

### 3. THE RISK FACTORS

In evaluating an investment in the IPO Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations:-

(i) Sensitivity to Political and Economic Risks

As in any other business, Aikbee is subject to risks inherent in the timber and export industry. The timber and timber related industry could in turn be sensitive to the economic downturn as it is primarily reliant on consumer demand and the construction industry.

Notwithstanding the above, Aikbee's susceptibility to a single economy's downturn is minimised as Aikbee services an international clientele from various industries with a wide range of products. For the years 1997 to 2000, Aikbee's exports accounted for between 89% to 93% of its turnover from timber products. Being primarily export-based, Aikbee would be more susceptible to an international economic downturn. Adverse developments in the political, economic and regulatory conditions in Malaysia and other countries where Aikbee markets its products could materially and adversely affect the prospects of the Aikbee Group. Political and economic uncertainties include (but are not limited to) changes in general economics, business and credit conditions, government legislations and policies affecting manufacturers, inflation, interest rates, taxation, fluctuation in foreign exchange rates and political or social developments both within and outside Malaysia. Other uncertainties include risks of war, expropriation, nationalisation or nullification of existing contracts.

(ii) Supply of Logs

The long-term viability of the timber industry is dependent on the availability of consistent and sustainable logs supply. The Malaysian Government has thus set up the Malaysian Timber Industry Board to regulate the felling of trees and sustainability of forests. As at 30 September 2000, Aikbee has ten (10) logging contracts to perform logging on approximately 12,000 acres of land until year 2002, some of which are with companies controlled by some of the Directors and substantial shareholders of Aikbee, and seven (7) contracts for log supplies up to 2003, which are estimated to be able to sustain the Group's entire timber requirements up to 2003.

(iii) Fluctuation in Log Prices

With logs as the predominant raw material, log price fluctuation has a significant influence to the Group's profitability. Aikbee has secured seven (7) long-term log supply contracts that will supply the Group with an average 188,352 m<sup>3</sup> of logs per annum, which are expected to sustain the Group's timber requirements up to 2003. All these contracts have discounts on average of 7.5% imputed to the prevailing market prices. In addition, Aikbee has a short-term log extraction contract that will supply 139,000 m<sup>3</sup> of logs with a predetermined purchase price, thus providing a temporary "hedge" over price fluctuation. Besides these, the ten (10) long-term contracts for log extraction that will supply approximately 216,000 m<sup>3</sup> of logs until 2002 will enable Aikbee to source logs at a lower price as compared to purchasing ready logs. On average, approximately 65% of the Group's entire total logs requirements are fulfilled via the logs supply contracts whilst 35% are fulfilled via logs extraction contracts. Further details of the logging and log supply contracts are contained in Section 4.5.18 of this Prospectus.

Aikbee's prompt and reliable payment and the long term relationships fostered with log suppliers, will assist in ensuring continuous log supplies to Aikbee in future. The impact of variation in turnover and cost of sales of logs are contained in Section 7.6 of this Prospectus.

### 3. THE RISK FACTORS *(Cont'd)*

#### (iv) Fluctuation in Product Prices

Fluctuation in the selling price of timber products is an inherent risk. However, the impact of such fluctuation can be mitigated through the diversification of the range of products and markets, thus preventing over-reliance on any particular product or single customer. The more processing a piece of timber undergoes and the more value-added to the product, the less volatile the price of the finished product would be. Thus, through downstream diversification, Aikbee will improve its resilience to the cyclical nature of the economic trends in various markets.

Aikbee has a fully integrated timber processing plant, which comprises various degrees of value-adding, from sawmilling to kiln drying, tanalising and moulding for downstream diversification. By branching out to various product mix, the Group is able to monitor and manage its concentration according to any material fluctuation in product prices, market demand in product and achieve an overall synergy through optimum turnover. As the Group is not a single product and single customer / market region reliant, a market downtrend for a particular product category or market region should not adversely affect the viability of the Group. With its clientele base covering countries in Asia, United States of America, Europe and Middle East, Aikbee has spread its dependency across the economies of many countries. Taking the above into consideration, the Directors of Aikbee believe that this will be a key factor in preserving its margins.

