

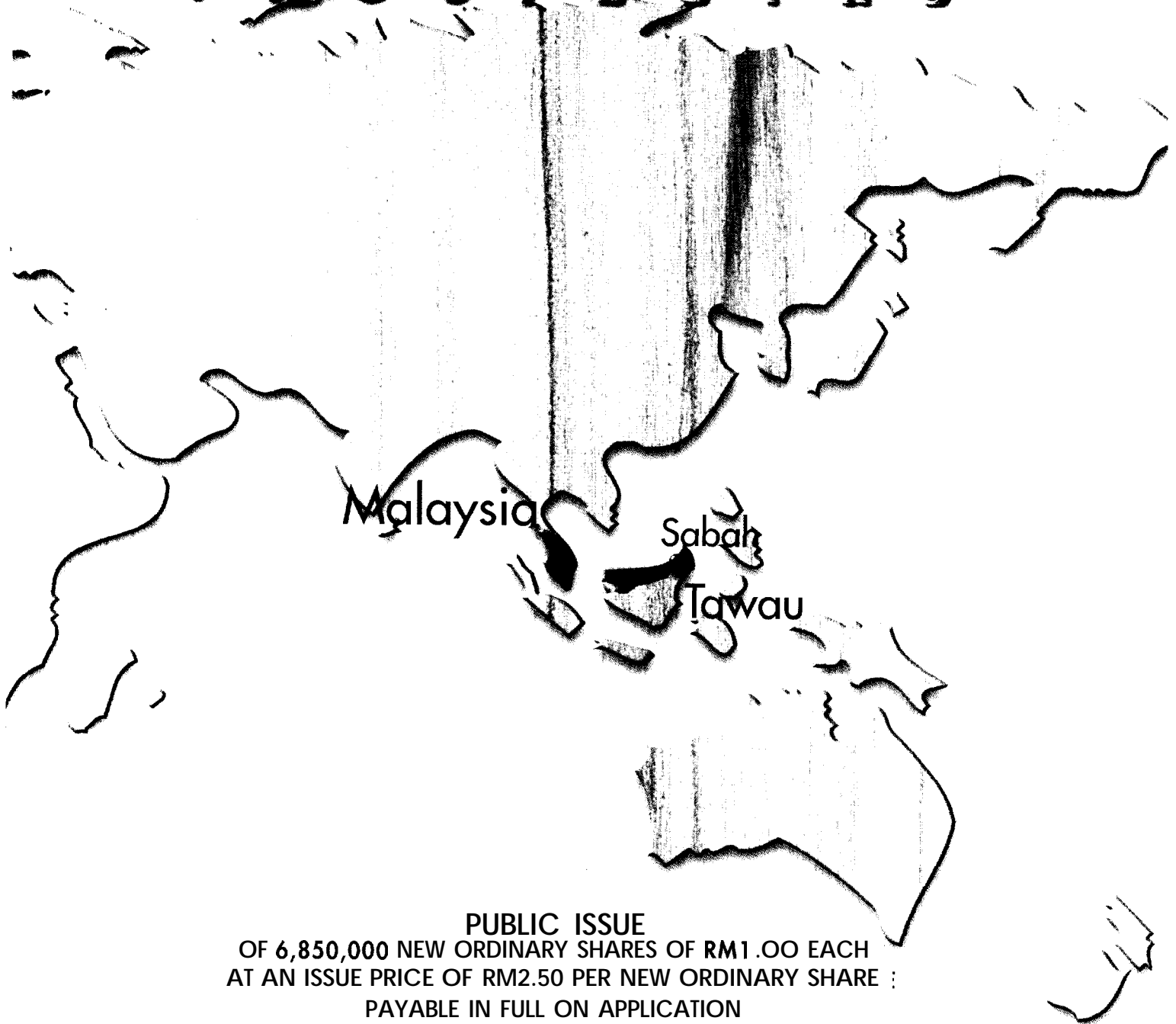


# Permaisuri Industries Berhad

(Company No: 379057-V)

(Incorporated in Malaysia under the Companies Act, 1965)

## P R O S P E C T U S



**PUBLIC ISSUE**  
**OF 6,850,000 NEW ORDINARY SHARES OF RM1.00 EACH**  
**AT AN ISSUE PRICE OF RM2.50 PER NEW ORDINARY SHARE :**  
**PAYABLE IN FULL ON APPLICATION**

Adviser and Managing Underwriter

**AMANAH MERCHANT BANK BERHAD**

An Amanah Capital Group Company  
(21605-D)



THIS PROSPECTUS IS DATED 30 SEPTEMBER 1999

**THE APPROVAL OF THE SECURITIES COMMISSION SHALL NOT BE TAKEN TO INDICATE THAT THE SECURITIES COMMISSION RECOMMENDS THE PUBLIC ISSUE OF 6,850,000 NEW ORDINARY SHARES OF RM1.00 EACH IN PERMAJU INDUSTRIES BERHAD AT AN ISSUE PRICE OF RM2.50 PER NEW ORDINARY SHARE. INVESTORS ARE ADVISED TO MAKE THEIR OWN INDEPENDENT ASSESSMENT OF PERMAJU INDUSTRIES BERHAD AND SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF ANY INVESTMENT.**

**THE ISSUE PRICE OF RM2.50 PER SHARE WAS ENTIRELY DETERMINED AND AGREED UPON BY PERMAJU INDUSTRIES BERHAD AND AMANAH MERCHANT BANK BERHAD AS THE ADVISER AND MANAGING UNDERWRITER BASED ON VARIOUS RELEVANT FACTORS. INVESTORS SHOULD FORM THEIR OWN VIEWS ON THE VALUATION OF THE SECURITIES AND THE REASONABLENESS OF THE BASES USED.**

**A COPY OF THIS PROSPECTUS HAS BEEN LODGED WITH AND REGISTERED BY THE REGISTRAR OF COMPANIES, MALAYSIA WHO TAKES NO RESPONSIBILITY FOR ITS CONTENTS.**

**THE VALUATION OF THE PROPERTIES APPROVED BY THE SECURITIES COMMISSION SHALL ONLY BE UTILISED FOR THE PURPOSE OF THE RESTRUCTURING AND LISTING EXERCISE AND SHALL NOT BE CONSTRUED AS AN ENDORSEMENT BY THE SECURITIES COMMISSION OF THE VALUE OF THE PROPERTIES FOR ANY OTHER PURPOSES.**

**THE REPORTING ACCOUNTANTS' AND VALUERS' RESPONSIBILITIES WITH REGARD TO THIS PROSPECTUS DOES NOT EXTEND BEYOND THE ACCOUNTANTS' REPORT, CONSOLIDATED PROFIT FORECAST AND PROFORMA CONSOLIDATED BALANCE SHEET AND VALUATION CERTIFICATE. APART FROM THE ABOVEMENTIONED, THE REPORTING ACCOUNTANTS AND VALUERS HAVE HAD NO INVOLVEMENT IN THE PREPARATION OF THIS PROSPECTUS.**

**THE KUALA LUMPUR STOCK EXCHANGE ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS PROSPECTUS. ADMISSION TO THE OFFICIAL LIST OF THE SECOND BOARD OF THE KUALA LUMPUR STOCK EXCHANGE IS NOT TO BE TAKEN AS AN INDICATION OF THE MERITS OF PERMAJU INDUSTRIES BERHAD OR ITS ORDINARY SHARES.**

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## DEFINITIONS

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Unless the context requires otherwise, the following terms shall apply throughout this Prospectus:

“Acquisition of FNS”	: Acquisition by PERMAJU of the entire issued and paid-up share capital in FNS comprising 10,888,800 ordinary shares of RM1.00 each for a total consideration of RM31,687,392 which was fully satisfied by the issue of 25,804,065 new ordinary shares of RM 1.00 each in PERMAJU at an issue price of RM 1.228 per share
“Acquisition of FNship”	: Acquisition by PERMAJU of the entire issued and paid-up share capital in FNship comprising 1,000,000 ordinary shares of RM1.00 each for a total consideration of RM2,755,090 which was fully satisfied by the issue of 2,243,559 new ordinary shares of RM1.00 each in PERMAJU at an issue price of RM 1.228 per share
“Acquisition of SSB”	: Acquisition by PERMAJU of the entire issued and paid-up share capital in SSB comprising 4,000,002 ordinary shares of RM 1.00 each for a total consideration of RM9,052,911 which was fully satisfied by the issue of 7,372,077 new ordinary shares of RM 1.00 each in PERMAJU at an issue price of RM 1.228 per share
“Acquisitions”	: Acquisition of FNS, Acquisition of SSB and Acquisition of FNship, collectively
“ADA”	: Authorised Depository Agent
“ADA Code”	: ADA (Broker) Code
“Amanah”	: Amanah Merchant Bank Berhad (2 1605-D)
“ATM”	: Automated Teller Machine
“CDS”	: Central Depository System
“EPS”	: Earnings per share
“FIC”	: Foreign Investment Committee
“FNS”	: Fook Ngiap Sawmill Sdn Berhad (57963-H)
“FNship”	: Fook Ngiap Shipping Sdn Bhd (112467-V)
“KLSE”	: Kuala Lumpur Stock Exchange (30632-P)
“MCD”	: Malaysian Central Depository Sdn Bhd (165570-W)
“MIDFCCS”	: MIDF Consultancy and Corporate Services Sendirian Berhad (11324-H)
“MITI”	: Ministry of International Trade and Industry
“NBV”	: Net book value
“NCSB”	: Netkey Corporation Sdn Bhd (42098 1 -U)
“NTA”	: Net tangible assets

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**DEFINITIONS(Cont'd)**

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“p.a.”	: per annum
“PE”	: Price Earnings
“PERMAJU” or “Company”	: Permaju Industries Berhad (379057-V)
“PERMAJU Group” or “Group”	: PERMAJU and its subsidiary companies namely FNS, SSB and FNship
“Public Issue”	: Public issue of 6,850,000 new ordinary shares of RM 1 .00 each at an issue price of RM2.50 per new ordinary share payable in full on application
“Public Issue Share(s)”	: The 6,850,000 new ordinary share(s) of RM1 .00 each in PERMAJU to be issued by the Company pursuant to the Public Issue
“Rights Issue”	: Rights issue of 2,730,297 new ordinary shares of RM 1.00 each in PERMAJU at issue price of RM1.228 per share on the basis of 0.0771 new ordinary share for each existing share held
“R&D”	: Research and development
“RM” and “sen”	: Ringgit Malaysia and sen respectively
“SC”	: Securities Commission, Malaysia
“SSB”	: Sungai Silinponpon (Blockboard) Sdn Bhd (183 107-P)

**Titles**

“AMN”	: Ahli Mangku Negara
“JP”	: Justice of Peace
“KMN”	: Kesatria Mangku Negara
“PGDK”	: Panglima Gemilang Darjah Kinabalu
“PJK”	: Pingat Jasa Kebaktian
“PPN”	: Pingat Pangkuan Negara

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## 1.0 CORPORATE INFORMATION

## BOARD OF DIRECTORS

Name	Address	Occupation	Nationality
Hj. Mohd. Hayani Bin Hj. Abdul Rahman, KMN, AMN, PPN,PJK <i>(Non-Executive Chairman / Independent Non-Executive Director)</i>	<b>243, Taman Seri Semantan 2</b> <b>28000</b> Temerloh <b>Pahang</b> Dart.11 Makmur	State Assemblyman	Malaysian
Kenneth Chew Mei Kwang <i>(Deputy Chairman)</i>	<b>16</b> Sian Tuan Avenue Singapore 588290	Company Director	Singaporean
Datuk Lim Yen Ngiap, PGDK, JP <i>(Managing Director)</i>	TB 333, Jalan <b>Mawar</b> 9 1000 Tawau, Sabah	Company Director	Malaysian
Datuk Tiong Kung Hieng, PGDK, JP <i>(Executive Director)</i>	2784, Lee Garden Jalan Sin On 9 1000 Tawau, Sabah	Company Director	Malaysian
Yvonne Choo Siew Lian <i>(Non-Executive Director)</i>	11 Jedburgh Gardens Singapore 457076	Company Director	Singaporean
Mohammad Anuar Bin Mohd Yunus <i>(Non-Executive Director)</i>	<b>E56(A), Taman Kapagar</b> 28000 Temerloh <b>Pahang</b> Darul Makmur	Company Director	Malaysian
Patrick Kong Fui Kien <i>(Independent Non-Executive Director)</i>	Batu 5 1/4, Jalan Shantung <b>Lama</b> Off Jalan Penampang Kota Kinabalu Sabah	Public Accountant	Malaysian

## AUDIT COMMITTEE

Name	Designation	Occupation
Patrick Kong Fui Kien	Chairman	Independent Non-Executive Director
Hj. Mohd. Hayani Bin Hj. Abdul Rahman	Member	Non-Executive Chairman / Independent Non-Executive Director
Datuk Lim Yen Ngiap	Member	Managing Director

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1.0 CORPORATE INFORMATION (*Cont'd*)

