the average price of sugar in January 2011 was recorded at RM4.06 (SGD1.69) per kg.

There are no trade barriers for sugar in Thailand, but the Office of the Cane and Sugar Board regulates the amount of sugar utilised for domestic consumption. The Office of the Cane and Sugar Board has estimated an allocation of 2.8 million tonnes from the nation's total sugar output for domestic consumption in 2011, which will be supplemented by imports should there be a shortfall in the initial estimation. The Government provides subsidies to sugar manufacturers for sugar packaging activities. Sugar prices are regulated by the Ministry of Commerce, and have been set at RM2.36 (THB23.60) per kg as of March 2011.

Effective 4 April 2011, The Ministry of International Trade Vietnam will reduce the import tariff of refined sugar from 40% to 15%. Domestic retail prices of unsubsidised sugar have hovered between RM3.28 to RM3.50 (VND22,500 to VND24,000) per kg, while subsidised sugar is priced at RM2.63 (VND18,000) per kg. The Ministry of International Trade Vietnam has also announced an import quota of 250,000 tonnes of sugar for 2011. The measures were introduced to stabilise the domestic prices of sugar, which are not controlled by the Government.

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**Summary of Selected Regulatory Initiatives (ASEAN), 2011**

| Country | Price Control | Import Restrictions | Description |
|---|---|---|---|
| Brunei | ✓ | × | The price of sugar is regulated by the Department of Economic Planning and Development Brunei.<br>There are no import restrictions, though an import license is required for the importation of sugar, issued by the Information Technology and State Store Department. |
| Indonesia | × | ✓ | The price of sugar is not controlled in Indonesia, and is allowed to float according to market prices.<br>Importation of sugar is regulated by the Government, where only companies who intend to use the sugar as input in their production process will be allowed to import raw and refined sugar. |
| Malaysia | ✓ | ✓ | The price of sugar is controlled by the Government.<br>Imports of refined sugar into Malaysia are regulated and require Approved Permits (APs). |
| Myanmar | × | ✓ | The price of sugar is not controlled in Myanmar, and is allowed to float according to domestic supply and demand.<br>The importation of sugar into Myanmar is prohibited. |
| Philippines | × | ✓ | The price of sugar is not controlled, but the SRA publishes a suggested retail price.<br>Import tariffs for sugar is high, and will only be allowed during supply shortages. |
| Singapore | × | × | Sugar prices are not controlled, and are allowed to float according to market rates.<br>There are no import restrictions on sugar into Singapore. |
| Thailand | ✓ | × | The Ministry of Commerce Thailand regulates the retail price of sugar.<br>There are no import restrictions for sugar. |
| Vietnam | × | ✓ | The price of sugar is not controlled in Vietnam and is allowed to float according to market rates.<br>The Ministry of International Trade Vietnam imposes a quota on the amount of sugar allowed to be imported into Vietnam. |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

**Summary of Consumption of Refined Sugar (ASEAN), 2000-2010**

| Year | Consumption ('000 tonnes) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Brunei | Cambodia | Indonesia | Laos | Malaysia | Myanmar | Philippines | Singapore | Thailand | Vietnam |
| 2000 | 11 | 132 | 3,200 | 21 | 990 | 85 | 1,930 | 270 | 1,650 | 950 |
| 2001 | 11 | 190 | 3,300 | 42 | 957 | 90 | 1,940 | 270 | 1,750 | 1,100 |
| 2002 | 11 | 240 | 3,350 | 31 | 1,053 | 100 | 1,950 | 275 | 1,832 | 1,110 |
| 2003 | 11 | 245 | 3,400 | 35 | 1,080 | 100 | 1,980 | 278 | 1,940 | 1,150 |
| 2004 | 11 | 250 | 3,400 | 36 | 1,113 | 105 | 2,010 | 280 | 1,980 | 1,170 |
| 2005 | 11 | 250 | 3,550 | 36 | 1,146 | 115 | 2,010 | 315 | 2,070 | 1,225 |
| 2006 | 11 | 250 | 3,850 | 36 | 1,242 | 125 | 1,950 | 290 | 2,050 | 1,435 |
| 2007 | 11 | 250 | 4,300 | 36 | 1,244 | 125 | 1,950 | 290 | 2,030 | 1,435 |
| 2008 | 11 | 260 | 4,400 | 36 | 1,370 | 140 | 1,900 | 300 | 2,000 | 1,450 |
| 2009 | 11 | 265 | 4,500 | 36 | 1,328 | 147 | 2,100 | 300 | 2,000 | 1,470 |
| 2010 | 11 | 270 | 4,400 | 36 | 1,419 | 143 | 2,150 | 300 | 2,100 | 1,470 |
| **CAGR 2000-2010** | **0.00%** | **7.42%** | **3.24%** | **5.54%** | **3.67%** | **5.34%** | **1.09%** | **1.06%** | **2.44%** | **4.46%** |

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

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**Summary of Import Volume of Refined Sugar and as a Percentage of Consumption (ASEAN), 2000-2009**

| Year | Cambodia | | Indonesia | | Philippines | | Singapore | | Thailand | | Vietnam | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) | Imports ('000 tonnes) | Imports as Percentage of Consumption (%) |
| 2000 | 8 | 6.00 | 563 | 17.58 | 181 | 9.36 | 163 | 60.46 | 0 | 0.00 | 0 | 0.00 |
| 2001 | 132 | 69.33 | 258 | 7.83 | 87 | 4.49 | 197 | 72.93 | 0 | 0.00 | 0 | 0.00 |
| 2002 | 108 | 45.02 | 352 | 10.51 | 74 | 3.78 | 327 | 119.05 | 0 | 0.00 | 1 | 0.05 |
| 2003 | 9 | 3.52 | 593 | 17.45 | 82 | 4.12 | 377 | 135.78 | 0 | 0.00 | 0 | 0.00 |
| 2004 | 7 | 2.79 | 664 | 19.54 | 53 | 2.61 | 332 | 118.67 | 0 | 0.00 | 0 | 0.00 |
| 2005 | 0 | 0.00 | 1,105 | 31.13 | 45 | 2.23 | 364 | 115.69 | 0 | 0.00 | 8 | 0.62 |
| 2006 | 0 | 0.00 | 689 | 17.90 | 114 | 5.87 | 324 | 111.84 | 2 | 0.10 | 71 | 4.95 |
| 2007 | 0 | 0.00 | 1,086 | 25.25 | 27 | 1.37 | 437 | 150.61 | 0 | 0.00 | 11 | 0.77 |
| 2008 | 17 | 6.52 | 640 | 14.54 | 26 | 1.35 | 384 | 127.91 | 3 | 0.15 | 44 | 3.02 |
| 2009 | 0 | 0.00 | 100 | 2.22 | 20 | 0.96 | 346 | 115.37 | 0 | 0.00 | 69 | 4.67 |
| CAGR 2000-2009 | 9.99%* | - | (17.46%) | - | (21.61%) | - | 8.71% | - | 0.00% | - | 98.18%** | - |

*Note: The value '0' denotes import volumes of less than 1,000 tonnes*
** CAGR 2000-2008*
*** CAGR 2002-2009*
**** Import data for Brunei, Laos, Malaysia and Myanmar are not publicly available as at the time of publication of this report*
***** In 2010, import data for Indonesia and Thailand are 594,000 tonnes and 11,000 tonnes respectively*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

## GCC

In GCC, the consumption of refined sugar has displayed strong growth over the years 2000 to 2010, growing from 799,000 tonnes in 2000 to 1.28 million tonnes in 2010 at a CAGR of 4.85%. Imports of refined sugar into the region grew at a CAGR of 4.81% from 2000 to 2009, whereby initially imports grew steadily from 257,000 tonnes in 2000 to 968,000 tonnes in 2008, before declining to 393,000 tonnes in 2009 due to an increase in regional capacity. GCC is a net importer of sugar and on average, imports have constituted 43.81% of total consumption in the region over the years 2000 to 2009. In 2010, imports of refined sugar into Bahrain and Oman were 53,974 tonnes and 99,610 tonnes respectively, while import data for other countries are not yet publicly available.

The sugar refining industry in GCC is beginning to expand since the establishment of Al Khaleej Sugar Co. in Dubai, United Arab Emirates, the first sugar refinery in the region. The refinery was established in 1995, and currently exports refined sugar to other countries in the Middle East, Africa and Asia. The refinery has a daily production capacity of 2,400 tonnes. Other refineries in GCC include the United Sugar Company refinery in Jeddah, Saudi Arabia, and the Arabian Sugar Company in Bahrain which is currently under construction and project completion expected in the last quarter of 2011. The Al Khaleej Sugar Co. refinery and the United Sugar Company refinery presently serve both the domestic and regional markets.

**Consumption and Imports of Refined Sugar (GCC), 2000-2010**

| Year | Consumption ('000 tonnes) | Imports ('000 tonnes) | Imports as a Percentage of Consumption (%) |
|---|---|---|---|
| 2000 | 799 | 257 | 32.23 |
| 2001 | 835 | 263 | 31.45 |
| 2002 | 905 | 303 | 33.43 |
| 2003 | 923 | 195 | 21.18 |
| 2004 | 1,140 | 378 | 33.13 |
| 2005 | 1,054 | 657 | 62.34 |
| 2006 | 1,108 | 531 | 47.89 |
| 2007 | 1,153 | 759 | 65.81 |
| 2008 | 1,218 | 968 | 79.51 |
| 2009 | 1,263 | 393 | 31.12 |
| 2010 | 1,283 | - | - |
| **CAGR 2000-2010** | **4.85%** | **4.81%*** | - |

*Note: 2010 import data for Kuwait, Qatar, Saudi Arabia and United Arab Emirates are not publicly available as at the time of publication of this report*

** CAGR 2000-2009*

*Source: Extracted from the Independent Market Research report prepared by Frost & Sullivan*

# 7. BUSINESS OF OUR GROUP

## 7.1 OVERVIEW

We are the leading sugar producer in Malaysia, involved primarily in the production, marketing and sale of refined sugar products, with an annual production capacity of over 1.1 million mt of refined sugar. We conduct our business principally through two operating subsidiaries, MSM and KGFP. In 2010, we produced a total of approximately 945,000 mt of refined sugar products, accounting for approximately 57% of total sugar production in Malaysia.

We offer a variety of products and sell to a wide range of customers in Malaysia and in other countries directly and indirectly through traders, wholesalers and distributors. Our customers include major companies in the beverage and confectionery industries, hotels, restaurants, food outlets and household consumers. We operate two sugar refineries, one in Prai, Penang, and another in Chuping, Perlis. Our products range from white refined sugar of various grain sizes to soft brown sugar and are marketed and sold in a variety of packaging options under two brands – "Gula Prai" and "Gula Perlis". We also sell molasses, a byproduct of the refining process, to distilleries and producers of ethanol, animal feed and yeast, among other products.

We are part of the Felda Group, which is affiliated with the Malaysian government and is one of the largest agro-based businesses in Malaysia. FELDA has established 317 schemes throughout Malaysia covering a total of 479,765 ha of plantation land that is cultivated by the settlers in these schemes. In addition, FELDA owns 331,375 ha of land on which it grows various crops, including oil palm and rubber. FELDA has also established a commercial arm, FGVH, which has investments in over 80 subsidiaries, associated companies and joint ventures engaged in diverse activities in the agro-based industry, including multi-crop plantations, oils and fats, oleochemicals and logistics. In order to better align and consolidate the Felda Group's sugar businesses, we recently completed the Pre-Listing Restructuring. For more information regarding the Pre-Listing Restructuring, see Section 12.1.2 of this Prospectus.

We are the market leader in the Malaysian sugar industry, with a total market share of approximately 57% in 2010 based on production volume. In 2010, our sales in Malaysia accounted for 88.5% 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 selected overseas markets.

As at 31 March 2011, we had total assets of RM1,795.7 million. In 2010, we generated profits after tax of RM232.9 million on net revenue of RM2,168.6 million.

## 7.2 COMPETITIVE STRENGTHS

We believe our key competitive strengths are as follows:

### 7.2.1 Leading Position in the Malaysian Sugar Industry

We are the leading sugar producer in Malaysia, with an annual production capacity of over 1.1 million mt. The sugar refinery operated by our subsidiary MSM is the largest in Malaysia. In 2010, we produced a total of approximately 945,000 mt of refined sugar, which represents approximately 57% of the refined sugar produced in Malaysia in that year. We are able to leverage on the scale of our operations by for example purchasing and storing raw sugar when market prices are favourable and also being able to optimise the costs of our operations over a greater volume of production. Our operating subsidiaries, MSM and KGFP, have been dedicated to the sugar business for 51 years and 40 years, respectively, and are recognised in the market for providing reliable, high-quality products to our customers. We believe that our established reputation and proven track record in the sugar industry in Malaysia will continue to assist our business and growth in the future.

### 7.2.2 Strong Customer Relationships Through Product Quality and Customer Service

We have built strong and longstanding relationships, directly and through distributors, with a broad base of approximately 260 customers in Malaysia, which include mainly industrial customers, wholesalers and retailers and some of whom have been our customers for decades. MSM Holdings' customers include F&N Beverages Manufacturing Sdn Bhd, Permanis Sdn Bhd, Kraft Foods Manufacturing Malaysia Sdn Bhd, Cadbury Confectionery Malaysia Sdn Bhd, Nestle Manufacturing (M) Sdn Bhd, Tesco Stores (Malaysia) Sdn Bhd, Giant GCH Retail (Malaysia) Sdn Bhd, Jaya Jusco Stores Bhd (currently known as Aeon Co (M) Bhd) and Yeo Hiap Seng (Malaysia) Berhad. We have established these relationships by being a dependable supplier of quality products that is flexible and responsive in meeting our customers' changing needs. We continue to enhance the level of service and product offerings to cater to our customers by, for example, working with them in manufacturing products to their specifications, offering flexible delivery options through our just-in-time delivery capabilities and providing customised packaging sizes. Our customer relationships are closely managed by our experienced team of sales and marketing staff as well as by our senior management. We believe that our reputation as a reliable producer of high-quality products and our well-established base of quality, credit-worthy customers enable us to consistently maintain our leading market position.

### 7.2.3 Strategic Location of our Production Facilities

Our production facilities are strategically located for efficient production and delivery of our products. The MSM Facility is located adjacent to the Prai River near Penang Port and has a dedicated jetty on-site that enables barges to easily and cost-effectively offload raw sugar taken from sea vessels directly into storage for use in our refining process. The KGFP Facility is located adjacent to the Chuping Plantation from which it receives sugar cane for milling, and the milling facility is next to the sugar refinery which processes the raw sugar from the milling facility together with imported raw sugar. The proximity of the MSM Facility to Penang Port also enables us to effectively deliver by sea our products to customers in East Malaysia and overseas markets, either as bagged bulk cargo, from our dedicated on-site jetty or in full containers loaded at our own container loading facility with a loading capacity of 1,000 mt per day.

### 7.2.4 Effective Logistics Infrastructure

Our effective logistics infrastructure, which integrates our storage, packaging and distribution network, aims to ensure timely delivery of the right quality and quantity of products to our customers. Our production facilities in the north, as well as storage and distribution centres in Sungai Buloh and Johor Bahru in the central and southern regions, respectively, ensure efficient distribution of our products throughout Peninsular Malaysia, using rail transport and lorries. Railways connect the MSM Facility and our warehouse facilities in Sungai Buloh and Johor Bahru and enable fast and cost-efficient transport of our products. MSM's subsidiary, Astakonas also operates a dedicated fleet of lorries to transport our products in Peninsular Malaysia.

Moreover, our flexible logistics infrastructure allows us to offer our customers a variety of options in receiving our products. We offer our customers the option of bulk delivery from our production facilities and the Sungai Buloh warehouse via road tankers to customers who are able to receive the bulk sugar directly into their silos as well as the option of taking delivery at our production facilities or from the Sungai Buloh and Johor Bahru warehouses. In addition, our Sungai Buloh warehouse has its own packaging facilities, enabling us to offer just-in-time delivery by packaging our products at various times and in various sizes according to our customers' needs.

We believe that our ability to meet our customers' needs on a timely basis through our efficient warehousing, packaging and distribution network is a key strength that distinguishes us from our competitors in the Malaysian market.

### 7.2.5 Modern Integrated Production Facilities

The MSM Facility has successfully adopted advanced production systems in its sugar refining process by installing and implementing state-of-the-art equipment and technology that are in line with international standards and benefits from efficiencies realised through automation. For example, MSM has successfully reduced its energy consumption by being, we believe, the first sugar producer in Southeast Asia to operate a vertical continuous sugar vacuum pan that uses as its heat source recycled vapour from batch pans, which were subsequently upgraded with the triple-effect evaporator.

Moreover, through the use of a nano-filtration system that recycles water, the brine solution is recycled and the wastewater load for MSM is significantly reduced, thereby minimising the harmful impact on the environment. KGFP is currently reviewing plans to install additional equipment to modernise its facilities and to increase automation of its production processes in the near future.

The KGFP Facility is the only integrated facility in Malaysia with a sugar mill and refinery that processes both sugar cane and raw sugar to produce refined sugar, which provides us with the flexibility to source a portion of our raw sugar supply from sugar cane in addition to imported raw sugar. Our production facilities are also integrated such that we co-generate electricity using the steam produced by our boilers, allowing us to satisfy a part of our electricity needs internally. Furthermore, we are able to configure the equipment and machinery used in our production processes to optimise our output and energy use, which provides us with additional flexibility to reduce costs.

We intend to continue to upgrade and modernise our equipment and technology as deemed necessary to maintain or increase our competitiveness.

### 7.2.6 Diverse Portfolio of Quality Products

We develop and offer to our customers a full array of sugar products. We produce refined sugar products of varying types and grades such as fine and coarse granulated white sugar, brown sugar, icing and caster sugar, as well as molasses. Our products are sold in package sizes suited to our customers' convenience and requirements. In addition to packaging type, we work with customers with stringent product requirements to tailor our products' features, such as colour, grain size and moisture, to their specifications. Our production and quality assurance teams perform certain testing and research to assist our customers in manufacturing finished sugar products that conform to the specific properties and characteristics they require. For example, MSM has worked with customers to use alternative anti-caking agents in icing sugar and to produce low-moisture soft brown sugar. Furthermore, our products are well-recognised in Malaysia and overseas as reliable high-quality products. We believe that our ability to offer a diverse portfolio of products and our reputation as a manufacturer of quality products help us to maintain a loyal customer base.

### 7.2.7 Benefit from Long-term Contracts for Raw Sugar

We currently purchase approximately 49% of our imported raw sugar volume pursuant to long-term supply contracts. Since the early 1970s, the Malaysian government has participated, together with Malaysian refined sugar producers, including MSM and KGFP, in negotiations for long-term raw sugar supply contracts with foreign raw sugar suppliers. Such contracts have helped us secure a consistent supply of raw sugar at fixed prices. The large volume of raw sugar purchased under these contracts and the long-term nature of these contracts, which are usually for a period of three years, allow us to fix in advance a significant portion of our cost of sales, providing us with the visibility to make and implement effective business plans.

### 7.2.8 Strong Support from the Felda Group

We are part of the Felda Group, which is affiliated with the Malaysian government and is one of the largest agro-based businesses in Malaysia. FELDA has established 317 schemes throughout Malaysia covering a total of 479,765 ha of plantation land that is cultivated by the settlers in these schemes. In addition, FELDA owns 331,375 ha of land on which it grows various crops, including oil palm and rubber. FELDA has also established a commercial arm, FGVH, which has investments in over 80 subsidiaries, associated companies and joint ventures engaged in diverse activities in the agro-based industry, including multi-crop plantations, oils and fats, oleochemicals and logistics. The Felda Group is well-known in Malaysia and has a strong reputation as a valuable contributor to the country's economic development through the establishment of settlement programs that have successfully advanced Malaysia's agricultural industry and agro-based businesses. The Felda Group has a presence in many foreign countries, including the United States, Canada, Pakistan, China, Indonesia, Thailand, South Africa, France, Australia and Turkey. We believe that, with the Felda Group as the controlling shareholder, we have the support and commitment of a successful enterprise with a strong brand name in the agro-based industry for us to be a long-term player in the Malaysian sugar industry.

### 7.2.9 Experienced and Dedicated Management Team

Our management team has significant industry knowledge across the entire sugar value chain and has extensive experience in leadership positions in sugar-related companies. In particular, Mr. Chua Say Sin, our Chief Executive Officer, Mr. Mohamad Amri Sahari, Mr. Gan Chong Ho and Mr. Ha Charm Mun have over 90 years of combined experience in the sugar industry.

The experience of our management team in the sugar industry spans across a wide range of business activities, including the operation of sugar refineries as well as Malaysia's only sugar cane plantation and sugar cane mill, implementing upgrades and expansions to production facilities, marketing and distributing sugar products in Malaysia and in export markets, hedging against movements in raw sugar prices and foreign currencies and managing various other risks associated with the sugar business. Our management has also adopted advanced production systems in the sugar refining process, such as implementation of state-of-the-art processes to use recycled vapour as a heat source and a filtration system that reduces wastewater. We believe that our management team has been key to our success, and it has the necessary experience and knowledge to continue to successfully manage our business and implement our growth strategies.

### 7.2.10 Financial Strength

We have a proven record of strong cash generation, which has permitted us to fund most of our capital expenditures through internally generated funds. Our financial discipline has resulted in a strong balance sheet, with only short-term borrowings and a low debt-to-equity ratio of 0.15 as of 31 December 2010, and we have established a track record of consistent payment of dividends. We believe that our financial strength and strong balance sheet provide us with the flexibility to consider and pursue attractive investment opportunities that may become available in the future.

## 7.3 BUSINESS STRATEGIES AND FUTURE PLANS

We plan to implement the following strategies to achieve growth and improve our results:

### 7.3.1 Achieve Synergies in the Operations of MSM and KGFP

After MSM and KGFP were brought into the Felda Group in January 2010, we began to take advantage of the numerous synergies that exist between these companies. We plan to coordinate the purchase of raw sugar for both companies to maximise our leverage in purchase negotiations, and we also expect the two companies to collaborate in their hedging activities for raw sugar and foreign currency. Our management will also review closely the marketing and distribution practices of the two operating companies and aim to apply the best practices from each of the companies to the marketing and distribution efforts of the Group as a whole. MSM and KGFP will also cooperate on the technical aspects of their operations, including on ways to increase the level of automation at the KGFP Facility.

### 7.3.2 Continue to Reduce Costs and Improve Operating Efficiency

We believe that our operating efficiency provides us with a cost advantage compared to other sugar producers in Malaysia. We plan to continue to enhance our cost competitiveness by increasing the level of automation at our production facilities, especially at the KGFP Facility, and by other targeted efforts to cut costs by upgrading the existing boilers at the KGFP Facility. We are also looking to enhance our economies of scale by expanding our total annual production capacity to approximately 1.5 million mt by 2016. As part of this effort, we intend to increase the KGFP Facility's annual production capacity from 150,000 mt to 200,000 mt by 2015. Furthermore, we are currently reviewing plans to gradually increase production capacity at the MSM Facility as well as making on-going efforts to maximise its daily melt by increasing sales volumes, which would allow us to minimise the downtime for machinery and increase our capacity utilisation rates. In addition, we plan to increase the storage capacity for raw sugar at the MSM Facility from 100,000 mt to 200,000 mt and to expand the storage capacity for refined sugar at MSM's storage warehouses from 27,000 mt to 37,000 mt. We will also look to reduce freight costs by increasing the use of rail transport in place of lorries. These initiatives are expected to allow us to maintain our low costs and improve our operating efficiency.

### 7.3.3 Expand Export Sales

Although we give priority to satisfying domestic demand, we have also sought to increase our export sales on an opportunistic basis to increase our sales volume, to earn foreign exchange to help meet part of our foreign currency obligations for raw material purchases, to maximise the use of our production capacity, to lower our average unit cost of production, to reduce our dependence on demand from local customers and to expand our international market presence. We have successfully penetrated attractive niche markets overseas, such as the market in Pakistan for sugar used in pharmaceuticals. We will continue to focus on increasing our competitiveness in existing export markets and further penetrate into our current overseas markets in Asia by securing new traders and distributors and deepening our ties with existing ones, and also by establishing direct relationships with end-customers by meeting them together with the distributors. For markets that currently impose high import duties or involve other import restrictions, we will monitor developments in these markets and attempt to capitalise on opportunities that may arise if there are favourable changes to such import restrictions.

### 7.3.4 Pursue Strategic Acquisitions or Investments

We plan to pursue opportunities to expand our production capacity and diversify to external markets through strategic acquisitions or investments on a selective basis outside Malaysia as such opportunities arise, particularly in Southeast Asia. We will explore such opportunities and endeavour to complete the strategic acquisitions or investments within 2 years from Listing. By producing refined sugar in external markets, we would be able to penetrate those markets more effectively and also target nearby markets that are better served from that location. Any potential acquisition or investment would undergo an extensive evaluation process to determine whether it meets our strategic objectives and benefits our business as a whole.