#### (v) Foreign Exchange Fluctuations

Predominantly an export-oriented company, Aikbee's exports to overseas markets subject the Group to foreign exchange fluctuations. No assurance can be given that future foreign exchange fluctuation will not adversely impact the Aikbee Group. Whilst the Malaysian government is currently imposing selective monetary controls, which includes pegging the RM to the US Dollar, there is no certainty of the permanence of the control. The Aikbee Group minimises its foreign risk by entering into forward exchange contracts. The Group uses agents in some less developed countries and in large orders to minimise risk of fluctuations, as the timing risk would then be transferred to agents. In addition, payments from agents usually are via an advanced payment with immediate settlement of the balance upon delivery. The Group is also prioritising quotation in RM where possible, to minimise exposure to foreign exchange fluctuations.

#### (vi) Business Risk

The Aikbee Group is subject to inherent risks in the timber industry. Apart from the log supply availability, fluctuation in log prices, fluctuation in product prices and foreign exchange fluctuations highlighted above, other business risks include risk of over expansion, labour supply shortage, increase in labour and overhead costs, demand for timber products and collectibility of debts. Although the Aikbee Group does not presently experience any adverse effects from such factors, no assurance can be given that they will not have a material effect on the Group's business in the future. In order to mitigate such risks, the management has implemented various strategies such as optimising diversification of suppliers and customers, obtaining lower costs of raw material by purchasing in bulk, good quality control over products and appointing agents to ensure collections of payments. Aikbee also does not foresee any risk or repercussions of over expansion taking into consideration its last expansion downstream in 1997 has experienced minimal gestation period and the moulding plant is now operating in its optimal capacity. The immediate plans of Aikbee to expand based on the partial utilisation of proceeds from the Rights Issue and Public Issue earmarked for capital expenditure is mainly to upgrade the existing machinery and increase automation and are hence not expected to give rise to any risk of over expansion.

### 3. THE RISK FACTORS (Cont'd)

(vii) Sabah Operations on Land with Temporary Occupancy Licence

The current Sabah sawmill operation is located on a piece of land using a temporary occupancy licence issued by the Pegawai Perhutanan Telupid, Kerajaan Negeri Sabah, Malaysia and has been renewable on an annual/bi-annual basis since 1975. The current licence for the occupancy is valid up to 31 December 2001. The Directors foresee that ABSabah will be able to renew the licence in the future.

(viii) Competitive Conditions

New entrants

Like any other business, the companies in timber industry face competition from new entrants. The competition arises for the new supply of logs and labour and in the selling of timber and timber products. Hence, lack of logs and labour supply have increased the production cost for timber companies. Some of the steps taken to mitigate the competition risks include:-

- to enter into a long-term logs supply and extraction contracts with various agents and concessionaires;
- to maintain the good relationship with customers by ensuring a quality and timely supply of products; and
- to provide on-the-job training for the staff so as to increase efficiency and productivity.

New entrants to the industry require licences, such as, the forestry licence from the Malaysian Timber Industry Board ("MTIB") and sawmilling and manufacturing licences from the Ministry of International Trade and Industry. The MTIB imposes an advance export levy for depository purposes. Henceforth, there are various barriers to entry for new players to the industry, in particular the downstream activities, namely,

- a) **High initial start-up cost** - Value added downstream manufacturing activities require sophisticated and advance machinery to produce quality controlled products. As an example, Aikbee has invested approximately RM13 million to set up its sawmill and moulding plant in Sabah alone.
- b) **Technical expertise required** - Well-trained and experienced personnel at the production and marketing divisions are a pre-requisite to achieve profit maximisation. The skill and expertise for log extraction, sawmilling and moulding activities require years to acquire. In this respect, Aikbee's sawmill and plant managers have the necessary expertise and experience to ensure that the Group is competitive.
- c) **Establishment in the industry** - Customers would also ensure that the timber supplier is reputable and has an established market presence with a proven track record in delivery of quality products before committing to purchases.
- d) **High holding cost** - A new player requires a substantial amount of financing resources to stock-up raw material which usually take a few months for a complete cycle due to the kiln drying and other processes which require time.