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COMPANY SECRETARY	Thayaparan A/L M. Rasiah (LS 04642) D5, Phase 1 Taman Hiburan Batu 4 ½ Jalan Penampang 88300 Kota Kinabalu Sabah
REGISTERED OFFICE	MPT No. 3477, 3 <sup>rd</sup> Floor Lorong Abaca 1 Off Jalan Masjid 9 1000 Tawau Sabah
AUDITORS AND REPORTING ACCOUNTANTS	Ernst & Young Public Accountants Sabah Bank Building 2nd Floor, Jalan Utara 9 1009 Tawau Sabah
PRINCIPAL BANKER	HSBC Bank Malaysia Berhad (127776-V) Jalan Persatuan, Fajar Complex 9 1000 Tawau Sabah
SOLICITORS	Cheang & Ariff 39, court 39, Jalan Yap Kwan Seng 50450 Kuala Lumpur  Azman, Davidson & Co Suite 13.03, 1 3 <sup>th</sup> Floor Menara Tan & Tan 207, Jalan Tun Razak 50400 Kuala Lumpur
VALUERS	C. H. Williams, Talhar & Wong (Sabah) Sdn Bhd (34874-P) 305, 1 st Floor, Leong Hua Building Jalan Dunlop P.O. Box 60394 91013 Tawau Sabah



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1.0 CORPORATE INFORMATION *(Cont'd)*

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REGISTRAR	Signet & Co. Sdn Bhd (118382-V) 10 <sup>th</sup> & 11 <sup>th</sup> Floor, Tower Block Kompleks Antarabangsa Jalan Sultan Ismail P.O. Box 12547 50782 Kuala Lumpur
ISSUING HOUSE	MIDF Consultancy and Corporate Services Sendirian Berhad (11324-H) 12th Floor, Bangunan MIDF 1954, Jalan Tun Razak 50400 Kuala Lumpur
ADVISER AND MANAGING UNDERWRITER	Amanah Merchant Bank Berhad (21605-D) 2 1 <sup>st</sup> Floor, Bangunan Amanah Capital 82, Jalan Raja Chulan 50200 Kuala Lumpur
UNDERWRITERS	Amanah Merchant Bank Berhad (2 1605-D) 2 1 <sup>st</sup> Floor, Bangunan Amanah Capital 82, Jalan Raja Chulan 50200 Kuala Lumpur  Commerce International Merchant Bankers Berhad (18417-M) 10 <sup>th</sup> Floor, Commerce Square Jalan Semantan Damansara Heights 50100 Kuala Lumpur  Kuala Lumpur City Securities Sdn Bhd ( 126994-W) 3.07, Level 3 Bangunan Angkasa <b>Raya</b> Jalan <b>Ampang</b> 50450 Kuala Lumpur  TA Securities Berhad (16029-V) 28 <sup>th</sup> Floor Menara TA 1 22, Jalan P. <b>Ramlee</b> 50250 Kuala Lumpur

**1.0 CORPORATE INFORMATION (Cont'd)**

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**UNDERWRITERS**  
*(Continued)*

MIDF Sisma Securities Sdn Bhd (423833-U)  
**17<sup>th</sup>** and **18<sup>th</sup>** Floor  
Bangunan Empire Tower  
**182, Jalan Tun Razak**  
50400 Kuala Lumpur

**LISTING SOUGHT**

Second Board of the Kuala Lumpur Stock Exchange

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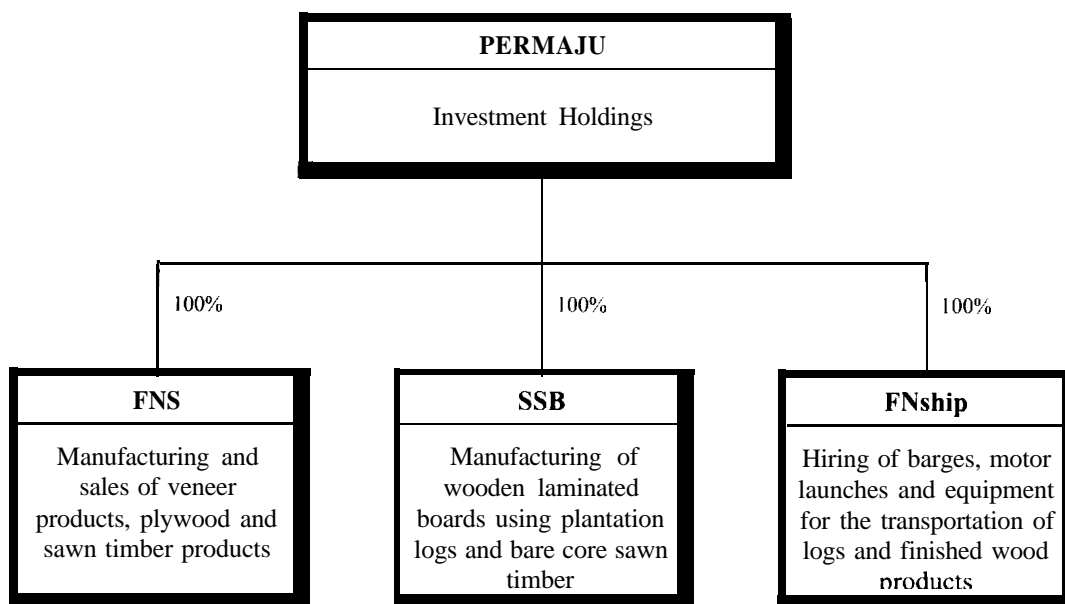
## 2.0 SUMMARY OF INFORMATION

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The information set out below is in summarised form, and should be read in conjunction with the full text of this Prospectus.

### 2.1 History And Principal Activities

PERMAJU was incorporated in Malaysia on 7 March 1996 under the Companies Act, 1965, as a public limited company. Its principal activity is mainly investment holdings. It has three (3) subsidiary companies which are principally involved in the following business activities:



## 2.0 SUMMARY OF INFORMATION *(Cont'd)*

### 2.2 Financial Record

The following table sets out the audited proforma consolidated results of PERMAJU Group for the last five (5) financial years ended 31 December 1998 and six (6) month period ended 30 June 1999 and are extracted from the Accountants' Report in Section 12 and should be read in conjunction with the notes thereto.

The proforma consolidated results which are based on the audited results of PERMAJU Group are presented for illustrative purposes only on the assumption that the current PERMAJU Group structure had been in existence throughout the period under review.

	<-----Proforma----->					
	<-----Year ended 31 December----->					6 months ended 30.06.99
	1994	1995	1996	1997	1998	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	109,690	116,649	125,881	130,441	96,212	48,184
Profit before depreciation and interest	15,382	13,302	17,781	24,181	2,1093	13,295
Depreciation	(4,707)	(3,156)	(3,262)	(3,709)	(3,773)	(1,877)
Interest expense	(533)	(1,066)	(1,547)	(1,721)	(2,355)	(688)
Profit before taxation	10,142	9,080	12,972	18,751	14,965	10,730
Taxation	(1,913)	(2,370)	(880)	(5,423)	(2,528)	(7)
Profit after taxation	8,229	6,710	12,092	13,328	12,437	10,723
Number of ordinary shares assumed to be in issue ('000)	35,420	35,420	35,420	35,420	35,420	35,420
Gross EPS (sen)	28.6	25.6	36.6	52.9	42.3	*60.5
Net EPS (sen)	23.2	18.9	34.1	37.6	35.1	*60.5

\* Annualised

#### Notes:

- (i) The summarised proforma consolidated results are prepared for illustrative purposes only and are based on the audited accounts of FNS, SSB and FNship as PERMAJU, the holding company, has been dormant since the date of incorporation.
- (ii) The proforma consolidated results have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the subsidiary companies.

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## 2.0 SUMMARY OF INFORMATION (Cont'd)

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- (iii) *The above results are arrived at after making adjustments for inter-company transactions.*
- (iv) *The taxation charge is computed after taking into consideration the differences in treatment of certain expenses incurred during the period under review which are not allowable for tax purposes, capital allowances and reinvestment allowances available for set off against taxable profit and the pioneer status obtained by SSB, a subsidiary company of PERMAJU of five years ended 31 January 1996. The pioneer status of SSB was extended for another 5 years to 31 January 2001. Therefore, the effective tax rate differs materially from the amount determined by applying the statutory tax rates of those years to the respective year's results.*
- (v) *The slight decrease in profit before taxation in 1995 was mainly due to the introduction of export cess on the Seraya laminated board by the Sabah State Government during the year which as a result has significantly reduced its profit margin. In addition, the sales volume of laminated board has also decreased substantially in 1995 mainly due to the stabilisation in world demand for laminated board after two consecutive extraordinary years of increased demand for laminated board in 1993 and 1994.*
- (vi) *The significant increase in profit before taxation for the financial year 1996 and 1997 was mainly due to the overall increase in wood product prices and greater demand of finished wood products in the international market.*
- (vii) *The decrease in turnover and profit in 1998 was mainly due to the regional financial crisis resulting in lower demand for wood products.*
- (viii) *The tax expense for the financial period ended 30 June 1999 represents adjustment for underprovision for taxation for the previous year. No taxation is provided for the financial period ended 30 June 1999 as the financial period falls in the year assessment 2000 where tax on income earned is expected to be waived.*
- (ix) *There were no extraordinary items in respect of the financial years under review.*
- (x) *The proforma gross EPS is computed based on the profit before taxation and the number of ordinary shares assumed in issue of 35,419,703 ordinary shares of RM1.00 each after the acquisitions of FNS, SSB and FNship.*
- (xi) *The proforma net EPS is computed based on the profit after taxation and the number of ordinary shares assumed in issue of 35,419,703 ordinary shares of RM1.00 each after the acquisitions of FNS, SSB and FNship.*

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2.0 **SUMMARY OF INFORMATION (Cont'd)**

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2.3 **Principal Statistics Relating To The Public Issue**

(i) **Share Capital**

	RM
<b>Authorised:</b>	
- 200,000,000 ordinary shares of RM 1.00 each	<u>200,000,000</u>
<b>Issued and fully paid-up as at the date of this prospectus:</b>	
- 38,150,000 ordinary shares of RM1.00 each	38,150,000
<b>To be issued pursuant to the Public Issue:-</b>	
- 6,850,000 new ordinary shares of RM1.00 each	6,850,000
	<u>45,000,000</u>
<b>Issue price per new ordinary share of RM1.00 each</b>	<b>RM2.50</b>

(ii) **Proforma Consolidated NTA**

	RM
Proforma Consolidated NTA as at 30 June 1999 (RM'000) (net of estimated listing expenses of RM2.0 million)	<b>73,299</b>
Proforma Consolidated NTA per ordinary share (based on the enlarged issued and paid-up share capital of 45,000,000 ordinary shares of RM1.00 each)	1.63

(iii) **Consolidated Profit Forecast For The Financial Year Ending 31 December 1999**

	<b>Forecast 1999 RM'000</b>
Consolidated profit before taxation	16,115
Taxation	<u>(7)</u>
Consolidated profit after taxation	16,108
Dividend payable to vendors of FNS, SSB and FNship	(11,437)
	<u>4,671</u>
Consolidated profit after taxation attributable to shareholders of PERMAJU after the acquisitions	<u>4,671</u>

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2.0 SUMMARY OF INFORMATION *(Cont'd)*

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	Forecast 1999 <b>RM'000</b>
Enlarged issued and paid-up share capital	45,000
Weighted average number of shares in issue	<b>13,083</b>
Gross EPS (sen)*	35.8
Gross EPS (sen)**	123.2
Net EPS (sen)*	35.8
Net EPS (sen)**	123.1
Gross PE multiple based on the issue price of <b>RM2.50</b> per ordinary share (times)*	7.0
Gross PE multiple based on the issue price of <b>RM2.50</b> per ordinary share (times)**	2.0
Net PE multiple based on the issue price of <b>RM2.50</b> per ordinary share (times)*	7.0
Net PE multiple based on the issue price of <b>RM2.50</b> per ordinary share (times)**	2.0

\* Based on the enlarged issued and paid-up share capital of **45,000,000** ordinary shares of **RM1.00** each

\*\* Based on **the** weighted average number of shares in issue of **13,082,712** ordinary shares of **RM1.00** each

**(iv)** Dividend Forecast For The Financial Year Ending 31 December 1999

Tax exempt dividend per share (sen)	8.0
Tax exempt dividend yield (%)*	3.2
Dividend (tax exempt) cover (times) ^	1.3

\* Based on the issue price of **RM2.50** per share

^ Based on the enlarged issued and paid-up share capital of **RM45,000,000** comprising **45,000,000** ordinary shares of **RM1.00** each

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### 3.0 INVESTMENT CONSIDERATIONS

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Prior to making an investment decision, potential investors should carefully consider, in light of their own financial circumstances and objectives, all of the information in this Prospectus and in particular, the following investment consideration:

#### 3.1 No Prior Market for PERMAJU's Shares

Prior to this Public Issue, there has been no public market for PERMAJU's shares. There can be no assurance that an active market for PERMAJU's shares will develop upon its listing on the Second Board of the KLSE or, if developed, that such a market will be sustained. The issue price of RM2.50 for the Public Issue Shares has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospect and the prospects of the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in business similar to that of the Company and the prevailing market conditions at the time the application for PERMAJU listing was submitted to the SC. There can be no assurance that the issue price will correspond to the price at which PERMAJU's shares will trade on the Second Board of the KLSE upon or subsequent to its listing or that an active market for PERMAJU's shares will develop and continue to develop upon or subsequent to its listing.

#### 3.2 Dependence on Key Personnel

The Company believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing Directors and senior management. Training and development programmes are presently being undertaken to groom the younger members of the management to play key roles in the Group's business operations. The Group's future success will also depend upon its ability to attract and retain skilled personnel. Details on the Directors, senior management, and employees of PERMAJU are disclosed in Section 8.7 of this Prospectus.

#### 3.3 Control of Substantial Shareholders

Upon listing of PERMAJU on the Second Board of the KLSE, 22,5 11,059 ordinary shares or 50.02% of the ordinary shares in PERMAJU will be owned by NCSB. The details of the shareholders of NCSB are set out in Section 15.3.12 of this Prospectus. As a result, it is likely that NCSB will be able to effectively control the outcome of certain matters requiring the vote of the Company's shareholders.