## 7.4 HISTORY AND MILESTONES

MSM was incorporated under the Act on 6 October 1959 as a private limited company under the name Malayan Sugar Manufacturing Company Limited. It was formed as a joint venture among Kuok Brothers Sdn Bhd ("Kuok Brothers"), Mitsui & Co. and Nissin Sugar Manufacturing Company with the mission to set up a sugar refinery in Malaysia to reduce Malaysia's dependence on imported refined sugar.

KGFP was incorporated under the Act on 26 May 1971 as a private limited company under the name Kilang Gula Felda Perlis Sendirian Berhad as part of the Perlis Sugar Project that was set up in response to the Malaysian government's desire to diversify Malaysia's agricultural products and develop its agro-based industries to further develop rural regions of Malaysia. The Perlis Sugar Project originally comprised three entities – FELDA and PPB Group, which owned the sugar cane plantations, along with KGFP, which operated an integrated sugar cane mill and refinery.

Until 2010, PPB Group, which is controlled by Kuok Brothers, had a 100% interest in MSM and a 50% interest in KGFP, and also owned sugar cane plantations. In January 2010, FGVH, a subsidiary of FELDA, acquired PPB Group's entire sugar business in Malaysia and a 20% stake in Tradewinds (M) Berhad for a total consideration of RM1.5 billion. The sugar business that was acquired consisted of a 100% interest in MSM, 50% interest in KGFP and 5,797 ha of sugar cane plantation land in Chuping, Perlis. The 20% interest in Tradewinds (M) Berhad is currently held by FGVH.

Our Company was incorporated in Malaysia under the Act on 10 March 2011 as a public limited company under the name MSM Malaysia Holdings Berhad. In order to better align and consolidate the Felda Group's sugar businesses, we recently completed the Pre-Listing Restructuring. For details regarding the Pre-Listing Restructuring, see Section 12.1.2 of this Prospectus.

Certain key dates and milestones for our Group include:

1964.......... MSM Facility commences operations in Prai, Penang

1973.......... KGFP Facility commences milling and refinery operations in Chuping, Perlis

1976.......... MSM Facility embarks on automation of production processes

1980.......... KGFP Facility commences imported raw sugar refining operations

1990.......... KGFP Facility increases refining capacity to 41,000 mt per year

1992.......... MSM's warehouse at Sungai Buloh commences operations with rail connection from MSM Facility in Prai

2002.......... MSM's warehouse at Johor Bahru commences operations with rail connection from MSM Facility in Prai

2007.......... MSM Facility increases refining capacity to 800,000 mt per year

2010.......... Refining capacities increased to 960,000 mt per year at MSM Facility and to 150,000 mt per year at KGFP Facility

Acquisition by the Felda Group of PPB Group's interests in MSM and KGFP

2011.......... Completion of the Pre-Listing Restructuring

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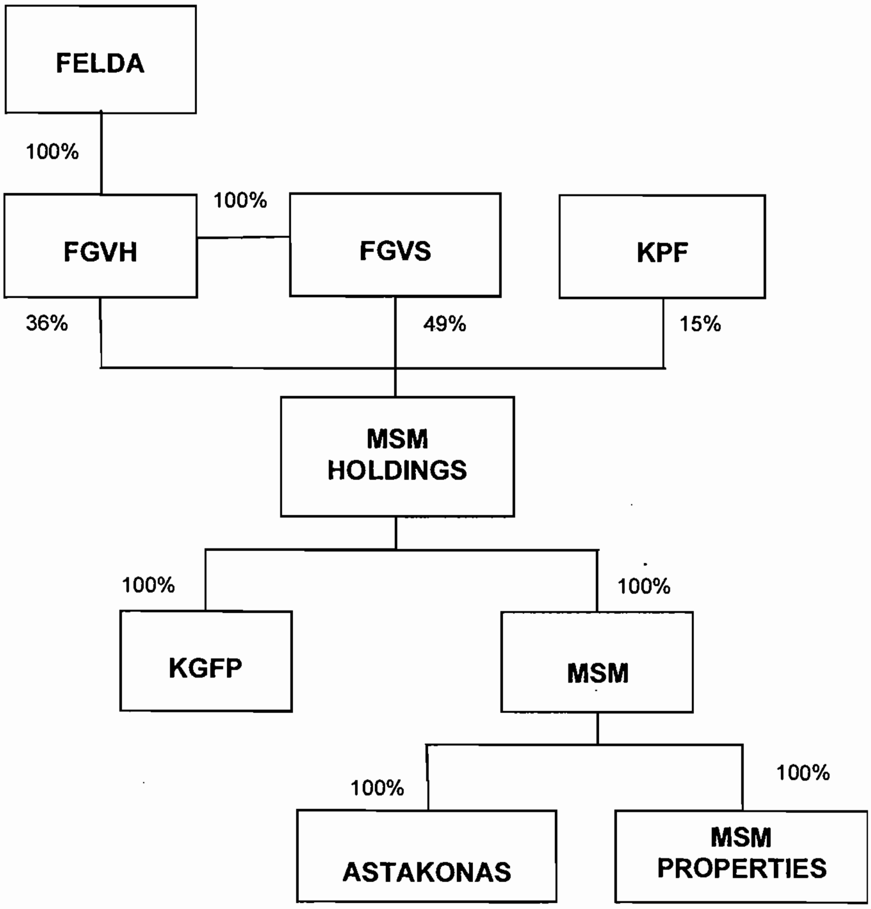
## 7.5 CORPORATE STRUCTURE

We are a holding company and conduct our business mainly through our two operating subsidiaries. We are engaged in the production and sale of refined sugar and related products. In addition to refining sugar, we grow sugar cane in Chuping, Perlis, on a 4,454 ha plantation that we own, as well as on 1,244 ha of adjacent leased land. The plantation supplies sugar cane to the milling facility operated by KGFP for production of raw sugar, which is used by KGFP together with imported raw sugar to produce refined sugar.

The chart below presents our corporate structure after giving effect to the Pre-Listing Restructuring:



## 7.6 PRODUCTS

We are the largest producer and supplier of refined sugar in Malaysia. Refined sugar is our principal product line and accounted for 99.2% of our total sales in 2010, and 98.8% of our total sales for the three months ended 31 March 2011.

Sugar is a form of edible carbohydrate mainly in the form of sucrose, lactose and fructose, and serves as an important source of energy for the body. In food, sugar typically refers to sucrose, which primarily comes from sugar cane and sugar beet, and is characterised by its sweet taste. In addition to its sweet taste, sugar can serve to improve the texture and colour of baked goods, speed up the fermentation process in baking, act as a bulking agent (for example, in ice cream, jams and preserves) and raise the boiling point and lower the freezing point in certain food recipes.

Our main products include various grades of refined sugar for both industrial and retail customers that are packed in an assortment of packing sizes and types tailored to the consumers' requirements and convenience. We produce different grades of white refined sugar that are classified under the general categories of coarse granulated, fine granulated and caster. In addition to refined white sugar, we produce brown sugar in various grades such as soft and coarse brown.

Molasses that we produce as a byproduct of the refining process is sold to industrial customers and accounted for 0.8% of our total sales in 2010, and 1.2% of our total sales for the three months ended 31 March 2011.

Our principal products include the following:

| Product | Production Facility | Description | Packaging Sizes | Primary Use |
|---|---|---|---|---|
| Fine granulated white sugar | MSM<br>KGFP | Grain size: 0.50 – 0.70 mm<br>MSM:<br>Colour: max 20 ICUMSA unit*<br>Polarization**: 99.90° Z<br>KGFP:<br>Colour: max 50 ICUMSA unit<br>Polarization: 99.80° Z | 5g sachet, sugar cubes, 1kg, 2kg (retail)<br>25kg, 50kg, 1,000kg, 1,400kg, bulk (industrial) | Retail, commercial food industry, food and beverage manufacturing |
| Coarse granulated white sugar | MSM<br>KGFP | Grain size: 0.95 – 1.35 mm<br>Colour: max 50 ICUMSA unit<br>MSM:<br>Polarization: 99.85 ° Z<br>KGFP:<br>Polarization: 99.80 ° Z | 5g sachet, sugar cubes, 1kg, 2kg (retail)<br>25kg, 50kg, 1,000kg, 1,400kg, bulk (industrial) | Retail, commercial food industry, food and beverage manufacturing |
| Coarse brown sugar | MSM | Grain size: min 1.5 mm<br>Colour: 800 – 1,500 ICUMSA unit<br>Polarization: 98.5 ° Z | 500g | Retail |

| Product | Production Facility | Description | Packaging Sizes | Primary Use |
|---|---|---|---|---|
| Soft brown sugar | MSM | Polarization: 98.5 ° Z<br>Light brown sugar: Colour: 1,500 – 3,000 ICUMSA unit<br>Dark brown sugar: Colour: 3,500 – 5,500 ICUMSA unit | 500g (retail)<br>25kg and 50kg (industrial) | Retail, commercial food industry |
| Icing sugar | MSM | Grain size: min 95% through 0.15mm aperture mesh***<br>Polarization: 97.5 ° Z | 500g (retail)<br>40kg (industrial) | Retail, commercial food industry for cakes and pastries |
| Caster sugar | MSM | Finer than granulated sugar that is max 15% retained on 0.50 mm aperture mesh<br>Colour: max 35 ICUMSA unit<br>Polarization: 99.85 ° Z | 500g (retail)<br>50kg and 600kg (industrial) | Retail, commercial food industry for baking |
| Super fine white sugar | MSM | Grain size: max 4% retained on 0.425 mm aperture mesh; max 5% retained through 0.125 mm aperture mesh<br>Colour: max 35 ICUMSA unit<br>Polarization: 99.85 ° Z | 25kg and 50kg | Food and beverage manufacturing |
| Molasses | MSM<br>KGFP | Dark brown, viscous byproduct of refining process<br>MSM: 50% total sugar<br>KGFP: 45% total sugar | Bulk | Ethanol, animal feed, yeast production |

***Notes:***

* *The colour and purity level of refined sugar are measured using standards set out by The International Commission for Uniform Methods of Sugar Analysis (ICUMSA), known as ICUMSA numbers. A lower ICUMSA number indicates a whiter colour and higher level of purity.*

** *Polarization is a measurement of sucrose content in sugar.*

*** *Aperture mesh refers to a sieve using wire mesh with a specified aperture for sugar crystals to pass through.*

*Industrial Uses*

Sugar is one of the most commonly used ingredients in commercial food and drinks and is used by manufacturers of products such as ice cream, milk, beverages and confectionery. Other industrial users of sugar include distilleries, companies in the canning industry and pharmaceutical companies. Refined sugar for industrial users are supplied based on our customers' needs in packing sizes ranging from 25 kg to 1,400 kg bags and 17,000 kg bulk load tankers.

*Retail and Other Commercial Uses*

For retail users, our refined white sugar products are available in various qualities ranging from coarse and fine grain to icing and caster sugar, packaged in a variety of sizes such as 1 kg and 2 kg bags, sachet packaging (cup-packs) and sugar cubes. Coarse grain and soft brown sugar is typically packaged in smaller 500 g sizes for retail sale. Our retail products are found in hypermarkets, supermarkets and retail shops in most parts of Malaysia. In addition, we cater to establishments such as restaurants and hotels by providing customised sachet packaging according to customers' own choice of design. We currently market and sell our products only under our "Gula Prai" and "Gula Perlis" brands.

## 7.7 PLANTATION AND PRODUCTION FACILITIES

We own and operate two sugar refineries, as well as the only sugar cane plantation and sugar cane milling facility in Malaysia. KGFP produces sugar cane in Chuping, Perlis, on a 4,454 ha plantation that it owns, as well as on 1,244 ha of adjacent leased land. KGFP also operates a sugar refinery in Chuping, Perlis. MSM operates a sugar refinery located in Seberang Prai, Penang. Each refining facility has packaging, storage and distribution capabilities on site. MSM also operates a packaging and distribution warehouse in Sungai Buloh, Selangor, and another distribution warehouse in Johor Bahru, Johor. Both of these facilities are connected to the refinery in Prai by rail.

The following table provides information about the location, current capacity, utilisation rate, production and book value of our sugar production facilities:

| Production Facility | Annual Refined Sugar Production Capacity(1) | Daily Raw Sugar Melt Capacity | Refining Capacity Utilisation Rate for 2010(2) | Daily Milling Capacity | Raw to Refined Sugar Yield for 2010 | Refined Sugar Production Volume for 2010 | NBV as at 31 December 2010 |
|---|---|---|---|---|---|---|---|
| | **(mt)** | **(mt)** | **(%)** | **(mt)** | **(%)** | **(mt)** | **RM 000** |
| MSM Facility, located in Prai, Penang(3) | 960,000 | 3,000 | 84.0 | N/A | 97.0 | 806,658 | 147,364 |
| KGFP Facility, located in Chuping, Perlis(4) | 150,000 | 600 | 92.0 | 5,500 | 95.6 | 138,045 | 21,401 |

***Notes:***

*(1) For the MSM Facility, calculated based on daily raw sugar melt capacity of 3,000 mt per day multiplied by 330 days per year multiplied by raw to refined sugar yield of 97%.*

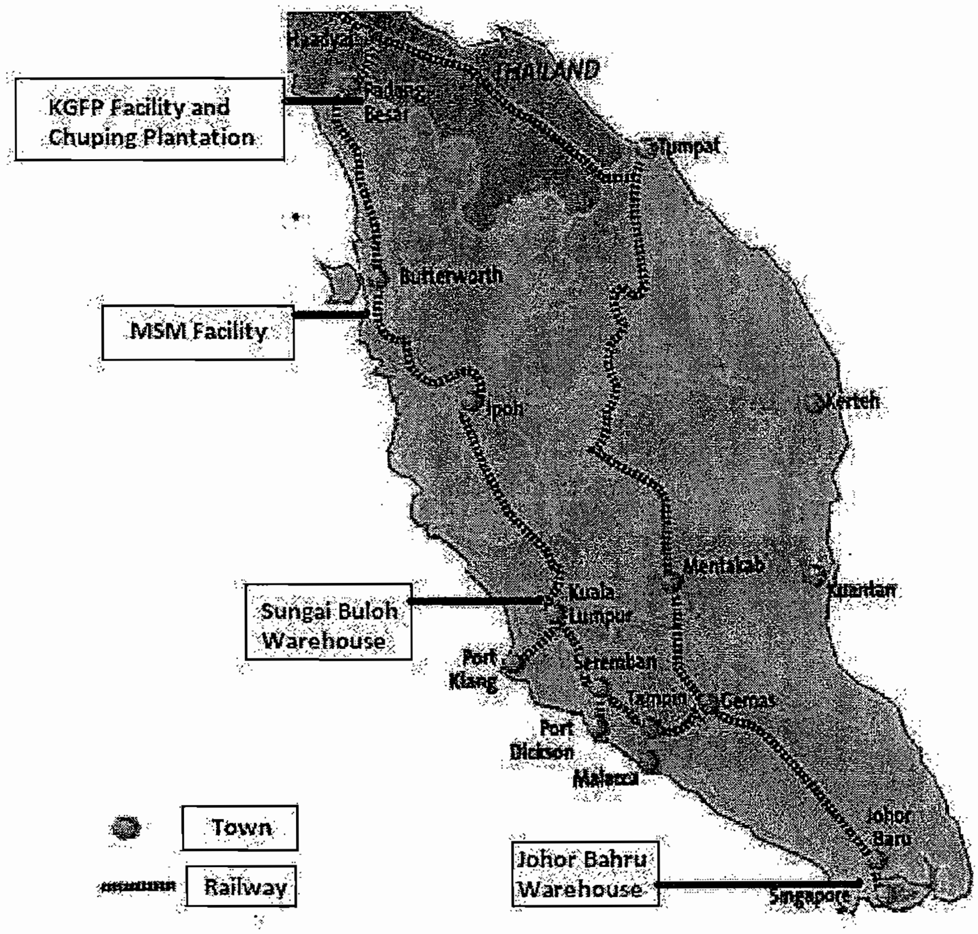
*For the KGFP Facility, calculated based on (i) 5,500 mt of cane milled per day multiplied by 65 days per year divided by 13 (which is the TCTS (tonne of cane to tonne of sugar) ratio) plus (ii) daily raw sugar melt capacity of 600 mt per day multiplied by 212 days per year multiplied by raw to refined sugar yield of 96%.*

*(2) Calculated by dividing actual production volume per year by annual production capacity.*

(3) *Consists of facilities to store raw sugar, produce refined sugar using the raw sugar refining process described in Section 7.8, conduct quality control, package and store refined sugar products and load such products for distribution.*

(4) *Consists of facilities to process sugar cane into raw sugar using the process described in Section 7.8, store raw sugar, produce refined sugar using the raw sugar refining process described in Section 7.8, conduct quality control, package and store refined sugar products and load such products for distribution.*

The following map highlights the location of our sugar cane plantation, our production facilities and our warehouses:




*MSM*

MSM operates the MSM Facility, a sugar refinery located in Prai, Penang, on the northwest coast of Peninsular Malaysia. The MSM Facility is the largest sugar refinery in Malaysia and has an annual production capacity of 960,000 mt of refined sugar, representing approximately 86% of our total capacity. In 2008, 2009 and 2010, the MSM Facility produced 684,868 mt, 708,375 mt and 806,658 mt of refined sugar, respectively, representing 82.9%, 83.1% and 85.4% of our total refined sugar production output, respectively. In 2010, 81.2% of MSM's refined sugar products by volume were sold in the domestic market, while 14.7% were exported and 4.1% were sold as "local exports" to domestic industrial customers who use sugar purchased from us to manufacture products for export.

The MSM Facility is strategically located near Penang Port and has a dedicated jetty on-site that enables barges to easily and cost-effectively offload raw sugar taken from sea vessels directly into storage for use in our refining process.

Natural gas used for the boilers at the MSM Facility is provided through a dedicated pipeline from Gas Malaysia Sdn Bhd pursuant to a long-term contract at prices in accordance with applicable tariff rates. Diesel fuel is supplied by Shell Malaysia Trading Sdn Bhd pursuant to a supply contract. We generate approximately 40% of the electricity needed for the MSM Facility through an on-site cogeneration facility that uses steam produced by the boilers to generate up to 21,000 MWh per year, while our remaining power requirements and backup power are supplied by Tenaga Nasional Berhad ("**TNB**"). Water supply for the MSM Facility is provided by the local water authority based on the applicable tariff rates.

Railway tracks located within the MSM Facility connect to our warehouses located in Sungai Buloh, Selangor, and Johor Bahru, Johor, allowing our products to be delivered in a cost-efficient manner to customers in the central and southern regions of Peninsular Malaysia. Products are also delivered from the MSM Facility and MSM's warehouses to our customers by lorries and other modes of transportation operated by MSM's subsidiary, Astakonas. MSM also offers the option of bulk delivery from the Sungai Buloh facility via road tankers to customers who are able to receive the bulk sugar directly into their silos. A number of our customers also take delivery of our products by arranging their own transportation to take delivery from our warehouses located in Prai, Sungai Buloh and Johor Bahru. In addition, MSM's Sungai Buloh warehouse has its own packaging facilities, enabling us to package our products at various times and in various sizes according to our customers' needs. With this efficient warehousing, packaging and distribution network, we are able to offer just-in-time delivery and respond promptly to our customers' orders or sudden changes to their orders.

For East Malaysia and overseas exports other than Singapore, our products are sent from our dedicated on-site jetty through Penang Port as bagged bulk cargo. Alternatively, we can load our products in full container loads at MSM's loading facility, which has a 1,000 mt per day loading capacity, and send the containers to Penang Port.

*KGFP*

KGFP operates the KGFP Facility, an integrated sugar mill and refinery located in Chuping, Perlis in the northwestern part of Peninsular Malaysia. In addition, KGFP grows sugar cane in Chuping, Perlis on the Chuping Plantation. The sugar mill has a sugar cane crushing capacity of 5,500 mt per day.

The KGFP Facility has an annual production capacity of 150,000 mt of refined sugar, representing approximately 14% of our total capacity. In 2008, 2009 and 2010, the KGFP Facility produced 140,791 mt, 143,993 mt and 138,045 mt of refined sugar, respectively, representing 17.1%, 16.9% and 14.6% of our total refined sugar production output, respectively. Currently, all of KGFP's refined sugar products are sold in the domestic market, and it expects to continue focusing on supplying the domestic market.

KGFP is currently planning to expand the sugar refining capacity of the KGFP Facility from 150,000 mt per year to 200,000 mt per year by 2015 through the installation of additional equipment, such as centrifuges, and increasing automation of its production processes. We expect to fund such expansion primarily with part of the proceeds from the Public Issue. For more information regarding our capital expenditure plans, see Section 8.3.4 of this Prospectus.

Approximately 10% to 15% of the raw sugar used at the KGFP Facility to produce refined sugar is derived from sugar cane harvested at the Chuping Plantation. The remainder of the raw sugar used at the KGFP Facility is imported. For details of our raw materials, see Section 7.11 of this Prospectus.

The KGFP Facility has warehouse facilities on site, as well as a bulk cargo terminal at Prai, Penang, from which its products are transported throughout Malaysia via road and sea. A number of our customers also take delivery of our products directly from our warehouse located in the KGFP Facility and from our bulk cargo terminal via bulk tankers.

The boilers at the KGFP Facility currently use biomass fuel, including bagasse, which is a fibrous matter that remains after sugar cane is crushed, as well as woodchips and logwood, which are supplied by local suppliers. We are currently reviewing a project to switch the energy source for the boilers from biomass fuel to natural gas by 2014, which, if successfully completed, we expect will lower our fuel and maintenance costs at the KGFP Facility. For more information regarding our capital expenditure plans, see Section 8.3.4 of this Prospectus.

An on-site cogeneration facility using steam from boilers generates up to 41,700 MWh of electricity per year, which is sufficient to meet the needs of the KGFP Facility. Backup power is supplied by a diesel generator and from the national grid by TNB. Water for the KGFP Facility is supplied from an underground tube well powered by electricity supplied from the national grid by TNB, and we pay royalties to the local government for use of the water.

*Maintenance*

Both the MSM Facility and the KGFP Facility are shut down periodically for scheduled maintenance and occasionally for unscheduled corrective maintenance and repair. We regularly monitor the performance and condition of our equipment in our production facilities, including the boilers, turbine generators, vacuum pans, centrifuges and other critical machinery. Maintenance on our facilities is performed by trained personnel to ensure long-term reliability of key equipment and the production processes as a whole.

On average, refining facilities at both the MSM Facility and the KGFP Facility operate at various production capacities for 24 hours a day, 330 to 340 days a year. Milling operations at the KGFP Facility only run seasonally to process the sugar cane harvest from December through April and are not operational for the remainder of the year. During the periods of operation, our milling facilities are shut down weekly for scheduled maintenance to optimise performance.

These comprehensive maintenance efforts contribute to reduction of our long-term costs and improvement of our asset utilisation, thereby helping to increase the overall reliability and maintain the production efficiency of these facilities.

## 7.8 SUGAR PRODUCTION PROCESSES

The primary raw material used in our refined sugar production process is raw sugar from sugar cane. Sugar cane is processed into raw sugar by raw cane mills promptly after harvest. Cane sugar refineries like those we operate purify raw sugar to produce refined sugar. Operating results of cane sugar refineries are driven primarily by the spread between raw sugar and refined sugar prices and by the conversion and other costs of the refining process. For details on raw materials and suppliers, see Section 7.11 of this Prospectus.

*Cane Process*

The annual sugar cane harvesting period in Malaysia typically begins in December and ends in April. Several varieties of sugar cane were initially imported from Africa, Taiwan, Australia, Brazil and the United States but sugar canes that are currently planted in the Chuping Plantation are hybrid varieties. Once planted, sugar cane is harvested each year for several consecutive years. With each subsequent harvest, sucrose yields decrease, and the current optimum economic cycle at the Chuping Plantation is five consecutive harvests. However, the harvests must be carefully managed in order to continue to attain sucrose yields similar to the newly-planted crop.

Before sugar cane is harvested, the field is set on fire, which removes dry leaves and destroys insects and other pests without harming the sugar cane stalks or the roots. After the sugar cane is harvested by mechanical harvesters and by manual cutting, it is transported to our mill for inspection and weighing. The proximity of our milling facilities at the KGFP Facility to the Chuping Plantation land on which we cultivate sugar cane reduces our transportation costs and enables us to process the sugar cane within up to 24 hours of harvesting, thereby maximising sucrose recovery as sucrose concentration in sugar cane starts to decrease upon harvesting.

The milling facilities at the KGFP Facility process sugar cane into raw sugar promptly after harvest. This process consists of several steps.

- The extraction or purifying process separates the natural sugar stored in the cane stalk from the rest of the sugar cane plant, and it involves grinding the cane and pressing it to extract the juice through a series of mills, known as "crushing" or "milling".

- The sugar juice resulting from milling is pumped away for processing into raw sugar and the residual fibrous material, called "bagasse", is recycled as fuel for the boiler furnaces at the KGFP Facility.