Existing competition

The products of the Aikbee Group face competition from both local and foreign timber producers, such as Indonesia, Cambodia and Myanmar. Also, with the environmental conditions imposed towards tropical timber, competition may also come from substitutes which may be environmentally more acceptable in some markets e.g. Europe. In Europe there is a requirement that only timber logged from sustainable forest can be imported. However, competition from substitute products is expected to be minimal as timber is still highly sought in the construction industry worldwide due to the nature of timber that can withstand climate changes.

### 3. THE RISK FACTORS *(Cont'd)*

In addition, ABSawmill had on 23 March 1998 received a Certificate of Approval from SGS (Malaysia) Sdn Bhd, the independent assessor appointed to issue certificates to the participants of a Malaysian-Netherlands programme introduced by the Netherlands wherein the main objective is to provide incentives for forest management improvement through third party auditing which will enable marketing of timber products to Netherlands in line with the International Tropical Timber Organisation ("ITTO") Year 2000 Objective. The latest update by SGS (Malaysia) Sdn Bhd confirming Aikbee's continuing compliance was dated 12 September 2000.

Arising therefrom, exports to Netherlands contributed approximately 18% of Aikbee's total timber turnover in year 2000. Total turnover from Europe has increased from 3% in 1997 to 11% in 1998 and 10% in 1999. For the year 2000, exports to Europe has escalated to 25% of Aikbee's total timber sales.

With the Netherlands' reputation as a strong advocate for environmental lobbying, Aikbee believes that obtaining the certificate is an achievement in the timber industry. Having received the Certificate of Approval will augur well for the Group and will spearhead the Group into a major player.

(ix) No Prior Market for Aikbee's shares

Prior to this IPO, there has been no public market for Aikbee's shares. There can be no assurance that an active market for Aikbee's shares will exist upon its listing on the Second Board of the KLSE or, if developed, that such market will be sustained. The IPO price of RM2.10 per Share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, its prospects and the prospects for the industry in which the Group operates, the management of the Group, the market prices for shares of companies engaged in businesses similar to that of the Group and the prevailing economic and share market conditions. There can be no assurance that the IPO price will correspond to the price at which Aikbee's shares will be traded on the Second Board of the KLSE upon or subsequent to its listing or that an active market for Aikbee's shares will develop and continue upon or subsequent to its listing.

(x) Control by Substantial Shareholders

Following the Public Issue and Offer for Sale, the Tan family namely, Lim Yen Siew @ Tan Sit Seng, Tan Aik Hooi, Tan Aik Hong, Tan Cheng Laye, Tan Aik Thor, Yap Kin Thai (spouse of Lim Yen Siew @ Tan Sit Seng) and Yap Keat Choon (brother of Yap Kin Thai and brother-in-law of Lim Yen Siew @ Tan Sit Seng) will collectively own 50.84% of the Company's issued and paid-up share capital both directly and indirectly. As a result, they will effectively be able to control the outcome of certain matters requiring the vote of the Company's shareholders, unless they are required to abstain from voting by law and/or the relevant authorities.

(xi) Continuity of Experienced Management and Technical Expertise

Aikbee is headed by an experienced, committed and dynamic management team, some of whom have been in the industry for more than 19 years. They have the business acumen to take advantage of business opportunities that can provide synergy and growth to the Group.

Certain members of the key management together with the founder of Aikbee, have been with the Group since its incorporation in 1960. As in any other business, the Board of Directors believes that the continued success of Aikbee will depend on the ability and dedication of each of the Directors and management team members. The loss of any key members of the Company may adversely affect the Company's continued ability to perform.

### 3. THE RISK FACTORS (Cont'd)

However, the Company has continually made efforts to train all staff and retained the skilled personnel and every effort is presently made to groom the younger members of the management to eventually take over from the senior members to ensure a smooth transition in the management team should changes occur. The Group's future success will also depend upon its ability to attract and retain skilled personnel.

(xii) Product Diversity and Quality

The timber industry is diverse and caters for various markets, e.g. construction, engineering, infrastructure, transportation, agricultural and furniture industries. Arising therefrom, the developments of the different industries could affect Aikbee.