#### 3.4 Business Risks

PERMAJU is subject to certain risks inherent in the timber industry. These include, inter alia, labour and raw material shortages, increases in the costs of labour and raw materials, changes in price and demand for timber products, changes in general economic and business conditions and change in the legal and environmental framework within which the industry operates. Although the Group seeks to limit these risks, no assurance can be given that any change of these factors will not have a material adverse effect on the Group's business.



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### 3.0 INVESTMENT CONSIDERATIONS *(Cont'd)*

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#### 3.5 Political, Economic, Regulatory and Environment Considerations

Adverse developments in the political and economic conditions in Malaysia and countries which PERMAJU Group has business links directly or indirectly, such as Japan, Korea, Hong Kong, Taiwan R.O.C and Singapore could to a large extent affect the financial prospects of the Group. Other uncertainties include risks of war, expropriation, dispossession, **nationalization**, renegotiation or nullification of existing contracts, fluctuations in interest and methods of taxation and currency exchange regulations.

#### 3.6 Supply and Cost of Logs

The long term viability of a timber based company depends to a large extent on the sustainability and long term supply of logs being the main raw material. Presently, all of PERMAJU's log requirements are **sourced** locally through the open market. To reduce the Group's susceptibility toward any adverse repercussions arising from the shortage of supply of logs in the open market, PERMAJU Group had entered into agreements with ten (10) independent log suppliers located in Sarawak (5), Sabah (4) and Papua New Guinea (1) whereby the said log suppliers are committed to supply logs to PERMAJU Group should the need arises. Under the terms of the log supply agreements, the total volume of logs to be supplied is more than adequate to meet the log consumption of the PERMAJU Group. Furthermore, FNS has been granted permission from the Ministry of Primary Industries to import certain types of logs from Indonesia and Papua New Guinea. However, even though the Group has an assured supply of logs at prevailing market prices, the Group's profits will be subject to fluctuations in the cost of logs supplied to the Group.

#### 3.7 Year 2000 Compliant

The Board of Directors of PERMAJU is aware of the Year 2000 ("Y2K") problem and have taken action to ensure the Group is Y2K compliant. In this respect, an information system consultant was engaged to conduct a detailed study on the impact of the Y2K problem on the computer system of the Group which could affect its accounting, financial and business operations. The findings revealed that the Group's computer system, both hardware and software are Y2K compliant. The Company does not expect the Y2K problem to have any material impact on its financial and operational activities. Further, as far as the Company is aware and to the best of its knowledge, there are no uncertainties associated with the Y2K problem that would affect the Group's future financial condition and operational activities. Since the use of computer system in the Group is limited to accounting, financial and administrative purposes and with the assurance from the information system consultant that the computer system of the Group is Y2K compliant, the Company has not provided for contingency plans for any potential Y2K problems. The total cost incurred for the study on the potential Y2K problems was immaterial.

There is no known exposure arising from third parties who have dealings with the Group as the computer system is not linked to external source. Further, the computer system of the Company's share registrar, both hardware and software, is Y2K compliant.

Save as disclosed above and apart from normal commercial risks, the Group is not vulnerable to any specific factors or events.

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## 4.0 INTRODUCTION

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This Prospectus is dated 30 September 1999.

A copy of this Prospectus has been lodged with and registered by the Registrar of Companies, Malaysia who takes no responsibility for its contents.

Approval has been obtained from the SC for PERMAJU's flotation scheme detailed in Section 8.0 of this Prospectus. The approval of the SC shall not be taken to indicate that the SC recommends the Public Issue. Investors are advised to make their own independent assessment of PERMAJU and should rely on their own evaluation to assess the merits and risks of any investment.

Approval-in-principle from the KLSE has been obtained on 18 September 1999 for admission to the Official List of the Second Board of the KLSE for permission to deal in and for the listing of and quotation for the entire issued and fully paid-up ordinary shares of RM1.00 in PERMAJU, including the Public Issue Shares which are the subject of this Prospectus. These ordinary shares will be admitted to the Official List of the Second Board of the KLSE and official quotation will commence after the receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptances of application will be conditional upon permission being granted to deal in and quotation for all the issued shares of the Company. Monies paid in respect of any application accepted will be returned if the said permission is not granted.

Pursuant to Section 14 ( 1) of the Securities Industry (Central Depositories) Act, 1991 and Section 39(1)(j) of the Companies Act, 1965, the KLSE has prescribed PERMAJU as a CDS security. In consequence thereof, the Public Issue Shares will be deposited directly with MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

An applicant should state his/her CDS account number in the space provided in the Application Form if he/she presently has such an account and he/she should then not enter the preferred ADA code. Where an applicant does not presently have a CDS account, he/she should state in the Application Form his/her preferred ADA Code.

The SC and KLSE assume no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Prospectus. Admission to the Official List of the Second Board of the KLSE is not to be taken as an indication of the merits of the Company or of its ordinary shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by PERMAJU. Neither the delivery of this Prospectus nor any sale made in connection with this Prospectus shall, in any circumstance, and at any time constitute a representation or create any implication that there has been no change in the affairs of PERMAJU or the Group since the date hereof.

The distribution of this Prospectus and the sale of the Public Issue Shares may in certain other jurisdictions be restricted by law. Persons into whose possession this Prospectus may come are required to inform themselves of and to observe all such restrictions.

This Prospectus does not constitute and may not be used for the purpose of an offer to buy any Public Issue Shares in any jurisdiction in which such invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

**If you are in any doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitors, accountant or other professional adviser.**

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5.0 SHARE CAPITAL

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	RM
Authorised:	
- 200,000,000 ordinary shares of RM1 .00 each	<u>200,000,000</u>
Issued and fully paid-up as at the date of this <b>Prospectus:-</b>	
- 38,150,000 ordinary shares of RM 1.00 each	38,150,000
To be issued pursuant to the Public Issue:-	
- 6,850,000 new ordinary shares of RM 1.00 each	6,850,000
	<u>45,000,000</u>
Public Issue price per share	2.50

The issue price of RM2.50 per Public Issue Share is payable in full on application.

There is only one class of shares in PERMAJU being ordinary shares of RM 1 .00 each. The Public Issue Shares will rank *pari passu* in all respects with the other existing issued and paid-up ordinary shares of the Company, including voting rights and rights to all dividends and other distributions that may be declared subsequent to the date of this Prospectus.

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

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

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## 6.0 PARTICULARS OF THE PUBLIC ISSUE

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### 6.1 Opening and Closing of Application Lists

The Application Lists for the Public Issue Shares will open at 10.00 a.m. on 14 October 1999 and will remain open until 8.00 p.m. on the same day or for such further period or periods as the Directors of PERMAJU in their absolute discretion may decide.

### 6.2 Details of the Public Issue

The Public Issue is an invitation by the Company to the Directors, eligible employees as well as customers and suppliers of the PERMAJU Group and the Malaysian public, to apply for the Public Issue at an issue price of RM2.50 per share, payable in full upon application, upon the terms and conditions set out in this Prospectus.

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

**(a) Directors, Eligible Employees as well as Customers and Suppliers**

2,200,000 Public Issue Shares have been reserved for Directors, eligible employees as well as customers and suppliers of PERMAJU Group.

**(b) Malaysian Investing Public**

4,650,000 Public Issue Shares will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions.

The 4,650,000 Public Issue Shares made available to the Malaysian public listed under paragraph 6.2(b) above have been fully underwritten by the Managing Underwriter and Underwriters as set out in Section I of this Prospectus.

The 2,200,000 Public Issue Shares in respect of paragraphs 6.2 (a) above are not required to be underwritten and therefore are not underwritten. In the event that any of such Public Issue Shares are not taken up by the Directors, eligible employees, customers and suppliers of PERMAJU Group, such shares will be made available for application by the Malaysian public and arrangements have been made for such shares to be fully underwritten by the Managing Underwriter.

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## 6.0 PARTICULARS OF THE OFFER (Cont'd)

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### 6.3 Justification of the Public Issue Price

The public issue price of RM2.50 per share can be justified as follows:

#### (a) PE Multiple and Forecast Earnings

The forecast profit after tax of PERMAJU, for the financial year ending 31 December 1999 is RM16.108 million. Based on an enlarged share capital of 45,000,000 ordinary shares of RM1.00 each, its net EPS would be 35.8 sen. Accordingly, an issue price of RM2.50 per share represents a forecast net PE multiple of 7.0 times. A comparison of the net PE multiple of 7.0 times with that of listed companies involved in similar business is tabulated below:

Name of Listed Company	PE Multiple (times)
PERMAJU	7.0
Timberwell Berhad	12.8*
Syarikat Binaan Budi Sawmill Berhad	22.4*
Serisar Industries Berhad	19.8*

\* Based on the Business Times, 21 September 1999

The forecast PE multiple of 7.0 times of PERMAJU is attractive in view that it is considerably lower than the net PE multiples of the above mentioned timber companies which range from 12.8 times to 22.4 times.

#### (b) Proforma Consolidated NTA

The proforma consolidated NTA after Proposed Public Issue based on the audited accounts as at 30 June 1999 is RM73.299 million or RM 1.63 per share.

The proposed issue price of RM2.50 per share represents a premium of RM0.87 or 53.4% over the NTA per share of RM 1.63.

#### (c) Dividend Forecast

The Company is forecast to declare a tax exempt dividend of 8% for the financial year ending 31 December 1999. Based on the enlarged share capital of 45,000,000 ordinary shares of RM1.00 each, this translates into a tax exempt dividend yield of 3.2% based on the proposed issue price of RM2.50 per share.

The corresponding tax exempt dividend cover is 1.3 times based on the consolidated profit after taxation attributable to shareholders of PERMAJU after the Acquisitions for the financial year ending 31 December 1999.

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## 6.0 PARTICULARS OF THE OFFER (*Cont'd*)

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The tax exempt dividend yield of PERMAJU of 3.2 % is reasonable compared to similar listed companies as shown below:-

Name of Listed Company	Net Dividend Yield (%)
<b>PERMAJU</b>	<b>3.2</b>
Syarikat Binaan Budi Sawmill*	1.6*
Serisar Industries Berhad*	3.2*

\* *Source : Business Times, 21 September 1999*

## 6.4 Purposes of the Public Issue

The purposes of the Public Issue are as follows:-

- (a) To provide an opportunity for the Malaysian investors as well as the Directors, eligible employees, customers and suppliers of the PERMAJU Group to participate in the continuing growth of the Group;
- (b) To increase the Bumiputera equity participation in PERMAJU in line with the aspiration of the National Development Policy;
- (c) To obtain the listing of and quotation for the entire paid-up share capital of 45,000,000 ordinary shares of RM 1 .00 each on the Second Board of the KLSE; and
- (d) To provide PERMAJU easier access to the capital market to fund its future plans for continued growth.

## 6.5 Proceeds of the Public Issue

The Public Issue shall raise approximately RM17.125 million to the Company. Together with approximately RM3.352 million raised from the Rights Issue, the entire sum of approximately RM20.477 million shall be utilised in the following manner:

	<b>RM'000</b>
Capital expenditure (see <i>Note I</i> )	15,000
Repayment of bank borrowings	2,503
Working capital	974
Estimated listing expenses	2,000
	<u>20,477</u>

The expenses and fees incidental to all the corporate exercises leading to the listing of and quotation for the ordinary shares of PERMAJU on the Second Board of the KLSE, estimated at approximately RM2.0 million, shall be borne by the Company. The net interest saving arising from the repayment of bank borrowings is expected to be approximately RM 116,000.

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## 6.0 PARTICULARS OF THE OFFER (Cont'd)

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*Note 1:*

*This represents the proposed purchase of machinery deemed necessary to meet the recent trend **of** smaller diameter logs being supplied to the industry. The machinery to be acquired are as follows.*

<i>Type of Machinery</i>	<i>Purchase Price (RM'000)</i>
<i>One set of UROKO New Type 9-foot Rotary Lathe</i>	<i>11,005</i>
<i>One set of Hashimoto Auto Reeling System and Direct Clipping System</i>	<i>3.265</i>
<i>Ocean freight, local components and installation costs</i>	<i>730</i>
<i>Total</i>	<u><u><i>15,000</i></u></u>

*The machinery are expected to yield the following benefits.*

- *Produce up to three types of veneer, namely, the face/back, long grain core and short grain core,*
- *Increase recovery by an estimated 2-3% via the computer controlled centering system;*
- *Increase recover?, by an estimated 6% due to the ability to peel small diameter logs;*
- *Increase the volume of face/back veneer; and*
- *Reduce production cost by an estimated 2% due to the increased **production** capacity.*

*Installation of the machinery is expected to commence in late December 1999 and will be fully commissioned by March 2000. The installed production capacity of this additional line is 30,000 cubic metres p.a. It is expected that this additional line will increase the annual veneer production output from 66.0011 cubic metres to 90,000 cubic metres p.a.*

## 6.6 Brokerage and Underwriting Commission

Brokerage is payable by the Company at the rate of 1.0% on the issue price of RM2.50 per Public Issue Share in respect of successful applications bearing the stamp of Amanah, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

The Managing Underwriter and Underwriters set out in Section 1 of this Prospectus have agreed to underwrite the 4,650,000 Public Issue Shares which are available for application by the Malaysian public. The Managing Underwriter has further agreed to underwrite any Public Issue Shares reserved but which are not taken up by the Directors, eligible employees, customers and suppliers of the PERMAJU Group. Underwriting commission is payable by the Company at the rate of 1.0% of the issue price of RM2.50 per Public Issue Share.