- Impurities in the extracted sugar juice are removed in a process called "clarification" whereby lime is added to the sugar juice and then heated. Lime neutralises acids and precipitates impurities, which settle out in large specially designed vessels called clarifiers.

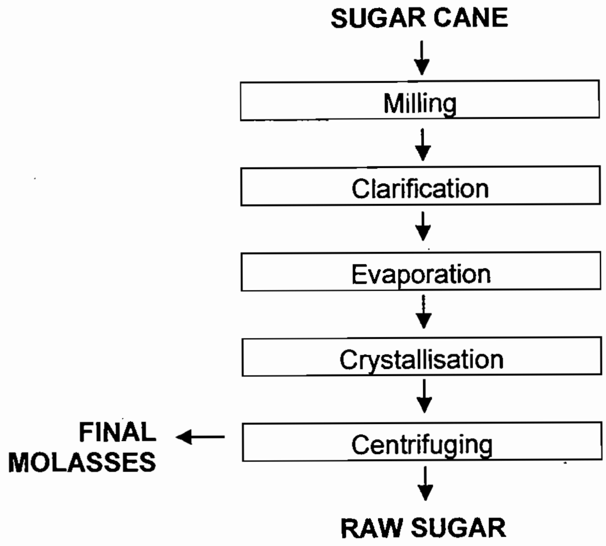
- Clear sugar juice from the clarifiers is concentrated through a process called "evaporation" by boiling it under vacuum in evaporator vessels, resulting in concentrated juice called "syrup".

- The syrup is further concentrated by boiling in a vacuum pan and is seeded with fine sugar crystals in a process called "crystallisation" whereby the crystals are grown to the required size by adding more syrup while boiling continues.

- The mixture of grown sugar crystals and syrup that is formed, called "massecuite", is placed into centrifuge machines which separate the crystals from the syrup and then dried and cooled to produce raw sugar.

Molasses is a viscous byproduct of this sugar cane process after a certain amount of sugar is extracted to produce raw sugar. Molasses has a sucrose content of approximately 45% to 55% and is typically sold to producers of ethanol, animal feed and yeast, among other products.

The following diagram illustrates how the sugar cane is processed into raw sugar for use at the KGFP Facility.




All, the raw sugar produced from the sugar cane harvested at the Chuping Plantation is used at the KGFP Facility. In 2008, 2009 and 2010, we crushed 370,602 mt, 282,150 mt and 202,899 mt of sugar cane, respectively, as the land area for sugar cane cultivation has been reduced as a result of a shift to higher value crops, such as oil palm and rubber. We will review from time to time in the future whether the amount of land devoted to sugar cane cultivation should be changed. Currently, the milling facility at the KGFP Facility has a crushing capacity of 5,500 mt per day.

*Raw Sugar Refining Process*

Each of the MSM Facility and the KGFP Facility refines raw sugar to produce refined sugar, along with molasses as a byproduct of the refining process. The refining process consists of several steps.

- Raw sugar crystals are initially mixed with raw syrup to soften them and remove impurities from the crystals' outer coating. The crystals are then separated from the syrup and washed with hot water in a centrifuge in a process called "affination".

- The washed sugar is dissolved to form "melted liquor". The melted liquor is then pumped to the carbonator, together with lime (calcium hydroxide) and carbon dioxide, for a process called "carbonation", which forms a carbonated precipitate that traps most of the impurities in the liquor.

- The carbonated precipitate, together with the impurities, is removed by pressure filtering to produce "clear liquor".

- Further colour removal is completed through either of two methods depending on the production facility, ultimately leading to the production of "decoloured liquor".

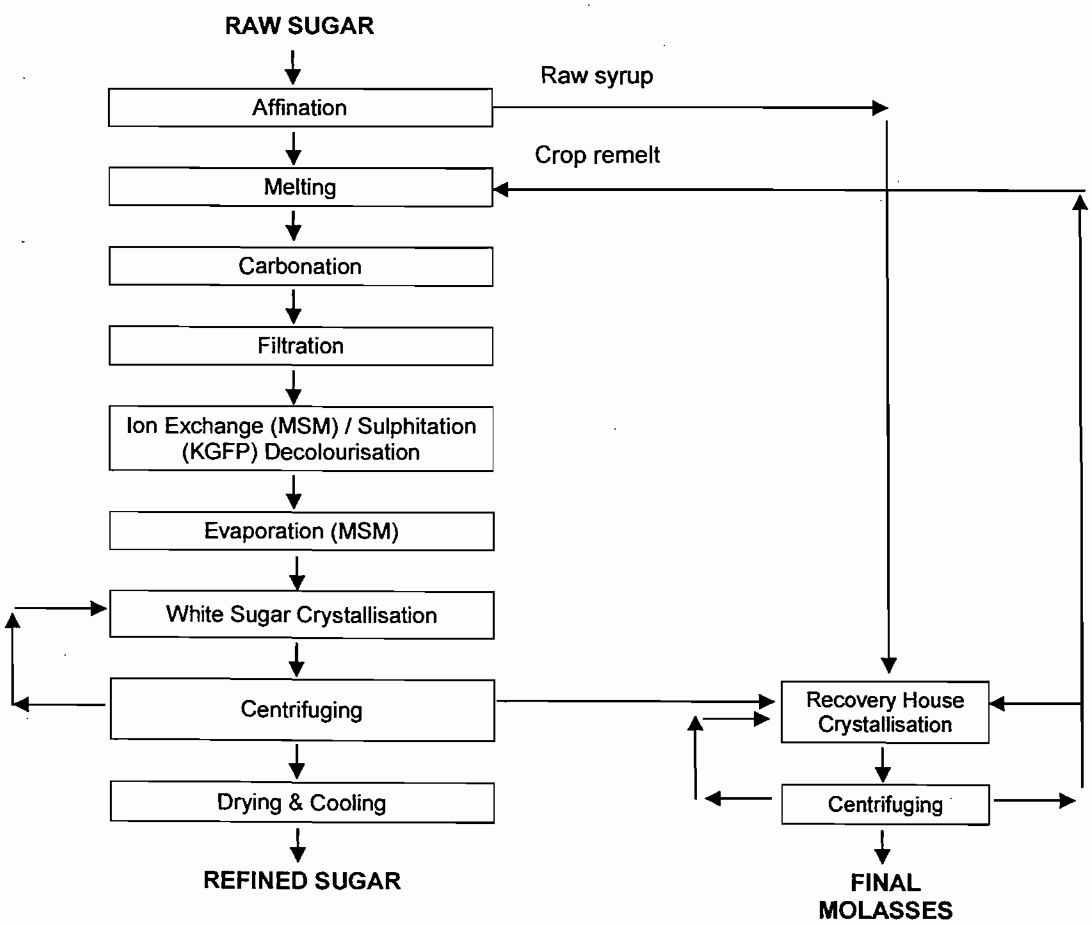
    - At the MSM Facility, colour removal is achieved by pumping the clear liquor through towers containing ion exchange resins that absorb the colour producing components.

- At the KGFP Facility, colour removal is achieved by a "sulphitation" process that uses sulfur dioxide reaction and filtration that absorb colour producing components.

- Solid impurities are removed from the decoloured liquor through a final filtration process to yield "fine liquor".
- At the MSM Facility, an additional step is undertaken to concentrate the fine liquor by having its excess water content evaporated before it undergoes crystallisation.
- The fine liquor is subsequently boiled in vessels called vacuum pans to form crystals. Fine sugar crystals are used as seed and are grown to the required size by adding more liquor.
- The mixture of grown sugar crystals and syrup that is formed, called "massecuite", is placed into centrifuge machines which separate the crystals from the syrup.
- The refined sugar crystals are then dried, cooled, sieved and screened into various grain-sized products and stored in silos to be transferred to warehouses or packaged into various grades for delivery to customers.

Molasses is also a byproduct of this refining process after a certain amount of sugar is extracted to produce our refined sugar products.

The following diagram illustrates how raw sugar is processed into refined sugar products.



## 7.9 BUSINESS INTERRUPTIONS

There has not been any material interruption to our business activities during the past 12 months.

## 7.10 QUALITY CONTROL

Product quality is extremely important to us, and we place great emphasis on quality control of all our products. We are committed to manufacturing safe, hygienic and high-quality refined sugar products that meet our customers' needs.

We have achieved a number of major certifications for our products and manufacturing processes including "Buatan Malaysia" certification for our white refined sugars for general and industrial use and "Halal" certifications. Moreover, each of our production facilities has its own quality control department. The quality control departments at both the MSM Facility and the KGFP Facility consistently monitor the quality of sugar cane (in the case of KGFP), raw sugar, intermediate products and finished products for pH, ash, colour, moisture and purity, among other factors, to ensure integrity of our manufacturing processes and to certify that the finished products meet our high standards. As a result of decreased sugar cane cultivation at the Chuping Plantation from 2008 to 2010, the number of our employees in the quality control department at KGFP that monitor the quality of sugar cane also decreased during that period. For customers that require products meeting defined parameters and specifications, such as those for colour or grain size, our quality control process also ensures that we consistently provide products that satisfy these conditions.

The quality management system and food safety management system employed by each of our production facilities are certified to the appropriate ISO standards, such as ISO 9001 and ISO 22000. Our quality and food safety 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 and food safety management systems are conducted annually and certified by SIRIM QAS International Sdn Bhd ("SIRIM"), the Malaysian national standards development and inspection agency for international certification bodies.

## 7.11 RAW MATERIALS

The main raw material for our operations is raw sugar, which is processed in our refineries to produce our sugar products. We use raw sugar produced from sugar canes that are processed in milling facilities promptly after harvest. Most of the raw sugar we require is imported while the rest is supplied from the sugar canes we harvest at the Chuping Plantation. Cost of raw sugar constituted 70.5%, 85.3% and 80.2% of our total cost of sales for 2008, 2009 and 2010, respectively, and 86.8% for the three months ended 31 March 2011.

*Sugar cane*

Sugar cane harvested at the Chuping Plantation is milled at the KGFP Facility to produce raw sugar for use in the refining operations at the KGFP Facility. Sugar cane yield is an important productivity measure for our harvesting operations. We believe that by choosing new sugar cane varieties, our agricultural yields may continue to increase. In 2010, our average sugar extraction yield was 76.33 kg of total sugar recovered ("TSR") per tonne of sugar cane and our agricultural yield was 50.14 mt of sugar cane per ha, compared to our average sugar extraction yield of 82.78 kg of TSR per tonne of sugar cane and 51.28 mt of sugar cane per ha in 2009, and 76.51 kg of TSR per tonne of sugar cane and 55.36 mt of sugar cane per ha in 2008. During a favourable harvest season with bumper crops and optimal sugar content, we believe that average sugar extraction yield could be approximately 90 kg of TSR per tonne of sugar cane and agricultural yield could be approximately 59 mt of sugar cane per ha.

In 2010, we milled 202,899 mt of sugar cane to produce approximately 16,218 mt of raw sugar equivalent, accounting for approximately 11% of the raw sugar supply used at the KGFP Facility. The remaining 89% of the raw sugar used at the KGFP Facility was imported, while all of the raw sugar that is used in the MSM Facility was imported.

*Raw Sugar*

Raw sugar is an intermediate product in cane sugar production that is used at our refineries for final processing to produce our sugar products. Raw sugar is a tan, coarse granulated product that is approximately 97% sucrose and obtained through the milling process that involves evaporation of clarified sugar cane juice. It may typically be stored for long periods and transported over long distances without, we believe, affecting its quality.

In 2010, approximately 0.99 million mt of the raw sugar we used, accounting for approximately 97% of our total raw sugar used, was imported sugar produced mainly in Australia and Brazil. We also purchase raw sugar from Thailand and other countries on an opportunistic basis.

Since the early 1970s, the Malaysian government represented by MITI has participated, together with Malaysian refined sugar producers, including MSM and KGFP, in negotiations for long-term raw sugar supply contracts with foreign raw sugar suppliers. Pursuant to these negotiations, MITI and all the refined sugar producers in Malaysia, including MSM and KGFP, collectively enter into supply contracts with foreign raw sugar suppliers typically covering a three-year period, and such contracts have helped us secure a consistent supply of raw sugar at prices that are usually lower than those available otherwise on the international spot market. These long-term supply contracts typically have had pricing terms that take into account the then-prevailing global market prices at the time of the contract and have been renegotiated and renewed for three-year terms generally on a continuous basis prior to their scheduled expiry.

We currently purchase approximately 49% of our imported raw sugar volume pursuant to such long-term supply contracts that were entered into in the early part of 2009 and are scheduled to expire at the end of 2011. The remaining 51% of the imported raw sugar is purchased in the international market at prevailing market prices, which are volatile. For additional information regarding risks related to imported raw sugar, see Section 5.1.2 of this Prospectus.

*Suppliers*

We expect to purchase a substantial portion of our raw sugar requirements from foreign sources in the foreseeable future. Our primary suppliers of raw sugar are Queensland Sugar Limited, Cargill International SA ("**Cargill**"), Noble Resources Pte Ltd, Sucres et Denrées SA and Eagle Trading Limited (currently known as Sucden Hong Kong Pty Ltd).

The following table provides information about our raw sugar suppliers in 2008, 2009 and 2010, and for the three months ended 31 March 2011 (including their country of incorporation) and the percentage of total raw sugar purchases accounted for by each supplier:

| | **Year Ended 31 December** | | | **Three Months Ended 31 March** |
|---|---|---|---|---|
| **Supplier** | **2008** | **2009** | **2010** | **2011** |
| Cargill International SA (Switzerland) | - | 6% | 34% | 36% |
| Eagle Trading Limited (currently known as Sucden Hong Kong Pty Ltd.) (Hong Kong) ................ | 6% | 4% | 21% | - |
| Mulgrave Central Mill Co. Ltd (Australia)............................ | - | 13% | 7% | - |
| Noble Resources Pte Ltd (Singapore) ......................... | - | 13% | 5% | - |

| Supplier *(Cont'd)* | Year Ended 31 December 2008 | 2009 | 2010 | Three Months Ended 31 March 2011 |
|---|---|---|---|---|
| Queensland Sugar Limited (Australia) | 11% | 34% | 21% | 32% |
| Sucre et Denrées SA (France) | 30% | 21% | 11% | - |
| Kerry Foodstuffs Co. Limited (Hong Kong) | 53% | 9% | - | 32% |
| **Total** | 100% | 100% | 100% | 100% |

The composition of our raw sugar suppliers changed significantly from 2008 to 2009 as new long-term raw sugar supply contracts were entered into in the early part of 2009 with additional suppliers. For raw sugar purchased on the open market, the raw sugar suppliers varied depending on the price and other terms offered by the suppliers.

*Energy, Utilities and Other Materials*

Sugar refining is an energy intensive process. The MSM Facility uses natural gas and the KGFP Facility uses biomass fuel for the boilers needed in the production process. The MSM Facility also uses diesel fuel primarily for transporting and handling refined sugar within our facilities as well as for backup electricity generators. Our total energy usage in 2010 consisted of 2.133 million mmbtu of natural gas, 615,340 litres of diesel fuel and 266,572 mt of biomass fuel. In addition, electricity and water are required for operating our refineries and are supplied by local utilities or, in certain cases, generated on our own facilities for internal consumption. For additional information on our plantation and production facilities, see Section 7.7 of this Prospectus.

Certain other materials, such as lime (calcium hydroxide), resin and boiler water treatment chemicals, are required for the operation of our production facilities and are critical in our production processes. We typically purchase these and other products and services from local suppliers. We also employ local contractors for the maintenance and repair of equipment in the MSM Facility and the KGFP Facility.

## 7.12 SALES AND MARKETING

We market our sugar products to retailers, distributors and industrial food manufacturers directly through our sales force and indirectly through wholesalers and traders. Our primary business strategy is to capitalise on our well-known brands and expand brand penetration through on-going emphasis on product quality to meet customers' expectations and to leverage our effective distribution and delivery network to more easily reach customers throughout Malaysia.

Our sales and marketing efforts are led by our marketing committee comprised of representatives from both MSM and KGFP. The committee expects to actively explore opportunities to achieve synergies in marketing and distribution efforts across the two operating companies to increase competitiveness and minimise distribution costs. Our sales and marketing team is based in our headquarters in Kuala Lumpur and services the majority of our biggest customers.

*Sales to Distributors/Retailers*

We sell a variety of sugar products, including coarse and fine granulated white sugar and brown sugar, to wholesale distributors who in turn sell those products to retail outlets, manufacturers, restaurants and institutional food service establishments in a variety of packaging sizes including sugar cubes, 5 g sachets and 1 kg, 2 kg, 15 kg, 25 kg, 30 kg and 50 kg bags. Retail packages are marketed under the trade names "Gula Prai" and "Gula Perlis". Our products reach all regions in Peninsular Malaysia and East Malaysia.

We sold 496,063 mt, 517,957 mt and 542,676 mt of refined sugar products to distributors/retailers in Malaysia in 2008, 2009 and 2010, respectively, and we sold 135,640 mt of refined sugar products to such customers in the three months ended 31 March 2011. Sales volume of refined sugar products to distributors/retailers in Malaysia accounted for 67.3%, 66.1% and 65.7% of our total refined sugar sales volume in 2008, 2009 and 2010, respectively, and 67.8% of our total refined sugar sales volume for the three months ended 31 March 2011.

*Sales to Industrial Customers*

We produce and sell refined sugar products to industrial customers, principally food manufacturers, in bulk or packaged form ranging from 50 kg to 1,400 kg. Food manufacturers purchase sugar for use in the preparation of ice cream, dairy products, beverages, confectionery and various other food products. We also sell molasses to producers of ethanol, animal feed and yeast. Historically, we have made the majority of our sales to industrial customers under fixed price, forward sales contracts with terms of up to one year.

We sold 241,351 mt, 265,475 mt and 283,383 mt of refined sugar products to industrial customers in Malaysia in 2008, 2009 and 2010, respectively, and we sold 64,534 mt of refined sugar products to such customers in the three months ended 31 March 2011. Sales volume of refined sugar products to industrial customers in Malaysia accounted for 32.7%, 33.9% and 34.3% of our total refined sugar sales volume in 2008, 2009 and 2010, respectively, and 32.2% of our total refined sugar sales volume for the three months ended 31 March 2011.

*Principal Markets and Customers*

We market and sell our products primarily in Malaysia. We also export our products typically when there is an excess in supply after domestic demand has been met. Our major markets outside of Malaysia include Australia, New Zealand, Pakistan, the Philippines, Singapore, Vietnam and Indonesia. Our export sales (excluding "local exports" discussed below) typically account for approximately 5% to 15% of our total sales, depending on the level of domestic and global sugar demand.

Sales in Malaysia include products sold as "local exports" to domestic industrial customers who use sugar purchased from us to manufacture products for export. Local exports of refined sugar accounted for 2.0%, 2.3% and 3.6% of our total sales in 2008, 2009 and 2010, respectively, and 1.8% of our total sales for the three months ended 31 March 2011. In 2008, 2009 and 2010, domestic sales, including local exports, of refined sugar accounted for 88.0%, 93.2% and 87.7%, respectively, of our total sales, and sales of refined sugar to other countries accounted for 11.0%, 6.2% and 11.6%, respectively, of our total sales. For the three months ended 31 March 2011, sales of refined sugar in Malaysia accounted for 95.8% of our total sales, and sales of refined sugar to other countries accounted for 3.1% of our total sales.

We are the largest producer of refined sugar products in Malaysia, and have a well-established and loyal customer base of approximately 260 customers in Malaysia, some of whom have been with us for decades, comprising principally retailers, traders, wholesalers and industrial food manufacturers such as beverage and condensed milk manufacturers. MSM Holdings' customers include F&N Beverages Manufacturing Sdn Bhd, Permanis Sdn Bhd, Kraft Foods Manufacturing Malaysia Sdn Bhd, Cadbury Confectionery Malaysia Sdn Bhd, Nestle Manufacturing (M) Sdn Bhd, Tesco Stores (Malaysia) Sdn Bhd, Giant GCH Retail (Malaysia) Sdn Bhd, Jaya Jusco Stores Bhd (currently known as Aeon Co (M) Bhd) and Yeo Hiap Seng (Malaysia) Berhad. Our export sales are made primarily through traders like Cargill and Sucden Hong Kong Pty Ltd. We believe that our partnerships with our customers are one of the most critical aspects of our business that complements our various strengths as they have allowed us to grow and maintain our market share domestically and penetrate international markets.

No single customer has contributed 10% or more of our total revenue in 2008, 2009 or 2010, or for the three months ended 31 March 2011.

Customer relationship management is key to our sales efforts, especially in the Malaysian market. We continue to enhance the level of service and product offerings to cater towards our customers' needs, such as manufacturing products to custom specifications and providing customised packaging sizes.

In order to facilitate distribution of our products, we have warehouses located in key regions of Malaysia from which we deliver our products throughout Malaysia by rail and road. The proximity of our production facilities and warehouses to key customers allows us to minimise transportation costs, increase efficiency and enhance reliability of product delivery to customers.

*Sales Information*

The following tables set forth sales amounts, sales as a percentage of total sales and volume for our products for the periods indicated:

| | Year Ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | | 2010 | | |
| | (RM million) | % | mt | (RM million) | % | mt | (RM million) | % | mt |
| **Refined Sugar Products** | | | | | | | | | |
| Domestic[1]........ | 993.0 | 86.1% | 721,161 | 1,493.9 | 90.9% | 762,823 | 1,823.3 | 84.1% | 792,723 |
| Local export[2].... | 23.3 | 2.0% | 16,253 | 37.4 | 2.3% | 20,610 | 77.4 | 3.6% | 33,336 |
| Export................ | 127.4 | 11.0% | 90,613 | 102.2 | 6.2% | 56,745 | 250.6 | 11.5% | 118,785 |
| **Other** | | | | | | | | | |
| Molasses........... | 10.5 | 0.9% | 36,890 | 10.1 | 0.6% | 30,024 | 17.3 | 0.8% | 33,915 |
| **Total**..................... | 1,154.2 | 100% | 864,917 | 1,643.6 | 100% | 870,202 | 2,168.6 | 100% | 978,759 |

| | Three Months Ended 31 March | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2011 | | |
| | (RM million) | % | mt | (RM million) | % | mt |
| **Refined Sugar Products** | | | | | | |
| Domestic[3] | 444.5 | 89.3% | 187,327 | 473.0 | 94.0% | 196,866 |
| Local export[2] | 15.7 | 3.1% | 6,732 | 8.9 | 1.8% | 3,308 |
| Export | 29.7 | 6.0% | 11,958 | 15.4 | 3.1% | 5,589 |
| **Other** | | | | | | |
| Molasses | 7.9 | 1.6% | 16,090 | 5.8 | 1.2% | 10,438 |
| **Total** | 497.8 | 100% | 222,107 | 503.1 | 100% | 216,201 |

***Notes:***

*(1) Revenue includes subsidy amounts of RM439.5 million for the year ended 31 December 2009 and RM479.9 million for the year ended 31 December 2010.*

*(2) "Local exports" are sales made to domestic industrial customers who use sugar purchased from us to manufacture products for export.*

*(3) Revenue includes subsidy amounts of RM145.2 million for the three months ended 31 March 2010 and RM54.2 million for the three months ended 31 March 2011.*

A substantial portion of our sales were made in the domestic market, accounting for 84.1% of our total sales in 2010 and 94.0% of our total sales in the three months ended 31 March 2011. Domestic sales primarily comprise coarse grain and fine grain white sugar, with our other refined sugar products, such as cater sugar and brown sugar, comprising the remainder of our domestic sales. Export and local export sales comprise entirely of coarse grain and fine grain white sugar products. We currently sell molasses only in the domestic market.

## 7.13 GOVERNING LAWS AND REGULATIONS

*Regulation of the Sugar Industry in Malaysia*

As in many countries, the sugar industry in Malaysia is regulated by the government. Pursuant to the Price Controls Act 1946, the government has historically set price ceilings for refined white sugar products, taking into account various factors. In recent years, there has been a sharp increase in the price of raw sugar in the international markets. For example, the average price of raw sugar was 27.03 cents per pound in 2010 compared to 13.84 cents per pound in 2008, based on the Sugar No. 11 futures contract traded on the New York Board of Trade. For additional information about international raw sugar prices, see "Section 1.4 - Industry Risks and Challenges" of Section 6 of this Prospectus. Following such increases in raw sugar prices, the Malaysian government introduced a sugar price subsidy in 2009 so that the increase in the price of raw sugar would not be fully passed on to consumers of refined sugar products in Malaysia. Our financial performance, like the financial performance of other refined sugar producers in Malaysia, thus depends to a large extent on the government's policies with respect to the sugar industry, such as the level of price ceilings and sugar subsidy, which are beyond our control.

In addition, the import of refined sugar into Malaysia is restricted by the government, with such imports only being allowed for industrial consumers with approved permits issued by the Malaysian government. At present we are not aware of any permits for the import of refined sugar having been approved and issued by the government.