In order to minimise over-reliance on any single product or customer, the Aikbee Group has diversified into the various downstream products. Aikbee now has a wide range of products such as finger joints, railway sleepers, truck bodies and bolsters, door and window frames, architraves and cornices. Its wide range of products also reduces its reliance on any single industry as it services the construction, engineering, agricultural, transportation and housing industries. An analysis of the products of Aikbee Group and their respective contribution (in % terms) to the Group's total turnover from 1997 to 2000 are as follows:-

Products	1997	1998	1999	2000
	%	%	%	%
Logs	14.0	11.6	7.2	8.9
Sawn Timber	37.5	36.9	36.7	40.8
Moulding Timber :				
Railway sleepers	20.2	17.9	16.1	12.9
Truck bodies	4.1	2.7	4.4	6.7
Surfaced 2 sides ("S2S"), Surfaced 4 sides ("S4S"), Eased 2 edges ("E2E") & Eased 4 edges ("E4E") timber	9.3	8.1	10.6	13.9
Bolsters	1.5	1.3	1.6	2.4
Others	1.2	11.1	13.1	4.1
Logs Extraction	1.6	2.7	1.7	1.8
Others	10.6	7.7	8.6	8.5

Aikbee practises strict quality control to ensure quality and value for money. The brand "Aikbee" which has been established since 1960, manages to capture overseas markets, amongst others, the Japanese, European, Mediterranean and Asian markets.

(xiii) Achievability of Forecasts

This Prospectus contains certain forecasts for the Aikbee Group that are based on reasonable assumptions which the Directors deemed to be reasonable at the time of issuance of this Prospectus, but are, nonetheless subject to uncertainties and contingencies. Because of the subjective judgments and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as predicted/expected, there can be no assurance that the forecasts contained herein will be realised and actual results may be materially different than those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecasts that are contained herein.

(xiv) Covenants on Borrowings

All the subsidiaries of Aikbee, namely ABSabah, ABSarawak and ABSawmill have facilities with various financial institutions for their business operations. The respective companies have covenanted negatively or restrictively, without prior written consent from the respective banking institutions, not to:-

### 3. THE RISK FACTORS *(Cont'd)*

- (a) where property or land is given as a collateral or security,
  - transfer, sell, charge or otherwise howsoever deal with the said security or any part thereof or any interest therein; or
  - make the same subject to any burden, charge, encumbrance, liability or lien whatsoever; or
  - make any application for the alteration of the category of land use or for the imposition of any fresh category of land use in respect of the said security;
- (b) increase or decrease or in any way whatsoever alter the authorised or issued share capital of the respective companies whether by varying the amount, structure or value thereof or the right attached thereto;
- (c) change the nature of the business or add to delete vary or amend the respective Memorandum and Articles of Association of the respective companies in any manner which would be inconsistent with the nature of the present business of the respective companies or sell, transfer, lease or otherwise dispose of all or part of the substantial part of its capital assets or undertake or permit any merger, consolidation or reorganisation;
- (d) lend or advance or give any credit to any persons or corporation not in the ordinary course of the business of the respective companies;
- (e) permit any change with respect to the composition of the shareholders;
- (f) give any loan to any of the Directors, shareholders, related companies or subsidiaries of the respective companies;
- (g) enter into any partnership profit sharing or royalty agreement or other similar arrangement whereby the income or profits are or might be shared with any other person or corporation or whereby the business or operations are managed by any other persons or corporations;
- (h) enter into any financial obligations or banking relationship with other financial institutions;
- (i) incur, assume, guarantee, indemnify or permit to exist any indebtedness except short term debt incurred in the ordinary course or business; and
- (j) reduce the respective companies' share capital or permit any change in the control and management of the respective companies.

(xv) Financial Risks

It is an inherent risk in a business to face possible limitations in its growth and its operating and financial flexibilities arising from the business' existing indebtedness, its capital commitments and covenants in its borrowing facilities.