## 7.0 MORATORIUM ON THE SALE OF SHARES

The SC in approving the flotation of PERMAJU on the Second Board of the KLSE has imposed a moratorium on the disposal of shares by NCSB, the substantial shareholder of PERMAJU.

Under the terms of the moratorium, NCSB will not be allowed to sell, transfer or assign its shareholdings in PERMAJU amounting to 20,250,000 ordinary shares of RM1.00 each, representing 45% of the issued and paid-up capital of PERMAJU within one (1) year from the date of admission of PERMAJU to the Official List of the Second Board of the KLSE. Thereafter, NCSB is permitted to sell, transfer or assign up to a maximum of one-third p.a. (on a straight-line basis) of the shares under moratorium.

The restriction is specially endorsed on the share certificates and notices of allotment representing the respective shareholdings of NCSB which are under moratorium to ensure that the Company's Registrar shall not register any transfer not in compliance with the restriction imposed by the SC. This restriction has been fully accepted by NCSB whose total shareholding after the Public Issue would be 22,511,059 ordinary shares of RM1.00 each, representing 50.02% of the issued and paid up capital of the Company.

The PERMAJU shares under the moratorium are as follows:

Shareholder	No. of PERMAJU shares after the Public Issue		< -----No. of PERMAJU Shares under the moratorium----->							
			Year 1*		Year 2		Year 3		Year 4	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
NCSB	22,511,059	50.02	20,250,000	45.00	13,500,000	30.00	6,750,000	15.00	-	-

\* *Moratorium on disposal, transfer and assignment of PERMAJU shares for one (1) year from the date of admission of PERMAJU to the Official List of the Second Board of the KLSE*

In compliance with Section 10.12 of SC's Policies and Guidelines on Issue / Offer of Securities, all the shareholders of NCSB (including ultimate individual shareholders of NCSB) have given undertakings to the SC that they will not sell, assign or transfer their direct and indirect shareholding in NCSB from the date of admission of PERMAJU to the Official List of the Second Board of the KLSE to the expiry of the moratorium period imposed on NCSB by the SC for the sale of PERMAJU shares.



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## 8.0 INFORMATION ON THE PERMAJU GROUP

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### 8.1 History and Principal Activities

PERMAJU was incorporated in Malaysia on 7 March 1996 under the Companies Act, 1965, as a public limited company. The Company presently has an authorised share capital of **RM200,000,000** comprising **200,000,000** ordinary shares of **RM1.00** each of which 38150,000 ordinary shares have been issued and fully paid-up. PERMAJU is principally an investment holding company. The subsidiary companies are principally involved in the following business activities:

Company	Principal activities
FNS	Manufacturing and sales of veneer products, plywood and sawn timber
SSB	Manufacturing of wooden laminated board using plantation log and bare core sawn timber
FNship	Hiring of barges, motor launches and equipment for transportation of logs and finished wood products

### 8.2 Restructuring and Public Flotation Scheme

As an integral part of seeking a listing of and quotation for the entire enlarged issued and paid-up capital of 45,000,000 ordinary shares of PERMAJU on the Second Board of the **KLSE**, the Company has implemented the restructuring exercise which was approved by the **SC** on 29 June 1999, the **MITI** on 29 June 1999 and **FIC** on 23 June 1999. The restructuring exercise comprises the following:

(a) **Restructuring Scheme**

(i) **Revaluation Exercise**

The landed properties of FNS and SSB have been revalued based on independent valuation reports dated 15 November 1998 and 17 November 1998 carried out by a professional independent valuers and surveyors, C. H. Williams, Talhar & Wong (Sabah) Sdn Bhd, on the open market basis using the comparison and depreciated replacement cost methods of valuation.

On 29 June 1999, SC approved the revaluation surplus of the landed properties of FNS and SSB amounting to **RM8,662,456** and **RM5,824,838** respectively. The revaluation surpluses will be incorporated into the Revaluation Reserve Accounts of FNS and SSB for the financial year ending 31 December 1999.

## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

## (ii) Acquisition of FNS

Acquisition by PERMAJU of the entire issued and paid-up share capital in FNS comprising 10888,800 ordinary shares of RM1.00 each for a total consideration of RM31,687,392 fully satisfied by the issue of 25,804,065 new ordinary shares of RM 1.00 each in PERMAJU at an issue price of RM 1.228 per share. The Acquisition of FNS was completed on 9 September 1999. The total purchase consideration was fully satisfied by the allotment and issue of new ordinary shares of RM1.00 each in PERMAJU in the following manner:-

## SHAREHOLDING IN FNS

Vendor of FNS	No. of shares	%	No. of new PERMAJU shares issued
S.K. Timber Corporation Sdn Bhd	2,975,000	27.30	7,050,097
Mohammad Anuar bin Mohd Yunus	1,070,400	9.83	2,536,613
Ismail Sabri bin Yaakob	1,659,200	15.24	3,931,940
Kamaruzaman bin Yacob	675,240	6.20	1,600,170
Mohd Azizan bin Che Omar	665,000	6.10	1,575,904
Zamri bin Mohamed	318,960	2.93	755,865
Datuk Lim Yen Ngiap	2,910,000	26.70	6,896,061
Datuk Tiong Kung Hieng	355,000	3.30	841,272
Dong Yeung Moolsan Co. Ltd.	260,000	2.40	616,143
	<b>10,888,800</b>	<b>100.00</b>	<b>25,804,065</b>

The purchase consideration of RM31,687,392 for the acquisition was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited NTA of FNS as at 31 March 1998 of RM23,024,936 and revaluation surplus of RM8,662,456 for the revaluation of the landed properties of FNS as approved by the SC on the 29 June 1999. The issue price of RM1.228 per PERMAJU share was arrived at after considering the retention of reserves required by the SC guidelines.

The 25,804,065 new ordinary shares of RM1.00 each in PERMAJU were issued free from all charges, liens and encumbrances and rank *pari passu* in all respects with the existing ordinary shares of PERMAJU and carry all rights to receive in full all dividends and other distributions declared and paid subsequent to the allotment thereof.

8.0 INFORMATION ON THE PERMAJU GROUP (*Cont'd*)

## (iii) Acquisition of SSB

Acquisition by PERMAJU of the entire issued and paid-up share capital in SSB comprising 4,000,002 ordinary shares of RM1.00 each for a total consideration of RM9,052,911 fully satisfied by the issue of 7,372,077 new ordinary shares of RM1.00 each in PERMAJU at an issue price of RM1.228 per share. The Acquisition of SSB was completed on 9 September 1999. The total purchase consideration was wholly satisfied by the allotment and issue of new ordinary shares of RM1.00 each in PERMAJU in the following manner:

SHAREHOLDING IN SSB			
Vendor of SSB	No. of shares	%	No. of new PERMAJU shares issued
Datuk Lim Yen Ngiap	1		2
Lim Fui Loong	400,000	10.00	737,207
Lim Fui Fong	300,000	7.50	552,906
Lim Fui Yun	350,000	8.75	645,056
Lim Fui Jin	350,000	8.75	645,056
Datuk Tiong Kung Hieng	1		2
Tiong Wei Wei	200,000	5.00	368,604
Tiong Yai King	200,000	5.00	368,604
Tiong Guan King	400,000	10.00	737,207
Mei-Wood Corporation	1,800,000	45.00	3,317,433
	<b>4,000,002</b>	<b>100.00</b>	<b>7,372,077</b>

The purchase consideration of RM9,052,911 for the acquisition was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited NTA of SSB as at 31 March 1998 of RM3,228,073 and revaluation surplus of RM5,824,838 for the revaluation of the landed properties of SSB as approved by the SC on 29 June 1999. The issue price of RM1.228 per PERMAJU share was arrived after considering the retention of reserves required by the SC guidelines.

The 7,372,077 new ordinary shares of RM1.00 each in PERMAJU were issued free from all charges, liens and encumbrances and rank *pari passu* in all respects with the existing ordinary shares of PERMAJU and carry all rights to receive in full all dividends and other distributions declared and paid subsequent to the allotment thereof.

**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)****(iv) Acquisition of FNship**

Acquisition by PERMAJU of the entire issued and paid-up share capital in FNship comprising 1,000,000 ordinary shares of RM1.00 each for a total consideration of RM2,755,090 fully satisfied by the issue of 2,243,559 new ordinary shares of RM 1.00 each in PERMAJU at an issue price of RM 1.228 per share. The Acquisition of FNship was completed on 9 September 1999. The total purchase consideration was wholly satisfied by the allotment and issue of new ordinary shares of RM1.00 each in PERMAJU in the following manner:

**SHAREHOLDING IN FNship**

<b>Vendor of FNship</b>	<b>No. of shares</b>	<b>%</b>	<b>No. of new PERMAJU shares issued</b>
Mohammad Anuar bin Mohd Yunus	468,665	46.86	1,051,478
Datuk Lim Yen Ngiap	265,668	26.57	596,041
Datuk Tiong Kung Hieng	265,667	26.57	596,040
	<b>1,000,000</b>	<b>100.00</b>	<b>2,243,559</b>

The purchase consideration of RM2,755,090 for the acquisition was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited NTA of FNship as at 31 March 1998 of RM2,755,090. The issue price of RM 1.228 per PERMAJU share was arrived after considering the retention of reserves required by the SC guidelines.

The 2,243,559 new ordinary shares of RM 1.00 each in PERMAJU were issued free from all charges, liens and encumbrances and rank *pari passu* in all respects with the existing ordinary shares of PERMAJU and carry all rights to receive in full all dividends and other distributions declared and paid subsequent to the allotment thereof.

**(v) Disposal of Subscribers' Shares**

Disposal of two (2) subscribers' shares by the existing shareholders of PERMAJU namely Lo Phit Hah and Janney binti Sumil (@ Nursyafina to Datuk Lim Yen Ngiap for a cash consideration of RM2.00 ("Disposal"). The Disposal was completed on 9 September 1999.

## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

## (vi) Assignment to NCSB

Assignment by Datuk Lim Yen Ngiap, Datuk Tiong Kung Hieng, Lim Fui Yun, Lim Fui Jin, Lim Fui Fong, Lim Fui Loong, Tiong Yai King, Tiong Guan King, Tiong Wei Wei, S.K. Timber Corporation Sdn Bhd, Mei-Wood Corporation and Dong Yeung Moolsan Co. Ltd to NCSB of their rights to allotment of 20,900,000 new ordinary shares of RM1.00 each in PERMAJU and all rights attached thereto after the Acquisitions of FNS, SSB, FNship and the Disposal (“Assignment”). The consideration for the Assignment is by way of a share swap for ordinary shares in NCSB in the proportions set out below. The Assignment was completed on 9 September 1999.

Shareholders	No. of PERMAJU shares assigned to NCSB	No. of NCSB shares issued	Final shareholding in NCSB*	
			No of shares	% held
Datuk Lim Yen Ngiap	7,100,000	33,970	42,584	42.6
Lim Fui Loong	600,000	2,871		
Lim Fui Fong	500,000	2,392		
Lim Fui Yun	350,000	1,675		
Lim Fui Jin	350,000	1,675		-
Datuk Tiong Kung Hieng	1,300,000	6,220	12,441	12.4
Tiong WeiWei	300,000	1,435		
Tiong Yai King	300,000	1,435		
Tiong Guan King	700,000	3,350		
S.K. Timber Corporation Sdn Bhd	6,600,000	31,578	31,578	31.6
Mei-Wood Corporation	2,300,000	11,005	11,005	11.0
Dong Yeung Moolsan Co. Ltd	500,000	2,392	2,392	2.4
	<b>20,900,000</b>	<b>99,998<sup>A</sup></b>	<b>100,000</b>	<b>100.0</b>

## Notes:

\* Lim Fui Loong, Lim Fui Fong, Lim Fui Yun and Lim Fui Jin assigned their respective interest in NCSB to Datuk Lim Yen Ngiap at a nominal consideration of RM1.00.

Tiong WeiWei, Tiong Yai King and Tiong Guan King assigned their respective interest in NCSB to Datuk Tiong Kung Hieng at a nominal consideration of RM1.00.

<sup>A</sup> The 2 initial subscribers' shares are currently held by Datuk Lim Yen Ngiap and Datuk Tiong Kung Hieng.

8.0 INFORMATION ON THE PERMAJU GROUP (*Cont'd*)**(vii) Rights Issue**

Rights issue of 2,730,297 new ordinary shares of RM1.00 each in PERMAJU at an issue price of RM 1.228 per share on the basis of 0.077 1 new ordinary share for every existing share held after the acquisitions of FNS, SSB, FNship, Disposal and Assignment. The issue price of RM1.228 per PERMAJU share was arrived after considering the retention of reserves required by SC guidelines. The Rights Issue was completed on 11 September 1999.

The 2,730,297 new ordinary shares of RM1.00 each in PERMAJU were issued free from all charges, liens and encumbrances and rank *pari passu* in all respects with the existing ordinary shares of PERMAJU and carry all rights to receive in full all dividends and other distribution declared and paid subsequent to the completion of the restructuring exercise.

**(viii) Public Issue**

Public issue of 6,850,000 Public Issue Shares at an issue price of RM2.50 per share payable in full upon application which shall be allocated in the following manner:

- (i) 2,200,000 Public Issue Shares to be reserved for all eligible Directors, employees, customers and suppliers of PERMAJU Group; and
- (ii) 4,650,000 Public Issue Shares to be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions,

**(ix) Listing**

Listing of and quotation for the entire enlarged issued and paid-up share capital of RM45,000,000 comprising 45,000,000 ordinary shares of RM 1 .00 each in PERMAJU on the Second Board of the KLSE.