The prices of coarse and fine granulated refined white sugar in the domestic market historically have been controlled by the Malaysian government pursuant to the Price Control Act 1946. The following table sets forth the maximum prices of refined white sugar products for the domestic market that were in effect during the periods indicated:

| | Peninsular Malaysia | | East Malaysia | |
|---|---|---|---|---|
| | Coarse Granulated Refined White Sugar | Fine Granulated Refined White Sugar | Coarse Granulated Refined White Sugar | Fine Granulated Refined White Sugar |
| | (RM per kg) | | | |
| **Factory to Wholesaler** | | | | |
| 1 January 2008 to 31 December 2008....... | 1.34 | 1.42 | 1.44 | 1.52 |
| 1 January 2009 to 31 December 2009....... | 1.34 | 1.42 | 1.44 | 1.52 |
| 1 January 2010 to 15 July 2010................ | 1.54 | 1.62 | 1.64 | 1.72 |
| 16 July 2010 to 3 December 2010........ | 1.74 | 1.82 | 1.84 | 1.92 |
| 4 December 2010 to 9 May 2011 .................. | 1.94 | 2.02 | 2.04 | 2.12 |
| 10 May 2011 to present ........................ | 2.14 | 2.22 | 2.24 | 2.32 |
| **Wholesaler to Retailer** | | | | |
| 1 January 2008 to 31 December 2008....... | 1.40 | 1.48 | 1.50 | 1.58 |
| 1 January 2009 to 31 December 2009....... | 1.40 | 1.48 | 1.50 | 1.58 |
| 1 January 2010 to 15 July 2010................. | 1.60 | 1.68 | 1.70 | 1.78 |
| 16 July 2010 to 3 December 2010......... | 1.82 | 1.90 | 1.92 | 2.00 |
| 4 December 2010 to 9 May 2011 .................. | 2.02 | 2.10 | 2.12 | 2.20 |
| 10 May 2011 to present ........................ | 2.22 | 2.30 | 2.32 | 2.40 |
| **Retailer to Customer** | | | | |
| 1 January 2008 to 31 December 2008....... | 1.45 | 1.55 | 1.55 | 1.65 |
| 1 January 2009 to 31 December 2009....... | 1.45 | 1.55 | 1.55 | 1.65 |
| 1 January 2010 to 15 July 2010................ | 1.65 | 1.75 | 1.75 | 1.85 |
| 16 July 2010 to 3 December 2010......... | 1.90 | 2.00 | 2.00 | 2.10 |
| 4 December 2010 to 9 May 2011 .................. | 2.10 | 2.20 | 2.20 | 2.30 |
| 10 May 2011 to present ........................ | 2.30 | 2.40 | 2.40 | 2.50 |

Domestic sales of other sugar products we sell, such as caster, brown sugar and molasses, are not subject to these retail price ceilings and are made at prevailing market prices. Domestic sales to certain major industrial customers in the beverage and dairy industries are also not subject to these price ceilings, and the Malaysian government has allowed the domestic sugar producers to charge a higher price to these industrial customers. Similarly, sugar that is exported or sold domestically as "local exports" is not subject to these price ceilings and is sold at prevailing market prices.

The Malaysian government introduced the sugar subsidy in 2009 in response to a sharp increase in global raw sugar prices in recent years. The table below sets forth the subsidy amounts that were in effect during the periods indicated since the subsidy was introduced:

| **Period** | **RM per kg** |
|---|---|
| 1 January 2009 to 31 December 2009........... | 0.60 |
| 1 January 2010 to 31 May 2010.................... | 0.80 |
| 1 June 2010 to 15 July 2010........................ | 0.70 |
| 16 July 2010 to 3 December 2010................. | 0.49 |
| 4 December 2010 to 31 December 2010........ | 0.29 |
| 1 January 2011 to 9 May 2011 ....................... | 0.40 |
| 10 May 2011 to present.................................. | 0.20 |

Each domestic refined sugar producer, including MSM and KGFP, provides to the government data on the volume of sugar it has sold at the controlled price on a monthly basis, and the government pays the subsidy to the sugar producers, subject to a monthly limit. The subsidy amount, together with the price ceiling, is determined annually based on a number of factors, including projected domestic demand, raw sugar prices and each domestic sugar producer's proven sales volume, and is subject to review and adjustment by the Malaysian government during the year as it deems appropriate.

Starting in 2010, the government has gradually adjusted the level of sugar subsidy and the sugar price ceiling, with the sugar subsidy amount generally being decreased and the price ceiling being increased. Because a substantial portion of our revenue is derived from sales of refined sugar products that are price controlled, if the global raw sugar prices remains high or increases further and the Malaysian government decreases or eliminates its sugar subsidy without increasing or eliminating the refined sugar price ceilings, our profit margin, financial condition and results of operations would be materially and adversely affected. For information regarding the risks related to the regulation of the sugar industry see Section 5.1.1 of this Prospectus.

*Price Control and Anti-Profiteering Act 2011*

The Price Control and Anti-Profiteering Act 2011 (the "PCAPA") replaced the Price Control Act 1946 ("PCA") and came into force on 1 April 2011. The PCAPA provides for the control of prices of goods whereby the MDTCC may, among others things, determine the maximum, minimum or fixed prices for the manufacturing, producing, wholesaling or retailing of goods.

In addition, the Price Advisory Council shall advise the Minister of MDTCC on issues relating to profiteering and the Minister of MDTCC shall prescribe the mechanism to determine whether profit is unreasonably high. The Price Controller is empowered to investigate and enforce the provisions of the PCAPA including any person making unreasonably high profits by selling, supplying or offering to sell or supply goods.

*Control of Supplies Act 1961*

The Control of Supplies Act 1961 (the "CSA") is enforced by the MDTCC and it provides for the control and rationing of supplies in Malaysia. Under the CSA, sugar is both a controlled article and a schedule article. As sugar is a schedule article, both dealing in sugar in the wholesale or retail markets and manufacturing of sugar, including sugar refining, requires a license. In addition, sale of sugar by any person (either wholesale or retail) at any premise requires a license. Specifically, a separate license is required for each and every such place of business of such persons.

Offenses under the CSA include the sale of any controlled article without a license, the sale by any person of any controlled article in excess of the quantity which may be lawfully acquired by the purchaser, the concealment and destruction of any controlled article in order to withhold the article from the market and false denial of being in possession of, or refusal to sell, a controlled article.

*Industrial Co-ordination Act 1975*

Industrial Co-ordination Act 1975 requires a license for any manufacturing activity in Malaysia. A license is required for the manufacture of specified products at each separate manufacturing site and is typically issued in accordance with national economic and social objectives in order to promote the orderly development of manufacturing activities in Malaysia.

The licenses are issued by MITI and are subject to certain conditions. They do not normally require renewal but are revocable in the event that an imposed condition is not complied with, the license holder is no longer carrying out the manufacturing activity or a false statement has been made in the application for the license. The licenses are non-transferable except with the prior approval of MITI.

*Occupational Safety and Health Act 1994*

We are subject to the Occupational Safety and Health Act 1994 ("OSHA"), under which we have a general duty to our employees to provide and maintain our production facilities and systems that are, to the extent practicable, safe and without risks to health. We also have an obligation to provide our employees with information, instruction, training and supervision to ensure, to the extent practicable, their safety and health, and to provide a safe working environment without risks to their health and welfare. Our duty extends to non-employees as well in order to ensure the safety and health of persons who may be affected by our operations.

Because we employ more than 500 employees, we are obliged under OSHA to employ a safety and health officer who is tasked with ensuring the due observance of our statutory obligations as regarding workplace health and safety as well as the promotion of safe work conduct. We have also set up a health and safety committee that promotes and develops measures to ensure our employees' safety and health and monitors the effectiveness of those safety measures.

*Environmental Quality Act 1974*

Environmental Quality Act 1974 prohibits activities causing air pollution, noise pollution, soil pollution or inland water pollution without obtaining a license. Accordingly, discharge of oil into Malaysian waters, discharge of wastes into Malaysian waters and open burning of fields are prohibited without obtaining the necessary licenses or permits. Malaysian Department of Environment ("DOE") and the local environmental authority are responsible for implementing and monitoring Malaysia's environmental regulations and policies.

## 7.14 COMPETITION

We compete primarily with other domestic sugar producers in Malaysia and foreign sugar producers in overseas markets. In the domestic market for refined sugar products that are price-controlled, we compete primarily on the basis of product offerings, product quality, the ability to meet timely delivery requirements and overall customer service. In markets that are not subject to price control, we also compete on the basis of price, and refined sugar product prices in such markets are determined largely by external market factors including global supply and demand balances and raw material costs that to some extent are beyond our control.

The import of refined sugar into Malaysia is restricted by the government, with such imports only being allowed for industrial consumers with approved permits issued by the Malaysian government. At present we are not aware of any permits for the import of refined sugar having been approved and issued by the government, thus our primary competitors in the domestic market are the operators of the other sugar refineries in Malaysia, namely CSR and GPT, which are controlled by Tradewinds (M) Berhad. In export markets, our main competitors include local sugar producers in those markets, such as SIS '88 Pte Ltd in Singapore, as well as global sugar companies such as ED & F Man Holdings Limited, Wilmar International Limited and Mitr Phol Sugar Group.

## 7.15 HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We have comprehensive health, safety and environmental management policies and systems covering environmental protection and conservation, people safety, food safety, health and asset protection.

*Environmental Compliance*

Our operations are governed by various Malaysian federal, state and local environmental regulations and these regulations impose effluent and emission limitations, and requirements regarding management of water resources, air resources, toxic substances, solid waste and emergency planning. Our environmental compliance policy covers a range of these areas and we are committed to the protection of the local ecology. Environmental protection is one of the important criteria we use when selecting new technologies and equipment. We implement these policies partly through use of energy-efficient equipment and pollution monitoring in our production facilities as well as through emphasis on control procedures and pollution management as an integral part of the training on operating and maintenance procedures. For example, MSM has successfully reduced its energy consumption by being the first sugar producer in Southeast Asia to operate a vertical continuous sugar vacuum pan that uses recycled vapour from batch pans as its heat source. Moreover, through the use of a nano-filtration system that recycles water, the brine solution is recycled and the wastewater load for MSM is significantly reduced, thereby minimising the harmful impact on the environment.

Malaysian law requires those companies, including manufacturers, whose business activities are expected to have a potentially 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.

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 DOE, which is responsible for enforcing pollution control regulations and policies in Malaysia. We maintain compliance with environmental regulations promulgated by local and national governing bodies, including the DOE. 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 offices.

We believe that our operations are in compliance in all material respects with applicable environmental laws and regulations currently in effect in Malaysia. We have received permission from the relevant authorities for the sugar cane burning activity at the Chuping Plantation. 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.

*Health and Safety*

The health and safety of our employees and our customers are of critical importance to us, and we are required to comply with a range of health, safety and food safety laws and regulations that are designed to protect workers, customers and consumers of our products. In order to comply with these regulations, we have developed specific operating and maintenance procedures and are required to maintain records and report data on a timely basis. We review our health, safety and food safety standards on an ongoing basis and our operations are subject to inspections by government authorities throughout the year. Our ongoing training programs apply to all phases of our production processes to ensure safe and hygienic conditions for our production facilities. 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.

Refined sugar products are combustible under certain conditions. We therefore conduct inspections of our production facilities regularly in order to prevent fires, explosions or other disastrous accidents. Our production facilities have their own internal firefighting teams as well as medical clinics that are capable of providing first-aid services if the need arises.

We maintain compliance with health, safety and food 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 offices.

Additionally, we have 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.

## 7.16 INSURANCE

Our operations are subject to numerous operating risks, including fire, floods, machinery breakdown, product liability, employer's liability and cargo damage. These risks and hazards could result in damage to or destruction of our inventory of raw materials and finished products, production facilities and machinery, personal injury, environmental damage and business interruption. To protect ourselves against such risks, MSM and KGFP carry insurance against property damage and consequent business interruption through "all risks" and other policies that are in force until 31 December 2011 and are renewed annually.

MSM's "all risks" coverage has a maximum indemnification limit of RM755.8 million per year for losses (i.e., physical loss or damage combined with business interruption following physical loss or damage), and this limit may be reinstated when assets damaged or affected by an incident are replaced. KGFP's fire and named perils policy has a maximum indemnification limit of RM199.1 million per year for physical loss or material damage and its business interruption and consequential loss policy has a maximum indemnification limit of RM38.0 million per 13 months. KGFP's "all risks" policy covers certain equipment and inland transit-related losses and has a combined maximum indemnification limit of RM0.7 million per year. Our "all risks" and other insurance coverage are subject to standard industry exclusions, namely terrorism, war and certain other events.

In addition to these policies, we maintain other insurance policies for specified risks, including marine transport, public liability, personal accident and motor vehicle insurance and other types of coverage that are not included in our "all risks" policies.

We do not anticipate having any difficulties in renewing any of our insurance policies and believe our insurance coverage is in accordance with industry standards in Malaysia.

## 7.17 EMPLOYEES

As of 31 March 2011, we employed a total of 1,068 permanent staff and 104 contract staff. Permanent employees generally include management, sales and marketing, operations and productions staff, while we typically employ contract workers for packing and warehouse work. In addition, as of 31 March 2011, we employed approximately 550 foreign workers, mainly from Thailand, who engage in seasonal harvesting of the sugar cane crop at the Chuping Plantation.

As of 31 December 2008, 2009 and 2010, our subsidiaries that are owned by MSM Holdings through the Pre-Listing Restructuring had a total of 1,127, 1,074 and 1,072 permanent staff, respectively, and 93, 99 and 117 contract staff, respectively.

The following table sets forth the number of employees for each of our operating subsidiaries as at 31 December 2008, 2009 and 2010 and as at 31 March 2011.

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| **Subsidiary** | **2008** | **2009** | **2010** | **2011** |
| **MSM** | **406** | **414** | **405** | **407** |
| KGFP | 814 | 759 | 784 | 765 |
| **Total** | 1,120 | 1,173 | 1,189 | 1,172 |

As of 31 March 2011, our permanent staff and contract staff were employed in the following locations:

| **Employee Type** | **Prai (MSM & KGFP)** | **Chuping (KGFP)** | **Kuala Lumpur (MSM)** | **Sungai Buloh (MSM)** | **Johor Bahru (MSM)** |
|---|---|---|---|---|---|
| Permanent staff | 315 | 672 | 22 | 48 | 2 |
| Contract staff | 12 | 82 | 8 | 2 | 0 |
| **Total** | 327 | 754 | 30 | 50 | 2 |

The following table sets forth the number of employees by job function as of the dates indicated.

| | As at 31 December | | | As at 31 March |
|---|---|---|---|---|
| **Job Function** | **2008** | **2009** | **2010** | **2011** |
| Management | 100 | 109 | 101 | 102 |
| Engineering | 274 | 257 | 260 | 250 |
| Marketing, Accounts, Administration, Purchasing and EMH | 256 | 265 | 276 | 270 |
| Production and packing | 339 | 337 | 363 | 359 |
| Quality assurance | 122 | 84 | 68 | 74 |
| Logistics and inventory | 29 | 30 | 29 | 29 |
| Plantation | 100 | 91 | 92 | 88 |
| **Total** | 1,220 | 1,173 | 1,189 | 1,172 |

As of 31 March 2011, 458 employees, or approximately 39% of our employees, were unionised. They are represented by in-house unions at each of MSM and KGFP: Malayan Sugar Manufacturing Company Employees' Union and Kesatuan Pekerja Kilang Gula Felda Perlis Sendirian Berhad, respectively. MSM signed a three-year collective bargaining agreement with its union in June 2009, while KGFP signed a collective bargaining agreement with its union in August 2009 which expires at the end of 2011. We believe we have a good relationship with our employees, demonstrated by the historically low turnover rate among employees, and we have not experienced any strikes or material disruptions due to labour disputes. As at the Latest Practicable Date, nothing has come to our attention that leads us to believe we are not in compliance with the relevant labour laws in any material respect.

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.

We do not maintain any other retirement, pension or severance plans or have any unfunded pension liabilities, nor do we owe any amounts to any present or former employees not in the ordinary course of business operations.

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 development is an on-going process and encourage our employees to improve their skills and knowledge through hands-on training and field experience.

Each of our production facilities provides technical training programs for our employees that allow them to gain technical knowledge and skills to effectively operate various parts of our production processes. By having employees trained in multiple aspects of our operations, we are able to effectively use our existing workforce to operate various parts of our production facilities without necessarily increasing the number of workers. For example, because milling operations at the KGFP Facility are seasonal, when milling operations cease for the year, workers who were involved in the milling process are subsequently deployed to other parts of the facility to work on refining operations that continue throughout the year.

In addition, the Human Resource Department and Education Division of the Felda Group provide a structured approach for the training and development of Felda Group's employees by aiming to link the capabilities required to implement our business strategies to individual training needs to ensure that the employees have the requisite skills and knowledge.

The following table provides details of the recent training programs attended by our employees:

| Skills | Name of Programme | Job Grade | Year |
|---|---|---|---|
| Leadership | Team development and leadership for supervisors | Production, packaging, logistics | 2009 |
| Safety and health | Fork-lift handling safety | Logistics and warehouse, maintenance | 2009, 2010 |
| Quality | CCP-2 & CCP-3 procedure and work instruction | Packaging supervisors and operators | 2010 |
| Technical | Libra 1 Budpack weigher controller operation and maintenance | Instruments technicians and packing operators | 2010 |
| Quality | 5S Internal auditor | Executives and foremen | 2010 |
| Quality | Pest control | Executives and foremen | 2010 |
| Quality | Personal hygiene | All levels | 2010 |
| Management tool | Performance management system | All levels | 2010 |
| Information technology | Exact System – material requisition | Executives and foremen | 2010 |

In addition to these internal training programs, we provide our employees opportunities to participate in externally conducted training programs such as those relating to various aspects of our business operations, laws and regulations governing employment practice, computer software skills and knowledge, work safety and fire-fighting, tax regulations and warehousing and inventory control best practices.

## 7.18 RESEARCH AND DEVELOPMENT

As sugar is a basic commodity item, our product types and range have generally remained constant over the years and we do not actively engage in research and development activities. However, as part of our customer support service, our production and quality assurance teams may from time to time perform certain testing and research to assist our customers in manufacturing finished sugar products that conform to the specific properties and characteristics they require. For example, MSM has worked with customers to use alternative anti-caking agents in icing sugar and to produce low-moisture soft brown sugar.

In addition, we continuously review ways to enhance our sugar refining process and have developed innovative improvements to our production process. For example, MSM has successfully reduced its energy consumption by being, we believe, the first sugar producer in Southeast Asia to operate a vertical continuous sugar vacuum pan that uses as its heat source recycled vapour from batch pans, which were subsequently upgraded with the triple-effect evaporator. Moreover, through the use of a nano-filtration system that recycles water, the brine solution is recycled and the wastewater load for MSM is significantly reduced, thereby minimising the harmful impact on the environment. We intend to continue to develop upgrades and modernisations to our equipment and technology as deemed necessary to maintain or increase our competitiveness.

## 7.19 CERTIFICATIONS AND RECOGNITIONS

We have been recognised as one of the leading producers of quality refined sugar products in Malaysia. Our recent certifications and recognitions include:

| Certification/Recognition | Recipient | Awarding Body | Year Awarded |
|---|---|---|---|
| • Certification for white refined sugars for general and industrial use | MSM | SIRIM | 1971 |
| • Buatan Malaysia certification for white refined sugars for general and industrial use | KGFP | SIRIM | 1992 |
| • Halal product certification for compliance with stringent food processes | MSM | Malaysia Department of Islamic Development (JAKIM) | 1998 |
| • Halal product certification for compliance with stringent food processes | KGFP | Halal Industry Development Corporation | 1999 |
| • ISO 9001:2000 certification for compliance with quality management systems | MSM | SIRIM | 2002 |
| • Hazard Analysis and Critical Control Point (HACCP) | MSM | The Ministry of Health of Malaysia | 2002 |
| • Kosher product certification | MSM | Court of The Chief Rabbi Beth Din, London | 2004 |
| • ISO 22000:2005 certification for compliance with food safety management systems | KGFP | SIRIM | 2008 |
| • ISO 9001:2008 certification for compliance with quality management systems | KGFP | SIRIM | 2008 |

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## 7.20 TECHNOLOGY AND INTELLECTUAL PROPERTY

*Technology*

Sugar cane milling and sugar refining processes generally do not require proprietary technologies that need to be licensed from vendors. Accordingly, we do not depend on any technology licenses to operate our milling and refinery businesses. The core milling and refining processes and related equipment utilised in our production facilities, such as boilers, filters, carbonators, vacuum pans, centrifuges and driers, are similar to those used by other mills and refineries in the sugar industry worldwide. For more information regarding our milling and refining processes, see Section 7.8 of this Prospectus.

Through continuous improvements and upgrades of equipment and machinery that use the latest technologies, the refining process at the MSM Facility has become largely automated such that the various components of the facility's operations could be controlled from a centralised location. The production process is generally controlled by a central process control system that directly links to most of the equipment and machinery in the facility and allows our plant operators to control as well as monitor the various stages of the production process through computer terminals located in the central control room.

While our operations at the KGFP Facility are not fully automated, we plan to improve and upgrade our equipment to take advantage of updated technologies and enable automation of our milling and refinery processes at the KGFP Facility by 2015.

*Trademarks*

We use a number of trademarks and trade names, including the "MSM" name and the following:

| Product | Brand Name/Trademark | Owner |
|---|---|---|
| Fine and coarse granulated sugar; icing sugar; soft brown sugar; caster sugar | Gula Prai | MSM |
| Fine and coarse granulated sugar | Gula Perlis | KGFP |
| Fine granulated sugar | Gula Pasir Halus Prai | MSM |
| Coarse granulated sugar | Gula Pasir Kasar Prai | MSM |
| Icing sugar | Gula Icing Prai | MSM |
| Soft brown sugar | Gula Merah Lembut Prai | MSM |
| Caster sugar | Gula Kastor Prai | MSM |

We own all of the trademarks we use, and all of these marks are registered in Malaysia.

*Patents and Other Intellectual Property*

We are not dependent on any patents or other intellectual property rights for our business operations.

## 7.21 DEPENDENCY ON COMMERCIAL CONTRACTS

The following contracts and arrangements, being contracts and arrangements within the ordinary course of business, are those which our Group is highly dependent on and are material to our Group's business or profitability:

### 7.21.1 MSM

(i) Agreement dated 6 February 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM, GPT, KGFP and Queensland Sugar Limited, whereby Queensland Sugar Limited has agreed to supply the specified amounts of raw sugar to MSM, GPT and KGFP, and MSM, GPT, and KGFP have agreed to purchase the raw sugar at the stated consideration. The agreement is valid for a period of three (3) years commencing from 1 January 2009 to 31 December 2011, unless otherwise terminated in accordance with the terms thereof.

(ii) Agreement dated 12 March 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM, CSR, GPT, KGFP and Noble Resources SA, whereby Noble Resources SA has agreed to supply the specified amounts of raw sugar to MSM, CSR, GPT, and KGFP, and MSM, CSR, GPT, and KGFP have agreed to purchase the raw sugar at the stated consideration. The agreement is valid for a period of three (3) years commencing from 1 January 2009 to 31 December 2011, unless otherwise terminated in accordance with the terms thereof.

(iii) Agreement dated 16 March 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM and Sucres Et Denrees, whereby Sucres Et Denrees has agreed to supply the specified amount of raw sugar to MSM and MSM has agreed to purchase the raw sugar at the stated consideration. The agreement is valid for a period of three (3) years commencing from 1 January 2009 to 31 December 2011, unless otherwise terminated in accordance with the terms thereof.

(iv) Agreement dated 8 April 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM, CSR and Cargill International SA, whereby Cargill International SA has agreed to supply the specified amounts of raw sugar to MSM and CSR, and MSM and CSR have agreed to purchase the raw sugar at the stated consideration. The agreement is valid for a period of three (3) years commencing from 1 January 2009 to 31 December 2011, unless otherwise terminated in accordance with the terms thereof.

(v) Undertaking letter dated 8 April 2011 from PAK to MSM, whereby PAK has agreed to grant MSM a lease over the plots of land bearing title details HSD 28162, Lot 286, Bandar Prai, Daerah Seberang Perai Tengah (specifically, Plots A, B, C and D of Lot 286) and HSD 28137, Lot 287, Bandar Prai, Daerah Seberang Perai Tengah respectively for a lease period of 30 years commencing from 1 December 1994 to 30 November 2024 at the agreed rental rate of RM0.18 per sq ft for the period between 1 December 1994 to 30 November 2009 and the agreed rental rate of RM0.27 per sq ft for the period between 1 December 2009 to 30 November 2024, and an additional lease period of 30 years commencing from 1 December 2024 to 30 November 2054 subject to a rental rate based on the valuation made by the Valuation and Property Services Department. The new lease agreement is to be agreed upon and executed by PAK and MSM within a period of six (6) months commencing from the date of the decision of the Malaysian government on 1 April 2011 approving the lease granted to MSM.