As at 20 March 2001 (being the last practicable date prior to printing of the Prospectus), the Aikbee Group's bank borrowings amounted to approximately RM42.4 million, of which approximately RM36.2 million are secured, inter-alia, by way of legal charges over the landed properties and certain assets of the Aikbee Group. Notwithstanding that, the borrowings facilities were incurred for the acquisition of operating assets as well as for working capital purposes and the funds to be generated in future are expected to be more than adequate to meet the repayment terms of the facilities.

(xvi) Future Prospects

Certain information in this Prospectus is based on the historical experience of the Aikbee Group and may not be reflective of the future results. Whilst these information may be forward-looking, the subjective contingencies and inherent uncertainties underlying these information should be carefully considered by investors and should not be regarded as a representation or warranty by the Company and its advisers that the objectives and future plans of the Aikbee Group will be achieved.

#### 4. INFORMATION ON AIKBBE GROUP

##### 4.1 Incorporation

Aikbee was incorporated in Malaysia on 25 April 1997 as Natoriental Terrace (M) Sdn Bhd. On 9 September 1997, it changed its name to Aikbee Resources Sdn Bhd. On 17 September 1997, it was converted into a public company and assumed its present name, Aikbee Resources Berhad. Aikbee is principally an investment holding company.

As at 20 March 2001, Aikbee Group has 503 employees.

Details of the subsidiary companies of Aikbee are summarised below:-

Subsidiary Companies	Date and place of incorporation	Issued and paid-up share capital RM	Effective Equity Interest (%)	Principal Activities
ABSabah	5.10.1990 Malaysia	3,931,200	100	Manufacturing of moulding timber, merchant, sawmilling of timber, log extraction sub-contractor, replanting and plantation management.
ABSarawak	30.10.1991 Malaysia	3,000,000	100	Timber sawmilling and manufacturing of moulding timber
ABSawmill	20.12.1960 Malaysia	604,800	100	Sub-contractor and merchant of logs and timber operation, and property investment

##### 4.2 Share Capital and Changes in Share Capital

The present authorised share capital of Aikbee is RM100,000,000 and the current issued and paid-up share capital is RM42,000,000 comprising 42,000,000 ordinary shares of RM1.00 each.

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Cumulative Issued and Paid-up Share Capital RM
25.4.1997	2	1.00	Cash	2
20.12.2000	37,719,034	1.00	Acquisitions of ABSabah, ABSarawak and ABSawmill for a total consideration of RM54,692,598	37,719,036
17.01.2001	4,280,964	1.00	Rights Issue of approximately one (1) share for every 8.81 existing shares held at an issue price of RM1.60 per share	42,000,000

#### 4. INFORMATION ON AIKBEE GROUP (Cont'd)

##### 4.3 Restructuring Scheme

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of Aikbee on the Second Board of the KLSE, the Company undertook a restructuring scheme which involved the following:-

##### (i) Revaluation

The subsidiaries of Aikbee have undertaken a revaluation exercise of its landed properties. A total revaluation surplus of RM24,907,051 arising from the exercise was incorporated into the respective revaluation surplus accounts of the subsidiaries in the Group. The independent professional valuer commissioned is Rahim & Co. (Sel) Sdn Bhd and the values of the properties have been approved by the SC.

##### (ii) Acquisition of ABSabah

Acquisition of the entire issued and paid-up share capital comprising 3,931,200 Shares from its existing shareholders for a purchase consideration of RM22,744,804 based on the adjusted audited NTA as at 31 December 1999 satisfied by the issuance of 15,686,073 Shares in Aikbee at an issue price of RM1.45 per Share as follows:-

Shareholders	No of shares held in ABSabah	%	Purchase Consideration RM	No. of Aikbee Shares issued
Lim Yen Siew @ Tan Sit Seng	329,426	8.38	1,905,964	1,314,459
Yap Kin Thai	46,798	1.19	270,759	186,731
Tan Aik Hooi	46,798	1.19	270,759	186,731
Tan Aik Hong	46,798	1.19	270,759	186,731
Tan Cheng Laye	46,798	1.19	270,759	186,731
Tan Aik Thor	46,798	1.19	270,759	186,731
Yap Keat Choon	146,783	3.73	849,245	585,686
Low Chee Hock	36,729	0.94	212,503	146,554
Sit Seng & Sons Realty Sdn Bhd	2,004,912	51.0	11,599,855	7,999,896
Astaka Budi Sdn Bhd	1,179,360	30.0	6,823,442	4,705,822
<b>TOTAL</b>	<b>3,931,200</b>	<b>100.00</b>	<b>22,744,804</b>	<b>15,686,073</b>