## 8.3 Share Capital

**(a) Authorised Share Capital**

The present authorised share capital of PERMAJU is RM200,000,000 comprising 200,000,000 ordinary shares of RM1 .00 each.

**(b) Issued and Paid-up Share Capital**

The present issued and paid-up share capital of PERMAJU is RM38,150,000 comprising 38,150,000 ordinary shares of RM 1 .00 each. Details of changes in its paid-up share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Par Value RM	Consideration	Total issued and paid-up capital RM
07.03.96	2	1.00	Subscribers' shares	2
09.09.99	35,419,701	1.00	Acquisitions of FNS, SSB and FNship	35,419,703
11.09.99	2,730,297	1.00	Rights Issue of approximately 0.077 1 for 1 at RM 1.228 per share	38,150,000

## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

### 8.4 SUMMARY OF LANDED PROPERTY

The detail(s) of the PERMAJU Group's properties as the date of this Application are as follows:

Title No./ Location	Land area / (Built up area)	Tenure (years)	Existing Use (Registered / Beneficial Owner)	NBV as at 31.03.98 RM	NBV as at 30.06.99 RM	Open market valuation by independent valuer RM	Open market valuation approved by SC RM	SC approved revaluation surplus based on NBV on 31.03.98 RM
(i) (a, <b>CL105137068</b> Pasir Putih, District of Tawau, Sabah	16.7 I acres/ (46.340 square metres)	999 years (Expiring on 22.02.2924)	Sawmill / Plywood mill (FNS) (Note 1)	1,663,938	1,583,632	9,803,000	9,803,000	8,139,062
(b) CL105422099 Pasir Putih, District of Tawau, Sabah	2.43 acres/ (467 square metres)	99 years (expiring on 31. 12.2079)	Integrated Timber Complex (FNS) (Note 2)					
(ii) CL105132250 Pasir Putih. Distract of Tawau, Sabah	12.24 acres/ (I 8,343 square metres)	999 years (Expiring on 20.02.2940)	Blockboard mill (SSB) (Note 3)	2,017,162	<b>2.2 17.033</b>	7,842,000	7,842,000	5,824,838
(iii) Lot 1-3.42 ha (8.45 acs) of CL10513179, CL10510326 & CL105102878, (Under all Parent Titles) Pasir Putih, District of Tawau. Sabah (Note 5)	X.45 acres/ (5.202 square metres)	All parent titles under 999 years - CL 105103179 (Expiring on 14.08.2927) - CL 305101326 (Expiring on 19.02.2924) - CL 105102878 (Expiring on 22.04.2924)	Timber storage warehouse* (FNS) (Note 4)	2,690,606	2,572, 169	3,214,000	3,2 14,000	523,394
				6,371,706	6,372,834	20,859,000	20,859,000	14,487,294

Notes:

Note 1 : The age of the properties built on the land ranges from 3-15 years.

Note 2 : The age of the properties built on the land ranges from 3-15 years.

Note 3 : The age of the properties built on the land ranges from 4-9 years.

Note 4 : The age of the properties built on the land is approximately 2 years old.

Note 5 : The developer is in the process of applying for subdivision of the land. After subdivision of the parent title, the issuance of land titles to individual subdivided lots would have a tenure of 99 years lease.

\* Subsequent to the valuation by the independent valuer, Messrs. C. H. Williams, Talhar & Wong (Sabah) Sdn Bhd on 15 November 1998, the Company constructed a film overlay plywood mill on the land.

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## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

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The open market valuations are based on the Valuation Reports dated 22 May 1997, 17 November 1998 and 23 November 1998 prepared by C.H.Williams, Talhar & Wong (Sabah) Sdn Bhd, an independent professional valuer, using the comparison and depreciated replacement cost methods of valuation amounted to a total of **RM20,859,000** for the abovementioned properties. On 29 June 1999, SC approved the revaluation surplus of the landed properties of FNS and SSB amounting to **RM8,662,456** and **RM5,824,838** respectively. The revaluation surpluses will be incorporated into the Revaluation Reserve Accounts of FNS and SSB for the financial year ending 31 December 1999.

### 8.5 Information on Subsidiary and Associated Companies

As at the date of this Prospectus, PERMAJU has the following subsidiary companies:

Name of Company	Date and Place of incorporation	Issued and paid-up share capital RM	Effective equity interest %	Principal activities
FNS	6 May 1980 Malaysia	10,888,800	100	Manufacturing and sales of veneer products, plywood and sawn timber products
SSB	14 June 1989 Malaysia	4,000,002	100	Manufacturing of wooden laminated board using plantation logs and bare core sawn timber
FNship	31 December 1983 Malaysia	1,000,000	100	Hiring of barges, motor launches and equipment for transportation of logs and finished wood products

Save as disclosed above, PERMAJU does not have any other subsidiary or associated company as at the date of this Prospectus.

#### 8.5.1 Information on FNS

##### (a) History and Business

FNS was incorporated in Malaysia on 6 May 1980. The present authorised share capital of FNS is **RM15,000,000** comprising **15,000,000** ordinary shares of RM 1.00 each. The present issued and fully paid-up share capital of FNS is **RM10,888,800** comprising **10,888,800** ordinary shares of RM1.00 each.

The principal activities of FNS are that of manufacturing and sales of veneer products, plywood and sawn timber products.



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**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)**


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**(b) Changes in Share Capital**

Details of the changes in the issued and paid-up share capital of FNS since incorporation are as follows :

Date of Allotment	No. of shares		Consideration	Total issued and paid-up capital RM
	allotted	Par value RM		
06.05.1980	2	1.00	Subscribers' shares	2
22.10.1983	999,998	1.00	Cash	1,000,000
18.02.1984	689,350	1.00	Bonus Issue	1,689,350
18.02.1984	3,810,650	1.00	Cash	5,500,000
28.12.1985	1,000,000	1.00	Cash	6,500,000
18.10.1996	4,388,800	1.00	Bonus Issue	10,888,800

**(c) Profit and Dividend Record**

The audited profit and dividend record of FNS for the past five (5) years ended 31 December 1998 and six (6) months period ended 30 June 1999 are summarised as follows:

	< -----Year ended 31 December ----- >					6 months ended
	1994	1995	1996	1997	1998	30.06.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	88,451	99,302	106,119	108,706	82,357	43,127
Profit before depreciation and interest	1,138	12,239	13,387	18,717	16,080	11,099
Depreciation	(2,642)	(1,839)	(2,414)	(2,743)	(2,958)	(1,484)
Interest expense	(305)	(838)	(1,358)	(1,616)	(2,097)	(641)
Profit before taxation	8,436	9,562	9,615	14,358	11,025	8,974
Taxation	(1,673)	(2,454)	(574)	(4,771)	(2,363)	(7)
Profit after taxation	6,763	7,108	9,041	9,587	8,662	8,967
Weighted average number of shares in issue ('000)	6,500	6,500	7,840	10,889	10,889	10,889
Gross EPS (sen)	129.8	147.1	122.7	131.9	101.2	**164.8
Net EPS (sen)	104.0	109.4	115.3	88.0	79.5	**164.7
Gross dividend per share (sen)	150.0		128.6	*73.0	*32.0	69.4
Net dividend per share (sen)	105.0		90.0	*73.0	*32.0	50.0

\* Tax exempt dividend

\*\* Annualised

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## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

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Notes:

- (i) *The audited results of FNS have been prepared based on accounting policies consistent with those **previously** adopted in the **preparation of the company's** audited financial statements.*
  - (ii) *Turnover represents invoiced sales of **wood** products less returns.*
  - (iii) *The taxation charge is computed **after** taking into consideration the **differences** in treatment of certain expenses incurred during the period under review which are not allowable for tax purposes and capital allowances and reinvestment allowances available for set **off** against taxable **profit**. Therefore, the **effective** tax rates differ materially from the amount determined by applying the statutory tax rates of those years to the respective year's results.*
- Subject to the agreement of the Inland Revenue Board, the tax exempt account balance as at 30 June 1999 amounted to approximately RM2,530,000.*
- (iv) *In the **financial** year 1996, the effective tax rate was lower than the **statutory** tax rate mainly due to adjustment of over provision for taxation in previous year to set off against 1996 provisions.*
  - (v) *The decrease in turnover and profit in 1998 were mainly due to the **regional financial** crisis resulting in a lower **demand** for wood products.*
  - (vi) *The tax expense for the financial period ended 30 June 1999 represents adjustment of **underprovision for taxation** for previous year. No taxation is **provided** for the financial period ended 30 June 1999 as the financial **period falls** in the year of assessment 2000 where tax on income earned is expected to be waived.*
  - (vii) *There were no **extraordinary** items in respect of the **financial** years under review.*
  - (viii) *Gross EPS is calculated based on the profit before taxation and on the weighted average number of shares in issue during each of the **respective financial** years under review.*
  - (ix) *Net EPS is calculated based on the profit after taxation and on the weighted average number of shares in issue during each of the **respective financial** years under review.*

### (d) Subsidiary and Associated Companies

As at the date of the Prospectus, FNS does not have any subsidiary or associated company.

## 8.5.2 Information on SSB

### (a) History and Business

SSB was incorporated in Malaysia under the Companies Act, 1965 on 14 June 1989. The present authorised share capital is RM6,000,000 comprising 6,000,000 ordinary shares of RM 1.00 each whilst its issued and paid-up share capital is RM4,000,002 comprising 4,000,002 ordinary shares of RM 1.00 each.

The principal activity of SSB is that of manufacturing of wooden laminated board using plantation logs and bare core sawn timber.

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8.0 INFORMATION ON THE PERMAJU GROUP *(Cont'd)*


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**(b) Changes in Share Capital**

Details of the changes in the issued and paid-up share capital of SSB since incorporation are as follows:

<b>Date of Allotment</b>	<b>No. of shares allotted</b>	<b>Par value RM</b>	<b>Consideration RM</b>	<b>Total issued and paid-up capital RM</b>
14.06.1989	2	1.00	Subscribers' shares	2
09.07.1990	2,000,000	1.00	Cash	2,000,002
17.10.1990	2,000,000	1.00	Cash	4,000,002

**(c) Profit and Dividend Forecast**

The audited profit and dividend record of SSB for the past five (5) years ended 31 December 1998 and six (6) months period ended 30 June 1999 are summarised as follows:

	< -----Year ended 31 December----- >					6 months ended
	1994	1995	1996	1997	1998	30.06.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	21,339	18,135	20,618	20,309	13,865	5,137
Profit before depreciation and interest	2,606	1,119	3,083	3,991	3,609	1,538
Depreciation	(1,733)	(949)	(562)	(606)	(617)	(294)
Interest expense	(194)	(204)	(181)	(104)	(257)	(41)
Profit / (loss) before taxation	679	(34)	2,340	3,281	2,735	1,203
Taxation				(287)	208	
<b>Profit/(loss) after taxation</b>	<b>679</b>	<b>(341)</b>	<b>2,340</b>	<b>2,994</b>	<b>2,943</b>	<b>1,203</b>
Weighted average number of shares in issue ('000)	4,000	4,000	4,000	4,000	4,000	4,000
Gross EPS/(loss) per share (sen)	17.0	(0.9)	58.5	82.0	68.4	<b>**60.2</b>
Net EPS/(loss) per share (sen)	17.0	(0.9)	58.5	74.9	73.6	<b>**60.2</b>
Gross dividend per share (sen)				<b>*118.8</b>	<b>*72.5</b>	
Net dividend per share (sen)				<b>*118.8</b>	<b>*72.5</b>	

• Tax exempt dividend

• \* Annualised

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**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)**


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*Notes.*

- (i) *The audited results of SSB have been prepared based on accounting policies consistent with those previously adopted in the preparation of the company's audited financial statements.*
- (ii) *Turnover represented invoiced sales @laminated board.*
- (iii) *No tax was payable for SSB for the financial years ended from 31 December 1994 to 1996 as SSB had been granted pioneer status incentive under the Promotion of Investments Act, 1986 which exempts SSB's profits on laminated board operations from tax for a period of five (5) years commencing 1 February 1991 and the availability of unabsorbed capital allowances carried forward.*  
  
*The company had applied and was granted an extension of the pioneer status incentive for a further five years to 31 January 2001. This resulted in an over provision @ taxation charge in 1998 on the taxation charge provided in 1997.*  
  
*Subject to the agreement of Inland Revenue Board, the tax exempt account balance as at 30 June 1999 amounted to approximately RM13,900,000.*
- (iv) *The decrease in turnover in 1995 was mainly due to the stabilisation in world demand for laminated board after two consecutive extraordinary years of increased demand for laminated board in 1993 and 1994.*
- (v) *The company suffered a minor loss for the financial year ended 31 December 1995 mainly due to the introduction of export cess on the Seraya laminated board by the Sabah State Government during the year which has significantly reduced its profit margin.*
- (vi) *The significant increase in turnover and profit for the financial year ended 31 December 1996 was mainly due to improved average selling price for its product. The company's profit performance for the financial year ended 31 December 1998 was affected slightly due to the regional financial crisis resulting in the lower demand for wood products.*
- (vii) *Turnover decreased significantly from 1997 to 1998 mainly due to decrease in sales volume of laminated board as a result of the regional financial crisis.*
- (viii) *There were no extraordinary items in respect of the financial years under review.*
- (ix) *Gross earnings/(loss) per share is calculated based on the profit/(loss) before taxation and on the number of shares in issue during each of the respective financial years under review*
- (x) *Net earnings/(loss) per share is calculated based on the profit/(loss) after taxation and on the number of shares in issue during each of the respective financial year under review.*

**(d) Subsidiary and Associated Companies**

As at the date of the Prospectus, SSB does not have any subsidiary or associated company.