### 7.21.2 KGFP

(i) Agreement dated 6 February 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM, GPT, KGFP and Queensland Sugar Limited as referred to in Section 7.21.1 (i) above.

(ii) Agreement dated 12 March 2009 for the supply of raw sugar between the Government of Malaysia, as represented by MITI, MSM, CSR, GPT, KGFP and Noble Resources SA as referred to in Section 7.21.1 (ii) above.

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## 8.1 HISTORICAL AUDITED COMBINED FINANCIAL INFORMATION

The following selected historical audited combined financial statements for the three (3) financial years ended 31 December 2008, 31 December 2009 and 31 December 2010 have been derived from the combined financial statements of our Group after incorporating such adjustments considered necessary and based on the assumption that our current Group structure has been in existence throughout the financial years under review. The audited combined financial statements of our Group were not subject to any audit qualification for the years under review. The combined financial information for the three (3)-month period ended 31 March 2011 has been reviewed in accordance with the International Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity.

The financial information presented in the combined financial statements do not incorporate the effects of the Pre-Listing Restructuring and as such, may not be the same as the consolidated financial statements of the 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, result of operations and cash flows of our business.

You should read the financial information presented below in conjunction with the Accountant's Report as disclosed in Section 9 of this Prospectus and the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 8.2 of this Prospectus.

| | Audited | | | Unaudited | |
|---|---|---|---|---|---|
| | Year Ended 31 December | | | Three Months Ended 31 March | |
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Revenue | 1,154,230 | 1,643,621 | 2,168,598 | 497,753 | 503,172 |
| Cost of sales | (914,643) | (1,293,033) | (1,746,054) | (399,785) | (365,773) |
| Gross profit | 239,587 | 350,588 | 422,544 | 97,968 | 137,399 |
| Other operating income | 12,532 | 4,945 | 4,299 | 672 | 1,193 |
| Other (losses)/gains - net | - | 23,529 | (29,574) | (58,302) | (26,546) |
| Selling and distribution expenses | (50,238) | (49,006) | (49,279) | (10,649) | (11,659) |
| Administrative expenses | (29,984) | (28,491) | (33,693) | (10,284) | (9,035) |
| Profit from operations | 171,897 | 301,565 | 314,297 | 19,405 | 91,352 |
| Finance costs | (3,542) | (2,215) | (8,565) | (1,087) | (1,337) |
| PBT | 168,355 | 299,350 | 305,732 | 18,318 | 90,015 |
| Taxation | (46,145) | (62,057) | (72,866) | (6,279) | (27,814) |
| PAT | 122,210 | 237,293 | 232,866 | 12,039 | 62,201 |
| Depreciation | 19,851 | 27,534 | 39,967 | 10,136 | 10,403 |
| Amortisation | 70 | 70 | 3,292 | 862 | 862 |
| EBITDA[(1)] | 181,309 | 325,342 | 354,062 | 29,856 | 101,599 |
| No. of shares in issue[(2)] (000) | 702,980 | 702,980 | 702,980 | 702,980 | 702,980 |
| Gross EPS[(3)] (sen) | 23.9 | 42.6 | 43.5 | 10.4[(5)] | 51.2[(5)] |
| Net EPS[(4)] (sen) | 17.4 | 33.8 | 33.1 | 6.8[(5)] | 35.2[(5)] |
| NTA per ordinary share[(6)] (sen) | 81.1 | 68.3 | 106.6 | 99.2 | 67.9 |
| Gross profit margin (%) | 20.8 | 21.3 | 19.5 | 19.7 | 27.3 |
| PBT margin (%) | 14.6 | 18.2 | 14.1 | 3.7 | 17.9 |
| PAT margin (%) | 10.6 | 14.4 | 10.7 | 2.4 | 12.4 |
| EBITDA margin (%) | 15.7 | 19.8 | 16.3 | 6.0 | 20.2 |

*Notes:*

*(1)* *EBITDA refers to earnings before interest, taxation, depreciation and amortisation. 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 FRSM and should not be considered as an alternative to PAT, operating income, or any other performance measures derived in accordance with FRSM 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** | |
|---|---|---|---|---|---|
| | **Year Ended 31 December** | | | **Three Months Ended 31 March** | |
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| PBT | 168,355 | 299,350 | 305,732 | 18,318 | 90,015 |
| Amortisation | 70 | 70 | 3,292 | 862 | 862 |
| Depreciation | 19,851 | 27,534 | 39,967 | 10,136 | 10,403 |
| Finance costs | 3,542 | 2,215 | 8,565 | 1,087 | 1,337 |
| Interest income | (10,509) | (3,827) | (3,494) | (547) | (1,018) |
| EBITDA | 181,309 | 325,342 | 354,062 | 29,856 | 101,599 |

*(2)* *Based on the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(3)* *Computed as PBT divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(4)* *Computed as PAT divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring and IPO.*

*(5)* *Annualised.*

*(6)* *Computed as Net Assets less intangible assets divided by the enlarged issued and paid-up share capital after the Pre-Listing Restructuring 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 years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011 are based on, and should be read in conjunction with, the Accountants' Report and related notes included in 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 "Forward Looking Statements".

All references to our financial condition and results of operations in the following discussion and analysis refer to our financial condition and results of operations as presented in the combined financial statements included in this Prospectus. Our combined financial statements have been prepared and presented on an aggregated basis in accordance with FRSM.

### 8.2.1 Overview

We are the leading sugar producer in Malaysia, involved primarily in the production, marketing and sale of refined sugar products. We conduct our business principally through two operating subsidiaries, MSM and KGFP. We own and operate two sugar refineries, as well as the only sugar cane plantation and sugar cane milling facility in Malaysia. KGFP operates a sugar cane plantation, a sugar cane mill and a refinery, which are all located in Chuping, Perlis. MSM operates another refinery located in Seberang Prai, Penang. Products manufactured in our facilities are sold primarily in the domestic market, including sales made to domestic industrial customers who use sugar purchased from us to manufacture products for export. Our export sales accounted for 11.0%, 6.2% and 11.6% of our total sales in 2008, 2009 and 2010, respectively.

MSM Malaysia Holdings Berhad was created through the Pre-Listing Restructuring, which was undertaken by the Felda Group to better align and consolidate its sugar businesses. For details regarding the Pre-Listing Restructuring, see Section 12.1.2 of this Prospectus.

As at 31 December 2010 and 31 March 2011, we had total assets of RM1,788.6 million and RM1,795.7 million, respectively. For the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, we generated profits after tax of RM122.2 million, RM237.3 million, RM232.9 million and RM62.2 million, respectively, on revenues of RM1,154.2 million, RM1,643.6 million, RM2,168.6 million and RM503.2 million, respectively.

### 8.2.2 Basis of Presentation of Combined Financial Information

The combined financial information included in this Prospectus has been carved out of the historical consolidated financial statements of the parent company that controlled the Subsidiaries during the respective financial period presented. Accordingly, the combined financial information for 2008 and 2009 has been carved out of the historical consolidated financial statements of PPB Group and is presented on a "predecessor" basis, and the combined financial information for 2010 has been carved out of the historical consolidated financial statements of FGVH and is presented on a "successor" basis.

For purposes of the combined financial information, intercompany transactions, balances and unrealised gains on transactions among the Subsidiaries have been eliminated, and unrealised losses on transactions among the Subsidiaries have also been eliminated unless cost cannot be recovered. Where necessary, adjustments have been made to the financial statements of Subsidiaries to ensure consistency with the policies we have adopted.

In January 2010, FGVH acquired PPB Group's sugar businesses in Malaysia that were combined under our Company for a total consideration of RM1.3 billion. The transaction included the acquisition of PPB Group's entire interest in MSM and KGFP, along with sugar cane plantation land in Chuping, Perlis (collectively, the "Acquisition"). For more information about the Acquisition, see Section 7.4 of this Prospectus and Note 2 to the Combined Financial Information included in this Prospectus.

The Acquisition was accounted for as a purchase of a business, and accordingly, the purchase price was allocated to the identifiable net assets and liabilities acquired based on their respective fair values at the date of the Acquisition. The combined financial information for 2010 reflects the revised carrying value of the assets and liabilities after such allocation. The total purchase price exceeded the fair value of the identifiable net assets and liabilities and resulted in goodwill on acquisition of RM576.2 million as of 31 December 2010. In addition, as a result of the Acquisition, we recorded intangible assets of RM86.0 million related to the acquired brand name, as well as an amortisation charge of RM3.2 million related to the brand name in 2010, resulting in an intangible asset related to the brand name of RM82.8 million as of 31 December 2010. We also recorded additional depreciation and amortisation charges amounting to RM13.5 million in respect of the fair value adjustments to our assets in connection with the Acquisition, all of which affected our results of operations in 2010. Our results of operations for 2008 and 2009 were not affected by the Acquisition.

### 8.2.3 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) Regulation of the Sugar Industry in Malaysia

As in many countries, the sugar industry in Malaysia is regulated by the government. Pursuant to the Price Controls Act 1946, the government has historically set price ceilings for refined white sugar products, taking into account various factors. In recent years, there has been a sharp increase in the price of raw sugar in the international markets. Following such increases in raw sugar prices, the Malaysian government introduced a sugar price subsidy in 2009 so that the increases in the prices of raw sugar would not be fully passed on to consumers of refined sugar products in Malaysia. Our financial performance, like the financial performance of other refined sugar producers in Malaysia, thus depends to a large extent on the government's policies with respect to the sugar industry, such as the level of price ceilings and sugar subsidy, which are beyond our control.

Starting in 2010, the government has gradually adjusted the level of sugar subsidy and the sugar price ceiling, with the sugar subsidy amount generally being decreased and the price ceiling being increased.

In addition, competition in the domestic market is limited to refined sugar producers based in Malaysia, as the import of refined sugar into Malaysia is restricted by the government, with such imports only being allowed for industrial consumers with approved permits issued by the Malaysian government. At present we are not aware of any permits for the import of refined sugar having been approved and issued by the government.

For details on the regulation of the sugar industry in Malaysia, see Section 7.13 of this Prospectus.

**(ii) Raw Sugar Cost**

To operate our business successfully, we must obtain sufficient quantities of quality raw sugar in a timely manner and at acceptable prices. Apart from the raw sugar produced from sugar cane harvested at the Chuping Plantation, all the raw sugar used by our refineries is imported, and the volatility of global raw sugar prices is high. In 2010, the amount of raw sugar sourced from the Chuping Plantation was approximately 16,218 mt. Cost of raw sugar is the largest component of our production costs, accounting for 70.5%, 85.3% and 80.2% of our cost of sales for 2008, 2009 and 2010, respectively, and 71.9% and 86.8% during the three months ended 31 March 2010 and 2011, respectively.

The supply of raw sugar and the price at which we can purchase raw sugar are influenced by a number of factors that we may not be able to predict or have any control over, such as adverse weather conditions and changes in agricultural or export policies affecting the exporting country. Since the beginning of 2009, global raw sugar prices have increased sharply. The average price of raw sugar was 27.03 cents per pound in 2010 compared to 13.84 cents per pound in 2008, based on the Sugar No. 11 futures contract traded on the New York Board of Trade. For additional information about international raw sugar prices, see "Section 1.4 - Industry Risks and Challenges" of Section 6 of this Prospectus.

Furthermore, on average over the past three years, approximately 49% of our raw sugar volume was purchased under our long-term contracts that were negotiated with the participation of the Malaysian government, which has helped us secure a consistent supply of raw sugar at prices typically lower than those available otherwise on the international spot market. These contracts were entered into in the early part of 2009 and are scheduled to expire at the end of 2011. Typically, the pricing terms of these contracts take into account the then-prevailing global market prices at the time of the contract, which in the first quarter of 2009 were lower than the current prices on the international spot market. While the volume of raw sugar to be purchased under the long-term contracts is fixed, the amount of such raw sugar as a percentage of the total raw sugar we purchase in any year will depend on our volume of production. For further information on long-term supply contracts for raw sugar, see Section 7.13 of this Prospectus.

**(iii) Demand for Refined Sugar**

Our operating results are affected by the demand for refined sugar, mainly in Malaysia. The total consumption of refined sugar in Malaysia was approximately 1.4 million mt in 2010, according to the Executive Summary of the Independent Market Research Report on the Sugar Refining Industry in Malaysia in Section 6 of this Prospectus. For further information about consumption levels of refined sugar in Malaysia, see "Section 1.11.1.3 - Sugar Consumption and Growth Trends – Malaysia" in Section 6 of this Prospectus. Demand for refined sugar in Malaysia could change in the future as a result of one or a combination of many different factors that we cannot predict and may not have any control over, including:

- changes in the Malaysian government's policies regarding its sugar subsidy and price ceilings that affects the retail prices for refined sugar products;
- the Malaysian government's nutritional guidelines and labeling laws;

- changes in consumer sweetener preferences, including impact of dietary trends;
- changes in population and demographics;
- condition of the domestic and global economy; and
- changes in the availability, development or potential use of various types of alternative sweeteners.

**(iv) Foreign Exchange Fluctuations**

Our functional reporting currency is the RM. Our imported raw sugar costs, related hedging transactions and export sales are denominated mainly in USD. As such, the movement of the USD against the RM may have a significant effect on our profit after tax. A depreciation of the RM against the USD may increase the revenues from our export sales in RM terms but may also materially and adversely affect our financial performance because it may increase our imported raw sugar costs and other costs of production in RM terms. Conversely, an appreciation of the RM against the USD may reduce the cost of imported raw sugar in RM terms, but also have an adverse effect on our financial performance because it may reduce our export revenue in RM terms and raise the prices for our products against other currencies. During the three-year period ended 31 December 2010, the highest RM to USD exchange rate, based on Bank Negara Malaysia's noon middle rate, was RM3.73, and the lowest RM to USD exchange rate was RM3.08.

**(v) Hedging Transactions**

To minimise the risks associated with volatility in raw sugar prices, we engage in hedging transactions involving sugar futures contracts to fix the prices of some of our raw sugar imports. For the raw sugar we purchase outside of our long-term supply contracts, the purchase price is determined only as of the date of delivery at the then-prevailing market price, not as of the date that the order is placed, which is typically months prior to the delivery date. To fix the price of sugar before the delivery date, we purchase a sugar futures contract when the market price is deemed to be acceptable. If the market price of raw sugar at the time of delivery is higher than the price fixed under the sugar futures contract, we pay to the raw sugar supplier the prevailing market price at the time of delivery and receive from the counterparty for the futures contract an amount equal to the difference between the price we paid to the supplier and the price fixed pursuant to the futures contract. If the market price of raw sugar at the time of delivery is lower than the price under the sugar futures contract, we pay to the raw sugar supplier the prevailing market price at the time of delivery and also pay to the counterparty for the futures contract an amount equal to the difference between the price fixed pursuant to the futures contract and the price we paid to the supplier. The amounts we receive from or pay to the futures contract counterparty are recorded as realised gains or losses on our financial statements.

Additionally, we may from time to time hedge against fluctuations in the exchange rate between the RM and the USD by entering into forward contracts to purchase USD. If the RM weakens against the USD after we enter into the forward contract, we would record a gain from the hedging transaction, and if the RM strengthens against the USD, we would record a loss.

Accounting standards also require that futures contracts and forward contracts be marked to market at the end of every month until they expire, mature or are closed out, based on the prevailing market price at the end of the applicable month, which results in unrealised gains or losses depending on the market price. Thus, our quarterly financial results will be impacted by the changes in the fair value of our futures contracts and forward contracts.

In 2009, 2010 and the three months ended 31 March 2011, our net gains/losses from our raw sugar futures contracts and foreign exchange forward contracts were gains of RM23.5 million and losses of RM29.6 million and RM26.5 million, respectively. Hedge accounting is not applied to our raw sugar futures contracts and foreign exchange forward contracts.

### 8.2.4 Critical Accounting Policies

Our financial statements are prepared in accordance with FRSM. In preparing our financial statements, we are required to make estimates, assumptions and judgments regarding uncertainties that affect certain reported amounts of revenue and expenses during the reporting period as well as certain reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the date of the financial statements. We base these estimates, assumptions and judgments on our historical experience and on various other reasonable factors, which are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Our actual results may differ from these estimates, assumptions and judgments under different conditions. We believe our most critical accounting policies that result in the application of estimates, assumptions or judgments are the following.

#### (i) Property, plant and equipment

Property, plant and equipment are stated at historical cost or valuation less accumulated depreciation and impairment losses, if any. The historical cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of property, plant and equipment, including their purchase cost. Freehold land and capital work-in-progress are stated at cost and are not depreciated.

Depreciation for property, plant and equipment, other than freehold and capital work-in-progress, is recognised in the income statement on a straight-line basis to write off the cost or fair value of each asset to its residual value over the estimated useful life of such asset. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

We review residual values, estimated useful lives and the depreciation method of the assets at each balance sheet date 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 of estimated life and residual values include changes in the expected level of usage, physical wear and tear and technological developments. Changes in the estimated useful life and the residual values for our property, plant and equipment could have a material impact on our results of operations.

**(ii) Impairment of Trade Receivables**

We assess the collectability of receivables on an ongoing basis. An estimate is made for provision for impairment of receivables based on a review of all outstanding accounts at year end, and provisions are made for any receivables considered to be doubtful of collection in accordance with the original terms of the receivable. The amount of the provision is the difference between the carrying amount and the recoverable amount. The allowance for doubtful debts is made based on a review of all outstanding amounts as at the balance sheet date. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the creditworthiness, past collection history and the financial situation of each customer as well as commercial and economic trends. Accordingly, provisions for doubtful accounts are subject to uncertainty and may be revised upward or downward, and additional provisions may be required depending on the actual performance of an account receivable.

**(iii) Impairment of Goodwill**

Goodwill represents the excess of the cost of acquisition of subsidiaries over our share of the fair value of our identifiable net assets including contingent liabilities at the date of acquisition. Separately recognised goodwill is tested annually for impairment or if events or circumstances occur indicating that impairment may exist, and it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. This involves making an estimation of the value in use of the cash generating unit, which requires us to make an estimate of the expected future cash flows from the cash generating unit by assuming a budgeted gross margin, growth rate as well as a suitable discount rate in order to calculate the present value of those cash flows.

### 8.2.5 Results of Operations

**(i) Revenue**

Our revenues are primarily derived from sales of our refined sugar products and molasses. For 2008, 2009 and 2010, our total revenues were RM1,154.2 million, RM1,643.6 million and RM2,168.6 million, respectively, and for the three months ended 31 March 2010 and 2011, our total revenues were RM497.8 million and RM503.2 million, respectively.

Beginning in 2009, the Malaysian government introduced a subsidy for domestic refined sugar prices, which amounts are included as part of our revenue starting in 2009. For information regarding the government's sugar subsidy, see Section 7.13 of this Prospectus.

The following tables set forth sales amounts, sales as a percentage of total sales and sales volumes for our products for the periods indicated:

| | Year Ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | | 2010 | | |
| | RM (million) | % | MT | RM (million) | % | MT | RM (million) | % | MT |
| **Refined Sugar Products** | | | | | | | | | |
| Domestic[1] ........... | 993.0 | 86.1% | 721,161 | 1,493.9 | 90.9% | 762,823 | 1,823.3 | 84.1% | 792,723 |
| Local export[2]....... | 23.3 | 2.0% | 16,253 | 37.4 | 2.3% | 20,610 | 77.4 | 3.6% | 33,336 |
| Export.................. | 127.4 | 11.0% | 90,613 | 102.2 | 6.2% | 56,745 | 250.6 | 11.6% | 118,785 |
| **Other** | | | | | | | | | |
| Molasses............. | 10.5 | 0.9% | 36,890 | 10.1 | 0.6% | 30,024 | 17.3 | 0.8% | 33,915 |
| **Total** .................... | 1,154.2 | 100% | 864,917 | 1,643.6 | 100% | 870,202 | 2,168.6 | 100% | 978,759 |

| | Three Months Ended 31 March | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2011 | | |
| | RM (million) | % | MT | RM (million) | % | MT |
| **Refined Sugar Products** | | | | | | |
| Domestic[3] | 444.5 | 89.3% | 187,327 | 473.0 | 94.0% | 196,866 |
| Local export[2] | 15.7 | 3.1% | 6,732 | 8.9 | 1.8% | 3,308 |
| Export | 29.7 | 6.0% | 11,958 | 15.4 | 3.1% | 5,589 |
| **Other** | | | | | | |
| Molasses | 7.9 | 1.6% | 16,090 | 5.8 | 1.2% | 10,438 |
| **Total** | 497.8 | 100% | 222,107 | 503.1 | 100% | 216,201 |

***Notes:***

*(1)* *Revenue includes subsidy amounts of RM439.5 million for the years ended 31 December 2009 and RM479.9 million for the years ended 31 December 2010.*

*(2)* *"Local exports" are sales made to domestic industrial customers who use sugar purchased from us to manufacture products for export.*

*(3)* *Revenue includes subsidy amounts of RM145.2 million for the three months ended 31 March 2010 and RM54.2 million for the three months ended 31 March 2011.*

**(ii) Cost of Sales**

Our cost of sales consists primarily of raw sugar costs, which accounted for 70.5%, 85.3% and 80.2% of our total cost of sales for 2008, 2009 and 2010, respectively. For information regarding our arrangements for the supply of raw sugar, see Section 7.11 of this Prospectus. Other cost of sales include energy and utility costs, costs related to sugar cane cultivation at the Chuping Plantation, cost of packaging materials, cost of maintenance and repairs of our production facilities, depreciation, staff and other labour costs and costs of materials and supplies used in our production processes.

Cost of sales for 2008, 2009 and 2010 was RM914.6 million, RM1,293.0 million and RM1,746.1 million, respectively, and cost of sales for the three months ended 31 March 2010 and 31 March 2011 were RM399.8 million and RM365.8 million, respectively.

**(iii) Operating Expenses**

Our operating expenses apart from cost of sales consist of selling and distribution expenses and administrative expenses.

Selling and distribution expenses primarily comprise costs relating to transportation, warehousing and handling costs, as well as rent and lease payments for warehouses and distribution centres and sales commissions for our export sales.

Administrative expenses include management and staff costs, director remuneration, depreciation and amortisation, professional and purchased services, employee retirement plan contributions and insurance expense. For 2008 and 2009, administrative expenses also include expenses related to KGFP's agricultural research and development activities, which were discontinued in 2009.

The table below sets forth our selling and distribution expenses and administrative expenses for the specified periods:

| | Year Ended 31 December | | | Three Months Ended 31 March | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** | **2011** |
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| Selling and distribution expenses .................... | 50,238 | 49,006 | 49,279 | 10,649 | 11,659 |
| Administrative expenses | 29,984 | 28,491 | 33,693 | 10,284 | 9,035 |

### (iv) Other Operating Income

Other operating income consists principally of interest income. Other operating income for 2008, 2009 and 2010 was RM12.5 million, RM4.9 million and RM4.3 million, respectively. As the price of raw sugar increased substantially in recent years, we had to use more of our cash on hand to fund raw sugar purchases, which resulted in us earning less interest income on cash and cash equivalents, which in turn has led to a decrease in other operating income. In addition, in 2008 we had recorded other operating income from a one-time reversal of over-accrued rental expenses and there was no such reversal in 2009 and 2010. Other operating income for the three months ended 31 March 2010 and 2011 was RM0.7 million and RM1.2 million, respectively.

### (v) Other Net Losses or Gains

Other net losses or gains consist of fair value losses or gains on raw sugar futures contracts and foreign exchange forward contracts that we may enter into in order to hedge our exposures to fluctuations in raw sugar prices and exchange rates. No net losses or gains were recorded in respect of these hedging transactions in 2008 because the current accounting standards relating to recognition and measurement of these derivative financial instruments and their disclosure were not applicable and were not early adopted in 2008. See Note 3.7 and Note 6.25(i) to the Combined Financial Information included in this Prospectus. We were not a party to any raw sugar futures contracts in 2008.

In 2009, we recorded net gains of RM23.5 million, while in 2010, we recorded net losses of RM29.6 million. For the three months ended 31 March 2010 and 31 March 2011, we recorded net losses of RM58.3 million and RM26.5 million, respectively.

### (vi) Finance Costs

Finance costs consist mainly of interest expense related to bankers' acceptance and finance costs relating to the acquisition of the land in Chuping, and these costs are affected by the level of our financing activities and the applicable interest rates. Finance costs for the years 2008, 2009 and 2010 were RM3.5 million, RM2.2 million and RM8.6 million, respectively, and finance costs for the three months ended 31 March 2010 and 2011 were RM1.1 million and RM1.3 million, respectively. Finance costs increased significantly in 2010 due to higher interest expense related to bankers' acceptances in 2010 compared to 2009 as we increased the use of bankers' acceptances to finance our raw sugar purchases when raw sugar costs increased as a result of higher global raw sugar prices during 2010.