The Acquisition of ABSabah was completed on 20 December 2000. The shares issued pursuant to the Acquisition of ABSabah rank pari passu in all respects with the then existing shares of the Company.

##### (iii) Acquisition of ABSarawak

Acquisition of the entire issued and paid-up share capital comprising 3,000,000 Shares from its existing shareholders for a purchase consideration of RM15,573,103 based on the adjusted audited NTA as at 31 December 1999 satisfied by the issuance of 10,740,071 Shares in Aikbee at an issue price of RM1.45 per Share.



#### 4. INFORMATION ON AIKBEE GROUP (Cont'd)

The vendors of ABSarawak and the settlement of the purchase considerations are as follows:-

Shareholders	No of shares held in ABSarawak	%	Purchase Consideration RM	No. of Aikbee Shares issued
Aikbee Timbers Sdn Bhd	1,740,000	58.00	9,032,403	6,229,240
Mohd Raini Bin Mohamed Junus	315,000	10.50	1,635,175	1,127,708
Harun Bin Abdul Samad	315,000	10.50	1,635,175	1,127,708
Mohd Nor Bin Hussain	315,000	10.50	1,635,175	1,127,708
Halimah Binti Hashim	315,000	10.50	1,635,175	1,127,708
<b>TOTAL</b>	<b>3,000,000</b>	<b>100.0</b>	<b>15,573,103</b>	<b>10,740,071</b>

The Acquisition of ABSarawak was completed on 20 December 2000. The shares issued pursuant to the Acquisition of ABSarawak rank pari passu in all respects with the then existing shares of the Company.

(iv) **Acquisition of ABSawmill**

Acquisition of the entire issued and paid-up share capital comprising 604,800 Shares from its existing shareholders for a purchase consideration of RM16,374,691 based on the adjusted audited NTA at 31 December 1999 satisfied by the issuance of 11,292,890 Shares in Aikbee at an issue price of RM1.45 per Share as follows:-

Shareholders	No of shares held in ABSawmill	%	Purchase Consideration RM	No. of Aikbee Shares issued
Lim Yen Siew @ Tan Sit Seng	121,920	20.16	3,301,138	2,276,503
Tan Aik Hooi	75,720	12.52	2,050,111	1,413,852
Tan Aik Hong	75,720	12.52	2,050,111	1,413,852
Tan Cheng Laye	75,000	12.40	2,030,462	1,400,408
Tan Aik Thor	75,000	12.40	2,030,462	1,400,408
Kamal Bin Abu	181,440	30.00	4,912,407	3,387,867
<b>TOTAL</b>	<b>604,800</b>	<b>100.0</b>	<b>16,374,691</b>	<b>11,292,890</b>

The Acquisition of ABSawmill was completed on 20 December 2000. The shares issued pursuant to the Acquisition of ABSawmill rank pari passu in all respects with the then existing shares of the Company.

(v) **Rights Issue**

Upon completion of the Acquisitions, Aikbee carried out a Rights Issue of 4,280,964 new Shares at an issue price of RM1.60 per Share on the basis of approximately 1 new Share for every 8.81 Shares held which was completed on 17 January 2001. The shares issued pursuant to the Rights Issue rank pari passu in all respects with the then existing shares of the Company.

The Rights Issue price of RM1.60 per Share was determined after considering the level of retention of reserves required in Aikbee pursuant to the guidelines of the SC in relation to the IPO.