## 8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)

### 8.5.3 Information on FNship

#### (a) History and Business

FNship was incorporated in Malaysia under the Companies Act, 1965 on 31 December 1983. The present authorised share capital is RM 1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM1,000,000 comprising 1,000,000 ordinary shares of RM 1.00 each.

The principal activity of FNship is that of hiring of barges, motor launches and equipment for the transportation of logs and finished wood products.

#### (b) Changes in Share Capital

Details of the changes in the issued and paid-up share capital of FNship since incorporation are as follows:-

Date of Allotment	No. of shares allotted	Par value RM	Consideration	Total issued and paid-up capital RM
31.12.1983	2	1.00	Subscribers' shares	2
21.11.1984	149,998	1.00	Cash	150,000
04.09.1996	350,000	1.00	Bonus Issue	500,000
22.10.1996	500,000	1.00	Bonus Issue	1,000,000

#### (c) Profit and Dividend Record

The audited profit and dividend record of FNship for the past five (5) years ended 31 December 1998 and six (6) month period ended 30 June 1999 are summarised as follows:

	< -----Year ended 31 December----- >					6 months ended
	1994 RM'000	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	30.06.99 RM'000
Turnover	3,662	2,768	3,602	3,469	3,234	1,533
Profit/( loss) before depreciation and interest	1,393	(56)	1,311	1,473	1,404	658
Depreciation	(332)	(368)	(286)	(360)	(198)	(99)
Interest expense	(34)	(24)	(8)	(1)	(1)	(6)
Profit/( loss) before taxation	1,027	(448)	1,017	1,112	1,205	553
Taxation	(240)	84	(306)	(365)	(373)	
Profit / (loss) after taxation	787	(364)	711	747	832	553
Weighted average number of shares in issue ('000)	150	150	403	1,000	1,000	1,000
Gross EPS/(loss) per share (sen)	684.7	(298.7)	252.4	111.2	120.5	*110.6

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**8.0** INFORMATION ON THE PERMAJU GROUP (Cont'd)
 

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	<-----Year ended 31 December----->					6 months ended <b>30.06.99</b>
	1994	1995	1996	1997	1998	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net EPS/(loss) per share (sen)	524.7	(242.7)	176.4	74.7	83.2	* 110.6
Gross dividend per share (sen)				70.0	47.8	100.0
Net dividend per share (sen)				50.4	34.4	72.0

\* Annualised

**Notes:**

- (i) *The audited results of FNship have been prepared based on accounting policies consistent with those previously adopted in the preparation of the company's audited financial statements.*
- (ii) *Turnover represents income from hiring of barges, motor launches and equipment for the transportation of logs and finished wood products.*
- (iii) *The taxation charge is computed after taking into consideration the differences in treatment of certain expenses incurred during the period under review which are not allowable for tax purposes and capital allowances available for set off against taxable profit. Therefore, the effective tax rate differs materially from the amount determined by applying the statutory tax rates of those years in the respective year's results.*
- (iv) *The decrease in turnover and the loss incurred by the company for the financial year ended 31 December 1995 was mainly due to the cessation of hiring services to external parties, increase in messing expenditure for staff, increase in repairs and maintenance charges of motor launches and barges due to bad weather.*
- (v) *The performance of the company improved in the financial year ended 31 December 1996 due to increase in business activities, decrease in leasing charges and a decrease in depreciation charges as some of the assets have been fully depreciated.*
- (vi) *In the financial year ended 31 December 1995, there was no tax liability as the operations recorded a loss of RM448,000. The taxation in credit for 1995 represents adjustment for overprovision for taxation for the previous year.*
- (vii) *No taxation is provided for the financial period ended 30 June 1999 as the financial period falls in the year of assessment 2000 where tax on income earned is expected to be waived*
- (viii) *There were no extraordinary items in respect of all the financial years under review.*
- (ix) *Gross earnings/(loss) per share is calculated based on profit/(loss) before taxation and on the weighed average number of shares in issue during each of the respective financial years under review.*
- (x) *Net earnings/(loss) per share is calculated based on the profit/(loss) after taxation and on the weighted average number of shares in issue during each of the respective financial years under review.*

**(d) Subsidiary and Associated Companies**

As at the date of the Prospectus, FNship does not have any subsidiary or associated company.

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**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)**

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**8.6 Working Capital, Borrowings and Contingent Liabilities****8.6.1 Working Capital**

The Directors are of the opinion that, after taking into account the cashflow forecast and projections and the banking facilities available, the PERMAJU Group will have adequate working capital for its present and foreseeable requirements.

**8.6.2 Borrowings**

As at 17 September 1999 (being the last practicable date prior to the printing of this Prospectus), the total bank borrowings and overdraft facilities of the PERMAJU Group amounts to RM26.3million.

**8.6.3 Contingent Liabilities**

As at 17 September 1999 (being the last practicable date prior to the printing of this Prospectus), the PERMAJU Group did not have any contingent liabilities, loan capital or convertible debt securities outstanding or created but unissued nor any mortgages or charges outstanding or guarantees.

**8.7 Directors, Senior Management and Employees****8.7.1 Directors**

**Haji Mohd Hayani Bin Haji Abdul Rahman**, KMN, AMN, PPN, PJK, 57, was appointed as the Non-Executive Chairman of PERMAJU on 8 September 1999. He is the State Assemblyman of Guai, Temerloh, Pahang, since 1995. Prior to his current position, he was the Senior Private Secretary to the then Minister of Culture, Arts and Tourism from 1987 to 1995. He was a Committee Member of the UMNO Temerloh Division from 1982 to 1996 and is now the Secretary since 1997.

**Kenneth Chew Mei Kwang**, 54, was appointed as the Deputy Chairman of PERMAJU on 8 September 1999. He graduated with Bachelor of Laws from University of Singapore in 1969. He had worked from 1969 to 1981 as a judicial officer with the Singapore Legal Service Commission, later as Company Secretary with Singapore Land Limited and Inchcape Berhad. Singapore Land Limited is an investment holding company with investments in commercial and residential properties and hotel management whilst Inchcape Berhad is an investment holding company with investments in commercial and residential properties, timber industry, general trading and distribution in industrial equipment, motor vehicles, consumer products and healthcare products, shipping agencies, financial institutions and other related activities. From 1981 to 1994, he was an Advocate and Solicitor of the High Court of Singapore. On 18 February 1993, he was appointed Deputy Chairman of Primegroup Holdings Ltd, an investment holding company with investments in timber, oil palm plantation and commercial properties. He still holds the position till today. He was appointed Executive Director of Tri-M Technologies (Singapore) Ltd, which is principally involved in the assembly of printed circuit boards and related accessories on 31 May 1993 and a Non-Executive Director of SAAG Bhd on 27 March 1996. He also sits on the boards of several private limited companies. Over the past ten (10) years, he has been involved in companies engaged in the timber and oil palm trade and electronic contract manufacturing gaining extensive experience and knowledge of both the industries.

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**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)**

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**Datuk Lim Yen Ngiap**, PGDK, JP, 58, was appointed as the Managing Director of PERMAJU on 8 September 1999. He is one of the founders of the Group and has had more than thirty (30) years experience in timber related business. Using his extensive knowledge and hands-on experience, he manages the Group by being actively involved in the day-to-day operation of the factories. He pays particular attention to the production lines to ensure that only quality timber products that meet the highest standard set by the buyers and the end users are produced. He was elected as the Chairman of Sabah Timber Industries Association (“STIA”), Tawau Branch from 1988 to 1996. He was also the Deputy President of the Central Committee of STIA at the Sabah State level from 1988 to 1992 and Vice President from 1992 to 1996. He is the Advisor of STIA Tawau Branch since 1996. He is an Honorary Rotarian. He also sits on the boards of several private limited companies.

**Datuk Tiong Kung Hieng**, PGDK, JP, 56, was appointed as the Executive Director of PERMAJU on 8 September 1999. He is one of the founders of the Group and he obtained his degree in Commercial Banking from the National Chengchi University in Taiwan in 1968. He started work in a timber camp in East Kalimantan close to Tawau from 1968 to 1970. Datuk Tiong has gained vast experience in the trading of timber logs, having been involved in the timber industry for about thirty (30) years. He is primarily responsible for the sourcing of timber logs for the Group’s operations ensuring a regular supply of the required grade and species since the commencement of operations in 1983. He also manages the Group’s administrative and financial matters. He also sits on the boards of several private limited companies.

**Yvonne Choo Siew Lian**, 51, was appointed to the Board of Directors of PERMAJU as a Non-Executive Director on 8 September 1999. She graduated with a Degree of Bachelor of Business Administration from the University of Singapore in August 1973. She had worked as a teacher from 1967 to 1970 before joining Inchcape Berhad Singapore as Management Executive in 1973. In 1981, she was promoted as Financial Controller of the Inchcape Berhad Timber Group of Companies, a position she held until 1993. Currently, she is the Financial Controller cum Director of Timber Investments Management Pte Ltd. Singapore which is a wholly-owned subsidiary of Primegroup Holdings Ltd. In this position, she is responsible for the overall financial control and administration of Primegroup Holdings Ltd., which has extensive investments in the timber and oil palm trade worldwide. With her extensive experience, she will be able to oversee the financial administration of the PERMAJU Group. She also sits on the boards of several private limited companies

**Patrick Kong Fui Kien**, 57, was appointed to the Board of the Directors of PERMAJU as an Independent Non-Executive Director on 8 September 1999. A Public Accountant by profession, he was admitted as an Associate in 1970 and is currently a Fellow of the Institute of Chartered Accountants, England & Wales. He is also a member of the Malaysian Institute of Accountants and Malaysian Association of Certified Public Accountants since 1971. He has been in the accounting practice for more than twenty (20) years and has been a partner of Arthur Anderson & Co./ Hanafiah Raslan & Mohamad, a leading international firm of public accountants.

**Mohammad Anuar Bin Mohd Yunus**, 32, was appointed to the Board of the Directors of PERMAJU as a Non-Executive Director on 8 September 1999. He has more than ten (10) years experience in the wood based industry. He started as a planting contractor on a self-employed basis from 1984 to 1992. In 1994, he was appointed the managing director of Landas Maju Sdn Bhd, a company involved in rubber wood processing, and the Chairman of Landas Indah Sdn Bhd, a company involved in trading rubber wood products. To date, he still holds these positions. He is also a Committee Member of UMNO Temerloh Division since 1995 and a Committee Member of UMNO Youth Temerloh since 1993. He is also a Vice President of the Termeloh Sports Council since 1996. He sits on the boards of several private limited companies.



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## 8.0 INFORMATION ON THE PERMAJU GROUP *(Cont'd)*

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### 8.7.2 Management

**Chung Heang Kyu, 52**, is the Plant and Operation Manager responsible for the plant operation and production of the Group. He holds a degree in Forestry Science from Kyun Sang University, South Korea which he obtained in 1974. Prior to joining the Group in 1982, he worked as a Production Manager in Tong Myung Timber Co. Ltd., one of the largest plywood and veneer producers in the world from 1974 to 1982. He utilised his extensive experience and knowledge not only to set-up the factory but continues to play a major role in the management and operation of the factory ensuring timely production of quality timber products. He regularly attends seminars and wood product exhibitions to further enhance his competence and the operations of the Group.

**Chia Yaw, 43**, is the Financial Controller of the Group. He graduated with a Bachelor of Arts (Hons) majoring in Accounting and Economics from Simon Fraser University, Canada in 1979. Upon his return, he joined SK Timber Corporation Sdn Bhd as an Accountant from 1980 to 1983. In 1984, he was seconded on a full time basis to FNS as a Financial Controller to head the accounting department, a position which he holds until today.

**Wong Chung Sang, 46**, is the Shipping Operation Manager of the Group. He has been working with FNship since 1983. His overall responsibilities are to ensure prompt shipment of the finished products and the export documentations related thereto are in compliance with the Group's policy and statutory requirements. In addition, he also works closely with the relevant Government departments on regulatory matters .

**Bae Chung Nam, 56**, is the Assistant Plant Manager responsible for the operations and plant maintenance of the Group. He worked as an Engineer in Tong Myung Timber Co. Ltd since 1967 before being seconded to FNS in 1982. He is also responsible for all the electrical installation and electrical equipment of the factory to ensure effectiveness and efficiency in the operation at all times.

**Wong Tung Len, 56**, is the Senior Administration Officer who assists the Plant Manager in the administration of the factories and is also responsible for the corporate affairs of the Group. Prior to joining FNS in 1985, he was employed as a Sawmill Manager with a timber company overseeing the logging and sawmill's operations from 1974 to 1984. He was also the Secretary of Sabah Timber Industries Association, Tawau branch from 1988 to 1998 and the Assistant Secretary General of the Central Committee of the said Association from 1992 to 1998.

**Andrew Adat, 52**, is the Chief Security Officer who is responsible for the security of the factory and its workers. He was a retired police officer before joining FNS in 1995.

**Mokhtar Pilus, 42**, is the Human Resource Officer. His responsibility include managing and promoting industrial harmony between the workers and the management and liaising with the various Government departments which are responsible for employee welfare. With more than fifteen (15) years of employment in FNS, he is well verse with the operations and management of the company.