### (vii) Taxation

#### (a) Tax incentives

The Malaysian government provides certain tax incentives for the promotion of investments in selected industries in Malaysia, including the Reinvestment Allowance ("RA"). The RA is available for manufacturing companies that incur capital expenditures on projects for purposes of expansion, modernisation or diversification. MSM and KGFP currently qualify for this incentive. The rate of RA is 60% on the qualifying capital expenditures and this amount is in addition to capital allowances claims. The RA is used to reduce up to 70% of statutory income.

Under current regulations, the incentive period for RA is fifteen consecutive years beginning from the first year of claim by a company. The amounts claimed pursuant to the incentive remain subject to review and approval by the Malaysian Inland Revenue Board ("MIRB") and may differ in the event of an audit by MIRB. Availability of the RA for both MSM and KGFP will expire at the end of 2011.

**(b) Deferred tax income**

We recognise deferred tax income for the carry forward of unabsorbed tax losses and unutilised capital allowances to the extent that it is probable that future taxable profit will be available against which the unabsorbed tax losses and unutilised capital allowances can be applied.

**(c) PAT**

Our profit after tax for the years 31 December 2008, 2009 and 2010 was RM122.2 million, RM237.3 million and RM232.9 million, respectively. For the three months ended 31 March 2010 and 2011, our profit after tax was RM12.0 million and RM62.2 million respectively.

### 8.2.6 Review of Past Performance

**(i) Three Months Ended 31 March 2011 Compared to Three Months Ended 31 March 2010**

The following table presents selected income statement data, the percentage such amounts represent of total revenue, their percentage change for the periods indicated and total volume of products sold.

| | Three Months Ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2010 | % of Revenue | 2011 | % of Revenue | % Change |
| | RM | | RM | | |
| | (in thousands, except percentages and volume) | | | | |
| Revenue | 497,753 | 100.0 | 503,172 | 100.0 | 1.1 |
| Cost of sales | (399,785) | (80.3) | (365,773) | (72.7) | (8.5) |
| Gross profit | 97,968 | 19.7 | 137,399 | 27.3 | 40.2 |
| Other operating income | 672 | 0.1 | 1,193 | 0.2 | 77.5 |
| Other (losses)/gains - net | (58,302) | (11.7) | (26,546) | (5.3) | (54.5) |
| Selling and distribution expenses | (10,649) | (2.1) | (11,659) | (2.3) | 9.5 |
| Administrative expenses | (10,284) | (2.1) | (9,035) | (1.8) | (12.1) |
| Profit from operations | 19,405 | 3.9 | 91,352 | 18.2 | 370.8 |
| Finance costs | (1,087) | (0.2) | (1,337) | (0.3) | 23.0 |
| PBT | 18,318 | 3.7 | 90,015 | 17.9 | 391.4 |
| Taxation | (6,279) | (1.3) | (27,814) | (5.5) | 343.0 |
| Profit for the period | 12,039 | 2.4 | 62,201 | 12.4 | 416.7 |
| | | | | | |
| Volume sold | 222,107 mt | | 216,201 mt | | (2.7) |

(a) Revenue

Our revenue increased by 1.1% to RM503.2 million for the three months ended 31 March 2011 compared to RM497.8 million for the three months ended 31 March 2010. The increase in our revenue resulted mainly from increased sales volumes for domestic sales and higher sales prices of refined sugar products both in Malaysia and in the export market, offset in part by decreased export sales volume.

Sales of refined sugar products in the domestic market increased by 6.4% from RM444.5 million for the three months ended 31 March 2010 to RM473.0 million for the corresponding period in 2011. Domestic sales accounted for 94.0% of our total revenue for the three months ended 31 March 2011, compared to 89.3% of our total revenue for the three months ended 31 March 2010. Revenue from domestic sales increased for the three months ended 31 March 2011 compared to the corresponding period in 2010 primarily due to a 5.1% increase in domestic sales volumes, coupled with higher sales prices for domestic sales (as indicated in Section 7.13).

Revenue from local export sales decreased by 43.3% from RM15.7 million for the three months ended 31 March 2010 to RM8.9 million for the three months ended 31 March 2011 due to a 50.9% decrease in sales volume, offset in part by higher sales prices. Export sales decreased by 48.1% from RM29.7 million for the three months ended 31 March 2010 to RM15.4 million for the corresponding period in 2011 due to a 53.3% decrease in export volume resulting from increased pricing competition and weaker export demand caused by higher refined sugar prices as raw sugar prices in the international spot market continued to rise.

Sales of molasses decreased by 26.6% from RM7.9 million for the three months ended 31 March 2010 to RM5.8 million for the three months ended 31 March 2011 due to decreased sales volume, partially offset by higher sales prices of molasses in the domestic market.

(b) Cost of sales

Our cost of sales for the three months ended 31 March 2011 decreased by 8.5% to RM365.8 million compared to RM399.8 million for the three months ended 31 March 2010. The decrease is partly due to lower fair value realisation of certain assets acquired during the Acquisition of RM3.3 million for the three months ended 31 March 2011 compared to RM35.3 million for the corresponding period in 2010. See Section 8.2.2 of this Prospectus for additional information regarding the Acquisition. In addition, lower harvesting costs at the Chuping Plantation and a 2.7% decrease in total sales volumes contributed to the decrease in cost of sales for the three months ended 31 March 2011, partially offset by increased raw sugar cost, higher maintenance and repair costs as well as higher energy and utilities costs.

Raw sugar cost was our primary cost of sales, comprising 86.8% of our total cost of sales for the three months ended 31 March 2011, compared to 71.9% for the corresponding period in 2010. Our raw sugar cost increased by 10.4% from RM287.6 million for the three months ended 31 March 2010 to RM317.5 million for the three months ended 31 March 2011. The increase was primarily due to higher volume and costs for imported raw sugar purchased outside of our long-term supply contracts as raw sugar prices in the international spot market continued to rise during the three months ended 31 March 2011.

Energy and utilities costs and cost of packaging materials and other supplies used in our production processes also increased for the three months ended 31 March 2011 compared to the corresponding period in 2010 primarily due to higher consumption of fuel, utilities, packaging materials and other supplies at our production facilities as production volumes increased. Higher maintenance and repair costs reflect increased level of maintenance activities and repairs conducted at our production facilities.

(c) Gross profit and gross margin

As a result of the factors discussed above, our gross profit for the three months ended 31 March 2011 increased by 40.2% to RM137.4 million, compared to RM98.0 million for the three months ended 31 March 2010. Our gross margin increased to 27.3% for the three months ended 31 March 2011, compared to 19.7% for the corresponding period in 2010, as our revenue increased and cost of sales decreased.

(d) Other operating income

Our other operating income increased by 77.5% to RM1.2 million for the three months ended 31 March 2011 compared to RM0.7 million for the three months ended 31 March 2010, mainly due to higher interest income from our cash on hand as we increased our use of bankers' acceptances to finance our raw sugar purchases and used less cash on hand for such purposes.

(e) Other net losses or gains

We recorded other net losses of RM26.5 million for the three months ended 31 March 2011 compared to other net losses of RM58.3 million for the three months ended 31 March 2010, primarily due to losses of RM25.2 million and RM1.3 million arising from changes in the fair value of our raw sugar futures contracts and foreign exchange forward contracts, respectively, as global market prices for raw sugar fluctuated and the RM appreciated against the USD during the three months ended 31 March 2011.

(f) Operating expenses

Our selling and distribution expenses increased by 9.5% to RM11.7 million for the three months ended 31 March 2011 from RM10.6 million for the three months ended 31 March 2010. The increase was mainly due to higher transportation costs for our domestic sales, resulting from increased domestic sales volume.

Our administrative expenses decreased by 12.1% to RM9.0 million for the three months ended 31 March 2011 from RM10.3 million for the three months ended 31 March 2010. The decrease was mainly due to reduced expenses related to our sugar cane harvesting and milling activities as less sugar cane was cultivated in the Chuping Plantation during the three months ended 31 March 2011.

(g) Profit from operations

As a result of the factors discussed above, our profit from operations for the three months ended 31 March 2011 increased by 370.8% to RM91.4 million from RM19.4 million for the three months ended 31 March 2010.

(h) Finance costs

Our finance costs increased by 23.0% to RM1.3 million for the three months ended 31 March 2011 compared to RM1.1 million for the three months ended 31 March 2010. This increase is primarily due to a higher draw down on banker's acceptance to finance our raw sugar purchases.

(i) PBT

As a result of the factors discussed above, our profit before taxation for the three months ended 31 March 2011 increased by 391.4% to RM90.0 million, compared to RM18.3 million for the three months ended 31 March 2010. Our profit before taxation margin increased to 17.9% for the three months ended 31 March 2011, compared to 3.7% for the corresponding period in 2010, as the increase in revenue and decreases in cost of sales and other net losses recorded in the three months ended 31 March 2011 outpaced the increases in selling and distribution expenses and finance costs.

(j) Tax expense

Our tax expense increased by 343.0% to RM27.8 million for the three months ended 31 March 2011 compared to RM6.3 million for the three months ended 31 March 2010. The increase was primarily due to higher profits for the three months ended 31 March 2011 compared to the corresponding period in 2010. Our effective tax rate decreased to 30.9% for the three months ended 31 March 2011 from 34.3% for the three months ended 31 March 2010.

(k) PAT

As a result of the factors discussed above, our profit for the period increased by 416.7% to RM62.2 million for the three months ended 31 March 2011, from RM12.0 million for the three months ended 31 March 2010. Our profit after taxation margin increased to 12.4% for the three months ended 31 March 2011, compared to 2.4% for the corresponding period in 2010, due to the increase in profit before taxation margin as well as the decrease in our effective tax rate for the three months ended 31 March 2011 as discussed above.

### (ii) Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

The following table presents selected income statement data, the percentage such amounts represent of total revenue, their percentage change for the periods indicated and total volume of products sold.

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2009 | % of Revenue | 2010 | % of Revenue | % Change |
| | RM 000 | | RM 000 | | |
| Revenue | 1,643,621 | 100.0 | 2,168,598 | 100.0 | 31.9 |
| Cost of sales | (1,293,033) | (78.7) | (1,746,054) | (80.5) | 35.0 |
| Gross profit | 350,588 | 21.3 | 422,544 | 19.5 | 20.5 |
| Other operating income | 4,945 | 0.3 | 4,299 | 0.2 | (13.1) |
| Other (losses)/gains - net | 23,529 | 1.4 | (29,574) | (1.4) | (225.7) |
| Selling and distribution expenses | (49,006) | (3.0) | (49,279) | (2.3) | 0.6 |
| Administrative expenses | (28,491) | (1.7) | (33,693) | (1.6) | 18.3 |
| Profit from operations | 301,565 | 18.3 | 314,297 | 14.5 | 4.2 |
| Finance costs | (2,215) | (0.1) | (8,565) | (0.4) | 286.7 |
| PBT | 299,350 | 18.2 | 305,732 | 14.1 | 2.1 |
| Taxation | (62,057) | (3.8) | (72,866) | (3.4) | 17.4 |
| PAT | 237,293 | 14.4 | 232,866 | 10.7 | (1.9) |
| Volume sold | 870,202 mt | | 978,759 mt | | 12.5 |

(a) Revenue

Our revenue increased by 31.9% to RM2,168.6 million in 2010 compared to RM1,643.6 million in 2009. The increase in our revenue resulted mainly from higher sales volumes for exports, domestic sales and local exports and increased sales prices of refined sugar products both in Malaysia and in the export market.

Sales of refined sugar products in the domestic market increased by 22.0% from RM1,493.9 million in 2009 to RM1,823.3 million in 2010. Domestic sales accounted for 84.1% of our total revenue for 2010, compared to 90.9% of our total revenue for 2009. Revenue from domestic sales increased in 2010 compared to 2009 primarily due to a 12.5% increase in sales volumes, coupled with higher sales prices for domestic sales (as indicated in Section 7.13) as well as a 9.2% increase in subsidy amounts.

Revenue from local export sales increased by 107.0% from RM37.4 million in 2009 to RM77.4 million in 2010 due to increased sales volume and higher sales prices. Export sales increased by 145.2% from RM102.2 million in 2009 to RM250.6 million in 2010 due to higher global market prices for refined sugar products and a 109.3% increase in export volume resulting from greater refined sugar supply being available for export as our production volume increased in 2010.

Sales of molasses increased by 71.3% from RM10.1 million in 2009 to RM17.3 million in 2010 due to higher sales prices of molasses in the domestic market as well as increased sales volume.

(b) Cost of sales

Our cost of sales for 2010 increased by 35.0% to RM1,746.1 million compared to RM1,293.0 million for 2009. The increase was principally due to higher raw sugar costs reflecting the continued rise in raw sugar prices in the international spot market, higher depreciation and higher energy and utilities costs.

Raw sugar cost was our primary cost of sales, comprising 80.2% of our total cost of sales for 2010, compared to 85.3% in 2009. Our raw sugar cost increased by 27.0% from RM1,103.5 million in 2009 to RM1,401.1 million in 2010. The increase was primarily due to higher volume and costs for imported raw sugar purchased outside of our long-term supply contracts as raw sugar prices in the international spot market continued to rise during 2010. Additionally, our production facilities consumed higher volumes of raw sugar as our total production volume increased in 2010, contributing to higher costs of raw sugar in 2010.

Energy and utilities costs and cost of packaging materials and other supplies used in our production processes also increased in 2010 compared to 2009 primarily due to higher consumption of fuel, utilities, packaging materials and other supplies at our production facilities as production volumes increased and prices increased for biomass fuel, natural gas, utilities and other materials and supplies used in our production facilities.

Depreciation included in cost of sales also increased in 2010 compared to 2009 mainly as a result of the fair value adjustments of assets made in connection with the Acquisition which was completed in 2010.

(c) Gross profit and gross margin

As a result of the factors discussed above, our gross profit for 2010 increased by 20.5% to RM422.5 million, compared to RM350.6 million for 2009. Our gross margin decreased to 19.5% for 2010, compared to 21.3% for 2009, as the increase in cost of sales, especially the cost of raw sugar, outpaced the increase in revenue.

(d) Other operating income

Our other operating income decreased by 13.1% to RM4.3 million in 2010 compared to RM4.9 million in 2009, mainly due to a 8.7% decrease in interest income from RM3.8 million in 2009 to RM3.5 million in 2010 as more cash on hand was used to purchase raw sugar.

(e) Other net losses or gains

We recorded other net losses of RM29.6 million in 2010 compared to other net gains of RM23.5 million in 2009, primarily due to losses of RM19.3 million and RM10.3 million arising from changes in fair value of our raw sugar futures contracts and foreign exchange forward contracts, respectively, as global market prices for raw sugar fluctuated in 2010 and the RM appreciated against the USD during 2010.

(f) Operating expenses

Our selling and distribution expenses increased by 0.6% to RM49.3 million in 2010 from RM49.0 million in 2009. The increase was mainly due to higher transportation costs for our domestic and export sales, resulting from increased domestic and export sales volume.

Our administrative expenses increased by 18.3% to RM33.7 million in 2010 from RM28.5 million in 2009. The increase was mainly due to higher depreciation of leasehold lands and an amortisation charge with respect to intangible assets, both resulting from the fair value adjustments of assets recorded related to the Acquisition which was completed in 2010. Higher repair and maintenance expenses and management fees for shared services provided by FGVH and FHB starting in 2010 also contributed to increased administrative expenses, offset in part by a decrease in directors' remuneration and costs associated with employee retirement benefit plans.

(g) Profit from operations

As a result of the factors discussed above, our profit from operations for 2010 increased by 4.2% to RM314.3 million from RM301.6 million for 2009.

(h) Finance costs

Our finance costs increased by 286.7% to RM8.6 million for 2010 compared to RM2.2 million for 2009. This increase is primarily due to higher interest expense related to bankers' acceptances of RM6.4 million in 2010 compared to RM2.2 million in 2009 as we increased the use of bankers' acceptances to finance our raw sugar purchases as raw sugar purchase costs increased as a result of higher global raw sugar prices during 2010.

(i) PBT

As a result of the factors discussed above, our profit before taxation for 2010 increased by 2.1% to RM305.7 million, compared to RM299.4 million for 2009. Our profit before taxation margin decreased to 14.1% for 2010, compared to 18.2% for 2009, as the increase in cost of sales and finance costs and other net losses recorded in 2010 outpaced the increase in revenue.

(j) Tax expense

Our tax expense increased by 17.4% to RM72.9 million for 2010 compared to RM62.1 million for 2009. The increase was primarily due to a decreased utilisation of the RA from RM11.3 million in 2009 to RM0.4 million in 2010 and an over-provision of RM0.5 million of income tax in prior years in 2010 compared to an over-provision of RM1.3 million for income tax in prior years in 2009, partially offset by RM2.1 million in temporary differences not recognised for deferred tax. As a result, our effective tax rate increased to 23.8% for 2010 from 20.7% for 2009.

(k) PAT

As a result of the factors discussed above, our profit for the year decreased by 1.9% to RM232.9 million for 2010, from RM237.3 million for 2009. Our profit after taxation margin decreased to 10.7% for 2010, compared to 14.4% for 2009, due to the decrease in profit before taxation margin as well as the increase in our effective tax rate in 2010 discussed above.

**(iii) Year Ended 31 December 2009 Compared to Year Ended 31 December 2008**

The following table presents selected income statement data, the percentage such amounts represent of total revenue, their percentage change for the periods indicated and total volume of products sold.

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | % of Revenue | 2009 | % of Revenue | % Change |
| | RM 000 | | RM 000 | | |
| Revenue | 1,154,230 | 100.0 | 1,643,621 | 100.0 | 42.4 |
| Cost of sales | (914,643) | (79.2) | (1,293,033) | (78.7) | 41.4 |
| Gross profit | 239,587 | 20.8 | 350,588 | 21.3 | 46.3 |
| Other operating income | 12,532 | 1.1 | 4,945 | 0.3 | (60.5) |
| Other (losses)/gains - net | - | - | 23,529 | 1.4 | - |
| Selling and distribution expenses | (50,238) | (4.4) | (49,006) | (3.0) | (2.5) |
| Administrative expenses | (29,984) | (2.6) | (28,491) | (1.7) | (5.0) |
| Profit from operations | 171,897 | 14.9 | 301,565 | 18.3 | 75.4 |
| Finance costs | (3,542) | (0.3) | (2,215) | (0.1) | (37.5) |
| PBT | 168,355 | 14.6 | 299,350 | 18.2 | 77.8 |
| Taxation | (46,145) | (4.0) | (62,057) | (3.8) | 34.5 |
| PAT | 122,210 | 10.6 | 237,293 | 14.4 | 94.2 |
| Volume sold | 864,917 mt | | 870,202 mt | | 0.6 |

(a) Revenue

Our revenue increased by 42.4% to RM1,643.6 million in 2009 compared to RM1,154.2 million in 2008. The increase in our revenue resulted mainly from the sugar subsidy that was introduced in 2009 so that the increases in the price of raw sugar would not be fully passed on to consumers of refined sugar products in Malaysia, as well as higher sales volumes for our refined sugar products, offset in part by a decrease in export sales during the same period.

Sales of refined sugar products in the domestic market increased by 50.4% from RM993.0 million in 2008 to RM1,493.9 million in 2009. Domestic sales accounted for 90.9% of our total revenue for 2009, compared to 86.0% of our total revenue for 2008. Revenue from domestic sales increased in 2009 compared to 2008 mainly due to the sugar subsidy that commenced in 2009 in response to increases in raw sugar prices and also due to increased domestic sales volume.

Revenue from local export sales increased by 60.5% from RM23.3 million in 2008 to RM37.4 million in 2009 due to increased sales volume and higher sales prices. Export sales decreased by 19.8% from RM127.4 million in 2008 to RM102.2 million in 2009 due to a significant decrease in export sales volume offset in part by higher export sales prices. Our export sales decreased in 2009 due to weaker export market conditions.

Sales of molasses decreased by 3.8% to RM10.1 million in 2009 from RM10.5 million in 2008, resulting primarily from decreased molasses production at the KGFP Facility.

(b) Cost of sales

Our cost of sales for 2009 increased by 41.4% to RM1,293.0 million compared to RM914.6 million for 2008. The increase was principally due to higher raw sugar costs.

Raw sugar costs accounted for 85.3% of our total cost of sales for 2009, compared to 70.5% in 2008. Our raw sugar cost increased by 71.2% in 2009 to RM1,103.5 million compared to RM644.7 million in 2008. The increase was mainly due to higher prices for imported raw sugar under the new long-term supply contracts that came into effect in 2009 and higher costs for purchasing raw sugar outside of our long-term supply contracts as raw sugar prices increased in the international spot market during 2009, the effect of which would have been greater if there had been no long-term contracts for raw sugar.

(c) Gross profit and gross margin

As a result of the factors discussed above, our gross profit increased by 46.3% to RM350.6 million in 2009, compared to RM239.6 million in 2008. Our gross margin increased slightly to 21.3% for 2009, compared to 20.8% for 2008, as the increase in cost of sales kept pace with the increase in revenue.

(d) Other operating income

Our other operating income decreased by 60.5% to RM4.9 million in 2009 from RM12.5 million in 2008 due mainly to a decrease in interest income as we used more of our cash on hand to purchase raw sugar as raw sugar prices rose in 2009. In addition, in 2008 we had recorded other operating income from a one-time reversal of over-accrued rental expenses and there was no such reversal in 2009.

(e) Other net losses or gains

We recorded other net gains of RM23.5 million in 2009 compared to none in 2008 resulting from gains of RM25.1 million arising from changes in fair value of our raw sugar futures contracts as global market prices for raw sugar increased during 2009. We were not a party to any sugar futures contracts in 2008. These gains in 2009 were offset in part by losses of RM1.6 million arising from changes in fair value of our foreign exchange forward contracts due to the appreciation of the RM against the USD during 2009. We did not record any net losses or gains in respect of these hedging transactions in 2008 because the current accounting standards relating to recognition and measurement of these derivative financial instruments and their disclosure were not applicable and were not early adopted in 2008.

(f) Operating expenses

Our selling and distribution expenses decreased by 2.5% to RM49.0 million in 2009 from RM50.2 million in 2008. The decrease was mainly due to lower transportation and handling costs for exports as export sales decreased in 2009 compared to 2008. These decreases were partially offset by increased transportation and handling costs for domestic sales in line with higher domestic sales in 2009.

Our administrative expenses decreased by 5.0% to RM28.5 million in 2009 from RM30.0 million in 2008 mainly due to a decrease in depreciation, as well as a decrease in expenses relating to KGFP's agricultural research and development activities which were wound down and discontinued in 2009.

(g) Profit from operations

As a result of the factors discussed above, our profit from operations for 2009 increased by 75.4% to RM301.6 million from RM171.9 million for 2008.

(h) Finance costs

Our finance costs decreased by 37.5% to RM2.2 million for 2009 compared to RM3.5 million for 2008. This decrease was mainly due to a decrease in interest expense on bankers' acceptances resulting from decreased use of bankers' acceptances to finance our raw sugar purchases as we used more cash on hand to fund such purchases in 2009.

(i) PBT

As a result of the factors discussed above, our profit before taxation for 2009 increased by 77.8% to RM299.4 million, compared to RM168.4 million for 2008. Our profit before taxation margin increased to 18.2% for 2009, compared to 14.6% for 2008, as other net gains recorded in 2009 more than offset the decrease in other operating income and as our operating expenses decreased in RM terms and as a percentage of revenue.

(j) Tax expense

Our tax expense increased by 34.5% to RM62.1 million in 2009 compared to RM46.1 million in 2008. The increase was mainly due to higher profits for 2009 compared to 2008, partially offset by increased utilisation of the RA from RM0.7 million in 2008 to RM11.3 million in 2009 and an increased amount of over provision of income tax in prior years from RM0.1 million in 2008 to RM1.3 million in 2009. As a result, our effective tax rate decreased to 20.7% for 2009 from 27.4% for 2008.

(k) PAT

As a result of the factors discussed above, our profit for the year increased by 94.2% to RM237.3 million for 2009 from RM122.2 million for 2008. Our profit after taxation margin increased to 14.4% for 2009, compared to 10.6% for 2008, due to the increase in profit before taxation margin as well as the decrease in our effective tax rate in 2009 discussed above.

## 8.3 LIQUIDITY AND CAPITAL RESOURCES

### 8.3.1 Working Capital

Our principal source of liquidity is cash generated from our operations, cash and cash equivalents, credit extended by our suppliers and borrowings from financial institutions. Following the Listing, we expect to use the same principal sources of liquidity. Our ability to rely on these sources of funding could be affected by our results of operations and financial position and by the conditions in the Malaysian and international financial markets.