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**4. INFORMATION ON AIKBEER GROUP (Cont'd)**


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**(vi) Initial Public Offering**

Aikbee will issue 8,000,000 new Shares or 16% of its enlarged issued and paid-up share capital at an issue price of RM2.10 per Share, pursuant to the Public Issue. In order to satisfy the National Development Policy as well as the public shareholding spread requirements, the existing shareholders of Aikbee will also offer 4,600,000 Shares representing 9.2% of the enlarged issued and paid-up share capital of Aikbee at an offer price of RM2.10 per Share to Bumiputera investors approved by MITI and to the Malaysian public.

The 8,000,000 Public Issue Shares and 4,600,000 Offer Shares representing 16% and 9.2% of the enlarged issued and paid-up share capital of Aikbee respectively will be allocated in the following manner:-

- (i) 3,850,000 Public Issue Shares and 1,400,000 Offer Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions;
- (ii) 2,500,000 Public Issue Shares have been reserved for eligible employees, Directors, and business associates (which include the suppliers, contractors, agents and customers) of the Aikbee Group; and
- (iii) 1,650,000 Public Issue Shares and 3,200,000 Offer Shares have been reserved for Bumiputera investors approved by MITI.

**4.4 Subsidiary Companies****(i) Information on ABSabah**

ABSabah was incorporated on 5 October 1990 under the Companies Act, 1965, Malaysia as a private limited company. It is principally involved in log extraction, sawmilling, downstream manufacturing activities, replanting and plantation management. It produces a wide array of timber products such as railway sleepers, truck bodies, truck bolsters, door frames, architraves, finger-joints moulding, timber skirting and timber cornices.

ABSabah has various long-term contracts with concession companies to perform logging. As at 30 September 2000, the Aikbee Group has ten (10) logging contracts to perform logging on approximately 12,000 acres of land until year 2002, some of which are with companies controlled by some of the Directors and substantial shareholders of Aikbee, and seven (7) contracts for log supplies up to 2003, which are estimated to be able to sustain the Group's entire timber requirements until 2003. Further details of these contracts are set out in Section 4.5.18 on "Availability of Resources".

In 1997, ABSabah diversified into downstream production upon setting up a kiln-drying, timber tanalising and moulding plant to form an integrated timber complex. The timber complex is located in the District of Labuk/Sugut, which is accessible through the Sandakan - Kota Kinabalu highway. The ABSabah sawmill and downstream processing plant are approximately two hours away from the Sandakan port, which is used for exports of the Company's products.

ABSabah has been steadily increasing its sawmilling capacity throughout the years as demand and sales increased. The details of the production facilities are detailed in Section 4.5.3.

#### 4. INFORMATION ON AIKBEE GROUP (Cont'd)

##### Share Capital

The authorised share capital of ABSabah is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each. The current issued and paid-up share capital of ABSabah is RM3,931,200 comprising 3,931,200 Shares.

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

Date of allotment	No. of shares	Par value RM	Consideration	Total RM
05.10.1990	2	1.00	Cash	2
04.01.1991	249,998	1.00	Cash	250,000
26.12.1994	42,500	1.00	Cash	292,500
30.12.1994	1,462,500	1.00	Bonus issue of 5 for 1	1,755,000
27.12.1995 to 29.12.1995	210,600	1.00	Cash	1,965,600
27.12.1995 to 29.12.1995	1,965,600	1.00	Bonus issue of 1 for 1	3,931,200

The financial record of ABSabah based on its audited accounts for the past five (5) financial years ended 31 December 1999 and the nine (9) months ended 30 September 2000 and unaudited accounts for the financial year ended 31 December 2000 are as follows:-

	Audited						Unaudited
	Financial Year Ended 31 December					9 months ended	12 months ended
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	30.9.2000 RM'000	31.12.2000 RM'000
Turnover	25,934	26,793	32,949	47,594	62,916	59,579	81,244
EBIDTA	5,484	7,969	10,757	12,658	13,600	9,736	13,489
Interest expense	(289)	(935)	(1,424)	(2,480)	(1,923)	(1,041)	(1,335)
Depreciation	(635)	(825)	(1,518)	(1,574)	(1,744)	(1,420)	(1,947)
Operating profit	4,560	6,209	7,815	8,604	9,933	7,275	10,207
Exceptional item	-	-	-	-	(1,214)	(105)	(104)
PBT	4,560	6,209	7,815	8,604	8,719	7,170	10,103
Taxation	(1,363)	(1,869)	(2,216)	(2,466)	72	(2,122)	(2,966)
PAT	3,197	4,340	5,599	6,138	8,791	5,048	7,137
Number of shares ('000)	3,931	3,931	3,931	3,931	3,931	3,931	3,931
Gross EPS (RM)	1.16	1.58	1.99	2.19	2.22	2.43*	2.57
Net EPS (RM)	0.81	1.10	1.42	1.56	2.24	1.71*	1.82
Gross dividend rate (%)	10	-	190	200	-	-	-
Net dividend rate (%)	7	-	137	144	-	-	-