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**8.0 INFORMATION ON THE PERMAJU GROUP (Cont'd)**

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**8.7.3 Family Relationship**

There is no family relationship amongst the Directors and Management team.

**8.7.4 Employees**

The current workforce structure of the PERMAJU Group as at 17 September 1999 is as follows:

<b>Company</b>	<b>No. of Employees</b>
FNS	982
SSB	320
FNship	43
	<hr/>
	1,345
	<hr/>

The employees of the PERMAJU Group do not belong to any union. The relationship between management and employees is excellent.

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## 9.0 INDUSTRY OVERVIEW

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### 9.1 The Malaysian Economy

As in the case with other East Asian economies, the performance of the Malaysian economy in 1998 has been adversely affected by the deflationary impact of the financial crisis that beset the region since the mid 1997. Malaysia's real Gross Domestic Product (GDP) contracted by 2.8% in the first quarter and 6.8% in the second quarter of 1998. The Government introduced counter-cyclical measures such as easing of monetary policy coupled with fiscal stimulus and selective exchange control. Consequently, the contraction in real GDP is expected to be less severe in the fourth quarter of 1998. The overall GDP growth for 1998 is estimated to contract by 4.8%, a reversal of 12.5%, compared with 7.7% in 1997. Malaysia's external exports were also affected in terms of real growth due to external factors. This was due to the fact that Malaysia's trading partners, particularly those in East Asia region were also experiencing a severe contraction and slowdown in real growth. In 1998, the growth rate of the four most affected ASEAN economies namely Indonesia, Thailand, Malaysia and the Philippines (ASEAN-4) is expected to contract by 10.4% (1997:3.7%). (Source: *The Economic Report 1998/99*)

For the year 1999, the main source of growth is expected to be generated through domestic demand stimulated by the measures that were recently put in place by the Government to revive the economy. The Government in the second half of the 1998 implemented the National Economic Recovery Plan submitted by the National Economic Action Council (NEAC). This included the easing of monetary policy and the injection of fiscal stimulus to invigorate the economy, as well as the imposition of selective exchange controls to insulate the economy from the contagion effects of global financial crisis. The external sector is expected to exert a lower net expansionary impact on real GDP and nominal GNP growth, as the surplus in the external payments of the current account is envisaged to be smaller. Although exports are forecasted to improve mildly, imports are expected to increase at a relatively stronger rate in tandem with the recovery in domestic demand and the need to replenish. The real economy is projected to register a positive real GDP growth of 1%. (Source: *White Paper-Status of the Malaysian Economy dated 6 April 1999*)

### 9.2 The Timber Industry

The timber industry encompasses a wide range of activities from logging and saw milling namely sawn logs and timber, which mainly constitutes the primary processing, followed by the secondary processing namely processing of various plywood, boards and panel to tertiary processing such as moulding, carpentry and furniture.

The timber industry contributed 1.5% of the total exports of Malaysia in 1998 totalled RM4,286 million and is expected to grow by 4.9% in 1999 to RM4,497 million (Source: *Malaysian Economic Report 1998/1999*). The timber industry has seen considerable expansion in the past mainly due to the strong international demand for tropical wood products, aggressive marketing to new markets coupled with the availability of high utility logs. According to the Malaysian Timber Council's (MTC) in 1998, the total exports of major timber products reached 14,180,000 cubic metres translating to an income of RM15 billion to the national economy involving the livelihoods of some 243,000 Malaysians. (Source: *New Straits Times 21 January 1999, New Straits Times 18 February 1999*)

With its vast timber resources, Sabah contributes to more than a third of Malaysia's timber exports. Sabah contributed to 30% of Malaysia's sawn timber exports with a volume of 5.5 million cubic metres with a value of RM 1.9 billion in 1998. In the same year, the export of plywood (including block board) from Sabah totalled 1.3 million cubic metres with an export foreign exchange earnings of RM 1.3 billion which translates into an approximate 35% share of total plywood and block board export for the whole of Malaysia. The veneer export of Malaysia for 1998 was a modest 730,421 cubic metres. The total value was recorded at RM606 million. Of Malaysia's total export, Sabah contributed 25% of veneer exports with a volume of 181,873 cubic metres worth RM185 million in foreign exchange earnings. (Source: *MASKAYU, April 1999*)

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## 9.0 INDUSTRY OVERVIEW (*Cont'd*)

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A sector once dominated by log exports, the timber industry has shifted downstream to products such as sawn timber, plywood and furniture which represents the bulk of timber exports of 1998. The overall performance of the Malaysian timber industry in 1998 has successfully reflected the Government's policy in encouraging the production and export of value-added products. In her address to the Malaysian International Furniture Fair in March 1999, Dato' Rafidah Aziz, Minister of International Trade and Industry reiterated that the Government appreciates the contribution of the timber industry and encourages value-added products. (Source: *Asia Pulse 3 March 1999, The Sun 13 April 1999, Statistics Department of Sarawak, Statistics Department of Malaysia*)

In view of the importance of the timber industry to the national economy, the Sabah State Government, has increased R&D allocations for Sustainable Forests Programmes ("SFP") as well as efficiency programmes for local industry. The SFP plan involves conservation through prudent management of all forest area, aggressive reforestation programmes, escalation of R&D, massive re-injection of funds in forest activities and upgrading of manpower training programmes. (Source: *Malaysian Industry, January 1998*)

With growing concern over deforestation and the associated environmental effects, consumers of forest based products seek timber products that has been produced through sound forest management practices. In this regard, timber certification for timber and timber products are added attraction as timber based consumers want to be assured that the products which they purchase has been promoted as a market linked tool to encourage sustainable forest management practices in producer countries (Source: *National Timber Certification Council, Malaysia*). The National Timber Certification Council Malaysia (NTCC, Malaysia) was incorporated as a company limited by guarantee in October 1998. It is a non-profit company established to plan and operate the timber certification scheme in Malaysia, as part of Malaysia's effort to ensure sustainable forest management as well as to facilitate the trade in timber from Malaysia. (Source: *Business Times, 23 January 1999*)

Malaysia is committed to Agenda 21 and the Forest Principles formulated at Rio de Janeiro in 1992 as well as the International Tropical Timber Organisation ("ITTO") Year 2000 Objective and has accordingly substantial funds to improve forest management practice. In addition, Malaysia has regional and international cooperation amongst timber export countries to actively pursue in this field. The establishment of the NTCC, Malaysia is an important development in this direction. (Source: *National Timber Certification Council, Malaysia*)

The high export orientation and positive innovation by local producers to venture into different products in new markets within the wood-based industry has contributed to the timber industry's prominence as a foreign exchange earner. With a cheaper Ringgit now, Malaysian exports are seen to be more attractive to the global market. This actually serves as positive impact on the export-orientated wood based industries in Malaysia.

## 9.3 Prospects of the Timber Industry

The future prospect of the local timber industry appears to be promising with pricing nudging upwards in an expanding marketplace. The timber prices are on the mend with round logs and plywood prices increasing 26% and 32% respectively between the last quarter of 1998 and the second quarter of 1999. This price increase correlates with the strengthening of the Rupiah and the Indonesian economy, which has decreased Indonesian dumping of timber products in the secondary market. The stabilisation of timber prices and worldwide consolidation, especially in Southeast Asia and Japan has strengthened the position of surviving market players. (Source: *The Edge, 29 May 1999*)

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## 9.0 INDUSTRY OVERVIEW (*Cont'd*)

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Additionally, the strengthening rupiah and political instability in Indonesia have also worked in the favour of Malaysian timber producers. A firmer rupiah reduces the incentives for Indonesian producers to undercut their competitors and maintain low selling prices. Buyers are unwilling to buy from Indonesia because of the uncertain supply and the political instability in the country. It was reported that log production had tumbled by 50% for the whole of 1998 because of the political turmoil coupled with the scarcity of logs. The sharp drop in the supply of logs has been mainly caused by the heavy rain which was brought by *Lu Nina* weather which had disrupted logging activities and fouled transport routes to the timber mills. The shortfall of logs is expected to continue into 1999. (*Star: 29 December 1998*)

In 1998, the slowdown in the economies of many Asian countries such as Japan and South Korea, traditional export markets for Malaysian timber based companies, resulted in the decline for the demand for timber and timber related products. However, South Korea, a traditional timber product market of Malaysia, had recovered significantly from its economic downturn during the course of 1999. The South Korean timber buyers are back in the market to purchase timber products. The South Korea Government expects the country GDP to grow 5.4% in the first half of this year and 6% in the second half: Imports are expected to rise as a result of resumption in bank lending following the progress achieved in banking sector reform, steps are being taken by the authorities to resolve problems in obtaining trade financing for importers. Meanwhile, real GDP of Taiwan is expected to remain stable at 4.7% in 1999 (1998:4.8%) supported by expansionary fiscal initiatives including high public expenditure on infrastructure and state projects as well as better export performance boosted by the projected recovery in demand for electronics. In view of the public expenditure on infrastructure the demand for plywood in the construction sector is expected to increase (*Source: Bank Negara Annual Report 1998*).

The demand for timber and timber products is expected to continue to rise despite the financial crisis in this region. With China's commitment to sustain its growth at 7%, China timber market in 1999 will certainly improve, as the housing sector will be playing an important role. Besides, the massive rebuilding of residential housing after the floods of 1998, the Ninth five-year Plan which spans from 1996 to 2000 also stipulates the construction of 1.2 billion square metres of housing space in urban areas and 2.79 billion square metres of houses in rural areas. (*Source: The Edge, 29 May 1999*).

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## 10.0 BUSINESS OVERVIEW

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### 10.1 Principal Activities

The Group is principally involved in the manufacture of wood based products such as sawn timber, plywood, tego plywood, veneer, and laminated boards. The Group has also a shipping and transportation arm, which activity is synergistic and critical to the timber activities of the Group.

More than 90% of the Group's products are exported to overseas markets in the East Asian region with Japan as the Group's biggest export market. Details of the Group's principal activities are as follows:

#### (a) FNS

FNS's principal activities are veneer production, sawn timber production and plywood manufacturing. The sawn timber and veneer business has been an ongoing concern for more than 15 years with veneer manufacturing starting in 1983, sawn timber in 1984 and plywood in 1990. The production of phenolic film overlay plywood (tego plywood) is the latest addition to FNS's activities in 1997. FNS is the core company under the PERMAJU Group.

Veneer production forms the first stage of the production of plywood. It is peeled from selected logs on rotary peelers. Veneer is then sized, dried, sorted and graded and is then ready for conversion into plywood. However, FNS presents veneer as a finished product by grading and packing approximately 5% of its veneer for export, sending the other 95% to the plymill to be further processed into plywood.

Plywood is produced by laminating sheets of veneer into various standard sizes. There are mainly 6 sections in the production cycle, namely composing, glue spreading, pressing, trimming, sanding, and finally grading according to customer requirements. The primary use of FNS's plywood is in office and home flooring whereby the plywood is constantly exposed to human contact. For example, the Japanese are fond of having wooden flooring in their homes whereby the plywood used is constantly in contact with their domestic activities. FNS produces high quality plywood which meets the international standards set by the International Wood Products Association ("IHPA") of the United States of America and the Japan Plywood Inspection Corporation ("JPIC"). To meet international standards, FNS ensures that the plywood it produces is smooth and uniform in quality, of consistent strength and odourless. The Group exports the bulk of its plywood overseas whilst the balance is processed into tego plywood.

In 1997, FNS set up a single-lined film overlay plywood mill to manufacture tego plywood which is an effort to diversify into downstream activities. The plywood, which is sourced from its existing plymill, is coated with a phenolic film, which is waterproof. Tego plywood can be re-used on an average of 18 times in the construction business as compared to about 5 times using normal plywood. The Group's tego plywood is produced solely for the overseas market.

#### (b) SSB

SSB specialises in the manufacture of wooden laminated boards using plantation logs and bare core sawn timber. These laminated boards are used for decorative panels, furniture components, table tops and doors. The company started its activities in 1990. SSB has acquired extensive experience in processing plantation logs especially *Albizia Fafcataria*, *Gmelina Arborea* and *Eucalyptus Deglupta*. These plantation logs are environmentally friendly and accepted by the Japanese and Taiwanese markets. The Group's current output of laminated board is 2,000 cubic metres per month, of which 100% is for the overseas markets.

## 10.0 BUSINESS OVERVIEW (Cont'd)

Plantation logs are processed into rough sawn timber in the sawmill using “pony” and “band” saws after which they are sent to the kiln dry chambers. The bare core sawn timber is also sent directly to the kiln dry chambers for drying. After the wood is kiln-dried, it is planed and ripped into wooden strips of p-re-determined sizes. The strips are then laminated with glue into boards using composers. The laminated board is then trimmed and sanded before being packed for export.

### (c) FNship

FNship is involved in the hiring of barges, motor launches and equipment for transportation of logs and finished wood products. The company started operations in 1984. The company is currently extending its services exclusively to FNS and SSB.

FNship’s operations are synergistic to the timber activities of the Group as the factories of both FNS and SSB are situated adjacent to the Imam river and close to the river mouth. All the logs required by both FNS and SSB are transported to the factories on board barges. Furthermore, all the finished products for the export market such as veneer, plywood, sawn timber and wooden laminated board are transported by barge for mid-stream loading on ocean-going vessels.

Hence, there are several advantages by having FNship within the Group, notably the ability to have full control of the logistics for procuring raw materials for the factories and the timely delivery of finished products for export. In addition, the bulky nature of the Group’s raw materials and finished products makes barge transportation not only more economical but also eliminates the potential delays of transportation using the limited public roads in the vicinity. FNship is currently exploring the possibility of extending its services to other users so as to be able to maximise its contributions to the Group.