As at 31 March 2011, we had cash and cash equivalents of RM211.6 million (including fixed deposits with licensed financial institutions in Malaysia of approximately RM187.0 million) and total borrowings of RM147.5 million. Our working capital, calculated as current assets minus current liabilities, was RM122.6 million as at 31 March 2011. In addition, as at the Latest Practicable Date, both MSM and KGFP had entered into agreements for further credit facilities, namely unsecured revolving credit facilities ("RC") of up to RM335.0 million, for further funding of our working capital. Taking into consideration our funding requirements for our committed capital expenditure, expected funds to be generated from cash flows from operations, as well as our existing level of cash and cash equivalents and credit sources, our Board believes that we will have adequate working capital for at least 12 months from the date of this Prospectus.

### 8.3.2 Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

| | Year Ended 31 December | | | Three Months Ended 31 March | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Net cash generated from operating activities .............. | 82,290 | 235,064 | 134,285 | 84,768 | 201,131 |
| Net cash (used in) / generated from investing activities | (61,555) | 68,642 | (21,738) | (1,655) | (6,372) |
| Net cash (used in) / generated from financing activities | (204,582) | (251,026) | (176,684) | (74,296) | (70,240) |
| Net (decrease)/increase in cash and cash equivalents | (183,847) | 52,680 | (64,137) | 8,817 | 124,520 |
| Cash and cash equivalents at beginning of year/period | 282,308 | 98,461 | 151,141 | 151,141 | 87,004 |
| Cash and cash equivalents at end of year/period....... | 98,461 | 151,141 | 87,004 | 159,958 | 211,524 |

Most of our cash and cash equivalents are held in RM. Our Board is of the opinion that there are no legal, financial or economic restrictions on our Subsidiaries' ability to transfer funds to our Company in the form of cash dividends, subject to availability of distributable reserves, and/or loans or advances.

**Net cash generated from operating activities**

We had positive cash flows from operating activities for 2008, 2009 and 2010 and the three months ended 31 March 2011.

Net cash used in operating activities for the three months ended 31 March 2011 was RM201.1 million comprising profit for the period of RM62.2 million, adjustments for non-cash items of RM45.8 million and RM123.0 million in changes in working capital, which were partially offset by RM29.4 million in taxes paid. The adjustments for non-cash items for the three months ended 31 March 2011 consisted primarily of taxes payable of RM27.8 million, a depreciation expense of RM10.4 million, partially offset by interest income of RM1.0 million. The changes in working capital for the three months ended 31 March 2011 consisted primarily of decreases in inventories and receivables of RM77.0 million and RM34.9 million, respectively. The decrease in inventories for the three months ended 31 March 2011 was mainly due to a decrease in the volume of raw sugar in our inventory, partially offset by higher prices of raw sugar, and the decrease in receivables was primarily due to decreased export and local export sales.

Net cash generated from operating activities in 2010 was RM134.3 million, comprising profit for the year of RM232.9 million and adjustments for non-cash items of RM101.0 million, reduced by RM105.2 million in changes in working capital and RM92.9 million, RM0.9 million and RM0.5 million in taxes paid, interest paid and retirement benefits paid, respectively. Taxes paid in 2010 increased mainly due to higher estimated tax payments in 2010 and payment of RM21 million in respect of taxes payable for 2009 which were paid in 2010. The adjustments for non-cash items in 2010 consisted primarily of taxes payable of RM72.9 million and a depreciation expense of RM40.0 million, partially offset by fair value gains on derivative financial assets of RM20.5 million and interest income of RM3.5 million. The changes in working capital in 2010 consisted primarily of decreases in payables, inventories and biological assets of RM73.6 million, RM10.9 million and RM8.5 million, respectively, and an increase of RM53.9 million in receivables. The decrease in payables in 2010 compared to 2009 mainly reflects a return to normal levels after a one-time payable was recorded at the end of 2009 for a shipment of raw sugar that was in transit at year-end, and the increase in receivables mainly reflects increased deposits made to counterparties in hedging transaction related to raw sugar purchases, increases in export sales volume and higher export and domestic sales prices. The decrease in inventories was primarily due to a decrease in fair value realisation of raw sugar inventories, offset in part by higher prices of raw sugar in 2010.

Net cash generated from operating activities in 2009 was RM235.1 million, comprising profit for the year of RM237.3 million and adjustments for non-cash items of RM82.1 million, reduced by RM49.3 million in changes in working capital and RM33.1 million, RM2.0 million and RM0.03 million in taxes paid, retirement benefits paid and interest paid, respectively. The adjustments for non-cash items in 2009 consisted primarily of taxes payable of RM62.1 million and a depreciation expense of RM27.5 million, partially offset by RM6.0 million in fair value gains on derivative financial assets and RM3.8 million in interest income. The changes in working capital in 2009 consisted primarily of increases in receivables, payables and inventories of RM78.1 million, RM79.4 million and RM49.7 million, respectively. The increase in receivables mainly reflects deposits made to counterparties in hedging transactions related to raw sugar purchases and subsidy amounts to be collected from the government, both of which commenced in 2009, while the increase in payables was primarily due to a one-time payable recorded at the end of 2009 for a shipment of raw sugar that was in transit. The increase in inventories was mainly due to higher prices of raw sugar in 2009.

Net cash generated from operating activities in 2008 was RM82.3 million, comprising profit for the year of RM122.2 million and adjustments for non-cash items of RM60.1 million, reduced by RM57.0 million in changes in working capital and RM37.6 million, RM5.0 million and RM0.4 million in taxes paid, retirement benefits paid and interest paid, respectively. The adjustments for non-cash items in 2008 consisted primarily of taxes payable of RM46.1 million and a depreciation expense of RM19.9 million and RM3.5 million in interest expense, partially offset by RM10.5 million in interest income. The changes in working capital in 2008 consisted primarily of an increase in inventories of RM64.2 million and a decrease in receivables of RM13.5 million. The increase in inventories was mainly due to an increase in the volume of raw sugar in our inventory and higher prices of raw sugar. The decrease in receivables primarily reflects decreased export sales and increased level of cash purchases made by customers.

***Net cash used in investing activities***

Net cash used in investing activities for the three months ended 31 March 2011 was RM6.4 million, consisting primarily of RM7.5 million for purchase of property, plant and equipment, partially offset by RM1.0 million of interest received and RM0.1 million of proceeds from disposal of property, plant and equipment.

Net cash used in investing activities in 2010 was RM21.7 million consisting primarily of RM25.2 million used for the purchase of property, plant and equipment, reflecting capital expenditures related to a capacity expansion project at the MSM Facility and a new warehouse at the KGFP Facility.

Net cash generated from investing activities for 2009 was RM68.6 million consisting primarily of RM126.6 million in repayment of advances by the immediate holding company and RM3.8 million in interest received, offset in part by RM62.4 million used for purchase of property, plant and equipment, reflecting upgrades of building and machinery at our production facilities.

Net cash used in investing activities for 2008 was RM61.6 million consisting primarily of RM47.0 million used for purchase of property, plant and equipment, reflecting upgrades of building and machinery at our production facilities, and RM25.1 million in advances to the immediate holding company, partially offset by RM10.5 million in interest received.

***Net cash used in financing activities***

Net cash used in financing activities for the three months ended 31 March 2011 was RM70.2 million consisting primarily of RM127.0 million of repayment of bankers' acceptances, partially offset by drawdowns of RM57.5 million of bankers' acceptances.

Net cash used in financing activities in 2010 was RM176.7 million, consisting primarily of RM471.5 million of repayment of bankers' acceptances and RM251.7 million in dividends paid, partially offset by drawdowns of RM552.0 million of bankers' acceptances.

Net cash used in financing activities in 2009 was RM251.0 million, consisting primarily of RM219.5 million of repayment of bankers' acceptances and RM256.3 million in dividends paid, partially offset by drawdowns of RM218.0 million of bankers' acceptances.

Net cash used in financing activities in 2008 was RM204.6 million, consisting primarily of RM120.0 million of repayment of bankers' acceptances and RM347.9 million in dividends paid, partially offset by drawdowns of RM258.0 million of bankers' acceptances.

### 8.3.3 Borrowings

Our total outstanding borrowings as at 31 March 2011 were as follows:

| Borrowings | As at 31 March 2011 |
|---|---|
| | RM 000 |
| **Short-term borrowings** | |
| Secured bankers' acceptance | 10,000 |
| Unsecured bankers' acceptance | 137,500 |
| Total short-term borrowings | 147,500 |
| **Long-term borrowings** | |
| Total long-term borrowings | - |
| **Total borrowings**[1] | 147,500 |
| Gearing ratio (times)[2] | 0.13 |

***Notes:***

*(1) Does not include RM250 million drawn down under revolving credit facilities as at the Latest Practicable Date.*

*(2) The gearing ratio is calculated by dividing total indebtedness by total equity.*

As at 31 March 2011, all of our outstanding borrowings are denominated in RM. There has been no default on payments of either interest or principal for any of our borrowings throughout the year ended 31 December 2010 and the three months ended 31 March 2011 up to the Latest Practicable Date. We are not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans which can materially affect our financial position and results or business operations, or the investment by holders of our securities.

As at 31 March 2011, all of our borrowings have maturities of one year or less. The maturity profile of our borrowings as of the dates indicated is as follows:

| | As at 31 December | | | As at 31 March | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| **Maturity of Borrowings** | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Within 1 year | 138,000 | 136,500 | 217,000 | 63,000 | 147,500 |
| 1-2 years | - | - | - | - | - |
| 2-5 years | - | - | - | - | - |
| More than 5 years | - | - | - | - | - |
| **Total** | 138,000 | 136,500 | 217,000 | 63,000 | 147,500 |

The tables below set forth the interest rate profile of our financial liabilities as at 31 March 2011:

| | As at 31 March 2011 |
|---|---|
| | RM 000 |
| Fixed rate instruments | 147,500 |
| Floating rate instruments | - |
| **Total** | 147,500 |

As at 31 December 2010, MSM and KGFP had entered into agreements for credit facilities totalling RM563.0 million with an average interest rate of 3.2% per annum, to fund our working capital needs of which RM217.0 million has been drawn down. As at the Latest Practicable Date, both MSM and KGFP had entered into agreements for further credit facilities namely, RC of up to RM335.0 million for further funding of our working capital. As of the Latest Practicable Date, the Bankers Acceptances ("BA") of RM240.0 million and RC of RM250.0 million have been drawn down and are outstanding under the credit facilities.

The RC is intended to reduce reliance on internally generated cash for our working capital whilst at the same time, free up cash available to the Group. Pursuant to the Pre-Listing Restructuring, these cash will be utilised as payment for parting dividends by MSM and KGFP amounting to RM335.0 million to their respective shareholders.

### 8.3.4 Capital Expenditures

We incurred capital expenditures of RM52.0 million, RM63.9 million and RM18.3 million for the years ended 31 December 2008, 2009 and 2010, respectively, and RM2.2 million and RM6.7 million for the three months ended 31 March 2010 and 2011, respectively.

Our major capital expenditures for the periods indicated are as follows:

| | | Year Ended 31 December | | | Three Months Ended 31 March | |
|---|---|---|---|---|---|---|
| **Capital expenditures** | **Subsidiary** | **2008** | **2009** | **2010** | **2010** | **2011** |
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| **Capacity expansion projects** | | | | | | |
| Upgrade of production and packing stations and utilities at the MSM Facility | MSM | 28,024.6 | 47,014.3 | 2,784.5 | 988.6 | 183.0 |
| Extension of No. 2 factory building and boiler house at the MSM Facility | MSM | 6,074.7 | 4,497.8 | 37.1 | - | - |
| Construction of four 250 mt silos at Sungai Buloh warehouse | MSM | 2,853.9 | - | - | - | 114.8 |
| Installation of 50 kg packing station at Sungai Buloh warehouse | MSM | 1,898.2 | - | - | - | 1,501.7 |
| Construction of new warehouse at the KGFP Facility | KGFP | - | - | 2,182.7 | - | - |
| Installation of batch centrifuge at the KGFP Facility | KGFP | 920.6 | - | 881.0 | - | - |
| Automation of vacuum pan at the KGFP Facility | KGFP | - | 194.0 | - | - | - |
| Installation of sugar sieve at the KGFP Facility | KGFP | 422.2 | - | - | - | - |
| Weighing scale for refined sugar at the KGFP Facility | KGFP | - | 529.0 | - | - | - |
| Other | MSM | - | 13.8 | 2,469.8 | 36.4 | 1,465.3 |
| Other | KGFP | 856.6 | 776.6 | 336.3 | - | - |
| Total capacity expansion projects | | 41,050.8 | 53,025.5 | 8,691.4 | 1,025.0 | 3,264.8 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Equipment and parts replacements** | | | | | | |
| Replacement of vacuum pans, evaporator and other equipment at the MSM Facility ... | MSM | 5,000.6 | 7,322.2 | 4,791.8 | 527.5 | 1,917.8 |
| Installation of protective screen and variable frequency drive panel for centrifuge at the KGFP Facility ........................... | KGFP | - | - | 838.8 | 387.4 | - |
| Other........................................... | MSM | 2,350.8 | - | - | 13.0 | 566.2 |
| Total Equipment and parts replacements............................ | | 7,351.4 | 7,322.2 | 5,630.6 | 927.9 | 2,484.0 |
| **Other capital expenditures** | | | | | | |
| Total other.................................... | | 3,589.3 | 3,569.9 | 3,998.0 | 250.0 | 913.7 |
| **Total capital expenditures**............................... | | 51,991.5 | 63,917.6 | 18,320.0 | 2,202.9 | 6,662.5 |

The majority of our capital expenditures during the past three years have primarily been related to capacity expansion and improvements to our production facilities. Our significant projects during the past three years and the three months ended 31 March 2011 include:

- Upgrading and replacement of equipment and machinery at the MSM Facility, including melting, boiling, curing and screening stations, vacuum pans and electrical work, to expand total production capacity;
- Installation of 50 kg and 1 kg packaging facilities and additional silos at MSM's warehouse in Sungai Buloh;
- Raw sugar unloading facility at the MSM Facility;
- Storage expansion at KGFP's warehouse in Chuping; and
- Installation of centrifuge and related equipment at the MSM Facility.

Our planned capital expenditures for the year ending 31 December 2011 are RM85 million which we intend to use primarily for capacity expansion, automation of production facilities, equipment modernisation, storage expansion and other projects related to facilities improvements.

Our actual capital expenditures may vary from projected amounts due to various factors, including changes in market conditions, unplanned cost overruns, our ability to generate sufficient cash flows from operations, our ability to obtain adequate financing for these planned capital expenditures, demand for our products, Malaysian government's policies regarding the sugar industry and the state of the Malaysian and the global economy. In addition, our planned capital expenditures do not include any expenditures for potential acquisitions or investments that we may evaluate from time to time.

We expect to meet our capital expenditure requirements through our cash and cash equivalents on hand, cash generated from future operations and financing activities. 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, the condition of financial markets and the willingness of banks to provide financing facilities to us.

There have not been any material divestitures undertaken by us in 2008, 2009 and 2010 and the three months ended 31 March 2011.

### 8.3.5 Material Commitments

We had capital commitments of RM96.8 million at 31 March 2011. These commitments consisted of the following:

| Material Commitments (unaudited) | RM 000 |
|---|---|
| Property, plant and equipment | |
| Commitments approved and contracted for............ | 14,240 |
| Commitments approved and not contracted for....... | 82,522 |
| **Total material commitments....................................** | 96,762 |

The majority of our capital commitments at 31 March 2011 are related to capital expenditures for capacity expansion and improvements to our production facilities. Except as disclosed above, as at 31 March 2011, we are not aware of any material capital commitments incurred or known to be incurred by us that have not been provided for which, upon becoming enforceable, may have a material impact on our financial results or financial position. We expect to meet our material commitments through our cash and cash equivalents on hand, cash generated from future operations and financing activities.

The following table sets forth our contractual obligations as at 31 March 2011:

| | Less than 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| | RM 000 | RM 000 | RM 000 | RM 000 |
| Operating lease commitments. | 237 | 1,185 | 1,616 | 3,038 |
| Capital commitments.............. | 13,846 | 394 | - | 14,240 |
| Rental commitments................ | 230 | 191 | - | 421 |
| Purchase obligations.............. | 890,597 | - | - | 890,597 |
| Total contractual obligations.... | 904,910 | 1,770 | 1,616 | 908,296 |

### 8.3.6 Contingent Liabilities and Material Litigation

As at the Latest Practicable Date, our Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on our results of operations or financial condition.

As at the Latest Practicable Date, we are not engaged in any material litigation or arbitration, either as plaintiff or defendant, and we are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect our financial or business position.

### 8.3.7 Key Financial Ratios

Our key financial ratios based on the combined financial statements for the periods indicated are as follows:

| | As at 31 December | | | As at 31 March | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Trade receivables(1) .......... | 76,173 | 132,596 | 177,016 | 231,010 | 152,783 |
| Trade receivables turnover period (days)(2) ......................... | 27.06 | 23.18 | 26.06 | 32.87 | 29.49 |
| Trade payables(3) ............. | 10,395 | 82,851 | 12,889 | 10,429 | 14,591 |
| Trade payables turnover period (days)(4) ......................... | 4.07 | 13.16 | 10.01 | 10.5 | 3.38 |
| Trade inventory(5) ............. | 266,131 | 315,814 | 330,844 | 129,104 | 253,890 |
| Trade inventory turnover period (days)(6) ......................... | 131.73 | 96.24 | 84.23 | 93.96 | 91.11 |
| Current ratio(7) .................. | 3.14 | 1.80 | 2.48 | 2.42 | 1.22 |

***Notes:***

*(1)* *Trade receivables reflect outstanding amount of receivables from customers for sale of goods and services, before impairment of trade receivables.*

*(2)* *Average trade receivables multiplied by 365 days over total revenue.*

*(3)* *Trade payables reflect outstanding amount of payables to suppliers and vendors for purchase of goods and services.*

*(4)* *Average trade payables multiplied by 365 days over total cost of sales.*

*(5)* *Trade inventory reflects finished products and raw materials.*

*(6)* *Average trade inventory multiplied by 365 days over purchases. Purchases reflect trade inventory closing balance less trade inventory opening balance plus cost of sales.*

*(7)* *Current assets over current liabilities.*

#### Trade Receivables Turnover Period

Our normal credit period given to our trade debtors generally ranges up to 30 days. Our trade receivables turnover period has remained relatively consistent within our normal credit terms throughout the financial periods under review. We believe that adequate allowance has been made for doubtful debts based on historical experience and the balance of the trade receivables are recoverable in full.

The aging analysis for trade receivables as at 31 March 2011 is as follows:

| | Current | Past Due 1-30 Days | Past Due 31-60 Days | Past Due 61-90 Days | Past Due More than 90 Days | Total |
|---|---|---|---|---|---|---|
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| Trade receivables[(1)] | 102,597 | 47,574 | 2,612 | - | - | 152,783 |
| % of total trade receivables ...... | 67.2% | 31.1% | 1.7% | - | - | 100% |

***Note:***

*(1) After impairment of trade receivables.*

As at the Latest Practicable Date, 83% or RM127.5 million of the trade receivables of RM152.8 million has been collected.

**Trade Payables Turnover Period**

Our normal credit period given by our trade creditors generally ranges between 30 days to 60 days. Historically, trade payables have consisted of payables relating to our production inputs, such as packaging materials and fuel, and did not include payables for raw sugar as our payment period for raw sugar purchases are usually within one to two weeks after a bill of lading is issued. However, at the end of 2009 there was a raw sugar shipment worth RM73 million that was in transit and for which the invoice had not yet been paid at year-end, resulting in the substantial increase in trade payables from RM10.4 million at 31 December 2008 to RM82.9 million at 31 December 2009. The invoice for this raw sugar shipment was paid in early 2010. Trade payables as of 31 December 2010 decreased to RM12.9 million as there were no similar raw sugar shipments in transit at the end of 2010 that were not paid for.

Our trade payables turnover period increased from 4.07 days for 2008 to 13.16 days for 2009 primarily due to the raw sugar shipment that was in transit at the end of 2009, and subsequently decreased to levels within our normal credit terms in 2010 and for the three months ended 31 March 2011.

We manage the disparity between our trade receivables and trade payables by using short-term financing, mainly bankers' acceptances, thus our trade payables should be reviewed together with our short term borrowings.

The aging analysis for trade payables as at 31 March 2011 is as follows:

| | Current | Past Due 1-30 Days | Past Due 31-60 Days | Past Due 61-90 Days | Past Due More than 90 Days | Total |
|---|---|---|---|---|---|---|
| | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** | **RM 000** |
| Trade payables .. | 7,897 | 5,649 | 652 | 134 | 259 | 14,591 |
| % of total trade payables .......... | 54.12% | 38.72% | 4.47% | 0.92% | 1.77% | 100% |

**Trade Inventory Turnover Period**

Our trade inventory is mainly comprised of raw sugar and finished goods. The turnover period for trade inventory has decreased from 131.73 days for 2008 to 84.23 days for 2010 and increased to 91.11 days for the three months ended 31 March 2011, mainly due to the substantial increase in raw sugar prices during the period which increased cost of sales.

**Current Ratio**

The decrease in our current ratio at 31 December 2009 compared to 31 December 2008 is primarily due to higher trade payables mainly to raw sugar suppliers and higher tax liability and dividends payable, and the increase in our current ratio at 31 December 2010 compared to 31 December 2009 is primarily due to lower trade payables, tax liabilities and no dividends payable. The decrease in our current ratio at 31 March 2011 compared to 31 March 2010 is mainly as a result of higher payables mainly to raw sugar suppliers and higher tax liability.

### 8.3.8 Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements which are reasonably likely to have a current or future material effect on results of operations or our financial condition.

### 8.3.9 Financial Risk Management

We are exposed to certain financial risks that arise in our normal course of business. The objective of our financial risk management is to minimise potential adverse effects on our financial performance. Financial risk management is carried out through risk reviews, internal control systems, insurance program and adherence to financial risk management policies. We may from time to time enter into derivative financial instruments, principally commodities futures and foreign currency forward contracts, as part of our strategy to hedge our exposure to financial risks.

Our key financial risks are summarised below.

**Commodity price risk**

We are exposed to fluctuations in the price of commodities, particularly raw sugar, which is affected by unpredictable factors such as weather conditions and levels of global demand, production and supply. We currently attempt to manage our exposure to price fluctuations in the raw sugar we import by entering into futures contracts. For additional information regarding risks related to our hedging transactions, see Section 5.2.2 of this Prospectus.

The sugar industry in Malaysia is regulated by the Malaysian government through subsidies and price controls on certain refined sugar products in the domestic market. For more information on the regulation of the sugar industry in Malaysia, see Section 7.13 of this Prospectus. We regularly monitor the potential impact that our exposure to the fluctuations in raw sugar prices and the government's policies with respect to the sugar industry may have on our financial performance. Our management meets regularly to review our raw sugar requirements and price trends in order to decide on the timing of our raw sugar purchases as to optimise our profit margins.

Based on our hedged raw sugar position as of 31 December 2010, if the price of raw sugar increases or decreases by 10%, with all other variables held constant, our profit before tax and equity would increase or decrease, respectively, by RM47.6 million.

**Foreign currency risk**

We are exposed to foreign currency risk as a result of transactions entered into in currencies other than RM, which primarily consist of raw sugar purchases and export sales that are both denominated in USD. We aim to manage exposures to foreign currency that may arise from our operating activities within a framework of controls that minimise the impact of foreign currency fluctuations. We use foreign currency forward contracts from time to time to manage our foreign exchange exposures arising from receivables and payables denominated in foreign currencies. As at 31 December 2010, if the USD strengthens or weakens by 5% against the RM, with all other variables held constant, we expect that our profit before tax and equity would decrease or increase, respectively, by RM1.4 million.

**Credit risk**

We have no significant concentration of credit risk. Credit risk is minimised and monitored by limiting our dealings to creditworthy business counterparties, setting credit limits on exposures, applying credit approval controls and obtaining collateral or security deposits where appropriate. For further information about our customers, see Section 7.12 of this Prospectus. We seek to invest our cash and cash equivalents with a number of creditworthy licensed financial institutions primarily in short-term fixed deposits.

**Interest rate risk**

Our income and operating cash flows are substantially independent of changes in market interest rates. Our exposure to interest rate risk relates primarily to our short-term fixed deposits with financial institutions and unsecured bank borrowings. We monitor interest rates prior to making fixed deposits and bank borrowings to ensure that the applicable rates are established at acceptable levels.

Fixed deposits generate interest income based on prevailing market interest rates. We manage our interest rate risk by limiting the tenure of such fixed deposits to less than one year. All of our banker's acceptances are on fixed interest rate terms. We have drawn down and have outstanding RM250 million under our revolving credit facilities with floating interest rates. Therefore, a change in the interest rate may affect our profit or loss.

**Liquidity and cash flow risks**

We maintain sufficient level of cash and cash equivalents to meet our operational needs by continuously monitoring both the rolling forecasts and actual cash flows. We also have access to credit facilities maintained with a number of financial institutions to meet our liquidity requirements. Excess cash is placed in fixed deposits with creditworthy licensed financial institutions.