##### Notes:-

\* annualised

1. Turnover in 1997 increased due to expansion of production capacity and sales of moulding timber.
2. Turnover in 1998 increased due to sales of sawn and moulding timber. The businesses owned by the shareholders of Aikbee were streamlined in 1998 to enable the shareholders of Aikbee to own the timber activities via the Aikbee Group. All timber business activities previously undertaken by Aikbee Timbers Sdn Bhd, a company wholly-owned by certain shareholders of Aikbee, were henced absorbed into ABSabah.
3. Turnover in 1999 increased by approximately RM15 million from turnover in 1998 due to increase in demand of sawn and moulding timbers. The PBT in 1999 increased only marginally from that in 1998 due to higher cost of sales for moulding timbers and the tax penalties charges.

#### 4. INFORMATION ON AIKBEE GROUP (Cont'd)

4. The PBT for 1999 and financial period/year ended 30 September 2000 and 31 December 2000 were stated after charging exceptional items i.e. tax penalties in respect of taxation liabilities for prior years. Other than as stated, there were no extraordinary items and exceptional items in all the financial years.
5. Turnover for financial year ended 31 December 2000 increased from that in 1999 due to increase in sales from all its timber related activities from log extraction to sales of logs, sawn timber and moulding timber. There is a marginal decrease in EBITDA for 2000 from 1999 because sales of logs, sawn timber and moulding timber yielded lower margins. PBT for 2000 increased from 1999 mainly due to reduction in borrowing costs and lower tax penalties.

ABSabah does not have any subsidiary or associate company.

##### (ii) Information on ABSawmill

ABSawmill was incorporated in Malaysia as a private limited company on 20 December 1960 as Pahang Sawmill & Plywood Company Limited and changed its name to Aikbee Sawmill Limited on 11 August 1962. On 15 April 1966, it adopted its present name. Its principal activities are that of a sub-contractor and merchant of logs and timber operation, and property investment. ABSawmill was the initial business set up by the shareholders / directors. In the earlier years, the company had two sawmills in Kuala Lumpur, one in Kepong and the other in Jalan Klang Lama.

Subsequently, it centralised its operations in the Kepong sawmill to optimise on economies of scale, improve productivity and cost efficiency. The Kepong sawmill was ideal for retention as it was more strategically located, being easily accessible to the Karak highway, joining to Pahang and through the Projek Lebuhraya Utara Selatan ("PLUS") to Port Klang. In 1997, the Kepong sawmill business was transferred to ABSabah, which is now renting the sawmill and equipment from ABSawmill and running the sawmill business in Peninsular Malaysia.

ABSawmill sources its logs from Pahang and transports and sells the logs to ABSabah for production of sawn timber and other products in the Kepong sawmill.

##### Share Capital

The authorised share capital of ABSawmill is RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of ABSawmill is RM604,800 comprising 604,800 Shares.

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

Date of allotment	No. of shares	Par value RM	Consideration	Total RM
20.12.1960	2	1,000	Cash	2,000
05.02.1963	78	1,000	Cash	80,000
17.07.1967	40	1,000	Cash	120,000
30.09.1972	120	1,000	Bonus issue of 1 for 1	240,000
30.11.1974	60,000	1	Cash	300,000
31.05.1975	60,000	1	Cash	360,000
25.10.1976	216,000	1	Bonus issue of 3 for 5	576,000
10.11.1976	28,800	1	Cash	604,800