## 10.2 Principal Markets and Breakdown in Turnover and Profit by Principal Products

### 10.2.1 Export Market by Destination

PERMAJU is an export orientated company with more than 90% of the Group’s products are exported to overseas markets such as Japan, Korea, Taiwan, Hong Kong and Singapore. The table below sets out the contribution of the Group’s export markets by turnover from 1997 to 1999:

Destination	<-----1997----->		<-----1998----->		January - June 1999	
	RM'000	%	RM'000	%	RM'000	%
Japan	92,033	72.64	66,858	71.27	40,026	88.54
Korea	14,970	11.82	14,478	15.43	3,897	8.62
Hong Kong	1,376	1.09	889	0.95		
Taiwan	12,218	9.64	7,421	7.91	817	1.80
Singapore	1,067	0.84	655	0.70		
Europe	3,866	3.05	3,032	3.23	379	0.84
Australia	1,170	0.92	473	0.51	90	0.20
Total	126,700	100.00	93,806	100.00	45,209	100.00

## 10.0 BUSINESS OVERVIEW (Cont'd)

### 10.2.2 Breakdown in Turnover and Profit by Principal Products

#### (a) Breakdown in Turnover by Principal Products

	<-----1994----->		<-----1995----->		<-----1996----->		<-----1997----->		<-----1998----->	
	Turnover RM'000	% to the Proforma Group's total turnover %	Turnover RM'000	% to the Proforma Group's total turnover %	Turnover RM'000	% to the Proforma Group's total turnover %	Turnover RM'000	% to the Proforma Group's total turnover %	Turnover RM'000	% to the Proforma Group's total turnover %
Plywood	4x.400	44.1	67,699	58.0	75,975	60.3	x0.435	61.7	67.7	70.4
Veneer	36,728	33.5	28,046	24.0	26. 124	20.x	24,259	18.6	8,109	X.4
Sawn timber	2.391	2.2	2.675	2.3	3.082	2.4	4,012	3.1	2,401	2.5
Laminated Board	21.339	19.5	18,135	15.5	20,618	6.4	20,309	15.6	13,865	14.4
Tego Plywood									4.129	4.3

#### (b) Breakdown of (Loss)/Profit Before Taxation by Principal Products

	<-----1994----->		<-----1995----->		<-----1996----->		<-----1997----->		<-----1998----->	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Plywood	1,453	14.3	3,199	35.2	5,658	43.6	9,677	51.6	9,563	63.9
Veneer	6,973	68.8	6,077	66.9	4,321	33.3	4,909	26.2	2,612	17.5
Sawn timber	11	0.1	285	3.1	(364)	(2.8)	(227)	(1.2)	(707)	(4.7)
Laminated Board	678	6.7	(35)	(0.4)	2,341	1 x.0	3,282	17.5	2,736	18.3
Tego Plywood									(444)	(3.0)

### 10.3 Sources of Raw Materials

Though the Group does not have any timber concessions of their own, the Group has not experienced any shortage of log supply since its inception some 15 years ago. The management of the Group, using their extensive experience and skill and together with the Group's resources, procures all of the log supply requirements from the open market. This enables them not only to be able to obtain the right grade and species of timber but also at competitive prices.

The Group has also made arrangements to secure alternative sources of logs in the event that there is shortage in the open market. Presently, the Group has entered into log supply agreements with 10 log suppliers from Sabah and Sarawak as well as Papua New Guinea whereby the said log suppliers are committed to supply logs to PERMAJU Group should the need arises. The total concession/forest plantation areas of these 10 log suppliers are approximately 2.5 million hectares, of which 1.98 million hectares are located outside Sabah. Hence, the Group does not rely on log supply from Sabah alone. In addition, the Group has obtained permission from the Ministry of Primary Industries to import certain types of logs from Indonesia. In a more recent development, the Sabah State Government has allowed the import of certain logs namely, "square logs" (Bantalan) and sawn timber from Indonesia into Sabah.



## 10.0 BUSINESS OVERVIEW (Cont'd)

Apart from the traditional timber logs, the PERMAJU Group also has experience in processing plantation logs. Plantation log is a renewable natural resource. To date, there is no less than 109,677 hectares in Sabah planted with various fast growing species. This will yield more than 500,000 cubic metres of plantation logs per annum. (Source: *Sabah Forestry Department Annual Report 1997*)

Lastly, the log consumption of the Group is not significant i.e. 180,000 cubic metres for the year 1999 or 15,000 cubic metres per month. Although the Group has thus far not had to rely on the log supply agreements, these sources are available to more than adequately meet the Group's log supply requirements.

The following is a table setting out the Group's log supply agreements:

### Log Supply Agreements

Log Suppliers	Expiry Date of Concession	Location of Concession	Concession Area (hectares)
Kilang Papan Silahidup Sdn Bhd	31.12.1999	Tibow, Sabah	1,214
Bugaya Forests Sdn Bhd	09.09.2097	Sapulut Forest Reserve	133,435
Ajaibindah Sdn Bhd	31.12.1999	Sungai Paitan, Pitas, Sabah	3,000
Turama Forest Industries Pty Ltd*	2008 and 2030	Papua New Guinea	1,804,112
Guanaco Sdn Bhd	21.04.2015	Sarawak	50,827
Maujaya Sdn Bhd	21.04.2015	Sarawak	48,801
Hak Jaya Sdn Bhd	19.04.2015	Sarawak	38,447
Mantan Sdn Bhd	28.01.2015	Sarawak	72,372
Maxiwealth Holdings Sdn bhd	28.01.2015	Sarawak	94,555

\* A director of PERMAJU, Kenneth Chew Mei Kwang, has an indirect interest in Turama Forest Industries Pty Ltd. Details of his interest in the company are set out in Section 15.3.7 of the Prospectus.

The PERMAJU Group has also entered into a log supply agreement dated 6 June 1997 for the supply of plantation logs with Mt. Pock Sdn Bhd, a company which owns approximately 1,406.91 acres of forest plantation land located in Ulu Tingkayu, Sabah. The current tenure of the log supply agreement with Mt. Pock Sdn Bhd expires on 5 June 2002 with an option to extend for another 2 years.

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**10.0 BUSINESS OVERVIEW (Cont 'd)**

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**10.4 Production Facilities and Output****(a) FNS**

The sawmill is located on the bank of Sungai **Imam** in the **Pasir Putih** Industrial Site, seven miles away from the Tawau Municipal Centre. The sawmill became operational in July 1984 with a breakdown saw and six resaws with a production capacity of 4,000 cubic metres per month operating on one 8 hour shift per day 6 days a week. The sawmill was initially for the production of high quality lumber for export to the European markets. However, it was later used as a utility sawmill for sawing packing material due to the decline in the demand for sawn timber of Dark Red Seraya variety coupled with a shortage of high quality logs . The present production is about 1,500 cubic metres per month. About 50% of this production is used as packing material whilst the balance is directly sold in the domestic markets as well as for export.

The veneer mill had expanded rapidly over the years. There are five production lines with a total production capacity of 9,000 cubic metres per month. The veneer mill is currently operating on two 1 1-hour shifts per day, six days per week and has a production output of 5,500 cubic metres per month. About 5,200 cubic metres of the veneer produced are transferred to the plymill for further processing and the balance of 300 cubic metres are exported to Japan (30%) , Australia (20%) and the Netherlands (50%).

The plymill was only established by the end of 1990 and it is also operating on a two 1 1-hour shifts per day, six days a week. The Group exports the bulk of its plywood overseas to Japan (85%), Korea (3%) and Taiwan (5%) whilst the balance is processed into tego plywood. The company has plans to further upgrade its existing three production line capacity so that the capacity will be increased from 6,000 cubic metres to 7,500 cubic metres per month. The current production output is 5,200 cubic metres per month.

In December 1997, the company set up a single lined film overlay plywood mill with an installed capacity of 1,000 cubic metres per month to produce a more value added product, i.e. tego plywood. The mill is operating on one 1 1-hour shift per day, six days per week and has a production output of 400 cubic metres per month. Currently, 100% of the Group's tego plywood is exported to South Korea.

**(b) SSB**

The factory is located on a 12.24 acre site with a built up area of 18,343 square metres adjacent to FNS. The principal activity of SSB is to produce laminated boards using plantation logs and bare core sawn timber. SSB has an average production capacity of approximately 3,300 cubic metres per month of laminated board. The current production output is 2,000 cubic metres per month of laminated board.

In 1994, the Sabah Forestry Department granted the Group a licence for the operation of a kiln dry plant. The kiln dry plant is used for drying timber uniformly. To date, SSB has 16 kiln dry chambers within the plant comprising the following:

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## 10.0 BUSINESS OVERVIEW *(Cont'd)*

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- (i) 8 larger size kiln dry chambers measuring 53x37.5x14 cubic feet with a capacity of 120 tons each;
- (ii) 4 medium size kiln dry chambers measuring 46x36x14 cubic feet with a capacity of 80 tons each; and
- (iii) 4 smaller kiln dry chambers measuring 46x27x14 cubic feet with a capacity of 7.5 tons each.

The kiln dry plant can manage to kiln dry a total of 1,580 tons of logs in one drying cycle. This translates into a total capacity of approximately 2,400 cubic metres per drying cycle.

Wood is kiln dried to a specification before they are rolled out for the next stage of processing. This will ensure consistency of the quality of the finished product. Plantation logs can be kiln dried on the average of 8 days and hard wood at 15 days.

The Group's main export markets for laminated board are Japan (69%) and Taiwan (3 1%).

### (c) **FNship**

The company manages a fleet of 12 tugboats (some known as motor launches) and 9 barges. Some of the barges are used for carrying logs only whilst some are for carrying finished products such as plywood and laminated boards to the ships for mid stream loading. The loading capacity of the barges ranges from 900 to 1000 cubic metres. Tugboats of various horse power ranging from 52hp to 265hp are used depending on the capacity of barges to be tugged.

## 10.5 Research and Development

**PERMAJU** is committed to ensure that its products are of high standard and quality and meets its customers' specifications and requirements. In the past, the Company has undertaken its R&D activities in collaboration with its customers as the Company does not have R&D facilities at its timber complexes. These collaborations are necessary to ensure that the timber products produced by the Group meet the regulatory and quality standards of its export markets.

In 1996, the Company collaborated with some of its major Japanese buyers which have their research and development division in Japan to produce a better formula on glue mixing so as to eliminate completely the odour of glue. This is to comply with the forthcoming standard of environmental preservation of clean air in Japan similar to the European Environment Standards. The development of the glue mixing process is carried out carefully so as to not compromise the strength and adhesiveness of the glue.

The Company has also been experimenting on the employment of various possible techniques for peeling logs on certain species namely Gagil, Assam, Sepatir, Medang, Bawang Bawang, Kempas, Binuang, Laran, Menggaris, Takalis, Mempening, Rengas, and Simpoh. The texture of these species give a rough and uneven cut, and other defects which could result in the weakening of the bonding effect of the adhesives. The Group is working closely with its Korean shareholders, Dong Yeung Moolsan Co. Ltd. on finding ways to reduce or eliminate completely such defects. If the experiment is successful, the Company would gain from the flexibility in choosing the types of logs rather than being restricted to a limited range of logs for its production.

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## 10.0 BUSINESS OVERVIEW *(Cont'd)*

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### 10.6 Prospects and Future Plans

In its continuous effort to increase the quality of its products, the Group has committed itself to strategic plans to increase production, promote the Group's brand and products and venture into downstream activities.

In order to meet anticipated increased demand for its products and wider product portfolio, the Group is committed to a substantial investment of RM15 million for the acquisition of new machinery which will be financed by the proceeds from the Public and Rights Issues. Details of the machinery is set out in Section 6.5 of this Prospectus. This acquisition is deemed necessary on the basis of the current trend in the timber industry whereby logs with smaller diameters are used. The new rotary lathe, which is capable of peeling both soft and hardwood logs, incorporates digital veneer thickness setting and computerised **centering** system for more precise thickness control. Also, the log is held in place by three spindles instead of the conventional single **center** spindle allowing a higher peeling compression resulting in the log being peeled down to a minimum core diameter of only 8 centimetre as compared to 20 centimetre when the conventional lathe is used thus increasing recovery by 4% to 10% Together with the automatic reeling system and the automatic clipping, sorting and stacking system, the new set of machinery will benefit the Group by reducing the cost of veneer produced and also enabling it to peel lesser known log species in the future. Further, the new machinery is expected to increase the annual veneer production output from 66,000 cubic metres to 90,000 cubic metres per annum.

To enhance its brand identification image in the global timber markets, the Group plans to ensure that its logo is placed on all timber products sold. The Group also plans to market its high standards by informing timber product buyers of the Group's superior quality products which meet international standards such as those set by the IHPA and JPIC. In addition, the Group intends to concentrate on its niche market which include the Japanese office and home flooring markets.

In its efforts to venture downstream, the Group had in 1997 invested RM4.3 million to acquire a piece of land adjoining the existing factory and set up a film overlay plywood mill to manufacture tego plywood, a durable plywood that can be reused 3 to 4 times more than ordinary plywood. Besides tego plywood, the Group has begun studies on the commercial viability to manufacture 3-ply parquet floorboard laminated with high quality veneer (red oak, rosewood, teak and beech). Further, the Group plans to expand the markets for floorboards to potentially lucrative markets in Europe and the United States and thereby reducing the Group's dependence on East Asian markets like Japan, Taiwan, Hong Kong and Korea.