We seek to ensure that all the Subsidiaries maintain optimum levels of liquidity at all times, sufficient for their operating, investing and financing activities. We aim to achieve this through efficient working capital management related to, for example, inventory, accounts receivable and accounts payable, that enables us to convert our current assets into cash to meet all demands for payment as and when they become due.

**Capital risk**

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for our shareholders and to maintain an optimal capital structure to reduce our cost of capital. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to our shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others companies in the industry, we monitor capital on the basis of the gearing ratio, which can be found in Section 8.3.3 of this Prospectus.

## 8.4 CAPITALISATION AND INDEBTEDNESS

The following information should be read in conjunction with the Reporting Accountant's Letter and the Pro Forma Consolidated Balance Sheets as at 31 December 2010 and the related notes and the Accountants' Report and related notes included in this Prospectus.

The table below sets out our cash and cash equivalents as well as capitalisation and indebtedness based on our combined financial information as at 31 December 2010 on the assumption that the Pre-Listing Restructuring and the IPO had occurred on 31 December 2010.

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

| | Combined Financial Statement | Pro Forma I | Pro Forma II |
|---|---|---|---|
| | As at 31 December 2010 | After Pre-Listing Restructuring | After Pro Forma I and Public Issue and utilisation of proceeds |
| | Audited | Unaudited | Unaudited |
| | RM 000 | RM 000 | RM 000 |
| **Cash and cash equivalents** ..................... | 87,055 | 2,055 | 95,880 |
| **Indebtedness(1)** | | | |
| **Short-term borrowings** | | | |
| Bankers' acceptance ........... | 217,000 | 217,000 | 217,000 |
| Total short-term borrowings. | 217,000 | 217,000 | 217,000 |
| **Long-term borrowings** | | | |
| Total long-term borrowings.. | - | - | - |
| **Total indebtedness**............ | 217,000 | 217,000 | 217,000 |
| **Total equity/capitalisation** | 1,408,540 | 1,017,139 | 1,430,964 |
| **Total capitalisation and indebtedness**.................. | 1,625,540 | 1,234,139 | 1,647,964 |
| **Gearing ratio (times)(2)** ...... | 0.15 | 0.21 | 0.15 |

***Notes:***

*(1) Does not include RM250 million drawn down under revolving credit facilities as at the Latest Practicable Date.*

*(2) The gearing ratio is calculated by dividing total indebtedness over total equity.*

## 8.5 GOVERNMENT / ECONOMIC / FISCAL / MONETARY POLICIES

Our production facilities are based in Malaysia, and our refined sugar products are sold mainly in Malaysia, with export sales accounting for 11.0%, 6.2% and 11.6% of our total sales in 2008, 2009 and 2010, respectively. The sugar industry in Malaysia is regulated by the government, and the government has historically set price ceilings for refined white sugar products, taking into account various factors. Following sharp increases in raw sugar prices in recent years, the Malaysian government introduced a sugar price subsidy in 2009 so that the increases in the prices of raw sugar would not be fully passed on to consumers of refined sugar products in Malaysia. Our financial performance, like the financial performance of other refined sugar producers in Malaysia, thus depends to a large extent on the government's policies with respect to the sugar industry, such as the level of price ceilings and sugar subsidy, which are beyond our control. For details on the regulation of the sugar industry in Malaysia, see Section 7.13 of this Prospectus.

As a result, changes in the regulation of the sugar industry in Malaysia, as well as other political, economic, fiscal and monetary conditions in Malaysia and the global markets generally, could materially or adversely affect our business, financial condition, results of operations and future growth. For a more detailed description of risks relating to government, economic, fiscal or monetary policies or factors that may materially affect our operations, see Section 5.1.1 and Section 5.4.1 of this Prospectus.

## 8.6 SEASONALITY

We do not experience significant fluctuations in our business due to seasonal factors, although sales of refined sugar products in Malaysia typically increase slightly during the months leading up to major holidays in Malaysia, especially Hari Raya and Chinese New Year, due to increased consumer demand for refined sugar used in holiday baking needs.

## 8.7 INFLATION

We do not believe that inflation has had a material impact on our business, financial condition or results of operations for the period presented. However, inflation may affect our financial performance by increasing certain of our operating expenses denominated in RM, including expenses relating to labour costs, selling and distribution expenses and administrative expenses. Any increase in inflation rate beyond levels experienced in the past may affect our operations and financial performance if we are unable to fully offset higher costs through increased government subsidies and/or increased selling prices of our products.

## 8.8 PROSPECTS

The results of our operations for the year ending 31 December 2011 have been and are expected to continue to be primarily influenced by the following factors, in addition to the factors included in Section 5 and Section 8.2.3 of this Prospectus:

- Our ability to maintain our market share and grow our sales;
- Management of operating costs; and
- Impact of the incurrence of indebtedness, including as a result of any change in interest charges on the indebtedness.

Except as disclosed above and in Section 5 and Section 8.2.3 of this Prospectus, to the best of our Board's knowledge and belief, there are no other known trends, factors, demands, commitments, events or uncertainties that are reasonably likely to have a material effect on our financial condition and results of operations.

Barring any unforeseen circumstances, our Board expects our performance for the year ending 31 December 2011 to be satisfactory.

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## 8.9 REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED BALANCE SHEETS

*(Prepared for inclusion in this Prospectus)*

pwc

The Board of Directors
MSM Malaysia Holdings Berhad
Level 3, Balai Felda
Jalan Gurney 1
54000 Kuala Lumpur

20 May 2011

PwC/TSP/AZ/DR/py/1966J

**Dear Sirs**

**MSM Malaysia Holdings Berhad ("MSM Holdings" of the "Company")**
**Report on Pro Forma Consolidated Balance Sheets**

1 We report on the Pro forma Consolidated Balance Sheets as at 31 December 2010 together with the notes thereon (collectively known as 'Pro forma Consolidated Balance Sheets') of MSM Malaysia Holdings Berhad ('the Company'), as set out in Appendix (which we have stamped for the purpose of identification), which have been prepared for the Prospectus in connection with the listing of the Company on the Main Market of Bursa Malaysia Securities Berhad.

2 The Pro Forma Consolidated Balance Sheets have been prepared, for illustrative purposes only for inclusion in the Prospectus, to show the effects of the Pre-Listing Restructuring and the Initial Public Offering ("IPO") set out in Note 2 on the financial position of the Company presented had the Company been incorporated on 31 December 2010 and the events and transactions had been effected as at 31 December 2010.

**Responsibilities**

3 It is the sole responsibility of the Directors of the Company to prepare the Pro Forma Consolidated Balance Sheets on the basis set out in the notes thereon in accordance with the requirements of the Prospectus Guidelines.

4 It is our responsibility to form an opinion, as required by the Prospectus Guidelines on the Pro Forma Consolidated Balance Sheets and to report that opinion to you.

5 In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the preparation of the Pro Forma Consolidated Balance Sheets nor do we accept responsibility for such reports or opinions beyond that owed to those whom those reports or opinions were addressed by us at the dates of their issue.

*PricewaterhouseCoopers (AF 1146), Chartered Accountants,*
*Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia*
*T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*

pwc

**The Board of Directors**
**MSM Malaysia Holdings Berhad**
**PwC/TSP/AZ/DR/py/1966J**
**20 May 2011**

**Basis of opinion**

6 We conducted our work in accordance with the approved standard for assurance engagements in Malaysia, ISAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". Our work, which involved no independent examination of any of the underlying financial information, consisted of comparing unadjusted information with the audited consolidated financial statements of the Company, considering the evidence supporting the adjustments and discussing the Pro Forma Consolidated Balance Sheets with the Directors of the Company.

7 We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Consolidated Balance Sheets have been properly prepared on the basis stated, using financial statements prepared in accordance with Financial Reporting Standards in Malaysia, and in a manner consistent with both the format of the financial statements and the accounting policies of the Subsidiaries (as defined in Note 2).

8 As the Pro Forma Consolidated Balance Sheets are prepared for illustrative purposes only, such information, because of their nature, does not give a true picture of the effects of the Pre-Listing Restructuring and the IPO on the financial position presented had the transaction or event occurred at the at the date stated. Further, such information does not purport to predict the Company's future results and financial position.

**Our opinion**

9 In our opinion:

(a) the Pro Forma Consolidated Balance Sheets have been properly prepared on the basis set out in the notes, using financial statements prepared in accordance with Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies of the Subsidiaries other than the new accounting policies as set out in the Notes thereon; and

(b) each material adjustment made to the information used in the preparation of the Pro Forma Consolidated Balance Sheets is appropriate for the purposes of preparing such financial information.

pwc

**The Board of Directors**
**MSM Malaysia Holdings Berhad**
**PwC/TSP/AZ/DR/py/1966J**
**20 May 2011**

**Other matters**

10 This report is issued for the sole purpose for inclusion in the Prospectus in connection with the IPO and should not be used or relied upon for any other purpose. We accept no duty of responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any transaction other than the IPO.

Yours faithfully,

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

THAYAPARAN A/L S. SANGARAPILLAI
(No. 2085/09/12 (J))
Chartered Accountant

PRICEWATERHOUSECOOPERS KUALA LUMPUR for identification only Chartered Accountants

**Appendix**
Page 1

**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 1. INTRODUCTION

The Proforma Consolidated Balance Sheets as at 31 December 2010 together with the Notes thereon (collectively known as "Proforma Consolidated Balance Sheets") of MSM Malaysia Holdings Berhad ("the Company"), for which the Directors of the Company are solely responsible, have been prepared for illustrative purposes only in connection with the listing of the Company on the Main Market of Bursa Malaysia Securities Berhad ("the Listing").

The Proforma Consolidated Balance Sheets have been prepared for illustrative purposes only to show the effects of the Pre-Listing Restructuring and the Initial Public Offering ("IPO") referred to in Note 2 below on the financial position of the Company presented had the Company been incorporated on 31 December 2010 and the transactions been effected at the date stated.

## 2 PRE-LISTING RESTRUCTURING AND INITIAL PUBLIC OFFERING

The Pre-Listing Restructuring entails the following restructuring scheme:

2.1 On 1 April 2010, the Company entered into sale of shares agreement for the acquisition of: (i) the entire equity interest in Malayan Sugar Manufacturing Company Berhad ("MSM") comprising 36.4 million ordinary shares of RM1.00 each from Felda Global Ventures Sugar Sdn Bhd ("FGVS") and Koperasi Permodalan Felda Malaysia Berhad ("KPF"), the shareholders of MSM, for a total purchase consideration of RM175.9 million, which was satisfied by the issuance of 351.7 million new Company Shares at an issue price of RM0.50 per share credited as fully paid-up; and (ii) the entire equity interest in Kilang Gula Felda Perlis Sendirian Berhad ("KGFP") comprising 37.4 million ordinary shares of RM1.00 each from FGVH and Felda Holdings Bhd ("FHB"), the shareholders of KGFP, for a total purchase consideration of RM113.1 million, which was satisfied by the issuance of 226.3 million new Company shares at an issue price of RM0.50 per share credited as fully paid-up ("the Acquisitions"). Subsequent to the completion of the Acquisitions, MSM and KGFP became the subsidiaries of the Company (thereafter known as "the Subsidiaries").

2.2 The Acquisitions above were carried out after the completion of the following transactions:

(a) MSM and KGFP declared special dividends in the following manner: (i) On 2 March 2011, MSM declared a special dividend amounting to RM300.0 million to its sole shareholder as at 31 December 2010; and (ii) On 2 March 2011, KGFP declared a special dividend amounting to RM35.0 million to its existing shareholders as at 31 December 2010.

(b) On 21 March 2011, KGFP entered into a business transfer agreement for the acquisition of the business of Felda Global Ventures Perlis Sdn Bhd ("FGVP"), including selected assets and liabilities for a purchase consideration of RM76.8 million, which was satisfied through the issuance of 25.4 million new KGFP shares at an issue price of RM3.03 per share to FGVP. FGVP had nominated FGVH to receive the 25.4 million KGFP shares.

**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 2 PRE-LISTING RESTRUCTURING AND INITIAL PUBLIC OFFERING (CONTINUED)

Analysis of assets and liabilities of FGVP not transferred to KGFP is as follows:

| (in RM'million) | Assets/(liabilities) not transferred to KGFP |
|---|---|
| Prepaid lease payments - Chuping land | 55.9 |
| Biological assets | 2.6 |
| Loan from FGVH | (44.5) |
| Amount due to FGVH | (2.1) |
| | 11.9 |

2.3 Upon completion of the Pre-Listing Restructuring, the Company undertakes the IPO, which consists of an Institutional Offering and a Retail Offering, totalling up to 234,564,700 IPO Shares comprising: (i) the Offer For Sale of up to 109,564,700 Company Shares ("Offer Shares") by FGVH ("the Selling Shareholder") and (ii) the offering of 125,000,000 new Company Shares ("Issue Shares"):

(a) Institutional Offering

Institutional Offering of up to 206,444,700 IPO Shares, at the Institutional Price to be determined by way of bookbuilding, subject to clawback, reallocation and over-allotment option, to be allocated in the following manner: (i) up to 73,811,600 Offer Shares to the Malaysian institutional and selected investors, and foreign institutional and selected investors outside the United States ("US") in reliance on Regulation S under the US Securities Act of 1933; (ii) 35,753,100 Offer Shares and 45,089,900 Issue Shares to Bumiputera institutional and selected investors approved by MITI; and (iii) 51,790,100 Issue Shares to KPF by way of placement under the Special Offering.

(b) Retail Offering

Retail Offering of 28,120,000 Issue Shares, at the Retail Price, subject to clawback and reallocation and over-allotment option, to the Malaysian Public, eligible directors and employees of the Company, MSM Holdings group, FGVH, FGVS, FHB, Lembaga Kemajuan Tanah Persekutuan ("FELDA") and persons who have contributed to the success of the MSM Holdings group.

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**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 2 PRE-LISTING RESTRUCTURING AND INITIAL PUBLIC OFFERING (CONTINUED)

(c) Listing

Upon completion of the IPO, the Company will seek the listing of and quotation for its entire enlarged issued and paid-up share capital comprising 702,980,000 Company Shares at the price of RM3.38 per share ('IPO Price') on the Main Market of Bursa Securities. The final IPO price will be determined after the Institutional Price is fixed on the price determination date pursuant to a bookbuilding exercise. The Final Retail Price will be the lower of (i) the Retail Price; and (ii) the 97% of Institutional Price. Listing of and quotation for 702,980,000 Shares represents the entire existing issued and paid-up share capital of the Company on the Main Market of Bursa Securities.

The IPO expenses to be borne by the Company are estimated to be RM8.7 million, which are expected to comprise brokerage, underwriting commission and placement fees relating to new issuance of shares. The professional fees and miscellaneous expenses of RM9.3 million will be borne by the Selling Shareholder. The Selling Shareholder will also bear its own expenses in respect of the IPO.

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**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 3 PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010

The Proforma Consolidated Balance Sheets have been prepared for illustrative purposes only to show the effects on the balance sheet of the Company as at 31 December 2010 on the assumption that events as set forth in Note 2 had been effected on that date and should be read in conjunction with the notes in this Section.

| In RM'000 | Note | Incorporation of the Company* | Pro Forma I After Pre-Listing Restructuring | Pro Forma II After Pro Forma I and IPO |
|---|---|---|---|---|
| NON CURRENT ASSETS | | | | |
| Property, plant and equipment | | - | 313,413 | 633,413 |
| Intangible assets | | - | 82,807 | 82,807 |
| Prepaid lease payments | | - | 93,655 | 93,655 |
| Goodwill | | - | 576,240 | 576,240 |
| Total non-current assets | | - | 1,066,115 | 1,386,115 |
| CURRENT ASSETS | | | | |
| Inventories | | - | 330,844 | 330,844 |
| Biological assets | | - | 8,728 | 8,728 |
| Receivables, deposits and prepayments | | - | 215,544 | 215,544 |
| Tax recoverable | | - | 690 | 690 |
| Amounts due from related parties | | - | 752 | 752 |
| Derivative financial assets | | - | 20,509 | 20,509 |
| Cash and cash equivalents | 3.3(iii) | * | 2,055 | 95,880 |
| Total current assets | | - | 579,122 | 672,947 |
| LESS: CURRENT LIABILITIES | | | | |
| Payables and accruals | | - | 35,680 | 35,680 |
| Amounts due to related parties | | - | 38 | 38 |
| Taxation | | - | 13,753 | 13,753 |
| Borrowings | | - | 467,000 | 467,000 |
| Total current liabilities | | - | 516,471 | 516,471 |
| NET CURRENT ASSETS | | * | 62,651 | 156,476 |
| LESS: NON CURRENT LIABILITIES | | | | |
| Deferred tax liabilities | | - | 110,595 | 110,595 |
| Provision for staff retirement benefits | | - | 1,032 | 1,032 |
| Total non current liabilities | | - | 111,627 | 111,627 |
| NET ASSETS | | * | 1,017,139 | 1,430,964 |

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**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 3 PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)

| In RM'000 | Note | Incorporation of the Company* | Pro Forma I After Pre-Listing Restructuring | Pro Forma II After Pro Forma I and IPO |
|---|---|---|---|---|
| CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | |
| Share capital | 3.3(i) | * | 288,990 | 351,490 |
| Share premium | 3.3(ii) | - | - | 351,325 |
| Merger relief reserve | 3.2 | - | 1,664,582 | 1,664,582 |
| Reorganisation deficit | 3.2 | - | (1,070,596) | (1,070,596) |
| Retained earnings | | - | 134,163 | 134,163 |
| SHAREHOLDERS' EQUITY | | * | 1,017,139 | 1,430,964 |
| Net asset per ordinary share (RM) | | - | 1.76 | 2.04 |
| Net tangible assets/(liabilities) (RM'000) | | * | 358,092 | 771,917 |
| Net tangible assets/(liabilities) per ordinary share (RM) | | - | 0.62 | 1.10 |
| Number of ordinary shares ('000) RM0.50 nominal value | | * | 577,980 | 702,980 |

* The Company was incorporated on 10 March 2011. The incorporation is assumed on 31 December 2010 with an issued and paid up share capital of RM100, representing 200 shares ordinary shares of RM0.50 each.

### 3.1 Basis of preparation

The Pro Forma Consolidated Balance Sheets have been prepared solely for illustrative purposes to show the effects of the Pre-Listing Restructuring, IPO and Listing on the financial position of the Company as at 31 December 2010 assuming the Company was incorporated on 31 December 2010 with issued share capital of RM100 and using the audited statements of financial position in the Combined Financial Information of the Subsidiaries as set out in the Accountants' Report. The Pro Forma Consolidated Balance Sheets have been properly prepared on the basis set out in the notes, using financial statements prepared under Financial Reporting Standards in Malaysia and in the manner consistent with both the format of the financial statements and the accounting policies as set out in the Accountant's Report on the Combined Financial Information of the Subsidiaries except for the adoption of new accounting policy below:

(i) Business combination involving entities under common control is accounted for using the predecessor method. Under the predecessor method, the assets and liabilities of the combined entities are incorporated into the consolidated financial statements at the pre-combination carrying amounts recorded by the highest entity that has common control for which consolidated financial statements are prepared, without making any further fair value adjustments at the date of the combination. Any difference between the cost of acquisition and the carrying amounts of the net assets acquired is taken directly to equity.

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**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

**3 PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)**

3.2 Effects on the Pro Forma Consolidated Balance Sheet I ("Pro Forma I")

Pro Forma I has been presented to include the effects of the Pre-Listing Restructuring as detailed in Notes 2.1 and 2.2. For the purpose of preparation of the Pro Forma I, it is assumed that the fair value of the Company' shares issued for the acquisition of the Subsidiaries is RM3.38 per share, resulting in a merger relief reserve of RM1,664.6 million. The difference between the fair value of the issued share capital of the Company and issued equity (share capital, share premium and reserves) of the Subsidiaries will result in a reorganisation deficit of RM1,070.6 million which can be analysed below:

| | RM'000 | RM'000 |
|---|---|---|
| Carrying value of the assets and liabilities of the Subsidiaries as at 31 December 2010 | 1,017,139 | |
| Post acquisition retained earnings of the Subsidiaries | (134,163) | |
| | | 882,976 |
| Less: | | |
| Share capital arising from shares issued by the Company: | | |
| - Issuance of 577,980,000 new ordinary shares of RM0.50 each | (288,990) | |
| - Merger relief reserve arising from fair value of shares issued at RM3.38 per share | (1,664,582) | (1,953,572) |
| Reorganisation deficit - Per Pro Forma I | | (1,070,596) |

It is assumed that any restructuring expenses to be borne by the Company, which should be reflected in Pro Forma I, is insignificant.

3.3 Effects on the Pro Forma Consolidated Balance Sheet II ("Pro Forma II")

Pro Forma II has been presented to include the effects of the IPO and Listing as detailed in Note 2.3 and the estimated IPO expenses to be borne by the Company of RM8.7 million, which will be written off against the share premium account. For the purpose of the preparation of the Pro Forma Consolidated Balance Sheets, it is assumed that the Retail Price of RM3.38 per share will equal to the Institutional Price and the Final Retail Price.

(i) Share capital

| | RM'000 |
|---|---|
| Ordinary shares of RM0.50 each: | |
| On incorporation of the Company | * |
| Issuance of 577,980,000 new ordinary shares for acquisition of Subsidiaries – per Pro Forma I | 288,990 |
| Issuance of 125,000,000 new ordinary shares for IPO | 62,500 |
| Per Pro Forma II | 351,490 |

**MSM MALAYSIA HOLDINGS BERHAD**

**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

## 3 PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)

3.3 Effects on the Pro Forma Consolidated Balance Sheet II ("Pro Forma II") (continued)

(ii) Share premium

| | RM'000 |
|---|---|
| On incorporation of the Company | * |
| Issuance of 125,000,000 new ordinary shares of RM0.50 each for IPO at Retail Price of RM3.38 per share | 360,000 |
| IPO expenses written off | (8,675) |
| Per Pro Forma II | 351,325 |

(iii) Cash and cash equivalents

| | RM'000 | RM'000 |
|---|---|---|
| On incorporation of the Company | | * |
| Cash movements relating to Pre-Listing Restructuring: | | |
| - As per audited combined balance sheets of the Subsidiaries as at 31 December 2010 | 87,055 | |
| - Payment of special dividends | (335,000) | |
| - Borrowings for working capital** | 250,000 | |
| After Pre-Listing Restructuring – Per Pro Forma I | | 2,055 |
| Proceeds from IPO | | 422,500 |
| Utilisation of IPO proceeds in the following manner: | | |
| - Capital expenditure for increase in efficiency and expansion of production capacity*** | | (320,000) |
| - IPO expenses | | (8,675) |
| Balance for working capital | | 93,825 |
| Add: Balance after Pre-Listing Restructuring | | 2,055 |
| After IPO - Per Pro Forma II | | 95,880 |

* RM100 being 200 Shares of RM0.50 per share of the Company

** The borrowings of RM250 million relate to revolving credit facilities drawn down subsequent to 31 December 2010 to reduce reliance on internally generated cash to fund the working capital and to free up the cash available to the group. These borrowings do not include other short term borrowings i.e. bankers' acceptances drawn down for payment to suppliers of raw sugar. As at 31 December 2010, the total outstanding bankers' acceptances amounted to RM217 million. Pursuant to the Pre-Listing Restructuring, the available cash will be utilised as payment for parting dividends by MSM and KGFP amounting to RM335 million to their existing shareholders.

*** It is assumed that RM320 million of IPO proceeds will be utilised for the purchase of property, plant and equipment to increase efficiency and expand production capacity.

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**PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 AND THE NOTES THEREON (CONTINUED)**

**3 PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)**

Approval by Board of Directors

Approved and adopted by the Board of Directors of Felda Global Ventures Holdings Sdn Bhd and MSM Malaysia Holdings Berhad in accordance with a resolution dated 8 April 2011.

On behalf of the Board

| | |
|---|---|
| Dato' Sabri Ahmad<br>Director | Dato' Dzulkifli Abd. Wahab<br>Director |

Kuala Lumpur
20 May 2011

## 8.10 DIVIDEND POLICY

It is the policy of our Board in recommending dividends to allow shareholders to participate in our profits, as well as to retain adequate reserves for our future growth. The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of the Board and any final dividend for the year is subject to shareholders' approval.

The actual dividend that our Board may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board. In considering the level of dividend payments, if any, upon recommendation by our Board, we intend to take into account various factors including:

(i) the level of our cash, gearing, return on equity and retained earnings;

(ii) our expected financial performance;

(iii) our projected levels of capital expenditure and other investment plans; and

(iv) our working capital requirements.

It is the present intention of our Board to adopt a dividend pay-out ratio of at least 50% of our profit after taxation attributable to shareholders excluding non-recurring income after taking into consideration the abovementioned factors, general financial condition, contractual restrictions and other factors considered relevant by our Board.

As we are a holding company, our Company's income, and therefore our ability to pay dividends, is dependent upon the dividends we receive from our subsidiaries. The payment of dividends by our subsidiaries will depend upon their distributable profits, 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 the loan agreements, if any, for the Company's 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.

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